State Revolving Fund Best Practices & Ideas for States to Consider Expediting SRF Cash Draws and Grant Applications

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Disclaimer: The following items are offered as ideas for State SRF Program managers to consider within the operations of their own programs. Not all will be appropriate in every state. The goal is to initiate consideration and discussion of these items in terms of continuous improvement of a state's program to expedite cash draws from the federal capitalization grants. None of following exempt a state from fully complying with the existing applicable laws, regulations, grant conditions, and SRF Guidance and Policies.

Additional Best Management Practices may be provided to cunningham.magdalene@epa.gov for inclusion into a follow-up list.

Overall Program Management Processes

1. Draw federal funds (in proportion with state match) for all loans, not just a subset of equivalency-designated projects.

2. If reserve-fund leveraging, keep grant dollars out of the reserve so federal grant may be drawn for incurred costs on all loans. Structure leveraging so that repayments are used for the reserve instead of grant dollars.

3. Consider the cash flow needs of projects and phase-fund projects accordingly instead of traditional approach of committing funds to cover an entire large project. State will then be able to fund more projects that result in faster draws.

4. Review/Establish By-Pass procedures that ensure projects move as fast as possible.

5. By-pass projects when delayed.

6. Set due dates throughout state process of loan application to loan execution.
    a. By-pass projects that do not meet the due dates.
    b. Penalize projects if don't meet deadlines ie, no principle forgiveness.

7. List more projects on the approved IUP then there are funds available. The projects that get their paperwork done first are the ones that get the funding.

8. Create a back-up list of projects that are approved and ready to go if funded projects are delayed.

9. Only leverage when absolutely called for by excessive project demand because executing a leveraged loan takes longer then executing a direct loan.

10. Prepare an IUP independent of federal allotments, get EPA approval letter of IUP so state can close loans listed on IUP. This can be done even before grant allotments are known.

11. Execute loans only after bids are received.

12. Set schedule for conference calls with potential borrowers to ensure projects are moving to loan closing timely – discuss action items the borrower needed to complete by the next call.

13. Create a high demand for SRF loans:
    a. An effective permit and enforcement group in the State will generate demand
    b. Consent orders could require communities to raise rates so that they can afford loans
    c. Fund more than just wastewater: ag, brownfields, storm water, land conservation
    d. Offer favorable rates
    e. Limit principle forgiveness to 50% of the project costs and tie with regular base loan. Spreading out the principle forgiveness will increase loan demand.
    f. Create/Maintain an excellent reputation among the borrowers so you will have repeat business.

14. Get started early and work year round accepting/approving loan applications and executing loans.

15. Give priority points for readiness to proceed but verify applicant's assertions about their readiness.

16. If have a State Clearinghouse where all (not just SRF funded) infrastructure projects are approved, change philosophy to using SRF funds first then other funding sources so that federal funds are drawn into the state Fund quicker.

17. In some states (especially smaller ones), the workload of the engineering consultants may be determining which projects are progressing. Outreach to these firms to ensure the possible SRF projects are getting a top priority. These consultants have a vested interest in continued SRF appropriations too.

18. An IUP can be amended during the year to add more projects as applications are received and approved by the State Board.

19. Consider developing a Tier II SERP that would move some projects forward faster and avoid some of the cross cutter requirements that can slow projects down.

<u>Grant Application Process</u>

20. Negotiate payment schedule with EPA to get access to federal funds as early as possible. Payment Schedules are to be negotiated based on expected binding commitments, not disbursements. For most states, cumulative binding commitments are far ahead of

cumulative grant awards so that the entire grant amount can be made available in the first quarterly payment.

21. Separate the PPL/IUP development/review/approval from the grant application process. They do not need to be tied together. If the PPL/IUP are already approved, state can execute loans for these projects on the IUP independent of the grant award. Also, if the PPL/IUP is already approved then the application can move slightly faster through EPA.

22. Submit draft IUPs to the EPA Regional office for review and comment at the same time that the IUP goes to public comment.

23. Request, receive and spend State Match independent of Federal grant. If the state match has already been spent, then the state may draw federal funds at 100% once the federal grant is awarded.

24. For those states behind a year for obtaining state appropriations for match, consider requesting two years at the same time. Justify the request with the explanation that for every state dollar, five federal dollars are drawn into the state for jobs. Letters to the Governor may draw attention to this process in the state, making it easier to address now.

25. For those states that draw all of their capitalization grant funds before the next award is made, consider requesting pre-award costs on the application. Regions can approve up to 90 days of pre-award costs without a detailed/elaborate justification. After state receives the award, incurred costs from past 90 days can be drawn from the new grant.

26. For those states where one SRF program is drawing funds substantially faster than the other SRF program, the state should consider taking full advantage of the ability to transfer grant dollars. As a result, the State as a whole will benefit and will maximize the federal contribution into the state Funds. The SRF receiving the increased grant funds could reimburse the giving SRF with an equal amount of repayments transferred either immediately, as the cash is drawn, or as cash flow is needed.

Cash Draw Procedures

27. Communicate with borrowers to submit their invoices timely (at least monthly).

28. Send letters to a community's Mayor, Town Council, or other governing body that the project is tying up its own local financial resources when it could have been reimbursed with SRF funds.

29. Penalize borrowers that do not invoice timely, such as:
    a. Fine for each month an invoice is delayed
    b. Fine can be a set amount or a percentage of the invoice or a higher interest rate
    c. Deposit fines into the Fund or the admin fee account
    d. Not all invoices, just those over pre-determined amount

    e. Instead of fines, penalize by deducting priority points on future projects

30. For CW administrative costs, draw up to the maximum of the 4% allowance for all grants awarded to date before using admin fee account. Instead of maximizing the draws from the grant:
    a. some states draw from their fee account until they start drawing from a grant for projects.
    b. Some states leave funds on a grant for admin costs that are expended in the future.
    c. Some states also have some staff assigned to the grant and some to the fee account. If the costs are related to SRF administration, than the staff salaries are eligible under the grant.
    d. Some states stopped drawing from their grants for administrative costs because the admin fee accounts were getting too large (and thereby noticed by possible raiders)
    e. Remember: costs for "other water quality purposes" might not be eligible under the CWSRF 4% allowance and would need to remain charged to the fee account.

31. Re-evaluate state procedures/requirements for retainage – the percentage of incurred cost amounts that are withheld until project is closed-out. If community pays it, state can pay it and draw from EPA grant. Consider limiting retainage percentage to just the last invoice, perhaps a higher percentage on the last invoice. Consider retainage only on invoices after 75% complete. Consider offering this flexibility to only local governments who are facing the same fiscal problems as federal and state governments. Consider offering this flexibility for one or two years until most grant funds are drawn.

32. Invoices should be reviewed and disbursements to the borrower made by the State within 3 weeks of receipt of the certified invoice. Federal draws should occur within 3 days that a disbursement is made (based on several states processes). If not within these timeframes, review processes for delays – perhaps state can contract for part time accountants to review invoices as needed.

33. States not already drawing first-in-first-out, should reconsider this position. New policies from Grants Administration Division will make it very difficult to extend the project periods of older grants.

<u>DWSRF Set-Aside Funds</u>

34. Bank DWSRF set aside funds until absolutely needed, put into projects to accelerate cash draws.

35. Some states have set-asides in year-to-year contracts and if not spent by the end of each year then the remaining balance reverts to DW project funds. Deobligating and re-awarding can be a burdensome paper work process but another state does the same thing but the funds just revert back within the state; they don't deobligate.

36. Consider expanding activities eligible under Set-Aside funds, such as planning grants, design grants, and source water security enhancement grants.