

Follow the Money

*An Action Agenda for Making Smarter
Clean Water State Revolving Fund
Investments in the Great Lakes Region*

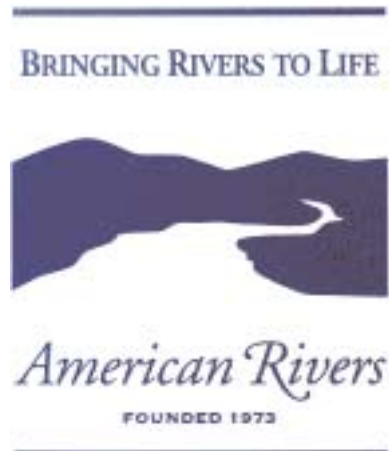


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American Rivers, founded in 1973, is the leader of a nationwide river conservation movement. Our mission is to protect and restore healthy rivers and the variety of life they sustain, for the benefit of people, fish and wildlife. Headquartered in Washington, D.C., we operate a Northwest regional office with locations in Seattle and Portland, and eight field offices across the country that work with local communities and river activists.



Acknowledgements

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Table of Contents

Executive Summary.....	1
I. Introduction.....	4
A. Water Infrastructure Needs are Hidden from View.....	4
B. Great Lakes Infrastructure Workshop.....	4
C. Purpose of this Report.....	5
II. Priority Water Infrastructure Issues in the Great Lakes.....	7
III. Clean Water State Revolving Fund Program.....	9
A. Genesis.....	9
B. Federal Funding History.....	9
C. Great Lakes Funding History.....	12
D. Summary of State CWSRF Program Features.....	12
IV. Context for Change and Common Problems.....	15
A. Context For Change.....	15
B. Common Problems.....	16
V. Recommendations for Making Better CWSRF Infrastructure Investment Decisions.....	19
A. General Recommendations.....	19
B. Key Actions in All States.....	20
C. Federal Action Priorities.....	22
D. Conclusion.....	23
Appendix A	
Summary of State CWSRF Programs	
SRF State Comparison Chart.....	A-i
Illinois.....	A-2
Indiana.....	A-7
Michigan.....	A-14
Minnesota.....	A-22
New York.....	A-29
Ohio.....	A-34
Pennsylvania.....	A-43
Wisconsin.....	A-52
Ten Lessons Learned from the Iowa SRF experience.....	A-60
Appendix B	
Summary of Workshop Materials	
Attendee List.....	B-1
Workshop Agenda.....	B-5
Resource List of Selected Workshop Materials.....	B-7
Appendix C	
How the Clean Water SRF Program Works	
Funding Availability.....	C-1
Qualifications for Funding.....	C-1
What States Must Do.....	C-2
Key Steps in the Process.....	C-3
Great Lakes SRF Contact Information.....	C-5

Executive Summary

Our national priorities drive our public investments. The reverse is also true: Where and how we spend public water infrastructure dollars drives future investment priorities. These decisions also have a material impact on the water quality of our communities and the Great Lakes as a whole.

Each year the federal government, states, municipalities and wastewater utilities make significant investments in water infrastructure, such as sewers and wastewater treatment plants. Unlike roads, streetlights and schools, water infrastructure is often hidden underground or in out-of-way places that we rarely see. Many systems rely entirely on end-of-pipe treatment, rather than use other methods to control stormwater runoff at its source and minimize flows into sewers and treatment plants. There is a growing movement to change this situation, to shift water infrastructure investments to take better advantage of "green infrastructure" and alternative technologies that are cheaper, more effective, and provide a broader array of environmental benefits.

This report is intended to serve as an initial action plan for activists, citizens, and elected officials who want to ensure we are making the most cost-effective and environmentally beneficial water infrastructure investments possible.

Water Infrastructure Workshop for Great Lakes Activists

On May 11-12, 2004 American Rivers and Clean Water Fund hosted the Great Lakes Water Infrastructure workshop in Chicago. Forty participants, including activists from around the Great Lakes, representatives from national groups, and staff from U.S. EPA and selected state agencies gathered to discuss water infrastructure needs and the chief federal-state funding program supporting wastewater and stormwater systems, the Clean Water State Revolving Loan Fund ("SRF"). A total of \$47 billion in Clean Water SRF funding has been invested since the program's inception in 1987, making it the largest non-military public works program apart from the interstate highway system.

Priority Water Infrastructure Issues in the Great Lakes

The top five water resource and water infrastructure issues listed by workshop participants were:

1. Stormwater runoff (impacts to both water quantity and quality)
2. Sewer overflows (CSOs and SSOs)
3. Failing septic systems and wastewater treatment plants in rural or poor areas
4. Agricultural runoff (livestock and row crops), and
5. Water withdrawals and inadequate supplies.

Context for Change

The time is ripe to make the Clean Water SRF program more effective at protecting and improving water quality. A number of forces and opportunities nationally and in the Great Lakes are converging to make this so.

- ✧ Growing infrastructure crisis is getting more attention.
- ✧ Political will to address the wastewater funding problem is growing.
- ✧ An effective environmental and industry coalition is pushing for increased funding and changes in what gets funded.
- ✧ Cities are clamoring for funding to help them meet Phase II NPDES stormwater permitting

regulations.

- State agencies that administer SRF funding are becoming more open to non-conventional projects and other innovations.

Common Problems

Clean Water SRF funding often falls short of meeting the Great Lakes' most pressing water quality needs. The following top concerns to using SRF dollars more effectively were cited most frequently by all workshop participants.

1. Activists are unfamiliar with the SRF program.
2. Inadequate funding for conventional water infrastructure makes it harder to shift dollars.
3. Conventional infrastructure absorbs almost all SRF funding.
4. Loans are less appealing than grants for alternative projects, since they often lack a dedicated repayment source.
5. Decentralized, nonstructural projects are more difficult and time-consuming for state agencies to administer.
6. Activist capacity to push for SRF reforms is limited.

Key Actions

Activists can begin to address the problems described above by undertaking the following specific actions. The report provides detailed advice on steps that can be taken under each action.

1. **Review state's SRF program.** Obtain and review copies of the annual SRF report, the most recent Intended Use Plans and Project Priority Lists, and state regulations.
2. **Talk to other activists and interested parties.** Learn more about their experiences, and how rigorously state regulations (e.g. environmental review requirements) are actually being applied.
3. **Meet with state SRF staff.** Meet with agency staff when they are considering project applications and developing project rankings and developing annual use plans.
4. **Determine most critical program changes and identify remedies.** For example, persuade states to include specific objectives in their annual reports for funding more non point projects, as well as decentralized and nonstructural stormwater and wastewater treatment projects.
5. **Advocate for states to require applicants for CSO and SSO control projects to include on-site decentralized stormwater components.**
6. **Persuade states to emulate Ohio's "sponsor" program to provide financial incentives for linking nonstructural and conventional approaches in a single application.**
7. **Spread the word about the SRF program.** Sponsor trainings, conferences, and distribute basic materials to communities and activists.
8. **Work with Phase I and Phase II stormwater communities.** Encourage both large and

small communities to apply for SRF loans for decentralized, nonstructural approaches for managing stormwater runoff and sewer infiltration.

In addition, it is important to support change within Great Lakes state programs with these complementary actions at the federal level.

- ✘ Increase federal funding levels.
- ✘ Urge U.S. EPA to direct states to fund more nonstructural projects.
- ✘ Achieve key reforms in Clean Water SRF reauthorization bill in the 109th Congress.

Given its sheer size and importance for the environment, the Clean Water SRF program has historically received little or no oversight from Great Lakes activists. Environmental groups must learn more the SRF program and understand how it is driving water infrastructure investment decisions. Only when they get actively involved can we assure that these large public investments are providing the greatest water quality benefit for the waters of the Great Lakes.

I. Introduction

Our national priorities drive our public investments. The reverse is also true: Where and how we spend public water infrastructure dollars drives future investment priorities. These decisions also have a material impact on the water quality of our communities and the Great Lakes as a whole.

Since the passage of the Clean Water Act in 1972, the federal government has invested over \$80 billion in sewers, wastewater treatment plants and other clean water infrastructure. When state and local expenditures are included, the number is far higher. Yet, estimates by the U.S. Environmental Protection Agency, the Congressional Budget Office, and an industry coalition, Water Infrastructure Now, show that future funding clean water needs, not including drinking water treatment, are at least \$20 billion annually for the next 20 years. As we move forward into the 21st century, decisions about how much we spend, and what kind of infrastructure we invest in to protect our water resources, will be enormously important.

A. Water Infrastructure Needs Are Hidden from View

Each year the federal government, states, municipalities and wastewater utilities make significant investments in water infrastructure to ensure the proper functioning of these systems. Unlike roads, streetlights and schools, water infrastructure is often hidden underground or in out-of-way places that we rarely see. This infrastructure is essential to daily life, yet most of us have no idea how these systems work, what is required to maintain them, and how old and decrepit many have become.

Every year, sewage treatment plants treat millions of gallons of human wastes to protect human health and water quality. Sewers, wastewater treatment plants, and decentralized, on-site infrastructure systems convey and treat human and household wastes, before they are discharged into the ground or directly into rivers, streams and other water bodies, where they make their way to the Great Lakes. Cities also collect, convey, and treat stormwater and the pollutants swept up in this urban runoff in separate storm sewers.

Many systems also rely entirely on end-of-pipe treatment, rather than use other methods to control stormwater runoff at its source and minimize flows into sewers and treatment plants. There is a growing movement to change this situation, to shift water infrastructure investments to take better advantage of "green infrastructure" and alternative technologies that are cheaper, more effective, and provide a broader array of environmental benefits.

B. Great Lakes Water Infrastructure Workshop

On May 11-12, 2004 American Rivers and Clean Water Fund hosted the Great Lakes Water Infrastructure workshop in Chicago. Forty participants, including activists from around the Great Lakes, representatives from national groups, and staff from U.S. EPA and selected state agencies gathered to discuss water infrastructure needs and the chief federal-state funding program supporting wastewater and stormwater systems, the Clean Water State Revolving Loan Fund.¹ The two-day workshop was the first such convening of activists that we are aware of anywhere in the country to discuss this very important, but largely overlooked infrastructure financing program.

We invited participants to think about whether or not we are all missing a critical component of protecting the health of the Great Lakes: where and how public dollars are being invested in projects intended to keep those

¹See Appendix for a list of workshop participants.

waters clean. The intent of the workshop was to help participants consider how to:

- ✕ Make smarter, more environmentally beneficial water infrastructure investments.
- ✕ Reform the state revolving fund (SRF) programs that hand out millions in low-interest loans for sewer and wastewater treatment.
- ✕ Direct more funding toward source control projects, such as low-impact and soft path stormwater and wastewater treatment approaches.
- ✕ Assist communities to meet Phase II stormwater NPDES regulations, and help them tap into SRF and other infrastructure funding for stronger stormwater management projects.

The workshop featured presentations on the Clean Water SRF program, innovative state programs, the link to Phase II stormwater NPDES permitting programs, alternative stormwater and wastewater treatment systems, sewer overflow policy, the Annex 2001 agreement and Great Lakes Environmental Restoration Act, as well as experiences in Iowa trying to improve the SRF funding program.

During the course of the workshop, we asked participants to address the following key questions:

1. What are the most pressing water resource and water quality concerns in your state, and how do those relate to infrastructure funding?
2. What's needed for real change in our water infrastructure systems?
3. How do big picture water resource needs relate to the SRF program?
4. What are the top 5 reforms needed in state SRF programs?
5. What steps can advocates take to operationalize those reforms?

C. Purpose of This Report

This report explores water infrastructure funding needs in the eight states in the Great Lakes basin, analyzes how well state Clean Water State Revolving Fund (generally abbreviated as "SRF") expenditures and programs are meeting those needs, and identifies specific problems and recommended actions for improving the SRF program and achieving greater environmental benefits.

The material in this report is the result of input from participants in the ground-breaking Chicago workshop. Ideas from these discussions and in-depth research on each state's SRF program conducted by participating groups, as well as other research and information compiled by American Rivers and Clean Water Fund form the basis of the report's findings and recommendations.

We intend for this report to serve as an initial action plan for activists, citizens, and elected officials who want to ensure we are making the most cost-effective and environmentally beneficial water infrastructure investments possible. We believe that if we address the issues and recommended actions outlined in this report that Great Lakes water quality and our quality of life will both benefit. Additional materials that provide detailed "how-to" information on the SRF program, strategies for reform, and specific tactics for implementing reforms are being developed and will be available in the future.

II. Priority Water Infrastructure Issues in the Great Lakes

Participants in the May 2004 workshop in Chicago discussed the most pressing infrastructure-related water resource issues they are facing in their states.

The top five water resource issues listed by workshop participants were:

1. Stormwater runoff (impacts to both water quantity and quality).
2. Sewer overflows (CSOs and SSOs).
3. Failing septic systems and wastewater treatment plants in rural or poor areas.
4. Agricultural runoff (livestock and row crops).
5. Water withdrawals and inadequate supplies.²

These priorities also closely mirror those expressed by states and the International Joint Commission in its recently released 12th Biennial Report on Great Lakes Water Quality.

When workshop participants discussed how these water resource concerns related to water infrastructure funding, they identified the following key issues:

- ⊠ Aging infrastructure.
- ⊠ Lack of proper facilities planning and maintenance.
- ⊠ Too little funding for "green infrastructure" and non-structural solutions (e.g. wetlands restoration or rain gardens).
- ⊠ Infrastructure to serve sprawl is more costly.
- ⊠ Infrastructure investments can promote new sprawl (e.g. sewer line extensions).

These issues are discussed further in Sections III, IV and V of this report.

²Other concerns mentioned: industrial and toxic contamination, sediment and nutrient loads, and loss of wetlands.

III. Clean Water State Revolving Fund Program

A. Genesis of the SRF Program

In 1987, Congress transformed its successful wastewater construction grants program, created under the Clean Water Act in 1972, into a block grant program to states in order to capitalize state revolving loan funds. This new program, the Clean Water State Revolving Loan Fund, was passed by Congress in the Clean Water Act Amendments of 1987. The SRF program provided for annual capitalization grants to states, which agreed to match the federal funds by at least 20 percent³ and provide those funds in the form of below-market interest loans to local communities. As loan principle and interest "revolved" back into state coffers at the end of the loan period, the pool of available water infrastructure financing would grow.⁴

The change to a revolving loan program was driven by the belief that 15 years of significant infrastructure investments had vastly improved the nation's water quality and that future infusions of capital through federal grants could decline, allowing self-funding state investment pools to sustain past success. The Clean Water SRF program has proved appealing enough that Congress created a similar state revolving fund program (the Drinking Water SRF) under the 1996 Safe Drinking Water Act. (Note: The recommendations in this report are focused solely on the Clean Water SRF.)

In general, the SRF has proved popular for communities, particularly when market interest rates are higher than they have been in recent years.

In periods of higher interest rates, the low cost of SRF loans makes them particularly attractive to local communities and sewer utilities (See Figure 1).

		CWSRF Rate						
		0.0%	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%
Market Rate	5.0%	38%	31%	24%	16%	8%	0%	-9%
	6.0%	43%	36%	30%	23%	16%	8%	0%
	7.0%	47%	41%	35%	29%	22%	15%	8%
	8.0%	51%	46%	40%	34%	28%	21%	14%
	9.0%	54%	49%	44%	39%	33%	27%	20%

Figure 1: Grant Equivalence - As an example when the market rate is 5.0%, a 2.0% CWSRF loan to a \$1 million project is equivalent to a \$240,000 grant and a \$760,000 loan at the market rate (Source: US EPA)

B. Federal Funding History

From 1987 until 2003, the federal government provided \$20.8 billion in federal capitalization grants, which states in turn matched and leveraged for a total \$47 billion investment. Apart from the interstate highway system, federal water infrastructure funding represents the largest non-military public works investment in modern U.S. history. Expenditures for water infrastructure systems are among the most expensive investments made by government bodies. Despite these enormous public outlays, however, current funding for water infrastructure is inadequate to meet existing needs and largely directed at conventional systems that often don't provide the greatest water quality or overall environmental benefits.

³Many states have contributed far more to their state funding pools via leveraged bond issues. Between 1988 and 2003, states contributed \$13.7 billion in "net leveraged bonds" and \$4.4 billion in state matching funds.

⁴Federal funding is far from the only source of financing for sewers and treatment plants. In fact, rates paid by local sewer utility customers have always been the main source for these investments. Over the past 30 years, however, the federal share has declined by 70 percent to approximately 5 percent today).

1. Federal Funding Is Dropping and Failing to Protect Water Quality and Human Health

Since the early days of the SRF program, federal investment has been dropping (See Figure 2). Various government and industry studies have estimated an enormous gap between existing funding and documented needs. For example, the U.S. Environmental Protection Agency (USEPA) estimates a conservative need of nearly \$20 billion per year in capital expenditures between 2000 and 2019,⁵ and other estimates are far higher.

While states and local communities and sewage utilities have attempted to bridge some of the gap, most are still falling far short of adequate investment. According to state data analysis required under the Clean Water Act, water quality has declined in the Great Lakes basin.⁶ In its 2002 report on the water infrastructure funding gap, USEPA warned:

"Wastewater treatment efficiencies may be leveling off, which, when combined with population and economic growth, could have the effect of reversing hard-won water quality gains. By 2016 pollution levels could be similar to levels observed in the mid-1970s."⁷

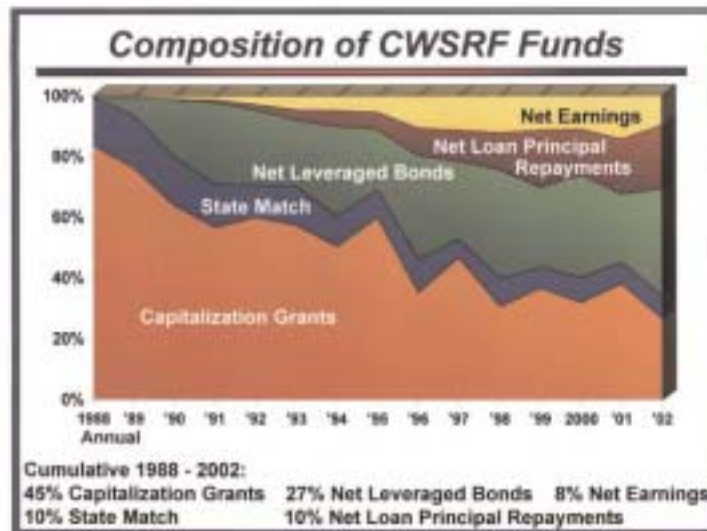


Figure 2: Since 1988, the relative share of federal dollars of total SRF funding has declined. *Source: US EPA*

2. CWSRF Almost Exclusively Funds Conventional Wastewater Treatment Infrastructure

Clean Water SRF loans can be made to publicly owned treatment works for wastewater and stormwater, as well as for non-point source pollution control and estuary protection projects. The latter two categories were important additions to the funding purpose of the program in 1987 and reflected growing concerns about the impact of nonpoint pollution on water quality. However, despite these explicit purposes state agencies that implement the SRF program - typically a state's pollution control agency - generally view it as a continuation of the old construction grants program, and continue to almost exclusively fund conven-

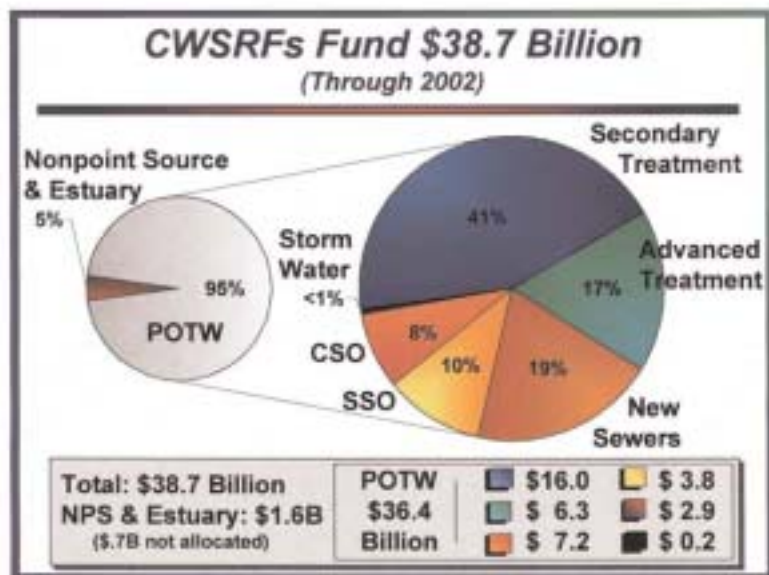


Figure 3: Nearly all funding goes to traditional wastewater infrastructure with only one percent funding stormwater projects. *Source: US EPA*

⁵U.S. EPA estimates that between 2000-2019 clean water capital expenditure needs range from \$331 billion to \$450 billion. U.S. Environmental Protection Agency, The Clean Water and Drinking Water Infrastructure Gap Analysis, September, 2002.

⁶U.S. Environmental Protection Agency, 2000 National Water Quality Inventory Report to Congress, October, 2002.

⁷U.S. Environmental Protection Agency, The Clean Water and Drinking Water Infrastructure Gap Analysis, September, 2002. p. 8.

tional wastewater treatment systems.

Between 1988 and 2003, 96 percent of SRF funding went to publicly owned treatment works (POTWs), and the majority of funding dollars went to larger communities whose projects tend to be very large, such as "deep tunnel" projects to address combined sewer overflows (CSOs). Of the 96 percent that went to conventional treatment, 58 percent was tapped for wastewater treatment plants, 18 percent for sewer overflow controls, and 19 percent for new sewers. Less than one percent of funds were used for stormwater infrastructure, although USEPA regards stormwater runoff as the leading unaddressed cause of water quality impairments, the leading known cause of beach closures and a leading cause of sewer overflows(See Figure 3).⁸

Despite pronouncements by USEPA and many states about the need to fund more nonpoint pollution control projects, to date only four percent of SRF funds have actually gone to such projects. And this figure is much lower when one considers just the nonpoint projects designed to reduce urban runoff and stormwater infiltration, both major causes of sewer overflows. For example, in 2003 less than three percent (approx. \$115 million of a total \$4.74 billion) in CWSRF funding was loaned for nonpoint projects. Of that tiny percentage, less than one-tenth (\$9.9 million) went to urban, brownfield and decentralized sewage treatment projects.⁹ The remainder went toward agricultural projects, leaking underground storage tanks and landfills. While these are worthwhile projects, they are dwarfed by conventional infrastructure investments.

In its 2003 report to Congress, *Paying for Water Quality: Managing Funding Programs to Achieve the Greatest Environmental Benefit*, USEPA summarized the need for more investment in decentralized stormwater and wastewater systems based on input from a multi-day workshop attended by state agency staff that manage the SRF program, stating:

"EPA recognizes that properly installed and managed decentralized wastewater systems are a cost-effective long-term option for meeting public health and water quality goals. The Agency also sees decentralized systems as being critical to the Nation's long-term solution to water pollution. Efforts to improve the capacity to manage decentralized systems locally or Regionally are critically important to achieving the goals of the Clean Water Act."

For the past two years, Congressional appropriators have taken the unusual step of directly signaling their desire to shift more Clean Water SRF funding to nonstructural approaches. For example, in the FY'04 omnibus budget bill, Congress directed that of the program funding:

"...up to \$75,000,000 shall be available for loans, including interest-free loans as authorized by 33 U.S.C. 1383(d)(1)(A), to municipal, inter-municipal, interstate, or State agencies or nonprofit entities for **projects that provide treatment for or that minimize sewage or stormwater discharges using one or more approaches which include, but are not limited to, decentralized or distributed stormwater controls, decentralized wastewater treatment, low-impact development practices, conservation easements, stream buffers, or wetlands restoration** (emphasis added);..."

Despite Congress' clear intent, and despite EPA's numerous, reports, fact sheets and policy documents promoting decentralized wastewater and nonstructural stormwater approaches, most water infrastructure funding con-

⁸U. S. Environmental Protection Agency, Report to Congress: Impacts and Control of CSOs and SSOs, August 2004.

⁹Based on U.S. EPA data from summary reports on assistance by nonpoint source category, available online at <http://www.epa.gov/region5/water/cwsrf/npscscats.htm>.

continues to go to conventional systems. The SRF program and infrastructure funding decisions are driven largely by the states. To shift water infrastructure funding decisions, we will need to continue to push for federal reforms, and it will be essential to actively engage with and reform the program in each state.

C. Great Lakes Funding History

When one analyzes how each Great Lakes state has allocated Clean Water SRF funds, large, centralized wastewater systems clearly dominate the picture. In addition, Ohio spends more than one-quarter of its funding on new sewer connections, and Pennsylvania spends more than one-third on new sewer lines - both of which could be argued to drive, or at least support, new sprawl. With the notable exceptions of Ohio and Minnesota, states fund virtually no nonpoint source pollution projects with SRF monies, though this is one of the programs explicit purposes (See Figure 4).

	New York	NY	Ohio	OH	Penn	PA	Wisconsin	WI	Illinois	IL	Indiana	IN	Michigan	MI	Minnesota	MN
	dollars	% of total	dollars	% of total	dollars	% of total	dollars	% of total	dollars	% of total	dollars	% of total	dollars	% of total	dollars	% of total
Type of Project																
<i>(Millions of dollars)</i>																
Secondary treatment	\$ 3,283	65.1%	\$ 709	31.3%	\$ 300	30.5%	\$ 616	58.5%	\$ 581	39.2%	\$ 315	27.3%	\$ 415	22.3%	\$ 448	36.0%
Advanced treatment	\$ 216	4.3%	\$ 347	15.3%	\$ 92	9.4%	\$ 72	6.8%	\$ 98	6.6%	\$ 193	16.7%	\$ 26	1.4%	\$ 430	34.6%
Infiltration/inflow	\$ 62	1.2%	\$ 71	3.1%	\$ 13	1.3%	\$ 1	0.1%	\$ 6	0.4%	\$ 93	8.1%	\$ 46	2.5%	\$ 13	1.1%
Sewer system rehabilitation	\$ 478	9.5%	\$ 174	7.7%	\$ 66	6.7%	\$ 196	18.6%	\$ 46	3.1%	\$ 224	19.4%	\$ 38	2.1%	\$ 77	6.2%
New collector sewers	\$ 180	3.6%	\$ 89	3.9%	\$ 366	37.2%	\$ 47	4.5%	\$ 71	4.8%	\$ 143	12.3%	\$ 97	5.2%	\$ 64	5.2%
New interceptors	\$ 266	5.3%	\$ 640	28.3%	\$ 133	13.6%	\$ 103	9.8%	\$ 120	8.1%	\$ 68	5.9%	\$ 270	14.5%	\$ 129	10.3%
CSO correction	\$ 509	10.1%	\$ 99	4.4%	\$ 6	0.6%	\$ 8	0.8%	\$ 561	37.9%	\$ 119	10.3%	\$ 967	52.0%	\$ -	0.0%
Storm sewers	\$ 16	0.3%	\$ 8	0.3%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ 0	0.0%	\$ -	0.0%	\$ 2	0.1%
Total structural	\$ 5,009	99.3%	\$ 2,137	94.4%	\$ 976	99.3%	\$ 1,044	99.1%	\$ 1,482	100.0%	\$ 1,156	100.0%	\$ 1,858	100.0%	\$ 1,162	93.5%
- Ag (crop and animal)	\$ -	0.0%	\$ 24	1.0%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ 49	3.9%
- Urban (incl. brownfields)	\$ 0	0.0%	\$ 14	0.6%	\$ -	0.0%	\$ 3	0.2%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ 2	0.2%
- Decentralized wastewater	\$ -	0.0%	\$ -	0.0%	\$ 7	0.7%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ 27	2.2%
- all other	\$ 36	0.7%	\$ 89	3.9%	\$ -	0.0%	\$ 7	0.7%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ 3	0.2%
Total nonpoint funding	\$ 36	0.7%	\$ 127	5.6%	\$ 7	0.7%	\$ 10	0.9%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ 81	6.5%
TOTAL	\$ 5,045	100.0%	\$ 2,263	100.0%	\$ 983	100.0%	\$ 1,053	100.0%	\$ 1,482	100.0%	\$ 1,156	100.0%	\$ 1,858	100.0%	\$ 1,243	100.0%

Figure 4: The chart above represents the total amount of Clean Water SRF expenditures from 1988 to 2003 for the Great Lakes States. Source: U.S. EPA, Individual State SRF reports, available at: <http://www.epa.gov/region5/water/cwsrf/index.htm#IndividualStateReports>
Prepared by Betsy Otto, American Rivers, May 7, 2004

D. Summary of State Clean Water SRF Program Features

Clean Water SRF programs vary considerably across the Great Lakes region. Below is a brief summary of how states compare on some key parameters for effective SRF programs. It is important to note that this summary reflects regulations on the books, not necessarily actual performance. Local activists should carefully review funded SRF projects to ensure that they actually comply with state requirements.

Limitations on sprawl development. Wastewater projects that primarily support economic growth are not eligible in Indiana, and sewer line extensions (collectors) score lower on the state's project priority list. Wisconsin has a prohibition on funding infrastructure even if development exists in the proposed project area. Pennsylvania requires compliance with local land use plans. The other five states in the region have no "anti-sprawl" features in their SRF programs.¹⁰

Funding of nonpoint projects. Illinois, Indiana, and Michigan have not funded nonpoint projects to date. Minnesota has funded mainly projects to reduce agricultural runoff, and Wisconsin has provided minimal nonpoint funding, primarily for landfill and brownfield cleanups. New York and Pennsylvania have made a small

¹⁰Note: Michigan prohibits funding of new growth under its Drinking Water SRF program, but not the Clean Water SRF.

number of nonpoint grants for constructed wetlands and decentralized wastewater. Ohio has been an innovator in this area, and has developed extensive urban and agricultural nonpoint funding programs. It has one of the highest percentages of nonpoint funding under the Clean Water SRF of any state in the country.

Funding for private entities. Illinois, Indiana, Michigan, and Wisconsin do not allow funding to private entities. Ohio provides SRF loans to farmers through a "linked deposit" program (e.g. loans to individual farmers for no-till equipment). Minnesota allows loans to farmers and homeowners with septic systems. New York will make loans to non-profit organizations for land acquisition, and Pennsylvania allows funding to all private entities.

Incentives to fund "soft path" stormwater or wastewater. New York provides a small amount of SRF funding in interest-free loans for soft path projects. Ohio provides incentives to public wastewater utilities that also undertake stream protection and restoration projects (see sidebar in Section IV for more information on this program). Minnesota has no explicit incentives, but has spent about two percent of SRF funds for decentralized wastewater systems. Michigan's recent bond referendum funds a special program, the Strategic Water Quality Initiatives Fund (SWQIF), under the SRF which is supposed to use at least two percent of its funds for nonpoint projects "if needed." Illinois, Indiana, Pennsylvania, and Wisconsin do not provide incentives for soft path projects.

A more complete chart comparing state program features and detailed state program summaries prepared by workshop participants for each state's program can be found in Appendix A.

IV. Context for Change and Common Problems

Given its sheer size and importance for the environment, the Clean Water SRF may be the largest environmental program with so little engagement or oversight by local activists. Rarely do environmental or other good government groups even know about the SRF program, much less understand how to engage in critiquing and advocating for changes that will ensure that funded projects provide the greatest possible overall water quality benefit.

Even if annual federal appropriations to the Clean Water SRF program were to cease, literally billions in federal taxpayer dollars would continue to revolve and fund infrastructure projects for the foreseeable future. States also apply their own tax revenues to support and expand the SRF funding pool. Thus, the program will continue to have a large influence on where and how we invest in water infrastructure for many years to come. Regardless of future federal appropriations to the program, it is important for activists to engage with the SRF program and seek to have more of this funding allocated to projects that do more to support clean water priorities.

A. Context for Change

Workshop participants talked about the current landscape for addressing water infrastructure concerns and factors that make it more or less possible to push for reforms in the SRF program. The general feeling is that the time is ripe to make the Clean Water SRF program more effective at protecting and improving water quality. A number of forces and opportunities nationally and in the Great Lakes are converging to make this so.

1. **Deepening infrastructure crisis is getting more attention.** The public's awareness is growing about beach closings, drinking water contamination by sewage-borne pathogens, and other health risks, and their link to poorly managed or inadequate water infrastructure.
2. **Political will to address the wastewater funding problem is growing.** Bipartisan Congressional support for Clean Water SRF funding has restored funding cuts requested by the White House for the past four years. After failed attempts over the past two years, leaders in both parties have signaled their intent to reauthorize the Clean Water SRF program in the 109th Congress, including key reforms and higher funding authorizations.
3. **An effective coalition is promoting increased funding and changes in what gets funded.** An active coalition of environmentalists, sewage and drinking water utilities, state pollution control agencies, public health interests, labor, and construction industry groups has coalesced and is pressing for significant increases in water infrastructure funding.
4. **Cities are clamoring for funding to help them meet Phase II NPDES stormwater permitting regulations.** Most communities regard the Phase II stormwater regulations that went into effect in March 2003 as an "unfunded mandate" and are demanding more federal assistance. Many are realizing that Clean Water SRF monies could provide a good source of financing for stormwater management projects.
5. **State agencies that administer SRF funding are becoming more open to non-conventional projects and other innovations.** States like Michigan, which says that it would like to fund nonpoint projects but has never received an application for one, as well as states like Minnesota and New York that have funded some nonpoint projects but vir-

tually none that address urban runoff, show a growing interest in directing more SRF funding to nonpoint projects and on-site stormwater and wastewater treatment solutions.

CWSRF Funding for Wetlands Preservation

Adapted from U.S. EPA fact sheet, available online: <http://www.epa.gov/OWM/cwfinance/cwsrf/wetweather.pdf>

The city of Port Townsend, Washington used the CWSRF program to simultaneously meet storm water management and a wetlands preservation objectives. The city purchased an area called the Winona Wetlands, a critical storm water basin for the area that also provides a valuable wildlife habitat. The city's purchase protects the wetlands from further development. Development would have resulted in storm water management problems as well as destruction of the wetlands. The project required a \$400,000 CWSRF loan at 0% interest. The loan is to be paid back in 5 years with a portion of the city's \$5 per household storm water utility fee.

B. Common Problems

Participants in the May 2004 workshop in Chicago discussed the reasons why Clean Water SRF funding falls short of meeting the most pressing water quality needs, and the chief opportunities for redirecting funding to more effective projects. In addition to input from workshop participants, American Rivers and Clean Water Fund have performed extensive research, including talking with national and state experts about the SRF program, and these views are also reflected below.

In response to the question - "What are the obstacles to using SRF dollars more effectively to address water quality needs?" - these **6 top concerns** were cited across all Great Lakes states.

1. **Lack of familiarity with the SRF program.** Many clean water advocates don't even know about the SRF program. And even those who do generally don't understand how it works, or how and when to provide critical input on funding decisions.
2. **Inadequate funding for conventional water infrastructure makes it harder to shift dollars.** Funding just to meet conventional water infrastructure needs, such as sewer replacement, is already vastly inadequate. This makes it difficult to shift SRF dollars to nonpoint and non-structural projects.
3. **Conventional infrastructure rules the day.** SRF funding has been largely "captive" to sewer utilities and state agency staffs. City engineers are also more familiar and comfortable funding conventional infrastructure projects.
4. **Loans not grants.** Unless they have a dedicated revenue stream to meet loan repayments, it may be difficult to convince communities to apply for SRF loans. This is particularly true for alternative approaches (e.g., wetlands restoration) that don't have revenue sources typically associated with conventional sewer and wastewater projects.
5. **Decentralized, nonstructural projects are more difficult to administer.** A concern of state agency staff is the increasing administrative cost of managing many smaller SRF projects, and a potential loss of control over fiscal management if they must now deal with unfamiliar communities or non-profit organizations.
6. **Activist capacity is limited.** In order to be more engaged in their state's SRF funding decisions, activists need to connect SRF work with current organization priorities. Then they will need to research and learn the details of how their programs operate, get involved in public comment periods and watchdog state agencies' SRF expenditures relative to water quality needs.

Ohio's Innovative "Sponsor" Program: Hard Infrastructure Pays for Stream Restoration Projects

Ohio EPA (OEPA) has developed an innovative program that combines conventional sewers and wastewater treatment with nonstructural projects that can do more together to protect water quality. The program, called the Water Resource Restoration Sponsor Program (WRRSP) addresses the fact that while nonpoint pollution problems are often the greatest sources of water quality impairment, OEPA has found that it was difficult for local communities and non-profit groups to repay CWSRF loans for stream protection and restoration. The agency recognized that while wastewater utilities have ratepayers that generate revenue streams that can be used to repay loans, green infrastructure initiatives generally do not.

To address this problem, OEPA created a program in which wastewater treatment systems "sponsor" green infrastructure or restoration projects as part of a single, integrated loan application. The idea behind the program is simple: OEPA offers communities very low interest rates on loans for wastewater treatment plant improvements if the communities also sponsor projects that protect or restore water resources.

How Does Ohio Set Interest Rates for a Joint Project?

Example: \$1 million for a wastewater treatment project and \$393,442 for a restoration project

- 1) Given: If this community did not participate in the WRRSP program, the \$1,000,000 wastewater treatment project would receive a **3.8% loan**. This scenario would result in a total loan repayment amount of \$1,436,707 over the course of the repayment term.
- 2) However, if the community undertakes both projects, \$1,000,000 for the wastewater treatment project and \$393,442 for the restoration project, the CWSRF could reduce the interest rate to 0.3% so the community would suffer no hardship and still repay only \$1,436,707 over the course of the loan repayment term.
- 3) However, the CWSRF provides still further incentive by **reducing the community's interest rate from 0.3% to 0.2%**.
- 4) In this scenario, the community completes a wastewater treatment project, supports a watershed restoration project, and saves **\$14,514**.

Source: U.S. EPA fact sheet: http://www.epa.gov/owm/cwfinance/cwsrf/ohio_wrrsp.pdf

A community that participates in the WRRSP program may not implement the restoration project itself. Communities can enter into a sponsorship agreement with an implementing partner, such as a land trust or a park district, that develops and implements a habitat protection and restoration plan. interest rate on the total borrowed for both projects so that repayments are slightly lower than they The sponsorship agreement does not require the partner implementing the restoration to make any repayments on the CWSRF loan. The sponsoring community makes all repayments to the CWSRF.

As a result of this innovative program, by the end of 2003 communities in Ohio had used \$51 million of CWSRF loan funds for 19 projects to protect and restore 4,000 acres of riparian lands and wetlands and 40 miles of Ohio's stream corridors. Ohio's "Sponsor" program reinforces the idea that wastewater treatment plant improvements and water resource restoration projects are complementary efforts. Iowa and Oregon have recently adopted similar programs.

V. Recommendations for Making Better Clean Water SRF Infrastructure Investment Decisions

Specific water infrastructure issues and reform needs vary among states. However, there are a common set of recommendations that activists can pursue in all states to promote more environmentally beneficial water infrastructure decisions.

A. General Recommendations

In order to address the problems cited above, we believe several key steps must be taken.

1. Increase activist awareness about the SRF program.

Potential Strategies:

- ✧ Collect and publicize information about successful alternative stormwater and wastewater infrastructure projects.
- ✧ Develop a basic presentation and materials on how the SRF program works and key opportunities for improvement, and distribute them for use at various meetings and forums.
- ✧ Create an e-network of interested Great Lakes (and possibly national) activists to send action alerts, and share ideas for reforming state SRF programs.

2. Provide more funding and incentives for decentralized and nonstructural projects.

Potential Strategies:

- ✧ Urge states to provide lower interest rates, loan forgiveness, or other incentives to encourage nonstructural projects.
- ✧ Encourage communities to approach their public sewer utility to incorporate green infrastructure approaches with conventional projects the utility is already planning. (See more on this approach in section IV's sidebar on "Ohio's Innovative Sponsor Program").
- ✧ Enlist NGOs and regional planning agencies and others to act as a "re-lender" of a block of SRF funding to private entities or smaller communities, and work with state agencies to support this approach.

3. Develop pilot projects with local communities. In particular, work with communities that now must comply with Phase II stormwater discharge permit requirements to implement "soft path" stormwater projects using SRF funding.

Potential Strategies:

- ✧ Provide forums to educate municipal engineers and other staff about the value and effectiveness of these approaches.
- ✧ Connect green infrastructure projects to requirements under Phase II NPDES stormwater rules that communities are already planning, and urge them to apply for SRF loans for these nonstructural projects.

4. Increase local activist capacity.

Potential Strategies:

- ✧ Provide seed funding to support activist groups' work on reforming SRF programs.

- ✧ Create a network of activists that can communicate with each other regularly to share ideas and strategies.

B. Key Actions in All States

Activists can begin to address the general recommendations above by undertaking the following specific steps. These suggested actions should be tailored to each state's clean water needs and specific SRF program features.

1. Review state's SRF program. Obtain copies of the annual SRF report, the most recent Intended Use Plans (IUP) and Project Priority Lists (PPL), and state regulations, and review them with the following points in mind. (*Note: See Appendix C for more information on how the SRF program works, and Appendix A for information specific to each state SRF program.*)

- ✧ *Consistency:* Are state administrative rules consistent with federal SRF regulations?
- ✧ *Water quality protection:* How well do the SRF program requirements (e.g., priority ranking systems) link to TMDLs (Total Maximum Daily Loads) and anti-degradation requirements? Bear in mind how these water quality protection requirements can be used to prevent SRF funding of damaging new infrastructure and to ensure that more protective nonstructural stormwater and wastewater treatment measures are considered first.
- ✧ *Priorities:* How are points allocated for project selection and ranking? Do they properly reflect state water quality priorities? Are they biased towards large, conventional wastewater projects? Do they actively promote nonpoint and nonstructural management approaches?
- ✧ *Funding history:* Compare projects funded over the past five years - how well do they reflect state water quality priorities?
- ✧ *Sprawl:* Are there explicit prohibitions on funding new development? Do project selection criteria and/or environmental review criteria encourage or discourage funding of infrastructure that will induce new sprawl?
- ✧ *Eligibility:* Does the state allow funding of projects by private entities (e.g. NGOs, farmers) and projects on private lands (e.g. decentralized wastewater systems within a subdivision)?

2. Talk to other activists and interested parties.

- ✧ What is their experience of the SRF program? Do state regulations look good on paper but are not being rigorously applied? Are bad, environmentally damaging projects (e.g., new wastewater discharges to high-quality streams) being funded despite environmental review requirements?

3. Meet with state SRF staff.

- ✧ Ask about the state's goals for the SRF program, and staff's perceptions of program shortcomings and opportunities. It makes sense to get state agency input first - they may share your views on needed reforms - and enlist staff as allies, if possible.
- ✧ Voice interest in specific changes to the SRF program, and discuss how changes could best be made. For example, how can project selection criteria better support smart growth, protection of high-quality waters, and Phase II stormwater regulatory provisions (i.e., post-construction stormwater controls)?
- ✧ Find out if all SRF funding is actually being spent; if not, find out why.
- ✧ Identify any changes needed to state statute or regulations.

- q Talk to agency staff about how much more administrative support they may need to make more loans for nonstructural projects. Discuss how to make the case to state budget managers and legislators for more administrative funding (offset by the cost-effectiveness of a broader use of using decentralized wastewater and stormwater controls).
- ✘ Make sure you and other interested groups are on the agency's public notification list for its annual meeting.
- ✘ Meet with agency staff during the period before the annual meeting, if possible, when they are considering project applications and developing the PPL and IUP. Flag any projects that don't have good environmental reviews, that don't comply with local master plans or growth management plans, or that haven't fully considered alternative approaches.

4. Determine most critical program changes and identify remedies. The following are just a few examples of program changes that might be considered:

- ✘ Get states to include specific objectives in their annual reports for funding more nonpoint projects, as well as decentralized and nonstructural stormwater and wastewater treatment projects.
- ✘ Review, and if necessary work to make needed statutory or regulatory changes in project selection priority ranking systems to ensure:
 - q Funding is directed to existing needs, not projects that will spur new development.
 - q Projects that do the most to help water bodies meet water quality standards (e.g., "anti-degradation" and TMDL load reduction requirements) receive higher scores.
 - q Extra points are given for incorporating green infrastructure or nonstructural approaches in all projects.
- ✘ Get states to provide loan subsidization (e.g. zero-interest loans) and other incentives for communities that apply for funding for such projects.
- ✘ Help advocate for more agency staff funding to accommodate better public outreach and funding of more decentralized and non-conventional projects.
- ✘ Identify and cultivate other allies - business community leaders, anglers, recreational boaters, drinking water utilities - to support needed reforms and changes to administrative rules.

5. Advocate for states to require applicants for CSO and SSO control projects to include on-site decentralized stormwater components.

- ✘ Require that all CSO and SSO control projects include nonstructural and decentralized on-site best management practices, or have applicants show why these approaches are not feasible to incorporate into conventional project designs.

6. Persuade states to emulate Ohio's "sponsor" program to provide financial incentives for linking nonstructural and conventional approaches in a single application. (See sidebar in section IV for information on this program. Note:Iowa and Oregon also have similar programs.)

- ✘ Contact Ohio EPA staff who manage the Clean Water SRF program (see Appendix C for contact information) to learn more about the kinds of projects being funded, how the program was developed, how administrative obstacles were overcome, and how it is currently implemented.

7. Spread the word about the SRF program.

- ✘ Get states to improve marketing of the SRF program in general and to Phase II

stormwater communities in particular, such as with cross-links among program websites, ads and announcements in newspapers, and e-announcements to Phase II communities.

- ☐ Encourage agencies to provide clearer, easier-to-access SRF information on state websites.
- ☐ Sponsor trainings, conferences, and distribute basic materials to communities and activists within the state on how to utilize non-structural stormwater and wastewater approaches and how to access SRF loans for these purposes.

8. Work with Phase I and Phase II stormwater communities. Encourage both large and small communities to apply for SRF loans for decentralized, nonstructural approaches to managing stormwater runoff and sewer infiltration.

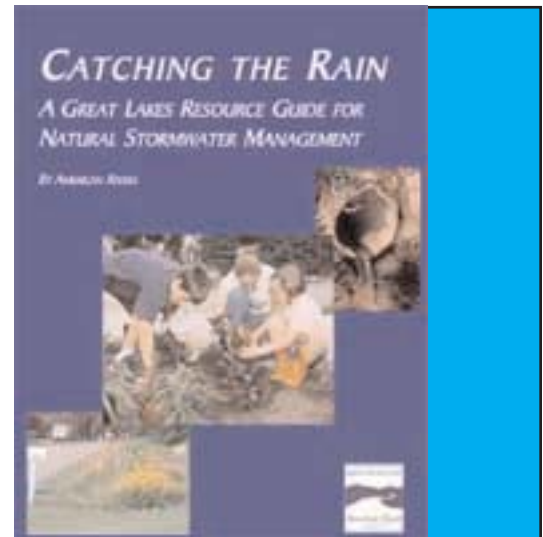
- ☐ Identify at least five communities that are interested in applying - and have good candidate projects and water quality needs - for SRF loans for non-conventional projects.
- ☐ Work at least 6 months ahead of the loan application deadline with these communities to get them to apply for nonstructural projects for stormwater and protection or restoration of high-quality waters

C. Federal Action Priorities

It is important to support change within Great Lakes state programs with complementary actions at the federal level. The following represent the most critical policy changes that must occur to help transform the kind of water infrastructure projects being funded locally.

1. Increase funding levels. Without significant increases in Clean Water SRF funding, it will be difficult to redirect funding away from conventional sewer and wastewater treatment uses, since these systems have such a backlog of repair and replacement needs. The following are the key steps to achieve this goal:

- ☐ Sustain funding for FY'05 at the same level as FY'04 - \$1.34 billion.
- ☐ Increase recommended funding to \$3.2 billion in U.S. House and Senate FY'06



Catching the Rain: a Great Lakes Resource Guide for Natural Stormwater Management is a report by American Rivers that offers an easy reference to a variety of natural stormwater management approaches suitable for the Great Lakes region.

<http://www.americanrivers.org/newreportonstormwatermanagement.html>

Other Resources Include:

☐ **The Stormwater Managers Resource Center**, funded by the U.S. Environmental Protection Agency and managed by the Center for Watershed Protection (www.stormwatercenter.net).

☐ **The Minnesota Urban Small Sites Best Management Practices Manual** created for the Minnesota- St. Paul Metropolitan Council by Barr Engineering (www.metrocouncil.org/environment/Watershed/BMP/manual.htm).

☐ **The Delaware River Keeper's Stormwater Runoff Resource Guide** (www.delewareriverkeeper.org).

☐ **The EPA's stormwater BMP webpage**, as well as many of its stormwater technical papers (cfpub.epa.gov/npdes/stormwater/menuofbmps/post.cfm).

☐ **The Low Impact Development Center** (<http://www.lowimpactdevelopment.org>).

☐ **The Prince George's County of Maryland's Low Impact Development web site** (www.goprincegeorgescounty.com/Government/AgencyIndex/DER/PPD/lid.asp?h=20&s=&n=50&n1=160).

budget resolutions.

- ⊠ Attain higher funding authorization ceilings in Clean Water SRF reauthorization bills.
- ⊠ Explore other dedicated funding (e.g. trust funds) sources to substantially increase funding.

2. Urge U.S. EPA to direct states to fund more nonstructural projects. Congress has urged states to spend more of the SRF funding it appropriates on less capital intensive practices.

- ⊠ Work with EPA to identify ways to actively promote Congress' directive to states to spend \$75 million in SRF funding on decentralized and nonstructural wastewater and stormwater projects.
- ⊠ Persuade EPA to formally review state SRF programs and take administrative action if states do not achieve this funding goal.

3. Achieve key reforms in Clean Water SRF reauthorization bill in the 109th Congress. The next Congress is likely to reauthorize the Clean Water SRF program, providing an important opportunity to making key improvements to the the program, including:

- ⊠ Limiting subsidies for sprawl.
- ⊠ Increasing public participation and outreach requirements.
- ⊠ Bolstering specific environmental review requirements to prevent environmentally damaging projects from being funded.
- ⊠ Creating a dedicated funding set-aside, as well as other incentives, for nonpoint and non structural projects.

D. Conclusion

Given its sheer size and importance for the environment, the Clean Water SRF program has historically received little or no oversight from Great Lakes activists. Environmental groups must learn more the SRF program and understand how it is driving water infrastructure investment decisions. Only when they get actively involved can we assure that these large public investments are providing the greatest water quality benefit for the waters of the Great Lakes.

We hope that the effort to engage local activists around the Great Lakes begun in the May 2004 workshop can be the catalyst for needed change. American Rivers and Clean Water Fund welcome the opportunity to work with groups in Great Lakes states to take the action steps outlined in this report.



**Appendix A:
Summary of State Clean Water SRF Programs**



State Comparison Chart

	Illinois	Indiana	Michigan	Minnesota
Anti- sprawl? - prohibit funds for new development - lower PPL score	No prohibition: new sewers and treatment plants eligible	Wastewater projs. to support economic growth not eligible; lower score for new collectors	No prohibition, except in drinking water SRF	Cannot fund projects whose sole purpose is for growth
What does PPL scoring system prioritize?	<ul style="list-style-type: none"> • Elimination of WQ violations • Maintenance of WQ compliance 	<ul style="list-style-type: none"> • Population affected • Dilution in receiving stream • Stream classification • Secondary/advanced treatment over CSO or I&I correction 	<ul style="list-style-type: none"> • Helps meet compliance • Pollutant loading • Water body impairment • Septic repair • Septic-sewer conversion 	<ul style="list-style-type: none"> • Extra pts. for eliminating discharges to wetlands • Penalty for increased discharge to high-quality water
Funding for nonpoint projects	None	None	None	Yes, mostly ag, some urban
Fund private entities?	No	No (DWSRF only)	No	Homeowners and farmers
Incentives to fund “soft path” stormwater or wastewater projects	No. Considering additions to priority scoring system for nonstructural	No. But extra points for priority watersheds. Considering a separate nonpoint SRF program for impaired watersheds	At least 2% of SWQIF funds must be allocated to nonpoint source projects (“if needed”)	No, but MN has spent approx. 2% for decentralized wastewater systems
Innovative programs	None	None	Strategic WQ Initiative Fund: - \$1 billion bond - 10% for failing septic, and drain disconnections	Tourism Loan Program to repair failing septic in tourism areas

	New York	Ohio	Pennsylvania	Wisconsin
Anti- sprawl? - prohibit funds for new development - lower PPL score	No prohibition	No prohibition	No, but require compliance with local land use plans	Prohibition in statute, even if current develop. exists in project area
What does PPL scoring system prioritize?	<ul style="list-style-type: none"> • Value of resource, esp. drinking sources, shellfish • Raw sewage discharge, compliance action 	<ul style="list-style-type: none"> • Integrated priority setting • Public health • Aquatic life designtn. • Restorability of affected waters 	<ul style="list-style-type: none"> •Public health •Unsewered areas •Environ. Impact •Economic development •Compliance 	<ul style="list-style-type: none"> •Project type (70%) •Human health (13%) •Water quality (16%) •Population (1%)
Funding for nonpoint projects	Yes (e.g. constructed wetlands)	Yes, (e.g. livestock waste BMPs)	Yes (primarily for decentralized wastewater)	Minimal (landfills, brownfields)
Fund private entities?	NGOs eligible for land acq.	To farmers, homeowners thru linked deposit	Any private entity eligible	No
Incentives to fund “soft path” stormwater or wastewater projects	Interest-free loans (sm. amt. of funding)	Reduced interest rates to POTWs that also do aquatic habitat restoration, also for stormwater BMPs, but little interest as yet	No	No
Innovative programs	Small amt. of funding for innovative projects (e.g., constructed wetlands)	<ul style="list-style-type: none"> • Linked deposit • Development BMPs • Water restoration sponsor program 	<ul style="list-style-type: none"> •New brownfield rehabilitation program •Acid mine drainage 	None

ILLINOIS

Clean Water State Revolving Fund (SRF) Program

*Prepared by Bill Haas, Environmental Law and Policy Center
May, 2004*

1. Program Particulars

A. State Program Name: Water Pollution Control Loan Program (WPCLP)

In 1987, the federal Water Quality Act changed the methods for providing federal assistance for public wastewater projects. The legislation authorized federal grants to state governments for the establishment of loan programs, with the condition that each state provide a 20 percent match to each federal dollar appropriated for the program.

In Illinois the Clean Water SRF (CWSRF) program is called the Water Pollution Control Loan Program (WPCLP). Since the inception of the WPCLP program more than \$1.3 billion in federal capitalization, state matching funds, and loan repayments have been committed to fund eligible loan projects. To provide additional funding, the Agency has decided to convert from a direct loan program to a leveraged loan program through the sale of revenue bonds.

B. Application Deadlines

Loan applicants, during any federal fiscal year commencing October 1, must file a new pre-application annually on or before the proceeding March 31. Once the Illinois EPA has determined priorities for awarding loan funding assistance to projects, a loan applicant must complete a loan application before the Agency can offer a loan.

C. Contact Information:

Please contact Infrastructure Financial Assistance Section, Bureau of Water, Illinois Environmental Protection Agency at 217-782-2027 for more information or visit <http://www.epa.state.il.us/water/financial-assistance/waste-water/index.html>.

Section Manager: Ron Drainer
Annual Report: Ed Santarelli
Bid Reviews & Change Orders: Karen Vetter
Dedicated Source of Revenue: Lisa Moreno
Facility Planning: Al Garver and Jim Leinicke
Forms and Publications: Al Garver or Jim Leinicke
Intended Use Plan: Jim Leinicke
Payments: Jeff Dodd & Bob Richardson
Pre-Application: Mike Bowers

D. Statutory References:

- Title 35, Subtitle C, Part 365: Procedures For Issuing Loans From The Water Pollution Control Revolving Fund
- Title 35, Subtitle C, Part 366: Procedures And Requirements For Determining Loan Priorities For Municipal Wastewater Treatment Works

2. Summary of the Intended Use Plan

The purpose of the Draft FY 2004 Wastewater Loan Program Intended Use Plan (IUP) is to fulfill the requirements set forth under Section 606(c) of Title VI of the Water Quality Act of 1987 which amends the Federal Clean Water Act (CWA) and is a prerequisite to receipt by the Illinois Environmental Protection Agency (IEPA) of a federal grant for capitalization of the WPCLP.

A. State's Objectives for Funding as Stated in the IUP

As stated in the IUP the long-term goals (5-year period) are:

- ☐to provide a stable and perpetual financing source for publicly owned treatment works (POTW) in the State;
- ☐to provide a perpetual source of financing for municipal wastewater treatment facilities to attain and maintain compliance with State and federal wastewater treatment requirements; and
- ☐to provide financial assistance to all types of projects eligible under the Clean Water Act and the State enabling legislation.

The short-term goals stated in the IUP for fiscal year 2004 are:

- ☐to provide financial assistance for projects necessary to achieve or maintain compliance; to manage a program that provides local government units with as simple an approach as possible to financing wastewater treatment works, consistent with federal and State statutory requirements; and
- ☐to leverage the fund through the sale of bonds secured by the loan program.

B. Funding By Project Type

Under the Clean Water State Revolving Fund Title VI Allotments, Illinois received \$60,543,600 for the WPCLP. The IEPA has developed and continues to maintain a priority list that includes all projects for which application for financial assistance has been made. To receive financial assistance from the WPCLP a project must be on the current year's priority list.

C. Unobligated Funding

A small surplus of funds remains downstate to fund qualifying "bypass" projects. If there is sufficient demand the IEPA has legislative authority and reserves the right to sell leveraged bonds in fiscal year 2004 to raise up to an additional \$70 million in loan funds.

Such a bond sale, if warranted, would occur in the second half of the fiscal year and would be no larger than is necessary to fully fund any backlog of unfounded and completed loan applications that would otherwise be carried over into fiscal year 2005. Because the timing and amount of leveraging is yet unknown, leverage funds are not considered in the current IUP.

3. Environmental Review Criteria in State Enabling Regulations

A. Specific Criteria and Standards:

Local government units pursuing the following types of projects are eligible to receive a loan:

- ☐ construction of new wastewater collection and treatment facilities or upgrading and expanding existing facilities;
- ☐ replacement, rehabilitation, or extension of collection systems and interceptors; and
- ☐ separation of combined sewers or upgrading combined systems to eliminate overflows, surcharging or flooding.

Once the Agency has determined priorities for awarding loan-funding assistance to projects in the IUP and/or project priority list, the loan applicant must complete a loan application package before the Agency can offer a loan. During the formal planning process considerations are made regarding environmental impacts, costs, and how costs are passed onto system users. At this point the provisions require public hearings. Additionally, while there are currently no prohibitions against subsidizing sprawl higher priority is given to existing populations and the practice is discouraged.

B. Project Reviews:

The IEPA has taken steps to ensure the financial stability of the WPCLP over the long term. All borrowed funds will generate semi-annual repayments of principal and interest, and loan support over a maximum 20 year period.

State law requires that the loan applicant pass an ordinance, usually requiring public comment, dedicating the revenue source to repay the loan.

Financial reviews, including review of the user charge system, the existing and proposed operation, maintenance and replacement costs and the existing and proposed capital costs, are conducted by the Illinois EPA. These reviews are done to document that the loan applicant has the necessary legal, financial and managerial capability to maintain the project for the life of the wastewater treatment works and to retire the loan in accordance with the approved repayment schedule.

4. Project Priority Lists and Scoring Systems

A. Criteria for Determining Funding Priorities:

Loan funding assistance is provided only for projects that are on the project priority list developed by the Illinois Environmental Protection Agency (IEPA). The priority system requires distribution of funding to four different project classes:

- ☐ service continuation
- ☐ service expansion
- ☐ new service, and
- ☐ combined sewer service

Funding is proportional to state wastewater needs as identified yearly in the pre-applications for projects.

B. Scoring System:

Loan pre-applications are scored in accordance with Agency rules as contained in 35 Ill. Adm. Code 366 (Procedures and Requirements for Determining Loan Priorities for Municipal Wastewater Treatment Works). The system used to score projects for priority under the WPCLP stresses achievement and/or maintenance of compliance as the highest priority projects. The priority system requires distribution of funding to four different project classes, each of which may have projects that are necessary to eliminate existing water quality/effluent limit violations or prevent future anticipated water quality/effluent limit violations.

At this time there is no preference given for nonstructural wetland and watershed protection efforts but the IEPA is working on additions to the current priority point system.

5. Special Interest Rates and Grants

All wastewater loans will carry a loan rate that is established at one-half the market interest rate. In recent years, the simple interest rate for loans has averaged approximately 3 percent. The maximum term of a WPCLP loan will be 20 years.

The only exception to this policy is a recently initiated grant program that provides up to 70 percent of the cost for upgrades to unsewered communities in violation of water regulations.

6. Private Entity Funding

Currently there are no provisions for state funding of private entities or non-governmental organizations.

7. Innovative Program Components

The WPCLP currently has no innovative components. IEPA has engaged in general discussion of new policies but nothing concrete has been documented.

8. Advisory Groups

Some groups do play an advisory role in the Illinois WPCLP process and submit comments during the public comment period. As the programs has undergone little change in recent years the number of commenting groups has declined.

9. Innovative Case Study Projects

Unfortunately, at this time Illinois' WPCLP does not include innovative components. With the future addition of new policies and program components, it is hopeful that innovative projects will apply for assistance through this program.

10. Clean Water SRF and the Drinking Water SRF

A. State Program Name: Public Water Supply Loan Program

In Illinois the Drinking Water SRF (DWSRF) program is called the Public Water Supply Loan Program

(PWSLP). Since the inception of the PWSLP program more than \$163 million in federal capitalization, state matching funds, and loan repayments have been committed to 97 eligible projects. The Public Water Supply Loan Program provides low interest loans to units of local government for the construction of community water supply facilities. This loan program is capitalized at an annual amount of \$30-\$40 million with federal and state funds and priority consideration is given to projects with compliance problems, financial hardship and small community water supplies.

The demand for loan funds in FY2004 may considerably exceed the available capitalization and repayment funds available. If in fact completed loan applications considerably exceed available resources, the Agency has legislative authority to generate up to an additional \$45,000,000 in loan funds through the sale of leverage bonds.

B. Funding Set-Aside for Source Water Protection

The IEPA sets aside 10 percent of funding for source water protection as allowed in the original Federal legislation. None of this money is applied to ambient water quality projects though; it is used for administrative purposes.

C. Contact Information:

Please contact Infrastructure Financial Assistance Section, Bureau of Water, Illinois Environmental Protection Agency at 217-782-2027 for more information or visit <http://www.epa.state.il.us/water/financial-assistance/drinking-water/index.html>.

Section Manager: Ron Drainer

Annual Report: Ed Santarelli

Bid Reviews & Change Orders: Karen Vetter

Dedicated Source of Revenue: Lisa Moreno

Facility Planning: Al Garver and Jim Leinicke

Forms and Publications: Al Garver or Jim Leinicke

Intended Use Plan: Jim Leinicke

Payments: Jeff Dodd & Bob Richardson

11. Problems and Impediments

The Illinois Water Pollution Control Loan Program is highly successful having made 364 CWSRF loans over \$1.3 billion since 1988. Regardless of these successes, the Illinois Environmental Protection Agency hopes to expand the program and include innovative policies and program initiatives that offer greater opportunities for CWSRF funds. The lack of innovative program components is the WPCLP's greatest flaw. Furthermore, with federal and state budgetary issues it is questionable how well the program will be funded in the future.

INDIANA

Clean Water State Revolving Fund (SRF) Program

*(Prepared by Rae Schnapp, Hoosier Environmental Council
May 2004)*

1. Summarize the particulars of state program

State program name

Wastewater State Revolving Fund Loan Program WWSRF

Indiana's State Revolving Fund Loan Program is administered jointly by the State Budget Agency and the Indiana Department of Environmental Management. To increase available funds, the State leverages its U.S. EPA capitalization grants in the municipal bond market. These funds are combined with the U.S. EPA required state match and are then made available to Indiana communities in the form of low interest rate loans. To date, the Indiana SRF program has made over 200 WWSRF loans for a total exceeding \$1 billion dollar. Any project where there is an existing pollution abatement need is eligible for SRF funding.

Wastewater projects include:

- ☒ Treatment plant improvements and upgrades
- ☒ Sewer line extensions to existing unsewered properties,
- ☒ Combined sewer overflow corrections, and
- ☒ Infiltration/inflow projects.

Drinking water projects include:

- ☒ Treatment plant improvements and upgrades
- ☒ Water line extensions to existing unserved properties, and
- ☒ Water storage facilities.

Nonpoint source projects include:

- ☒ Wetland protection and restoration measures,
- ☒ On-site sewage disposal systems
- ☒ Best Management Practices for agriculture (includes CAFOs!!)
- ☒ Best Management Practices for Stormwater runoff
- ☒ Riparian Buffers and Conservation Easements, and
- ☒ Wellhead and Source Water Protection measures.

Eligibility:

Cities, towns, counties, regional sewer/water districts, conservancy districts and water authorities are eligible for wastewater, drinking water and nonpoint source SRF loans. Private and not-for-profit facilities are eligible only for drinking water SRF loans.

Statutory References

WW SRF Act - Indiana Code 13-18-13

DW SRF Act - IC 13-18-21-2

Indiana Administrative Code 13-12-7

Contact info

State Revolving Fund Loan Program
100 N. Senate Ave., Rm. 1275
Indianapolis, IN 46204
317-233-6957
Fax: (317) 234-1338
www.SRF.IN.gov

Jim McGoff, Executive Director,	(317) 234-2916	jmcgoff@dem.state.in.us
Marylou Renshaw, Mgr. Technical Review	(317) 232-8655	
Matt Martin, Finance Mgr.	(317) 234-1278	
Rich Emery, Financial Analyst	(317) 232-0759	
Arthur Carter, Wastewater Administrator	(317) 233-2474	
Cortney Stover, Drinking Water Administrator	(317) 232-8663	
Doris Roberson, Bidding Coordinator	(317) 234-1266	

Web pages

State Revolving Loan Fund <http://www.in.gov/idem/srf/>
Wastewater Application Guidelines <http://www.in.gov/idem/srf/wwappguide.html>
Wastewater Intended Use Plan <http://www.in.gov/idem/srf/wwiup2004.pdf>
Drinking Water <http://www.in.gov/idem/srf/dwappguide.html>
Drinking Water Intended Use Plan <http://www.in.gov/idem/srf/dwappguide.html>
Nonpoint Source Water Pollution Abatement <http://www.in.gov/idem/srf/npsappguide.html>
Safe Drinking Water Standards Fund <http://www.in.gov/idem/srf/factdwrules.doc>
Small System Technical Assistance Fund <http://www.in.gov/idem/srf/facttechasst.doc>

Deadlines for Funding Applications

- ☐ Applications are accepted any time.
- ☐ Applications submitted by April 1 will be scored to determine whether they qualify for the annual Priority Project List. This list is updated quarterly. Applicants after April 1 will be added to the list during the next quarter. Then applicants have one year to close on the loan.
- ☐ Upon receipt of the application, the WWSRF administrator will set up a meeting with applicant before July 1 to explain the Preliminary Engineering Report.
- ☐ Submit Preliminary Engineering Report.
- ☐ Develop and hold public hearing on Environmental Assessment. If there is significant adverse impact, an Environmental Impact Statement is required.
- ☐ Retain nationally recognized bond counsel to issue an opinion on the validity of the bonds and demonstrate ability to repay the SRF.
- ☐ Close on loan by June 30 of the following year or re-submit application.

2. Summarize your state's Intended Use Plan for projects to be funded with CWSRF funds (IUPs must be developed annually and filed with USEPA)

a. State's objectives for funding and clean water goals as stated in the IUP

Short Term Goals

- ☐ Coordinate inter-agency management with newly created executive director position.
- ☐ Assist communities in closing on loans and starting construction in a timely manner.

- ☐ Encourage EPA to enable continued transfers between Wastewater SRF and Drinking Water SRF.
- ☐ Institute site visits. Formalize an inspection process that documents progress on construction and post construction phases
- ☐ Continue to provide funding for political subdivisions to fund LTCP.
- ☐ Develop a plan to market SRF point source program to targeted political subdivisions including communities with combined sewer overflows, communities subject to enforcement and those facing a sewer ban.
- ☐ Develop a plan to market Non Point Source funding opportunities to communities.
- ☐ Encourage SRF participants to draw down their loan or cut off ability within a year after substantial completion of a construction if additional draws are not expected.
- ☐ Produce a report on SRF program activities.

Long Term Goals

- ☐ Primary Goal is to improve water quality.
- ☐ Provide financial assistance to help political subdivisions comply with federal and state standards for water quality.
- ☐ Secure Indiana's full share of SRF dollars.
- ☐ Realize an adequate rate of return to keep the SRF going in perpetuity.
- ☐ Develop a tracking system to follow projects from cradle to grave.
- ☐ Develop a process to measure SRF achievements through water quality objectives;

b. Funding by project type (e.g. sewers; CSO repair; ww treatment upgrades; nonpoint, stormwater mitigation) (for past three years).

2003

All of the 16 project loans were made to POTWs:

2 projects were to replace failing septic systems with sewers at \$3,517,000.

5 projects were treatment plant upgrades totalling \$3,197,950.

8 projects were for failing sewer systems worth \$18,477,000.

1 was a CSO project for Indianapolis worth \$41,000,000.

No loans for non point projects have been made yet.

2004

There are 37 projects on the 2004 PPL

No projects to replace failing septic systems with sewers are proposed.

17 projects to upgrade treatment plants total \$204,094,000.

12 project proposals to improve failing sewer systems worth \$39,413,000.

7 projects to address Combined Sewer Overflows total \$94,494,000.

c. Any unused (unobligated) funding?

Aggregate principal is \$960 million. \$858 million available for loan purposes.

\$354 million in projects were on the PPL at the beginning of 2003 with 98 million being added by the end of the first quarter. \$108 million in loans were closed in 2003 (16 loans).

d. How many (and how much in \$) proposed projects are turned away for lack of funding?

Zero.

3. Summarize environmental review criteria in state enabling regs

a. What are the specific criteria or standards that projects must meet in order to receive SRF funding? (NEPA-like project reviews are required under Federal statute, but vary widely in what and how they are implemented by states)

They prioritize environmentally but fund every project that comes through the door. Sometimes they require adjustments to meet environmental concerns.

b. Is the project review done before or after (rubber-stamp) funding is made?

A fairly intense inter-agency environmental review is done before funding as part of the PER review.

c. What provisions are made for public comment, and for consideration of alternatives to the proposed project? (e.g., decentralized stormwater rather than deep tunnel projects)

There is a public comment period on the Project Priority List in June. Typically no comments are received. There is also a public comment period associated with the environmental assessment of individual projects.

d. Are there explicit prohibitions against subsidizing sprawl with SRF funds? (e.g., no funding for sewer line extensions unless there are existing homes already occupied)

Yes, in theory, wastewater projects to support economic development are not eligible. Drinking water projects are ineligible if they primarily support future growth. This is all in policy and the IUPs, not statute or rule.

4. Project priority lists and project scoring systems

a. What is the process (public input or all internal to bureaucracy?) and criteria (these should be formalized in enabling regs) for determining project funding priorities (e.g., how are priorities linked to TMDLs, priority watersheds, etc.)

There is a public hearing on the Priority Project List (in June).

Nonpoint source projects are prioritized based on Unified Watershed Assessment. It is not clear whether the nonpoint source applications will compete with other SRF applications or whether there will be a separate PPL list for nonpoint projects.

b. What is the scoring system for determining which projects actually get funded - what type of needs, issues, projects receive higher points (e.g., CSOs)?

Scoring is based on a rather complex formula.

Part 1: Stream Segment Score

Dilution Ratio
Population Affected
Segment Classification
+ Interstate Priority points
Stream Segment Score

Part 2: Municipal Discharger Ranking

Segment Score
Dilution Ratio Points
Population served by system
+ Facility Needs Ranking

Municipal Discharger Ranking

Part 3: Priority Value Number for PPL

$$\text{Priority Value Number} = \text{Municipal Discharger Score} \times \text{Project Type Multiplier}$$

Where project type multiplier is as follows:

- 1
 - .75
 - .70
 - .50
 - .25
- Secondary or advanced wastewater treatment
Combined Sewer overflow correction
Infiltration/inflow or major sewer system rehabilitation
Construction of new interceptor sewers
Construction of new sewers not associated with a new treatment plant, or initiating transfer to regional system.

c. are more points or other preference given for nonstructural wetland and watershed protection efforts that provide broader water quality and other benefits?

The WW SRF scoring does give additional points for priority watersheds based on the Unified Watershed Assessment, and the number of people affected is a factor in scoring. The current scoring system does not give additional points for non-structural pollution prevention type approaches. Through the NonPoint Source SRF, Indiana plans to direct funding to impaired watersheds, but no nonpoint projects have been funded yet.

5. Does the state provide lower interest or no-interest loans, or grants (partial or full) for certain kinds of projects or communities? What are the criteria?

The SRF loan is a fixed rate, 20-year loan. Interest rates (April 1, 2004 to June 30, 2004) range from 2.58 percent to 3.83 percent based on the applicant's median household income (from current census data) and local user rates.

Hardship grants may also be available to communities that have all of the following characteristics:

- ☒ Not served by any sewer collection system
- ☒ With a population of 3000 or fewer
- ☒ Not inside the corporate boundaries of a community
- ☒ Per capita income does not exceed 80% of national average per capita income
- ☒ Unemployment rates are at least 1% higher than the most recent national annual average unemployment rate.

There is a new Small System Technical Assistance Fund (SSTAF) that will provide up to 20 grants to communities prepared to plan and design their SRF funded projects during State Fiscal Year 2005 (July 1, 2004 to June 30, 2005). The funds will pay for up to 100% of a community's planning and design costs, not to exceed \$25,000. Eligible DWSRF applicants also may include any owner of a public water system including water authorities, mobile home parks and schools.

Small System Technical Assistance Fund Grants will be awarded to the top-ranked communities on each PPL who are within the population limitations.

- ✘ Population (for wastewater, the utility must serve less than 3,500 and for drinking water, less than 10,000);
- ✘ New applications (funds will not be made available for applicants that have submitted a PER to the SRF Program prior to Jan. 1, 2004);
- ✘ The ability of the applicant to submit required information to the SRF Program for review within the required programmatic timeframes; and
- ✘ PPL Ranking.

6. Can the state fund private entities, such as farmers or NGOs? (e.g., to do streambank restoration)

For Drinking Water SRF only.

7. Are there any innovative program components? (e.g. lower interest rates for stream restoration projects done in conjunction with traditional ww treatment plant improvements).

No.

8. Are there any groups - envir, taxpayer, other progressives - "watch-dogging" the SRF process and selected projects?

No.

9. Contact selected communities doing innovative stormwater and wastewater projects (e.g., Madison's rain gardens) and find out if they have tried to apply for SRF, know that they can, found it impossible to get funding, etc.

Most communities know that SRF loans are available, but many consider the environmental review too onerous, especially with current low interest rates on the market. SRF staff feels that the environmental review is something that communities should be doing anyway. Otherwise engineering firms may sell them things they do not need.

10. How does the CWSRF program interact, if at all, with the Drinking Water SRF program, particularly source water protection efforts and funding under the DWSRF?

The program is administered by the same staff people. The Drinking Water Intended Use Plan is identical to the wastewater intended use plan in many respects. Funds can be transferred between the Drinking Water SRF funds and the Waste Water SRF (consistent with IUPs and EPA policy statement FRL-6884-7, 65FCR199, 10/13/00 pg 60940), up to 33% of the Drinking Water Capitalization grants. To date approximately \$23.7 million has been transferred to the DWSRF from the WWSRF.

11. What are any other problems and impediments with your states SRF program?

Some communities do not apply for state loans because of the perception that there are too many strings attached.

12. How much money did your state choose to set-aside for source water protection (or any non-end-of-the-pipe activity)?

13. How much of those dollars have actually been obligated to ambient water quality projects (and how many projects)?

They claim that they used 2.5 million of SRF money for a one time start up work on source water protection, well head protection and technical assistance in 2002. They use \$1 million annually to administer key provisions of the Safe Drinking Water Act.

MICHIGAN

Clean Water State Revolving Fund (SRF) Program

*(Prepared by Bethany Renfer, Clean Water Fund of Michigan
May 2004)*

1. Summarize the particulars of state program, such as state program name, contact info, key website urls, deadlines for funding applications, public notice and comment requirements, etc.

Program Names:

State Revolving Fund (SRF)

Michigan's Water Pollution Control Revolving Fund, better known as the State Revolving Fund (SRF), assists qualified local municipalities with the construction of needed water pollution control facilities. Michigan enacted 1988 PA 317, The Clean Water Assistance Act, to establish the SRF which is now codified as Part 53, 1994 PA 451, of the Natural Resources and Environmental Protection Act.

Strategic Water Quality Initiatives Fund (SWQIF)

The Strategic Water Quality Initiatives Fund (SWQIF) is a low interest revolving loan program that allows qualified municipalities to access financing for the construction of needed water pollution control facilities that cannot qualify for SRF assistance. Two types of projects can be financed under the SWQIF, the on site upgrade-replacement of septic systems and the removal of ground water or storm water from sewer leads. This fund was created by the passage of Proposal 2 by Michigan voters in November of 2002. The implementation of the fund is codified as Part 52, 1994 PA 451, of the Natural Resources and Environmental Protection Act. Capital for SWQIF is provided solely by the State of Michigan.

Contact Person/Info:

Chip Heckathorn, Chief, Revolving Loan and Operator Certification Section, Environmental Sciences and Service Section, Michigan Department of Environmental Quality

Number: (517) 373-4725

Mailing Address: P.O. Box 30457, Lansing, MI 48909-7957

Website: http://www.michigan.gov/deq/0,1607,7-135-3307_3515_4143---,00.html

This website provides links to forms, guides, PPL, etc.

Deadlines:

Final plans must be submitted no later than July 1 of any year. A draft plan should be submitted for DEQ review at least two to three months prior to the deadline. This will allow the DEQ to comment on your draft so that the final project plan covers all the necessary federal and state requirements.

Project plans must include:

1. Project Background
2. Need for the Project
3. Analysis of Alternatives
4. The Selected Alternative
5. Evaluation of Environmental Impacts

6. Mitigation of Environmental Impacts
7. Public Participation

A DEQ project manager will review the project plan to ensure that a cost-effective, eligible alternative has been selected that meets state and federal requirements. If so, the project is ranked for funding on the state's Project Priority List (PPL).

Public Notice:

The law requires opportunities for documented public input. Informal methods of public involvement may include newspaper articles, notices in billing statements, and mass mailings to affected citizens. The law also encourages other methods of participation during the final project planning stages. A formal public hearing must take place prior to plan adoption.

2. Summarize your state's Intended Use Plan for projects to be funded with CWSRF funds (IUPs must be developed annually and filed with USEPA)

a. State's objectives for funding and clean water goals as stated in the IUP

Michigan's SRF and SWQIF are funding sources used to protect and preserve the water resources within the state's boundaries. As more attention is given to water pollution abatement efforts within specific watersheds. The DEQ continues to work toward establishing tighter integration of the federal/state/local partnership.

Long-term goals:

- A. To achieve and maintain statewide compliance with all applicable state and federal laws, rules, and standards.
- B. To protect the public health and environmental quality of our state.
- C. To further integrate principles of watershed management and water quality restoration within urban, as well as out-state areas.
- D. To secure Michigan's full share of federal funding available under Title VI of the Federal Clean Water Act. To expeditiously obligate the federal funds, along with the state contributions, for the construction of water pollution control projects which meet state and federal requirements.
- E. To maintain strategies within the SRF and SWQIF to assist smaller, hardshipped communities in meeting water quality standards.

Short-term goals for FY 2004 are:

- A. To fund those projects identified in the IUP for the SRF and the SWQIF, enabling municipalities to proceed with construction as adopted in their project plans.
- B. Work with other agencies and offices in developing integrated approaches in watershed management efforts.
- C. Coordinate disbursement practices with the DEQ's Office of Financial Services to ensure accurate reporting of program information for administrative/project expenditures.
- D. Increase awareness about the Strategic Water Quality Initiative Fund.
- E. Identify and integrate, wherever possible, outreach efforts focused on pollution prevention activities.
- F. To ensure that funded projects have reviewed and considered the security needs of the sewer system.

b. Funding by project type (e.g. sewers; CSO repair; ww treatment upgrades; nonpoint, stormwater mitigation (for past three years))

In past years, Michigan's SRF program has provided substantial assistance in funding towards combined sewer overflow (CSO) abatement efforts. The state has funded sizable projects in Detroit, Grand Rapids, Lansing, Port Huron, and Saginaw. While over the life of the SRF, 50% has been used for correction of CSO problems, there is still work to finish. The SRF will continue to fund necessary CSO projects as they arise, and it is anticipated that Phase II Rouge River projects, as well as those from the City of Detroit, will seek assistance over the next few years.

The following chart displays the types of projects funded by the SRF. In addition, Michigan has undertaken an initiative to identify sanitary sewer overflows (SSO). The SRF will play a role in addressing solutions to the many SSO problems that are coming to light.

Funding by category FY89-FY03

Advanced Treatment -- 1%

Major Rehabilitation -- 2%

New Collection Sewers -- 6%

Secondary Treatment -- 20%

New Interceptor Sewers --16%

CSO -- 50%

Minor Rehabilitation -- 4%

c. Any unused (unobligated) funding?

SRF--After subtracting an amount needed to service existing loans, fund resources could support between \$105 million and \$324 million in new loan commitments for FY 2004. Since the total amount of projects seeking SRF loans in FY 2004 is estimated at \$231.4 million (amount taken from the PPL), the SRF fundable range is likely to extend through the entire priority list in FY 2004.

SWQIF-- The total amount of projects ready to receive SWQIF loans in FY 2004 is \$1,075,000. With the funds currently available, the SWQIF fundable range will extend through the entire PPL in FY 2004.

d. How many (and how much in \$) proposed projects are turned away for lack of funding?

0

3. Summarize environmental review criteria in state enabling regs

a. What are the specific criteria or standards that projects must meet in order to receive SRF funding? (NEPA-like project reviews are required under Federal statute, but vary widely in what and how they are implemented by states)

Evaluation of Environmental Impacts

Applications must describe the direct, indirect, and cumulative environmental impacts of the selected alternative in detail. All impacts (direct, indirect, and cumulative) need to be assessed for beneficial and adverse effects, short and long-term effects, and ability to reverse the impact (whether it is irretrievable or reversible).

Mitigation of Environmental Impacts

Project plans must detail the structural and non-structural measures which will be undertaken to ensure that the environmental impacts from the selected alternative will not be significantly adverse in the present or future.

Structural mitigation measures relate to the design and construction of the facility. Non-structural measures relate to institutional, governmental or private plans, policies or regulations, or the phasing of the facility construction over the planning period.

b. Is the project review done before or after (rubber-stamp) funding is made?

Public notice of proposed funding is posted for a minimum of 30 days before any money is awarded.

c. What provisions are made for public comment, and for consideration of alternatives to the proposed project? (e.g., decentralized stormwater rather than deep tunnel projects)

Public Comment

The law requires opportunities for documented public input. Informal methods of public involvement may include newspaper articles, notices in billing statements, and mass mailings to affected citizens. The law also encourages other methods of participation during the final project planning stages. A formal public hearing must take place prior to plan adoption.

Alternatives

Project plans must include a thorough analysis of the principal alternatives considered for correcting a community's water quality problem. Systematic evaluation of all potential alternatives to justify the decision to proceed with the selected alternative, and a review of the reasons why all other alternatives were dropped from consideration. In addition to considering conventional transportation and treatment technologies, each SRF applicant must evaluate the "no action" alternative, regional alternatives, and optimal performance of existing facilities. An evaluation of innovative/alternative technologies is not necessary, but is encouraged. You must evaluate and document alternate routings of sewers, interceptors, discharge pipes, etc., and alternate sites for major facilities, to avoid impacting sensitive environments.

The analysis and selection of principal alternatives is based on:

- ⊗ The goals of the project(s)
- ⊗ Wastewater treatment needs (20-year design life)
- ⊗ Technical issues, feasibility and constraints
- ⊗ Discharge permit requirements
- ⊗ A 20-year present worth cost-effectiveness analysis (including capital costs, operation, maintenance, and replacement costs, and salvage value)
- ⊗ Potential environmental impacts
- ⊗ Social acceptance

The Selected Alternative

A project plan must explain the selected alternative in detail including information on the technical, administrative, financial, environmental, and social aspects of the project. The following items need to be included in this section of the plan:

- ⊗ Description of the selected alternative
- ⊗ Cost estimates
- ⊗ Basis of design
- ⊗ Authority to implement the alternative
- ⊗ Approval of the selected plan by the local Regional Planning Commission (208 agency)
- ⊗ Proposed user charges (including operation, maintenance, and replacement, debt service, and any other costs that will be incurred to construct and operate the selected alternative)

- ⊗ A proposed project schedule
- ⊗ Environmental impacts and mitigative measures

d. Are there explicit prohibitions against subsidizing sprawl with SRF funds? (e.g., no funding for sewer line extensions unless there are existing homes already occupied)

The DWSRF does have a very specific prohibition. The SRF does not have any law prohibiting, however, in practice the DEQ will not intentionally fund projects related to sprawl. Their basis for not providing funding is that the point of the SRF program is to garner compliance with the Clean Water Act. If a project is new (sprawl expansion) then there is nothing already existing to bring into compliance. This is unique to Michigan. Projects have been rejected for both the DWSRF and the SRF, but rejecting on the SRF is more difficult.

3. Project priority lists and project scoring systems

a. What is the process (public input or all internal to bureaucracy?) and criteria (these should be formalized in enabling regs) for determining project funding priorities (e.g., how are priorities linked to TMDLs, priority watersheds, etc.)

b. What is the scoring system for determining which projects actually get funded - what type of needs, issues, projects receive higher points (e.g., CSOs)?

Water Quality Severity: Points based on the pollutant load or the receiving water impairment that the proposed project will abate. The project is assessed in five categories (0-100pts each)

1. Dissolved Oxygen
2. Nutrients
3. Toxic Materials
4. Microorganisms
5. Groundwater Discharge

On-Site Septic Systems: 100 points are assigned for projects addressing on site system failures where conditions prevent replacement, necessitating off site remedy.

Septage Receiving: 100 points are assigned if the project includes the construction of septage receiving facilities.

Enforcement: 300 points are assigned if the project is necessary to comply with a construction schedule established by an order, permit, or other document issued by the director or entered as part of an action brought by the state against a municipality.

Population: 30-100 points are based upon the total existing residential population to be served by the project (SRF only)

Dilution Ratio: 25-100 points are based upon the ration derived from the existing flow discharged divided by the expected flow of the receiving waters during the period of discharge.

After funding assistance for the first segment of a project is accepted, remaining segments retain first priority for funding assistance on the next three fiscal year PPLs.

c. Are more points or other preference given for nonstructural wetland and watershed protection efforts that provide broader water quality and other benefits?

One of the MDEQ's major initiatives is the redevelopment of urban brownfield areas in hopes of preventing the continued loss of open farmlands. Whenever an urban project has scored high enough in priority, the SRF has sought to provide financial assistance to improve the water quality of the project area.

MDEQ sought to incorporate watershed sensitivity into project management. Examples are the commitments to Lansing, East Lansing, Grand Ledge, and Grand Rapids for their CSO strategies that reduce pollutant loadings in the Grand River watershed. There is also a continued effort to work with communities in the Rouge River and Lake St. Clair watersheds.

While the SRF has funded substantial projects in outstate Michigan, it has contributed substantial assistance to urban communities such as Lansing, Grand Rapids, Detroit, Wayne County, Saginaw, and communities tributary to Lake St. Clair, to address major needs within each. Of the total SRF loan dollars distributed to date, 55 percent has been awarded to projects with service areas where population is in excess of 100,000.

To date, the numerical distribution of SRF loans is as follows:

Population	
< 3,500	\$101,415,000
3,500 to 9,999	\$137,180,000
10,000 to 99,999	\$619,770,000
> 100,000	\$1,045,155,000
TOTAL LOANS	\$1,903,520,000

5. Does the state provide lower interest or no-interest loans, or grants (partial or full) for certain kinds of projects or communities? What are the criteria?

No. Law requires that interest rates are the same for all waste water and drinking water projects.

6. Can the state fund private entities, such as farmers or NGOs? (e.g., to do streambank restoration)

Only municipalities are eligible for SRF or SWQIF dollars.

However, section 319(h) monies from the Clean Water Act are available to 501(c)3 organizations and local units of government. Approximately \$3.1 million is available from Michigan's Section 319 funds for the 2004 funding cycle (The deadline for the fiscal year 2004 was 1/5/2004). Approximately \$2.9 million must be utilized in Total Maximum Daily Load (TMDL) or 303(d) listed waters, the remaining \$200,000 is available statewide. The main problem with this money is that there is not generally an identified revenue stream to repay loans.

Eligible projects must implement watershed management plans which control nonpoint sources of pollution. Projects may include implementing structural Best Management Practices (BMPs), non-physical BMPs, and information and education activities to eliminate nonpoint source pollution.

7. Are there any innovative program components? (e.g. lower interest rates for stream restoration projects done in conjunction with traditional ww treatment plant improvements)

For 319 money, priority is given to watershed projects that utilize new and innovative methods for non-point source pollution control in urban and urbanizing areas. Highest priority is given to projects that are applying Low Impact Development techniques to retrofit highly urbanized areas.

Below are a variety of urban runoff management activities that could be eligible for Section 319(h) funding:

- ☐ Best management practices for pollution prevention and runoff control (except for BMPs required by a draft or final National Pollutant Discharge Elimination System (NPDES) permit);
- ☐ Technology transfer and training (i.e. a workshop demonstrating new innovative urban storm water BMPs);
- ☐ Development and implementation of regulations, policies, and local ordinances to address storm water runoff. (These may apply to areas covered by NPDES permits, provided that the regulations, policies, and ordinances apply to non-permitted areas as well).

Activities that are or will be required under a permit (including Storm Water Permits), or required in an enforcement order, are NOT eligible for funding under Section 319.

Hardship Assistance Grants

Hardship Assistance Grants covers the planning and design costs incurred for a project for communities who meet federal criteria for hardship. The MDEQ has found it difficult for qualifying communities to rank high enough on the annual SRF PPL to receive a loan. As a result, MDEQ is currently seeking another avenue to expend these funds.

8. Are there any groups - envir, taxpayer, other progressives - "watch-dogging" the SRF process and selected projects?

Clean Water Action attempts to monitor the program, but has no designated staff to officially watchdog. In 2002 when the \$1 billion Clean Water Bond was being developed to generated needed dollars for the SRF, Clean Water Action helped to prevent the money from being a "sprawl for all" package. Once some positive changes were made to the language of the proposal, including a minimum 2% that must be made available to fund non point source projects if applied for, Clean Water Action staff went door-to-door garnering public support for the bond. Staff also served as an active member of the Pro-Bond advisory board.

9. Contact selected communities doing innovative stormwater and wastewater projects (e.g., Madison's rain gardens) and find out if they have tried to apply for SRF, know that they can, found it impossible to get funding, etc.

To date no communities that have received to funding for soft path approaches. However, there is a non-point source water project in Washtenaw county that is moving forward and likely to seek funding in the '05 funding cycle.

10. How does the CWSRF program interact, if at all, with the Drinking Water SRF program, particularly source water protection efforts and funding under the DWSRF?

The SRF, SWQIF and DWSRF follow the same funding schedule and utilizes many of the same state employee staff.

11. What are any other problems and impediments with your states SRF program?

An impediment to funding more soft path approaches is that many of them (rain gardens, retention basins, etc) occur on private property. Because the SRF is limited to funding only municipal projects, many of the projects with some of the best potential are not eligible. However, removing the handcuffs of only funding municipal projects has risks involved. According to DEQ staff, in some states that do not have the restriction CAFO's, etc can pursue funding, taking away valuable resources from communities.

12. How much money did your state choose to set-aside for source water protection (or any non-end-of-the-pipe activity)?

Projects that include an approved wellhead protection plan or a source water protection plan receive an additional 100 points on the project priority list.

FY2004 budget sets aside \$225,000 for source water protection through its Abandoned Well program and its Source Water Assessment program.

To receive DWRP assistance, a project must demonstrate (1) that the project is needed to assure maintenance of, or progress towards, compliance with the federal Safe Drinking Water Act (Section 5405(3)); (2) that the project is not planned primarily to foster growth or development (residential, commercial, or industrial); (3) that the project is not planned primarily for fire protection; and (4) that feasible alternatives to the project were evaluated, taking into consideration the demographic, topographic, hydrologic, and institutional characteristics of the area.

Land Acquisition/Easements/Relocation Costs, Etc.

The purchase cost of land is eligible on the condition that:

- The purchase of land or easement is necessary for siting the eligible waterworks system; and
- The purchase is from a willing seller at fair market value; and
- The parcel is not larger than what is needed to construct the project; and
- The land or easement must be purchased after the water supplier adopted the project plan demonstrating the need for its acquisition.

Other land-related costs may be eligible, e.g., costs of surveys, appraisals, title searches, litigation, or relocation of displaced persons. Under no circumstances will the DWRP provide assistance to cover the cost of land acquired through condemnation or eminent domain. Federal regulations must be followed during the acquisition process. Consult your DEQ project manager for further details.

MINNESOTA

Clean Water State Revolving Fund (SRF) Program

*(Prepared by Nina Axelson, Minnesota Center for Environmental Advocacy
May, 2004)*

Particulars of the Minnesota Program

The Minnesota program operates as the Water Pollution Control Revolving Fund (WPCRF) or the State Revolving Fund (SRF). This research will refer to the program as SRF.

SRF receives federal capitalization grants and state matching funds to provide low-interest loans or grants for point source (wastewater) and non-point source water pollution control projects. A portion of the funds are provided to local units of government for planning, design, and construction of wastewater and storm water treatment projects. The program also operates through a variety of smaller initiatives including nonpoint source programs such as the Clean Water Partnership Loan Program (CWPLP), the Agriculture Best Management Practices Loan Program (ABMPLP), and the Tourism Loan Program (TLP).

The Minnesota Public Facilities Authority (PFA) is responsible for managing the Fund and its assets. The PFA is a part of the Minnesota Department of Trade and Economic Development. The PFA duties include reviewing loan applications, setting the rates, terms and conditions of the loans, and selling revenue bonds to generate additional loan funds. The Minnesota Pollution Control Agency (MPCA) is responsible for preparing the annual list of potential loan recipients, also referred to as the Intended Use Plan (IUP). MPCA also reviews and monitors projects for administrative and technical standards. Additionally, MPCA scores and ranks proposed projects to create the Project Priority List. The SRF is also managed by a board of six state commissioners from the departments of Employment and Economic Development (DEED), Health, Finance, Agriculture, Transportation and the MPCA.

- ✧ PFA
- ✧ MPCA
- ✧ DEED
- ✧ Health
- ✧ Finance
- ✧ Agriculture
- ✧ Transportation

The Minnesota Legislature established the SRF under Minnesota Statutes Section 446A.07. This statute was amended in 2002 (Minnesota Laws 2002,) Chapter 393, Article 1, Section 64. to authorize MPCA to create the IUP. The IUP is also initiated in Minnesota Rules 7077.0278. The PPL was established by MPCA in Minnesota Rules parts 7077.0115 to 7077.0197.

Statutory References

Statutes

Chapter 446A

Minnesota Rules

Chapter 7077

Contact Info

Bill Priebe
Minnesota Pollution Control Agency, Water Quality Division
(651) 282 - 9884

- Starting the loan process
- PPL
- IUP
- Technical project requirements
- Administrative project requirements

Terry Kuhlman
Public Facilities Authority
(612) 296-4704

- Interest rates
- Loan conditions
- Financial capability

Key Website URLs

State Revolving Fund Program Pages	URL Links
Water Pollution Control Revolving Fund	http://www.pca.state.mn.us/water/revolving_fund.html
SRF Program Milestones & Statistics	http://www.epa.gov/region5/water/stpb/pdf/0cwsrfmn.pdf
Clean Water Partnership Loansthrough the State Revolving Fund	http://www.pca.state.mn.us/water/pubs/cwploanfs.pdf
Minnesota Waters	http://www.cwn.org/docs/publications/factsheets/states/mn.pdf
SRF Allotments	http://www.epa.gov/owmitnet/cwfinance/cwsrf/cwsrfallots.pdf
Minnesota Rules	http://www.revisor.leg.state.mn.us/arule/7077/
Minnesota Statutes	http://www.revisor.leg.state.mn.us/cgi-bin/getstatchap.pl
Intended Use Plan	http://www.dted.state.mn.us/PDFs/iup2004wp.pdf
Project Priority List	http://www.pca.state.mn.us/water/wpcrf-psource.html
Clean Water Partnership Program	http://www.pca.state.mn.us/publications/wq-cwp1-09.pdf
Environmental Review	http://www.pca.state.mn.us/programs/envr_p.html

Deadlines for Funding Applications

Intended Use Plan

The State's Objectives for funding and clean water goals are as follows:

A. Environmental goals

1. To utilize the Fund so that the State employs a balanced approach to improving Minnesota's waters by financing both point source and nonpoint source projects.

B. Financial goals

1. To make funds available to as many high-priority projects as possible while maintaining a sustainable funding level.

2. To administer the fund so that it's revolving nature is assured in perpetuity.

C. Program goals

1. To apply a variety of delivery mechanisms to best reach and serve different types of clientele.

Funding by Project

Uses	FY 2002	FY 2003	FY 2004(Expected)
Point Source (Wastewater loans)	126,141,458	175,099,841	210,000,000
Agriculture Best Management Practices	1,000,000	1,000,000	2,000,000
Clean Water Partnership (MPCA)	3,000,000	1,000,000	2,000,000
Tourism Loan Program (DTED)			
Small Cities ISTS Program (DTED)			
Nonpoint Source Subtotal	4,000,000	2,000,000	4,000,000
Available Balance	(7,500,434)	(37,075,093)	7,323,732
Total	122,641,024	140,024,748	221,323,732

Funding Discrepancies:

Projects have primarily been turned away because of failure to meet the criteria and not for lack of funding. The fund has sufficient capacity to meet demand by using additional available funds or through additional bonding. There tend to be unobligated funds as a result of misfiled grant applications or failure to obtain necessary permits for projects. Some projects may also be delayed as a result of environmental concerns, public controversy, or a municipality's desire to seek other sources of funding.

Environmental Review Criteria

Projects considered for SRF must meet several expectations before receiving funding. The first step is submitting a facility plan requirement. Although this focuses primarily on evaluating the current system, it requires site assessment of the existing soil and ground water conditions. This is followed by a comparison of the potential environmental impacts of each alternative for the system. An analysis of flood elevations must also be done to ensure ecosystem stability. Along with the facilities plan the municipality is required to complete an environmental information sheet. The environmental review process operates according to the rules of the Environmental Quality Board (EQB), but is carried out by a local government unit or a state agency, which is termed the "responsible governmental unit" or RGU. This is required for wastewater treatment plants and major sewer extensions. The project reviews are completed before grants are approved.

The environmental information sheet required by MPCA is an extensive form which asks project planners to consider the following:

- ✘ Identify fish and wildlife resources and habitats on or near the site and how they would be affected by the project.
- ✘ Physical impacts on water resources
- ✘ Water related land use management districts
- ✘ Water surface use

- ☒ Land Use
- ☒ Cover Types
- ☒ Erosion & Sedimentation
- ☒ Wastewater
- ☒ Solid wastes, hazardous wastes, storage tanks

Public Comments

Once an environmental review is completed, the public has a 30 -day public comment period. After people review proposed projects' potential environmental impacts, they can pursue further inquiry of significant or overlooked issues.

Limits to Sprawl

The SRF may not be used only to serve the growth of a community. Funded projects should address needs related to growth, but can not be solely for this purpose.

Project Priority Lists & Scoring Systems.

The MPCA commissioner develops and maintains the project priority list of projects for municipalities. A project on the priority list must be assigned points according to Minnesota Rules 7077.0115.

The process for project priority lists and scoring systems are created with some input from the public. The rules for the project priority lists go through a process which is open to public input. Additionally, the IUP is made public each year before it is finalized.

The following is a breakdown of the scoring system used for determining which projects are funded. Points are evaluated in these three categories; NPDES, SDS, or unsewered. Points are further impacted by use factor, impact factor, condition factor, extra points, and penalty factor. The more points a project receive, the higher its placement on the PPL and the higher its likelihood of loan or grant funds.

Total Points per Category = [(use factor x impact factor x condition factor) + Extra points] x penalty factor

Use Factor

Water Use Classification	
2A	100
1	85
2Bd	85
2B	75
2C	50
7	10
Drinking Water	40
Outstanding Resource Value Waters	40
Canoe & Boating Route	40
Effluent Limits	
a. One or more toxic pollutants, excluding residual chlorine	25
b. Phosphorus	17
c. Carbonaceous Biochemical oxygendemand	50

IMPACT FACTOR FOR WASTEWATER TREATMENT SYSTEMS WITH AN NPDES PERMIT 7077.0169
Impact factor point values range from 1 to 5, based on receiving water dilution ratios for projects with existing NPDES permits or based on housing densities for unsewered areas.

Dilution Ratio Impact Factor	
1 or less	5
between 1 and 10	$(49 - (4 \times \text{Dilution Ratio})) / 9$
10 or more	1

CONDITION FACTOR FOR WASTEWATER TREATMENT SYSTEMS WITH AN NPDES PERMIT.
7077.0173

Factor of 1.25 only for NPDES permittees that discharge into a body of water identified as impaired. The CF is usually 1.0.

Extra Points

NPDES Extra Points

Eliminate discharge to wetland or 2A water	200
Correct pond leakage	50
Multi-municipal cooperation	50
Planning efforts	75
Sewer moratorium	10

SDS Extra Points (may add any NPDES extra points except eliminate discharge)

WW treatment component failure	200
Seepage correction	100
Nitrate problems & treatment	200
Geological sensitive area	25

Unsewered Extra Points

Eliminate raw sewage discharge	300
Well code infringement	150
Failed systems	150
Seepage problems	150
Nondomestic ww elimination	Points unlimited
Surface water infringements	100
Sewer connection to existing WWTF	150
Nitrate removal	150
Multi-municipal cooperation	50
Planning efforts	75
Sewer moratorium	10
Geologically Sensitive Areas	25

PENALTY FACTOR FOR WASTEWATER TREATMENT SYSTEMS WITH AN NPDES PERMIT.
7077.0176

The total points for a project, calculated according to part 7077.0167 shall be reduced by 30 percent if the proj-

ect:

- A. includes a new or expanded discharge to an outstanding resource value water; or
- B. includes a new or expanded discharge to a stream with a water use classification of 2A, a lake, or a wetland, and that new or expanded discharge consists of more than 200,000 gallons per day based on the design average wet weather flow for the wettest 30-day period.

There are specific penalties to wetland degradation outline in 7077.0176. There are also extra points available if a waste water project is coordinated into a larger water protection program.

Lower Rates or Grants

Communities with the highest priority or highest financial need per household will receive the first available grants from the fund. Interest rates are set on a sliding scale to create an equitable system for the financial variances among communities. These rates are set by the PFA on a quarterly basis, approximately 1% below a municipal bond market index. Borrowers may be eligible for an additional 3.5% based on household income, poverty rate, population, and the level of sewer service charges.

Private Entities

The state non-point source funds are available to landowners. Waste water funds are intended for public entities such as cities or counties.

Innovative Program Components

The Tourism Loan Program is an innovative program for Minnesota because the state's water resources play such a large part of the tourism industry. Although other programs contribute to overall water quality, this program addresses the needs of tourism related businesses to optimize their septic systems. Many of these businesses are located on properties bordering or near water and outdated systems pose a threat to the local economy as well as the environment.

Watchdogs

Although there are no progressive groups "watchdogging" the SRF, there are various groups who monitor the actions of SRF to ensure the appropriate and optimal use of the funds. Currently, the Utility Contractors Unions, the League of Cities, and the Association of Minnesota Counties watch over the SRF and their selected projects.

Community Contact

Spoke with Craig Mell (651-674-2333) of the Soil and Water Conservation Board for Chisago County. He says that Chisago County has been using SRF since approximately 1997. They are usually non-point sources for private landowners. Currently they have a farmer who is working on an agriculture waste structure with a \$44,000 SRF loan. In the last year they have also had two farmers receive loans for no-till planters. Overall, he says the county seeks SRF about four or five times a year. There have been a few projects that were rejected for funds because the landowner's income was too high and some projects were accepted for funding but withdrew from farming before using the loan.

Spoke with Mike Roth (218 387-1848) who is the clerk/treasurer for the city of Grand Marais on the North Shore. They have used SRF twice. Once in 1999 when they received loans to create a reservoir. And they currently are using SRF funds to replace aging water mains. They don't generally work with private individuals on projects, mainly because the city is on a public septic system. He was not familiar with the Tourism Loan Program, although he said they may share that information with the chamber of commerce.

Spoke with Sarah Clark (651 290-0002) who is the grant writer for the Lower Phalen Creek Project which is partnered with the East Side Neighborhood organization in St. Paul. This is a non-profit organization working on rain gardens and other methods of storm water remediation and wetland restoration. They have very innovative projects that are lacking in funds but have never heard of the SRF program. Sarah was unsure if their projects would qualify but was interested in contacting MPCA to investigate the possibilities.

Drinking Water SRF Program

Both programs are administered by the same staff, although funds and procedure are specific to each loan program.

Problems or Impediments

The current system for prioritizing projects has been deemed insufficient. A new protocol was brought to the state legislature in 2003 and is currently a work in progress.

NEW YORK

CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM

*(Prepared by Dereth Glance, Citizens Campaign for the Environment
May 2004; dglance@citizenscampaign.org or phone (315) 472-1339)*

Summarize the Particulars of the State Program

State program name

Clean Water State Revolving Fund (CWSRF)

The CWSRF is administered jointly by the Environmental Facilities Corporation (EFC) and the New York State Department of Environmental Conservation (DEC). The CWSRF provides low interest loans to municipalities to construct water quality protection projects. Not for profit organizations can be eligible to receive CWSRF financing for land acquisition plans, which would protect water quality. Eligible projects for CWSRF funding include: point source, non point source, certain habitat restoration and projection projects, and national estuary protection programs.

Contact

Robert Davis, P.E.

Director

Program Management Division

New York State Environmental Facilities Corporation

625 Broadway

Albany, NY 12207-2997

Tel. (800) 882-9721 (inside New York only) (518) 402-7433

Fax (518) 402-7456

Questions can be emailed to srf@efc.org

Website: www.nyefc.org

Funding Application Guidelines

October 1, 2003	Final IUP effective date
October 1, 2003	Winter Pool Application Due
March 1, 2003	Summer Pool Application Due
March 2004	Winter Pool Closing
May 3, 2004	Hardship Application due for FFY 05 consideration
May 3, 2004	Long and Short Term Financing application due
July 2004	Summer Pool Closing

Public Notice and comment requirements

A public meeting was held on July 22, 2003 in Albany to review draft CWSRF IUP FFY 2004. Public comment period was open 31 days, from July 22, 2003 to August 15, 2003. The public was notified through notices published in the Environmental Notice Bulletin (ENB) and State Register. Several hundred interested parties were notified directly via postal service.

Statutory References

- ⊠ Federal Water Quality Act 1987 (PL 110-4), Section 606 (c) Clean Water Act
- ⊠ Chapter 565 of Laws of New York State 1989, as amended
- ⊠ State CWSRF regulations: 6 NYCRR 649 and 21 NYCRR 2602
- ⊠ US EPA SRFR: 40 CFR 35 Subpart K of March 1990
- ⊠ EPA project priority list guidance

1. Summarize your state's Intended Use Plan (IUP) for projects to be funded with CWSRF funds.

a. State's objectives for funding and clean water goals as stated in IUP

Goals of CWSRF: Encourage point source, non point source, and estuary projects to protect, maintain, or improve water quality in priority order through the incentive of low interest rate financial assistance. (CWSRF IUP, 12.0)

b. Funding by project type for last three years

c. Any unused (unobligated) funding

d. How many (and how much in \$) proposed projects are turned away for lack of funding?

2. Summarize environmental review criteria in state enabling regs

a. what specific criteria or standards that projects must meet in order to receive SRF funding?

In order for engineering reports or land acquisition plans to be eligible for CWSRF financing, the report or plan must have been reviewed by the State Environmental Quality Review (SEQR) process and State Environmental Review Process (SERP). Non-profits must submit an Environmental Assessment Form or Final Environmental Impact Statement (FEIS) to initiate SEQR process.

b. Is project review done before or after (rubber stamp) funding is made?

Project review is done before funding decision is made, specific review requirements for municipalities and not for profits follow.

⊠Not for Profit (land acquisition only) need part one completed of the Environmental Assessment Form (EAF) as well as any EIS, Project Form, and findings statements.

⊠Municipalities must have either the EAF completed in full and a negative declaration or FEIS and findings statements.

c. What provisions are made for public comment, and for consideration of alternatives to proposed projects?

The public comment opportunities are the same as outlined in Question 1. Requests to consider alternatives to proposed projects were not documented during public comment period. The CWSRF does have limited funding for innovative projects.

d. Are there explicit prohibitions against subsidizing sprawl with SRF funds?

There is no explicit prohibition against subsidizing sprawl with CWSRF in the IUP.

3. Project priority lists and project scoring systems

a. What is the process (public or internal bureaucratic decision) and the criteria (formalized in enabling regs) for determining project funding priorities.

The process for determining project funding priorities is open to public review and comment. The project scoring criteria follows.

- A. The existing conditions which cause or caused the problem
- B. The value of the resources to be protected and/or improved, the need for improvement, and the probable results of the proposed project.
- C. Intergovernmental needs
- D. Financial need in terms of a comparison of project cost to the population and median household income of the service area that will pay for the project.

The total numerical score for the project or project segment being scored is the sum of scores for criteria A, B, C, and D.

b. What is the scoring system for determining which projects actually get funded-what type of needs, issues, project receive higher points.

Under existing conditions, continuous raw wastewater discharge, identified as an EPA or DEC enforcement action gets 100 points. Documented groundwater degradation receives 50 points. Intermittent or partially treated wastewater discharge impacting impaired, threatened, or stressed NYS waters receive between 50-10 points. Water Quality Improvement Criterion (WQIC) gives points to most severe and important projects using the following equation.

$$WQIC = (CPF \times IF \times PIF) / 5$$

Classification Point Factor (CPF): state assigned classification of receiving waters at discharge point and affected downstream surface water. Waters are ranked favoring Specially protected high quality drinking water and shellfish waters and giving least amount of priority to waterbodies which are impaired other than water (i.e. sludge disposal, odor etc.)

Impairment Factor (IF): CPF is modified dependent upon severity of impairment. Priority is given to precluded waters (a use is not possible i.e. swimming is banned) with least amount of priority given to the threat of impairment.

Potential Improvement Factor (PIF): The potential improvement of water quality will be rated on how much impairment will be reduced as a result of potential actions. Priority given to projects reducing the impairment

of water body by three levels (to precluded to none), two levels (precluded to stressed), on level (precluded to impaired), and the least amount of priority is given to no reduction in impairment level.

Intergovernmental Need Criterion Extra priority assigned based on government needs, requirements, or mandates. Points awarded to projects that are consistent with NYS nonpoint management plan, in an approved watershed plan, or county water quality strategy, as well as to projects already partially funded and under construction. Abatement of wastewater pollution due to enforcement action is given highest priority.

Financial Impact Criterion complete equation based on $(\text{Total Cost}/\text{Total Population}/\text{Median Household Income}) \times 100$

c. are more points or other preference given for nonstructural wetland and watershed protection efforts that provide broader water quality and other benefits?

While these types of projects are eligible they do not receive priority scoring.

4. Does the state provide lower interest or no-interest loans, or grants (partial or full) for certain kinds of projects or communities? What are the criteria?

Yes, Reduced Interest Rate Financing is available for projects servicing residential hardship areas. Specific details can be found in the EFC Financial Hardship Policy.

For EFC to determine financial hardship qualifications the project priority score must be within a fundable range and the municipality must submit Financial Hardship Application Form for EFC review. The application form asks for debt service, project debt service, outside revenue, and systems O & M cost information. Financial hardship is determined by comparing Projected Service Charge (PSC) to Target Service Charge (TSC) per Equivalent Dwelling Unit (EDU)

5. Can the state fund private entities such as farmer and NGO's?

Yes, NGO's are eligible to be funded under Land Acquisition Plans only.

6. Are there any innovative program components?

Yes, \$3 million loans are available for innovative projects. Past demonstration loans have funded constructing a wetland to deal with wastewater, constructing a system to collect and treat propylene glycol-contaminated runoff from de-icing operations. One interest free loan of \$3 million is available in FFY04.

7. Are there any group-enviro, taxpayer, other progressives "watchdogging" the SRF process and selected projects?

There might be on particular projects that a group may be following, however there seems to be no general "watch dogging" group monitoring CWSRF process.

8. Contact selected communities doing innovative storm water and wastewater projects and find out if they have tried to apply for SRF funding, know that they can, found it impossible to get funding etc.

I was unable to research and answer this question at this time.

9. How does the CWSRF program interact, if at all, with the Drinking Water SRF program, particularly source water protection efforts and funding under DWSRF?

Both are administered by the Environmental Facilities Corporation. However, the DWSRF is jointly administered by DOH and EFC and CWSRF is jointly administered by DEC and EFC. If a drinking water quality water body or ground water aquifer is impaired by wastewater discharge, the CWSRF would finance the project. (I have not read the DWSRF policy in detail so this answer may not be complete)

OHIO

Clean Water State Revolving Fund (SRF) Program

*(Prepared by Jerry Wager, Ohio Environmental Council
May 2004)*

1. Summarize the particulars of state program, such as state program name, contact info, key website urls, deadlines for funding applications, public notice and comment requirements, etc.

The Water Pollution Control Loan Fund (WPCLF) is Ohio's Clean Water Act State Revolving Fund program and was created by the Ohio legislature in 1989 under the 1987 amendments to the Clean Water Act (CWA). Section 603(c) of the CWA states:

"PROJECTS ELIGIBLE FOR ASSISTANCE.- The amounts of funds available to each State water pollution control revolving fund shall be used only for providing financial assistance (1) to an municipality, interstate, or State agency for construction of publicly owned treatment works (as defined in section 212 of this Act), (2) for the implementation of a management program established under section 319 of this Act, and (3) for development and implementation of a conservation and management plan under section 320 of this Act."

Accordingly, the Ohio Revised Code (ORC) 6111.036(A) creates the water pollution control loan fund to provide financial assistance for the following purposes: (1) Construction of publicly owned wastewater treatment works, and (2) Implementation of nonpoint source management programs under section 319 of that act." Further, the ORC states in Division Q: The Director may provide financial assistance for the implementation of a nonpoint source management program activity only after determining all of the following:

- (1) The activity is consistent with the State's nonpoint source management program;
- (2) The applicant has the legal, institutional, managerial, and financial capability to implement, operate and maintain the activity;
- (3) The cost of the activity is reasonable considering monetary and nonmonetary factors;
- (4) Based on the environmental review conducted by the Director under division (L) of this section, the activity will not result in significant adverse environmental impacts;
- (5) The application meets the requirements of this section and rules adopted under division (O) of this section and is consistent with the intent of Title VI of the "Federal Water Pollution Control Act" and regulations adopted under it;
- (6) The applicant will implement a financial management plan, including, without limitation, provisions for satisfactory repayment of the financial assistance;
- (7) The application meets such other requirements as the Director considers necessary or appropriate to protect the environment and ensure the financial integrity of the fund while implementing this section.

Ohio's WPCLF contains five basic programs:

- (1) Traditional loan program for publicly owned wastewater treatment projects;
- (2) Septage Handling Discount to encourage municipalities to construct septage receiving facilities at their wastewater treatment plants to offset the imposition of regulations
- (3) Linked Deposit Program which provides loans through local lending institutions directly to private land

owners for agricultural BMPs and home septic systems

(4) Water Resource Restoration Sponsor Program (WRRSP), which provides funds at no additional cost for stream and wetland habitat protection or restoration as a part of larger loans to municipalities, et.al.

(5) Hardship

The WPCLF offers a variety of financing options at below-market interest rates including long-term loans (up to 20 years) at the standard below market interest rate, short term loans (up to five years) at a reduced rate for small construction projects, loans for planning and design, and 1 percent or interest-free loans for communities of high economic need. In addition, the WPCLF offers interest rate discounts for special activities such as municipal compliance maintenance, water conservation, and construction of non-conventional technologies. DEFA staff members provide planning, design, environmental sciences, civil and environmental engineering, local financing, and administration assistance.

The Linked Deposit Program finances largely nonpoint best management practices installed by private organizations and individuals. Instead of borrowing directly from the WPCLF, a linked deposit loan is made to the applicant by a private lending institution. The below-market interest rate for the loan is supported by a WPCLF-funded certificate of deposit with the lender. The Ohio WPCLF was the first state program in the nation to use linked deposits. First used in 1993 in the Killbuck Creek watershed for agricultural practices, Ohio EPA has expanded linked deposits to a wider variety of projects, including up-grade of failed on-lot wastewater treatment systems, urban stormwater runoff control, forestry and land development best management practices.

The WPCLF Water Resource Restoration Sponsor Program (WRRSP) addresses a broader category of water resource needs in Ohio by providing funds, through WPCLF loans, to finance planning and implementation of projects that protect or restore water resources, ensuring either maintenance or attainment of designated aquatic life uses under Ohio Water Quality Standards. Restoration activities undertaken through the WRRSP may focus on biological issues including preservation and protection of endangered habitats and intensive repair of impaired habitats. Funds for WRRSP projects come from rebating a portion of the estimated amount of interest of a sponsoring project's loan, based upon the initial principal amount, the term of the loan and the interest rate. A total of \$15 million is proposed for WRRSP projects during 2004. WRRSP projects are selected based on the priority ranking of the WRRSP project on the project priority list and the readiness of project sponsors to enter into loan agreements.

Program contacts include:

WPCLF: Bob Monsarratt
614-644-3655

bob.monsarrat@epa.state.oh.us

DWSRF: Stacy Barna
614-644-2752

stacy.barna@epa.state.oh.us

The only program deadline is for the WRRSP which varies each year between October and November. OEPA plans to move up the request for project nominations earlier in the year, but no decision as been finalized as yet. OEPA's Project Management Plan (Intended Use Plan) is mailed out to 1200 entities the end of November and also placed on the agency's website for a 30 day review, after which a public meeting is held the end of December.

Information Sources:

Division of Environmental and Financial Assistance www.epa.state.oh.us/defa.html

Water Pollution Control Loan Fund www.epa.state.oh.us/defa/wpclf.html

Linked Deposit Program www.epa.state.oh.us/defa/linked_deposit.html

Water Resource Restoration Sponsor Program www.epa.state.oh.us/defa/wrrsp_faq.html

Ohio Source Water Assessment & Protection Program www.epa.state.oh.us/ddagw/pdu/swap.html

2. Summarize your state's Intended Use Plan for projects to be funded with CWSRF funds (IUPs must be developed annually and filed with USEPA)

a. State's objectives for funding and clean water goals as stated in the IUP

Short term Goals include:

- ☒ supporting the results of approved TMDLs and watershed plans,
- ☒ facilitating the development of sustainable programs by small communities,
- ☒ increasing coordination with wastewater programs of the Appalachian Regional Commission, and
- ☒ assisting in developing and implementing innovative and nontraditional projects which benefit water quality resources.

Long term goals include:

- ☒ fulfilling objectives of the Clean Water Act,
- ☒ supporting the goal of 80% of watershed sites and 80% of miles of Ohio's largest rivers attaining their aquatic life designations within Ohio Water Quality Standards by 2010,
- ☒ managing and administering the fund and evaluating results of projects to enable the program to enhance water resources.

The 2005 Intended Use Plan for Drinking Water Fund includes the following goals:

- ☒ target systems serving less than 10,000 with technical assistance
- ☒ provide financial assistance for source water assessments
- ☒ increase assistance to disadvantaged community systems
- ☒ fund expansions or construction of new public water supply facilities to address areas of contamination of private water systems
- ☒ encourage consolidation and/or regionalization of public water supply systems

b. Funding by project type (e.g. sewers; CSO repair; ww treatment upgrades; nonpoint, stormwater mitigation (for past three years))

The Water Pollution Control Loan Fund (WPCLF) provides financial and technical assistance for a wide variety of actions to protect or improve the quality of Ohio's rivers, streams, lakes, and other water resources. The Fund offers assistance opportunities for both public and private entities. WPCLF Assistance is available for:

- ☒ qualifying wastewater treatment works projects (including planning, design, and construction) which will be owned by public entities, including wastewater treatment plant improvements/expansion
- ☒ new/replacement sewers
- ☒ excess sewer infiltration/inflow correction
- ☒ facilities for unsewered areas
- ☒ combined sewer overflow correction
- ☒ storm sewers
- ☒ activities which reduce or avoid nonpoint source water pollution, such as agriculture / silviculture improvements and best management practices
- ☒ wellhead protection
- ☒ landfill closure
- ☒ stream corridor restoration / protection
- ☒ hazardous waste clean-up (brownfields)
- ☒ stream corridor habitat protection and restoration

In Ohio, the WPCLF had been used exclusively for municipal point source projects from 1989 - 1993. In 1993, the WPCLF made its first financial assistance award (loan) for a nonpoint source project (in the Killbuck Creek watershed). Since that time, the WPCLF financial assistance provided for NPS projects has grown, both the amount of assistance provided and in the types of NPS projects receiving assistance. In 2000, Ohio EPA added a new feature called the Water Resource Restoration Sponsor Program (WRRSP), which dramatically increased both the amount of funding for NPS projects, and the effectiveness of actual restoration of impaired stream segments. Below are tables illustrating the WPCLF activity for NPS projects (since inception and more recently from January 2000 through September 2003). As these tables indicate, NPS funded activities have increased over the past few years.

NPS Type	Number of Loans	Total \$ Amount
Agricultural	780	\$24,643,496
Brownfield Remediation	18	\$13,626,378
Consv. Easem./Acquisition.	5	\$1,391,900
Landfill Closure	15	\$30,183,507
On-lot Upgrade*	27	\$180,760
Rural Hardship Match	6	\$367,883
WRRSP	24	\$34,595,800
Total	875	\$104,989,725

Recent WPCLF NPS Funding by Project Type

(Jan. 2000 through September 2003)

NPS Type	Number of Loans	Total \$ Amount
Agricultural	620	\$19,371,631
Brownfield Remediation	3	\$3,709,601
On-Lot Upgrade	11	\$73,050
WRRSP	24	\$34,595,800
Total	658	\$57,750,082

* Numbers do not include lateral connections to existing sewers (14/\$173,031)

c. Any unused (unobligated) funding?

OEPA, working through the Ohio Water Development Authority, just issued over \$500 million in bonds to provide additional lending capacity. To date, no funds have been unobligated, nor have there been insufficient loan monies to satisfy demands.

d. How many (and how much in \$) proposed projects are turned away for lack of funding?

None. However, there is more demand than funds for WRRSP, which currently provides between \$10-20 million grants annually.

3. Summarize environmental review criteria in state enabling regs

a. What are the specific criteria or standards that projects must meet in order to receive SRF funding? (NEPA-like project reviews are required under Federal statute, but vary widely in what and how they are implemented by states)

The Program Management Plan is sent out for a 30 day review in late November to approximately 1200 entities, primarily entities that would utilize the program such as municipalities. A public meeting to discuss the plan and receive comments is held in December. There are few attendees and/or comments. Environmental review is handled as part of wastewater facility planning where alternative course of action are required to be analyzed consistent with 40 CFR Part 6 rules. DEFA staff provide environmental reviews of plans, doing either environmental assessments which are sent out for a 30 day public review or limited environmental reviews, which are sent out for public notice. About half the projects financed meet the criteria for a limited environmental review and so have such a review done. Facilities plans are approved as an action of the Director of Ohio EPA.. Subsequent applications for WPCLF loans are approved routinely thereafter. For non-wastewater projects, such as nonpoint BMPs, DEFA staff. Reviews plans to determine that the projects are reasonable in cost, environmentally sound, and effective. An environmental review of these projects, similar to the environmental review done for municipal wastewater treatment projects, is done by DEFA staff. Construction inspections are also performed by OEPA and environmental problems dealt with at that level. Of the 50-60 projects under construction annually, only 1-2 present problems, usually as a result of poor construction practices or the lack of sufficient mitigation.

b. Is the project review done before or after (rubber-stamp) funding is made?

See above.

c. What provisions are made for public comment, and for consideration of alternatives to the proposed project? (e.g., decentralized stormwater rather than deep tunnel projects)

Stormwater planning is eligible for funding; and it is presumed that alternatives would be developed and debated during the preparation of these plans. Once adopted, there would likely be little additional review of individual projects.

d. Are there explicit prohibitions against subsidizing sprawl with SRF funds? (e.g., no funding for sewer line extensions unless there are existing homes already occupied)

There are no explicit prohibitions, however, most funded projects are for the replacement of existing wastewater facilities or upgrade of existing wastewater facilities in response to compliance orders. Many cities have already built in excess capacity, but in some cases WPCLF funds may indirectly stimulate growth, which is an issue OEPA addresses through the facilities plan and environmental review processes.

4. Project priority lists and project scoring systems

a) What is the process (public input or all internal to bureaucracy?) and criteria (these should be formalized in enabling regs) for determining project funding priorities (e.g., how are priorities linked to TMDLs, priority watersheds, etc.)

OEPA developed an integrated priority ranking system for the WPCLF with a grant from U.S. EPA. This was developed in conjunction with development of a business plan for the program. Public advisory groups were formed to provide input on both the business plan and the priority ranking system. This system is water quality-based, ranking both point and nonpoint source projects based on public health, the aquatic life use designation of benefited waters, the restorability of those waters, and the effectiveness of projects in addressing sources of impairments or threats. With the exception of the WRRSP, which is intended to solely address habitat issues, projects which addresses public health concerns rank highest, followed by projects that benefit the best water

resources, highest degree of restorability and maximum effectiveness. No preference is given to particular types of projects or specific water quality issues.

The state's Project Priority System (PPS) is based on water quality data from the agency's 305 (b) reports, integrating both point and nonpoint impacts on the state's water bodies. Priorities are determined within the agency and included within the Program Management Plan. They are reviewed at public meeting once a year. The only program specifically linked to TMDLs currently is the WRRSP. Fifty percent (50%) of the annual WRRSP funding - \$7.5 million in 2004 was reserved to implement approved watershed plans and TMDLs.

Specifically, the PPS is composed of the Integrated Priority System (IPS), which numerically rates each project on the basis of its estimated relative direct contribution to protecting public health or improving water resources, and the Economic Need Factor (ENF), which assigns four points to a publicly-owned treatment works (POTW) project from an applicant which qualifies for the hardship interest rate. Those receiving scores greater than zero are considered priority projects; those which receive zero points, while providing facilities that optimize or improve wastewater treatment or address a nonpoint source of pollution, have not been shown to address a potential public health problem, measurably improve or protect the quality of water resources, or provide assistance to a hardship entity.

Integrated Priority System

A joint effort between OEPA divisions of Environmental and Financial Assistance and Surface Water resulted in a system used to rank, on a single priority list, actions addressing both point and nonpoint sources of impacts on water resources. This system is called the Integrated Priority System (IPS) and is used to prioritize projects on the 2004 WPCLF project priority list. The IPS rates a project by considering: 1) the potential uses of the water resources benefitting from the project; 2) the restorability of the water resources to their potential uses or the protection of existing uses; and 3) the effectiveness of the project in addressing identified sources of impairment or threat.

The highest category of priority is placed on the protection of human health; the second category of priority is placed on the protection or restoration of water resources, including: 1) aquatic life uses of surface water resources; 2) ecological integrity of wetlands; or, 3) quality of ground water resources for human use. The different IPS categories are described below.

Human Health

Within the Human Health category, there are two levels of priority, the top level being those cases where there is a confirmed disease outbreak, the second level being those cases where a risk is posed to human health. Beyond differentiating between disease outbreaks and risks to human health, it is difficult to establish distinctions as to the degree of human health risk posed by different sources of pollution. Consequently, actions are rated as either: 1) First Priority - addressing a documented disease outbreak (40 points), 2) Second Priority - addressing a documented human health threat (35 points), or 3) No priority - addressing neither a documented disease outbreak nor a documented human health threat (0 points).

Water Resources Protection and Restoration

Actions addressing Water Resources constitute the second major category of the ranking system. Within this category actions are ranked relating to protecting and restoring: i) Rivers and Streams, Inland Lakes, and Lake Erie; ii) Wetlands; and iii) Ground Water.

Projects affecting Rivers and Streams, Inland Lakes, and Lake Erie are ranked on the aquatic life use of affected resources. Actions affecting Wetlands are ranked using a system which considers wetland quality and function, while those affecting ground water consider the impact on human use. While each of the 3 major water

resource categories has its own system for assigning rank, each produce scores ranging from 0 to 30 points. After they are scored, projects affecting these resources form a second level of priority below actions addressing human health. In those cases where a proposed project receives scores in more than one category, the highest single category score is used to rate it. The rating systems for the 3 water resource types are described below.

☒ Rivers, Streams, Inland Lakes, and Lake Erie. This portion of the IPS focuses on aquatic life and how actions can protect or restore water resources to achieve full attainment of the potential aquatic life use designation. The aquatic life use-based priority rating system was developed consisting of three factors: 1) Importance of Resource, 2) Restoration Potential and 3) Effectiveness of Action. In general, those resources that have the potential to support a high diversity of aquatic organisms will rate higher than those resources that support only pollution-tolerant organisms. For watershed projects, all of the water body segments in the watershed are rated, and their scores divided by the total number of segments in the watershed to get an average watershed score for Importance of Resource. The Restoration Potential factor uses different sets of criteria for: 1) rivers, streams and watersheds; 2) inland lakes; and 3) Lake Erie. However, the point scale used for scoring this factor (0-8 points) is the same for all water bodies. For rivers, streams, and watersheds the ultimate aquatic life use restorability factor described in the Appendices to Volume I of the 2000 305(b) Report is used to rate them. For inland lakes, the Ohio Lake Condition Index is used to assess overall ecosystem health. For Lake Erie, the Index of Biotic Integrity (IBI), which uses the characteristics of fish communities as an indicator of overall ecosystem health and water quality, is used to rate the restorability of Lake Erie near shore areas. The Effectiveness of Action Factor reflects whether the proposed action will improve the quality of the water resource based on: 1) what the sources of impairment or threats to attainment are, 2) which of the identified impairments or threats the action will address, and 3) the degree to which the action will address the sources of impairment or threats. In rating actions using this factor, both the primary and secondary environmental effects of actions are taken into consideration in determining scores. The causes and sources of impairments or threats are contained in the 305(b) database for monitored streams, rivers and lakes of the state. For unmonitored segments, general watershed information is used to identify sources of impairment or threats. This factor also rates actions as to whether they will protect water resources from declines in current quality. If an action scores 0 points for this factor, it receives 0 points for rank in the Rivers, Streams, Inland Lakes and Lake Erie portion of the IPS regardless of scores it receives in the other two factors.

☒ Wetlands. Projects affecting wetlands are ranked on the basis of their ecological integrity using the Ohio Rapid Assessment Method for Wetlands v. 5.0, dated February 1, 2001 (Ohio EPA Technical Report WET/2001-1). Points are assigned to each wetland project on the basis of six metrics: wetland size; buffer and surrounding land use; hydrology; habitat alteration and development; special attributes; and plant communities, interspersions and microtopography. A raw score of up to 100 points is possible, which is then multiplied by 0.3 and rounded to the nearest 0.1 to obtain the final IPS score for the action.

☒ Ground Water. The ranking system for ground water was developed with advice from the Division of Drinking and Ground Waters (DDAGW). An initial determination is made as to whether actions affecting ground water are intended to protect or restore the quality of ground water resources. Either way, actions are rated based on the sensitivity of the ground water resource to pollution, and its use as a source of drinking water supply. DRASTIC mapping done by the Ohio Department of Natural Resources is used to determine sensitivity.

Economic Need Factor

POTW projects which qualify under OEPA's Hardship Interest Rate guidelines receive an additional 4 points in their project rating scores.

b. What is the scoring system for determining which projects actually get funded - what type of needs, issues, projects receive higher points (e.g., CSOs)?

are more points or other preference given for nonstructural wetland and watershed protection efforts that provide broader water quality and other benefits?

See foregoing material on the PPL. Wet weather needs, particularly CSOs, are beginning to receive more attention (in part because of Sierra Club suits against Columbus and Cincinnati?). By law, only publicly owned WWTPs are eligible, private entities with stormwater permits have a much harder time meeting eligibility requirements. If the entity is covered by general permit, stormwater BMPs may be eligible, e.g., Hidden Creek. To date, WPCLF has not been marketed aggressively for stormwater controls. The linked deposit program offers a vehicle for funding stormwater controls on private property, but interest rates have been so low, DEFA loans have lost some of their financial advantage.

5. Does the state provide lower interest or no-interest loans, or grants (partial or full) for certain kinds of projects or communities? What are the criteria?

The WRRSP and hardship programs provide grants (generated by interest rebates) and lower interest rates, respectively.

6. Can the state fund private entities, such as farmers or NGOs? (e.g., to do streambank restoration)

Yes. Although the ability to repay loans can be a limiting issue. Since the early 1990s, the linked deposit program has invested millions in the upgrading of livestock BMPs for individual farmers.

7. Are there any innovative program components? (e.g. lower interest rates for stream restoration projects done in conjunction with traditional ww treatment plant improvements).

Yes, the WRRSP program offers interest savings on sponsoring projects to fund aquatic habitat protection and restoration projects. Conservation easements, fee simple purchase and protection of stream corridors and streambank restoration and dam removal are some of the projects financed by this program. The City of Columbus, for example, has applied for and received interest rebates sufficient to fund about \$10 million of wetlands and stream protection projects under the WRRSP over the past several years.

8. Are there any groups - envir, taxpayer, other progressives - "watch-dogging" the SRF process and selected projects?

No. One or two large sewer districts follow the program, but to date there has been little or no interest by the general public or environmental groups.

9. Contact selected communities doing innovative stormwater and wastewater projects (e.g., Madison's rain gardens) and find out if they have tried to apply for SRF, know that they can, found it impossible to get funding, etc.

There are few communities with innovative stormwater programs, although a few in northeastern Ohio (Lake County, e.g.) are developing aggressive programs in response to Phase II. These efforts are too new to make use of the WPCLF and there has been little interest by larger, more established programs in applying for WPCLF monies for stormwater with the exception of costly CSO improvements. In part this may also be due to the fact that most stormwater facilities are permit requirements of private developers and are not constructed by units of local government. Also, stormwater utilities, and/or these sections of municipal government have little familiarity with the WPCLF program.

10. How does the CWSRF program interact, if at all, with the Drinking Water SRF program, particularly source water protection efforts and funding under the DWSRF?

The SDWA SRF in Ohio is jointly managed by the Divisions of Environmental and Financial Assistance and Drinking Water within OEPA. DDAGW sets program priorities, reviews engineering proposals and oversees construction while DEFA handles facility planning and environmental review. OWDA acts as financial manager just as it does for the WPCLF. The WPCLF also supports the WSRLA by identifying the funding of local wellhead protection programs as part of the WPCLF.

11. What are any other problems and impediments with your states SRF program?

The fear of increased red tape and regulatory requirements may deter some smaller communities from using the loan program; certainly local staff in new program areas - stormwater and drinking water - have been reluctant to tap into the program because of perceived regulations, administrative costs, etc. compared with their peers in city divisions and sewage departments that are long time participants in wastewater grant and loan programs. Also, the past history of regulatory disagreements between the state and local governments or utilities can sour community's desire to utilize the WPCLF.

An additional need, expressed by state staff, is to reauthorize the Clean Water Act and include provisions which allow greater use of SRF capital funds for nonpoint projects which do not lend themselves to use of loans.

12. How much money did your state choose to set-aside for source water protection (or any non-end-of-the-pipe activity)?

Within the Water Supply Revolving Loan Account, Ohio set aside \$4.3 million for SWAP activities. Related to source water protection, the WSRLA has also set aside a total of \$7.2 million for wellhead protection.

13. How much of those dollars have actually been obligated to ambient water quality projects (and how many projects)?

The funds set aside for source water and wellhead protection in the WSRLA have gone to support administration of those programs.

PENNSYLVANIA

Clean Water State Revolving Fund (SRF) Program

*(Prepared by Meghan Nutting, Taxpayers for Common Sense
May, 2004)*

1. Summarize the particulars of state program

State program name: Pennsylvania Infrastructure Investment Authority

The Pennsylvania Infrastructure Investment Authority (PENNVEST) was created in 1988 to provide a unified funding approach for water and sewer infrastructure investments using federal revolving loan fund monies as well as state monies. It funds sewer, storm water, drinking water, and decentralized projects throughout Pennsylvania. State money initially started the program although it is now mainly funded by federal money. Two-thirds of the funding is SRF money and one-third is state money. However, the federal contribution has remained static each year and so has declined in real terms. The PENNVEST loan system seems to work quite well. There have been only two defaults out of 1400 loans, which amounts to less than \$2 million out of \$2 billion.

PENNVEST provides municipalities with low interest, long-term (20 to 30 year) loans at interest rates between one and five percent along with some grants. Funding is available for up to 100% of eligible project costs. PENNVEST is currently funded by nearly \$2 billion with a \$280 million loan capacity. The funding for current projects brings PENNVEST's total funding for community water, sewer and storm water projects to more than \$3.4 billion since the program's inception. Predominately municipalities take advantage of the loan and grant money although PENNVEST still does some work with private entities. PENNVEST can fund any owner and/or operator of a water, sewer or municipal storm-water system with a project to construct a new system or improvements necessary to correct public health, environmental, compliance or safety deficiencies.

PENNVEST offers loans for design, engineering, and construction of both publicly and privately owned drinking water distribution and treatment facilities, wastewater treatment and collection systems, and municipal storm water conveyance and control systems. All aspects of a project may be eligible for funding, including feasibility analysis, design and engineering, improvement, expansion, as well as municipal owned stormwater systems. There is also funding available for start-up municipal or municipal authority systems that serve 250 customers or fewer, on-lot sewage disposal systems, and municipalities and other governmental units implementing stormwater ordinances and counties with Act 167 plans in place. The money available for on-lot renovation and reclamation is administered by the Penn Housing Finance Agency.

The typical repayment is based upon a standard amortization of repayment of principle and interest over a 20-year period. In some cases the term may be extended beyond 20 years to as long as 30 years if needed to keep the user fees in line with other similar systems user rates. The construction period is added to this term in order to allow for an interest only period, principle and interest repayments begin after final inspection.

The maximum interest rates are based upon a formula outlined in the PENNVEST legislation (Act 16 - 1988). They are calculated on a sliding scale, depending upon the particular county's unemployment rate, the statewide unemployment rate and the interest rate being charged on the most current state bond issue. In no case will the maximum interest rate charged to project sponsors exceed 75% of the cost of funds to the Commonwealth. If the resulting residential user fee is determined to be higher than similar systems user rate, we can reduce the

interest rate to as low as 1%, and perhaps work some grant funding in the project in order to keep the user fees in line with similar systems.

Pennvest Partners:

- PA Dept. of Community and Economic Development
- Department of Conservation & Natural Resources
- Department of Environmental Protection
- Pennsylvania Housing Finance Agency

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Key website URLs:

Employee Directory: <http://www.pennvest.state.pa.us/pennvest/cwp/view.asp?A=2&Q=71648>

PENNVEST Home: <http://www.pennvest.state.pa.us/pennvest/site/default.asp>

Pennsylvania Department of Environmental Protection: www.dep.state.pa.us

Deadlines for funding applications:

Board Meeting Schedule for Fiscal Year 2004-2005

Application Cut-Off Dates	Board Meeting Dates
May 5, 2004	July 7, 2004
September 15, 2004	November 17, 2004
January 12, 2005	March 16, 2005

Public notice and comment requirements, etc.:

PENNVEST itself has no set notice or comment system although when they fund wastewater projects, Act 537 (the Wastewater Facilities Act) and all of its stipulations must be adhered to, including public comment stipu-

lations.

2. Summarize your state's Intended Use Plan for projects to be funded with CWSRF funds (IUPs must be developed annually and filed with USEPA)

The IUP is a joint effort between PENNVEST and DEP. DEP identifies a project and attaches a ranking to it. Then PENNVEST targets money toward funding the project.

a. State's objectives for funding and clean water goals as stated in the IUP

Long-Term Goals- Drinking Water

1. To have all public water systems in Pennsylvania achieve compliance with drinking water standards. State needs for public water systems are currently approximately \$4.8 billion.
2. To protect and enhance the quality of life of present and future Pennsylvanians by providing safe and adequate supplies of potable water. Eligibility for DWSRF funds will allow many drinking water systems currently not eligible for financial assistance to provide improved drinking water quality and service to existing customers by correcting problems with source water quality and quantity, treatment, storage, and distribution. Emphasis will be placed on projects designed to correct deficiencies that pose a threat to public health.
3. To administer the DWSRF to issue loans, loan guarantees or insurance to applicants, at fees commensurate with risk, such that the revolving nature of the DWSRF is assured in perpetuity.
4. To assist communities with financial difficulties in meeting required drinking water standards. Low interest loans for the eligible project costs will be available to assist these communities. Other types of assistance are available to improve the marketability of local debt instruments. The goal is to provide, without replacing other funds reasonably available, the type and amount of assistance necessary to make the project affordable, consistent with the long-term health of the DWSRF.
5. To assist communities in addressing problems relating to source water protection, technical problem solving and/or operator proficiency through a combination of financial assistance, training and consultative services.
6. To ensure the technical integrity of the DWSRF through adequate and effective program management and project planning, design, and construction management.
7. To maintain an adequate data management system to track and monitor all DWSRF project and program information.
8. To ensure proper accounting, audit, and fiscal procedures conforming to generally accepted government accounting standards.
9. To review annually the DWSRF program funding for long-term use and viability by using the PENNVEST Cash Flow Model.

Short-Term Goals- Drinking Water

1. To obtain maximum capitalization of the DWSRF in the shortest time possible so that the funding needs of communities with inadequate drinking water facilities can be addressed.
2. To maximize the use of Growing Greener grants funds and DWSRF loan money to assist distressed communities and other systems in providing adequate water service.
3. To assure that projects under construction will initiate operations on schedule, provide loans only for uncompleted portions of projects rather than refinancing completed portions.
4. To improve the coordination of DWSRF financial assistance, planning, permitting, and enforcement activities among DEP, PIIA and other agencies, including the Public Utility Commission.
5. To continue outreach efforts to systems across the Commonwealth. This outreach is structured to inform systems of the availability of funds, the application procedures and federal requirements.
6. To continue coordination efforts with other funding sources. This coordination takes the form of regional and statewide meetings with representatives responsible for the administration of funds from EPA, the U.S. Department of Agriculture, Community Development Block Grants, Appalachian Regional Commission, Economic Development Financing Authority, the U. S. Army Corps of Engineers, local banks, bond counsel organizations and various state funding sources.

7. The Department of Environmental Protection will negotiate the Minority/Women's Business Enterprise (M/WBE) firm fair share objective with the EPA Region 3 office for the federal fiscal year 2004 capitalization grant award. Each DWSRF project Borrower receives a copy of the Department's M/WBE guidance document, and they are informed that they must take the six affirmative steps to solicit M/WBE firms for participation in project work. The Department will continue to collect data on proposed and actual use of M/WBE firms by Borrowers on DWSRF loan projects and submit quarterly reports to Region 3 on M/WBE firm procurement actions.

Long-Term Goals- Clean Water

1. To achieve compliance, by all publicly owned sewerage facilities, with State and Federal water quality standards. State needs for new and upgraded sewerage facilities are currently \$8 billion, based on the 2000 Clean Watersheds Needs Survey.
2. To protect the quality of life of present and future Pennsylvanians by providing a clean, safe and healthful environment, supporting ongoing economic development, and promoting community revitalization.
3. To utilize the CWSRF to provide funding opportunities for addressing water quality problems identified through the watershed assessment and TMDL processes, as well as problems identified through updates to Pennsylvania's Nonpoint Source Management Plan to the extent practicable. This will require an appropriate level of interagency coordination and public participation.
4. To administer the CWSRF to issue loans, loan guarantees or insurance, at fees commensurate with risk, to applicants, such that the revolving nature of the CWSRF is assured in perpetuity.
5. To assist communities with financial difficulties in meeting required water quality standards. Low interest loans for the eligible project cost will be available to assist communities. Other types of assistance are available to improve the marketability of local debt instruments. The goal is to provide, without replacing other funds reasonably available, the type and amount of assistance necessary to make the project affordable, consistent with the longterm health of the CWSRF.
6. To ensure the technical integrity of the CWSRF through adequate and effective program management and project planning, design, and construction management.
7. To maintain an adequate data management system to track and monitor all CWSRF project and program information.
8. To ensure proper accounting, audit, and fiscal procedures conforming with generally accepted government accounting standards.
9. To utilize CWSRF loan repayments to fund additional projects beyond the funding capabilities of the capitalization grants.
10. To continue investigating: expanded use activities, coordination efforts with other state agencies, and the development of a methodology to review all water quality needs in a comprehensive manner and the development of an integrated ranking tool.
11. To assist qualifying rural, low-income communities of the Commonwealth in meeting required sewage standards.
12. To work with watershed and other environmental groups to explore and facilitate the utilization of CWSRF loan funds for nonpoint source related pollution projects.

Short-Term Goals- Clean Water

1. To obtain maximum capitalization of the CWSRF in the shortest time possible so that the funding needs of municipalities with inadequate sewerage facilities can be addressed.
2. To assure that projects under construction will initiate operations on schedule. The CWSRF will only provide loans for uncompleted portions of projects rather than refinancing completed portions.
3. To improve the coordination of CWSRF financial assistance, planning, permitting and enforcement and non-point source management activities within DEP and other agencies.
4. To follow up on recommendations found in the EPA Program Evaluation Reports.

5. To address audit findings in an expeditious manner.
6. To continue development of the On-Lot Program to further reach areas of the State not being served by public wastewater systems.
7. To meet with interested County Conservation Districts, Conservancy Groups, Watershed Groups and other interested parties to investigate the need, and if appropriate, the strategy to implement a CWSRF based loan program to address their needs.
8. To continue to develop markets for the on-lot program, expand the number of participating lenders, and work with other potential recipients of the loan funds that can work with local governments in the implementation of on-lot management programs.

b. Funding by project type (e.g. sewers; CSO repair; ww treatment upgrades; nonpoint, stormwater mitigation) (for past three years)

For FY 2004, Pennsylvania intends to fund 15 drinking water projects with a total value of approximately \$33.8 million. For FY 2003, there was \$102.16 million available for CWSRF project funding and 31 projects were funded.

c. Any unused (unobligated) funding?

Yes- it varies year to year.

d. How many (and how much in \$) proposed projects are turned away for lack of funding?

Proposed projects are not turned away for lack of funding. If they are turned away it is often because the project is not feasible. Occasionally projects are put off until the next funding year/cycle.

3. Summarize environmental review criteria in state enabling regs

a. What are the specific criteria or standards that projects must meet in order to receive SRF funding?

Projects must be consistent with local land use provisions. They must also improve the environmental health and safety and economic health of the area where they are built.

The Uniform Environmental Review (UER) process is intended to standardize the process for documenting the environmental effects of proposed drinking water and wastewater infrastructure projects requesting financial assistance from various federal funding sources in Pennsylvania. The UER process is supposed to streamline and coordinate the environmental review of proposed projects so as to avoid major inconsistencies or duplication of effort, particularly where multiple sources of funding are involved. Most of the items addressed in this environmental review are already required by existing state regulations relating to the planning phase or the permitting phase of the project. It is designed to complement those planning and permitting programs. The UER requires an environmental report.

Contents of the Environmental Report

The ER should contain the following elements:

- Project Description and Need
- Purpose of and Need for Project
- Project Description
- Summary of Reasonable Alternatives Considered
- Alternatives Considered
- Comparison of Alternatives
- Environmental Consequences of the Selected Alternative
- Land Use/Important Farmland/Formally Classified Lands
- Floodplains
- Wetlands
- Historic Resources
- Biological Resources
- Water Quality Issues

Coastal Resources
Socio-Economic Issues
Air Quality
Transportation
Noise Abatement and Control
Wild and Scenic Rivers
Miscellaneous Environmental Considerations
Summary of Mitigation
Public Participation
Exhibits

b. Is the project review done before or after (rubber-stamp) funding is made?

The first step in the PENNVEST application process is to participate in a Planning Consultation meeting. This meeting includes the project sponsor and their engineer, PENNVEST and DEP regional staff as well as local planning representatives. This meeting is an opportunity for the project sponsor to describe their situation and the potential project. DEP staff will go over the technical aspects of the project and describe the ranking process as well as any requirements, permits, and time frames relating to their review. The PENNVEST Project Specialists will go over the financial application submittal and review process and provide an estimate of the potential funding package based upon certain information that will be provided by the project sponsor. Local/county planning agencies provide comments and guidance relating to land use consistency. Then the project is also reviewed before funding is given.

c. What provisions are made for public comment, and for consideration of alternatives to the proposed project?

Wastewater planning must be consistent with Act 537 (the Sewage Facilities Act). The Sewage Facilities Act, is perhaps the most important piece of legislation affecting Pennsylvania water health. It requires that each municipality prepare and periodically update an official sewage facilities plan. Any time a development requires the extension of sewer lines or the construction of additional capacity for wastewater treatment, the municipality must revise its plan and submit it to the DEP for review. Public comment is given at this time.

Drinking water projects have no formal public comment process. However, there must be a feasibility study done with a comparison of alternatives. Applicants must also list alternatives on their application. There is also a public participation component of the environmental review.

d. Are there explicit prohibitions against subsidizing sprawl with SRF funds?

There are no explicit prohibitions. However, it is done regardless. The wastewater and drinking water improvements administered under Pennvest are considered an opportunity to promote sound land use while simultaneously improving the Commonwealth's water resources. PENNVEST ensures consistency with local land-use practices by meeting with local experts and requiring letters of support from the County Planning Department and the County Ag Preservation Board. All new applicants for drinking water, wastewater, and stormwater for PENNVEST funding are reviewed to ensure that their proposed projects comply with local and county land use plans, thus ensuring that the affected areas will be "Growing Smarter" in the future. This is done by taking advantage of Growing Greener funds to assist communities undertaking prohibitively expensive water and sewer projects and consequently makes these projects reasonably affordable for customers. This allows PENNVEST to do a better job of focusing on where the needs are. PENNVEST money also cannot be used for new developments.

4. Project priority lists and project scoring systems

a. What is the process (public input or all internal to bureaucracy?) and criteria (these should be formalized in enabling regs) for determining project funding priorities (e.g., how are priorities linked to TMDLs, priority watersheds, etc.)

The greatest priority is given to projects that address public health, safety, and the environment. Compliance and economic development are on the second tier and adequacy and efficiency are on the third. Essentially, any project that passes the initial consultation and that are feasible are funded.

b. What is the scoring system for determining which projects actually get funded - what type of needs, issues, projects receive higher points (e.g., CSOs)?

PENNVEST ranking criteria considers public health and environmental benefits, as well as economic development impacts of a project, in order to bring together the goals of environmental improvements and job creation. Of the three things that are taken into account when considering funding for a project, public health carries the most impact.

The PENNVEST rating system gives high priority to providing new regional sewers and sewage treatment capacity to unsewered areas with failing septic systems as well.

The actual breakdown of issues is: Public Health and Safety 45%, Environmental Impact 25%, Economic Development 15%, Compliance 10%, Adequacy, Efficiency, and Social Impact 5%.

c. are more points or other preference given for nonstructural wetland and watershed protection efforts that provide broader water quality and other benefits?

No, but they are considered environmental facets of the project which are taken into consideration. Also, non-point source funding does not compete with more structural funding.

5. Does the state provide lower interest or no-interest loans, or grants (partial or full) for certain kinds of projects or communities? What are the criteria?

Yes. Grants are administered based on an affordability approach and the impact of the finished project on user rates. Because rural areas and smaller populations tend to have smaller rate-payer bases, the \$15-20 million in grants are usually reserved for smaller projects.

No separate application is needed in order to be considered for a grant as part of the potential funding package. Each application is reviewed and a financial capability analysis is performed based upon the system's users. If grant funding is needed to help keep the resulting residential user fees in line with similar system's user rates, the staff will consider including some grant funding as part of the funding package.

The regular single PENNVEST application makes each project eligible for consideration for Growing Greener grant funding. These grant resources are being worked into the application review process in order to provide supplemental grant funding to needy projects based upon the community's ability to repay a loan and resulting residential user fees.

6. Can the state fund private entities, such as farmers or NGOs?

Yes they can because of the addition of state funding to the Federal SRF money. They consider their ability to fund private entities one of their greatest assets. They can fund farmers but they have not in the past since such projects are usually funded by the Department of Agriculture. Since there is state capacity, no SRF money has been needed so far for things like riparian buffers.

7. Are there any innovative program components? (e.g. lower interest rates for stream restoration projects done in conjunction with traditional ww treatment plant improvements)

PENNVEST has a program that is being administered in conjunction with the Pennsylvania Housing Finance Agency (PHFA) and a series of local banks. This program offers low interest funding for individual homeowners to pay for repair or replacement of their malfunctioning on-lot system that serves their principle residence.

They must obtain a sign-off from the local sewage enforcement officer that the improvements are necessary and the on-lot system will work. The township must also sign-off on the project to ensure that no public sewers will be extended near the home within five years.

In order to best focus their resources, PENNVEST officials work closely with the PennDEP to identify projects that need money. They also provide seminars and individual consultation as part of their outreach and education efforts. PENNVEST officials also consider land-use implications of funding projects. They invite groups involved with such issues to planning consultations and meet with them in order to include their concerns and opinions in final decisions. Once a year they do an 'info exchange' with industry people to see what they are doing right and what they could improve upon.

In keeping with Governor Edward G. Rendell's twin goals of economic revitalization and environmental improvement, the PENNVEST Board of Directors adopted guidelines for a new program to help communities rehabilitate brownfields sites. This program will provide low interest loans to both remediate contamination at these sites and to construct the water-related infrastructure needed to make them economically viable. A funding target of \$48 million was created for the upcoming fiscal year for such projects. The Board emphasized the importance of dovetailing this program with other Commonwealth brownfields funding efforts, citing the importance of a common application procedure that will make all of the State's brownfields funding programs easily accessible to both public and private development entities.

PENNVEST also tries to fund non-point source pollution but has found that it is difficult to find a market (i.e. watershed groups). They were the first state in the nation to fund acid mine drainage with SRF money. They are currently funding a worm farm for sludge, a treatment plant for a honey-dipper unable to use the local treatment plant, and an organic burning facility that processes sludge into products. Their ability to fund private entities has been integral to many of these programs.

8. Are there any groups - envir, taxpayer, other progressives - "watch-dogging" the SRF process and selected projects?

Not really, although there is a board of directors that looks at all projects and funding.

9. Contact selected communities doing innovative stormwater and wastewater projects (e.g., Madison's rain gardens) and find out if they have tried to apply for SRF, know that they can, found it impossible to get funding, etc.

Communities in Pennsylvania seem to be very well supported by PENNVEST and other programs dedicated to funding stormwater and wastewater projects.

10. How does the CWSRF program interact, if at all, with the Drinking Water SRF program, particularly source water protection efforts and funding under the DWSRF?

They are different pots of money although money can be taken from one to be put into the other. Also the financial aspect of the CWSRF and DWSRF are consolidated at both PENNVEST and Penn DEP so the program is more efficient

11. What are any other problems and impediments with your states SRF program?

Although PENNVEST has traditionally funded more rural areas, they are shifting toward funding older urban areas with deteriorating infrastructure and a declining rate-base. This shift should definitely be encouraged and continued as blighted urban areas need help upgrading their water infrastructure.

PENNVEST provides some incentive for cross-municipal planning by allocating up to \$20 million for a project that serves more than one municipality, as opposed to the \$11 million ceiling for individual municipality projects. For projects that serve four or more towns, PENNVEST will allocate funds over \$20 million, decid-

ed on a case-by-case basis.

However, because Pennsylvania has so many fragmented municipal governments, PENNVEST could do more to encourage planning that encompasses watersheds and goes beyond political boundaries. This could be achieved several ways—for example, PENNVEST could set aside a certain percentage of money to be devoted exclusively to alternative and decentralized wastewater projects. Or, PENNVEST could stipulate that any project serving less than 20,000 people complete a cost/benefit analysis comparing traditional sewer systems with decentralized ones. Another alternative would be for PENNVEST to provide more generous terms for those wastewater projects that help alleviate groundwater withdrawal. In short, there are numerous options that PENNVEST has that would encourage more financially responsible infrastructure investment that have the added benefit of better water resource protection.

12. How much money did your state choose to set-aside for source water protection?

None is set-aside per se. However PENNVEST could potentially fund such projects/programs. At this point, there is also money available through DEP's portion of the SRF. 27% of the federal SRF goes to DEP for their work (engineering, source water protection, etc.) and 4% is for admin work.

13. How much of those dollars have actually been obligated to ambient water quality projects (and how many projects)?

- ⊗ Delineate and Assess Source Water Protection Areas - 14 grants totaling \$5,255,731;
- ⊗ Individual grant awards to municipalities, authorities and several private water suppliers - 61 grants totaling \$2,539,257;
- ⊗ Other SWP grant awards - 5 totaling \$292,563;
- ⊗ Other SWP contracted activities - 3 grants totaling \$1,654,020

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Clean Water State Revolving Fund (CWSRF) program

*(Prepared by Tami Jackson, River Alliance of Wisconsin
May 2004)*

1. Summarize the particulars of state program

State program name, Clean Water Fund Program

The Clean Water Fund Program (CWFP) is one of the subsidized loan programs included in the Environmental Improvement Fund (EIF). The CWFP provides loans to municipalities for wastewater treatment and urban storm water projects. Within the Clean Water Fund Program (CWFP), there is a subprogram called the Small Loan Program (SLP). The SLP provides municipalities a more streamlined, less costly approach to financing wastewater treatment projects that have total project costs of less than \$750,000. (small loan program jointly administered by the DNR and the Board of Commissioners of Public Lands).

Financial assistance is administered by the CWFP through 1) a federal revolving loan program, 2) a state leveraged loan program 3) a state direct loan and hardship program 4) a federal hardship program and 5) a small loan program. The state programs are a commitment made by the Legislature to exceed the Federal funding for surface water pollution abatement.

The CWFP provides financial assistance to municipalities in the following ways:

- ✧ Loans at or below market interest rates
- ✧ Grants under a state or federal hardship assistance program
- ✧ Purchase or refinance the debt obligations of municipalities incurred for CWFP eligible water pollution control projects
- ✧ Make subsidy payments to municipalities to reduce interest on loans made by the Board of Commissioners of Public Lands for CWFP eligible projects.

Statutory references:

Ch. 25.43 (2) (b) Environmental improvement fund,
ss. 281.58 Clean Water Fund Program Financial Assistance
ss. 281.59 Clean Water Fund Program, Financial Management
ss. 281.61 Safe Drinking Water Loan Program
ss. 281.625 Drinking Water Loan Guarantee Program
NR 150

NR 162 Clean Water Fund Program

NR 166 Safe Drinking Water Loan (note: this rule is currently being revised)
DOA Ch. Adm. 35

Contact info

Bob Ramharter
Environmental Loans Section Chief, Department of Natural Resources

Key website URLs

Clean Water Fund Program pages

DNR's Clean Water Fund Program page dnr.wi.gov/org/caer/cfa/EL/Section/clean.html
Fact Sheet Clean Water Fund program dnr.wi.gov/org/caer/cfa/EL/FORMS/cwfp.pdf
DNR's Clean Water Fund Hardship Financial Assistance dnr.wi.gov/org/caer/cfa/EL/Section/hardship.html
NR 162 Clean Water Fund program <http://www.legis.state.wi.us/rsb/code/nr/nr162.pdf>
DOA Chapter Adm. 35 <http://www.legis.state.wi.us/rsb/code/adm/adm035.pdf>
CWFP IUP from 2003 <http://www.dnr.state.wi.us/org/caer/cfa/EL/Section/Newsletters/cwiup03.pdf>
CWFP Priority Project list for 2004 <http://www.dnr.state.wi.us/org/caer/cfa/EL/Section/Newsletters/ppl03.pdf>

Clean Water Fund Small Loan Pages

DNR's Clean Water Fund Small Loan Program page dnr.wi.gov/org/caer/cfa/EL/Section/small.html
Fact Sheet Clean Water Fund Small Loan program <http://dnr.wi.gov/org/caer/cfa/EL/FORMS/slp.pdf>

Safe Drinking Water Loans

DNR's Safe Drinking Water Loan page <http://dnr.wi.gov/org/caer/cfa/EL/Section/drinkingwater.html>
NR 166 Safe Drinking Water Loan program <http://www.legis.state.wi.us/rsb/code/nr/nr166.pdf>

Funding Sources Water and Wastewater

"Drinking Water and Wastewater Funding Sources: Summaries for Local Governments and Individuals 2002 and 2003." <http://dnr.wi.gov/org/caer/cfa/EL/FORMS/fsbook.pdf>

Pages from above source individually broken down at dnr.wi.gov/org/caer/cfa/EL/FORMS/sources.html

Other sources

Wisconsin Water Quality Report to Congress 2002

Deadlines for funding applications

Clean Water Fund Program

The following table outlines the following steps applicants need to take when applying for a CWFP loan. Underlined text in the left column is links to the DNR pages.

Intent To Apply (ITA) - must be postmarked by December 31st of the calendar year prior to the state fiscal year from which the municipality intends to request financial assistance. ITAs are valid for one fiscal year

Priority Evaluation Review Form PERF - must be postmarked by December 31st (but do not need to be submitted every year because PERF scores are unlikely to change from year to year for the same project. The Environmental Improvement fund uses information provided on the PERF to evaluate a project and assign a priority score. The EIF creates a project priority list each State Fiscal Year for each program and ranks the projects in priority order. If a PERF is not submitted for a project, it will be assigned a score of zero on the project priority list.

Application - must be postmarked by June 30, if requesting hardship assistance; no deadline for non-hardship projects. Must have facility plan approval prior to submitting a Clean Water Fund Program application For application requirements see also <http://dnr.wi.gov/org/caer/cfa/EL/Guide/appcwf.htm>

Loan Closing -(regular CWF) must sign Financial Assistance Agreement (FAA) within 8 months following application acceptance

Loan Closing -(hardship projects) must sign FAA by the August 30 following the calendar year in which funding was allocated

Loan Closing -(small loans) must be signed within 6 months following application submittal

Public notice and comment requirements, etc.

Under Federal Law the DNR is required to publish an Intended Use Plan, which includes a list of projects that would be funded. Under Federal law public notice and a public comment period are required. Under state law, a public hearing is required on annual funding policies. Other public notices may accompany certain types of projects deemed to require an EIS or EA (refer to question 3a).

2. Summarize your state's Intended Use Plan for projects to be funded with CWSRF funds (IUPs must be developed annually and filed with USEPA)

a. State's objectives for funding and clean water goals as stated in the IUP

The following goals are listed in the 2003 IUP:

Short-Term Goals:

- ☒ Develop effective partnerships with other State and Federal financing sources to coordinate funding and promote efficiency for both the agencies and the applicants;
- ☒ Develop strategies, programs, and mechanisms to ensure that municipalities are able to address the highest priority water quality problems; and
- ☒ Direct funds to the state's most urgent water quality and public health needs.

Long-Term Goals:

- ☒ Provide public outreach and education regarding program policies, procedures, and participation;
- ☒ Assist municipalities in achieving and maintaining compliance with all applicable state and federal water quality requirements and standards;
- ☒ Protect the public health and environmental quality of the state;
- ☒ Manage the revolving loan fund in such a way as to protect it's long-term integrity and enable it to revolve in perpetuity;
- ☒ Provide economic assistance to municipalities, including those who may not have substantial credit histories, for the purposes of constructing and maintaining water quality related infrastructure; and
- ☒ Clean up environmental contamination affecting groundwater and surface water.

b. Funding by project type (e.g. sewers; CSO repair; ww treatment upgrades; nonpoint, stormwater mitigation (for past three years)

The priority is to maintain existing facilities over creating new facilities. There are two approaches used to prioritize projects. There is a priority system outlined in NR 162. The other system involves calculating how much subsidy (lower loan rates) we provide. The first two categories of projects get loans with the highest subsidy (55% of the market rate, nonpoint 65% of the market rate).

The following types of projects are funded by the CWF:

- ⊗ Compliance maintenance projects-These wastewater projects are necessary to prevent a municipality from exceeding effluent limitations contained in their WPDES permit. Eligible projects will receive a loan at 55% of the state's cost of borrowing,
- ⊗ New of changed limits projects-These wastewater projects are necessary for a municipality to meet effluent limitations contained in their WPDES permit which were newly established or modified after May 17th 1998. Eligible projects will receive a loan at 55% of the state's cost of borrowing,
- ⊗ Unsewered projects-These wastewater projects provide treatment facilities and sewers for unsewered or partially unsewered municipalities. Eligible projects will receive a loan at 70% of the state's cost to borrow funds.
- ⊗ Urban runoff projects-These stormwater/nonpoint source projects are necessary to meet WPDES permits, meet non-agricultural performance standards, or control urban stormwater problems under WDNR approved plans. Eligible projects will receive a loan at 65% of the state's cost to borrow funds.

c. Any unused (unobligated) funding?

The simple answer is no. Wisconsin uses all of the Federal money and has funded 100% of the projects that have come in. However, Wisconsin supplements the federal money. About 70% of the demand is met with state dollars.

d. How many (and how much in \$) proposed projects are turned away for lack of funding?

None on the wastewater side (because of state support).

3. Summarize environmental review criteria in state enabling regs

a. What are the specific criteria or standards that projects must meet in order to receive SRF funding? (NEPA-like project reviews are required under Federal statute, but vary widely in what and how they are implemented by states)

Certain types of wastewater projects have to undergo certain types of reviews. Type 1 projects require an EIS, Type 2 an EA, Type 3, a news release, Type 4 nothing. NR 150.03 describes these four types of actions. A table within NR 150.03 describes potential actions and details what type of review is needed.

b. Is the project review done before or after (rubber-stamp) funding is made?

Before.

c. What provisions are made for public comment, and for consideration of alternatives to the proposed project? (e.g., decentralized stormwater rather than deep tunnel projects)

Formal public comment opportunity is only required if the actions are Type 1 or 2 (i.e. require an EIS or EA). Type 3 actions, the public may propose an alternative, but there is no published analysis (as in an EIS or EA). All projects must go through a facility planning process which must consider alternatives. DNR must approve those plans. Again, public disclosure and comment opportunity is only happens with Type 1 and 2 projects.

d. Are there explicit prohibitions against subsidizing sprawl with SRF funds? (e.g., no funding for sewer line extensions unless there are existing homes already occupied)

Yes. There is a prohibition in NR 162 against projects for future development and growth, and for projects anticipating future growth even if there is current development in the area (in these cases the DNR does not provide a subsidy for the cost of the future portion).

4. Project priority lists and project scoring systems

a. What is the process (public input or all internal to bureaucracy?) and criteria (these should be formalized in enabling regs) for determining project funding priorities (e.g., how are priorities linked to TMDLs, priority watersheds, etc.)

Criteria:

- ☒ Impacts to human health
- ☒ Maintenance of fish and aquatic life
- ☒ Maintenance of wild and domestic animals
- ☒ Impacts to outstanding and exceptional resource waters
- ☒ The ability to treat septage and leachate, and
- ☒ The population served by the project

The priority system assigns a score to every project based on the criteria. Projects are ranked numerically, so in the event funding is not available for all requested projects in a given year, awards will be made by the order in which they are ranked.

b. What is the scoring system for determining which projects actually get funded - what type of needs, issues, projects receive higher points (e.g., CSOs)?

- ☒ 50 points for Compliance maintenance projects-These wastewater projects are necessary to prevent a municipality from exceeding effluent limitations contained in their WPDES permit.
- ☒ 45 points New or changed limits projects-These wastewater projects are necessary for a municipality to meet effluent limitations contained in their WPDES permit which were newly established or modified after May 17th 1998
- ☒ 25 points Unsewered projects-These wastewater projects provide treatment facilities and sewers for unsewered or partially unsewered municipalities
- ☒ 5 points to a project to a structural urban BMP project identified in NR 162.03
- ☒ 5 points to a project for planning, design, construction or replacement of treatment works that violate a permit issued under ch. 283, Stats., or that has been the subject of an enforcement action pursuant to s. 281.98, Stats., of a performance standard.
- ☒ For a multi-category project that includes elements of more than one of the above categories, DNR assigns the score for the project type that has the largest estimated cost percentage of the total project
- ☒ Human health score (maximum 40 points) given only if a project is necessary to eliminate a health hazard.
- ☒ Fish and Aquatic Life score (maximum 40 points)
- ☒ 5 points if the project reduces the level of pollutants affecting a 303d listed waterbody (and the pollutants to be reduced are related to the impairment)
- ☒ 5 points wild and domestic animal score. For wastewater or urban runoff projects which will achieve or maintain water quality standards
- ☒ 5 points Outstanding and Exceptional resource waters score. For projects that will reduce the levels of pollutants in these two classes of waters.

- ⊗ 5 points Local Priorities score. For a project that is identified in or is consistent with local resource management plans
- ⊗ 2 points septage and leachate score. For wastewater projects if plans includes facilities to receive and treat leachate and septage
- ⊗ Population score calculated by the log 10 of the residential population divided by 10.
- ⊗ 1 point Joint Treatment Works score. For wastewater projects that meet the criteria in 281.58 (8e).

c. are more points or other preference given for nonstructural wetland and watershed protection efforts that provide broader water quality and other benefits?

No. Can't do things like this. CWFPP is clearly focused on point source and specific projects.

5. Does the state provide lower interest or no-interest loans, or grants (partial or full) for certain kinds of projects or communities? What are the criteria?

Hardship Financial Assistance Program

If the municipality meets the following two criteria and your Clean Water Fund Program (CWFPP) project is eligible for below-market rate funding, the CWFPP may be able to provide hardship financial assistance for the municipality's project.

1. The municipality's median household income (MHI) is 80% or less of the state's median household income.

"Median household income" means median household income determined by the U.S. Bureau of the Census as adjusted by the department to reflect changes in household income since the most recent federal census.

2. The estimated total annual charges per residential user for wastewater treatment in the municipality would, without hardship assistance, exceed 2% of the municipality's median household income.

"Residential user" means a structure or part of a structure, including a mobile home, that is used primarily as a home, residence or sleeping place by one person, or two or more persons maintaining a common household, and that uses a publicly owned treatment work. "Residential user" does not include an institutional, commercial, industrial or governmental facility.

Each municipality that meets the criteria is ranked on the hardship funding list according to the environmental priority of its project. DNR can provide hardship financial assistance in the form of a reduced interest rate loan or add a grant of up to 70% of your municipality's eligible for below-market rate project costs. In these situations, loans with interest rates of as low as 0% may be awarded. (The hardship program can also provide grants; however, grants cannot be funded by the Federal Direct loan program and must be provided by the state proprietary program).

6. Can the state fund private entities, such as farmers or NGOs? (e.g., to do streambank restoration)

No, only municipalities

7. Are there any innovative program components? (e.g. lower interest rates for stream restoration projects done in conjunction with traditional ww treatment plant improvements)

Hardship program (see question 5). Wisconsin does have the ability to fund urban nonpoint projects. Financial model provides enough to cover 100% of funding needs.

8. Are there any groups - envir, taxpayer, other progressives - "watch-dogging" the SRF process and selected projects?

No, but since we've been able to fund 100% of projects there hasn't been a high level of interest.

9. Contact selected communities doing innovative stormwater and wastewater projects (e.g., Madison's rain gardens) and find out if they have tried to apply for SRF, know that they can, found it impossible to get funding, etc.

Asked the following four questions:

- ☒ Are you aware of Wisconsin's state revolving fund/clean water fund program?
- ☒ Have you applied for CWFP funding?
- ☒ If Yes, how did you find the application process? If No, why have you not pursued funding through the CWFP?
- ☒ What do you consider the most innovative stormwater and wastewater projects in your area?

Spoke with Bob Beegle (262-547-6721) of the Southeast Regional Planning Commission. He is aware of the loan program, but has not applied for them directly. The commission doesn't typically build things/construct facilities. They develop regional plans and stormwater plans, but the designated implementers/managers are the municipalities. Commission may make recommendations, communities are the ones that have to implement them. If the CWFP program could be used for planning purposes (and if funds were distributed as grants instead of loans) it would be useful to them. The commission promotes watershed and sub watershed management. Several communities (Brookfield and Menomonee Falls as an example) created joint plans that followed watershed units instead of civic boundaries.

Spoke with Sue (?) (608-267-0118) of the Dane County Lakes and Watershed Commission. She is aware of CWFP funding, but has not applied because it is a loan. They have been aggressively pursuing grant funding, and using money from county tax levies. Dane county is the most rapidly growing county in the state. 3/10th of 1% is under development at any given time. Erosion control is a high priority. 1992 passed a stormwater ordinance, which applies to towns, cities, and villages. One of the unique features of the stormwater ordinance is the thermal control standards it contains. If development is happening in cold water fisheries, developers are required to reduce the temperature of runoff. Erosion control ordinance passed in 1995. Both the stormwater and erosion control ordinance have standards that developers are required to meet, but do not prescribe BMPs. This has been a huge strength (developers find innovative ways to meet the standards).

10. How does the CWSRF program interact, if at all, with the Drinking Water SRF program, particularly source water protection efforts and funding under the

DWSRF?

Programs do not interact. CWFP can't fund source water protection, land acquisition. The same staff, however, administer both loan programs.

The Safe Drinking Water Loan Program (SDWLP) provides loans to public water systems to build, upgrade, or replace water supply infrastructure to protect public health and address federal and state safe drinking water requirements. The DNR is the primary administrator and the Department of Administration (DOA) is the financial manager for this program. Wisconsin's program was enacted in 1997 to provide municipalities with financial assistance for the planning, design, construction, or modification of public water systems.

11. What are any other problems and impediments with your states SRF program?

No significant problems or impediments at the state level. Lack of CWFP funding in the future. Good chance in the next state budget that state financial report will not continue at the level it has in the past. (will lead to less than 100% of projects being funded).

The DNR rulemaking process is fraught with peril. Difficulty in changing state statutes and codes. Impediment to meet changing priorities and doing more innovative (such as restoration) things with CWFP funds.

Ten Lessons Learned from the Iowa SRF Reform Experience

Comments to the Great Lakes Activist Water Infrastructure Workshop by Duane Sand, Special Projects Consultant to the Iowa Natural Heritage Foundation (INHF)

Background: The Clean Water and Drinking Water SRFs are underutilized resources for addressing Iowa's most prevalent and pervasive nonpoint source pollution problems. INHF has worked five years on source water protection and alternative uses of SRF loans. About \$75 million (15% of SRF resources) could be converted to higher priority needs in the near future.

Lessons Learned:

1. State law may need to change.

Iowa uses state issued tax-exempt bonds to match federal capitalization grants. Loans to the private sector are problematic because of restrictions on these bonds, as well as restrictions on loans to individuals under the Iowa Constitution. The Code of Iowa was changed in 2002 to broaden the Clean Water SRF to include a range of non-point source pollution practices and a variety of private sector borrowers.

INHF organized the environmental community to support this change; as well as the Iowa Department of Agriculture and Land Stewardship, the Iowa Farm Bureau, the Iowa Cattleman's Association and Conservation Districts of Iowa. The change passed both legislative chambers with unanimous support. A letter from EPA indicating Iowa could lose future support because of lack of demand for SRF infrastructure loans was very helpful. Iowa has weak enforcement of NPDES permits, which reduces loan demand compared to some states.

2. State administrative rules may need to change.

Iowa Administrative Code was amended in 2003 to reflect the 2002 change in state law. The Clean Water SRF now allows:

- ✘ Linked deposit loans to farmers for soil and water conservation practices, with approval from the Soil and Water Conservation District
- ✘ Linked deposit loans to livestock producers for manure management structure (CAFOs are not eligible)
- ✘ Linked deposit loans to public or private landowners for a full range of pollution prevention and remediation practices.
- ✘ Linked deposit loans to homeowners for onsite wastewater treatment systems, with approval from county health officials.
- ✘ Sponsored projects linked to municipal infrastructure loans.

3. State commission policy and priorities may need to change.

A coalition of agriculture and environment organizations has requested the Iowa Environmental Protection Commission make maximum use of source water protection set-aside funds. The Department of Natural Resources staff was directed to consider appropriate project proposals and recommend changes to the SRF Intended Use Plan to begin funding source water /wellhead protection projects. This policy change was in spite of objections and misinformation on the part of DNR staff.

4. Be prepared to go to (or avoid) the Governor.

Governors have the power to push or prevent policy changes. Governor Vilsack recently publicly endorsed reforms of the SRFs to provide greater support for source water protection and nonpoint source clean-up programs. The environmental coalition will soon present specific ideas to the Governor on how much discretionary spending is possible and which needs are most important. Governor Vilsack will be asked to seek new funding priorities from three of his appointed Commissions: the Underground Storage Tank Remediation Board, the Iowa Transportation Commission and the Environmental Protection Commission. His intervention may be likely partly because the legislature failed to fund his \$5 million increase in water protection budgets, in spite of his extensive consensus building efforts during his 2003 Water Summit. Governor Vilsack's political reputation is tied to his public goal to clean-up impaired waters by 2010.

5. There is no substitute for doing your own research.

Most useful policy information leading to these reforms has come from networking with national clean water activists and regional EPA staff. State agency personnel responsible for water protection have often been uninformed or unwilling to share or present alternative uses of SRF funds. State activists therefore need first hand research information on state and federal laws, rules and guidance for SRF funds.

6. Administrators tend to take the path of least resistance.

Political appointees who head agencies and commissions may not know the flexibility that is available for state use of SRF funds. They depend on career professionals for information and these middle managers are often comfortable with the status quo. In some cases administrators may fear the political power of the utilities and the associations who are the traditional lobbyists for, and beneficiaries of, the SRF funds.

7. Look for friends in unexpected places.

Some of the most important information for administrative change may come from SRF partners. The Iowa Finance Authority, which issues and repays state bonds to leverage SRF funds, has been an excellent advocate for change. Likewise, some EPA regional staff have offered key information about the strengths and weaknesses of the state programs.

8. Watch for bigger problems at the bank.

The SRFs are big banks that may operate on "auto-pilot." Administrators may have been promoted into the jobs when the funds started and may lack the training or authority to adapt to the complexity of the large funds, which exist today. Administrators may be involved in the permit process as well as the lending program, which makes their jobs even more difficult. So long as the SRF money supply matches loan demand there is little incentive for state commissions or agency administrators to seriously question if the SRFs need different operating policies.

The bigger problems in Iowa appear to be:

1. Lack of demand, especially if loans are more carefully screened for meeting the intent of the funds.
2. Poor agency service, which contributes to lack of demand.
3. Poor outreach to generate more loan requests.
4. Excessive administrative costs and excessive cash reserves for administration.
5. Potential for municipalities to refinance by issuing their own bonds, thus adding to SRF surplus funds.
6. A "one size fits all" approach to lending, which fails to efficiently use money or help communities with unusual financial needs.

9. Be prepared to go to the media.

One approach is to help the hierarchy of administrators and policy makers see how to do a better job of serving the public. If that fails, there is the alternative of showing the public how funds are poorly utilized and how opportunities are being missed. For example, a review of Iowa CWSRF loans found about 20% of loan moneys could be viewed as a sprawl subsidy for suburban communities. Likewise, Iowa DWSRF loans are often motivated by economic development goals rather than public health purposes. It's the public's money and efficient use of funds is worthy of public debate.

10. It takes a dedicated environmental constituency to divert money away from a dedicated infrastructure constituency.

While the facts may support a smarter public policy there is still no assurance of change or reform. This is the case even when states can easily leverage federal dollars with more state issued bonds and avoid saying no to any of their constituents. Proponents of alternative uses of SRF funds must organize a broad coalition for the long term. It seems change is such a protracted process because the institutions are testing environmental advocates to see if they will simply give up and go away. Progress requires persistence (which requires money, which requires persistent funders).

Iowa Natural Heritage Foundation is especially grateful for grant support from The Joyce Foundation that has supported Iowa water policy projects. Feel free to contact Duane Sand at 515-288-1846 or dsand@inhf.org if you have any questions or comments regarding this information.



Appendix B: Summary of Workshop Materials





**Great Lakes SRF Advocacy Network Conference
May 11-12, 2004, Chicago, IL**

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Great Lakes Activists Water Infrastructure Workshop

May 11 –12, 2004

Environmental Law and Policy Center Building Conference Room,
Chicago, IL

Workshop Agenda

Tuesday, May 11

- 1:00 – 1:30 Workshop overview, meeting objectives, and introductions
- 1:30 – 2:00 Overview of federal State Revolving Loan Fund (SRF) programs
- 2:00 – 3:00 State water infrastructure priorities – brainstorming exercise on most pressing issues and how they relate to funding programs
- 3:00 – 3:15 Break
- 3:15 – 4:45 Presentations of state SRF programs: highlights presented by designated groups
- 4:45 – 5:45 Discussion of reform opportunities across all states
- 5:45 – 5:50 Wrap-up, preview next day
- 5:50 – 6:50 Check into hotel
- 7:00 Group dinner at Pizzeria Due (*hosted by American Rivers and Clean Water Fund*)

Wednesday, May 12

- 8:00 – 8:30 Coffee and pastries in meeting room
- 8:30 – 8:40 Overview of Day 2 agenda
- 8:40 – 10:00 Other national and Great Lakes context to water infrastructure funding:
Phase II stormwater program (Kyle Dreyfus-Wells)
Sewer overflow policies (Laurel O'Sullivan)
Great Lakes Environmental Restoration Act (Erin McDonough)
Annex 2001 (Tom Crane)
- 10:00 – 10:15 Break

10:15 – 11:45 Presentations on SRF program innovations
Greg Smith, Ohio EPA, OEPA's innovative SRF programs
Duane Sand, Iowa Natural Heritage Foundation, Iowa's "smart SRF" program
Valerie Nelson, Coalition for Alternative Wastewater Treatment, SRF funding for distributed wastewater systems

11:45 – 12:00 Break for box lunch

12:00 – 2:15 Great Lakes water infrastructure action agenda discussion

12:00 – 1:00 Break into state groups, discuss key questions:

What's needed for real change in our water infrastructure systems?

How do big picture needs relate to the SRF program?

What are the top 5 reforms needed to your state SRF program?

What are the key steps state advocates can take to operationalize those reforms

1:00 – 2:00 Report out by groups

2:00 – 2:15 Summarize common threads among states

2:15 – 2:45 Next steps: creating a Great Lakes water infrastructure activist network

2:45 – 3:00 Wrap-up

Adjourn

Resource List of SRF Materials

The Clean Water State Revolving Fund Program

EPA Fact Sheet:

<http://www.epa.gov/OW-OWM.html/cwfinance/cwsrf/cwsrf.pdf>

Clean Water State Revolving Fund: Local Successes and Innovations

EPA Website:

<http://www.epa.gov/owm/cwfinance/cwsrf/innovations.htm>

Innovative Use of CWSRF monies of Nonpoint Source Pollution

EPA Fact Sheet:

<http://www.epa.gov/owmitnet/cwfinance/cwsrf/linkedeposit.pdf>

Using DWSRF Set-Aside Funds for Source Water Protection

EPA Fact Sheet:

<http://www.epa.gov/safewater/dwsrf/source.pdf>

Drinking Water State Revolving Fund: Information and Program Guidance

EPA Website:

<http://www.epa.gov/safewater/dwsrf.html>

Stormwater Phase II Final Rule

EPA Fact Sheet:

<http://cfpub.epa.gov/npdes/stormwater/swfinal.cfm>



Appendix C: How the Clean Water SRF Program Works





(Prepared by Betsy Otto, American Rivers, based on material adapted from River Network's The Clean Water Act: An Owner's Manual, 1999, and U.S. EPA's website)

Clean Water State Revolving Loan Fund (CWSRF) programs operate in all 50 states. These funds, established with sizable U.S. EPA grants, operate like banks, providing low-interest loans for water quality improvement projects. CWSRF loans can fund a wide variety of water quality projects including all types of nonpoint source, watershed protection or restoration, and estuary management projects, as well as more traditional municipal wastewater and stormwater treatment projects.

1. How Much and What Kind of Funding Is Available?

a) Types of Funding

States have a wide range of options for what kind of funding they provide under the CWSRF. States may choose from a variety of assistance options, including loans, refinancing, purchasing, or guaranteeing local debt and purchasing bond insurance. States can also set specific loan terms, including interest rates—from zero percent to market rate—and repayment periods—up to 20 years. States have the flexibility to target resources to their particular environmental needs, including contaminated runoff from urban and agricultural areas, wetlands restoration, groundwater protection, brownfields remediation, estuary management, and wastewater treatment.

b) Funding for Small and Disadvantaged Communities

States may also customize loan terms to meet the needs of small and disadvantaged communities. In 2003, 67 percent of all loans (20 percent of funding) were made to communities with populations less than 10,000. In addition, some states provide specialized assistance for communities that are disadvantaged or experiencing financial hardship. These states may offer lower or no-interest loans to provide greater subsidies for disadvantaged communities.

c) Sources of Repayment

Each state must approve a dedicated source of loan repayment as part of the application process. Though finding a source of repayment may prove challenging, CWSRF users have identified many creative repayment sources, which need not come from the project itself. Some possibilities include:

- ✧ Stormwater utility fees.
- ✧ Wastewater user fees.
- ✧ Dedicated portion of local, county, state tax fees.
- ✧ Fees paid by developers on other land.
- ✧ Recreational fees (fishing license, entrance fees)

Clean Water SRF fund distribution to the Great Lakes States in FY 04:

Illinois - \$60.5 million
Indiana - \$32.3 million
Michigan - \$57.6 million
Minnesota - \$24.6 million
New York - \$147.8 million
Ohio - \$75.4 million
Pennsylvania - \$53 million
Wisconsin - \$36.2 million

2) Who Qualifies for SRF Funding?

The Clean Water Act (CWA) Amendments of 1987 authorized the CWSRF to fund treatment plants (§212), and nonpoint source (§319) and estuary (§320) activities. Any project related to a treatment plant must be publicly owned to receive CWSRF funds. Nonpoint source and estuary activities are not restricted by the SRF statute to public entities. Included in a long list of

eligible CWSRF loan recipients for nonpoint source and estuary activities are community groups, individuals, agricultural associations and nonprofit organizations. However, some states' SRF enabling statutes may prohibit loans to private parties.

Eligibility can be confusing because stormwater runoff in many communities - even small communities without storm sewers - is now regulated as a "point" source. Communities regulated as point sources under the Phase I and Phase II stormwater NPDES (National Pollution Discharge Elimination System) permit programs may only access SRF funding under the §212 eligibility and can no longer access funding under the §319 Nonpoint Pollution eligibility.

Communities with Phase I or Phase II NPDES permits (known as "MS4s" or, "municipal separate storm sewer systems") may fund sewer system rehabilitation, new collector sewers, new interceptors, storm sewer rehabilitation, infiltration/inflow correction, and stormwater management facilities such as sediment traps and basins, constructed wetlands, street sweepers and catch basin vacuum vehicles, so long as these projects address problems in a publicly owned system. Activities may be funded under the SRF's nonpoint source (§319) authority if the activity is not specifically required by NPDES permit. This includes both public and private activities, such as riparian buffers. Construction BMPs (best management practices) are an example of activities covered by NPDES permits, and are therefore not eligible projects for private borrowers.

3) What States Must Do:

States are given considerable latitude in day-in-day administration of Clean Water SRF funds. There are, however, several important federal rules that states must follow. Citizens who know the rules can help make sure these funds are spent for maximum environmental benefit. States' CWSRF programs must meet four primary requirements:

- ✧ Set up financial management procedures necessary to ensure the long-term health of the fund, including capitalization grant agreements with USEPA.
- ✧ Establish a system for setting annual priorities for

"NEPA-Like Process"

A state's "NEPA-like" process need not be identical to the federal process, but it must follow the same basic principles required under the National Environmental Policy Act (NEPA). These include: consideration of need; consideration of alternatives; consideration of impact; public involvement. Communities submitting loan applications should have conducted public meetings or hearings on the proposed project (requirements vary by state) and be able to document this fact in their loan application.

The following criteria will be used by the EPA to evaluate a proposed State Environmental Review Process (SERP).

✧ **Legal Foundation.** Adequate documentation of the legal authority, including legislation, regulations or executive orders and/or Attorney General certification that authority exists.

✧ **Interdisciplinary approach.** The availability of expertise either in-house or otherwise accessible to the State Agency.

✧ **Decision documentation.** A description of a documentation process adequate to explain the basis for decisions to the public.

✧ **Public notice and participation.** A description of the process, including routes of publication (e.g., local newspapers and project mailing list), and use of established State legal notification systems for notices of intent, and criteria for determining whether a public hearing is required. The adequacy of a rationale where the comment period differs from that under NEPA and is inconsistent with other State review periods.

✧ **Consider Alternatives.** The extent to which the SERP will adequately consider:

1. Designation of a study area comparable to the final system.
2. A range of feasible alternatives, including the "no action" alternative.
3. Direct and indirect impacts.
4. Present and future conditions.
5. Land use and other social parameters including recreation and open-space considerations.
6. Consistency with population projections used to develop State implementation plans under the Clean Air Act.
7. Cumulative impacts including anticipated community growth (residential, commercial, institutional and industrial) within the project study area.
8. Other anticipated public works projects including coordination with such projects.

Adapted from "The Clean Water Act: An Owner's Manual", with permission from River Network.

- the use of the funds.
- ✘ Put into place procedures for regular, substantive public involvement.
- ✘ Establish a "NEPA-like process" that loan applicants and state agencies must follow before providing a loan to a project.

4) Key Steps in the Annual CWSRF Funding Process

The following are the key steps in the annual process from federal outlays to SRF loans for on-the-ground projects.

1. Congress appropriates funds, distributes block grants to states. Based on how much Congress appropriates each year, CWSRF program funds are distributed annually as capitalization, or block, grants to each state according to a formula that considers state population and other factors.

2. State solicits loan applications. State water pollution control and/or environmental financial assistance agency announces the availability of SRF loans, application requirements and deadlines. (See the end of this appendix for information on who to contact to learn more about application procedures, requirements, and deadlines.)

3. State assesses environmental and other impacts. The state reviews loan application submittals, including information related to the state's NEPA-like review requirements. The state determines whether an Environmental Assessment or more rigorous Environmental Impact Statement is required before the proposed project can qualify for consideration for a SRF loan.

4. State develops a Project Priority List (PPL). After rating applications based on project selection criteria codified in state regulations (example criterion: severity of water quality problem), the state ranks each project, and develops an official project priority list (PPL)*, including project name, primary purpose, borrower, and the amount to be borrowed.

Where can you find the federal regulations governing the CWSRF program?

Below are citations for the specific regulatory requirements that states must meet with their CWSRF programs: EPA regulations governing CWSRF program can be found at: Title 40 CFR Part 35, Subpart K - State Water Pollution Control Revolving Funds. Specific regulation citations are listed below.

A useful online search engine for federal regulations is <http://www.findlaw.com/casecode/cfr.html>. (To use the search engine, for example to retrieve the regulations on "Eligible activities of the SRF," type into the relevant search engine fields: Title = 40, Part = 35, Section = 3115):

35.3100 Policy and purpose.

35.3105 Definitions.

35.3110 Fund establishment.

35.3115 Eligible activities of the SRF.

35.3120 Authorized types of assistance.

35.3125 Limitations on SRF assistance.

35.3130 The capitalization grant agreement.

35.3135 Specific capitalization grant agreement requirements.

35.3140 Environmental review requirements.

35.3145 Application of other Federal authorities.

35.3150 Intended Use Plan (IUP).

35.3155 Payments.

35.3160 Cash draw rules.

35.3165 Reports and audits.

35.3170 Corrective action.

Appendix A to Subpart K--Criteria for Evaluating a

5. State develops an annual Intended Use Plan (IUP). The intended use plan (IUP) lists how funds available that fiscal year will actually be distributed among priority projects. (Note: projects ranked high on a particular year's PPL will not necessarily be funded in that year's intended use plan. Depending on such factors as funding available in state budgets, and the readiness of the borrower to start the loan agreement that year, some projects may not appear on the IUP until future years.)

6. State provides public notice of annual meeting. The annual public hearing is open to the public and is intended to solicit additional information on projects on the project priority list, their value, the need for additional or more rigorous review of environmental, economic or social impacts (as required under NEPA), as well as questions about the projects to be funded in that year's intended use plan.

7. State holds annual meeting, finalizes list of projects to be funded that year, begins making loans. Following the annual public meeting, the state finalizes the Intended Use Plan (IUP) based on public input. It then contacts loan applicants and commences technical loan and repayment finance agreements.

8. State publishes an annual SRF report. The annual report generally identifies the program's clean water improvement goals, funding objectives and may or may not include the PPL or IUP list of projects. The annual report asserts the goals and funding history of the state program, and is a good place to begin learning more about a state's SRF program.

*Some states (e.g. Michigan) have developed separate scoring systems and project priority lists for nonpoint source projects. There is a difference of opinion as to the value of segregating rather than integrating these loan applications with those of more conventional projects. EPA has generally urged states to integrate all project priority lists to promote scoring systems that give high values to addressing the greatest water quality impact - often nonpoint source runoff - rather than relegating most projects to a separate, smaller funding category. However, some states feel that nonpoint projects cannot adequately compete with traditional infrastructure without special consideration.

Great Lake SRF Contact Information

Illinois -

Infrastructure Financial Assistance Section
Bureau of Water
Illinois Environmental Protection Agency
Phone: 217-782-2027
www.epa.state.il.us/water/financial-assistance/waste-water/index.html.

Indiana -

Indiana State Revolving Fund Loan Program
100 N. Senate Ave., Rm. 1275
Indianapolis, IN 46204
Phone: 317-233-6957
Fax:(317)234-1338
www.SRF.IN.gov

Michigan -

Revolving Loan and Operator Certification Section
Environmental Sciences and Service Section Michigan Department
of Environmental Quality
P.O. Box 30457,
Lansing, MI 48909-7957
Phone: (517) 373-4725
www.michigan.gov/deq/0,1607,7-135-3307_3515_4143---,00.html

Minnesota -

Minnesota Pollution Control Agency, Water Quality Division
Phone:(651)282-9884
www.pca.state.mn.us/water/revolvingfund.html

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Intended Use Plan rules

The rules for state SRF Intended Use Plans (IUP's) are found in the Clean Water Act at 40 CFR 35.3150.

“(a) Purpose. The State must prepare a plan identifying the intended uses of the funds in the SRF and describing how these uses support the goals of the SRF. This Intended Use Plan (IUP) must be prepared annually and must be subject to public comment and review before being submitted to EPA.

EPA must receive the IUP prior to the award of the capitalization grant.

(b) Contents -

(1) List of projects.

(i) The IUP must contain a list of publicly owned treatment works projects on the State's project priority list developed pursuant to section 216 of the Act, to be constructed with SRF assistance. This list must include: the name of the community; permit number or other applicable enforceable requirement, if available, the type of financial assistance; and the projected amount of eligible assistance.

(ii) The IUP must also contain a list of the nonpoint source and national estuary protection activities under sections 319 and 320 of the Act that the State expects to fund from its SRF...”

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