

Vermont Nonpoint Source Sponsorship Working Group Report

BUILDING PARTNERSHIPS TO CREATE AN EFFECTIVE CWSRF NONPOINT SOURCE SPONSORSHIP PROGRAM

A pilot project of the Environmental Protection Agency's Clean Water State Revolving Fund Marketing & Outreach initiative



Clean Water
State Revolving Fund

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Vermont CWSRF Nonpoint Source Pilot

The Vermont Clean Water State Revolving Fund program, administered by the Vermont Department of Conservation, participated in a pilot project to build closer ties between the CWSRF program and the state nonprofit community. Vermont’s goal for the pilot project was to get assistance in developing an **effective sponsorship program** to fund nonpoint source projects via partnerships between CWSRF borrowers and nonprofits. EPA’s goal in funding the pilot was to assist a state effort to **develop relationships with nonprofit groups as potential implementers for nonpoint source projects**, in the hopes that lessons could be shared for developing the CWSRF’s nonpoint source funding activity nationwide.

Background: Funding Nonpoint Source Projects with the CWSRF

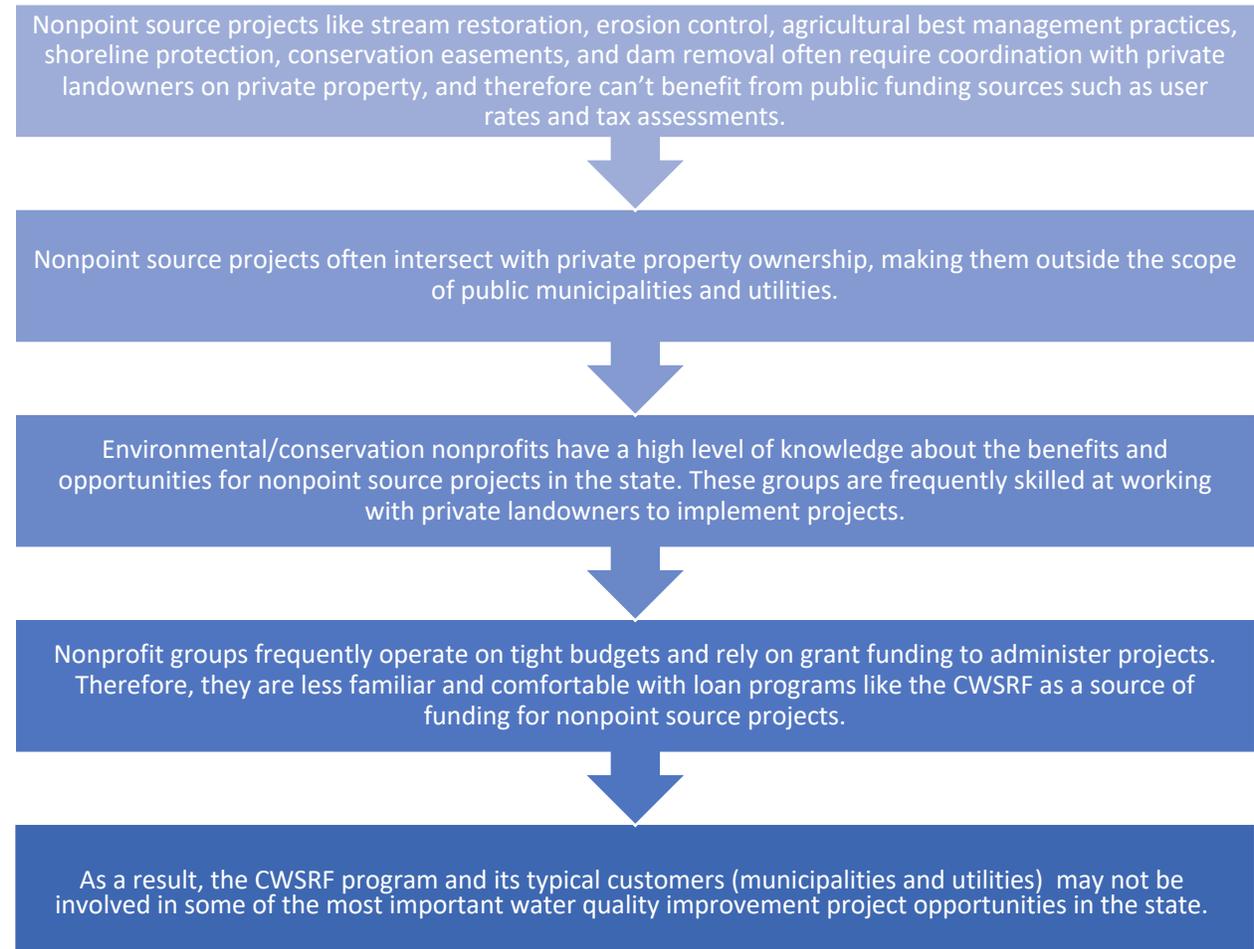
Vermont’s efforts are extremely relevant to many CWSRF programs around the country that are striving to devote more resources to nonpoint source projects but are having difficulty attracting potential project sponsors to the CWSRF program. Nationwide, **only 3.6% of cumulative CWSRF funding has been provided for nonpoint source projects**. In 2014, the Water Resources Reform and Development Act (WRRDA) broadened several areas of nonpoint source eligibility (such as decentralized systems and stormwater projects), yet **average CWSRF spending on nonpoint source and green infrastructure projects between 2014 and 2017 has actually declined** (to 3.0%) from the average spending during the four-year period prior to passage of WRRDA (3.3%)¹. At the same time that CWSRF programs are adapting their processes to be more accessible to nonpoint source projects, other sources of federal funding for nonpoint projects are on the decline. In 2017 EPA’s 319 Nonpoint Source Grants received a federal appropriation of \$168 million; a 30% reduction from their peak funding level in 2003.²

Colorado’s Changes to Attract Nonpoint Source Projects	
	In 2011 the Colorado CWSRF agencies made changes to their regulations and priority scoring system as a result of the American Recovery and Reinvestment Act’s Green Project Reserve requirement and a primary goal of restoring impaired water bodies. Colorado CWSRF managers concluded that their existing project scoring and ranking mechanisms did not sufficiently support Colorado’s water quality goals. They sought a more holistic approach to protecting and improving water quality by increasing the balance between funding point source and nonpoint source projects. However, Colorado’s efforts to undertake rule and regulatory changes have not yielded the results that managers hoped for. In the years since the change, very few CWSRF applications have been submitted for nonpoint source projects even though the CWSRF program has documented over \$600 million in nonpoint source needs across the state.

¹ CWSRF National Information Management System

² <https://www.epa.gov/nps/319-grant-program-states-and-territories>

Some states have modified their program policies and processes to make the CWSRF more accommodating to nonpoint source projects, without the desired results (see Colorado example in the above text box). A key barrier to implementing nonpoint source projects through the CWSRF is that many nonpoint source solutions do not fit into the standard utility paradigm of revenue-generating infrastructure on public property, for the following reasons:



CWSRF State Approaches to Attracting Nonpoint Source Projects

Several CWSRF programs have developed successful programs to attract nonpoint source project applications. The programs use one or more of these three key approaches: appealing to private industry's bottom line; channeling funds through a non-CWSRF entity that is more appealing/approachable to the end borrower; and nonpoint source sponsorship programs. The state practices described below illustrate the use of the first two approaches.



Montana Water Efficiency Montana’s CWSRF (administered by the Department of Natural Resources and Conservation) operates a **pass-through program with another bureau within the Department of Natural Resources and Conservation** (the CWSRF agency) to provide loans to farmers to help them install more efficient irrigation, such as

pivot systems. The pass-through program is helping Montana farmers move away from flood irrigation and toward more efficient practices, which reduces nonpoint source pollution from runoff. The program is advertised in terms of **cost savings from water efficiency, which is very attractive to business savvy farmers.** The Montana CWSRF provides \$1 million per year to the program.

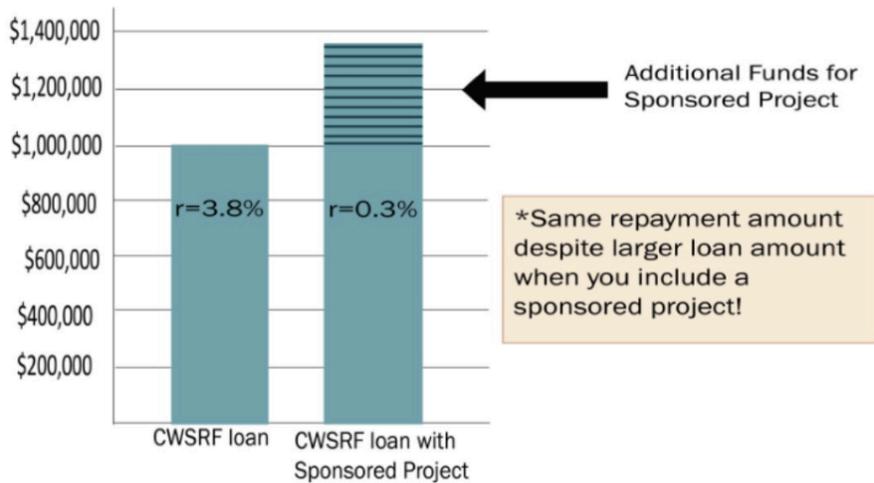


Maine Silviculture The Maine CWSRF has operated a long-running linked deposit program **in partnership with local banks** to help loggers purchase “green” forestry equipment. The loans are intended to increase the use of best management practices and environmentally-friendly logging equipment, which will in turn reduce erosion and protect water quality around logging operations. The practices help the loggers qualify for Forest Stewardship Council (FSC) certification, which is desirable in the marketplace and **helps them earn a premium for their product.**

The other successful method for CWSRFs to fund nonpoint source projects is through a **Nonpoint Source Sponsorship Program**, used by several state CWSRF programs. These CWSRF programs give their regular municipal or utility borrowers the option to “sponsor” a nonpoint source project in conjunction with the traditional project being funded by the CWSRF. For participating, the public borrower receives an interest rate discount that covers the cost of the nonpoint source project, thereby funding two projects for the price of one. The CWSRF assistance funds for both the traditional project and the nonpoint source project are combined into a single loan agreement, allowing user fees or tax assessments from the traditional project to be used as the repayment stream for the nonpoint source project as well. The concept is illustrated below in Figure 1. Sponsorship programs are used to varying degrees in several states. Some states, including Ohio, Iowa, and Oregon, have long-running sponsorship programs that are utilized by many borrowers on a repeat basis. Other states, including South Dakota, Utah, and Maine, have used the sponsorship concept a limited number of times with a few borrowers.

Figure 1: Sponsorship Structure

	Loan Amount	Interest Rate (r)	Total Repayment Over Twenty Years
CWSRF Loan	\$1,000,000	3.8%	\$1,463,707
CWSRF Loan with Sponsored Project	\$1,393,442	0.3%	\$1,463,707



In this environment of significant nonpoint source needs and capable CWSRF state partners, the EPA Clean Water State Revolving Fund Program partnered with the EPA 319 Program to contribute to efforts by the Vermont CWSRF Program to make its lending program an appealing, affordable, and accessible source of funding for nonpoint source projects in Vermont. Vermont’s efforts center around the implementation of a Nonpoint Source Sponsorship Program, which in a few other states has proven to be one of the most successful methods for attracting nonprofit partners (and their nonpoint source projects) to the CWSRF program. This document provides an in-depth look at the many steps and considerations that went into to developing Vermont’s Nonpoint Source Sponsorship Program, including the outreach and communication efforts to nonprofit groups. This information may be helpful to other state CWSRF programs seeking to build relationships with environmental nonprofits to generate higher demand for CWSRF nonpoint source project funding.

Vermont: Designing a Nonpoint Source Sponsorship Program

Nonpoint Source Funding History. Vermont’s CWSRF program has provided \$270 million in cumulative funding over 30 years, but only \$618,535 of those funds (0.2%) have been provided to nonpoint source projects (a few decentralized treatment system projects). Prior to 2018, Vermont statute limited the CWSRF to providing loans only to municipalities and state agencies, and only for water pollution abatement and control facilities. The narrow language of the statute prohibited the CWSRF from funding most types of nonpoint source projects and prevented the program from providing funds to nonprofit and non-governmental groups.

Assessing the Need. Realizing the program’s limited history of funding nonpoint source projects, CWSRF managers wanted to pivot the program to provide more cost-effective, low-impact project types with a non-regulatory water quality benefit. As DEC employees, they also realized that the state needed another way to fund non-discretionary types of projects to meet TMDLs. After the sponsorship concept was recommended in a 2017 Clean Water Report produced by the Vermont Treasurer’s office, the CWSRF manager decided that the sponsorship concept would be an important way for the CWSRF to fund the types of projects that align with DEC values.

Determining Financial Capacity. Knowing that legislative approval would be needed to enable sponsorship lending, the CWSRF manager anticipated that she would face questions about the impact of reduced-interest loans on the long-term financial viability of the CWSRF fund. The DEC team decided that funding to offset the reduced-interest loans could come from opening up CWSRF eligibility to private entities and charging the private entities a higher interest rate (2% interest rather than the current CWSRF rate of 0%).

DEC had a pre-existing contract with an actuarial consulting firm, and this contract was modified to have the firm conduct a financial capability review of the CWSRF program with the addition of private loans and subsidized interest rates for sponsorship loans. The actuarial study determined that the increased rate on private loans would allow DEC to make subsidized sponsorship loans up to 30% of the CWSRF loan portfolio without negatively impacting long-term cash balances. The DEC treasurer’s office and in-house CWSRF accounting staff also did projections to evaluate the impact of declining revolving income (accounting for both the use of additional subsidy and the issuance of reduced-interest sponsorship loans), against additional income from private loans, with similar results. Additionally, the Vermont CWSRF program has been under-utilized in recent years, leading to large cash balances that will provide a safety cushion as the sponsorship and private lending programs ramp up.

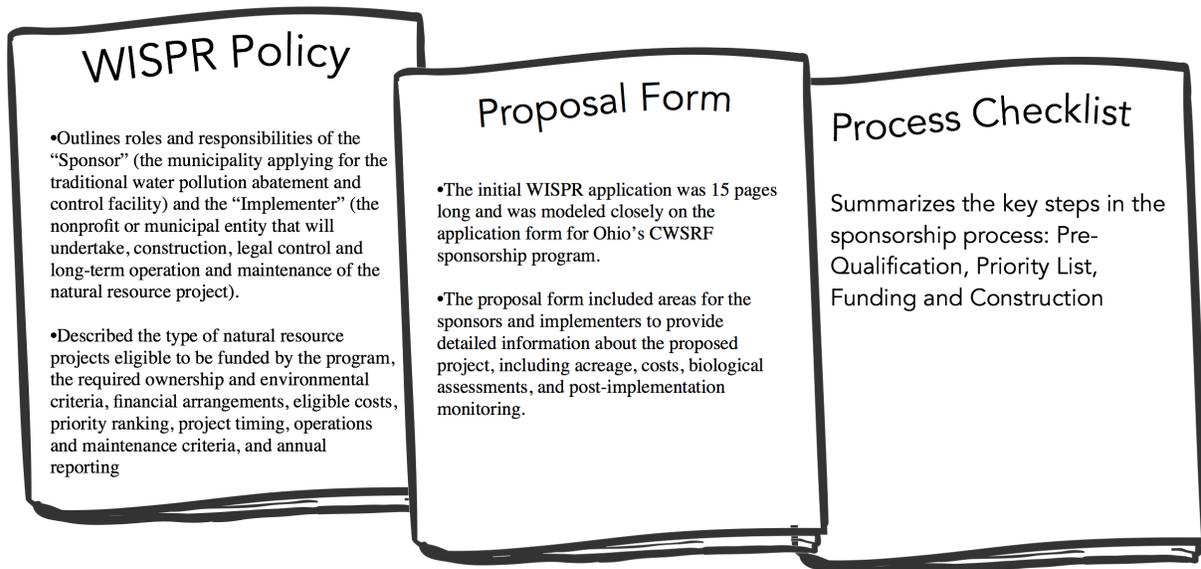
Legislative Approval. Act 185 was passed by the Vermont legislature on May 28, 2018. The Act broadened the types of projects eligible to receive CWSRF assistance from “water pollution abatement and control facilities” to “clean water project,” opening the door for a wide variety of nonpoint source projects (such as stream restoration, erosion control, and conservation easements) to receive CWSRF funding. The Act also added language expanding CWSRF eligibility to private entities for clean water projects and introduced the option for the CWSRF to provide funds to municipalities and nonprofit organizations under a new sponsorship program.

Figure 2: The DEC's summary of Act 185 changes

WHAT DID ACT 185 CHANGE?



Developing the Initial Policy and Process. The Vermont CWSRF coined the acronym “WISPR” (Water Infrastructure Sponsorship Program) as a name for the new sponsorship program. Modeling their efforts off of other state sponsorship programs, the Vermont team put together several initial program documents, including:



- **Developing Incentives.** DEC managers initially anticipated that nonprofit groups would be eager to participate in the WISPR program and to access a new source of capital for natural resource projects. Their fear was that municipalities may have a harder time seeing how they would benefit from participating as a sponsor. With this in mind, DEC designed WISPR with several incentives for the municipal partners, including:



Vermont Sponsorship Working Group

A key feature of the EPA Nonpoint Source Pilot was organizing and facilitating a working group of nonprofits and municipalities to attend a half-day focus group at the State Capitol to build relationships (with each other and the CWSRF) and to brainstorm implementation ideas for the nonpoint source sponsorship program. The Working Group also allowed DEC to get feedback from potential sponsors and implementers on the initial WISPR policy and process as well as identify barriers for nonprofits and municipalities to participate in the program.

Recruitment

The DEC Ecosystem Restoration Office (319 program) and the Vermont Housing & Conservation Board provided the CWSRF manager with an initial list of nonprofits most likely to

New Partners and Allies

The Vermont CWSRF program did not have pre-existing relationships with nonprofit groups. However, the DEC Ecosystem Restoration program had been administering 319 grants for nonpoint source projects for a few years and had relationships with several nonprofit groups as a result. The 319 program staff were able to identify key nonprofit contacts and introduce them to CWSRF staff. The nonprofits were enthusiastic supporters of the sponsorship effort from the beginning, and several of them testified in the Act 185 hearings.

Prior to the sponsorship effort, the CWSRF office had limited contact with the 319 program. When the effort to develop the sponsorship program began, the CWSRF manager forged a strong partnership with the 319 manager to push the program forward. Now, the two groups have regular meetings to coordinate on 319 and CWSRF project eligibility and planning.

be interested in the sponsorship program. On the municipal side, CWSRF staff identified municipalities that were recently included on an Intended Use Plan, those that had used the CWSRF frequently in the past, and larger MS4 communities. Using this list, EPA's contractor made phone calls to personally invite representatives from the nonprofits and municipalities to participate in the working group. The event was described as a 3-hour meeting to discuss various options for structuring a nonpoint source program to allow it to be an effective and attractive option for Vermont nonprofits and municipalities. During the phone conversation, the structure and benefits of the nonpoint source sponsorship program were also briefly explained.

Nineteen representatives from sixteen municipalities joined eighteen representatives from fourteen environmental nonprofits agreed to participate in the working group. The attendees are listed in Table 1.

Table 1: Vermont Working Group Participants

Municipal	Nonprofit
<ul style="list-style-type: none"> • City of Barre (City Manager, Public Works Director) • City of Berlin (Zoning Administrator) • Town of Bristol (Town Administrator) • Town of Castleton (Town Manager, Sewer Commissioner) • City of Burlington (Public Works Director) • Town of Colchester (Technical Services Director) • Vermont League of Cities and Towns • Town of Hartford (Public Works Director) • Town of Milton (Public Works Director) • City of Montpelier (City Engineer) • Town of Northfield (Town Manager) • City of Rutland (Public Works Commissioner) • Town of Swanton (Village Manager, Assistant Village Manager) • Town of St. Johnsbury (Chad Whitehead) • Town of Ludlow (Assistant Operator) • Town of Fairfax (Town Manager, Select Board Administrator) 	<ul style="list-style-type: none"> • The Nature Conservancy • Vermont Land Trust • Vermont River Conservancy • Watersheds United Vermont • Memphremagog Watershed Association • Vermont Housing & Conservation Board • Vermont Association of Conservation Districts • Clean Water Network • Trust for Public Land • Intervale Center • Franklin Watershed Committee • State Natural Resources Conservation Council/Caledonia Conservation District • Vermont Natural Resources Conservation Council/Lake Champlain International • Upper Valley Land Trust

Introduction to WISPR. Two rooms in the Vermont Statehouse were used for the working group. The entire group (approximately 40 attendees) convened together for a presentation on the basics of the proposed sponsorship program. The presentation (given by the DEC CWSRF manager) gave a high-level overview of the sponsorship concept, using examples like the slides in Figure 3:

Figure 3: Overview Slides from Vermont Sponsorship Working Group

Scenario 1: In this scenario, a municipality borrows \$1,000,000 from the CWSRF in order to fund a project. The administrative fee rate is 2%. There is no sponsored project in this scenario.

Scenario 1 Loan Terms

WWTF Project:	\$1,000,000.00
Loan Term Years:	20
Administrative Fee:	2.0%

Payment Number	Principal Due	Principal Payment	Admin. Fee	Total Payment
1	\$1,000,000.00	\$41,136.72	\$20,000.00	\$61,136.72
2	\$958,843.28	\$41,979.85	\$19,187.87	\$61,156.72
3	\$916,863.43	\$42,819.45	\$18,337.27	\$61,156.72
4	\$874,043.98	\$43,675.84	\$17,480.88	\$61,156.72
5	\$830,368.14	\$44,549.36	\$16,607.36	\$61,156.72
6	\$785,818.78	\$45,440.34	\$15,716.38	\$61,156.72
7	\$740,378.44	\$46,349.15	\$14,807.57	\$61,156.72
8	\$694,029.29	\$47,276.13	\$13,880.59	\$61,156.72
9	\$646,753.16	\$48,221.66	\$12,935.06	\$61,156.72
10	\$598,531.50	\$49,186.09	\$11,970.63	\$61,156.72
11	\$549,345.41	\$50,169.81	\$10,986.91	\$61,156.72
12	\$499,175.60	\$51,173.21	\$9,983.51	\$61,156.72
13	\$448,002.39	\$52,196.67	\$8,960.05	\$61,156.72
14	\$395,805.72	\$53,240.61	\$7,916.11	\$61,156.72
15	\$342,565.11	\$54,305.42	\$6,851.30	\$61,156.72
16	\$288,259.69	\$55,391.53	\$5,765.19	\$61,156.72
17	\$232,868.16	\$56,499.36	\$4,657.36	\$61,156.72
18	\$176,368.80	\$57,629.34	\$3,527.38	\$61,156.72
19	\$118,739.46	\$58,781.93	\$2,374.79	\$61,156.72
20	\$59,957.53	\$59,957.53	\$1,199.15	\$61,156.68

Scenario 1 Payments

Total Principal:	\$1,000,000.00
Total Admin Fee:	\$223,134.36
Total Payments:	\$1,223,134.36

CAN YOU GIVE ME AN EXAMPLE?

- MUNICIPALITY "X" IS TAKES LOAN FOR \$1M FOR A PIPE REPLACEMENT PROJECT, THEY WOULD BOND AND REPAY THAT \$1M OVER 20 YEARS AT A 2% ADMIN RATE.

Scenario 2: In this scenario, a municipality borrows \$1,000,000 from the CWSRF in order to fund a wastewater treatment facility project. An additional \$100,000 is borrowed to fund a sponsored project. The administrative fee rate is lowered to 1.0%. The savings from the reduced administrative fee are now greater than the sponsored project.

Scenario 2 Loan Terms

WWTF Project:	\$1,000,000.00
Sponsorship Project:	\$100,000.00
Total Loan Principal:	\$1,100,000.00
Loan Term Years:	20
Administrative Fee:	1.0%

Payment Number	Principal Due	Principal Payment	Admin. Fee	Total Payment
1	\$1,100,000.00	\$49,956.85	\$11,000.00	\$60,956.85
2	\$1,050,043.15	\$50,456.42	\$10,500.43	\$60,956.85
3	\$999,586.73	\$50,960.98	\$9,995.87	\$60,956.85
4	\$948,225.75	\$51,470.59	\$9,486.26	\$60,956.85
5	\$897,155.16	\$51,985.30	\$8,971.55	\$60,956.85
6	\$845,169.86	\$52,505.15	\$8,451.70	\$60,956.85
7	\$792,664.71	\$53,030.20	\$7,926.65	\$60,956.85
8	\$739,634.51	\$53,560.50	\$7,396.35	\$60,956.85
9	\$686,074.01	\$54,096.11	\$6,860.74	\$60,956.85
10	\$631,977.90	\$54,637.07	\$6,319.78	\$60,956.85
11	\$577,340.83	\$55,183.44	\$5,773.41	\$60,956.85
12	\$522,157.39	\$55,735.28	\$5,221.57	\$60,956.85
13	\$466,422.11	\$56,292.63	\$4,664.22	\$60,956.85
14	\$410,129.48	\$56,855.56	\$4,101.29	\$60,956.85
15	\$353,273.92	\$57,424.11	\$3,532.74	\$60,956.85
16	\$295,849.81	\$57,998.35	\$2,958.50	\$60,956.85
17	\$237,851.46	\$58,578.34	\$2,378.51	\$60,956.85
18	\$179,273.12	\$59,164.12	\$1,792.73	\$60,956.85
19	\$120,109.00	\$59,755.76	\$1,201.09	\$60,956.85
20	\$60,353.24	\$60,353.24	\$603.53	\$60,956.77

Scenario 2 Payments

Total Principal:	\$1,100,000.00
Total Admin Fee:	\$119,136.92
Total Payments:	\$1,219,136.92

SPONSORSHIP PAYMENT

- UNDER SPONSORSHIP, THAT SAME MUNICIPALITY WOULD COMBINE THAT PIPE REPLACEMENT PROJECT WITH, FOR EXAMPLE, A BUFFER STRIP FOR \$100K. THEY WOULD TAKE OUT A LOAN FOR \$1.1M, CWSRF WOULD DISCOUNT THE ADMIN FEE AMOUNT TO 1%, SO THEY ARE PAYING THE SAME AMOUNT OVER 20 YEARS. THIS MAKES THE NATURAL RESOURCE PROJECT "FREE".

Breakout Sessions. The attendees split into 2 breakout sessions—a municipal group and a nonprofit group—and settled into separate rooms equipped with easels, flip-charts & pens, and handouts describing various aspects of the WISPR program. EPA contractors served as moderators who led each group of participants in a discussion about the proposed WISPR program.

Awareness and Perceptions of CWSRF and the Nonpoint Source Sponsorship Program: Participants received a factsheet summarizing the draft WISPR policy along with information about the CWSRF, including requirements, eligible projects, and loan term options. The

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factsheet also described the WISPR program, how the program will work, hypothetical project examples, and incentives for participation.

The facilitators asked the participants to read the factsheets and annotate them based on the following:

- **Aspects you find most appealing: STAR**
- **Aspects you find least appealing: CROSS OUT**
- **NOTE aspects where you have questions or would like more information with a “?”**

Based on this exercise, the facilitators then led each group in a discussion of their perceptions of the program. EPA's contractor recorded their feedback on flip-charts and identified common themes. Due to the enthusiastic discussion, there wasn't sufficient time for participants to discuss all the materials provided, but they were encouraged to review the initial WISPR Proposal Form (application) and provide feedback directly to DEC.

Following the break-out sessions, everyone reconvened as one large group. The facilitators hung pages of the flip-charts generated during each break-out session and notated the common themes identified in each. These larger themes were then discussed with the entire group.

Key Takeaways. The topics below generated the most discussion in both breakout groups and the combined group. Participants raised a number of considerations that DEC managers were not aware of when they developed the initial materials and policies for WISPR. As a result of this feedback, DEC made significant changes to the WISPR program design.

The italicized quotes below from the Vermont Working Group are representative of the discussion around these topics.

- **Geographic scope of sponsorship.** A major point of discussion was whether municipalities would be limited to sponsoring projects within a defined proximity, such as within the municipality's geographic borders or watershed. This consideration is handled in different ways by other state CWSRF sponsorship programs; the Ohio sponsorship program, for instance, allows a municipality to sponsor a nonpoint source project anywhere in the state; the Iowa sponsorship program, on the other hand, has a stipulation that the sponsored project must improve water quality in the watershed in which the wastewater utility (sponsor) is located.

The discussions of the working group showed some differences of opinion on this topic between the municipalities and the nonprofits. Several nonprofit participants were concerned that if municipalities could sponsor a project anywhere in the state, the larger and better-funded nonprofits would “shop” their projects around the state looking for a sponsor, leading to greater competition among nonprofits to attract a sponsor. On the other hand, municipalities liked the idea of having more flexibility and access to natural resource projects around the state.



I like the idea of casting a large net. Others may be only interested in their own watershed, but I like that there are opportunities to participate even if there is nothing happening in our own region. [municipal participant]

I like some flexibility, but I like some water quality nexus and connections between local nonprofits and local municipalities. We are worried about competition among nonprofits and don't want several nonprofits bothering one municipality. A clearinghouse of clearly-defined projects might be helpful in this regard. [nonprofit participant]

If municipalities aren't going to get phosphorus credit for sponsoring, I would rather sponsor a project in a community with higher need. The sponsored project will be working toward natural resources TMDL targets, not the municipalities' phosphorus limits. If the municipality is not getting TMDL credit, I don't care if the project is in our own watershed. [municipal participant]



- **Administrative burden.** Both groups were concerned with ensuring that the administrative burden to the municipalities be minimized as much as possible. The groups also agreed that it makes the most sense for the nonprofits to lead project selection and planning, as they are the most familiar with potential natural resource projects in the state (and may also have more technical expertise on implementing these types of projects). However, both groups also expressed concern about the nonprofits' abilities to fund the up-front planning and design work required by the draft WISPR policy and proposal form. The nonprofits noted that unless the CWSRF could provide funding for the nonprofits' administrative planning and design work, the sponsorship program would be a "no-go." DEC managers say that they will explore using state grant funds to pay for the up-front administrative and planning requirements of the sponsorship program. Several participants also thought it might be more feasible to have the municipality sponsor natural resource projects implemented by municipalities (either the sponsoring municipality or another municipality), perhaps with some technical assistance provided by the nonprofits.



[There is] a fear that the nonprofits will not have the resources or ability to do the upfront work; which means that only a few large, out-of-state NGOs will be implementers or municipalities will just sponsor their own projects. [municipal participant]

The eligibility of the nonprofit's project management activities is huge. If WISPR is only paying for the work that the nonprofit is outsourcing, but not paying for the nonprofit's staff time, it won't work. Municipal staff are crunched for time too, so they can't do the upfront work. If the nonprofits' administrative costs are not paid for, it will be very challenging for any nonprofit to go through this process. [nonprofit participant]

Implementers must put in significant work required for the application before funding is secured or guaranteed. The preliminary engineering approval and environmental approval is a huge time and cost commitment without knowing if there will even be funding available for the project. [nonprofit participant]

In regards to municipal involvement, this should have the least administrative burden possible. Even “free” money isn’t free. Applying for funding is a significant administrative burden for staff, which translates to legal and fiduciary cost. [municipal participant]



- **Incentives for municipalities to participate.** During the breakout session, several nonprofits expressed concern about the incentives for municipalities to participate in sponsorship. Likewise in their breakout session, several municipalities were disappointed that the sponsored nonpoint source projects could not be used to help the municipality achieve TMDL or permit compliance (per the WISPR draft policy). However, municipalities also indicated that earning additional priority points toward state pollution control grants was a major incentive for them to participate as project sponsors.



MS4 communities will be really hurt that required projects can’t be sponsored. [municipal participant]

If municipalities could get pollutant reduction credit for a sponsored project, that would be huge. [municipal participant]

If I can’t get benefits for my wasteload allocation, and I can’t sponsor a project within my watershed that will benefit my TMDL, my only incentive in terms of DOLLARS is my priority scoring for grant status. In that case, 15-20 nonprofits can call me – you can all call me! I want all the competition I can get. [municipal participant]



- **Initiating “Matchmaking.”** States with existing CWSRF sponsorship programs approach the issue of matching sponsors with implementers in different ways. In Ohio, the partnerships are generally initiated by the nonprofits, whereas in Oregon and Iowa, the municipality bears more responsibility for identifying the nonpoint source project and contacting nonprofits for assistance. The draft WISPR policy reviewed during the Working Group indicated that the implementer is responsible for securing a willing project sponsor after initial planning and design of the project is complete. The nonprofits were uncomfortable with the uncertainty of this arrangement, and they also indicated that the “matchmaking” should be able to occur in both directions.



It’s unappealing that the process starts with an implementer submitting a project application form, and then four steps later the implementers secure a willing sponsor. That is a lot of up-front work and cost for an uncertain

outcome. It seems backwards; the matching conversation and information on funding availability should happen at the beginning. Too much up-front work is required in the application stage before funding is secured. This is a disincentive to apply. [nonprofit participant]

No one wants the burden of project development shifted to the municipality. [joint session]

The current policy has the nonprofit “shopping” for a sponsor. We would prefer to see it happen the other way around. We want a project that provides the best 10-1 ratio, and is more likely to support a project in our own watershed. Knowing the project location and cost is much more attractive. [municipal participant]

As soon as the muni or NGO conceives of a project, then they should reach out to the nonprofits and vice versa to engage in discussion. “Recruiting” can happen in either direction, it should just happen early in the process. We have a 5-year planning horizon so there is plenty of time for an NGO to bring a project. From the municipal side, I’m not sure who to reach out to because I don’t have an inventory of NGOs and their specialties – we need a reference sheet on what partners focus on what types or projects. [municipal participant]



- **Ongoing reporting.** Working Group participants expressed concern about the level of effort that will be needed for ongoing reporting required by the WISPR program. Initial WISPR documents indicated that the owner of the natural resource project will be required to submit annual reports. Working Group participants emphasized that the ongoing reporting burden should be minimized as much as possible.



The ongoing reporting aspect should be made as efficient as possible as well. [municipal participant]

We typically have to report on conservation projects anyway, so we would like for the annual report format to DEC be in the same format as the NGOs are already using. For the municipalities, it is beneficial for nonprofits to handle this reporting. [nonprofit participant]



Changes to WISPR Policy and Process

The CWSRF manager noted that there were “universal accolades” for the Working Group from the nonprofits who participated. DEC had developed working relationships with several of the nonprofits during the legislative activity, but the Working Group allowed DEC to form relationships and get buy-in for the program from many other nonprofit groups.

Feedback from the Working Group resulted in major changes to the design of the WISPR policy and processes. After concerns were raised about the administrative burden of the draft application, DEC edited the priority list application and sponsorship applications significantly. The new applications are much shorter and simpler, while still allowing DEC to know very early on whether the project will be a good candidate for sponsorship.

The initial WISPR policy shared during the Working Group prohibited sponsoring a project that was required to meet a TMDL or other regulatory requirement. A few municipalities were vocal in their disagreement of this policy; as a result, DEC changed the policy to allow 50% of the funding to be used for natural resource regulatory projects. DEC managers expect that this situation will not come into play often but may be useful for a few municipalities with thermal TMDLs that mandate tree plantings. The draft policy was also changed to provide more flexibility on property-ownership restrictions.

Another concern raised during the Working Group centered around the lack of visibility for projects in the planning stage. While nonprofits could easily find traditional projects in the planning stages from the CWSRF's Intended Use Plan, municipalities did not have a mechanism to identify potential natural resource projects that might be available for future sponsorship. The CWSRF manager introduced a concept used by the Ohio CWSRF sponsorship program for a 1-year planning list but adjusted the concept to a 5-year list to account for the learning curves in Vermont's brand-new program. Natural resource projects in the planning stage can remain on the list for up to 5 years and will be visible on DEC's website and Intended Use Plans. Once projects have completed planning and are ready to pair with a sponsor, they will be moved to a "match-ready" list.

Perhaps the most impactful change resulting from the Working Group is the decision to use CWSRF principal forgiveness to help nonprofits plan the natural resource projects. During the Working Group, nonprofit and municipal participants were adamant that requiring nonprofits to shoulder the up-front planning burden prior to securing a funding sponsor would mean that few projects would be able to get off the ground. DEC responded by allocating \$250,000 annually in CWSRF principal forgiveness (capped at \$50,000 per project) to be used to plan the natural resource projects. If the project is not viable or fails to move forward, the planning money will be forgiven, eliminating risk to the nonprofit. If the project does go forward and is sponsored via a CWSRF loan, DEC will recoup the planning funds that were provided upon repayment.



"The Working Group was a huge step in relationship-building. The time spent on the half-day workshop gave us so much buy-in and allowed us to work out the kinks prior to the public comment period."

-Terisa Thomas,
Vermont CWSRF Manager

Q&A on Starting a CWSRF Sponsorship Program with the Vermont CWSRF Manager

Q: What advice would you give to another state that wants to start an SRF sponsorship program?

A: Immediately work with other SRFs that already have sponsorship programs. Do a full analysis of the potential barriers – such as statutory changes – and put protections in place to make sure a few projects don't suck up all the available funds. Work with the League of Cities & Towns to identify potential barriers and identify stakeholders who can help. Environmental nonprofits are very well-organized and are very experienced in advocacy work, so they are great to have on the SRF's side. They can be very valuable in pushing legislative change. When creating a sponsorship program, don't make a beeline to the end – the time spent for the half-day working group gave DEC so much advanced buy-in. Walking down the hall to talk to the 319 people is also extremely valuable.

State Sponsorship Programs: Effective Practices in Attracting Nonprofit & Municipal Participation

As Vermont worked on ramping up the new WISPR program, they kept an eye toward best practices from other existing successful CWSRF sponsorship program. Among these are Ohio and Iowa, two states with the longest-running sponsorship programs in the country.

The bullets below highlight some of the most effective practices that these states have used to attract nonprofits and municipalities to participate in their CWSRF sponsorship programs. Table 2 shows a comparison of the key features of Ohio and Iowa's CWSRF sponsorship programs.

- Ohio has several large municipalities that use the SRF year after year. These repeat borrowers always elect to sponsor projects because it saves them money (an additional interest rate reduction that more than covers the cost of the project), and because it gives the sponsor good press and public relations.
- Ohio has a well-established network of water quality nonprofits. When the sponsorship program was introduced, the Ohio EPA (CWSRF agency) marketed the program directly to this water quality network.
- Ohio allows flexible sponsorship arrangements to help sponsors and nonprofits participate to the extent they are able. The program allows multiple sponsors to team up to provide the necessary funding for a nonpoint source project. They have had multiple projects from the same entity and multiple sponsorships from the same implementer. Some small communities act as partial sponsors, contributing their interest savings to fund a portion of a nonpoint source project. The Ohio managers pointed out that a 1-to-1 match is not always

necessary; the state could create a pool of projects and have sponsors contribute a set amount to the pool.

- Both Iowa and Ohio complete the Environmental Review on behalf of their borrowers (for sponsored and non-sponsored projects). Even though most of the natural resource projects qualify for a categorical exclusion, the environmental review process (and associated administrative burden), can still be intimidating for nonprofit groups. By completing this step for all projects, the Ohio and Iowa CWSRFs make the sponsorship program more approachable and affordable for nonprofit groups.
- The Iowa CWSRF ran a successful linked deposit program for nonpoint source for many years. Under the linked deposit program, the CWSRF passed funds through local banks for nonpoint source projects on private agricultural land that had been approved by local soil and water conservation districts. Linked deposit programs are popular with the local implementers of nonpoint source projects because the structure allows them to work directly with their local bank rather than the state agency. At the same time, the program provides an opportunity for the CWSRF agency and CWSRF program to gain more name recognition among nonpoint source project sponsors and build relationships with the nonprofit community in the state.

Table 2: Comparison of Implementation Details used by Other State CWSRF Sponsorship Programs

Ohio	Iowa
<p>Matchmaking: Nonprofit is responsible for contacting municipality directly to request sponsorship. CWSRF staff are not involved in the conversations, as they want the agreement to be voluntary between the two parties.</p>	<p>Matchmaking: Iowa includes a list of proposed NPS projects in the IUP, with the watershed and project description. The list also identifies proposed partners. The municipality bears most of the responsibility for selecting a natural resource project and completing the application. At that point, the municipal sponsor will identify a nonprofit partner organization.</p>
<p>Project Scope: The geographic scope of the natural resource project is not limited. Municipalities may sponsor a project anywhere in the state.</p>	<p>Project Scope: Municipalities must select a natural resource project that improves water quality within the watershed where the wastewater utility is located.</p>
<p>Reporting: Annual Reports for the natural resource project must be submitted to the CWSRF for the life of the project (up to 20 years)</p>	<p>Reporting: No ongoing reporting is required, but a 28E agreement must be signed between the municipality and the nonprofit specifying maintenance responsibilities.</p>
<p>Timing: 2-year cycle for the natural resource project. In year one, the project is fully planned and approved. In year two, project funding is awarded for the sponsored project and the traditional project and the loan agreement is signed. The implementation schedule for the natural resource project is based on the milestones to be achieved for that project alone, and is independent of the schedule for the wastewater treatment project.</p>	<p>Timing: It is critical for the natural resource project to approach design approval / construction readiness at the same time the wastewater project is nearing substantial completion. The final amount available for the sponsored project depends on the final amount disbursed for the wastewater project.</p>
<p>Invoicing: The municipality is responsible for reviewing and approving invoices for the natural resource project, then passing the invoices along to the CWSRF for reimbursement to be sent to the implementer.</p>	<p>Invoicing: The implementer sends invoices directly to the CWSRF for reimbursement.</p>
<p>Disbursements: Funds are made available for the natural resource project by advancing a portion of the estimated interest to be paid over the life of the loan.</p>	<p>Disbursements: Invoices for the sponsored project and the wastewater project must be submitted to DNR separately and clearly labeled.</p>
<p>Sponsor Involvement: The municipality has a formal sponsorship agreement with the implementer to proceed with the project. Other than that, the sponsor doesn't have much involvement in the sponsored project.</p>	<p>Sponsor Involvement: The municipality is the applicant for the natural resource project and is fully responsible for the project, unless it enters into an agreement with a nonprofit to transfer responsibility.</p>

<p>Eligibility: Appraisal reports, monitoring and annual reporting are not eligible costs. Only costs directly related to water quality protection and restoration are eligible. Ohio will pay for some administrative expenses, like title searches and planning activities; but the nonprofit must cover the funds up-front and submit invoices after the work is completed.</p>	<p>Eligibility: Ineligible projects include those required by an NPDES permit or mitigation measures, passive recreation activities and trails including bike trails, playgrounds, soccer fields, picnic grounds, habitat creation contrary to the botanical history of the area, planting of nonnative plant species, dredging, and projects required as part of a consent decree.</p>
<p>Guarantee of Funds: If the project comes in low and the funds aren't needed, Ohio may move the funds into a partially funded sponsored project. If there is no other repository, the funds just stay in the SRF pot. Ohio handles the diversion of interest on the back end, and the sponsor's repayment is not affected. The sponsor's interest and repayment is locked in at the beginning, and is independent of the final costs of the nonpoint project.</p>	<p>Guarantee of Funds: Because the amount available for the sponsored project is based on the final wastewater loan amount, the amount of funding available may decrease if a sponsor makes P&I payments before their wastewater loan can be amended to add the sponsored project costs, or if the final amount drawn for the wastewater project is lower than the IUP amount. Because the funds available are subject to change, applicants are encouraged to design the sponsored project to be scalable.</p>
<p>Funds Available (Per Project): Funds are allotted to each sponsored project on the priority list in either the amount requested on the nomination form or the amount of interest available on the sponsor's loan, whichever is less. If a natural resource project is at the end of the fundable range of the priority list, Ohio EPA may provide partial funding for the project.</p>	<p>Funds Available (Per Project): Approximately \$100,000 per \$1 million borrowed is available for sponsored costs. The maximum amount available is the lesser of:</p> <ul style="list-style-type: none"> • The amount requested by the applicant for the sponsored project; • 10% of the wastewater loan at the time of sponsored project application; • 10% of the final draw amount on the wastewater loan; or • The calculated amount determined by the reduction of the interest rate up to 1%
<p>Funds Available (Overall Program): The Ohio CWSRF made \$15 million available for the interest subsidy on sponsorship loans in 2018-2019. Funds are allotted to each WRRSP project on the priority list in either the amount requested on the nomination form or the amount of interest available on the sponsor's loan, whichever is less.</p>	<p>Funds Available (Overall Program): A total of \$10 million was available in FY2018 for interest rate reductions.</p>