November 30, 2017

Andrew Sawyers  
Director, Office of Wastewater Management  
EPA Office of Water  
1200 Pennsylvania Avenue NW  
Washington DC,

Dear Andrew,

Over the past several months, a workgroup of utility members with the National Association of Clean Water Agencies (NACWA) has developed a list of recommendations on how the Clean Water State Revolving Fund (CWSRF) program could be streamlined and simplified, particularly around application and reporting requirements. The CWSRF, as you know, is a critical source of funding for public clean water agencies. However, many utilities are increasingly frustrated by the administrative burdens that come with accessing CWSRF money. Accordingly, streamlining the SRF process is one of the top regulatory improvement ideas that NACWA submitted to EPA earlier this year.

As part of NACWA’s work on SRF streamlining, we have had the privilege to engage with EPA CWSRF staff that are working on a similar effort within the Agency. These calls have been very productive, as NACWA members have engaged directly with EPA staff around SRF concerns and shared specific SRF streamlining ideas. NACWA very much appreciates the opportunity for this interaction and believes it has been very beneficial.

While NACWA has already shared its streamlining suggestions informally with EPA staff, we also would like to formally submit them for your consideration. These suggestions were developed by a cross-section of NACWA public utilities members – including diversity of both geographic location and utility size – that all rely on the CWSRF as a critical funding tool. While we recognize some of these recommendations may also involve changes to the CWSRF enabling legislation – which is beyond the power of the Agency to do on its own – we have included these suggestions to provide EPA with the full scope of ideas developed by NACWA members.

- Many utilities have expressed concern that states simply do not have enough staff to review all SRF applications, thus many projects never get considered. Anything EPA can do to help incentivize/encourage states to hire more staff for the application review process would greatly improve the efficiency of the SRF program.
- When utilities go to the bond market for funding, they are able to take a “programmatic approach” where they present all of the various, individual projects of a given capital program as part of a whole package. But under the SRF, everything must be applied for on a “project by project” basis, even if all of the projects are part of the same overall program. It would be much more efficient for utilities to apply for SRF funding through a programmatic approach, similar to what is done with the bond market, instead of having to apply for each project separately. This might also encourage more utilities to take advantage of the SRF.

- Davis-Bacon and Buy America requirements can be some of the largest challenges for utilities in using SRF funds, especially figuring out exactly how to calculate the correct prevailing wage. Some states are better than others at helping utilities work through these requirements. It would be very helpful if EPA could develop a resource around these issues that would help replicate best management practices from state to state and simplify the process for meeting Davis-Bacon/Buy American requirements.

- Along these lines, many states have additional requirements for SRF loans beyond those required by EPA. But it can be hard for utilities to know/understand exactly which requirements are federal and which are state-based. It would be helpful for EPA to develop a list of “cross cutter” requirements, as well as develop a compendium of SRF requirements for each state – including clear identification for each state of which requirements are federally mandated and which are state mandated. To the extent this compendium highlights that the most burdensome requirements in a particular state are in fact state based, it can help utilities in that state work with their state financing authority to streamline/eliminate the unnecessary state burdens, making the SRF process easier and the prospect of using the SRF more appealing. NACWA is also planning to engage with the Council of Infrastructure Financing Authorities on this issue.

- Modifying the existing SRF requirements to allow applicants to borrow their reserve requirements as part of the SRF program could be very beneficial. Some municipalities and independent utilities have bond covenants that require a cash reserve for any borrowing. These are generally 10% of the project costs, and are required to be raised in a single year and restricted for the length of the loan. As an example, a $20 million project funded by the SRF program requires that $2 million additional to the loan payments must be raised in the first year of the loan, and then restricted for the 20-year term of the loan. This discourages the use of the SRF program, as it can result in significant rate increases just to cover the reserve. When bonding on the open market, municipalities and utilities can borrow the reserve requirement as part of the loan. The inability to include the reserve requirements in the SRF loan keeps utilities that do not have the capacity to raise rates steeply from doing important work. This is most often the case for communities that are economically challenged, face costly regulatory mandates, and are in poor financial position relative to issuing bonds on the open market. Allowing the reserve to be part of the loan opens up the SRF program to new users and allows existing users to do more work.

- Guaranteeing SRF loans could be another beneficial change to the SRF program. To take the above reserve requirement argument one step further, eliminating the reserve requirement by providing a guarantee on the SRF loan would free up a significant amount of cash to do more or larger projects. This would remove hurdles for utilities that are currently unable to utilize the SRF program, and expand the use by existing participants. Utilizing the example above, a $20 million project with a $2
million reserve requirement restricts the use of $2 million for 20 years. By removing that requirement through some sort of loan guarantee, that $2 million can be put back into play for infrastructure investment. There are several existing financial models that could be applied to the water utility sector to raise the funds to insure the SRF program loans.

NACWA appreciates the opportunity to provide input on this important process that EPA is undertaking. We also respectfully request that, once EPA has compiled its proposed SRF streamlining recommendations, the Agency share those proposals informally with key stakeholders including NACWA for review and further input. Given the vital importance of the SRF program for communities and utilities nationwide, a collaborative process between EPA and stakeholders around potential SRF program changes is crucial. Thank you again for the opportunity to provide these thoughts on SRF streamlining. Please don’t hesitate to contact me at 202-833-3692 or ngardner-andrews@nacwa.org with any questions or to discuss further.

Sincerely,

Nathan Gardner-Andrews
Chief Advocacy Officer

CC:  George Ames, EPA CWSRF Program
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