Why Small Communities Should Consider CWSRF Funding

The CWSRF Funding Process Virtual Workshop Series

March 16, 2023

www.efcnetwork.org

This program is made possible under a cooperative agreement with US EPA

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Using the control panel

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- You must attend the entire session
- You must register and attend using your real name and unique email address - group viewing credit will not be acceptable
- You must participate in polls
- Certificates will be sent via email within 30 days

If you have questions or need assistance, please contact smallsystems@syr.edu.

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About Us

The Environmental Finance Center Network (EFCN) is a university- and non-profit-based organization creating innovative solutions to the difficult how-to-pay issues of environmental protection and environmental infrastructure.

The EFCN works collectively and as individual centers to address these issues across the entire U.S, including the 5 territories and the Navajo Nation. The EFCN aims to assist public and private sectors through training, direct professional assistance, production of durable resources, and innovative policy ideas.

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Overview

- Why Collect and Treat Wastewater?
- Why is it So Expensive?
- How Wastewater Infrastructure is Generally Funded
- How the Clean Water State Revolving Fund (CWSRF) Works – BRIEFLY!
- Pros and Cons of CWSRF
- If You Think The CWSRF is Right For You – How to Prepare
- Steps You Can Expect in the SRF Funding Process

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Why Collect and Treat Wastewater?

The Real Reason

- Protect human health
  - Reduce pathogens/toxics
- Protect the environment
  - Reduce toxins
  - Reduce organic matter/maintain proper DO
  - Minimize groundwater contamination
- Reclaim the water
  - Wastewater is typically < 0.1% solids
    - 99.9% water
- Other
  - Enhance recreation
  - Increase property value

What We Often Hear

- The government is making me
- EPA is making me
- The state is making me

Why?

- Infrastructure is not cheap
  - Building
  - Maintaining

CWSRF can help mitigate capital cost

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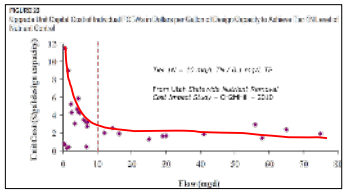
Why Is Collection/Trt. Construction So Expensive?

- Economy of Scale is a huge factor
- Construction is people-intensive
  - Engineering 5% – 30% of project
    - Based on project scale
  - Labor is a large part of the cost
- Construction materials costs
  - Steel
    - Including stainless steel
  - Aluminum
  - Concrete
  - Coatings
- Equipment
- Lots of below-ground work
- Instrumentation
  - More all of the time



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Funding Wastewater Infrastructure

- There are several common options for funding wastewater infrastructure
  - Community reserve funds – money in the bank
    - May suffice for small projects – cities should have a reserve fund
      - Repair
      - Replace parts like pumps, valves, etc.
    - If a city has enough money in the bank for a major wastewater capital project
      - Likely been overcharging
  - Community issuance of debt
    - Often bonds
    - Not as prevalent as it used to be in small communities
      - Larger communities may have sufficient staff to undertake a bond sale
  - Foundation grants
    - There are some out there, but generally for specific types of communities – e.g. disadvantaged

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Funding Wastewater Infrastructure

- There are several options for funding wastewater infrastructure – contd.
  - USDA Rural Development wastewater loan/grant
    - Must meet specific requirements
      - Unable to obtain commercial credit on reasonable terms; and
      - State/local government entities, private nonprofits, or federally recognized tribes; and
      - Rural towns w/≤ 10,000 population, or rural tribal lands
    - About 4:1 loan:grant
  - HUD Community Development Block Grant (CDBG)
    - Administered by states for populations generally <50K
    - Must meet specific requirements
      - Benefits low- and/or moderate-income individuals
      - Subject to state restrictions
        - For example – KS restricts to communities under an order from the state NPDES authority

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Funding Wastewater Infrastructure

- There are several options for funding wastewater infrastructure – contd.
  - Clean Water State Revolving Fund (CWSRF) – what we are talking about today
    - How are funds derived?
      - EPA provides funds to states to *capitalize* or infuse money into the program
        - Amount differs by state based on a funding formula
        - States must provide 20% match for federal funds
        - Many state also "leverage" their CWSRFs to increase the amount available to loan – more later
    - How are projects identified?
      - States generally solicit projects from eligible public entities - *municipality, intermunicipal, interstate, or State agency*
      - Projects are placed on a project priority list and included in an Intended Use Plan (IUP)

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How Does CWSRF Work

- Below market rate loans and some grant
- Administered by States
- Funded using combination of Federal and State monies
  - EPA capitalization grants
    - Each state receives a grant from EPA based on a "formula"
      - Minimum of 0.5% per state
      - Additional funding based on total needs, partial needs, and population factors
  - States Match
    - State must match capitalization grant at 20% of capitalization
  - "Revolved" money
    - Principal and interest paid on loans goes back pool of money to be loaned – a/k/a "recycled"
      - $1 loaned at 2% interest for 30 years revolves to $1.34
    - Idea is to perpetuate (revolve) state loan fund over time

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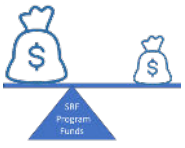
How Does CWSRF Work

- Funded using combination of Federal and State monies – contd.
  - Leveraged money
    - About half of states sell bonds using CWSRF assets for security and repayment
    - States must pay bonds back, so have to have rates high enough to pay off bonds
      - Could limit amount of money available for grant, principal forgiveness, or rates less than bond
    - State bonds generally have excellent ratings – Aaa/AAA
      - This means borrowing at lowest interest rates



- Total Source of funds
  - *Federal Cap Grant + State Match + Revolved/Recycled Payments + Leveraged $*

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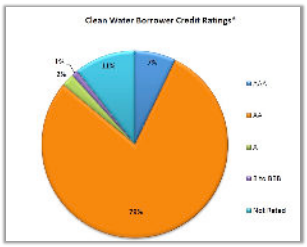
How Does CWSRF Work



- Community bond rating
  - Not always the highest
    - In this case AA
  - Lower rating = higher costs
  - CT SRF bonds are AAA/Aaa
    - Will get the best rates

From Connecticut Dept of Energy and Environmental Protection 2021 Annual Report

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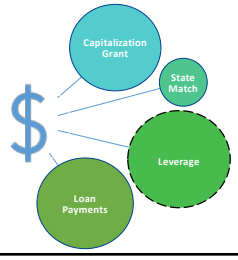
How Does CWSRF Work



- Nationally - 31% Federal funds
  - Remainder is
    - State Match
    - Loan Repayments
    - Leverage – in some states
- For each Federal dollar spent
  - >$3 assist local communities

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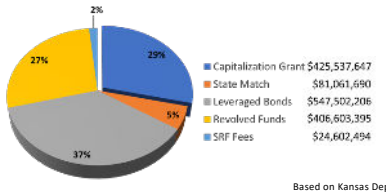
How Does CWSRF Work – State Example

Cumulative Sources of Funding - KS CWSRF



Based on Kansas Department of Health and Environment 2021 Annual Report

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Why Should Small Communities Consider the CWSRF?

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Pros and Cons

Pros

1. Simple application processes
2. City does not have to issue bonds
3. Low interest rates
4. Potential for additional subsidies
5. Potential planning/design grants
6. Generally, no minimum limit
   - If leveraging – can loan large amounts
7. State SRF agencies often work with other funders to minimize costs
8. All the cool kids are doing it!

Cons

1. Some strings attached
   - Davis-Bacon wages
   - Buy American provisions
2. Term of loan may be shorter than other options, thus higher payments
   - Some states allow 20-yr max SRF loans, others 30-yr
   - Some other loan programs (e.g., RD) offer 40-yr loans
     - Lower periodic payment
     - Does your infrastructure last 40 yr?

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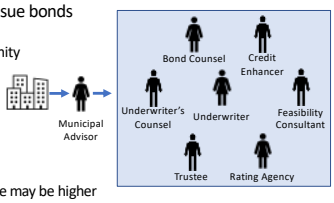
The Pros

- Simple application processes
  - Most states have simplified application procedures and staff to assist
- Community does not have to issue bonds
  - Can be complicated
  - Overwhelming for small community
  - Community may have a poor credit rating
    - Means higher loan rate
    - Higher payments
- Low interest rates
  - Below private market
  - Have been around 1%
  - Remember if state leverages, rate may be higher



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The Pros

- Possibility of *additional subsidies* to reduce some borrower's costs
  - Subsidies are generally principal forgiveness (PF) or grant
  - Not everyone is eligible for PF/grant
    - States generally aim principal forgiveness at
      - Lower income communities
      - Disadvantaged communities
      - Very small communities – high cost:population or high burden
  - CWSRF has built-in mechanism for providing additional subsidies
    - Minimum of 10% of capitalization must be used for PF
      - Maximum of 30%
  - Bipartisan Infrastructure Law (BIL) - 49% of Fed funds must be PF
    - Does not necessarily mean forgiveness will be 49% for each eligible project
      - State may want to give >49% forgiveness in certain circumstances, or
      - States may wish to spread forgiveness to more communities by limiting to ≤49%

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The Pros

- Potential planning/design grants
  - Many states offer planning grants to identify project needs/options
  - Some states offer design grants to assist in engineering project design
- Generally, no minimum limit
  - SRFs can make small loans – e.g. I have seen $40K loan for pump station upgrade
    - It may not be cost effective to seek commercial funding for some small cost projects
  - Note: if leveraging – can also loan very large amounts – CT $267M loan
- State SRF agencies often work with other funders to minimize costs
  - State SRF, USDA Rural Development, HUD CDBG, other funding work together
    - Determine eligibility from each source and craft the most cost-effective funding "package"

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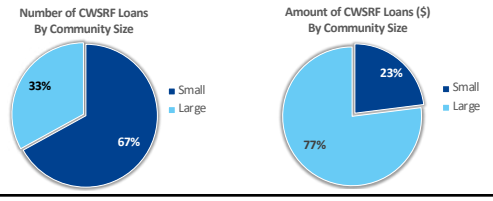
The Pros

- All the cool kids are doing it
  - Currently lots of small communities utilize CWSRF – 30K and growing
  - Some states also seeing more interest from larger communities



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The Cons

- Some strings attached
  - Davis-Bacon Act (DBA) wages
    - Federal funded projects (including CWSRF) must pay "prevailing wage in area"
    - May be higher wages than typically paid in:
      - Rural areas
      - States w/o prevailing wage laws
    - Required paperwork may increase costs
      - Required federal reporting
      - Contractors may have to keep two sets of books – projects w/fed funds and projects w/o fed funds
    - Some argue funds spent complying with DBA better spent on more construction
    - Some argue w/o DBA you may get lesser-skilled workers, thus lower quality construction
  - Buy American provisions
    - American products could be more expensive
    - Some international technology superior
    - Complaints about difficulty with acquiring waivers/guidance
      - No final guidance document – comment period on proposed guidance just ended

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The Cons

- Loan term may be shorter than other options = higher periodic payments
  - Some states allow 20-yr max SRF loans, others 30-yr
  - Some other loan programs (e.g., Rural Development) offer 40-yr loans
    - Lower periodic payment
    - But… don't let loan payments outlive your infrastructure
  - Example $1M loan

Loan Amt	Term	Interest Rate	Annual Payment	Principal Paid	Interest Paid	Total
$1,000,000	20 years	2%	$60,720	$1,000,000	$214,120	$1,214,120
$1,000,000	40 years	2%	$36,360	$1,000,000	$453,563	$1,453,563

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On Balance

- For most communities, the pros outweigh the cons
  - Particularly small communities
    - Relatively easy to access funding below market rate
    - Potential for added subsidy
    - State assistance
      - Application
      - Potential bundling with other government funding for most cost-effective solution
- Large cities w/strong financial position may find selling bonds works better
  - If they have the staffing to manage the bond issuance process
  - If they have good credit = good bond rating = lower interest rates
  - If interest rates are relatively low

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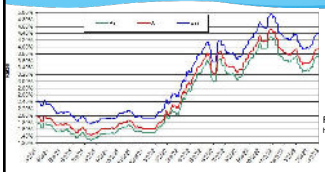
About Low Interest Rates



MUNICIPAL MARKET DATA INDEX
20th YEAR MATURITY BY RATING GRADE
PAST 24 MONTHS

From WM Financial Strategies
https://www.munibondadvisor.com/market.htm

Loan Amt	Term	Interest Rate	Annual Payment	Principal Paid	Interest Paid	Total
$1,000,000	20 years	2.14%	$61,505	$1,000,000	$214,120	$1,214,120
$1,000,000	20 years	4.00%	$72, 720	$1,000,000	$454, 353	$1,454,353

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If You Think CWSRF Is Right For You

- Do some capital improvement planning – always a good practice
  - Have an idea of what you may need and when you may need it
    - Keep the information handy and keep it updated as best you can
      - Even if rough estimates
    - Talk to state NPDES regulator about any potential future requirements
  - Work with consulting engineer to assess infrastructure and estimate costs
    - State inspector can probably help identify needs
    - Other technical service providers available to assist in identifying needs
  - Assess potential rate impact
    - How much will each sewer connection have to pay
    - Is the potential rate affordable without subsidization?
      - If no, know you will need to find some additional subsidized funding
      - If yes, may still be eligible for some additional subsidization, but not necessarily

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General Steps in the Process

- Work with your state SRF agency
  - Need to figure out if:
    - You qualify for CWSRF funding
    - You qualify for additional subsidization and how much
      - Disadvantaged community?
      - Affordability issues?
    - Is planning or design funding available as a grant or at lower interest loan
    - Other funding mechanisms may be more cost-effective alone or in conjunction with CWSRF
  - Need to get on your state's intended use plan (IUP) – see state for requirements
    - Projection of loan funding assistance in priority order
      - Generally determined by "points" generated by various rating criteria
- Develop project design information
  - Plans and Specifications
  - Cost estimates

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General Steps in the Process

- Complete pre-loan requirements
  - Environmental assessments
  - Submitting plans and specs
  - Public meeting/hearing
    - Provide public input on facility plan and alternatives reviewed
  - Assemble financing from other sources
- Apply for loan
  - Formal submittal of loan application
    - Specific to each state, so work with state SRF agency(s)
  - State will determine whether to approve
    - Will look at financial capacity to repay loan, operate, and maintain infrastructure

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General Steps in the Process

- Execute loan
  - State will determine size of loan and any additional subsidization
  - Terms of repayment
- Construct project
  - Prior to construction, have necessary permits in hand
    - State construction permit
    - NPDES operating permit
    - Any local permits
  - Bid project
  - Construct

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General Steps in the Process

- Close-out project
  - Acceptance of construction per P&S
  - Accept as-built plans
  - Accept operation and maintenance manual
  - Final pay application/change orders
  - Final certifications
    - Buy American
    - Labor documents
  - Loan repayment schedule issued

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Overwhelming? Help is Available

- It is a very structured process that may seem overwhelming
  - It is really not - help is available to work through the process with you

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CWSRF Loans are Doable for Most

- Great option for most communities - particularly small communities

Municipality	Population	Loan Amt
Norcatur, KS	144	$24,000
Fall River, KS	145	$655,136
Alden, KS	148	$600,000
Langley, OK	70	$32,000
Fayette, IA	1,256	$82,000

- Often combined w/other funding for most cost-effective WW improvements
- It is up to you to communicate with your state CWSRF agency to get started

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Thank You!

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