

THE STATE REVOLVING FUND PROGRAM IN GEORGIA

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BACKGROUND

Since Public Law 84-660 was enacted in 1956, the Federal government has attempted to guide public wastewater control policies through the financial incentive of grants to local governments. Under the 1972 Federal Water Pollution Control Act (commonly referred to as the Clean Water Act or PL 92-500) some \$56.7 Billion has been made available through the Environmental Protection Agency's (EPA) Construction Grants Program for local financial assistance.

Georgia's share of these two programs has been \$960.5 Million and has supported 554 projects in cities and towns across the State. It has also supported the Georgia Environmental Protection Division's (EPD) cost to administer the program under delegation from EPA starting in 1982.

It is not surprising that the Construction Grants Program became the major factor in determining the timing and financing of wastewater treatment construction throughout the State and across the nation.

FUNDING FOR STATE REVOLVING LOAN FUNDS

In 1987, Congress fundamentally changed the Federal government's role in wastewater infrastructure financing by enacting the State Revolving Fund (SRF) Program known as Title VI of the Clean Water Act (PL 100-1). Congress authorized \$18 Billion over six years of which \$8.4 Billion is to establish SRF's. The authorization is in two parts, Title II for grants and Title VI for SRF (Table 1). A portion of the Title II funds can be transferred into SRF at the State's option. States are required to put up 20% matching funds for all moneys awarded to the SRF whether from Title II or Title VI. After fiscal year 1990 there is no additional funding authorized for grants, and after 1994 there is no additional money authorized for SRF.

TABLE 1. SRF Funding FY 1986 Through FY 1994, Funds Authorized in PL 100-1.

| Fiscal Year | Title II (billions) | Title VI (billions) |
|-------------|------------------------|------------------------|
| 1986 | 2.4 | -0- |
| 1987 | 2.4 | -0- |
| 1988 | 2.4 | -0- |
| 1989 | 1.2 | 1.2 |
| 1990 | 1.2 | 1.2 |
| 1991 | -0- | 2.4 |
| 1992 | -0- | 1.8 |
| 1993 | -0- | 1.2 |
| 1994 | -0- | 0.6 |

Georgia was the third State in the nation to receive an SRF Capitalization Grant from EPA. This grant was awarded in March 1988. Projections of future funds for the SRF must build on that base.

In FY 1988 and 1989 Congress did not provide the full amount of funds authorized. Since there is no way of knowing what actual future appropriations might be, some assumptions must be made in order to project future funding.

With FY 1988 and 89 funds known and assuming future funding at the authorized levels (assuming that Georgia will continue to transfer the maximum Title II funds to SRF, and adding the 20% State match), the total available money would be \$240 Million. This calculation is presented in Table 2, is the top line on Figure 1 and represents a maximum reasonable funding level.

TABLE 2. Potential SRF Funds For Georgia, Authorized levels for FY 1990-1994 (millions of dollars).

| Fiscal Year | Funding | | SRF** | Cumm. SRF | With Match |
|-------------|-------------|-------------|-------|--------------|---------------|
| | Title II | Title VI | | | |
| 1988* | | | 27.99 | 27.99 | 33.57 |
| 1989* | | | 30.60 | 58.59 | 70.31 |
| 1990 | 29.53 | 20.53 | 39.63 | 98.22 | 117.86 |
| 1991 | -0- | 41.08 | 40.67 | 138.89 | 166.67 |
| 1992 | -0- | 30.81 | 30.50 | 169.39 | 203.27 |
| 1993 | -0- | 20.54 | 20.33 | 189.72 | 227.66 |
| 1994 | -0- | 10.27 | 10.17 | 199.89 | 239.87 |

On the other hand, assuming that future funding will continue at the reduced level as in FY 1989, and with other assumptions remaining the same, the total available funds would be \$203 Million. That calculation is shown in Table 3 and is the bottom line on Figure 1. This represents a lower, and probably more realistic funding projection.

TABLE 3. Potential SRF Funds For Georgia, Reduced levels for FY 1990-1994 (millions of dollars).

| Fiscal Year | Funding | | SRF** | Cummu. SRF | With Match |
|-------------|----------|----------|-------|------------|------------|
| | Title II | Title VI | | | |
| 1988* | | | 27.99 | 27.99 | 33.57 |
| 1989* | | | 30.60 | 58.59 | 70.31 |
| 1990 | 15.78 | 16.11 | 30.78 | 89.37 | 107.24 |
| 1991 | -0- | 32.22 | 31.90 | 121.27 | 145.52 |
| 1992 | -0- | 24.16 | 23.92 | 145.19 | 174.23 |
| 1993 | -0- | 16.11 | 15.95 | 161.14 | 193.37 |
| 1994 | -0- | 8.06 | 7.98 | 169.12 | 202.94 |

* FY 1988 and 1989 funds have been awarded.

** SRF funding is estimated as 94% of Title II funds plus 99% of Title VI funds due to set-asides.

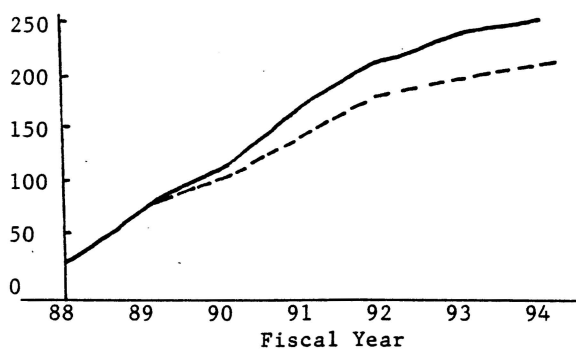


Figure 1. Potential SRF Funding for Georgia (millions of dollars).

— Authorization - - - - Appropriation

PROGRAM ADMINISTRATION

The SRF is fundamentally different from the Construction Grants Program in at least two ways. First, and probably most important, financial assistance is no longer available as grants. States may make SRF assistance available to local agencies in several forms, the most common of which will be low interest loans. As these loans are repaid to the State and the money is available for new loans, the revolving nature of the Fund is established. The SRF makes loans below market rates which provides some cost saving to the local agency, but in general this program clearly shifts the financial responsibility for wastewater infrastructure financing to local government.

The second way in which the SRF program is fundamentally different from the Construction Grants program is the State's flexibility in administering the program. This flexibility extends to the type of assistance the State chooses to provide, the type of projects the State chooses to support and generally how the State chooses to operate their program.

Types of assistance. The most common type of assistance is expected to be loans. But the State may also purchase or refinance local debt obligations, or guarantee local debt (bonds) or purchase insurance for local debt obligations.

Other Uses of the Fund. The State may use SRF money to secure State bonds provided the proceeds of those bonds go to the SRF. They may also fund local revolving fund programs. Money may be invested to earn interest for the Fund, and the State may tap the Fund for administrative expenses up to a maximum level set by the law.

Types of Projects. The State may choose to fund projects for wastewater treatment works, for non-point source control, for estuarine conservation and management, or for any combination of these activities. The Act does require that assistance from the fund go first to publicly owned treatment works to ensure that they are making progress toward meeting the enforceable requirements of the Act. This so called "first use" requirement must be met before funds can be used for other treatment works or for non-point source or estuarine projects. Georgia has met the first use requirements.

Priority of Projects. The State is required to have a priority list for wastewater projects, but may assist projects on the list without regard to their priority ranking. Non-point source projects and estuarine projects are not required to be on this priority list.

The criteria for choosing wastewater treatment projects from the priority list for funding and for selecting other types of projects for funding must be explained in the State's annual Intended Use Plan (IUP) which is subject to public review and comment and is the basis for the Federal grant award.

Administrative Procedures. Initially there are Federal requirements attached to wastewater projects but not to non-point source or estuarine projects.

Equivalency Requirements. The Act places certain facility planning, environmental and wage rate requirements on assistance to wastewater facilities up to an amount of money equal to the Federal grant. These requirements, referred to collectively as "equivalency requirements," are similar to those utilized in the grants program. They involve facility planning requirements such as 1) cost effectiveness, 2) consideration of Innovative/Alternative technology, 3) user charge system and sewer use ordinance, 4) consistency with area wide planning, and 5) infiltration/inflow analysis.

Finally the Act requires that these equivalency projects apply Davis-Bacon wage rates.

Environmental Review. The Act also requires an environmental review similar to that done under the National Environmental Policy Act (NEPA) for wastewater projects which are also equivalency projects. In addition, EPA is requiring an environmental review for all wastewater projects.

These requirements apply to an amount of money up to the total amount of all capitalization grants, i.e., an amount of assistance equivalent to the Federal money put into the Fund. The State may choose to make all wastewater projects "equivalency projects". Any money in excess of the required equivalency amount in each year can be banked against future requirements. Once these requirements are met, the State may choose to discontinue some or all of these requirements except that an environmental review will continue to be required. This should significantly streamline the program starting in about 1994.

The program planning and reporting activities which EPA requires of the Georgia EPD are significantly reduced from what is now required in the Grants program. These administrative activities will be further reduced after the Federal equivalency requirements are met.

GEORGIA'S STATE REVOLVING LOAN FUND

State Legislation. In anticipation of the new direction for funding wastewater treatment facilities, Georgia enacted legislation in 1986 establishing a State Revolving Loan Fund. The State law gave the Environmental Protection Division (EPD) the authority to establish a loan fund in conjunction with Federal law, and allowed for contracting with other State agencies for the management, investment and disbursement of monies in the fund. Because the State law was developed prior to the Federal law, several problems had to be overcome. Primarily, the State law referred to Title II as the Federal section for implementation, as opposed to the new Title VI enacted for SRFs. The State's Attorney General issued an opinion that clarified the State law in this respect, along with other aspects requiring discussion. One of these other aspects was Georgia's use of an existing law establishing the Georgia Environmental Facilities Authority (GEFA), another State loan making body. The GEFA law allowed for grants and other uses of loan funds beyond Federal law. The Attorney General's opinion clarified the use of the GEFA law by stating that only those portions in accordance with the Federal law were applicable.

State Rules. Also necessary for clarification were several State Rules. These Rules were promulgated and adopted to allow for the establishment of an annual interest rate and Intended Use Plan to be approved by the Board of Natural Resources. The Rules also provide for a State Environmental Review Process, approved by EPA,

which provides for public participation and an appeals process for decisions made utilizing this process. A major part of the Rules is the limitation on existing State laws utilized in conjunction with the State Revolving Loan Fund. As discussed above, this was necessary due to the broader nature of the GEFA law.

State Match. One unique feature of Georgia's SRF is the method used to provide the 20% match to the Federal funds. At this time, Georgia has no direct appropriation from the State Legislature to fund this match requirement. The Clean Water Act allows States to utilize loans made after March 7, 1985 (the date the Federal legislation was introduced) as match dollars, as long as the loan projects meet the minimum requirements for these dollars. These requirements are not as stringent as those attached to projects receiving assistance from funds directly made available by the Federal government (i.e. "Federal" dollar projects).

The Georgia Environmental Facilities Authority, whose law is utilized in operation of the SRF, has begun their fifth year of operation. Although GEFA can make loans for projects beyond the SRF scope, loans made through this program were screened to determine their eligibility as "match" projects. The repayment of those loans chosen as matches must be credited to the SRF and reloaned under the SRF requirements. By utilizing these existing loans and certain future loans to be made through the GEFA program, Georgia should be able to provide for the match dollars required to receive all Federal funds available through 1994.

Interagency Agreement. Since the arm of the Environmental Protection Division that administered the Construction Grants Program was basically an engineering/technical organization, there was a need for financial expertise in inception and operation of the SRF. Again, EPD turned to GEFA for this service. An interagency agreement (contract) was drawn up whereby EPD provided technical expertise to complement GEFA's financial functions. A similar agreement was already in place for the operation of the GEFA program. For the SRF, GEFA provides financial capability analyses of potential projects, bookkeeping and banking functions, and contract preparation services. The Environmental Protection Division selects projects to receive loans based on a readiness points system and reviews those projects for environmental and technical soundness. A similar relationship has worked well for the existing loan program.

Administration Fee. Another unique feature of the Georgia SRF is the use of an administration/closing fee. Georgia has instituted this fee to offset the future costs of program administration. At present, this is a one-time fee charged at four percent (4%) of the total loan, similar to a mortgage closing cost. The current rate is subject to adjustment depending on the future needs of the program.

The fee is necessary due to the declining nature of the Federal funds. At present, States

are allowed to utilize four percent of each Federal Capitalization Grant for program administration. After 1994, there will be no further funds of this nature and the repayments into the SRF may not be utilized for these costs. Therefore, Georgia had to develop a method to fund these future administrative costs. The loan recipient is charged the fee at the time of the loan contract execution and may choose to finance this charge through the SRF. So far, most loans made by Georgia have exercised this option to roll the fee into the total loan amount. When the fee is paid, the amount is placed in a separate investment account and thereby not mixed with the SRF account, which must be utilized for loans or other activities authorized by the Federal law. In charging the fee, Georgia is providing for the future of the SRF program administration in the absence of any direct State appropriations.

CONCLUSION

Georgia decided to enter the State Revolving Loan Fund program as early as possible. For this reason the Georgia SRF utilizes a very simplistic approach. This has allowed the State to get the SRF dollars into actual construction of wastewater facilities without unnecessary delays. Since the required match is made through existing loans, all loans currently being made must meet all equivalency requirements and are funded 100% from the Federal grant to the State. This simplifies project accounting and tracking.

In summary, the transition from the Federal Construction Grants Program to State-run Revolving Loan Funds will continue the tradition of assistance for wastewater treatment funding with the following differences: 1) no more grants, 2) expanded eligibilities, but with some Federal requirements, 3) greater flexibility in program management, 4) reduced Federal requirements in the future.