

MEMORANDUM

SUBJECT: Proposed Capitalization Levels for Clean Water and Drinking Water SRFs

FROM: Michael B. Cook, Director
Office of Wastewater Management

Cynthia C. Dougherty, Director
Office of Ground Water and Drinking Water

TO: Clean Water and Drinking Water SRF State Program Managers
Water Division Directors

As you know, the Clean Water and Drinking Water State Revolving Funds (SRFs) are among the most potent tools that States have to assure environmental improvements and the protection of public health. It is clear that EPA and the States share a responsibility to make the most effective use of these revolving funds. With \$137 billion in documented clean water infrastructure needs, and about \$138 billion in drinking water needs, we must all work together to get the biggest environmental "bang for the buck" possible through the two SRFs.

At this time, we are pleased to provide you with information about the Administration's Federal capitalization plans for the two SRFs. This information will assist State and EPA staff with current and future planning, and will help States work with their legislatures to plan for the appropriation of SRF match funds.

The Administration is firmly committed to supporting both of the SRF programs. We at EPA have for some time envisioned targets for future capitalization of the Clean Water and Drinking Water SRFs, to help States meet their environmental and public health goals. Working in cooperation with the Office of Management and Budget (OMB), we have developed a plan to capitalize the Clean Water and Drinking Water SRFs so that, on a national basis, they will generate average annual assistance (that is, *revolve*) at a level of about \$2 billion and \$500 million, respectively.

The Agency's proposed capitalization schedule represents our efforts to fund the Clean Water and Drinking Water SRFs so that they will provide a perpetual source of financial assistance for eligible high-priority water quality and public health projects. Also important to note is that our capitalization plan is consistent with the deficit-reduction initiative currently under discussion by the Administration and the Congress.

As you are aware, one of our highest priorities is the successful launch of the Drinking Water SRF program. In the Safe Drinking Water Act (SDWA) Amendments that were passed last summer, the Congress authorized a total of \$9.6 billion to capitalize this critical public health program, including about \$600 million for fiscal year 1994 and \$1 billion annually from fiscal

years 1995 through 2003. The Drinking Water SRF funding plan below is in line with Congressional authorization levels, and will allow the Drinking Water SRF to revolve at our target level of about \$500 million annually while supporting deficit-reduction efforts.

Please note that authorization for the Clean Water SRF lapsed with the expiration of the Clean Water Act in fiscal year 1994; the program continues to operate under the aegis of Congress's annual appropriations.

<i>Fiscal Year</i>	<i>Proposed level for Clean Water SRF</i>	<i>Proposed level for Drinking Water SRF</i>
1997 (enacted)	\$625 million	\$1.275 billion
1998	1.075 billion	725 million
1999	1 billion	925 million
2000	1 billion	975 million
2001	1 billion	975 million
2002	1 billion	975 million
2003	650 million	1 billion

We have developed our *revolving* estimates using a computerized *SRF Planning Model*, copies of which we will be providing to the States later this month. This *Planning Model* takes into account various assumptions about aspects of fund management -- including state match levels, interest rates, repayment terms, leveraging options, and others -- that have an effect on the amount of future assistance provided. The *Planning Model* uses historical performance of the Clean Water SRF, as well as probable assumptions for Drinking Water set-aside levels, to project the amounts of assistance that the SRFs will provide at the national level. The attached charts show in graphic form the amounts of assistance that we expect the Clean Water and Drinking Water SRFs to provide over the next three decades at the national level.

Thank you for your continuing support of the State Revolving Fund programs. If you have any comments or questions about our capitalization plan, or about other aspects of the SRFs, please contact Jamie Bourne of the Drinking Water SRF at (202) 260-5557, Cleora Scott of the Clean Water SRF at (202) 260-7359, or your SRF Regional Coordinator.

Attachments

cc: Clean Water and Drinking Water SRF Regional Coordinators