Protecting Wetlands with the Clean Water State Revolving Fund

What’s In It For You?

The 51 Clean Water State Revolving Funds programs currently issue approximately $3 billion in loans annually. SRF loans are issued at below market rates (0% to less than market), offering borrowers significant savings over the life of the loan. Based on the serious threats to wetlands resources across the country, EPA would like to see the SRF become a major source of funding for wetlands protection.

Since its creation in 1987, the Clean Water State Revolving Fund (CW-SRF) has had the potential to fund virtually any type of wetlands project. This capacity has yet to be utilized.

History

In creating the CW-SRF, Congress ensured that it would be able to fund virtually any type of water quality project, including nonpoint source, wetlands, estuary, and other types of watershed projects, as well as more traditional municipal wastewater treatment systems. Today, the SRF provisions in the Clean Water Act give no more preference to one category or type of project than any other.

Capacity of the CW-SRF

The 51 SRF programs work like banks (each state and Puerto Rico has one). Federal and state contributions are used to capitalize or “set-up” the banks and these assets are used to make low or no-interest loans for important water quality projects. Funds are then repaid to the SRFs over the term of the loan - which may be as long as twenty years. Repaid funds are then recycled to fund other important water quality projects.

The CW-SRFs have in excess of $24 billion in assets and have issued more than $20 billion in loans since 1988. Currently, the SRFs are funding nearly $3 billion worth of water quality projects each year. That’s more than 200 times the available EPA grant funding for the wetlands program.

Loans vs. Grants

Many people believe they would rather have a grant. Most state and local water quality officials are more familiar with grants and, consequently, many misconceptions persist. In fact, a loan may be a better deal. Why?

First, No cash up-front. Most grant programs require significant cost shares (as much as 40% or more). An SRF loan can cover 100% of project costs with no cash up front.

Second, Significant Cost Savings. SRF loans provide significant cost savings over the life of the loan. A 0% SRF loan will cost approximately 50% less than the same project financed by a commercial loan at 7.5%. Additionally, a 0% SRF loan is equivalent to receiving a 50% grant (where the other 50% (match) is financed at market rate).

Third, Streamlined Federal Requirements. Financing a project with an SRF loan means fewer federal requirements than any other federal grant. Plus, the 51 CW-SRF programs are experienced in helping applicants through the loan application process and providing all sorts of technical assistance.
Wetlands and the SRF

The CW-SRF has three major categories of eligible projects: 1. Publicly-owned wastewater treatment facilities, 2. Nonpoint source projects (publicly or privately owned), 3. Estuary management projects (publicly or privately owned).

Wetlands projects typically fall under approved state nonpoint source management plans or are included in national estuary management plans. Constructed wetlands may be considered wastewater or stormwater management projects and are also eligible for funding. SRF fundable projects include:

- Wetlands restoration - cleanup, enhancement
- Wetlands protection - buffer zones, wetlands purchases, nonpoint source BMP
- Constructed wetlands - for treatment of stormwater or wastewater (could include adequate capacity to ensure habitat values as well as treatment of effluents)

So far, the SRF programs have not received proposals for capitalizing wetlands mitigation banks with an SRF loan. EPA would like to encourage states, locals, and other entities to work together to develop viable options for wetlands mitigation banks that could be funded with SRF loans.

Sources of Repayment

Though finding a source of repayment may prove challenging, it need not be unnecessarily burdensome. Many users of the CW-SRF have demonstrated a high level of creativity in developing sources of repayments. The source of repayment need not come from the project itself. Some possible sources include:

- Fees paid by developers on other lands
- Recreational fees (fishing license, entrance fees)
- Dedicated portion of local, county, or state taxes or fees
- Property owner’s ability to pay (determined during loan application)
- Donations or dues made to nonprofit groups
- Stormwater management fees, wastewater user charges

Challenges Ahead

We need to make better use of the CW-SRF for important wetlands protection projects. Hopefully, increased understanding of the tremendous buying power and advantages of SRF loans will increase use dramatically.

Currently, most states use their SRF resources to finance large municipal wastewater systems. As such, we need to work with them to increase their familiarity with wetlands issues and experience in issuing loans to those interested in protecting or restoring wetlands. A few states have legislative barriers to funding non-public entities which could restrict the variety of fundable wetlands projects at present.

How to Get More From the CW-SRF

- Share information on wetlands priorities with SRF managers
- Learn how the SRF works
- Become involved in the annual SRF priority setting process
- Encourage loan applications
- Help to modify state laws and regulations where appropriate

EPA has been encouraging the states to open their SRFs to the widest variety of water quality projects and to use their SRFs to fund the highest priority projects based on water quality problems. Those interested in wetlands protection must seek out their SRF programs and gain an understanding of how the program works in their state and participate in the annual process that determines which projects are funded.

For more information, contact your Clean Water State Revolving Fund Program or contact:

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