



# SRF's Up

A NEWSLETTER FOR THE CLEAN WATER AND DRINKING WATER SRF PROGRAMS



## ON THE NATIONAL SCENE

### **The Congressional Outlook On Wastewater Infrastructure Issues** *Carrie Jelsma, Staff, Subcommittee on Water Resources and Environment*

What's happening on "The Hill" regarding wastewater infrastructure and wet weather flows? In the 106th Congress, both the House of Representatives and the Senate are considering how to address the rising costs of making sure the U.S. has adequate wastewater infrastructure, and to control wet weather problems.



### ***The Price Tag Is Going Up***

Last year the American Metropolitan and Sewerage Authority and the Water Environment Federation published the "Cost of Clean" report that estimated more than \$330 billion is needed over the next 20 years to repair and improve the nation's wastewater infrastructure. This is more than double EPA's 1996 estimate that approximately \$140 billion would be needed over the next 20 years. EPA is also revising its 1996 Clean Water Needs survey with its "Needs Gap" analysis. While not yet final, it indicates costs over the next 20 years could be more than \$300 billion. Even though EPA's "Needs Gap" analysis and the "Cost of Clean" report employ different methodologies, the point is clear—the price tag is going up for making sure that our national wastewater infrastructure will help provide clean and safe water.

Rough estimates reveal that the "gap" between how much is currently being invested in wastewater infrastructure compared to how much will be needed is about \$5-6 billion a year. This is derived by subtracting the estimated \$10-11 billion a year in combined federal, state and local investment from the estimated \$16 billion a year that will be needed over the next 20 years.

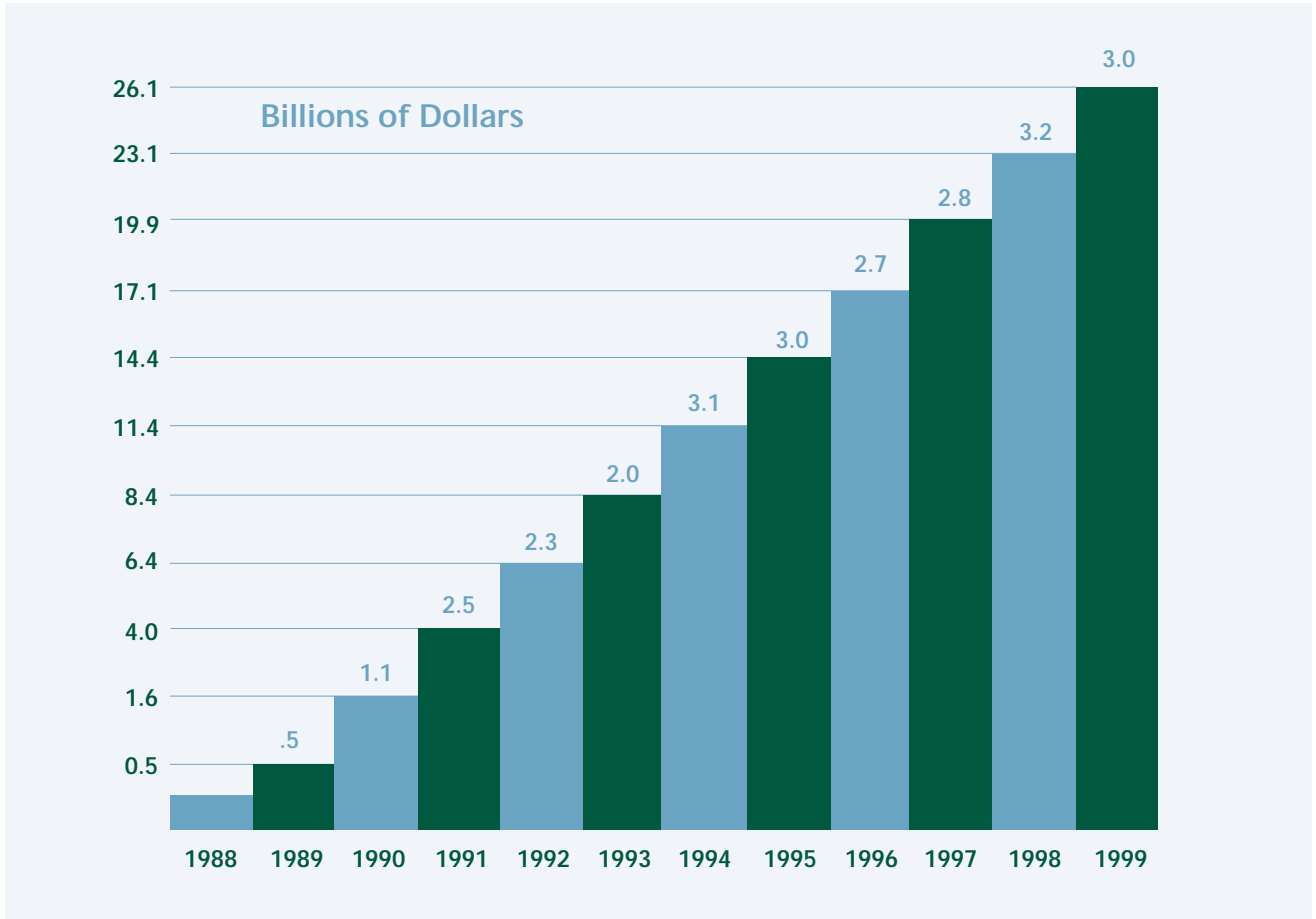
So, the questions Congress, EPA and other stakeholders are trying to answer include determining how much more investment is needed, who is going to pay for it, and what are the best types of financing, such as loans or grants, among other options.



### ***Proposals To Help Fill "The Gap"***

Both the House and Senate have held several hearings and will continue to consider, and possibly act on, various proposals to address the wastewater infrastructure needs "gap" and

# SRF's Up



CWSRF Assistance Provided to Projects

2

NATIONAL SCENE *from page 1*

other wet weather flows issues. While many proposals have been introduced addressing these issues, the following are some of the highlights.

### ***The President's FY 2001 Budget Request***

On February 7, 2000 the President transmitted the FY 2001 budget proposal to Congress. Similar to FY 2000, EPA requests \$800 million to capitalize the Clean Water State Revolving Fund (CWSRF) for FY 2001, and recommends a total of \$4 billion be provided through FY 2005. This request is in accordance with the Administration's goal to provide enough capitalization for the CWSRF to revolve at approximately \$2 billion a year.

For the past several years, Congress has appropriated more than EPA has requested for the CWSRF. For example, in FY 2000 Congress appropriated \$550 million more (+40%) than requested for a total of \$1.35 billion. In fact, many in Congress have expressed concern that EPA has not requested higher amounts. In response, EPA has stated an interest in working with Congress and others to reevaluate what an appropriate federal contribution would be in light of the rising wastewater infrastructure needs.

In addition, the President has repropoed "Better America Bonds," that would allow state, local and tribal governments to issue \$10.75 billion in bonding authority. Communities would have access to zero-interest financing for eligible projects because investors who buy the 15-year bonds would receive tax credits in lieu of interest payments. Eligible



projects include those that protect water quality, preserve and enhance green space, and clean up brownfields.

The House and Senate have introduced bills to implement last year's similar bond proposal, H.R. 2446, the "Better America Bonds Act," and S. 1558, the "Community Open Space Bonds Act." H.R. 2446 has 124 sponsors and S. 1558 has six. Last year, questions arose regarding cost estimates, agency accountability and program implementation that the Administration intends to clarify with its FY 2001 bond proposal. Recent press reports have had mixed analysis regarding how much support this year's bond proposal will receive.

### ***The Clean Water Infrastructure Financing Act of 1999***

In August 1999, Reps. Kelly (R-NY), and Tauscher (D-CA) introduced H.R. 2720, the "Clean Water Infrastructure Financing Act of 1999" to reauthorize the CWSRF. H.R. 2720 would authorize a total of \$15 billion in additional federal capitalization for FYs 2000-2004. The proposed authorization would increase the average annual revolving loan levels above the Administration's goal of having the CWSRF revolve at approximately \$2 billion a year.

To increase state flexibility in addressing water quality problems, H.R. 2720 would expand the types of projects eligible for loans to include activities of which the principal benefit is improved or protected water quality. Examples include restoring or protecting riparian areas, water use efficiency and pollution prevention measures, among others. H.R. 2720 also would require EPA to provide guidance for and technical assistance to small systems. For disadvantaged communities, the proposal would extend loan repayment periods and provide principal write down. So far, 57 members have sponsored this bill.

Last October, Sen. Voinovich (R-OH) introduced a similar CWSRF reauthorization bill, S. 1699, which has the same title as the H.R. 2720. Both the House and Senate have held hearings on their CWSRF reauthorization proposals.

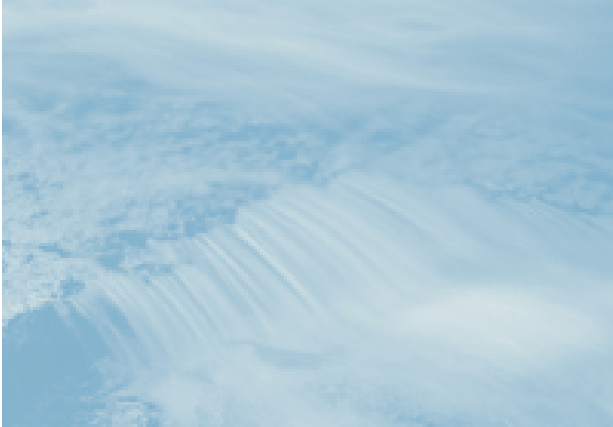
### ***The Combined Sewer Overflow Control And Partnership Act***

Last February, Rep. Barcia (D-MI) and others introduced H.R. 828, "The Combined Sewer Overflow Control and Partnership Act of 1999." This bill would authorize \$2.25 billion of grants for planning, design, and construction of CSO controls (and storm sewer overflow controls where appropriate). It would also codify EPA's CSO control policy, require that regulatory agencies for CSO communities review water quality standards and designated uses before developing long-term CSO control strategies, and provide specified timeframes to complete CSO control projects. H.R. 828 has 48 sponsors. Last April, Sen. Smith (R-NH) and others introduced a companion bill, S. 914, that has 16 sponsors, and the same title as H.R. 828. Both the House and Senate have held hearings on these proposals.

### ***The Urban Wet Weather Priorities Act of 2000***

This February, Reps. LaTourette (R-OH), and Pascrell (D-NJ) introduced H.R. 3570, the "Urban Wet Weather Priorities Act of 2000." This bill seeks to create national consistency in the regulatory oversight of urban wet weather flows and would





NATIONAL SCENE from page 3

address three primary areas of national concern—CSOs, SSOs, and urban storm water problems. The proposed bill also would create watershed management demonstration projects, determine cost-effective wet weather management and control methods, and authorize over \$3 billion in grants.

### ***Other Options***

Another idea, in early stages of discussion, is to create some sort of clean water trust fund. For example, the Water Infrastructure Network (WIN) is working toward finding a permanent funding source, such as a trust fund, for water-related infrastructure needs including clean water, drinking water and nonpoint source pollution. WIN plans to release a report this March on potential funding sources, that also will highlight the federal role in funding infrastructure projects. WIN consists of about 40 local and state water and waste water, environmental and natural resources, agriculture, labor, engineering, and construction interests.

*Carrie Jelsma is a Professional Staff Member on the House Transportation and Infrastructure Committee, Water Resources and Environment Subcommittee. Her statements do not reflect the positions of Members of Congress.*

### **DWSRF Implementation**

States continue to make progress in implementing the DWSRF program. As of the end of 1999, \$2.3 billion of the \$3.6 billion appropriated for the program has been awarded. States have closed more than 950 loans - a significant increase from the 350 reported at the end of 1998. The total amount of assistance provided nation-wide exceeds \$1.9 billion and several states, including New York, Kansas, and Colorado, have significantly increased the amount of funds available for providing assistance by leveraging their programs. States continue to focus attention on small systems which frequently have difficulty gaining access to other sources of capital financing. Seventy-five percent of the loan agreements and 41 percent of loan funding have been provided to systems serving fewer than 10,000. Approximately 21 percent of the federal funds allocated for infrastructure assistance had been disbursed to recipients of assistance as of the end of September 1999.

States have reserved almost \$400 million to conduct set-aside activities. The percentage of reserved set-asides decreased from the FY 1997 appropriation, primarily due to the fact that all states took advantage of a one-time only set-aside for source water delineations from FY 1997 funds. An average of 14 percent was reserved from the 51 FY 1998 grants and the 33 FY 1999 grants that had been awarded as of the end of 1999. More than \$90 million has been reserved to administer the DWSRF program, \$37 million to provide technical assistance to small systems, \$87 million for state program management activities, and \$182 million for local assistance which includes funding for source water delineations and loans for protection measures. Approximately 15 percent of the federal funds allocated for set-asides had been expended as of the end of September 1999.

Many states have reported that they face challenges in implementing their loan funds and set-aside activities due to state-imposed restrictions on hiring. Additionally, those states that have been able to hire have found it difficult to find qualified applicants in a tight labor market. It is hoped that these pressures will ease in the future, because states will face a



challenge in the next several years as they work to implement new drinking water regulations.

### Addressing Nonpoint Source Pollution with the CWSRF

In recent years, state CWSRF programs have been increasingly effective in addressing nonpoint source pollution. In 1999, 36 percent of the program's assistance agreements were for nonpoint source projects—up from 11 percent in 1995. The CWSRF seems to be addressing nonpoint source pollution in new ways every day. The following paragraphs highlight several recent developments that will help state CWSRF programs in these efforts.

#### ***Upgraded nonpoint source management programs.***

Twenty-one states have upgraded their nonpoint source management programs. Upgraded programs reflect nine key elements identified in the May 1996 guidance, “Nonpoint Source Program and Grants Guidance for Fiscal Years 1997 and Future Years” (found at [www.epa.gov/owow/nps/guide.html](http://www.epa.gov/owow/nps/guide.html)). These elements include an identification of waters and watersheds impaired or threatened by nonpoint source pollution, a process to progressively address these waters and flexible, targeted, iterative approaches to achieve and maintain beneficial uses of water as expeditiously as possible. EPA expects that almost all states will have upgraded programs in fiscal year 2000. These program upgrades should make it easier for state CWSRF programs to identify priority nonpoint source pollution problems and projects that will address them.

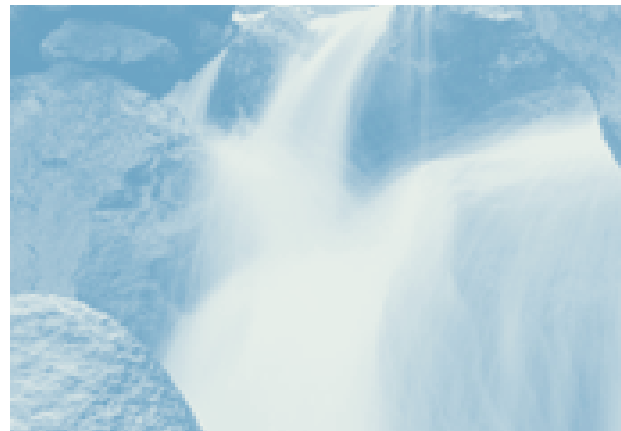
#### ***Nonpoint source needs in the 2000 Clean Water Needs Survey.***

The 1996 Clean Water Needs Survey assessed nonpoint source needs, but few states documented these needs systematically. As a result, project-level nonpoint source needs are unavailable and modeled totals under-represent the nation's true needs. Although EPA does not expect the 2000 Clean Water Needs Survey to document all nonpoint source needs, it will

try to improve this documentation significantly. The survey will identify and locate specific sources of nonpoint source pollution, identify projects that would address these sources, and estimate costs for needed projects. This effort will enable state CWSRF programs to identify specific sources of nonpoint source pollution and projects that would address them.

#### ***Clarification of CWSRF policy.***

EPA recently issued a policy memorandum clarifying the eligibility of certain types of projects for CWSRF funding. Several states have inquired about the eligibility of CWSRF loans to private entities for nonpoint source projects with elements that resemble point source “treatment works.” Treatment works, as defined in section 212 of the Clean Water Act, are ineligible for CWSRF funding if they are privately-owned. The following types of projects may have elements that resemble treatment works: septic tank replacement, stormwater containment, and some agricultural best management practices (e.g., lagoon systems). This recent policy states that a project is eligible for CWSRF funding as a section 319 or section 320 project unless it has a required NPDES permit or is determined ineligible by statute.



## State Focus: Funding Combined Sewer Overflow Projects with Michigan's CWSRF Program

*Tom Kamppinen, Michigan Department of Environmental Quality*

In the mid 1980s, Michigan began to address wet weather discharges from combined sewer systems throughout the state. A combined sewer system is a sewer system that was designed to carry both sanitary waste and stormwater runoff. These systems were designed in the late 1800s and early 1900s.

This effort was the result of several factors including the Remedial Action Plan for water quality problems in the Rouge River in southeast Michigan and public comments received during the issuance process of the National Pollutant Discharge Elimination System (NPDES) permits for the city of Grand Rapids.

To address the combined sewer overflow (CSO) discharges, Michigan developed a strategy that established the goals of meeting water quality standards, protecting designated uses, and achieving the Clean Water Act objectives of providing fishable, swimmable water. The CSO strategy consisted of three phases, which were incorporated into the NPDES permits as follows. First, the permittees were required to optimize operation of the collection systems to minimize wet weather discharges and eliminate dry weather discharges of sewage. Second, the permittees were required to develop and implement plans to provide adequate treatment to protect the public and eliminate raw sewage discharges. Third, the permittees were required to develop and implement long-term plans to provide adequate treatment of CSO discharges to comply with water quality standards. Communities were provided default design criteria with the option to demonstrate that a lesser technology would protect public health, eliminate raw sewage discharges, and meet water quality standards, during a design storm event.

During the public noticing of the NPDES permits in the Rouge Basin, communities challenged the default criteria for

adequate treatment. As a result, agreement was reached with the twelve communities and Wayne County on a demonstration study where various facilities would use different design criteria and evaluate the results. Other features were also designed into some basins providing shunts to direct flows greater than the design storm to the receiving stream, allowing the basin to capture first flush and fully treat smaller storms. In addition, Wayne County was successful in receiving a series of federal grants to evaluate impacts of wet weather flows, study nonpoint source impacts, construct CSO retention basins of different design, and separate sewers. This effort is commonly known as the Rouge River Wet Weather Demonstration Project. The basins are now complete and performance evaluations are ongoing. Based on the results, the communities and Wayne County will proceed with Phase II and Phase III of this CSO program for the remaining outfalls.

Initially, the Department of Environmental Quality identified 70 communities as having CSOs. All CSO facilities now have NPDES permits issued requiring communities to develop long-term CSO control plans and implementation schedules. During this effort, the CWSRF has played a major role in assisting municipalities in meeting their permit requirements. Since 1989, a total of \$1.076 billion in assistance has been provided to 165 projects. We have funded 84 individual CSO projects (46 communities) totaling \$492 million. This equates to 46 percent of Michigan's CWSRF money going to correct CSO discharges (see Figure 1).



The types of projects funded range from a small community of 700 people costing \$955,000, to the cities of Grand Rapids for \$65 million, Lansing for \$65 million, and Saginaw for \$75 million. Grand Rapids, Michigan's second largest city, has reduced the discharges of combined sewage by 90 percent. The project included a retention basin serving the east side of the city and separation of combined sewers on the west. In addition to the CWSRF loans, the city received a 55 percent construction grant for \$18.6 million in 1990. This effort has substantially reduced the public health advisories in the Grand River below Grand Rapids.

The city of Lansing (population 125,000) is also on the Grand River, and is addressing its \$175 million CSO program over a period of 30 years by constructing new sanitary sewers. The long-term period reflects the difficult task of large cities separating sewers due to construction scheduling and community-wide construction impacts.

The city of Saginaw, which will complete construction on its last loan in 2000, will achieve compliance with its NPDES permit and the State of Michigan and EPA CSO policy. Saginaw received its first loan in 1991 and is utilizing a combination of separation, rehabilitation of sewers for inflow/infiltration removal, and retention basins.

The alternatives chosen by communities reflect local conditions and are engineered to meet a community's needs. In small communities, separation is the most common approach. When separation is chosen, new sanitary sewers are the most effective choice as it avoids the need for additional expense of rehabilitation of the combined sewers or the need for equalization basins.

There is much more to accomplish. The city of Detroit has submitted its long-range CSO Plan estimated at \$1 billion. The first segment of this plan was funded in 1999 (\$40.66 million). The remaining segments are scheduled in the city's NPDES permit to be under construction by 2005. The size of this project exceeds the capacity of the CWSRF to provide the desired level of assistance. Other significant projects include the Twelve Towns drainage project in Oakland County for \$140

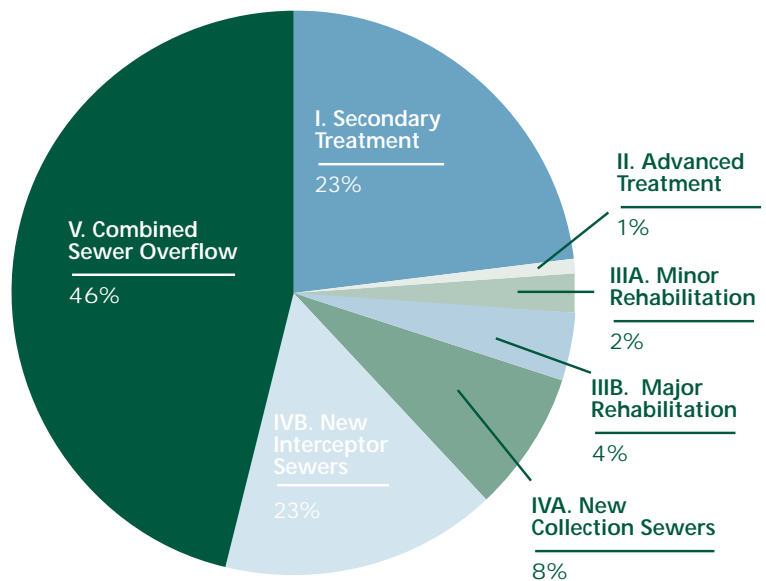
million, Port Huron for \$60 million, Bay City for \$30 million, and other smaller but still important water quality projects.

Here are some interesting observations in Michigan's program. In fiscal year 1999, the CWSRF funded \$245 million in projects. Had grants been used rather than revolving funds, the state could have provided only \$59 million in assistance. In fiscal year 2000, Michigan has \$350 million of projects seeking assistance with only \$210 million available. This amount reflects 25 percent of the total national appropriation for fiscal year 2000. The demand for next year looks even greater.

While Michigan has not funded any nonpoint source projects in the CWSRF, it can be readily seen that the larger environmental bang for the buck is assisting communities in correcting the discharge of raw sanitary sewage from their combined sewers. This does not mean Michigan has done little in addressing nonpoint pollution. On the contrary, in 1998, Michigan voters passed an environmental bond program that provides assistance to brownfield cleanups and \$50 million for nonpoint source programs.

While Michigan may be unique in its situation with CSOs, it does point out the ability of the CWSRF to meet each state's

CONTINUED ON PAGE 8



**FIGURE 1**

Michigan CWSRF Funding by Category (FY 1988-present)



STATE ACTIVITIES from page 7

water quality issues; something the construction grants program or similar proposed earmarked programs cannot do. The CWSRF program has resulted in projects going to construction in half the time, 60 percent coming in at or under budget, and meeting performance requirements at a consistently high level. In Michigan, the CWSRF program is administered by the Department of Environmental Quality, Environmental Assistance Division, Municipal Facilities Section, along with the Michigan Municipal Bond Authority.

What's ahead? After another \$1-2 billion in CSO needs, we will be facing the need to upgrade and expand facilities previously funded in the grant program that have reached their useful life. The need for the revolving fund is there. Depending on new initiatives such as TMDLs, etc. the question is, at what level?

*For more information, contact Tom Kamppinen at (517) 373-4718.*

## **State Focus: Texas and Capacity Development** *An interview with Carol Limaye, Texas Natural Resources and Conservation Commission*

It used to be called viability - the ability of a water system to maintain operations and provide customers with safe drinking water. The 1996 SDWA Amendments introduced a new term - capacity - to refer to the technical, financial and managerial ability of a system to operate properly. Two provisions were included in the law - the first requires states to ensure that all new systems have adequate capacity, and the second requires states to develop a strategy to assist existing water systems in acquiring and maintaining capacity. These capacity development provisions are closely linked to the DWSRF program - states are subject to loss of DWSRF grant funds if they fail to implement them. States are also required to assess the capacity of DWSRF assistance applicants before providing funding. Several of the set-asides provide funding for devel-

oping and implementing capacity development programs and providing direct assistance to water systems lacking capacity. While some states were uncertain about how this new focus on capacity would impact their state programs, others saw the new provisions as a validation and natural extension of the work they had already been doing and were excited about the opportunity to have funding for their programs. Although capacity-related work has been largely restricted to state drinking water programs, finance agencies which provide assistance to water suppliers are now seeing the benefits to a comprehensive approach in working with water systems. After all, ensuring repayment of loans is better assured if the lender can be certain that the system is being properly maintained and is capable of maintaining a revenue stream. One state that has taken the lead with respect to capacity development is Texas. The Texas Natural Resources and Conservation Commission (TNRCC) oversees the drinking water program in the state and works with the Texas Water Development Board (TWDB) to implement the DWSRF program. We asked Carol Limaye from TNRCC to provide some information on their capacity development program.

**Q:** *Did Texas have a "capacity development" program before the 1996 SDWA Amendments?*

**A:** Yes. Although the primacy program and the utility regulatory program were in separate state agencies before 1992, staff from the two agencies would often work together in an attempt to move water systems towards compliance. When the





two programs were merged into the same agency in 1992, there was more opportunity to see all aspects of the financial, managerial, and technical (FMT) resources of water systems. A Viability Task Force was formed in 1994 which included staff from the drinking water and utility regulation programs (including rate change approvals, service area delineations, drinking water monitoring and enforcement). The Task Force laid the groundwork for TNRCC's capacity development program.

***Q: Is the capacity development program directed towards a certain class of systems? If so, how have you found working with them?***

**A:** The program screens all sizes and types of new public water systems. New systems must attempt to obtain service from neighboring systems before applying for approval of engineering plans and specifications. The proposed new system must also submit a business plan. We have found that entrepreneurs proposing water systems to support land development often need basic information on financial concepts and technical requirements.

For existing systems, our on-site assistance program is targeted towards systems which serve under 15,000 in population and have health and compliance problems. Although the assessment and assistance program is voluntary, less than 5 percent have declined to be assessed. Some small systems expressed concern that they do not have the staff time or financial resources to engage in budgeting and business planning. The systems which have participated in planning have found the process to be beneficial.

***Q: Can you give an example of a specific activity being conducted by TNRCC to support the drinking water program?***

**A:** Long before the implementation of the capacity development strategies, TNRCC was providing technical assistance and conducting programs for comprehensive performance

evaluations (CPE), operator certification, source water protection, and drinking water monitoring. Those programs are now coordinated with the capacity development program.

The new activity most supportive of the SDWA capacity development requirements is the assessment and review of the FMT capabilities of new water systems. The engineering plans and specifications of certain systems will not be approved until they have submitted an acceptable business plan. TNRCC has the authority to require existing systems to submit a business plan if they have a history of non-compliance or a pending enforcement action. Systems which require Certificates of Convenience and Necessity to define their service areas must demonstrate that they have FMT capability. TNRCC uses agency staff and contractors to assess the FMT capabilities of existing systems and provide assistance. These new activities address financial and managerial issues which have not traditionally been addressed by technical assistance and reviews.

***Q: How have you worked with the TWDB to incorporate the concept of capacity into their application review?***

**A:** If a system on the Intended Use Plan is invited to apply for a DWSRF loan, the TNRCC prepares a capacity assessment report for the TWDB. The capacity assessment has two phases: On-Site and Office Review. The On-Site Assessment uses a standard form to assess the FMT aspects of the system. The form indicates the "non-negotiable" strengths a system must have to demonstrate FMT capability (budget, reports to the governing board, periodic rate review, emergency planning etc.). Other strengths may not be essential for FMT capability, but are considered important and their presence or absence is noted on the report. The office review checks for compliance with drinking water standards and other requirements of the agency. TNRCC then certifies to the TWDB whether or not the system has the FMT capability to comply with drinking water regulations. TWDB and TNRCC staff have worked together to implement and refine this process.



STATE ACTIVITIES *from page 9*

**Q: Do you have examples of where the capacity assessment has identified issues with potential DWSRF assistance recipients? What plan of action resulted from the findings?**

**A:** Since the program began, several DWSRF systems have been found not to have sufficient FMT capacity even with the corrections to be made by the DWSRF project. Those systems are following a Corrective Action Plan to address the deficiencies before proceeding with a DWSRF loan. One system's plan includes hiring a certified operator, conducting a rate study, establishing billing, collection and service termination procedures and establishing a preventative maintenance program. Another system's plan calls for operator training schedules, emergency planning and conducting a rate study. TWDB can require these items to be resolved before funds are released to the DWSRF applicant.

**Q: Has set-aside funding helped in implementing your program? How are you using the funds now or planning to use them in the future?**

**A:** The set-aside funds have been used to contract with other organizations to provide on-site assistance and other services which include the following:

- Assess the FMT capabilities of small water systems with health and compliance problems.
- Develop and monitor the implementation of Corrective Action Plans based on capacity assessments.
- Assess and monitor DWSRF applicants and assist with DWSRF applications, if necessary.
- Assess the potential for consolidating or restructuring selected systems.
- Assist water systems in establishing Source Water Protection Programs.
- Conduct CPEs for Surface Water Plants and improve training for their operators.
- Develop an integrated data base for drinking water monitoring, economic regulation and district oversight.

- Conduct research on capacity enhancements and impairments.

TNRCC has also used set-aside funds to support some agency positions and acquire additional computer hardware. Although TNRCC has used less than 10 percent of the set-asides available, the set-asides have provided funding for the state to develop its own capacity in addressing the FMT problems faced by small water systems.

**Q: Are there any other cross-program/agency connections that you're trying to make to spread the concept of capacity development to other parties?**

**A:** Yes. Within the agency, the capacity development program staff has worked with the 16 TNRCC Regional Offices to coordinate activities and on-site visits. Staff is also presenting information to the Local Government Assistance Team of the TNRCC.

TNRCC is interested in working with all funding agencies. Recently, the Texas Department of Housing and Community Affairs (TDHCA) conducted joint training sessions with TNRCC staff on water system FMT capability. TDHCA administers the community block grant program for non-entitlement counties. Both agencies recognize the need to coordinate activities so that funding is targeted to viable systems or used to restructure non-viable systems.

Water associations and other stakeholders, known as the Drinking Water Advisory Group, have been meeting with TNRCC staff on a quarterly basis for updates and input into the rule changes and initiatives of the TNRCC. The members of that group are briefed on the status of the capacity development program and the DWSRF program at every meeting.

The state legislature has extended the requirement for FMT assessments to applicants for other funding programs of the TWDB. The principles of assessing and reporting on FMT capabilities have been applied to state loans and grants for water and wastewater systems in economically distressed areas.

*For more information about the Texas capacity development program, contact Carol Limaye at (512) 239-6120 or Doug Holcomb at (512) 239-6960.*



## State Activities and Trends Briefs

### *Washington CWSRF Closes First Loans to Indian Tribe*

The Swinomish Indian Tribal Community is the first Native American community to receive financial assistance from the CWSRF. The Swinomish community has received more than \$1.2 million from the State of Washington for wastewater and stormwater treatment.

The Swinomish community has received two loans from the State of Washington. In March 1998, the Swinomish received a \$961,000 loan to refinance existing debt. The community used these funds to purchase capacity in an existing wastewater treatment plant in neighboring La Conner, Washington. In August 1999, the Swinomish community received a second loan for \$240,000. The Swinomish are using these funds to build a stormwater treatment facility on tribal lands. The stormwater treatment facility will consist of wet ponds, biofiltration swales, and constructed wetlands.

Although these are the first examples of a tribal community receiving CWSRF funding, Native American tribes are eligible for funding in every state. Section 603(c) of the Clean Water Act provides that CWSRF funds shall be used to provide financial assistance to any municipality, intermunicipal, interstate, or state agency for construction of publicly-owned treatment works. Section 502(4) of the Act defines "municipality" to include "an Indian Tribe or an authorized Indian Tribal organization."

*For more information, contact Brian Howard at (306) 407-6510.*



### *Replacement Fund Innovation in Arizona DWSRF*

A critical consideration for drinking water utilities is ensuring that sufficient funds are available for the operation and maintenance (O&M) of water systems. Failure to maintain sufficient O&M reserves can affect the capacity of a water system to provide safe drinking water to customers. Private water companies often have a difficult time obtaining approval for rate increases from public utility commissions that would allow them to maintain reserves for O&M.

In order to ensure that water systems maintain capacity after receiving a DWSRF loan, the Arizona Water Infrastructure Financing Authority (WIFA) requires that a system establish a replacement fund to replace and repair equipment that may fail during the course of the loan. WIFA requires that loan recipients make monthly payments to a debt service reserve that provides initial security on the loan. Five years into the loan repayment period these payments are instead deposited into a replacement fund. Payments to the replacement fund continue until the loan is repaid.

This mechanism benefits both the state and the water system. The replacement fund provides an additional level of security on the loan for WIFA should the debt service reserve prove inadequate to meet a default, and the water system is able to establish a fund to provide replacement costs both during and after the loan period—something that has been historically difficult for them to achieve. WIFA has worked with the Arizona Corporation Commission, which regulates private utilities in the state, to bring them on board—with the result that the commission has approved rate increases for systems receiving assistance to cover the debt service reserve and replacement funds in addition to the funds needed to repay principal and interest on the loan.

*For more information, contact Greg Swartz at (602) 230-9770.*

CONTINUED ON PAGE 12



STATE ACTIVITIES *from page 11*

## Project View

What do the SRF programs fund? How do they provide public health and water quality benefits? In this space we are highlighting projects that are typical of those funded by the Clean Water and Drinking Water SRF programs. This issue focuses on projects that address compliance with the Clean Water Act and the Safe Drinking Water Act.

### *CWSRF*

Many CWSRF loans are used to replace aging sewage treatment works with compliance violations. The city of Hoover, Alabama (population 40,000) has done so after receiving two loans from the Alabama SRF program for more than \$18 million. The city used these funds to design and construct a new 1.2 million gallon per day wastewater treatment plant and holding pond to replace an older facility. The new plant has enabled the city to eliminate sewer system overflows, bypasses of untreated or partially treated wastes, and effluent violations. The plant discharges to the environmentally sensitive Cahaba River, and for this reason the facility's NPDES permit has advanced limits. Most notably, the permit allows discharge to the river only between the months of December and April, when streamflow is greatest. Also included in the project is an infiltration/inflow study to determine sources of stormwater intrusion into the sanitary sewer collection system, design and construction for the rehabilitation of this sewer collection system, and design and construction for the rehabilitation of several existing wastewater pumping systems.

### *DWSRF*

Two projects from Washington demonstrate how the State's DWSRF program is helping both small and large public water systems fund projects needed to ensure compliance with the Safe Drinking Water Act. Both of these loans completed funding packages for systems that were under Agreed Orders from

the Department of Public Health related to compliance with the Surface Water Treatment Rule. The State provided a \$45,423 loan to Camp Zanika Lache (population served - 100) for a project needed to allow the system to discontinue use of unfiltered creek water as a source of drinking water. The system used the funds to install a new well and make additional improvements, including pumps, storage, distribution and a standby disinfection system. A \$1 million loan was provided to the City of Walla Walla (population served - 31,000) to install an ozone system to allow it to resolve disinfection compliance issues. The system also constructed two new distribution reservoirs to replace existing uncovered reservoirs which will be used for raw water storage instead. Additional examples of projects being funded in Washington can be found in the state's February 2000 Water Tap newsletter, available on-line at <http://www.doh.wa.gov/ehp/dw/water-tap.pdf>.



## Training Needs

In the summer of 1998, EPA conducted nationwide training for state and EPA regional staff on financial issues for the SRF programs. Nationwide training with a sole focus on the DWSRF program was last conducted in the summer of 1997. Since that time "SRF 101" training has been conducted on an as requested basis. During the fall of 1999, EPA conducted a DWSRF 101 training requested by Region 7. While a small group of staff from Kansas, Missouri, Iowa and Nebraska was anticipated, the training ended up attracting more than 80 people from 10 states. Obviously, with the addition of new staff, and with staff turnover, there is still a need for training in the DWSRF program. Last spring the Association of State Drinking Water Administrators (ASDWA), Association of State and Interstate Water Pollution Control Agencies (ASIWPCA), and Council of Infrastructure Financing Authorities (CIFA) collaborated to conduct a survey of training needs for the CWSRF and DWSRF programs. Questionnaires were distributed to state personnel working in the various agencies that implement the SRF Programs. ASDWA compiled the results of the survey and issued a report in August 1999. A total of 279 responses were collected from DWSRF (55%) and CWSRF (41%) financial and programmatic staff in 47 states. The survey asked respondents to identify beginner, intermediate and advanced training needs in the financial/legal and engineering/program administration arenas. The top two financial/legal topics were analysis of financial statements and introduction to project financing. The top two engineering/ project administration topics were cross-cutting federal authorities in the SRF programs and environmental review. Results from the survey have been used to develop an agenda for state DWSRF training planned in a few EPA regions during the summer of 2000 and will also be used to develop future plans for training conducted by EPA and the respective associations.

## Drinking Water Needs Survey

Site visits to small systems are continuing, but the primary data collection period has closed and the results are being tallied for the next Report on Drinking Water Infrastructure Needs, scheduled for release in February 2001. An impressive 98 percent of the questionnaires distributed to water systems were returned to EPA. A preliminary assessment indicates that the number of projects identified by systems is greater than that reported during the first survey. Results from this new survey will be used to update the formula used to allot DWSRF funds among states beginning with the FY 2002 appropriation. EPA has been asked to consider whether the allotment formula should be changed to address several states that restrict privately-owned public water systems from receiving DWSRF funding. Concerns have been raised by associations representing private utilities, members of Congress, and several states that it is not equitable for a state to receive an allotment based on total infrastructure needs when the state will only finance that portion of the needs associated with publicly-owned systems. While EPA has not made a final decision concerning future changes to the allotment formula, it has raised the issue to states and other stakeholders at meetings. EPA will release a notice in the Federal Register sometime this fall that will propose and seek comments on revisions to the existing formula based on the results of the latest needs survey.

## Report to Congress on Transfers

This August, EPA must provide Congress with a report on the use of the provision in the 1996 SDWA Amendments that gives states the flexibility to transfer an amount equal to 33 percent of their DWSRF grant to the CWSRF program, or an equivalent amount from the CWSRF to the DWSRF program. As of the beginning of 2000, New York, New Jersey, Colorado, Maryland, and Montana had transferred funds from their CWSRF to their DWSRF programs. All states, with the exception of Colorado, transferred repayments.



IN THE WORKS *from page 13*

## SRF Work Group Meeting

The State/EPA SRF work group will have its seventh meeting this May in Washington, D.C. Several sub-groups have been formed to address specific issues including audits, sprawl, financial measures, and environmental indicators. These sub-groups also include state and EPA staff who are not official members of the work group. State staff are encouraged to contact representatives of the work group to inform them of any issues that they would like to have the group address. A membership listing of the work group and sub-groups can be found on the DWSRF website. There are currently 18 state representatives on the work group with equal representation from the CWSRF, DWSRF, and financial program areas. A process has been developed for rotation of members on the group that will result in 6 new members every year. State staff interested in participating on the work group should contact a member to learn more.

## CWSRF Progress Report

The CWSRF issued its first progress report in 1995, highlighting a successful transition from the Construction Grants program to the new revolving fund concept. Five years later, the program remains a remarkable success story, but its continual innovation has led to increased sophistication—and a need for a progress update.

A new report of progress should be available this summer. It will highlight the program's success addressing a variety of water quality problems, working with a variety of borrowers, and managing the program to fully utilize its growing financial resources. It will also discuss ways in which the CWSRF can address future challenges.

14



## FAXBACK FORM

Please fax to EPA Headquarters:

CWSRF PROGRAM (Attn: S. Hoover) • 202-260-0116

or

DWSRF PROGRAM (Attn: V. Blette) • 202-401-2345

Comments on Current Newsletter:

---

---

---

---

---

---

Suggestions for Articles or Event Announcements

in Future Newsletters:

---

---

---

---

---

---

If you wish to receive future newsletters, please complete the following to be added to the mailing list:

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address: \_\_\_\_\_

email: \_\_\_\_\_



## EVENTS

1. Association of Metropolitan Sewerage Agencies Annual Meeting  
 Location: Washington, D.C.  
 Date: May 20-24, 2000  
 Information: See AMSA website
  
2. National Rural Water Association Rally  
 Location: Washington, D.C.  
 Date: May 21-23, 2000  
 Information: [www.nrwa.org](http://www.nrwa.org)
  
3. Water and Growth in the West Conference  
 Location: Boulder, CO  
 Date: June 7-9, 2000  
 Information: [www.colorado.edu/law/NRLC/Conference2000.html](http://www.colorado.edu/law/NRLC/Conference2000.html)
  
4. American Water Works Annual Conference and Exposition  
 Location: Denver, CO  
 Date: June 11-15, 2000  
 Information: See AWWA website
  
5. Watershed Management and Operations Management 2000  
 Location: Fort Collins, CO  
 Date: June 20-24, 2000  
 Information: [www.asce.org/conferences/water2000](http://www.asce.org/conferences/water2000)
  
6. Association of State and Interstate Water Pollution Control Agencies Annual Meeting  
 Location: San Diego, CA  
 Date: August 13-16, 2000  
 Information: See ASIWPCA website

## SRF LINKS

1. CWSRF/DWSRF@EPA  
 Both SRFs maintain pages on the EPA website with information on the programs. Both sites contain guidance, policy documents and contact lists for state and regional staff. The URLs are as follows:
  - **CWSRF:** [www.epa.gov/owm/finan.htm](http://www.epa.gov/owm/finan.htm)
  - **DWSRF:** [www.epa.gov/safewater/dwsrf.html](http://www.epa.gov/safewater/dwsrf.html)
 The DWSRF site includes a link to a Local Drinking Water Information page, which has state by state information on drinking water systems and programs. Where available, this page includes a link to state DWSRF programs.
  
2. National Associations
  - **Association of State and Interstate Water Pollution Control Agencies:** [www.asiwpc.org](http://www.asiwpc.org)
  
  - **Association of State Drinking Water Administrators:** [www.asdwa.org](http://www.asdwa.org)
  
  - **American Water Works Association:** [www.awwa.org](http://www.awwa.org)
  
  - **Association of Metropolitan Water Agencies:** [www.amwa-water.org](http://www.amwa-water.org)
  
  - **Association of Metropolitan Sewerage Agencies:** [www.amsa-cleanwater.org](http://www.amsa-cleanwater.org)
  
  - **National Association of Water Companies:** [www.nawc.org](http://www.nawc.org)
  
3. State Programs  
 Many SRF programs have websites that are used to provide program information and application materials. This newsletter places a spotlight on Maryland.
  - **Maryland CW/DWSRFs**  
[websrvr.mde.state.md.us/wqfa/](http://websrvr.mde.state.md.us/wqfa/)





United States  
Environmental Protection  
Agency  
Washington, DC 20460

Official Business  
Penalty for Private Use  
\$300

IN THIS ISSUE.....

**On the National Scene**

- The Congressional Outlook on Wastewater Infrastructure Issues
- DWSRF Implementation
- Addressing Nonpoint Source Pollution with the CWSRF

**State Activities and Trends**

- State Focus: Funding Combined Sewer Overflow Projects with Michigan's CWSRF Program
- State Focus: Capacity Development in Texas' DWSRF Program
- Washington Closes First CWSRF Loans to Indian Tribe
- Replacement Fund Innovation in Arizona's DWSRF

**In the Works - Report on Ongoing SRF Activities**

- Training Needs
- Drinking Water Needs Survey
- Report to Congress on Transfers
- SRF Work Group Meeting
- CWSRF Progress Report

**Events • SRF Fax Back • SRF Links**

