

Ask me Anything: Federal Award Compliance 5.18.2026

Quick recap

Ashley conducted a comprehensive training session on federal award compliance and equivalency requirements for state revolving funds (SRF). She explained the basic structure of SRF programs, which receive federal funding from EPA that must be matched by state governments at 20%, with funds being loaned out for drinking water and clean water projects. The session focused on federal cross-cutters and equivalency requirements, covering eight key areas including qualifications-based selection (for CWSRF only), environmental review, Davis-Bacon wage determinations, DBE requirements, single audit compliance, Build America Buy America (BABA) requirements, and others. Ashley discussed strategies for selecting projects for equivalency requirements, noting that states have discretion in choosing which projects to apply federal requirements to, with some states applying equivalency to all projects while others are more selective. She emphasized the importance of carefully reviewing loan agreements to understand compliance requirements and shared practical examples from various states regarding their approaches to equivalency implementation.

Summary

Federal SRF Compliance Training

Ashley conducted a training session on federal award compliance for state revolving funds (SRFs), explaining how SRFs work as low-interest loan programs funded by the federal government through the EPA, with state governments providing a 20% match. She described how SRFs operate as perpetually revolving funds, with some money returning to the program while other funds go to grants or principal forgiveness, and set-aside activities. Ashley announced that these bi-monthly training sessions would not continue beyond the current contract, with only few more sessions remaining.

Federal Cross-Cutter Requirements in SRF

Ashley explained that federal requirements, known as cross-cutters, must be applied to a specific equivalent amount of federal funding in state revolving fund (SRF) projects. She emphasized that these requirements are often attested to in loan agreements and can increase project costs and time but offer benefits like low-interest loans and potential grants or principal forgiveness. Ashley noted that the state has discretion in choosing which projects to apply these requirements to but clarified that projects cannot be broken up to avoid compliance.

Federal Grant Equivalency Values Presentation

Ashley presented on equivalency amounts and set-asides in federal grants, explaining how state programs can take set-aside money from federal grants, with CWSRF allowing up to 6% compared to DWSRF's 31% maximum. She clarified that lead service line and emerging contaminant projects must be equivalency projects since they receive 100% federal dollars with no state match or revolving funds available. When asked about strategies for selecting projects for equivalency, Ashley indicated she would address later in the session.

Grant Equivalency Requirements Discussion

Ashley explained that when borrowers receive grants for additional subsidy rather than principal forgiveness, the program is encouraged to use the project for equivalency due to higher review standards for grant recipients. She noted that some states like Texas incentivize meeting equivalency requirements by charging a lower interest rate on the loan. Ashley observed that with smaller capitalization grants anticipated, states can be more selective about which projects require equivalency compliance.

Qualifications-Based Selection Process

Ashley discussed qualifications-based selection (QBS), explaining that it is an equivalency requirement specific to Clean Water SRF projects. She emphasized that QBS focuses on the qualifications of engineering firms rather than project costs, and should be completed early in the project process if the CWSRF is being considered as a funding source. Ashley clarified that borrowers have flexibility in developing their own qualification criteria, which must be included in the public notice, and noted that geographic preferences are allowed under this approach.

Environmental Review Requirements for SRF

Ashley explained that environmental review requirements apply to all DWSRF and certain CWSRF projects, with specific focus on treatment works projects which include wastewater treatment facilities and related infrastructure. She outlined two main pathways for environmental review: categorical exclusions (CatEx) for projects with minimal environmental impact, and findings of no significant impact (FONSI) for more involved projects with mitigation strategies. Ashley noted that most SRF projects result in either CatEx or FONSI due to their environmental benefits or public health improvements.

Environmental Review Requirements Discussion

Ashley discussed the importance of environmental review as a readiness criterion for projects, emphasizing that it often requires more work than initially anticipated. She explained how flood risk requirements evolved due to executive orders, noting that while

some requirements became permanent through rulemaking, others were rescinded, but the permanent rules still apply. Ashley also mentioned the requirement to certify adherence to certain Federal Crosscutters, like the Uniform Relocation and Real Properties Acquisition Policies Act, even for simple projects like water line replacements.

Davis-Bacon Wage Determinations Overview

Ashley discussed Davis-Bacon wage determinations, explaining that they require prevailing wages for workers on federal assistance projects over \$2,000, with the Department of Labor updating these determinations frequently. She highlighted challenges with using wage determinations from different geographic areas, noting how this can significantly increase project costs, particularly when using Southern Maine rates for a Northern Maine project. The discussion also covered how Davis-Bacon requirements apply to subcontractors and the responsibilities of borrowers and contractors under these regulations.

Borrower Compliance Requirements Discussion

Ashley explained the borrower's responsibilities in prevailing wage compliance, including spot-checking contractor payroll, conducting employee interviews, and verifying SRF program certifications. She clarified that force account work performed by utility staff is exempt from Davis-Bacon requirements and discussed the evolution of Disadvantaged Business Enterprise (DBE) requirements from mandatory engagement to good faith effort. Ashley also addressed Single Audit compliance requirements, noting that communities receiving \$1 million or more in federal funds will need to complete audits, which can cost \$25,000-\$30,000 per year (estimate based on experiences in VT).

Build America Buy America Program

Ashley provided a comprehensive overview of the Build America, Buy America (BABA) program, explaining that it applies to all federal funding programs including SRF requirements and is administered by the Made in America Office (MIAO) within OMB. She detailed various waivers available, including de minimis waivers allowing up to 5% non-domestic products, small award exemptions under \$250,000, and specific carve-outs for Indian tribes and Pacific Islands. Ashley noted that while there are several general waivers that could benefit small projects, the more specific waivers requiring applications to EPA are typically more difficult to obtain.

State Equivalency Requirements Discussion

Ashley discussed state approaches to equivalency requirements across different water programs, noting that New Mexico selectively applies equivalency while states like Rhode

Island, Maryland, Vermont, Arkansas, Illinois, and Virginia apply it across the board. She mentioned upcoming financial management training sessions in South Portland and Cheyenne, Wyoming, which are approved for training credit hours. The conversation ended with information about an upcoming Ask Me Anything session on June 3rd covering part two of federal award compliance.

From the Chat:

Q: Except for the projects that are required for equivalency (e.g., LSL), are there strategies for selecting projects for equivalency?

A: Yes. I would advocate that state programs direct equivalency (EQ) requirements to one or two large projects that will actually go to construction during a funding cycle. With shrinking capitalization grants, the amount of project costs that need to meet EQ will be reduced and can likely be accomplished through one project that Very Large Community does.

C: [referring to equivalency discussion] Very helpful! Thank you!

Q: [referring to QBS/A/E procurement] Is geographic (state) preference allowed through competitive bid for CW SRF?

A: No. QBS is an entirely local decision.

C: I was just thinking some federal grants expressly do not allow preference (e.g., state only) for firms.

Q: Does Davis Bacon filter down through subcontractors?

A: Yes. And DB applies to subcontractors' subcontractors, and all the way down.