

Small DWSRF Loans:
Streamlining the Process
Current State Practices

*Sarah McFate, Northbridge Environmental
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Small DWSRF Loans

- Why are water systems deterred from seeking small DWSRF loans?
- How have States simplified access to small SRF loans?
- What can the SRF learn from other providers of small infrastructure loans?
- What are the challenges in streamlining access to small loans?

Q. How have States simplified access to small SRF loans?

- Separate Priority Ranking Process
- Intermediary Arrangements
- Recycled Funds
- Categorical Exclusions
- Attractive Assistance Options

Separate Priority Ranking Process

- **Issues:** Small projects may have lower perceived public health benefit, so may rank lower on the priority list. Communities may not be willing to wait for the year-long priority list cycle in order to fund a small project.
- **Solution:** Incorporate a distinct category into the priority list for disadvantaged borrowers, small systems, or emergency projects, to be ranked and managed separately from the larger DWSRF program.

Based on DWSRF Headquarters interpretation of 40 CFR Part 35.

- **Examples:**
 - Small/Very Small Communities list – Missouri
 - Small/Disadvantaged Communities list – New York
 - Emergency Projects list – New Jersey
 - Emergency Projects list – Massachusetts

Small Communities List - Missouri

- Separate categories within the priority list for small (pop. 3,301 – 9,999) and very small (pop. $\leq 3,300$) communities
- Projects ranked within the small/very small categories, separate from the general priority list but using the same criteria
- Missouri law requires 20% and 15% of available funds to go to very small and small borrowers, resp.
- Funds become available for projects on the general priority list if not enough small systems ready to go

Small Communities List - Missouri

VERY SMALL COMMUNITY 20% RESERVE FUNDABLE LIST

(Systems that serve a population of 3,300 or less)

FUNDS AVAILABLE

Available from 20% Reserve\$12,741,354
 Transfer from 15% Reserve\$0
 Transfer to 65% Reserve\$1,362,354

TOTAL AVAILABLE FROM RESERVES \$11,379,000

	Priority Points	Applicant	DWSRF#	Population	Description	Problem Code	Needs Category	Loan Request	Balance
									\$ 11,379,000
*		129 Bronaugh	DW291209-01	250	Dis, Well, Stor	1, 3	I, III, IV	\$ 500,000	\$10,879,000
*	X	117 Livingston Co. PWSD #3	DW291201-01	2,210	Dis, Stor	3	III, IV	\$ 915,000	\$ 9,964,000
		79 Ava	DW291214-01	3,021	Dis, Well, Stor	3	I, III, IV	\$ 3,500,000	\$ 6,464,000
*	X	79 Holcomb	DW291186-01	840	Dis, Well, Stor	3	I, III, IV	\$ 665,000	\$ 5,799,000
		65 Greene Co. PWSD #6	DW291217-07	485	Dis, Well, Stor	3	I, III, IV	\$ 950,000	\$ 4,849,000
*		59 Walnut Grove	DW291197-01	630	Dis, Stor	3	III, IV	\$ 850,000	\$ 3,999,000
*	X	58 Franklin Co. PWSD #1	DW291084-01	3,200	Dis, Stor	2	III, IV	\$ 1,507,000	\$ 2,492,000
	X	45 Wardsville	DW291218-01	976	Dis, Stor	3	III, IV	\$ 492,000	\$ 2,000,000
*		20 Ashland	DW291043-02	3,000	Dis, Source, Stor	3	I, III	\$ 2,000,000	\$0
							Total	\$11,379,000	

* Carried over from the last IUP

X Fundable in the last IUP

New York: Three Priority Categories

- All projects placed in one of three categories, and ranked within that category
 - Systems serving < 10,000 people (Category A)
 - Systems serving > 10,000 people (Category B)
 - Systems that qualify for financial hardship assistance (Category C)
- Funds are reserved for short-term loans, made on a first-come, first served basis to projects in Categories A or B
- Projects funded from the Ready-to-Proceed List:
 - All Category C projects
 - Category A projects up to 15% of available funds
 - Category B projects in priority order, as funds permit

Emergency Projects in New Jersey

- Four priority list categories (in priority order):
 1. Emergency projects
 2. Small systems (up to 15% of DWSRF funds)
 3. Supplemental projects
 4. Current year's projects in priority order
- Emergency projects do not need to be listed in the current IUP, but must be noted in future IUP and Annual Report

Emergency Projects in New Jersey

- System must submit a report to NJDEP within 30 days of the incident describing the emergency, needed repairs, and costs
- Borrower must submit a brief certification, but can delay the rest of the requirements until after the emergency is resolved
- NJDEP issued a generic Environmental Decision Document for emergency projects to identify qualifying projects and conditions

Emergency Projects in New Jersey

- 24-hour turnaround for funding authorization
- Project is funded immediately using NJEIT funds, then refinanced by the SRF at a later date
- Process allows NJDEP to respond rapidly, determine eligibility, and issue pre-award approval for emergency projects

Massachusetts Emergency SRF Set-Aside

- \$3 million/year set aside for emergency projects, plus funds from bypassed projects if needed
- Separate category in the priority list (if included)
- Funds can be accessed at any point during the year for unanticipated incidents
- SRF requirements and assessments may be completed after the fact (other than basic rate structure and technical capacity review)
- Emergency expedited permit procedures to speed up the process

Priority List Quarterly Updates

- Some states, like Indiana, accept DWSRF applications throughout the year and update the priority list on a quarterly basis
- State must advertise a public hearing for each update
- Allows small project to be funded when they are ready, rather than waiting for a new application deadline and priority list cycle

Reducing the Burden: Intermediary Arrangements

- Structure used in the CWSRF program to increase availability of very small loans, while decreasing administrative burden to the State
- Variations currently in use in OH, MD, IA, WV, CA, AR

Linked-Deposit Loans

- How it Works:
 - SRF purchases CD from bank at discounted interest rate
 - Bank parlays interest rate savings into below-market small loans to farmers and homeowners for septic system replacement or agricultural best management practices
 - Bank performs credit assessment, processes paperwork, and assumes risk for repayment
 - Borrower repays bank; bank repays SRF
 - Bank gets a customer and interest earnings; borrower gets to use a familiar lender; SRF gets a new borrower and water quality benefit with little administrative burden
- May not be feasible in current economic conditions

Linked Deposit Example: Ohio AgBMP Program

Partnership With Financial Institutions

- ▶ Funding agricultural BMPs (manure storage facilities, conservation tillage equipment, filter strips, grassed waterways, fencing, alternative watering sources)
- ▶ Soil and water conservation districts assist farmers with needs assessment, planning & design, and cost estimates
- ▶ Local banks conduct financial capability assessment
- ▶ CWSRF invests in a reduced interest certificate of deposit (CD)
 - Repayment to CWSRF is guaranteed
 - Term of CD equals term of loan
- ▶ Bank lends funds to farmers at reduced interest rate
- ▶ From 1990-2006, \$41 million to 1,242 loans



Reducing the Burden: Recycled Funds

- Many federal requirements must only be applied to “equivalency” projects
 - DBE
 - Environmental Review (Tier I)
 - Cross-Cutters
 - Single Audit Act requirements
- Projects funded by state funds, repayments or interest earnings are subject to fewer federal requirements

Example: New York Tier II Procedures

- Entire capitalization grant directed to projects in New York City
 - 60-65% of SRF funding
 - All projects perform full NEPA
 - Fulfills cap grant equivalency requirement
- Projects in the rest of the state are funded by SRF repayments and interest earnings
 - Subject only to state environmental review requirements
 - No coordination with federal crosscutters agencies (state crosscutters only)
 - Fewer notifications
 - Public hearing is optional

Reducing the Burden: Categorical Exclusions

- Many small projects can qualify as categorical exclusions, exempting them from full environmental review
- General CEs described at 40 CFR §6.204(a)
 - Routine facility repair, replacement or restoration, or construction of new minor facilities adjacent to existing facilities
 - Actions related to drinking water supply systems that involve minor upgrading or minor expansion of capacity
- Specialized CEs for DWSRF - States may identify CEs and submit for approval by RA

Example: California CE's

- Existing Facilities
 - Repair, maintenance, permitting, minor alteration
- Replacement or Reconstruction
 - Existing utility systems and/or facilities involving no expansion of capacity
- Water main, sewage or other utility extensions to serve new construction
- Small hydro/cogen projects at existing facilities

Increasing the Benefit

- Grants from DWSRF set-asides or fee revenue
 - Nebraska Small Town Grant Program
 - Florida Grant Allocation Assessment Fund
 - Colorado Planning and Design Grants

Increasing the Benefit

- Combine SRF funds with state grant funds
 - Michigan offers grants to help with the cost of preparing/submitting SRF application
- Offer interim loans or refinancing
- Technical assistance
- Expand disadvantaged community assistance
 - Principal forgiveness and negative interest rate subsidies up to 30% of the cap grant
 - 0% loans, extended term financing

Q. What can the SRF learn from other providers of small infrastructure loans?

- Rural Community Assistance Corporation Environmental Infrastructure Loan Program provides small, short-term loans in thirteen Western states:
 - Feasibility loans (PER, env. review) up to \$50,000
 - Predevelopment loans (engineering, bond counsel) up to \$350,000
 - Construction loans up to \$1 million
 - Intermediate loans for small capital improvements up to \$100,000

RCAC Small Loans

- Unsecured, minimal paperwork, priority process not generally needed
 - Loan closed in less than 30 days
- RCAC provides technical assistance to help with PER and environmental review
 - ≈6 months to complete PER and env. review
 - ≈ 12 months for pre-development
- Almost all RCAC loans are tied to preparation for an SRF or RD construction loan

Q. What are the challenges in streamlining access to small loans?

- State regulations
- Borrowers' perceptions
- Establishing effective partnerships
- Resistance to priority system changes