



Highlights of [GAO-06-579](#), a report to the Chairman and Ranking Member, Subcommittee on Interior, Environment, and Related Agencies, Committee on Appropriations, House of Representatives

## Why GAO Did This Study

Communities will need hundreds of billions of dollars in coming years to construct and upgrade wastewater treatment facilities, sewer systems, and other water infrastructure. To finance these efforts, they will rely heavily on low-interest loans from the Environmental Protection Agency's (EPA) Clean Water State Revolving Fund (CWSRF) program to supplement their own funds.

Through fiscal year 2005, states have used their CWSRFs to provide communities over \$52 billion for a variety of water quality projects. The Clean Water Act allows states to use their CWSRFs to (1) construct or improve conventional wastewater infrastructure, (2) control diffuse (nonpoint) sources of pollution such as agricultural runoff and leaking septic systems, and (3) protect federally-designated estuaries.

Given the states' flexibility in determining how to spend CWSRF dollars, GAO was asked to examine (1) the extent to which states use their CWSRF dollars to support conventional wastewater treatment infrastructure versus other qualifying expenses, (2) the strategies states use to allocate their CWSRF dollars among qualifying expenses, and (3) the measures states use to ensure that their allocation strategies result in the most efficient and effective use of CWSRF dollars. EPA reviewed a report draft, providing technical comments that were incorporated.

[www.gao.gov/cgi-bin/getrpt?GAO-06-579](http://www.gao.gov/cgi-bin/getrpt?GAO-06-579).

To view the full product, including the scope and methodology, click on the link above. For more information, contact John Stephenson at (202) 512-3841 or [stephensonj@gao.gov](mailto:stephensonj@gao.gov).

## CLEAN WATER

# How States Allocate Revolving Loan Funds and Measure Their Benefits

## What GAO Found

Since 1987, states have used 96 percent (about \$50 billion) of their CWSRF dollars to build, upgrade, or enlarge conventional wastewater treatment facilities and conveyances. Projects to build or improve wastewater treatment plants alone account for over 60 percent of this amount, with the remainder supporting the construction or rehabilitation of sewer and storm water collection systems. CWSRF assistance for nonpoint source activities represents only 4 percent (about \$2 billion) of CWSRF dollars, although it accounts for over a quarter of all CWSRF projects financed. To date, 37 states report using some portion of their CWSRF funds to directly support nonpoint source activities. Nationwide, 23 percent of CWSRF funds (64 percent of all CWSRF loan agreements) were devoted to water quality projects in communities with populations of less than 10,000 people.

The 50 states (and Puerto Rico) have used a variety of strategies to allocate CWSRF funds to meet their individual needs. For example, the state of Washington sets aside 20 percent of its CWSRF dollars to support nonpoint source projects, while Alabama state law defines only traditional public wastewater treatment facilities as appropriate projects under its CWSRF program. Other states have designed their programs to target selected types of borrowers. Pennsylvania, for example, has targeted borrowers in small or rural communities during the allocation process. According to EPA and state officials, states' allocation strategies may change as certain states' priorities and clean water needs shift. Among the reasons are (1) aging wastewater infrastructure in need of rehabilitation or replacement; (2) population growth and redistribution; (3) changes in EPA enforcement priorities; and (4) stricter EPA and state water quality standards for temperature, nutrients, and sediments.

EPA and the states use a uniform set of financial and environmental measures to help determine efficient and effective use of CWSRF resources. Financial measures include, among others, return on federal investment, the pace at which available funds are loaned, and the sustainability of the fund. EPA regional officials conduct annual reviews of each state program to help ensure the fiscal integrity of the state programs. All programs are also subject annually to independent financial audits. To measure environmental outcomes of CWSRF-funded projects, in fiscal year 2005, EPA developed an electronic benefits reporting system that all 51 programs have agreed to use. Currently, the system collects data only on anticipated environmental benefits associated with CWSRF-funded projects. However, to varying degrees, some states such as Oklahoma and Washington are attempting to gather data on actual environmental benefits from their CWSRF-funded projects, including nonpoint source projects.