State Revolving Funds and Water Infrastructure Financing
State Revolving Funds

- Established by CWA Amendments of 1987 and SDWA Amendments of 1996
- 51 separate state programs
- Low interest loans for water infrastructure
- Borrowers include municipalities, businesses, non-profits, and individuals
A Revolving Fund

- The revolving nature of the SRF means that funds will be available for the foreseeable future.
Overview of SRF Programs

- How are the SRF programs structured?
- What types of assistance are provided?
- How can SRF funds be used?
- What types of projects are funded?
How Did the CWSRF Get Started?

- Clean Water Act amendments of 1987 authorized EPA to make grants to states to capitalize state revolving funds
- The CWSRF program fundamentally changed the federal government’s approach to providing assistance
  - Change from federal construction grants to loans and other assistance
  - Change from federally operated program to state operated program
How is the CWSRF Structured?

- Federally and state funded (20% state match)
- State implemented and operated
- Flexibility in assistance provided
  - Type of assistance: e.g., loans, insurance
  - Loan terms: i.e., interest rate, repayment period, projects funded

- Federal funds: 83%
- State funds: 17%
CWSRFs: Infrastructure Banks

51 state-level infrastructure “banks” that make loans for water quality projects:

- Municipal Sewage Treatment
- Nonpoint Sources
- Estuary Projects

EPA State 20% match

CWSRF “Bank”

CWSRF Loan

Bond Holders
How Did the DWSRF Get Started?

- Program was part of President’s economic stimulus package in 1993
- Legislation narrowly defeated in 103rd Congress
- Broad support in Congress for DWSRF with passage of SDWA amendments in 1996
How is the DWSRF Structured?

- Loan portion of the program is similar to CWSRF program
- DWSRF allows for set-asides of up to 31% of capitalization grants
# How Can SRF Funds be Used?

<table>
<thead>
<tr>
<th></th>
<th>CWSRF</th>
<th>DWSRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Disadvantaged community loans</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Refinancing or purchase of local debt</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Guarantee or purchase of insurance for local debt obligations</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Guarantee SRF debt obligations</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Guarantee loans of “sub-state revolving funds”</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Pay SRF administrative expenses</td>
<td>X</td>
<td>*</td>
</tr>
<tr>
<td>Earn interest</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

* DWSRF set-aside
SRF Loans

- SRF loans funds to public/private entities for eligible projects

- Interest rates may range from zero percent to “market rate”
  - SRF rates typically 3 percent below market rate
  - SRF low-interest loans provide significant subsidy – “grant equivalence”

- Loan repayment term no longer than 20 (DWSRF) or 30 years (CWSRF) (DWSRF loans to 30 years for disadvantaged communities)
  - Some states offer shorter repayment terms
SRF Loans

- Dedicated repayment source must be established
- Repayments need to start one year after project completion
- Considerations/Issues:
  - Meeting goals to address water quality/public health and compliance priorities
DWSRF Loans

- At least 15% of fund must be used for loan assistance for small communities (<10,000)
- Disadvantaged communities may be offered negative interest rates, principal forgiveness, and/or a 30-year repayment term
  - No more than 30% of capitalization grant may be used for disadvantaged community loan subsidies
  - State establishes definition of disadvantaged community
### What Projects are Eligible

<table>
<thead>
<tr>
<th>Project Type</th>
<th>CW</th>
<th>DW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public/private community water systems</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Nonprofit noncommunity water systems</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Compliance and public health projects</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Restructuring/consolidation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Plan/design</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Construction of publicly-owned wastewater treatment systems</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Implementation of nonpoint source projects*</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Development and implementation of estuary projects*</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

(*public or private)
Dispelling the Myths about the SRF

- Money is not free, but it can be cheap
- Loans can be as cheap as grants
- There are funds available
- Countless ways to structure funding deals
- Limitless repayment options
- Targeting important water quality priorities
- Reaching new and underserved communities
- Flexible, innovative and creative
Low-Cost Loans Mean Real Savings

Compare a low-cost SRF loan to a market rate loan for a Project Costing $10,000,000:

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Annual Payments (20 Yrs)</th>
<th>Total Cost Over 20 Yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>$500,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>3%</td>
<td>$670,000</td>
<td>$13,400,000</td>
</tr>
<tr>
<td>7%</td>
<td>$940,000</td>
<td>$18,900,000</td>
</tr>
</tbody>
</table>

If the market interest rate is 7%, then a SRF loan...

- at 0% ... saves $8,900,000
- at 3% ... saves $5,500,000
Grant Equivalence

<table>
<thead>
<tr>
<th>Market Rate</th>
<th>SRF Rate</th>
<th>0%</th>
<th>1%</th>
<th>2%</th>
<th>3%</th>
<th>4%</th>
<th>5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>4%</td>
<td>32%</td>
<td>25%</td>
<td>17%</td>
<td>9%</td>
<td>0%</td>
<td>-</td>
</tr>
<tr>
<td>5%</td>
<td>5%</td>
<td>38%</td>
<td>31%</td>
<td>24%</td>
<td>16%</td>
<td>8%</td>
<td>0%</td>
</tr>
<tr>
<td>6%</td>
<td>6%</td>
<td>43%</td>
<td>36%</td>
<td>30%</td>
<td>23%</td>
<td>16%</td>
<td>8%</td>
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<tr>
<td>7%</td>
<td>7%</td>
<td>47%</td>
<td>41%</td>
<td>35%</td>
<td>29%</td>
<td>22%</td>
<td>15%</td>
</tr>
<tr>
<td>8%</td>
<td>8%</td>
<td>51%</td>
<td>46%</td>
<td>40%</td>
<td>34%</td>
<td>28%</td>
<td>21%</td>
</tr>
<tr>
<td>9%</td>
<td>9%</td>
<td>54%</td>
<td>49%</td>
<td>44%</td>
<td>39%</td>
<td>33%</td>
<td>27%</td>
</tr>
</tbody>
</table>

For example: For a $10 million project, when the market rate is 7%:
- a 3% SRF loan is equivalent to a $2.9 million grant and a $7.1 million loan at market rate;
- a 0% SRF loan is equivalent to a $4.7 million grant and a $5.3 million loan at market rate.
Repayment Can Be Easy

- Repayment may be from other than borrower
- Repayment sources include:
  - Wastewater system user charge
  - “Flush” fee
  - Stormwater fee
  - Dedicated portion of state, county, town, or special district fees or taxes
  - Community general obligation bond authority
  - Donations or membership dues made to nonprofit organizations
  - Individual or business revenues
  - Homeowner fees
  - Recreational or license fees
  - And more...
How do I access that money?!

Identify the need

Develop a project

Contact the appropriate SRF to be placed on the Intended Use Plan
SRF Contacts

- Alabama – James Dailey
- Florida – Tim Banks
- Georgia – Jason Bodwell
- Kentucky – Jami Johnson
- Mississippi – Tony Caldwell, Roger Gilbert
- North Carolina – Seth Robertson
- South Carolina – Mark Noble
- Tennessee – Sherwin Smith
Access SRF Contacts
https://www.epa.gov/cwsrf/list-state-contacts-clean-water-state-revolving-fund-cwsrf

- Sheryl Parsons
  parsons.sheryl@epa.gov
Questions?