



Funding Forever: Clean Water and Drinking Water State Revolving Funds



During the last three decades, the Clean Water and Drinking Water State Revolving Funds have provided \$179 billion for water infrastructure to thousands of communities across the nation. An estimated \$75 billion of that funding continues to revolve in the subsidized loan programs, with loan repayments providing a recurring source of revenue for water infrastructure – forever.

A Long-Term Commitment to Funding for Water Infrastructure

Congress established the State Revolving Funds (SRFs) to provide a renewable source of revenue for water infrastructure that protects public health and the environment. SRFs provide utilities and other eligible borrowers with subsidized loans and other forms of low-cost financing to build, repair and improve water infrastructure, such as construction of water treatment plants, replacement of pumps and pipes, restoration of wetlands, and protection of sensitive estuaries.

A National Program, Managed by States, Delivering Results Locally

Established in 1987, the Clean Water SRF replaced a federal grant program which provided funding directly to municipalities for construction of wastewater treatment facilities. Transitioning from a federally-run construction grant program to a state-run loan program offered significant benefits. State management ensures federal investment in infrastructure effectively meets the diverse and evolving needs of thousands of communities across the country. Subsidized loans lower the cost of infrastructure which helps utilities keep water and sewer rates affordable. The revolving nature of the loan program provides a perpetual source of funding for water infrastructure that is protected from potential budget constraints.

Impact of Federal Funding
Since 1988, more than \$68 billion in federal funding to the SRFs has generated \$110 billion in non-federal funding for a total investment of \$179 billion in water infrastructure.

Federal-State Funding: Partnership and Perpetuity Since the SRFs were established, Congress has provided an annual federal grant, called a “capitalization grant,” to build the principal or “corpus” of the SRFs. States are required to match 20% of the annual capitalization grant with state funds. Some states also issue bonds to increase availability of funding. Loan repayments make up the rest of the funding in the SRFs. Federal and state contributions, as well as loan repayments, must remain in the SRFs in perpetuity, providing a permanent source of revenue for water infrastructure in the future.

Affordable Investment in Water Infrastructure

All SRF loans are subsidized. State and federal funding allows SRFs to offer loans at or below market rate, which means loan recipients pay less in interest than they would on a loan from a private lender. In 2018, the average interest rate on an SRF loan was 1.6%, compared to the average market rate of 3.3%, saving ratepayers millions of dollars in interest payments.



Meeting Water Infrastructure Needs – Now and in the Future

Maintaining the Financing Integrity and Sustainability of the SRFs

Additional Subsidization (“Add Sub”) and Technical Assistance (“Set-Aside”)

Additional subsidization is financial assistance that doesn’t need to be repaid and includes principal forgiveness, grants and negative interest rate loans. The Drinking Water SRF can also “set-aside” up to 27% of the capitalization grant to provide technical assistance to support water systems through the Public Water Supply Supervision program.

Balancing the Need for “Add Sub” with the Need for Investment in More Projects

Since 2009, Congress has mandated a percentage of the federal capitalization grant be provided in additional subsidization for both SRFs. In 2020, federally mandated additional subsidization is 20% for the Drinking Water SRF, with at least 6% dedicated to disadvantaged communities, and 10% for the Clean Water SRF, available to all eligible applicants. In addition, both SRFs can provide up to 30% of their annual capitalization grant for additional subsidization to communities that meet affordability criteria or for certain projects defined in the law.

Additional subsidization is an important tool to help communities in need, but additional subsidization also reduces the total number of infrastructure projects that can be funded in the future. For example, a Drinking Water SRF can use up to 77% of its capitalization grant on set-asides and additional subsidization, leaving just 23% for revolving loans to meet future water infrastructure needs. The Clean Water SRF can use up to 40% of their capitalization grant on additional subsidization.

Maintaining the ability to provide additional subsidization but allowing states to determine how much “add sub” is necessary balances the needs of communities today with needs of communities in the future. Giving states the ability to determine the balance between subsidized loans and additional subsidization will maximize federal investment in water infrastructure – now and in the future.

	Subsidized Loans	Additional Subsidization
Perpetual	Every federal grant dollar provided in SRF loans permanently enters circulation for future loans, strengthening the source of funding to meet future water infrastructure needs.	Every federal dollar provided in additional subsidization is permanently removed from circulation, reducing funding to meet future water infrastructure needs.
Recurring ROI (Return-on-Investment)	SRF loans recycle federal and state funding over and over, providing multiple benefits to multiple communities over multiple generations.	Additional subsidization provides a one-time benefit for federal investment in infrastructure.
Shared Responsibility	SRF loans lower the cost of construction while maintaining local participation in infrastructure	Additional subsidization can foster dependence on the federal government for infrastructure
Protected	SRF loans create a source of revenue that is protected from potential budget constraints in the future.	Additional subsidization requires perpetual appropriations.