




SRF's Up

A NEWSLETTER FOR THE CLEAN WATER AND DRINKING WATER SRF PROGRAMS




ANNOUNCING THE SRF NEWSLETTER



One Federal assistance program that has been identified as a success story for the Environmental Protection Agency is the State Revolving Fund program. In 1988, Congress introduced a new way of doing business by replacing the Construction Grants program with the Clean Water State Revolving Fund Program (CWSRF). The CWSRF program provides states with a continuing source of funding for wastewater treatment facilities and projects associated with estuary and nonpoint source programs. Although Congress authorized funding through 1994, appropriations have continued to the present. Federal funds, together with state contributions and funds from leveraging, have provided a total investment in the CWSRF that exceeds \$28 billion. Repayments alone are providing in excess of \$1 billion per year back into state CWSRF programs.

Recognizing a need to address compliance issues associated with public drinking water systems, Congress authorized a Drinking Water State Revolving Fund (DWSRF) program in 1996. This new program provides states with a continuing source of funding for public water system infrastructure improvements needed to protect public health. The program also provides each state with the flexibility to use a portion of its grant for important programs and activities related to drinking water source water protection and water system management. The DWSRF was patterned, in large part, on the successful CWSRF program.



In an effort to foster a positive and effective working relationship with states, EPA initiated a State/EPA Work Group to address issues related to implementation of both the Clean Water and Drinking Water State Revolving Funds in 1998. One of the things we have heard during the work group meetings is that there is a delay when it comes to getting information out - whether it be about policies EPA is considering or innovative approaches states are taking with respect to their SRFs.

The Association of State Drinking Water Administrators has helped by developing a newsletter that addresses the DWSRF program and the annual Council of Infrastructure Financing Authorities (CIFA) National SRF Workshop has proven to be a valuable forum for

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sharing information about state activities. However, it is difficult for both organizations to address each and every topic of interest to SRF program stakeholders. By developing a quarterly newsletter, we hope to provide an additional source of up-to-date SRF information. The newsletter will provide insights into new and creative SRF activities at the state level and will keep SRF program staff up-to-date on policies and initiatives undertaken by EPA.

We hope to involve states and EPA Regions in the newsletter. Recognizing that the experiences of staff working in SRF programs provide invaluable lessons for their peers, we hope to include articles written by drinking water, clean water, and finance program representatives in each issue. For example, in this issue we provide articles written by Maine on their DWSRF land acquisition loans and Minnesota on their program to provide CWSRF loans for agricultural best management practices.

In the future we hope that you will let us know what you would like to see in the newsletter. We are including a "fax back" form in each issue that can be used to share your thoughts with us on the newsletter. Your continued participation will help ensure that the CWSRF and DWSRF programs flourish and continue into the future as an environmental and public health protection success story.

Connie Bosma
Branch Chief, DWSRF

Bill Kramer
Acting Branch Chief, CWSRF

H. William Kramer, Jr.

Bill Kramer became acting Chief of the SRF Branch in May 1999 replacing Richard Kuhlman who became the Acting Division Director of the Municipal Support Division. Since joining EPA in 1980, Mr. Kramer has served in a variety of managerial positions including Chief of the Policy and Analysis Branch where he had a leading role in developing the State Revolving Fund Program.

CWSRF - NPS/Estuary Grant Proposal Status and Implementation

In an effort to continue to add flexibility to the CWSRF program, the Administration is requesting that states be given the opportunity to use 20 percent of the FY 2000 Clean Water State Revolving Fund capitalization as grants, instead of loans, for nonpoint source and estuary projects. Twenty-seven states are funding nonpoint source (NPS) and estuary management projects with CWSRF loans. This proposal provides the CWSRF programs with an additional option to mix grant and loan funding for these projects.

The President's CWSRF Budget Request for FY 2000 is \$800 million. Under the new proposal, as much as \$157 million of this amount could be made available from the CWSRFs to provide grants for nonpoint source and estuary management projects. The provision of grant funds would be at the discretion of the states. The proposal limits a grant subsidy to 60 percent of a project's costs. The remaining 40 percent must be provided by grant recipients using CWSRF loans or other financing sources. The funds used to make grants can come from CWSRF loan repayments, interest earnings, bond proceeds, state match, or Federal capitalization grants. If a State chooses to make grants with non-Federal funds (e.g., repayments), the cross-cutting Federal requirements applicable to the CWSRF program would not apply.

If a state chooses to make grants from the CWSRF it must use an Integrated Project Priority System (IPPS) to select projects. Currently, 18 states are using or developing IPPSs. Examples of eligible projects include agricultural best management practices to prevent and reduce runoff, animal waste facilities, rehabilitation of streambanks, riparian corridors and buffers, and wetlands protection.



Status of Implementation in the DWSRF program

My, how time flies. A little over two years ago, on February 28, 1997, EPA released the final guidelines for the DWSRF program. A week later, on March 6, 1997, Georgia received the first grant under the program. Two years down the road we find that implementation is moving forward, at an impressive rate. All 50 states and Puerto Rico accomplished the program's first important goal by receiving their FY97 grant awards by the September 30, 1998 deadline. As of mid-May, 35 States have received awards for FY98 funds and 4 have received FY99 funds, bringing the total amount awarded to \$1.8 billion (of the \$2.8 billion appropriated).

Of the funds that have been awarded, states have reserved \$315 million to conduct eligible set-aside activities. States reserved \$111 million of this amount from FY97 grants to conduct source water assessments of public water systems as required by the Safe Drinking Water Act.

A survey of states in the beginning of March indicated that 37 states have made more than 470 loans to public water systems for approximately \$1.08 billion. This amount includes additional funds made available by states leveraging capitalization grants. Continued success is anticipated as a result of funding of \$825 million in the President's proposed FY2000 budget.

Some states are finding the process of closing loans to be more difficult than they might have anticipated a year ago. Many of the systems applying for loans are small, and often require a significant amount of assistance to bring them to the table for a loan. However, despite the challenges posed by small systems, it is impressive to note that 297 out of 474 loans have gone to systems that serve fewer than 10,000 persons.

Clean Water Action Plan - An SRF Perspective

Although great progress has been made in cleaning up our Nation's waters, significant water quality problems persist. States report that roughly 40 percent of their assessed waters still do not meet water quality goals and 1,000 major water-

sheds still contain moderate to serious water quality problems. Last year the Clean Water Action Plan (CWAP) was developed with other Federal partners to renew the national commitment to provide "fishable and swimmable" waters to all Americans.

The results of the National Water Quality Inventory Report (305b) indicate that 60 percent of our water quality problems are nonpoint-source based. To help target and prioritize these problem areas, the CWAP called for states to develop Unified Watershed Assessments (UWA) to identify the watersheds most in need of assistance.

The CWAP emphasized the importance of the CWSRF program by including two high priority key actions that focus on: (1) use of funds for polluted runoff projects (including NPS & estuary projects), and (2) use of integrated priority setting systems by states to identify projects for funding.

Since 1988, 97 percent of CWSRF funds have been devoted to traditional municipal wastewater treatment projects. While significant changes are necessary in order to address the actions included in the CWAP, the groundwork for change is in place. The portion of CWSRF funds supporting nonpoint source and estuary protection has grown in recent years. Over the past 3 years, CWSRF funding for nonpoint source and estuary projects averaged 7 percent and 18 states are using or are in the process of developing integrated priority setting systems.

Today, twenty-seven states are funding nonpoint source projects. These figures are encouraging, yet there is room for improvement. In working to meet the goals of the CWAP, states are encouraged to start at the local level with unified watershed assessments, which can tie in directly to the states' integrated priority setting systems. By using available tools to guide CWSRF funding decisions states can identify high priority projects in targeted watersheds.

For more information on the CWAP program, including the full plan and first anniversary report, visit the CWAP website at <http://www.cleanwater.gov>.



Cross-Collateralization and Short-term Cross Investment

Cross-Collateralization and Cross-Investment are two new security enhancements states are using when leveraging their Clean Water and Drinking Water State Revolving Funds. These enhancements allow the resources of one SRF to be used to secure the repayment of bonds of the other program.

Cross-Collateralization, authorized under the 1999 Appropriations Act, allows states to combine the assets of the CWSRF and DWSRF programs as security for bond issues “. . . provided that revenues from the bonds are allocated . . . in the same portion as the funds are used as security for the bonds. . .” Currently, New Jersey, Missouri, Colorado, Arizona and Minnesota are states with cross-collateralization structures in place.

Cross-Investment, allowed under the “permitted investment provisions” of the Clean Water Act and the Safe Drinking Water Act, allows states to “invest” available funds from one SRF to cure a default related deficiency in the other. The investment is short-term and must be repaid after the borrowing SRF recovers from the loan default. Currently, New York, Michigan and Maine have cross-investment structures in place.

Although these enhancements are used to secure either SRF program, the primary beneficiary is the DWSRF program, which benefits from the larger size, greater diversification and strong credit quality of CWSRF borrowers.

EPA has prepared separate State Activity Updates, available from Regional offices, that provide additional details on the structures that have been developed by Michigan, New York, and New Jersey. The Updates are also available on the CWSRF and DWSRF websites.

Extended Bond Purchase Program

The Commonwealth of Massachusetts recently implemented an extended bond purchase program that allows SRF funded projects to be amortized over a thirty year period. Under the program, the Massachusetts CWSRF purchases bonds from

local communities, which use the proceeds for CWSRF eligible projects. This form of assistance is eligible under Section 603(d)(2) of the Clean Water Act. EPA accepted the proposal of the program because the Commonwealth pledged to take the following important measures to protect the fund and provide assistance to borrowers:

1. The Commonwealth would provide capital investment into the CWSRF program that is above the 20 percent state matching funds required. The Commonwealth pledged to make additional deposits to provide a subsidy equal to 50 percent of annual loan repayments.
2. The Commonwealth would modify its leveraging parameters to ensure that the purchasing power of the CWSRF would not be diminished over the long-term due to the 30 year term allowed for the bond purchase program. Specifically, the state reduced its debt service reserve fund level from 50 percent to 40 percent of the bond issue.

EPA has prepared a separate State Activity Update, available from Regional offices, that provides additional details on the Massachusetts Extended Bond Purchase Program. The Update is also available on the CWSRF website.

California SRF Closes Loan to The Nature Conservancy for Wetland Preservation

Recently, the California State Water Resources Control Board closed an \$8 million low-interest loan to The Nature Conservancy. The loan allowed The Nature Conservancy to purchase a 19.3 square mile wetlands preserve in the Sacramento area. The purchase of the preserve was made to protect the wetlands from an increase in development in the area. The Conservancy's plan is to resell the land to a ranching company with permanent restrictions (conservation easements) that will protect rare natural vernal pools (springtime wetlands) by limiting the allowable uses of the land.

Protecting Sources of Drinking Water

In many cases, the most effective and least expensive method to protect a source of drinking water from contamination is to





properly manage the land surrounding the source. Protecting source water is particularly important for those systems that do not filter surface water sources before providing water to customers. A set-aside in the DWSRF program specifically allows funds to be used to provide loans for land acquisition and conservation easements needed to protect a drinking water source. Loans allowed under the nonpoint source provisions in the CWSRF can also be used to acquire land for source water protection. Maine is the first state to implement a land acquisition loan program in the DWSRF program. In the next issue we will highlight land acquisition loans made in the CWSRF program.

State Focus - Maine DWSRF Land Acquisition Loans

Wendy Coffin and Paul Hunt, Maine Department of Health Services

In an effort to support and facilitate source water protection, the Maine Drinking Water SRF Program (DWSRF Program) has included a land acquisition/conservation easement loan component using set-aside funds since its inception in December 1997.

The Process

Each year, the Maine DWSRF Program issues a letter soliciting construction and land acquisition projects from all qualifying water systems. Proposals for land acquisition or purchase of conservation easements (L.A. projects) are ranked separately from construction projects and are scored in the following categories:

1. Compliance/enforcement status of the system (favoring systems facing more severe enforcement action, but only if the L.A. project will address the enforcement issue)
2. Water rates as a percentage of median household income (favoring systems with a higher percentage)
3. Population served (favoring systems with a population between 3300 and 9999)
4. System type (favoring community systems)
5. Source type (favoring surface water over ground water)

Based on the sum of points in all five categories, all L.A. projects are ranked from most to least urgent. Beginning at the top of the list, systems are notified of the eligibility of their L.A. projects until all available funds are committed. To date the Drinking Water Program has been able to commit to fund all the L.A. projects that have been proposed. It is our intent to fund all future requests using up to 10 percent (the maximum allowed) of each year's DWSRF capitalization grant.

The second step in the process is to determine whether or not the L.A. project "is integral to the source protection needs of the system." The water system must submit documentation demonstrating that the project meets this standard. For surface water systems, all land within the watershed is considered to meet the standard. For ground water systems, the standard is met by all land which falls within the delineated wellhead protection area.

Once a project is deemed eligible and determined to be integral to source protection, the water system must accomplish the following:

1. Provide an appraisal documenting the fair market value of the land
2. Negotiate a purchase and sales agreement with a willing seller
3. Demonstrate availability of revenues sufficient to repay the loan

The Maine Municipal Bank typically offers a loan with a 10-year repayment period for land purchases but will extend that period to 20 years if a water system makes that request. Unlike construction loans, however, the interest rate cannot be reduced and there is no principal forgiveness, even for disadvantaged communities.



Projects Thus Far

To date, the DWSRF has deemed eligible 11 L.A. projects for a total of more than \$1.4 million.

• **Auburn and Lewiston Water Systems**

The Auburn Water District and Lewiston Water Department utilize Lake Auburn, an unfiltered surface supply in south-central Maine, as a source. Using DWSRF funds, the systems purchased 434 acres of land in the watershed of "The Basin," a small pond which drains directly into Lake Auburn. As part of the agreement, the previous land owner is permitted to continue low-impact farming and hunting on the land.

Originally, the purchase was to be made by the Lewiston-Auburn Watershed Control Commission, a non-profit organization which works closely with the systems to manage the watershed. However only public water systems are eligible for land acquisition loans so the loan was ultimately split between the two water systems. The total purchase price of the land was \$570,000.

• **Bangor Water District**

The Bangor Water District (BWD) in east-central Maine utilizes Floods Pond as a source. Customers are provided water from Floods Pond, an unfiltered surface supply located in the neighboring community of Clifton. The watershed is largely undeveloped woodland and the BWD already owns more than half of the land in the watershed. The DWSRF has deemed eligible the purchase of 725 acres from Champion Paper Company. Approximately 75 percent of the land is in the direct watershed of Floods Pond. The remainder drains to Burnt Pond, the outlet of which enters Floods Pond near the BWD intake. After closing on the land, the BWD will own all but about 250 acres in the Floods Pond Watershed. While the BWD originally requested \$321,750, when additional land became available, they requested and received an additional \$235,250.



Other Projects

Of the nine remaining projects that were ranked and allotted funds, four were only notified of the availability of funds in the past few months and have not yet contacted the DWSRF Program regarding the steps in the process. One other system was unable to demonstrate eligibility for a filtration waiver and is now pursuing a new source. Two systems were notified last year of their eligibility for funds but have not pursued the projects for unspecified reasons. One system was unable to negotiate a purchase-and-sales agreement. The remaining system negotiated a conservation easement with the land owner and then, because of the reduced cost, chose to finance the agreement without DWSRF assistance.

If you have any questions about this article or want further information about Maine's DWSRF Program, call (207) 287-5684 or visit the program's website at <http://janus.state.me.us/dhs/eng/water/srf.htm>.

Minnesota's Agriculture Best Management Practices Loan Program

Minnesota has issued more CWSRF loans to address agricultural nonpoint source pollution than any other state. As of April 1999, \$21.4 million in loans have funded almost 1,900 projects. CWSRF loans have funded agricultural waste management systems, conservation tillage equipment, structural



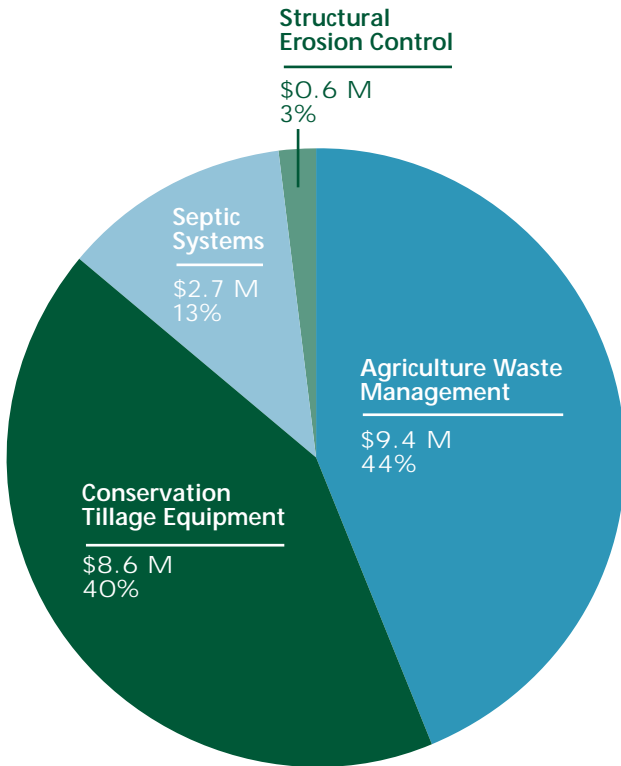


FIGURE 1

Agriculture BMPs Funded by the CWSRF in Minnesota

erosion control practices, and rural septic systems. Minnesota's Agriculture Best Management Practices Loan Program is unique in that it is fairly simple and straightforward and allows significant control at the local level.

Part of a Multi-Program CWSRF Initiative

In 1995, Minnesota implemented a multi-faceted initiative to use CWSRF loans to address nonpoint source pollution problems. The Department of Agriculture, the Pollution Control Agency, and the Department of Trade and Economic Development all established loan programs capitalized with Clean Water State Revolving Fund dollars. The Agriculture Best Management Practices Loan Program, developed by the Minnesota Department of Agriculture, has been the most active of these loan programs.

A Three-Party Loan Agreement

Three parties participate in loan management in the Agriculture Best Management Practices Loan Program: the Department of Agriculture, a local government unit, and a lending institution. The Department of Agriculture is responsible for the implementation of the program on a statewide level. It advertises the availability of zero-interest funding for the implementation of comprehensive local water plans and requests applications. These applications are reviewed by a committee composed of representatives from five state agencies, two federal agencies, the Association of Minnesota Counties, and the Association of Minnesota Soil and Water Conservation Districts. The review committee recommends priority funding for local government units that submit strong applications that tie the problems, causes, solutions, implementation priority, and benefits into a well-organized implementation plan. On the basis of these recommendations, the Commissioner of the Department of Agriculture allocates funds to each local government unit.

The local government unit (typically a county or Soil and Water Conservation District) has four responsibilities in this program. First, it must select a lending institution that will manage secondary loans to individual projects. Second, it

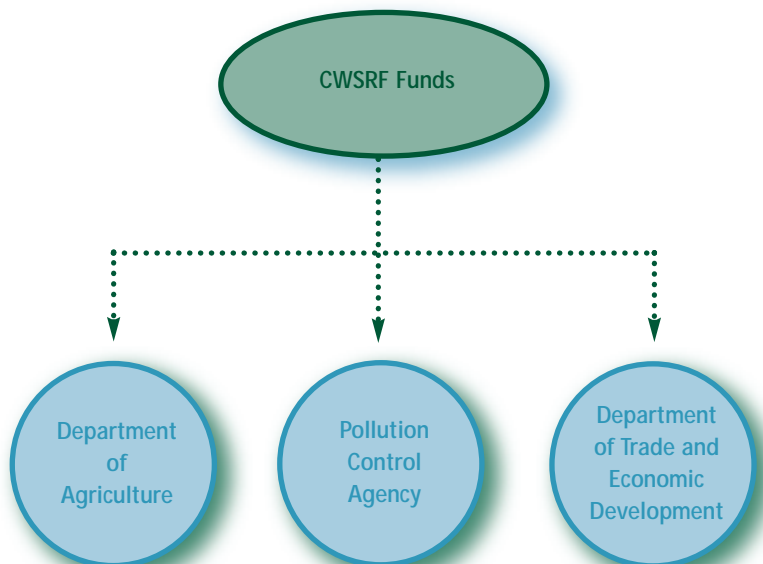


FIGURE 2

Distribution of CWSRF Funds among Minnesota State Programs

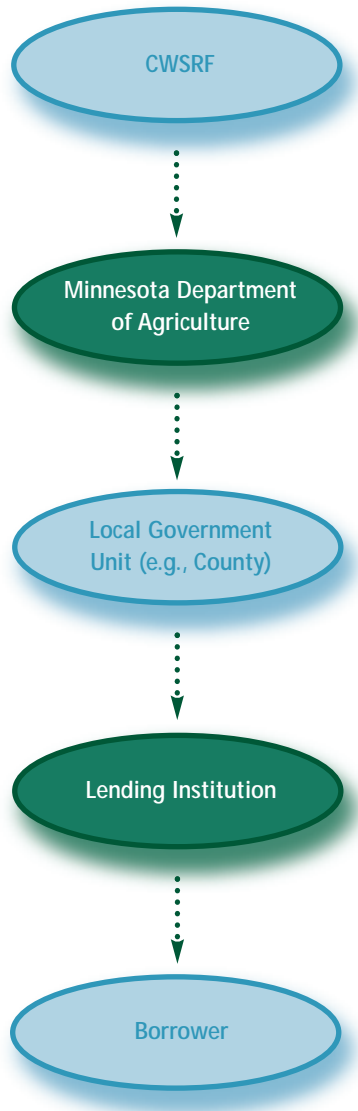


FIGURE 3

Flow of Funds for CWSRF Loans in Minnesota's Ag BMP Program

must certify projects that are eligible for CWSRF funding. Third, before the final disbursement to each borrower, the local government unit must certify that the project has been completed in compliance with accepted standards, specifications, and criteria. Finally, the local government unit must submit an annual report to the Department of Agriculture on all program activities.

The lending institution, designated by the local government unit, may be a bank, a savings and loan association, a

credit union, a non-profit economic development organization, or Farm Credit Services. The lending institution evaluates, approves, and manages loans to certified borrowers. The CWSRF distributes funds to the borrower via the lending institution on a cost-incurred basis. For every CWSRF loan, the lending institution guarantees repayment of principal to the Department of Agriculture. As compensation for these services, the lending institution receives a 1/2 percent origination fee and 3 percent interest on the loan.

A Successful Program

Since 1995, Minnesota's CWSRF has capitalized almost 1,900 loans for agriculture best management practices, making it one of the most prolific programs in the country. Three elements have contributed to this success: (1) the simple and straightforward nature of the program; (2) the successful dele-



gation of many of the responsibilities of the loan program to the various state or local organizations most suited to fulfill them, keeping most of the control at the local level; and (3) the provision of funds, through a competitive application procedure, to local governmental units based upon their ability to implement priority practices. As a result, Minnesota has made great strides in addressing agricultural nonpoint source pollution. For further information about Minnesota's Agriculture Best Management Practices Loan Program, call Dwight Wilcox at (651) 215-1018.



Report on Ongoing SRF Activities

Water Funding "Gap" Study

How can the "gap" between drinking water and clean water funding needs and expenditures be addressed? To answer this question EPA is conducting a study to identify annual drinking water and clean water funding needs and compare these needs to current program expenditures. EPA also hopes to identify alternative approaches to address the anticipated gap between needs and expenditures. The study is covering local level programs and activities eligible for financial support from EPA's Clean Water and Drinking Water State Revolving Funds as well as state programs.

DWSRF Regulations

The DWSRF program is in the process of developing regulations which will codify the final guidelines for the program. The final guidelines and subsequent policies were developed with the participation of states and other stakeholders and underwent public comment. The draft of the regulation was made available to the public on the OGWDW website for a 45 day public comment period which closed May 27. The draft was developed with input from the State/EPA SRF work group. The regulation will be modified after considering the comments that are received, and will be published as an Interim Final rule during the winter of 1999. The Interim Final rule will become effective upon the date of publication, but will allow for a 60 day comment period. If revisions are necessary based on the comments received, the rule will be published as Final, otherwise the Interim Final rule will stand.

Training Needs Survey

During the past several years, EPA has conducted training for CWSRF and DWSRF staff in states and EPA regions to ensure that everyone has access to the information they need to implement their programs. It is important to ensure that staff

running the SRF programs are trained on pertinent topics. Three associations that represent the majority of SRF programs - the Association of State and Interstate Water Pollution Control Administrators (ASIWPCA), the Association of State Drinking Water Administrators (ASDWA), and the Council on Infrastructure Financing Authorities (CIFA), stepped in this spring and offered to survey their members to identify the most critical needs to assist EPA in developing plans for future training. A survey was distributed to members during March and representatives from the three associations presented the findings to the State-EPA work group at its April meeting. Results will be used to develop a training agenda for the future.

Environmental Indicators

Measuring environmental results is fundamental in determining the environmental benefits gained from the expenditure of SRF funds. EPA has initiated a process to identify the key environmental indicators that can be used to assist state partners with priority setting and monitoring of their CWSRF program's progress, while providing a nationally consistent set of performance measures to be used by EPA to assess the progress of the national program. Members of the State/EPA Work group were invited to participate in a task force to assist in the implementation of this project. The 16 member task force consists of staff from EPA and 6 states. Using a recently completed report as a starting point, *Environmental Indicators for the Clean Water State Revolving Fund*, the task force has selected a set of indicators for pilot testing and further refinement. It is anticipated that the final set of indicators will be ready for implementation by the fall of the year 2000.



EVENTS

1. The Association of Metropolitan Sewerage Agencies

Location: Philadelphia, PA

Date: July 20-23, 1999

Information: see the AMSA website

2. The Association of State and Interstate Water Pollution Control Agencies Annual Meeting

Location: Kennebunkport, ME

Date: August 29-September 1, 1999

Information: see the ASIWPCA website

3. The Association of State Drinking Water Administrators Fourteenth Annual Conference

Location: Lake Buena Vista, Florida

Date: October 4-7, 1999

Information: (202) 293-7655 or visit the ASDWA website.

4. The Association of Metropolitan Water Agencies

Location: Norfolk, VA

Date: October 17-20, 1999

Information: see the AMWA website

5. The Council of Infrastructure Financing Authorities Annual SRF Conference

Location: San Antonio, TX

Date: November 8-9, 1999

Information: Tara Powers at (202) 371-9694

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

- **DWSRF:** 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 Intended Use Plans.

2. National Associations

- **Association of State and Interstate Water Pollution Control Agencies:** www.asiwpca.org

- **Association of State Drinking Water Administrators:** www.asdwa.org

- **American Water Works Association:** www.awwa.org

- **Association of Metropolitan Water Agencies:** www.amwa-water.org

- **Association of Metropolitan Sewerage Agencies:** www.amsa-cleanwater.org

- **National Association of Water Companies:** 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 New York.

- **NY Environmental Finance Corporation:** www.nysefc.org

- **New York Dept. Of Health:** www.health.state.ny.us/nysdoh/environ/water.htm





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