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COUNCIL OF INFRASTRUCTURE FINANCING AUTHORITIES

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 $171 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, $65 billion in federal funding to the SRFs has generated $106 billion in non-federal funding for a total investment of $171 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 Asides”)

SRFs provide additional subsidization (“add sub”) in the form of loan forgiveness, negative interest rate loans, and grants. Federal law caps the amount of the capitalization grant that can be used for additional subsidization. Additionally, the Drinking Water SRF can “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

Until 2009, Drinking Water SRFs could provide up to 30% of their capitalization grant in additional subsidization to disadvantaged communities; Clean Water SRFs didn’t have the ability to provide additional subsidization.

Since 2009, Congress has mandated a percentage of the federal capitalization grant be provided in additional subsidization for both SRFs. Today, federally mandated additional subsidization is 10% for the Clean Water SRF, available to all applicants, and 26% for the Drinking Water SRF, 6% dedicated to disadvantaged communities with the remaining available to all applicants.

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 - now and in the future. For example, a Drinking Water SRF can spend up to 86% on set asides and additional subsidization, leaving just 14% for revolving loans to fund water infrastructure in the future.

Maintaining additional subsidization but allowing states to determine how much “add sub” is necessary balances the needs of disadvantaged communities with the demand for investment in more water infrastructure projects. Giving states the ability to make the decision – either to offer additional subsidization or invest in more water infrastructure projects – will maximize federal investment in water infrastructure.

	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 investment.	Additional subsidization can foster dependence on the federal government for infrastructure investment.
Protected	SRF loans create a source of revenue that is protected from potential budget constraints in the future.	Additional subsidization requires perpetual appropriations.