CIFA

COUNCIL OF INFRASTRUCTURE FINANCING AUTHORITIES

Clean Water and Drinking Water
State Revolving Funds

The Fundamentals of Subsidization for State Revolving Funds (SRFs)

Interest Rate Subsidization

All SRF loans are subsidized by funding from the federal and state government (federal capitalization grant and state match).

Under federal law, SRF loans must be provided at or below the interest rate available on the open market. Federal and state funding allows SRF interest rates to be offered at these "discounted" rates while maintaining the perpetuity of the Funds. Without federal and state funding, loans couldn't be offered at or below the market interest rates.

Additional Subsidization

Some SRF loans provide financial support in addition to the interest rate subsidization offered on a standard SRF loan.

Additional subsidization, also called "AddSub," is funding that doesn't need to be repaid. Additional subsidization comes in three forms – grants, principal forgiveness, and negative interest loans. Without federal funding, SRFs couldn't offer additional subsidization. All "AddSub" reduces the capacity of SRFs to fund water infrastructure in the future.

Savings for Ratepayers: For loans made in 2019, every $100 million in SRF subsidized loans at an interest rate of 1.5% with a 20-year term reduced interest payments by at least $18 million over the life of the loans.

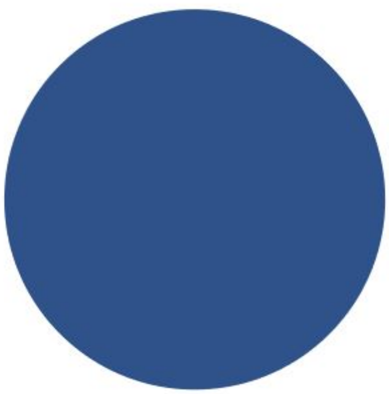
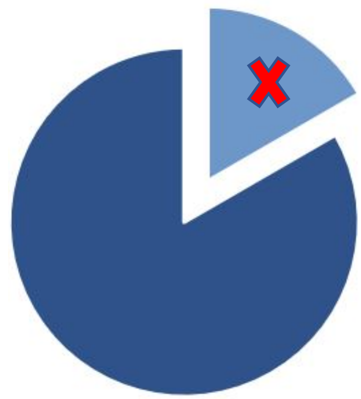
Facts About Interest Rate Subsidization and Additional Subsidization:

- In 2019, the national average weighted interest rate was 1.5% for the Clean Water SRF and 1.6% for the Drinking Water SRF.
- The Drinking Water State Revolving Fund has had the ability to provide additional subsidization since it was established.
- Congress gave the ability to provide additional subsidization to the Clean Water State Revolving Fund in 2009.
- In 2009, Congress began mandating a percentage of the capitalization grant be used for additional subsidization for both SRFs.
- In addition to the federally mandated additional subsidization, both SRFs can provide up to 30% of the capitalization grant for additional subsidization.
- Discounted interest rates and additional subsidization are features that differentiate SRFs from WIFIA, which makes loans at treasury rates and doesn't have the ability to provide additional subsidization.

How does additional subsidization impact the State Revolving Funds?

Additional subsidization is an important tool that allows some critical water infrastructure projects to be undertaken that otherwise could not. However, additional subsidization also reduces the amount of funds that revolve back into the SRF, limiting the ability of SRFs to fund future water infrastructure. That's why it's important to balance the needs for water infrastructure today with need for water infrastructure in the future.

The best way to achieve that balance is to maintain the ability to provide additional subsidization but allow SRFs to decide how much additional subsidization is needed.

No Additional Subsidization	20% Additional Subsidization
When 100% of the capitalization grant is used for subsidized loans, 100% of the funding is available to meet future needs.	The percent of the capitalization grant used for additional subsidization is permanently removed from the loan pool to meet future needs.
	

100% Loans
100% Available for Future Needs

80% Loans
20% Add Sub (Permanently Removed)
80% Available for Future Needs

Why do SRFs prefer principal forgiveness over grants and negative interest loans?

Principal forgiveness works the same as a grant without the additional federal grant requirements associated with federally funded projects, such as those funded by the capitalization ("cap") grant. Compliance with these additional federal requirements increases the administrative cost of loans without increasing protection for public health or the environment. Additionally, some states, like Oklahoma and Washington, prohibit the use of grants by the State Revolving Funds.

Additional Federal Requirements	
Grants & Projects Funded by the Cap Grant	**Principal Forgiveness**
Single Audit Federal Crosscutters Architectural/Engineering Procurement Disadvantaged Business Enterprise Procurement FFATA* Loan and Compensation Reporting Signage	No federal requirements beyond the existing SRF loan requirements.

*Federal Funding and Accountability Transparency Act of 2010