

Clean Water State Revolving Fund Nonpoint Sponsorship Program Overview—For FAC Meeting 03.27.19

Purposes

Ecology hopes to begin implementing a Clean Water State Revolving Fund (CWSRF) Nonpoint Sponsorship Program in the State Fiscal Year 2021 (SFY21) Funding Cycle. The purposes of the program are: (1) to augment grant funding for high-rated nonpoint projects through the CWSRF without significantly negatively impacting the perpetuity of the CWSRF and (2) to foster communication among water quality partners working in the same watershed.

Key Program Details

If the program is ready, full program details will be provided in the SFY21 Funding Guidelines that will be published in August 2019. The following information provides a basic overview of key program information as well as some concerns that have been raised and a question for FAC.

How the Program Will Work

Five other states have nonpoint sponsorship programs—DE, IA, ID, OH, and OR. The other state programs work by funding both a facility project and a “sponsored” nonpoint project through a CWSRF loan but reducing the CWSRF loan interest rate for the facility project so that the interest rate reduction results in a loan repayment amount that is equal to the amount that would have been paid if only the facility project were funded at the standard interest rate.

OH’s nonpoint sponsorship program is the oldest of the 5 other state programs. IA’s program is the second oldest. For information on IA’s and OH’s programs, see the recorded webinar located here: <https://www.epa.gov/cwsrf/cwsrf-webinars>; just scroll down to the *Sponsorship: A Unique Tool for Funding Land Conservation Projects with the CWSRF* section to view a webinar.

The CWSRF Nonpoint Sponsorship Program will operate similar to nonpoint sponsorship programs in the other states, but there will be differences. The key reason for the differences is that Ecology primarily funds nonpoint projects with Centennial and Section 319 grants, and the program is intended to be as consistent as possible with the existing funding under those programs.

Funding Source and Funding Caps

CWSRF Nonpoint Sponsorship Program funding will be derived from the existing CWSRF 20% set-aside for nonpoint projects. The annual maximum funding that will be awarded under the program is \$5,000,000. The cap and the derivation of the funding from the existing set-aside limits the negative impact of the program on the CWSRF.

In addition to the total maximum, the maximum funding for a sponsored nonpoint project will be \$500,000. This cap is consistent with the maximum grant award for unsponsored nonpoint projects providing 100% cash match. CWSRF loans for match are considered cash match, so the \$500,000 maximum applies to sponsored nonpoint projects because the public body is funding the project entirely with loan. Only cash match is allowed at this time for simplification purposes.

Example. If there is \$100,000,000 available CWSRF in a funding cycle, the nonpoint set-aside is \$20,000,000. All of the CWSRF funding for nonpoint projects, including sponsored nonpoint projects, will come from this set-aside. The maximum funding for sponsored nonpoint projects will be \$5,000,000. The maximum funding provided for an individual sponsored nonpoint project will be \$500,000.

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CWSRF forgivable loans will not be used to fund sponsored nonpoint projects because, while such projects are likely to meet the Green Project Reserve (GPR) requirements, Ecology is limited by rule to funding no more than 25% of GPR project costs with forgivable loan.

Locational Link

The sponsored nonpoint project will be required to be in the same watershed as the sponsoring facility project. The reason for this requirement is to help achieve the second purpose of the program—namely, to foster communication among water quality partners working in the same watershed.

IA's program also requires projects to be the same watershed. OH's program does not have this requirement.

Application Process and Rating Process

Separate applications will be required for sponsoring facility projects and sponsored nonpoint projects, and the applications will be independently rated by Evaluators with expertise in the category of project they are evaluating. This requirement will help ensure that sponsored nonpoint projects do not have an advantage over unsponsored nonpoint projects.

Applicants for sponsored nonpoint projects will apply for grant as they would if they had an unsponsored nonpoint project, but they will indicate in the application that they have a sponsoring facility project partner who is willing to take loan for the project if it's not funded with grant. Sponsored nonpoint projects will indicate they have a sponsoring facility project partner by uploading a "Letter of Sponsorship" from their sponsoring facility project partner. The Letter of Sponsorship must cite the specific sponsoring facility project, state that the applicant for the sponsoring facility project will work with the sponsored nonpoint project implementer, and state that the applicant for the sponsoring facility project will accept and repay the loan if the project is funded as a sponsored nonpoint project.

IA's program works the same way—i.e., it requires separate applications and separate rating process for both applications. OH's program works a bit differently in that it requires the projects to be "nominated" separately and then rated separately, but afterwards only 1 application is submitted for both projects.

Funding Order and Minimum Score Requirement

Ecology will fund both unsponsored and sponsored nonpoint projects with grant before offering any CWSRF Nonpoint Sponsorship Program funding. However, CWSRF Nonpoint Sponsorship Program funding will only be provided to projects that score at least 750 points.

Example. Follow initial fund streaming, Centennial and Section 319 grant funds are depleted for nonpoint projects, but there are unfunded sponsored nonpoint projects that scored at least 750 points paired with sponsoring facility projects that scored high enough to be offered funding. In such cases, CWSRF Nonpoint Sponsorship Program funding will be offered to the unfunded sponsored nonpoint projects up to the overall cap of \$5,000,000 and the project cap of \$500,000. This approach helps reduce the negative impact of the program on the CWSRF but still augments grant funding when needed for high-rated nonpoint projects.

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Interest Rates and Match

The interest rate for the combined sponsoring facility project and the sponsored nonpoint project will be reduced so that the cost to the ratepayers for the projects will equal the cost that would have applied if only the sponsoring facility project were funded at the standard interest rate plus 25% of the cost of the sponsored nonpoint project. The addition of the 25% cost of the sponsored nonpoint project is in place to ensure that the cost for the sponsored nonpoint project is equal to the cost for a similar grant-funded unsponsored nonpoint project, as the latter have a required 25% match. In other words, 75% of the cost for the sponsored nonpoint project will be covered through a reduction in the interest rate for the sponsoring facility project.

Example. A wastewater facility needs a \$1,000,000 upgrade. The public body applicant for the wastewater project is willing to sponsor a nonpoint project. The standard interest rate for wastewater projects is 3%. The total repayment for a \$1,000,000, 20-year loan at 3% interest is \$1,317,324. The total repayment for a \$1,200,000, 20-year loan at ~0.975% interest is also \$1,317,324. Therefore, the public body applicant for the wastewater project could borrow \$1,000,000 for the wastewater project plus \$200,000 for the nonpoint project for 20 years at a ~0.975% interest without incurring additional costs compared to borrowing \$1,000,000 for the wastewater project for 20 years with a standard 3% interest rate plus 25% of the cost of the sponsored nonpoint project. See the following table.

| | Loan Amount | Interest Rate (r) | Total Repayment (20 Years) |
|--|-------------|-------------------|----------------------------|
| CWSRF Loan for Facility Project | \$1,000,000 | 3% | \$1,317,324 |
| CWSRF Loan for Facility Project + Sponsored Nonpoint Project | \$1,200,000 | ~0.975% | \$1,317,324 |

To summarize, Ecology could award a \$1,200,000, 20-year loan at ~0.975% interest to the public body for both projects (\$1,000,000 for the facility project, \$150,000 for the nonpoint project plus \$50,000 for the nonpoint project 25% match), and the public body's fee payers would not pay any additional costs except for the 25% match.

Funding Agreements

Funding agreements for sponsored nonpoint projects will be developed with the applicant for the sponsoring facility project. The agreement will include the scope of work and funding for both projects. The recipient for the sponsoring facility project will coordinate work and payment with their sponsored nonpoint projects partners. The partners may want to develop a memorandum of agreement or a similar instrument to help coordinate work and payment.

All CWSRF funding conditions applicable to facility projects and nonpoint projects will be included in the funding agreement.

IA's and OH's programs work exactly the same way.

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Concerns/Question

Concerns

- If there is only 1 funding agreement for both projects, that will mean that each agreement will likely have 2 Ecology Financial Managers and 2 Ecology Project Managers overseeing the projects because Ecology will seek to have oversight from staff with expertise in wastewater facility projects (or stormwater facility projects) and staff with expertise in nonpoint activity projects. This may cause confusion amongst staff regarding duties. For example, who would be responsible for tracking and processing payment requests, progress reports, and final project reports?
- The program does not appear to provide much motivation for potential sponsoring facility projects to participate; it adds an administrative burden for them, but it does not provide any financial incentive.
- Facility projects typically have a 5-year timeframe for completion. Activity projects typically have a 3-year timeframe for completion. Would the projects be allowed to be completed on separate dates, or would either the 5-year or 3-year timeframe be applied to both projects?
- Ecology has not discussed the program with either its Facilities Workgroup or its Nonpoint Activities Workgroup. Workgroup members may provide feedback that would impact program details.
- Ecology's Project Management Desk Manual was finalized relatively recently. The manual may need to be amended to include information on how to manage projects funded through the CWSRF Nonpoint Sponsorship Program.
- Fully resolving the concerns will likely require more time than is available in order to implement the program in the SFY21 Funding Cycle.

Question for FAC

- Should Ecology pursue implementation of the CWSRF Nonpoint Sponsorship Program for the upcoming SFY21 Funding Cycle or wait until the key concerns have been fully resolved?