STATE REVOLVING FUNDS INTENDED USE PLAN HOW TO GUIDE

NEW MEXICO

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EFCN environmental finance center network

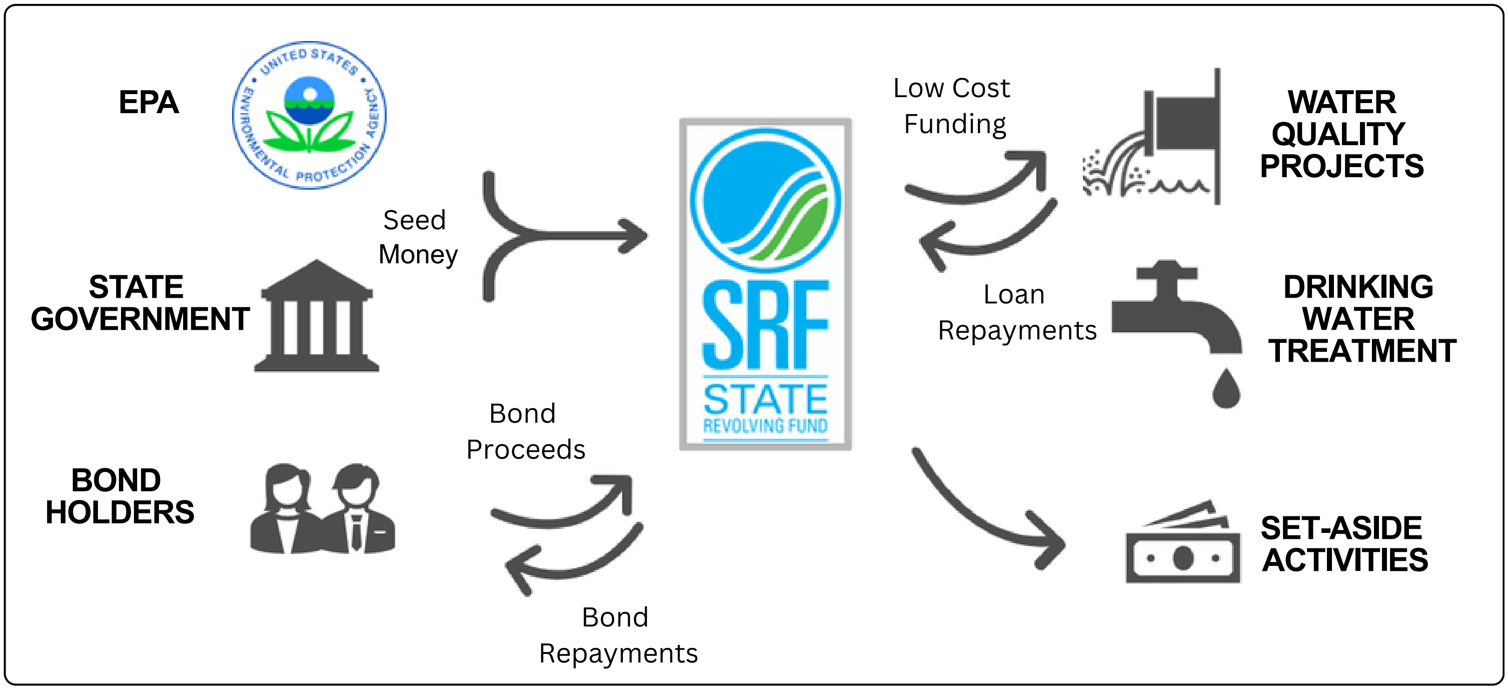
Quantified Ventures

INTRODUCTION

State Revolving Funds (SRF) are the largest federal investment in water infrastructure in the United States. The Clean Water SRF (CWSRF) and Drinking Water SRF (DWSRF) were established by the United States Congress in amendments to the Clean Water Act (CWA) in 1987 and the Safe Drinking Water Act (SDWA) in 1996, respectively. The goal of the CWSRF is to address issues related to water pollution and improve the quality of surface and groundwater. The CWSRF supports projects for wastewater treatment plants, pollution prevention, watershed protection, and stormwater management. The goal of the DWSRF is to protect public health by improving drinking water quality. The DWSRF supports projects for drinking water treatment, infrastructure to comply with drinking water standards, and upgrades to reduce risks of contamination.

SRF programs are managed through a federal-state partnership that provides low-cost financing to communities for a wide range of water quality infrastructure projects. Annually, the Environmental Protection Agency (EPA) allocates a capitalization grant to 50 states and Puerto Rico, which are then required to provide matching funds of 20 percent. Locally, these SRF programs function like an environmental infrastructure bank, distributing loans to eligible borrowers via a ranking system that prioritizes projects. Repayments of loan principal and interest earnings are recycled back into individual state SRF programs to finance new projects, allowing the funds to "revolve" at the state level over time. States may customize loan terms to meet the needs of small and disadvantaged communities or to provide incentives for certain types of projects.

FLOW OF FUNDS:



*SRF State Revolving Fund logo credit to Iowa SRF Program

The flow of funds into the SRF comes from multiple sources. Annually, EPA via annual Congressional appropriations, alongside a required 20% match from state governments, is provided to each SRF program. Some states choose to raise additional seed capital through the bond market (i.e., leveraging the bond market), which helps to grow the overall fund. Loan repayments and interest (i.e., revolved funds) from previous loans are other sources of incoming funds.

Funds flow out of the SRF for various reasons. Predominantly, below-market rate loans are being disbursed to water quality and drinking water projects across the CWSRF and the DWSRF programs. Set-aside activities (further described below) are funds that support administrative and technical components of the programs.

Bond repayments, if a state has chosen to leverage the bond market for additional funds, are another source of funds flowing out of the SRF.

LOAN CONSIDERATIONS:

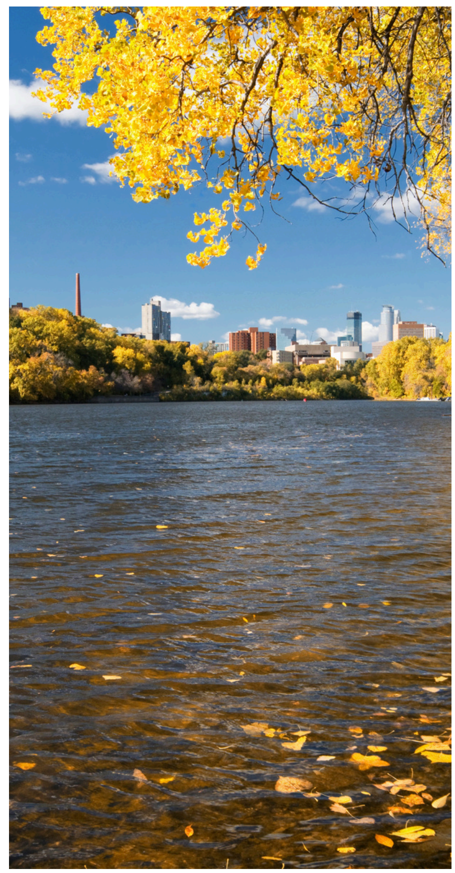
The following highlights some key components of an SRF loan for consideration before applying for funding.

REIMBURSEMENT-BASED LOANS

Borrowers must pay vendors out of local funds. Borrowers will then seek reimbursement from the SRF program. Because of this, communities must ensure that they have adequate cash flow to make the payments for project costs. If not, then short-term financing may need to be secured.

PARTNERSHIPS

Establishing strong working relationships with consulting engineering firms, technical assistance providers, contractors, etc. promotes a more streamlined project implementation process. Good partnerships equals better outcomes.



ADMINISTRATIVE

SRF funded projects include heavy administrative responsibilities because of federal requirements, oversight, and compliance. Strong partnerships can provide additional administrative capacity.

TIMELINE

Due to the cyclical nature of the SRF funding cycle, project approval and funding does not happen quickly. Because of this, SRF funds are not fast-moving sources of capital, as they require significant pre-development and permitting efforts.

LOAN REPAYMENT

Under federal law, CWSRF principal repayment must start 12 months after project completion; DWSRF principal repayment must start 18 months after project completion. At the state's discretion, repayment can start sooner than the federal law, for example, most states start DWSRF loan repayment 12 months after project completion. In addition, some states require interest only payments on the disbursed amounts prior to project completion.

ENTITY ELIGIBILITY:

To apply to the SRF, there are basic requirements for borrower or project eligibility, but as stated above, each state may differ in its eligibility criteria. Federally, the following is the eligibility criteria across both the DWSRF and the CWSRF.

DWSRF:

- Community water systems (public or private, for- or non-profit)
- Non-profit non-community water systems
- New community water systems to address serious risks caused by: 1) Unsafe drinking water from wells, surface water sources within the service area affected by contamination or 2) TMF difficulties resolved by the project

CWSRF:

Projects that identify as “treatment works” or “grey infrastructure” projects. These projects are limited to municipal borrowers only. Publicly or privately owned projects that implement NPS (Non-Point Source, or otherwise known as Nature-Based Solution) management programs are eligible if projects support the implementation of a current EPA approved state NPS management plan or non-element watershed based plan.

NEW MEXICO SPECIFIC:

DWSRF: Consistent with federal eligibilities.

CWSRF: Consistent with federal eligibilities.

TYPES OF FEDERAL GRANTS:

Annually, SRF funds are allocated to states through the Base Capitalization Grant. In addition, in FFY22-FFY26, the Bipartisan Infrastructure Law (BIL) provided three additional supplemental grants: General Supplemental, Emerging Contaminants, and Lead Service Line Replacement. This guide reviews the Base Capitalization Grant only.

- **Base Capitalization:** The primary source of funds for DWSRF and CWSRF projects.
- **BIL General Supplemental:** Additional set of funds to support a broad range of infrastructure projects.
- **BIL Emerging Contaminants:** Additional set of funds allocated to address emerging contaminants
- **BIL Lead Service Line Replacement:** Additional set of funds allocated for replacing lead service lines. Only available to DWSRF.

KEY COMPONENTS TO THE INTENDED USE PLAN (IUP):

Intended Use Plans (IUPs) are a required part of the state grant application to the EPA to receive the federally-appropriated funds. Each state creates an annual IUP that describes the state's process for ranking project selection, set-aside activities, definitions and prioritizations of disadvantaged communities (DACs) for the DWSRF, affordability criteria for the CWSRF, and a list of all projects seeking funding in the next fiscal year (the project priority list). These plans are made publicly available on each state's DWSRF and CWSRF websites.

While each state's IUP is a little different, below are some common components of most IUPs:

- SRF Introduction
- Structure of the SRF
- Allocation of Funds & Programmatic Requirements
- Program Goals
- Set-Asides
- Public Review & Comments
- Attachments / Appendices
- Project Priority List

The information below provides an overview of the federal requirements for the CWSRF and the DWSRF across 6 key categories (Disadvantaged Community & Affordability Criteria, Loan Rate & Terms, Additional Subsidy, Priority Ranking Criteria, Set-Asides, and Sources and Uses). Keep in mind that each state is different. Following the federal introduction for each category, there is additional state-specific guidance, if applicable. Additional resources are listed at the bottom of this guide for more in-depth information about SRFs.

DISADVANTAGED COMMUNITY & AFFORDABILITY CRITERIA:

Each state decides how its SRF programs will define and support under-resourced communities. Generally, the Disadvantaged Communities (DAC) definition applies solely to the DWSRF, while the Affordability Criteria applies solely to the CWSRF.

DWSRF: DISADVANTAGED COMMUNITY:

There is no Disadvantaged Community (DAC) definition set by the EPA; it is up to each state's discretion. The only requirement is that the definition must have gone through a public comment period. The Disadvantaged Community criteria can be used to determine additional subsidy eligibility, loan rate and terms, and ranking criteria.

CWSRF: AFFORDABILITY CRITERIA

There are minimum criteria that need to be considered. Once defined, Affordability Criteria are then up to the program to decide how to use it. The FWPCA (Federal Water Pollution Control Act) section 603(i)(2)(A) provides minimum criteria to determine affordability: 1) Income 2) Unemployment Data 3) Population trend and 4) Other data determined relevant by the State. It's up to States to determine how to apply that criteria in the IUP.

NEW MEXICO SPECIFIC:

DWSRF: Disadvantaged Criteria:

- New Mexico only uses MHI using 5-year ACS (or a survey acceptable to NMFA)
  - Disadvantaged community: 75% - 100% of National MHI
  - Severely disadvantaged community: <75% of National MHI

NEW MEXICO SPECIFIC:

CWSRF Affordability Criteria:

- PCI < 80% of national average
- Considered rural: municipalities or service area with a population <20,000 and counties <200,000.
- Municipalities or service areas with a population >20,000 or counties >200,000 but has lost population in the previous 5 years
- Unemployment is above national average

NEXT STEPS:

Review your state's IUP to see if your community falls under Affordability for CWSRF or Disadvantaged Community for DWSRF. Consider the following questions:

- Is my state's IUP clear about what the eligibilities are?
- If my community qualifies under Affordability for CWSRF, what implications does that have for my project?
- If my community qualifies under the Disadvantaged Community for DWSRF, what implications does that have for my project?

LOAN RATE & TERMS:

Loan Rates: Each state determines its own rates, which should be highlighted in the program's IUP. The only requirement is that rates, any combination of interest and administrative fees, must be below market rate. States have ultimate flexibility in interpreting and defining the basis for market rate and thus the loan interest rate.

Loan Terms: Each state determines its own terms, which should be highlighted in the program's IUP. However, there are federally-limited loan term maximums.

DWSRF:

DWSRF has a term ceiling of 30 years or the Useful Life (weighted average of the expected useful life of the assets funded). For borrowers that qualify as Disadvantaged, the term has a ceiling of 40 years or the Useful Life.

CWSRF:

CWSRF has a term ceiling of 30 years or the Useful Life (weighted average of the expected useful life of the assets funded).

NEW MEXICO SPECIFIC:

DWSRF:

- Regular: 0.01% (public non-disadvantaged systems), 3% (private non-profit systems), or 4% (private for-profit systems) up to 20 years
- Disadvantaged or Severely Disadvantaged: 0% up to 30 years

CWSRF:

- 0.01% interest for local authorities not eligible for 0% up to 30 years
- 0% interest if per capital income (PCI) <75% of statewide average PCI and their wastewater user rate is > 1.82% PCI up to 30 years

NEXT STEPS:

Review the program's IUP to determine the loan rate and terms. Consider the following questions:

- Does my state have different (i.e., shorter) terms than the federal ones listed above?
- Does the program offer special loan rate/terms for DACs or special projects? If your state offers benefits to special projects, they would be listed in the IUP.
- Is it clear from the IUP what the rates and terms are?
- Are there additional fees to consider?
    - These are often called administrative fees or loan origination fees. The interest rate + administration fee combined must be below market-rate.

ADDITIONAL SUBSIDY:

The SRF provides subsidized loans in the form of below-market rates. Therefore, any subsidy provided in addition is called 'additional' subsidy. There are three ways states can disburse additional subsidies:

- **Principal forgiveness:** A portion of the loan is forgiven at the end of the project, prior to going into repayment.
- **Grant:** A portion of the project that receives funds at the beginning of the project, reducing the amount of the loan.
- **Negative Interest:** Reduction in annual principal payments over the life of the loan.

DWSRF:

Two categories of subsidy: any borrower/project and DACs. However, most states provide the required minimum additional subsidy amounts to Disadvantaged Communities.

CWSRF:

Eligibility can apply to any borrower/project, communities that meet the Affordability Criteria, projects that benefit individual ratepayers in residential user class, projects that are for stormwater, projects that are for energy/water conservation, or a project that is deemed sustainable. However, most states provide the required minimum additional subsidy amounts to communities that meet the Affordability Criteria.

Each federal capitalization grant requires a percentage of the total grant amount to be provided as additional subsidy. As of publication date, below are the additional subsidy percentages for both DWSRF and CWSRF.

DWSRF Funding Program	Additional Subsidy %	Eligibility
DWSRF Congressional Appropriation	14%	Any borrower/project; or > 14% in event of emergency declaration to exposure to lead
DWSRF Base Program	12-35%	Disadvantaged Communities

CWSRF Funding Program	Additional Subsidy %	Eligibility
CWSRF Congressional Appropriation	10%	Any borrower/project
CWSRF Base Program	10-30%	- Assistance recipients that meet the state's affordability criteria - Benefit to individual ratepayers in residential user class - Water/energy efficiency, stormwater mitigation or sustainable projects

NEW MEXICO SPECIFIC:

DWSRF: Eligibility Criteria

- Meet either Disadvantaged or Severely Disadvantaged criteria
- Green projects that are 100% green
- Compliance with federal statue and grant requirements

CWSRF: Eligibility Criteria

- Meet Affordability Criteria
- Does not meet Affordability Criteria but benefit a user rate class (case-by-case basis)
- Sustainability factors (case-by-case basis)

NEXT STEPS:

Review the IUP to see the program's guidelines on additional subsidies. Consider the following questions:

- Is there enough information in the IUP that I can understand if my project is eligible for additional subsidies?
  - If so, can I calculate how much additional subsidy my project is eligible for?
  - If not, where can I get more information?

PRIORITY RANKING CRITERIA:

Each state develops its own priority ranking system. Projects are ranked according to how effectively the project will address the goals in the IUP, taking into consideration federal guidelines.

DWSRF:

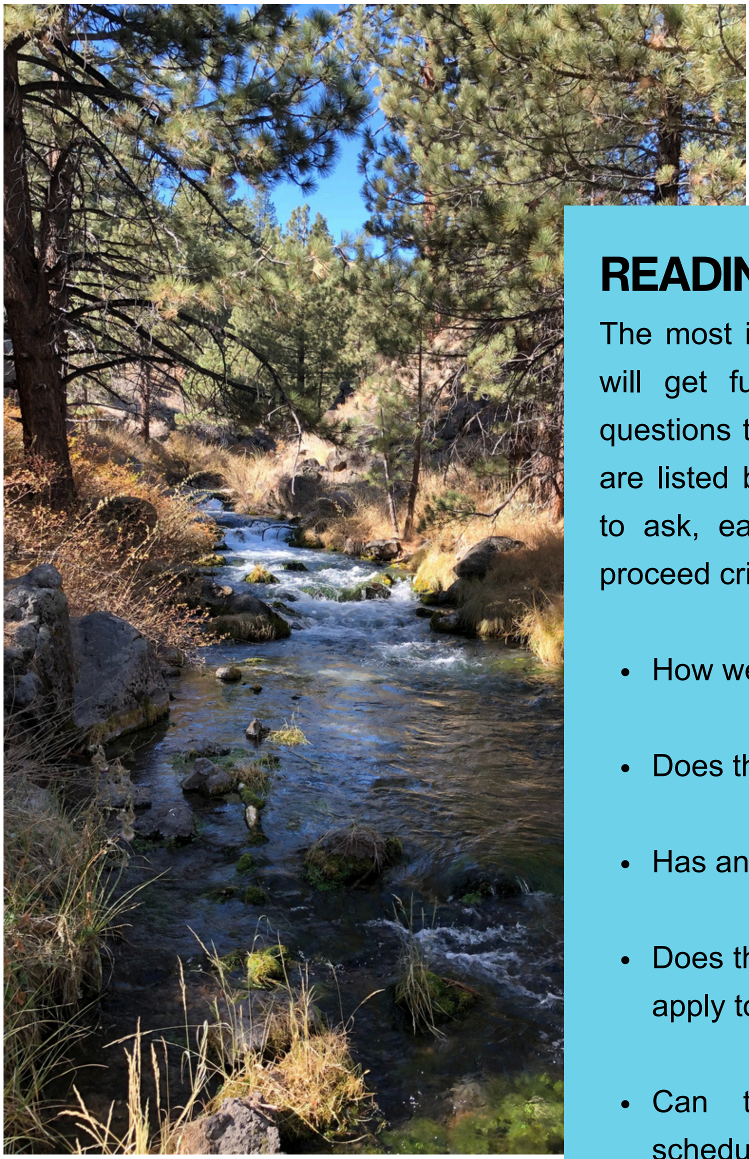
Public health protection must be prioritized above all else.

CWSRF:

All treatment works (i.e., municipal wastewater treatment facility) projects must be ranked to receive funding. States may have separate ranking criteria for NBS (nature-based solutions) projects, which don't have to appear on the priority list to get funded.

IUPs outline the process for how to submit projects to be included in the project priority list. Typically, states open priority list application periods during the winter for funding during the following fiscal year (starting July 1). Note: Every state creates a priority list, but each state has its own process (e.g., not all states have an open call for priority list applications).

Projects that make it to the priority list are not guaranteed funding. Rather, projects on the priority list are considered eligible to receive funding if/when the SRF program has funding available, and the project is ready to proceed. **In addition, being on the list doesn't compel or require you to borrow, but you can't borrow unless you're on the list.**



READINESS TO PROCEED:

The most important factor in determining if a project will get funded is readiness. The most common questions to ask to gauge your readiness to proceed are listed below. Note: These are general questions to ask, each state will have its own readiness to proceed criteria.

- How well developed is the project?
- Does the project have the required permits?
- Has an environmental review been completed?
- Does the project have governing body approval to apply to the SRF?
- Can the project meet the implementation schedule outlined by the program?

NEXT STEPS:

Review the program's IUP for the priority ranking system. Evaluate your own project to determine its 'readiness to proceed' level. Consider the following questions:

- Does the IUP provide the priority ranking criteria?
- Do I know where and how to apply to the priority list for my state?
- Does my project have a planning document, environmental report, engineering report, or other documents in place that show my project is ready for funding?
- I have a nature-based solution project. How do I proceed if NBS projects don't need to be on the priority list?

SET-ASIDES:

Set-asides are funds that can be taken out of the capitalization grant to support the CWSRF and DWSRF administration and program costs (i.e., staff, operations, technical assistance, etc). Each state determines the amount of set-asides that are needed; some states don't use set-asides at all. Review your state's IUP to see if set-asides are included.

DWSRF:

Administration – 4% of capitalization grant / $400k / 1/5th of the funds net position (states choose one)

- Support administration of program (staff, contracts), provide TA to systems whose population is greater than 10,000

Program Management – 10% of capitalization grant

- Support state staff, implement Capacity Development and Operator Certification programs

Technical Assistance – 2% of capitalization grant

- Direct technical assistance to populations less than 10,000

Local Assistance – 15% of capitalization grant

- Capacity development, wellhead/source water protection

CWSRF:

Technical Assistance – 2% from capitalization grant, or can be pulled from any CWSRF source

- Direct technical assistance to communities less than 10,000

Administration – 4% of capitalization grant / $400k / 1/5th of the funds net position (states choose one)

- Support administration of program (staff, contracts), provide TA to systems whose population is greater than 10,000

NEW MEXICO SPECIFIC:

DWSRF:

- Admin: 4%; Technical Assistance: 2%; Program Management: 10%; Local Assistance: 15%

CWSRF:

- Admin: 1/5th of 1% of Net Fund Position

NEXT STEPS:

Review the program's IUP to see if set-asides are available. Consider the following questions:

- Does my state use set-asides?
- Are there any special incentive programs that I can take advantage of?

SOURCES & USES:

Source and Use tables provide an overview of where SRF funds come from (sources) and where funds go (uses). It indicates how much funding is available for projects and how well the program is doing toward achieving its funding goals; some states don't spend all their funds in a year, and these funds can roll over to the following year.

POTENTIAL SOURCES OF FUNDS

- Federal EPA Grant
- State Match (20% of federal grant)
- Repayment/Revolved Funds
- Leverage Dollars (from Bond Market)

POTENTIAL USES OF FUNDS

- Loans
- Set-Asides
- Additional Subsidy
- Repayment of Leveraged Funds

Actual Sources and Uses per state program can be found on NIMS (National Information Management System). Each state's aspirations for the program's Sources and Uses can be found in the IUP.

NEXT STEPS:

While it's not an essential part of your application to the program or your general knowledge of the SRFs, you can review your state's past years' use of funds on NIMS.

ADDITIONAL CONSIDERATIONS:

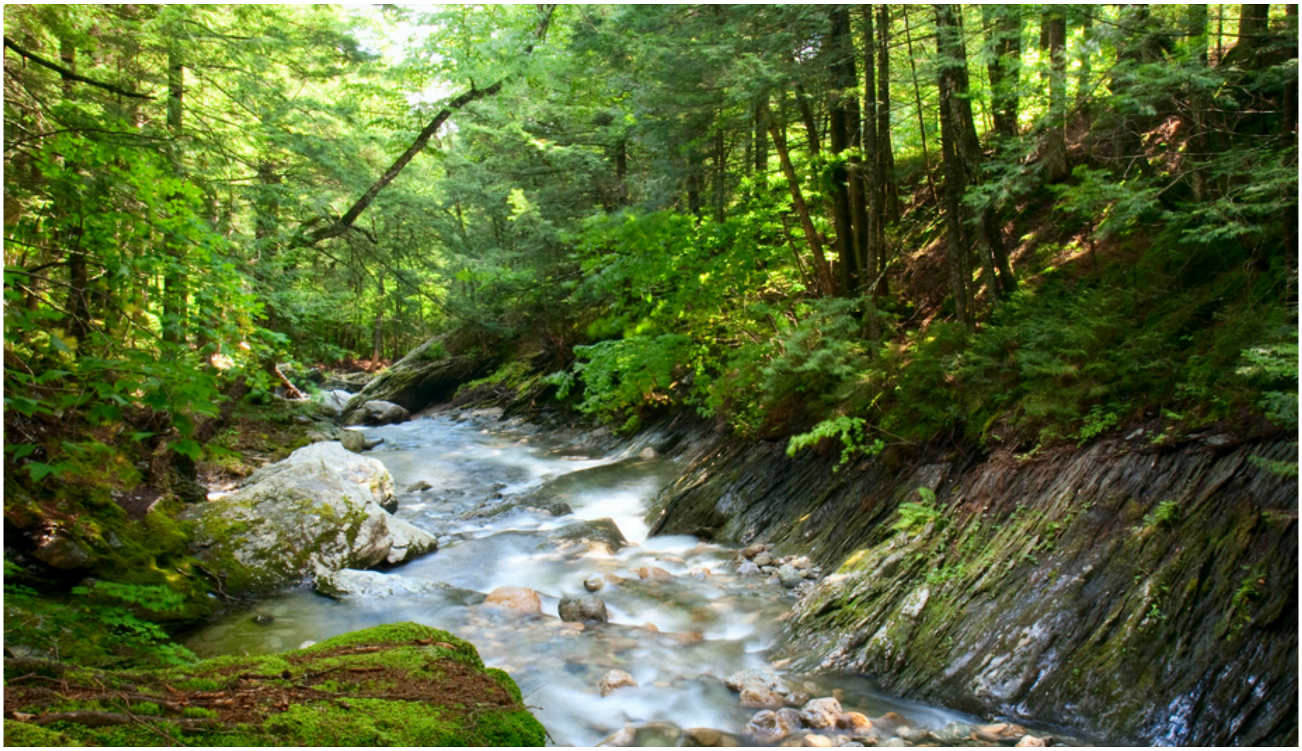
FEDERAL CROSS-CUTTERS:

Use of the SRFs requires compliance with federal requirements, known as cross-cutters. These include: American Iron and Steel, Architectural & Engineering (A&E) Procurement, Environmental Review, Socioeconomic (Davis Bacon, Disadvantaged Business Enterprise (DBE), Civil Rights, Fair Housing, etc.), Single Audit, Build America Buy America (BABA), Signage, and Telecom. DWSRF-specific requirements include demonstrating adequate Technical, Managerial, and Financial (TMF) capacity. CWSRF-specific requirements include Fiscal Sustainability Plan (FSP), Cost and Effectiveness (C&E), and A&E Procurement (aka Qualifications Based Selection or Request for Qualifications (RFQ)).

These federal cross-cutters will most likely apply to every project; however, every state is different, and the IUP may indicate how the state requires cross-cutters for the project

EXPECTED USEFUL LIFE:

Per federal law, the term of an SRF loan may not exceed the weighted average useful life of new, large-item physical assets installed in a capital project. Large items do not include costs related to demolition, bonds, general conditions, engineering, site work, or other non-physical assets. If the weighted average of the expected useful life of the project is less than the term the project is eligible for, the lower term must be used.



NATURE-BASED SOLUTION (NBS) PROJECTS & SRF FUNDING:

Nature-Based Solution (NBS), or Non-Point Source (NPS), projects can obtain funding from the CWSRF. This funding can be through traditional loans, or can take the form of linked deposits, sponsorships, pass-through agreements, credit guarantees, or interim financing. Project eligibility generally depends on whether the project supports the implementation of a current EPA-approved state NPS management plan or a nine-element watershed-based plan. Projects can be publicly or privately owned. Contact the state's CWSRF program and collaborate with the state NPS programs to ensure that funded projects align with the approved state NPS management program plan.

GENERAL TIMELINE:

While each state has its own specific timeline for project development and funding, the following outlines the general timing of an SRF program. Refer to the program's website for the most current timeline.

- **Winter:** Application period for potential projects to be added to the project priority list for the following year's funding cycle
- **Late spring:** IUP is drafted by the program
- **Summer:** IUP is finalized and released for public comment
- **Sept 30th:** Grant application is due to EPA
  - State match funds are secured and IUP is finalized
- **Fall:** Federal funding awarded
- **Late Fall:** SRF programs notify those on the project priority list that funds are available; loan applications begin

GLOSSARY

INTENDED USE PLAN	Each program's plan describing how it intends to use funds for the for the upcoming year.
DWSRF	Drinking Water State Revolving Fund is used to protect public health by improving drinking water quality.
CWSRF	Clean Water State Revolving Fund is used to address issues related to water pollution and improve the quality of surface and groundwater.
SDWA	Safe Drinking Water Act, passed in 1974, was created to protect the quality of the nation's public drinking water supplies. The 1994 amendment created the DWSRF.
CWA	Federal Water Pollution Control Act (FWPCA), aka Clean Water Act, was created to protect the nation's waterways. The 1987 amendment created the CWSRF.
MHI	Median Household Income
PRIORITY RANKING CRITERIA	The ranking criteria to determine how a project will be ranked compared to its peers. May be used to determine funding order.
PRIORITY LIST	List of projects, in priority order, that are eligible for funding. Priority lists can be further broken down into Comprehensive List and Fundable List.
COMPREHENSIVE LIST	Every project that is eligible for funding in a given funding cycle.
FUNDABLE LIST	The highest ranking projects above the line that there are funds available.
RTP	Readiness to Proceed. The criteria necessary for a project and/or borrower to meet to proceed to loan closing.
SIGNAGE	The community must publicly acknowledge that the project was funded using EPA funds.
TELECOM	A restriction on certain types of telecommunication brands.

ACKNOWLEDGMENTS

The **Environmental Finance Center Network (EFCN)** is a university- and non-profit-based organization creating innovative solutions to the difficult how-to-pay issues of environmental protection and water infrastructure. The EFCN works collectively and as individual centers to address these issues across the entire U.S, including the 5 territories and the Navajo Nation. The EFCN aims to assist public and private sectors through training, direct professional assistance, production of durable resources, and innovative policy ideas.

Quantified Ventures (QV) is an outcomes-based finance advisory firm that designs and scales innovative financing solutions for conservation, climate, and community resilience. These guides were created by Quantified Ventures thru a partnership with the EFCN.

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