



**AMERICAN
RIVERS**
Life Depends on Rivers™

Using Clean Water State Revolving Funds for Greening and Climate Resilience:

A Guide for Local Governments

GRAND RIVER, GRAND RAPIDS, MICHIGAN
BRIAN KELLY, EXPERIENCE GRAND RAPIDS

January 2023

Table of Contents

List of Acronyms	3
Introduction	4
Background	5
Bipartisan Infrastructure Law Funding	5
CWSRF Program Structure	5
Sponsorship	6
Additional Subsidy	6
Affordability Criteria	7
Green, Climate-Resilient Projects	8
Green Project Reserve	8
Historic Funding for Green Projects	8
Surplus Funds	8
Three State Snapshots	9
Project Eligibility	10
Project Development, Intended Use Plan, and Prioritization	12
Project Development	12
Intended Use Plan	12
Project Prioritization	13
Partnerships	13
Advocacy	14
Technical Assistance	15

List of Acronyms

Abbreviation Name

BIL	Bipartisan Infrastructure Law
CWSRF	Clean Water State Revolving Fund
DWSRF	Drinking Water State Revolving Fund
EPA	The U.S. Environmental Protection Agency
GPR	Green Project Reserve
IUP	Intended Use Plan
NPS	Nonpoint Source
PFAS	Per- and Polyfluoroalkyl Substances
POTW	Publicly Owned Treatment Works
PPL	Project Priority List
SRF	State Revolving Fund



Introduction

GRAND RIVER, GRAND RAPIDS, MICHIGAN
BRIAN KELLY, EXPERIENCE GRAND RAPIDS

For more than thirty years, the [Clean Water State Revolving Fund](#) (CWSRF) has been a critical funding stream used by local governments and utilities for the cleanup of water quality in rivers across the United States. It is primarily a low-interest loan program but can provide additional subsidy in the form of grants or forgivable loans.

In 2009, CWSRF programs shifted to direct a portion of all funds toward projects to reduce energy use, increase trees and green landscapes, and promote climate resilience. Now, with the 2022 infusion of federal infrastructure funding, CWSRFs are in a position to offer transformational opportunities to communities challenged by historic disinvestment, environmental degradation, and climate change. The intent of this guide is to clarify key tenets of the programs and to provide guidance to municipal and utility staff on how to access the funds available through the SRFs for green, climate-resilient projects.

Local governments play a critical role in ensuring clean, healthy, safe, and affordable water for their residents. With authority over land use and development decisions, they provide strategic direction on how a region's tree canopy and open space transform over time, which directly influences the health of the community's lakes and rivers. As water utility managers, they implement federal standards for safe drinking water, limit pollution discharges, and set user fees to fund this critical work. They engage communities in setting priorities and determining how and where funds will be spent. And critically, they may choose to seek external funding (such as that provided by the CWSRF programs), which can greatly offset the burden on their local ratepayer base.

Despite the promise of the CWSRF programs, there can be significant challenges to applicants seeking to access these funds. For example, CWSRF programs typically do not cover the planning

and pre-project development that is necessary to develop projects through the application phase (or it may be covered, but only as a post-construction reimbursement). For green projects, it can be difficult to develop a large enough portfolio of projects to achieve the scale favored by CWSRF programs. Communities most in need of these investments are often the ones with the least capacity to fund project development and management. Furthermore, funding award criteria are complex, differ from state to state, and may underestimate the need for investments in historically marginalized environmental justice communities. All of these represent real barriers that require thoughtful navigation and, in some cases, external resources to overcome.

Expenditures for water infrastructure systems are among the most expensive investments made by government bodies, so it is important that these investments are made wisely and with the future in mind. The largest sum of federal funds for water infrastructure flow through the CWSRF as well as the Drinking Water State Revolving Fund programs (referred to collectively as SRFs), which have traditionally been low-interest loan programs directed at traditional engineered grey infrastructure like pipes and water treatment plants. However, these programs are much more flexible in their use than most realize – allowing for funding for water conservation, natural infrastructure, and a host of other clean water approaches. The most recent federal infusion of funds also came with changes to the programs that allow greater flexibility in obtaining grants and principal-forgiveness loans (essentially loans that don't have to be paid back). These flexibilities greatly increase the availability of water infrastructure funds, but unfortunately the SRF programs themselves, and the capacity to apply to them, remain a challenge to many. ■

Background

The CWSRF was created by Congress in the Clean Water Act Amendments of 1987 and provides for annual capitalization grants to states, which are awarded to each state based upon the results of the most recent Clean Water Infrastructure Needs Survey and Assessment. These grants, along with a 20 percent match from the state, provide below-market interest loans to local communities. This revolving fund provides loans and other authorized assistance to borrowers for eligible infrastructure projects. As borrowers repay their loans, the repayments and interest flow back into the dedicated revolving fund, making funds available for additional loans.

Building on a federal investment, the state CWSRFs have provided more than \$153 billion through 44,500 agreements to communities since inception. Additionally, 30,100 agreements with a value of \$34.8 billion have been provided to small communities (those serving fewer than 10,000), all at an average interest rate of 1%, compared to the prevailing market rate of 2.7%.

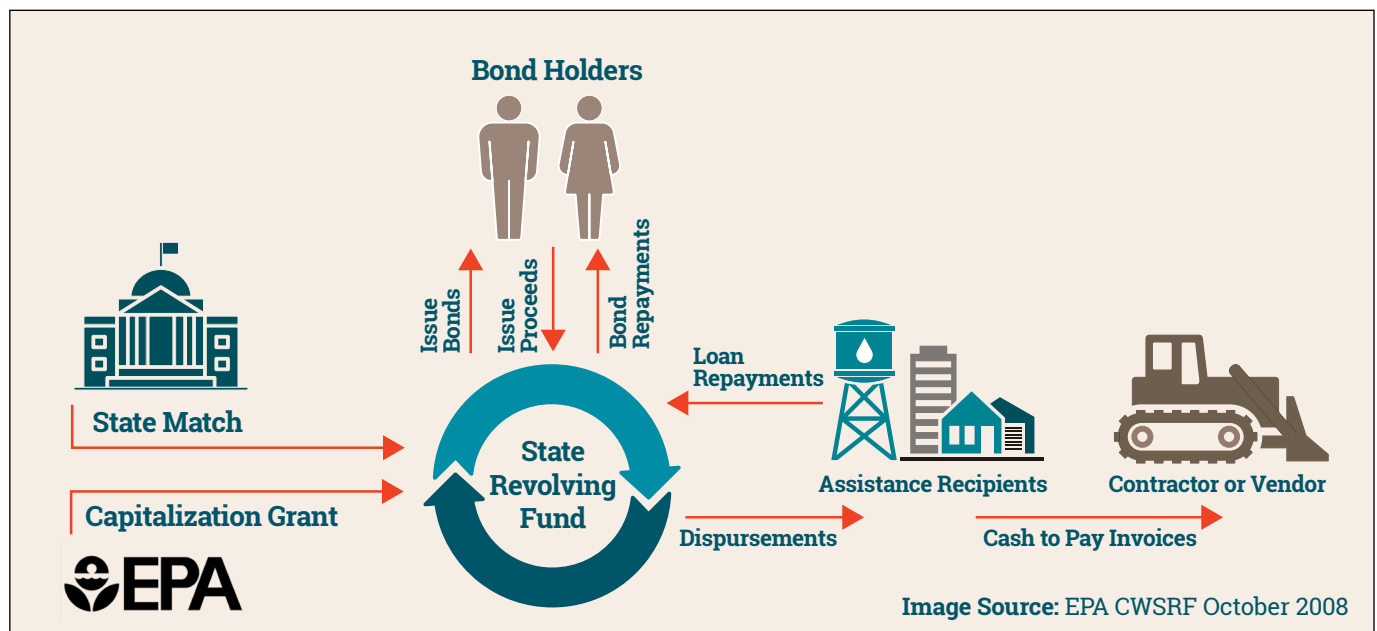
Bipartisan Infrastructure Law Funding

The Bipartisan Infrastructure Law (BIL) makes historic investments in key programs and initiatives implemented by EPA, including more than \$50 billion for clean water and drinking water projects, the single largest federal investment in water ever made. With these funds, EPA will take action to address the threat of per- and polyfluoroalkyl substances (PFAS) pollution facing communities and protections for critical water bodies that are important to communities and the economy. Most of these funds will flow through the CWSRF or its sister EPA funding source, the DWSRF. For example, refer to [this site](#) for more information on how BIL funding was distributed nationally in 2022.

CWSRF Program Structure

The CWSRF is primarily a loan program but can provide additional subsidy in the form of grants or principal forgiveness. These loans are offered at a lower interest rate than could be found at a traditional bank or capital market. When a loan

Figure 1: How The State Revolving Funds Work



must begin repayment varies from state to state, but some do not require repayment to start until the project is completed. In addition, interest and administrative fees, where applicable, may be deferred until the loan goes into repayment.

CWSRF funds can be used for a wide variety of projects that have a “water quality benefit,” as will be discussed in the subsequent “Project Eligibility” portion of this document. Funds can also be used to support planning efforts for project development, including feasibility, preliminary engineering, and final design, which are integral in developing a project pipeline for funding. And now, states can use a portion of CWSRF to provide technical assistance primarily to small and disadvantaged communities.

Sponsorship

Sponsorship lending pairs a traditional publicly owned treatment works (POTW) project with a nontraditional one, usually a nonpoint source (NPS) project. A municipality receives a loan with a reduced interest rate as compensation for also undertaking (i.e., sponsoring) a nontraditional project, thus allowing municipalities to address pressing watershed restoration or protection priorities without placing a repayment

responsibility on NPS projects. This arrangement works best when the cost of the combined project is equal to or less than the cost of a stand-alone POTW project when financed at normal CWSRF interest rates. For example, a \$1,000,000 loan at 3.8% interest would result in a total repayment of \$1,463,707 over a 20-year term. A \$1,393,442 loan at 0.3% interest results in the same repayment amount. Therefore, a municipality could borrow \$1,000,000 for a traditional POTW project plus \$393,442 to implement NPS projects at no additional cost. For added incentive, a CWSRF could further reduce the interest rate so that the municipality would save money rather than break even.

Additional Subsidy

Additional Subsidy is the amount of subsidy (or “free money”) a state must provide during each EPA grant cycle. This varies from year to year and can manifest in the form of a grant, principal forgiveness, or negative interest. Principal forgiveness works much like a grant and is the most common form of subsidy in the SRFs. An applicant will take out a loan for the full cost of the project, and a portion of the loan will be forgiven upon loan closing.

Figure 2: Typical Community Sponsorship Agreement

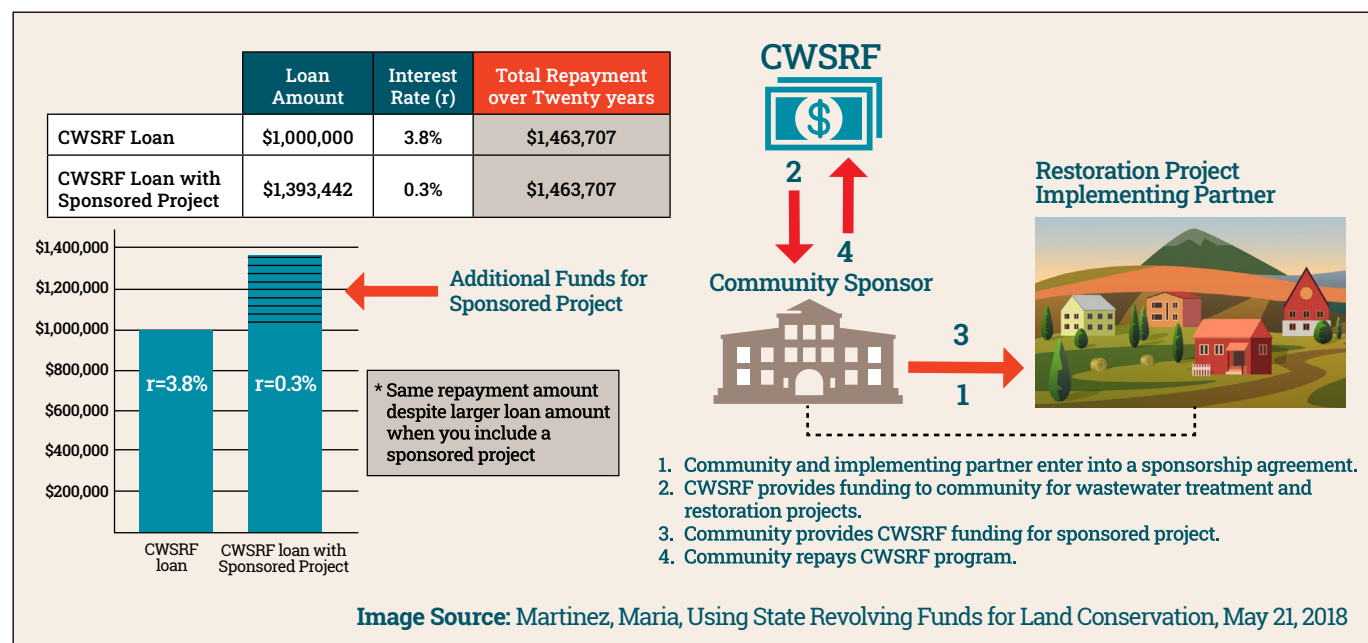


Image Source: Martinez, Maria, Using State Revolving Funds for Land Conservation, May 21, 2018

Figure 3: Bipartisan Infrastructure Law Additional Subsidy Breakdown

SRF Funding Program	Additional Subsidy Percentage	Eligibility for Additional Subsidy
CWSRF BIL General Supplemental	49%	<ul style="list-style-type: none"> Assistance recipients that meet the state's affordability criteria Benefit to individual ratepayers in residential user class Water/energy efficiency, stormwater mitigation or sustainable projects
CWSRF BIL Emerging Contaminants	100%	<ul style="list-style-type: none"> Any eligible project
CWSRF 2022 Appropriation/Continuing Resolution	10%	<ul style="list-style-type: none"> Any eligible borrower
CWSRF Base Program	10%-30% (if the appropriation is over \$1B)	<ul style="list-style-type: none"> Assistance recipients that meet the state's affordability criteria Benefit to individual ratepayers in residential user class Water/energy efficiency, stormwater mitigation or sustainable projects

Affordability Criteria

Each state must establish affordability criteria based on income and unemployment data, population trends, and any other data determined to be relevant by the state, including whether the project or activity is to be carried out in an economically distressed area. This information is used to determine whether the municipality would experience a significant hardship raising the revenue necessary to finance a project or activity if additional subsidization is not provided. Affordability criteria is typically defined in each state's annual Intended Use Plan (IUP — see following sections for more information). States are not required to provide additional subsidy based on affordability criteria, although many do. ■

EPA has recommended that states re-evaluate their affordability criteria, with stakeholder input, and consider adding additional factors to ensure they are adequately addressing financial need.

➔ For example, the State of Georgia uses a mix of criteria that includes a variety of need categories, listed below. Municipalities that feel that their state's affordability criteria do not accurately characterize their community's level of need may choose to suggest alternatives and advocate for changes.

Georgia:

The Georgia Environmental Finance Authority's affordability criteria are designed to award principal forgiveness to Georgia's most disadvantaged communities. The criteria include median household income, unemployment percentage, percentage not in the labor force, poverty rate, percentage on Social Security, percentage on Supplemental Security Income, percentage with cash public assistance, percentage with Supplemental Nutrition Assistance Program, age dependency ratio, and population trend from the U.S. Census Bureau's 2018 American Community Survey.

Green, Climate-Resilient Projects

CWSRF funds can be used for a wide variety of green, climate-resilient projects that have a “water quality benefit.” Such projects may work at the landscape scale with little to no engineering (such as land preservation, or wetland or forest restoration); may be designed at a smaller scale to use or replicate natural processes (such as rain gardens, permeable pavers, green roofs, or street trees); or may fall somewhere in between (such as stream daylighting, living shorelines, or groundwater recharge).

Green Project Reserve

The [Green Project Reserve](#) (GPR) is a mandatory requirement in the state SRF's grant agreement with EPA. Under GPR, at least 10% of federal grant amounts should be allocated to GPR-defined projects. These categories include green infrastructure, water efficiency, energy efficiency, and environmentally innovative projects. It should be noted that while GPR is a requirement, many states meet these requirements through energy or water efficiency projects at the water or wastewater treatment plant itself. Further, a state is not required to obligate additional subsidy to GPR.

Historic Funding for Green Projects

States provided \$36 billion of CWSRF assistance from 2016 to 2020. Most of these funds have financed projects to build and upgrade wastewater treatment plants, sewer collection systems, and equipment. Of this amount, less than \$1 billion (2.91%) of total assistance was spent on green projects.¹ Engineered projects amounted to nearly half of investments between 2016 and 2020. Hydromodification/habitat restoration, silviculture,

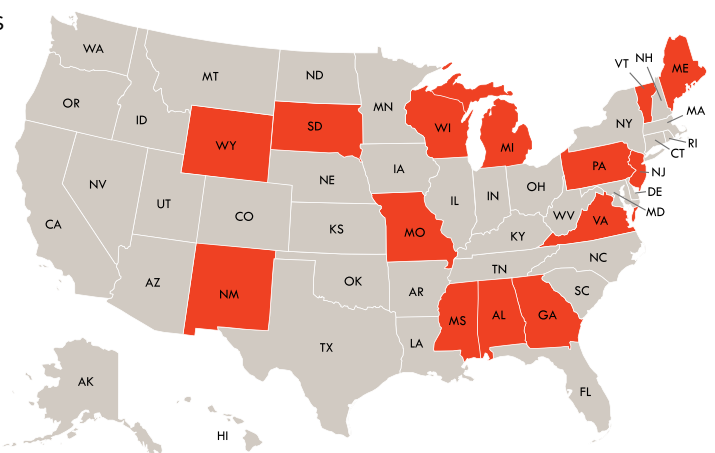
land conservation, and groundwater projects each accounted for less than 1 percent of spending. Historically, CWSRF investment in green projects varies considerably from state to state.

Surplus Funds

Some states have struggled in the past to meet the 100% utilization target set by EPA – meaning they are challenged to spend and commit every dollar they receive from federal, state, and repayment sources. As these under-utilized programs had difficulty meeting this target before BIL, it is likely that the influx of additional BIL funds will place further burdens on states. These burdens can also be viewed as opportunities for partners to develop projects in these states, as they may find more attractive funding packages on offer.

The states in the below figure have more than 10% of leftover funds, totaling more than \$4 billion. Nationwide, the total is closer to \$6 billion.

Figure 4: States with more than 10% Unspent Funds






¹ Environmental Policy Innovation Center. [Financing Green Stormwater and Natural Infrastructure with Clean Water State Revolving Funds](#). 2022.

➔ Example: Great Lakes 3-State Snapshot

To demonstrate how differently states can choose to implement their programs, below are three snapshots of Great Lakes states. The snapshot outlines (pre-BIL) how these states have chosen to distribute additional subsidy, how much they have invested in nonpoint source projects since program inception, and the amount of investment in source water protection via the DWSRF. These are just three examples, and strategies can vary widely by state. ■

Figure 5:
Three State
Snapshots

	Michigan 	Indiana 	Ohio 
Utilization Rate / Leftover \$	82%, leftover > \$1 billion	100%	100%
History of NPS Funding (% of SRF funding)	0.29% ■ 77% Silviculture ■ 23% Brownfields, habitat restoration	0.45% ■ Brownfields, onsite projects groundwater	4.9% ■ Onsite projects, habitat restoration, agricultural BMPs
FY 2022 Grants and Subsidies	10% of capitalization grant → Green Project Reserve \$28.1 million → Principal Forgiveness for Disadvantaged Communities	10% of capitalization grant → Green Project Reserve Existing Project (10%) “Other eligible reasons”, very vague	10% of capitalization grant → Green Project Reserve \$37.1 million → Affordability-qualifying projects
Source Water Protection	\$9 million ■ \$0 loans ■ \$4.8 million for delineation	\$4.4 million ■ \$0 loans ■ \$1.9 million for delineation	\$0 ■ \$0 loans ■ \$1.9 million for delineation

Project Eligibility

The CWSRF was enabled under the Clean Water Act. To be eligible for CWSRF assistance, projects must fall under one of the eligibility sections below, and be to an eligible borrower, which varies by state. For a full range of all federal eligibilities (including traditional infrastructure), refer to the EPA's [Clean Water State Revolving Fund Eligibility Handbook](#).

Clean Water Act Section 603(c)(1) Eligibility

Section 212: Also referred to as “treatment works” or “grey infrastructure” projects. These projects are limited to municipal borrowers only.

- Any new construction, repair, or replacement of POTW
- Combined sewer overflow management, sediment controls, point-source stormwater management
- Water conservation, efficiency, or reuse
- Energy conservation needs for POTWs

Clean Water Act Section 603(c)(2)

Eligibility Section 319: These projects are also known as “nonpoint source” projects or “green/natural infrastructure.” Further, CWSRF eligible projects can fall under the following categories. Borrowers can be any borrower, including nonprofit organizations or for-profit entities. However, most states still restrict borrowing to municipalities.

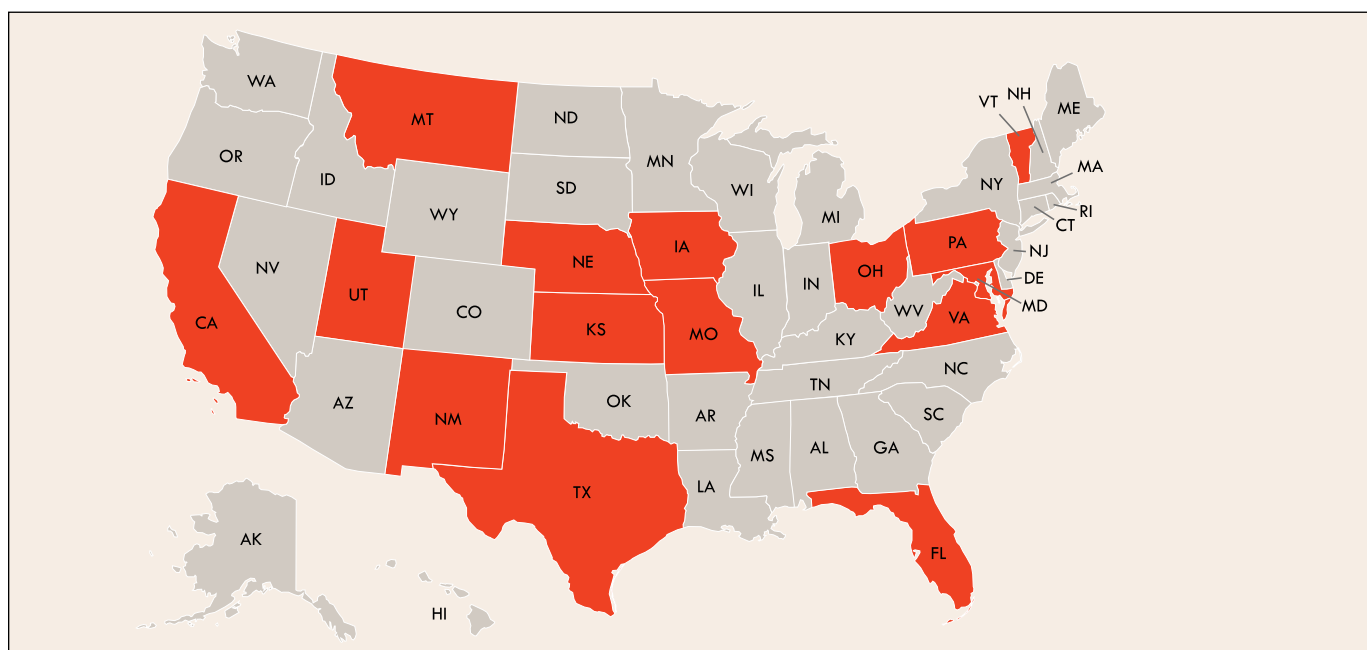
- Green Stormwater Infrastructure
- Agricultural Best Management Practices
- Decentralized Wastewater Treatment
- Resource Extraction
- Contaminated Sites
- Landfills

- Habitat Protection and Restoration
- Silviculture
- Desalination
- Groundwater Protection and Restoration
- Surface Water Protection and Restoration

Clean Water Act Section 603(c)(3) Eligibility

Section 320: These projects include the development and implementation of an estuary Comprehensive Conservation and Management Plan. These are long-range plans developed by each National Estuary Program Management Conference; they contain actions to address water quality, living resources, and habitat challenges in the estuary and the surrounding area called the “study area.” On page 11, Figure 6 is a graphic showing the estuary zones. Borrowers can be any borrower, including nonprofit organizations or for-profit entities. However, most states still restrict borrowing to municipalities.

As indicated in the above project eligibilities, federally, all treatment works (Section 212) projects are limited to municipal borrowers, but nonpoint source (Section 319) and estuary (Section 320) project borrowers can be any borrower, including nonprofit organizations or for-profit entities. However, most states still restrict borrowing to municipalities. On page 11, Figure 7 is a representation of the states that currently allow lending to private non- and for-profit borrowers. This, however, does not limit a municipality's federal eligibility to undertake Section 319 or Section 320 projects. ■



Project Development, Intended Use Plan, and Prioritization

Project Development

The development of a green project begins well before a source of funding is identified. The graphic at right outlines the steps involved in a typical project, from early conceptualization through the design and vetting process with the state SRF program, application, listing on the IUP (see below) and ultimate notification of the award package. Partnering with a nonprofit early in the process can be helpful, especially in states such as Ohio, which may offer grants or direct loans to nonprofits (which can greatly reduce the project management burden on the municipality).

Intended Use Plan

States must prepare a plan identifying the intended uses of the funds in the SRF and describing how those uses support the goals of the SRF. The IUP must be prepared annually, and the public must be provided an opportunity to review and comment before being submitted to EPA. The IUP must include a list of projects that are projected to receive funding in addition to all projects that applied, short- and long-term program goals, set-aside spending, and criteria and method for distributing funds.

While an annual IUP must be completed, many states amend their lists more frequently to solicit projects. These amendments may be twice per year, quarterly, or even every other month. To find your state's IUP, please use the [Southwest Environmental Finance Center's SRF site](#), choose your state of interest, then select the CWSRF IUP for that state.

Only after the IUP is accepted by EPA and the state applies for funding and receives the money can a project be invited to apply for funding. Submitting a Project Priority List (PPL) application and placement on the priority list does not guarantee funding, nor does it compel a borrower to accept funding.

Figure 8: Typical Application Process



Project Prioritization

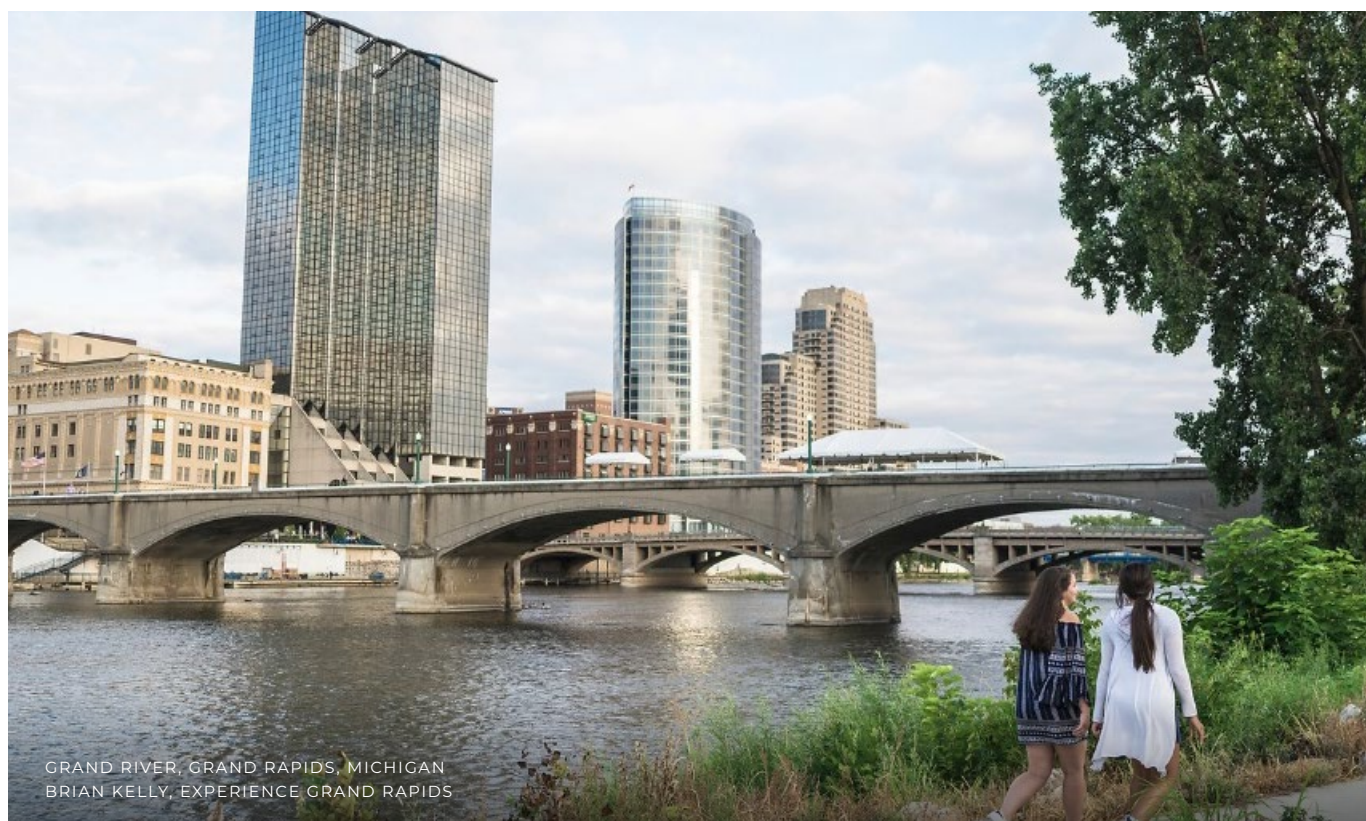
Projects funded using CWSRF funds must be prioritized in accordance with each state's adopted ranking criteria. Typically, projects are required to complete a priority list application indicating what the project is and how it will address public health and/or environmental issues. Projects are assigned a number based on the ranking criteria and summarized on the PPL. Ranking criteria can include public health and/or environment factors such as readiness to proceed, use of available subsidy, continuation from a prior year's PPL, system size, affordability, etc.

For a project to be prioritized, a ranking form must be submitted within the open application period. It should be noted that ranking forms go by myriad names that vary from state to state, including pre-application forms, nominations forms, notices of intent, and pre-authorization. However, each of these forms serves to score and rank projects.

To find your state's current PPL ranking criteria and projects in the queue, please use the [Southwest Environmental Finance Center's SRF site](#), choose your state of interest, then select the CWSRF IUP for that state.

Partnerships

Some states may offer grants or direct loans to nonprofits through their SRF program, and in those cases, nonprofits can lead on projects to protect and restore water resources for your community. The arrangements can create huge benefits for communities with limited effort on the part of municipal staff. However, the most frequent utilization of these dollars is through a municipal sponsor, which may partner with a nonprofit in a secondary role. Please consult your state's IUP or reach out to your local SRF to understand direct funding or financing opportunities. ■

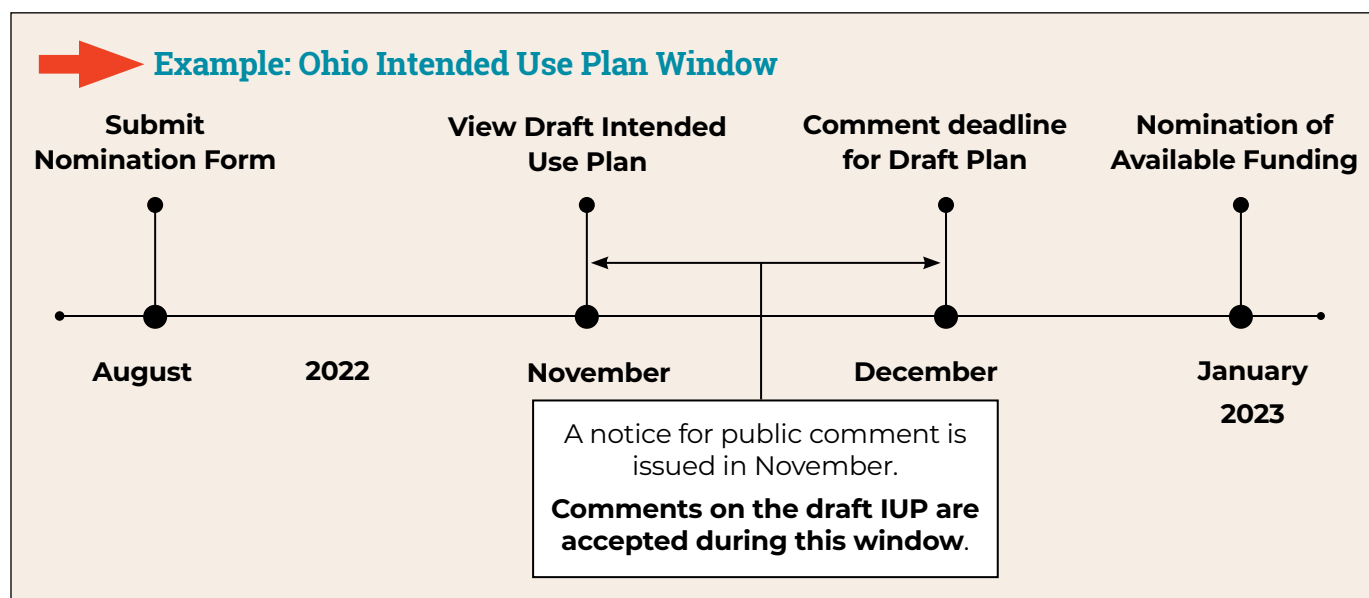


GRAND RIVER, GRAND RAPIDS, MICHIGAN
BRIAN KELLY, EXPERIENCE GRAND RAPIDS

Advocacy

During the IUP public comment period window, states accept input from stakeholders on their proposed offerings. This is a critical time for municipalities and partners to communicate with states about the needs for their projects.

Figure 9: Timeframe for Intended Use Plan Listing, Comments, and Funding Decisions



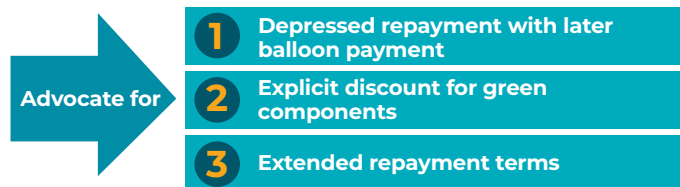
Potential advocacy topics may include:

Advocate for Additional Subsidy: While states will offer a draft IUP with their proposed mechanism for additional subsidy, this is all subject to public comment and response. Your organization and associated community can provide comments on how much, to whom, and for what purpose this money is being offered.



Advocate for Flexible Loan Terms: SRFs have considerable flexibility in the financing terms they

offer. Most programs do not contemplate the specific needs of green, climate-resilient projects.



Other Advocacy Opportunities: Local governments, utilities, and organizations can submit comments on how a state contemplates their affordability criteria, the number of times they solicit for ranking applications, how states are making technical assistance funds available, and the ranking criteria itself (if not mandated in statute). Almost any policy that is not in state or federal statute and is interpreted at the program level is subject to public comment. ■

Technical Assistance

State Revolving Funds are set up to finance shovel-ready capital projects. While many states can fund design and planning work, it is typically not paid out until construction is complete. This can create significant concerns about risk and cash flow for applicants. To bring a project to the application phase, applicants may need assistance with up-front costs as well as long-term financial planning for project maintenance and loan repayment. In 2022 EPA announced the selection of [29 Environmental Finance Centers](#) that will help communities across the country access federal funding for infrastructure projects. Cities should consider reaching out to their local Environmental Finance Center for support in the early phases of conceptualizing any project. In addition, the [Funding Navigator](#) can provide assistance in targeted locations in the Great Lakes, the Delaware River Basin, and Arkansas and Mississippi. ■

American Rivers is championing a national effort to protect and restore all rivers, from remote mountain streams to urban waterways. Healthy rivers provide people and nature with clean, abundant water and natural habitat. For 50 years, American Rivers staff, supporters, and partners have shared a common belief: Life Depends on Rivers.SM

Report developed by Lia Mastropolo and reviewed by Gary Belan and Ben Emanuel. Special thanks to Tee Thomas and Ashley Lucht of Quantified Ventures for their assistance in developing this material. For more information on our clean water work, the team can be reached at CleanWater@AmericanRivers.org



1101 14th Street NW | Suite 1400 | Washington, DC 20005
Phone: 202-347-7550 | AmericanRivers.org