

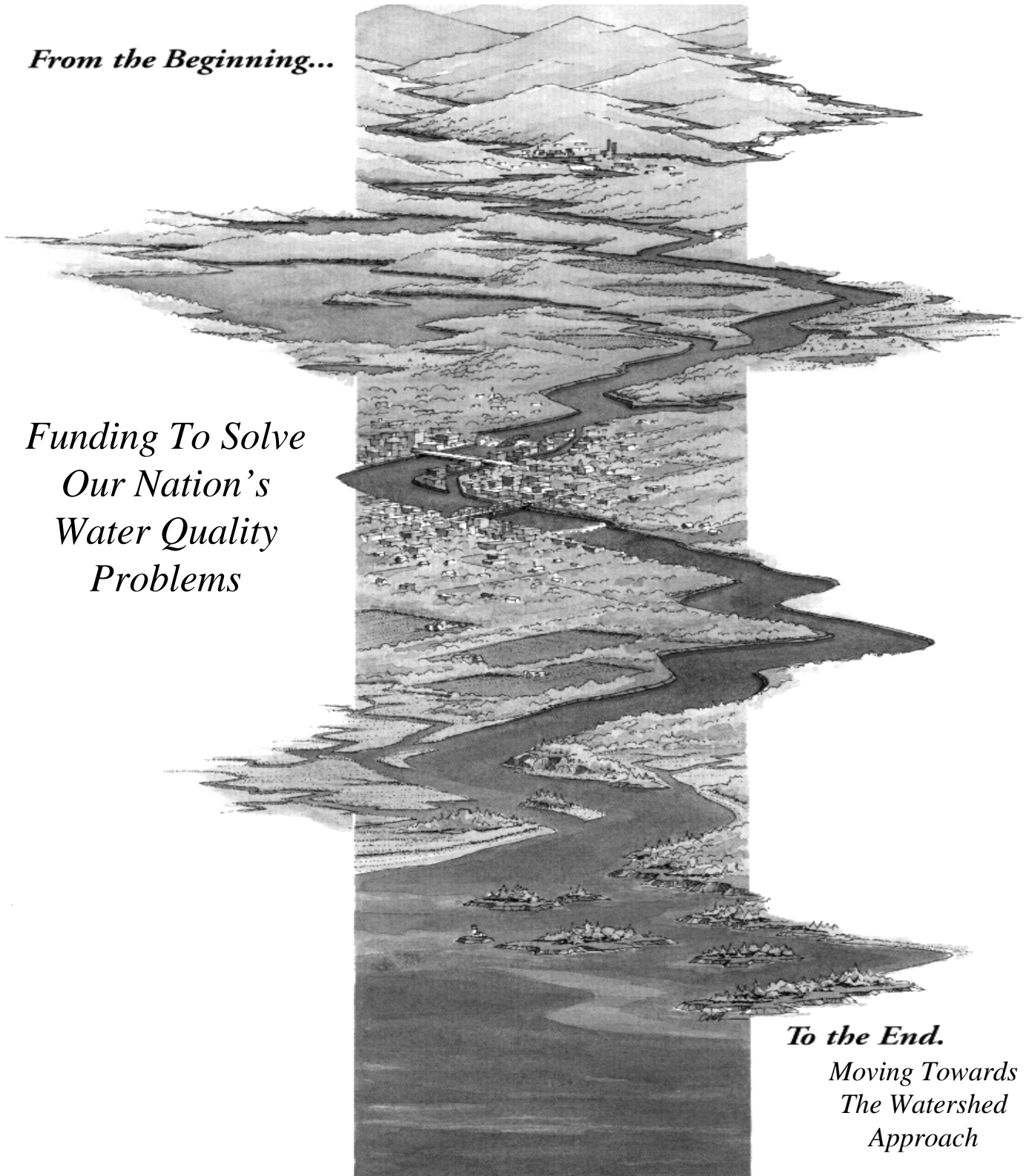
# **The Clean Water State Revolving Fund Funding Framework**

*From the Beginning...*

*Funding To Solve  
Our Nation's  
Water Quality  
Problems*

*To the End.*

*Moving Towards  
The Watershed  
Approach*





**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY**  
WASHINGTON, D.C. 20460

OFFICE OF  
WATER

October 21, 1996

State Environmental Agency Directors

I am pleased to forward the final *SRF Funding Framework -- Policy and Guidance* document to you. The Framework is the product of a year-long dialogue between EPA and its State partners to clarify the possible uses of SRF funds. The document also provides States with a tool to establish relative priorities to guide the use of SRF funds to correct water quality problems on a statewide or watershed basis. The Framework builds upon the current SRF program, broadens the participation of nonpoint source and estuary constituent groups, and encourages States to establish integrated water quality priorities.

The Framework is designed to help States set priorities and demonstrate the relative importance of funded water quality projects to the public. Further, the process described in this document will help States select certain "non-traditional" projects where the connection to water quality improvements is critical, but more difficult to demonstrate. The Framework establishes voluntary guidelines for funding traditional SRF projects (where the primary purpose is water quality) and sets national policy for States that wish to make use of their SRF to fund innovative non-traditional projects.

A series of workshops is scheduled for early 1997 to assist States in developing integrated priority setting systems and linking their SRF programs and watershed planning efforts. These workshops will be oriented toward State officials working on nonpoint source, estuary, wetlands, watershed, and SRF programs and will seek to begin the process of information sharing at the State level on these important issues. I wish to thank the many State and EPA participants and reviewers for their helpful input and comments which allowed us to more clearly articulate the purpose of this document.

Sincerely,

/s/

Robert Perciasepe  
Assistant Administrator

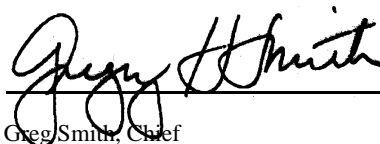
## THE SRF DIALOGUE GROUP

The attached SRF Funding Framework is a policy and guidance document that is the work product of a facilitated negotiation process involving EPA and State representatives. The Dialogue Group included participants from EPA and a number of States who are listed below. During the process, the negotiators solicited input from all of the States and other interested parties. The negotiations took place over the course of a year and this document represents a balancing of interests among all constituencies.

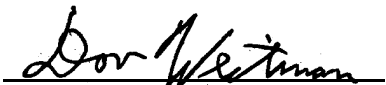
The Framework provides States with a tool for establishing relative funding priorities on a state-wide or watershed basis for a wide range of water quality projects. The Framework builds upon the current SRF program, broadens the participation of nonpoint source and estuary programs and constituents, and encourages States to establish integrated water quality priorities.



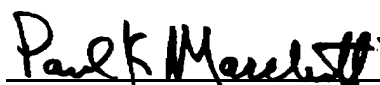
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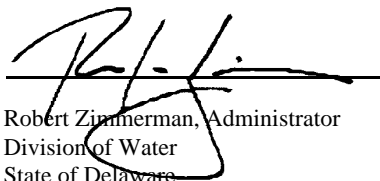
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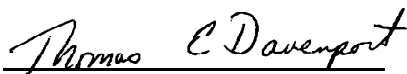
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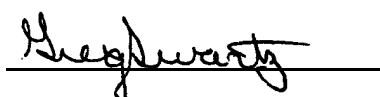
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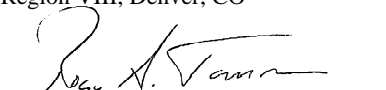
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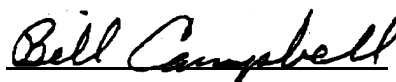
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# **THE CLEAN WATER STATE REVOLVING FUND FUNDING FRAMEWORK**

## ***Policy and Guidance Document***

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### ***Purpose of this Guidance***

The purpose of this guidance is to clarify Federal policy regarding the eligibility of nonpoint source and estuary projects for State Revolving Fund (SRF) assistance and to enhance the process for making future eligibility decisions at the state level. The intent of the Framework is to provide a basis for equal consideration of all eligible water quality<sup>1</sup> projects for SRF funding.

The purpose of this guidance is to provide a framework for the states to:

- 1) evaluate and determine relative priorities among their water quality problems,
- 2) select, for SRF funding, projects and activities that address identified priorities, and
- 3) enhance the participation of the public in this process.

This Framework is intended to enhance the existing SRF planning and priority setting process, including the development of the Intended Use Plan (IUP), by utilizing existing water quality and watershed information. This analysis of a state's water quality problems would be described in or accompany the annual IUP with the intent of demonstrating progress toward meeting water quality goals. Public review procedures are enhanced through development of better information on the state's water quality problems and the intended use of the SRF to help address those problems. This process will be further enhanced by the expanded participation of the nonpoint source and estuary communities.

### ***Background***

Over the first seven years of the State Revolving Fund program, state interest and innovation in addressing and funding projects to address nonpoint sources of pollution has increased

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<sup>1</sup> "Water Quality" - in this document, refers to both surface and ground water resources. Project may be designed to address threats to the chemical, physical and biological integrity of surface waters. The SRF is also available to address threats to ground water if such activities or projects are included in a state's nonpoint source or estuary management plans. State comprehensive groundwater protection plans may be incorporated into the planning and priority setting processes described in this document.

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substantially. As the program moves toward funding a greater variety of projects<sup>2</sup>, including nonpoint source and estuary management activities, as well as municipal wastewater projects, SRF managers will need to ensure that the substantial but still limited resources of the fund are directed to the highest priority projects.

Under the current framework of legislation, regulations, and policies, both at the federal and state level, the 51 SRF programs have planning procedures that are adequate to successfully direct funds to traditional wastewater projects. The current procedures generally allow states to identify relatively important wastewater projects and then to select relatively low-risk projects from among those priorities.

As the universe of potential loan applicants (farmers, conservation groups, citizen action groups, gas station owners, other businesses, etc.) seeking funding for a wider variety of nonpoint source and estuary projects expands, the need to effectively evaluate the potential environmental importance and the financial risk of projects increases and grows in complexity. The planning and priority setting procedures in place in many of the 51 SRF programs were not designed to determine priorities within a greatly expanded universe of potential projects that include nonpoint source and estuary activities. EPA believes that improvements must be made to these procedures to ensure that SRF funds continue to be directed to the highest priority projects without jeopardizing the long-term health of the SRFs.

Based on this situation, EPA has engaged in a policy setting dialogue with the states, as co-regulators. State and federal representatives have been meeting since June 1995 with the goal of reaching a consensus on a policy framework that contains two alternatives. These alternatives, which are outlined in this document, suggest ways that states (that are not already doing so) can evaluate current environmental priorities and develop a list of priority projects or geographically-specific activities (including wastewater, nonpoint source and estuary) appropriate for SRF funding. Both alternatives are intended to enhance states' planning and priority setting efforts and to utilize existing sources of information. Deciding which projects and activities will receive funding within the policy framework remains a state responsibility.

## ***Overview***

The states and EPA have identified some common principles which have served as the basis for this policy.

- The definition of what is eligible for SRF funding needs to be clarified, so project-by-project review by EPA in the future will not be necessary.
- The range of SRF eligibilities should remain broad to support achievement of the goals of the Clean Water Act.

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<sup>2</sup> All SRF projects must be "capital" type projects, such as constructing treatment facilities, planting trees and shrubs, purchasing equipment, and environmental cleanups. The SRF cannot fund operations and maintenance costs of sewage treatment facilities or general O&M costs such as staff salaries and fuel for equipment that are outside the scope of a project.

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- Responsibility for setting priorities and allocating resources must remain at the state level. EPA serves to facilitate the use of SRF funds to meet priority water quality needs.
  - The SRF should be managed as an integral part of each state's overall water quality program.
  - The participation of the nonpoint source and estuary (Clean Water Act Sections 319 and 320) programs and constituents in the SRF planning and priority setting process should be broadened.

### ***Applicability of the Framework Process***

In order for a state to fund a “non-traditional” water quality project with SRF funds, it must use an integrated planning and priority setting system, such as the two alternatives described in this document, to establish for the public that “non-traditional” projects are a priority within the context of a state's water quality problems as a whole. In this guidance, the term “traditional” refers to both wastewater projects and nonpoint source and estuary projects. A traditional water quality project is one for which the primary purpose is water quality protection. A “non-traditional” project is one for which the primary purpose is other than water quality, but which has an additional purpose which is clearly related to the improvement or protection of water quality (for instance, the primary purpose of a new landfill is solid waste disposal). Non-traditional estuary and nonpoint source projects are eligible for SRF loans and states may use their SRFs to fund only the portion of the project that is related to water quality (see Appendix for examples). This policy becomes effective when a state prepares its 1998 IUP.

EPA strongly encourages all states to enhance their SRF planning and priority setting systems according to the principles contained in this Framework.

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## **Alternative One: Integrated State Priority System for Wastewater, Nonpoint Source and Estuary Projects**

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### ***State<sup>3</sup> Roles and Responsibilities***

#### **Step 1: Review Existing Water Quality Information and Determine Priorities**

- The state reviews existing water quality information from its water quality inventory (CWA Section 305(b) report), nonpoint source management plan (' 319), estuary management plan (' 320), watershed plans, comprehensive groundwater protection plan, and other sources to determine its overall water quality priorities. The purpose of this review is to identify where efforts to protect or improve a state's water resources are needed.

#### **Step 2: Determine Priorities for SRF Funding**

- The state evaluates its water quality needs and develops its priorities for SRF funding for the time period in question. States may develop their own prioritization systems. Options could include the following:
  - Identify priority waters according to the needs within these waters.
  - Identify priority problems or needs at the state level.
  - Use priorities generated by a state's watershed management program, if available.

#### **Step 3: Select Proposed Projects/Activities for Inclusion in the Intended Use Plan**

- The state chooses the projects and activities it proposes to fund for the time period of the IUP. These selections will be consistent with the state's priorities determined in Step 2, and will also reflect appropriate fund management considerations, including readiness to proceed, legal/institutional limitations, credit worthiness, financial risk to the SRF, relative costs and benefits, availability of alternative funding sources, etc.

#### **Step 4: Public Review of the Intended Use Plan**

- The state explains the evaluations it made in the previous steps to the public through an inclusive public process that includes a public meeting or hearing. In particular, major public and private stakeholders representing relevant interests in the state's water quality programs are invited to review and comment on the proposed IUP. (Stakeholders would include government agencies (at all levels) and representatives of environmental and citizen action groups, businesses and constituents in targeted watersheds who are

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<sup>3</sup> It is intended that the entire planning and priority setting process for the SRF be conducted in a cooperative manner and include the participation of the nonpoint source and estuary programs and any others the state deems relevant.

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interested in point sources, nonpoint sources, estuaries, wetlands, and watersheds, as well as solid waste, underground storage tanks,<sup>4</sup> and other relevant issues.)

#### **Step 5: Finalization of the Intended Use Plan**

- After taking into account all comments and suggestions and making appropriate revisions, the state finalizes its IUP.

#### **Step 6: Annual Report**

- As part of the state's existing annual report process, the state reports progress toward meeting the priorities identified above.

### ***EPA Roles and Responsibilities***

Over the long term, EPA's role will evolve from one of policy development and guidance to one of support, training, technical assistance and continuing oversight to assure the integrity of the assets and the long-term viability of the 51 SRF programs. In this context EPA will:

- Provide program support to the states and promote communication among states regarding planning and priority setting systems.
- Identify national policy objectives. EPA will assist states in meeting these objectives through training and other forms of assistance. Training and assistance could cover all aspects of program management and administration.
- Review state progress on an annual basis, including assessment of fund performance, compliance with statutory requirements, and the fiscal health of the program, and provide appropriate assistance and guidance.
- Develop and maintain the national SRF information system. Facilitate the dissemination of information regarding financing of nonpoint source and estuary projects.
- Work with the states to implement this policy and provide assistance as needed.

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<sup>4</sup> With regard to underground storage tanks, EPA policy allows SRF loans to be issued for removal and cleanup associated with leaking underground storage tanks, however, SRF loans may not be used for the purchase or installation of new tanks. Any project that is not a Section 212 treatment works (such as underground storage tanks, landfills, manure storage facilities, etc.) must be included on a state's approved nonpoint source or estuary management plan.



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## Alternative Two: Goals Approach (Statewide or Watershed)

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### *State<sup>5</sup> Roles and Responsibilities*

#### **Step 1: Statewide or Watershed Problem Identification**

- The state develops a description of the potential uses of SRF funds that meet the broad goals of the Clean Water Act, in accordance with state requirements. This discussion provides a basis for identification of projects and activities in the IUP.
- The state identifies priority water quality problems, integrating information from the state's water quality inventory (CWA Section 305(b) report), nonpoint source management plan (' 319), estuary management plans (' 320), comprehensive groundwater protection plan, watershed plans, if available, and any other sources of relevant information. The format utilized could be similar to the executive summary of the ' 305(b) report and would refer to more detailed information as appropriate. This information is included in the draft IUP as part of the public review process.

#### **Step 2: Statewide or Watershed Evaluation of Problems**

- The state articulates and answers the broad policy questions that should be considered in allocating resources across wastewater, nonpoint source and estuary categories. Questions to consider might include:
  - Are there other significant sources of funding (federal, state or local)?
  - Is there a regulatory solution that would remedy the problem?
  - What are the environmental benefits?
  - What is the likely response of recipients to an interest rate subsidy?
  - Is this class of activities eligible for funding (e.g., there may be state level restrictions)?

#### **Step 3: Establishment of Statewide or Watershed Funding Goals**

- Based upon the analysis in Steps 1 and 2, the state establishes broad funding goals for the categories (i.e., wastewater, nonpoint source, estuary) of SRF funds. The state might set quantitative or qualitative objectives for allocating funds among categories. The state retains flexibility to make adjustments in meeting these goals. Examples of goal setting options include:
  - set funding goals for targeted watersheds (percentages)
  - set funding goals for statewide activities (percentages)
  - set goals based on performance objectives (i.e., reduce nutrient loads from agricultural sources in watersheds x, y and z)

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<sup>5</sup> It is intended that the entire planning and priority setting process for the SRF be conducted in a cooperative manner and include the participation of the nonpoint source and estuary programs and any others the state deems relevant.

- 
- set goals based on relative priorities
  - other

#### **Step 4: Select Proposed Projects/Activities for Inclusion in the Intended Use Plan**

- Based upon the broad goals established, the state chooses the traditional and non-traditional projects and activities it proposes to fund for the time period of the IUP. These selections will be consistent with the state's priorities and funding goals, and will also reflect appropriate fund management considerations, including projects' readiness to proceed, legal/institutional limitations, credit worthiness, financial risk to the SRF, relative costs and benefits, availability of alternative funding sources, etc.

#### **Step 5: Public Review**

- The state explains the evaluations it made in the previous steps to the public through an inclusive public process that includes a public meeting or hearing. In particular, major public and private stakeholders representing relevant interests in the state's water quality programs are invited to review and comment on the proposed IUP. (Stakeholders would include government agencies (at all levels) and representatives of environmental and citizen action groups, businesses and constituents in targeted watersheds who are interested in point sources, nonpoint sources, estuary, wetlands, and watersheds, as well as solid waste, underground storage tanks and other relevant issues.)

#### **Step 6: Finalization of the Intended Use Plan**

- After taking into account all comments and suggestions and making appropriate revisions, the state finalizes its IUP.

#### **Step 7: Annual Report**

- As part of the state's existing annual report process, the state reports progress toward meeting the broad funding goals identified above.

#### **Step 8: Self-Assessment**

- Periodically (at least every five years), the state reviews progress toward goals and adjust accordingly. In conducting such a review, the state will utilize a multi-year perspective. This self-assessment could be incorporated into the annual report or could be prepared concurrently with the 305(b) Report.

#### ***EPA Roles and Responsibilities***

Same as for Alternative One.

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## De Minimus Pilot Process for Documenting Non-traditional SRF Projects

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States suggested that an intermediate, less complex procedure (hence *de minimus*) -- less comprehensive than Alternatives 1 or 2 -- could serve as an incentive for states to consider a broader range of potential SRF projects. This process permits a state to fund a limited number of non-traditional pilot projects without having to fully comply with the Framework requirements. The *de minimus* option is intended to serve as a pilot program for states that wish to explore “non-traditional” SRF funding. It also provides a transition to full use of the concepts outlined in the Framework for states which have significant water quality problems in “non-traditional” areas. When states fund non-traditional projects under the *de minimus* option, they must show how these projects meet the documented water quality needs of the state in their IUPs.

Examples of traditional and non-traditional water quality projects and a diagram of the decision process for determining whether a project is traditional or non-traditional, or whether the *de minimus* option applies, are provided in the Appendix.

### ***Applicability***

The *de minimus* or intermediate procedure is available only to those states which have yet to fund non-traditional projects. Recognizing that the *de minimus* provision is provided as a transition to full use of the Framework, specific caps on its use are provided.

*The National Caps Are:*

*3 Projects in an Activity Category, and*

*\$500,000 = Total Value of All Non-Traditional Projects Funded*

The project cap applies to 3 projects in the same activity category (i.e., agriculture, landfill, salt storage), as determined between a state and its Region. Thus, the state could fund three salt storage projects, three landfill projects, etc. If these initial projects are successful and the state wishes to fund additional projects in one or more of these categories, it would need to implement one of the Alternatives mentioned earlier in this document.

The dollar cap applies to the cumulative amount of all non-traditional projects funded in all categories in all years. Thus, if a state funded two salt storage projects at \$20,000 each in one year and a landfill project at \$460,000 the next year, it would have reached the dollar cap. In order to fund any additional non-traditional projects, the state would need to implement either of the alternatives contained in this document. Unless the caps have been reached sooner, the *de minimus* option expires upon preparation of the 2004 IUP. By then, any state interested in continuing to fund non-traditional water quality projects must implement one of the Framework alternatives.

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### ***State Roles and Responsibilities***

- A decision process would be documented setting forth the rationale for entering into the *de minimus* process and selecting the project(s) to be funded with SRF resources. The state must demonstrate the connection between the project(s) selected and significant water quality problems. The resulting documentation would be incorporated into the IUP and would be part of the public review but would not otherwise affect the planning and priority setting procedures.
- As part of the state's existing annual report process, a state would report its accomplishments, including those non-traditional projects funded under the *de minimus* process.
- Periodically the state would review progress and effectiveness of the *de minimus* projects to determine whether to continue funding non-traditional projects using the Framework. The state could terminate the *de minimus* process at any time.

### ***EPA Roles and Responsibilities***

Same as for Alternative 1.



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# APPENDIX

Decision Tree - SRF Funding Framework Process

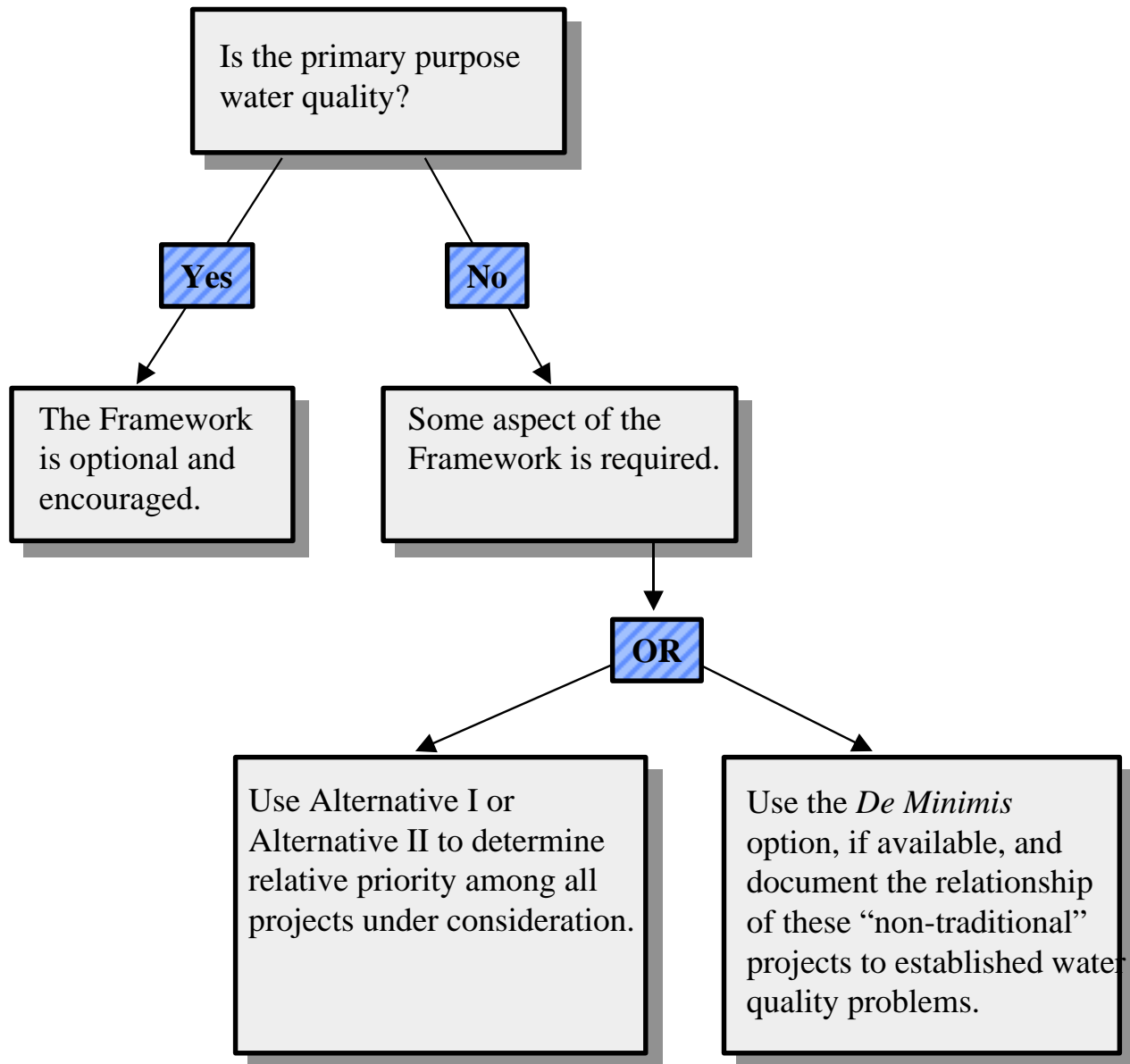
Examples of SRF Traditional and Non-Traditional Projects



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## SRF Funding Framework Decision Tree

For each project or activity  
to be included on a State's  
Intended Use Plan



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## EXAMPLES OF SRF TRADITIONAL AND NON-TRADITIONAL PROJECTS

### TRADITIONAL

<u>Activity</u>	<u>Primary Benefit</u>
Manure storage facility	Prevent manure from contaminating groundwater & surface water
No-till equipment	Reduce erosion entering waterways
Remediate existing landfill water quality impacts	Eliminate water quality problems
Remediate existing UST water quality impacts	Eliminate water quality problems
Installation of vegetative buffers on stream banks & shoreline (grass, shrubs, trees)	Protect against stream bank erosion & to buffer upland runoff
Re-channelizing or altering streams (restore pools & riffles)	Enhance in-stream habitat for fish

### NON-TRADITIONAL

<u>Activity</u>	<u>Primary Benefit</u>
New landfills	Solid waste disposal
Salt storage sheds	Store salt
Smokestack scrubbers	Reduce air pollution
Bird sanctuaries or other wildlife enhancements	Provide viable habitat for wildlife
Street sweepers, leaf-removal equipment, etc.	Solid waste collection

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