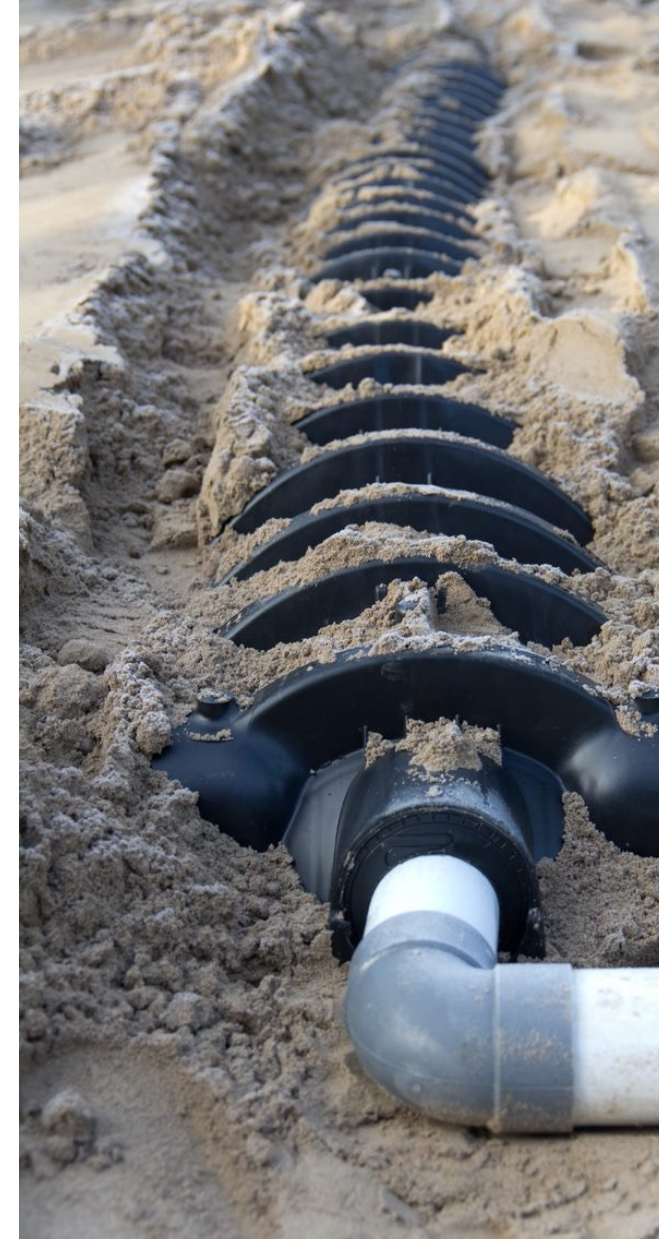


Financing Decentralized Wastewater Treatment Systems

Pathways to Success with the Clean Water State
Revolving Fund Program

Office of Wastewater Management
Decentralized Wastewater Program

Heidi Faller
May 3, 2022



Capturing the Challenges

1 in 5

Estimated Number of
Households on Septic Systems

11 out of 50

Number of States that
have used Clean Water State
Revolving Fund for
Decentralized (Septic) Projects
(as of 2020)



Impact of Failing Septic Systems



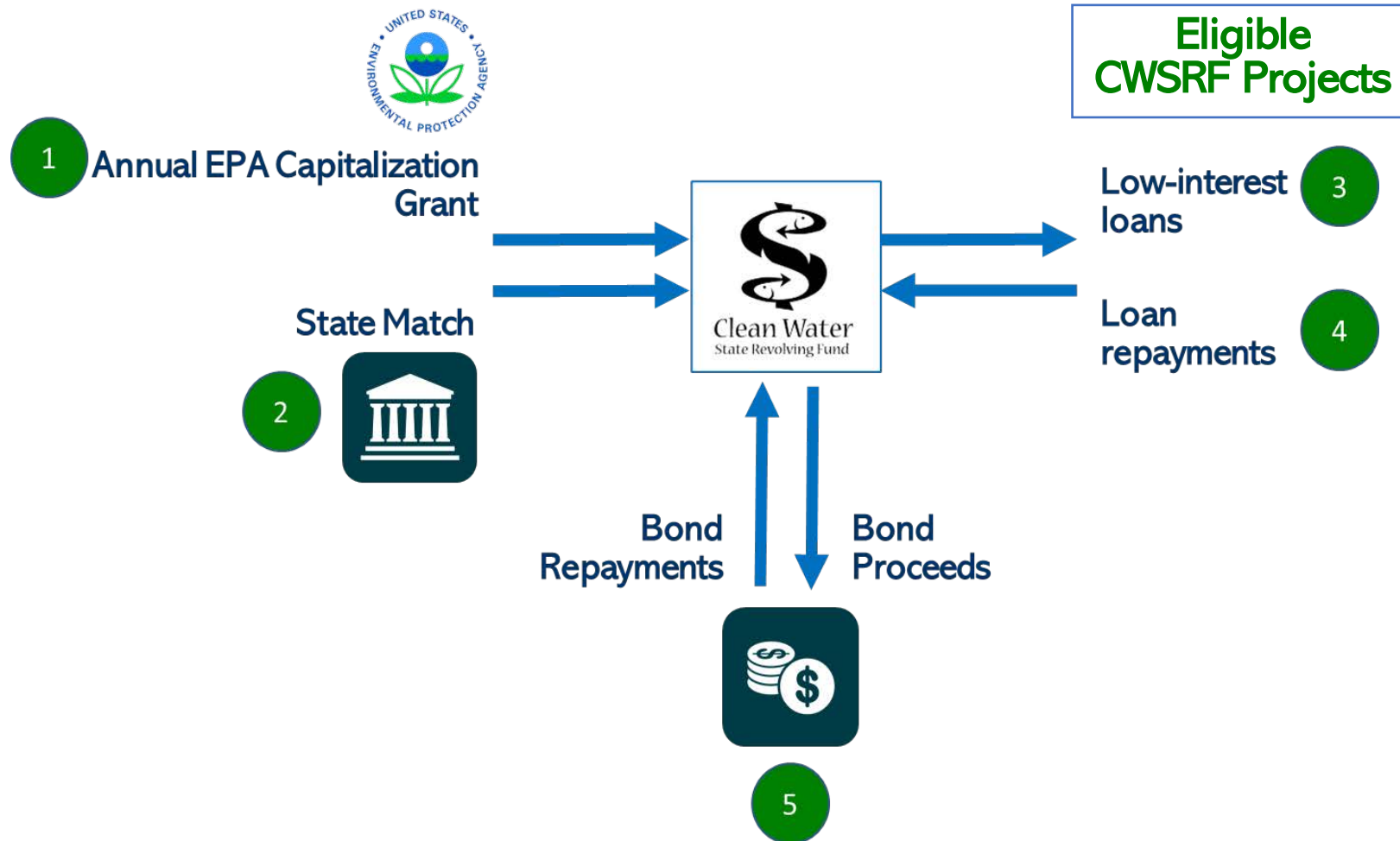
Pathways to Success

Overview:

- The Clean Water State Revolving Fund (CWSRF) Program
- How to Use the CWSRF to Finance Decentralized System Projects
- Options for CWSRF Loan Repayment
- Initiating a Financing Program for Decentralized Wastewater Systems with the CWSRF



What is the CWSRF & How Does it Work?



The CWSRF and Decentralized Systems



Is my project eligible for CWSRF funding?

- Planning and design
- Construction
- CWSRF CANNOT pay for operations and maintenance

Your state's CWSRF staff can help you understand what costs may/may not be included in a CWSRF loan.



What kinds of projects are eligible?⁸

- New septic system installation
- Repair/replacement projects
- Converting cesspools to septic
- Cluster systems or community package plants
- Certain fees associated with setting up a special district or a Responsible Management Entity



Am I eligible to apply?

The CWSRF may lend to:

- Communities, municipalities, townships, counties, political subdivisions
- Individual homeowners
- Citizen groups
- Non-profit organizations
- Public utility companies



What terms are available?

Within statutory limits, state CWSRF programs have a great deal of flexibility to offer borrowers, including leeway with:

- Interest rate and repayment terms
- Limited amounts of loan forgiveness
- Sculpted repayment structures to accommodate borrower cash flows

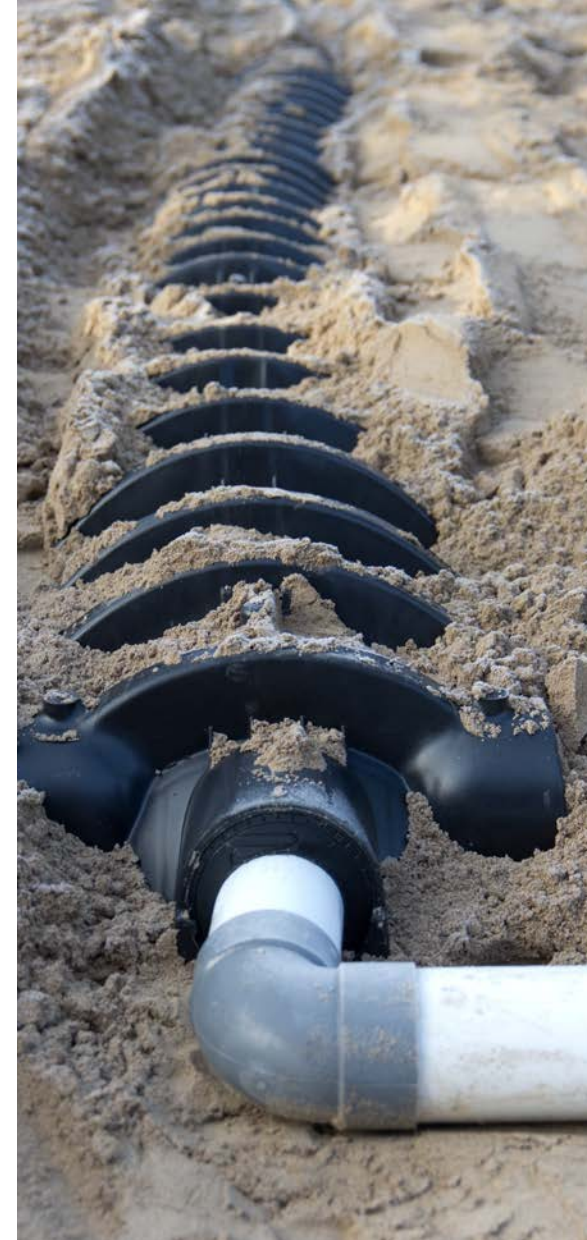
Check with staff in your state about how a CWSRF loan can be customized to fit your needs.

What are the Benefits and Impacts?

Low Interest Rate Loans
1.2% (2020 National Average)

Loan Forgiveness Options
Help for economically disadvantaged communities

Annual Capitalization Grants
\$12.7 billion (Bipartisan Infrastructure Law, FY2022-FY2026)
\$1.639 billion (FY2022 Appropriations)



Using the CWSRF for Decentralized Projects

What Options Are the Best Fit for Your Community?

Read Your State's CWSRF Legislation Rules, Regulations

Are there any state laws that limit or restrict decentralized system loans made to private home owners?

Review the Financing Mechanisms in this Document

Do any of the financing examples provide ideas on how to navigate state restrictions?

Identify and Approach Potential Partners

Many financing mechanisms use a partner, such as a nonprofit association. What type of partner is the best fit for your community?

Consider Possible Affordability Issues

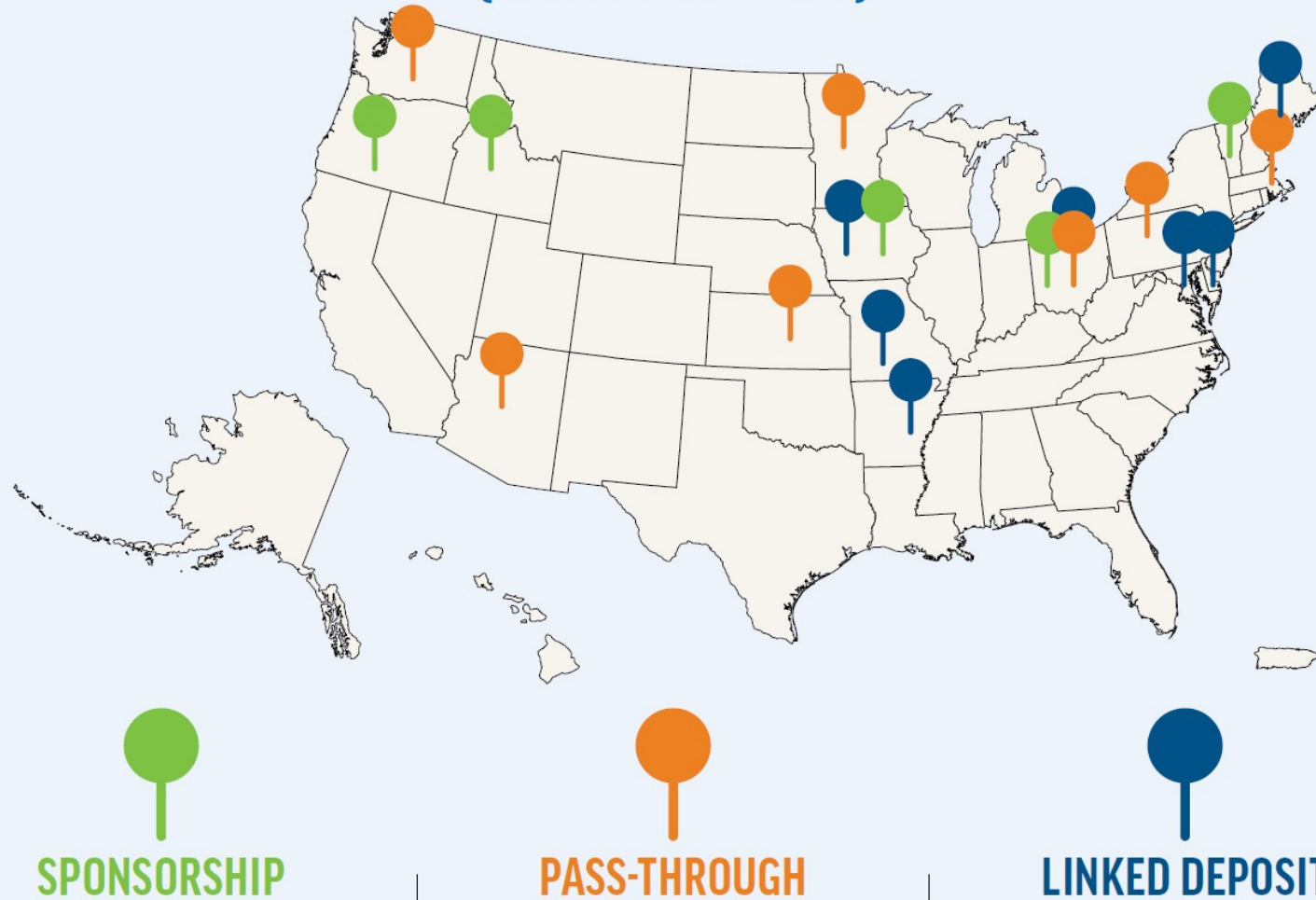
Some of the potential mechanisms have more flexibility in interest rates and loan terms. What affordability issues matter most in your community?

Financing Mechanisms

1. **Direct SRF Loans** to System Owners
2. **Conduit Lending** via Linked Deposit and Pass-Through Lending
3. **Sub-State Revolving Fund**
4. **Sponsorship** of a Decentralized Project by Public Borrower (i.e. community, wastewater utility, etc.)
5. **Co-Financing** Through Pairing CWSRF Funds with Other State or Federal Financing Programs



A National Picture of Conduit Lending and Sponsorship in the CWSRF Program (as of October 2020)



Direct Lending

Description: State SRF lends *directly* to system owner

Example:

- **Delaware** is the **only state** that offers direct lending for septic projects
- **Two direct lending programs funded by the CWSRF:** (1) Septic Loan Rehabilitation Program; (2) Septic Extended Funding Option
- **Eligible costs:** planning; design; construction

The Delaware Department of Natural Resources and Environmental Controls (DNREC) offers loans up to \$35,000 for homeowners and \$250,000 for mobile home parks for the construction, repair and replacement of decentralized systems, and connections to central sewer lines. Loans are offered through two programs, depending on the borrower's credit quality. Owners are required to pump out the system every three years. CWSRF staff perform a credit review of all applicants.



Septic Loan Rehabilitation Program (SLRP)

20-year loans at 3 or 6% interest, depending on income. Monthly payments paid to the CWSRF.

Septic Extended Funding Option (SEFO)

Interest-free loans for borrowers that do not qualify for SLRP. No monthly payments. Loans are due when the property is sold or transferred, or the mortgage is refinanced. Otherwise, the loan is forgiven at maturity. SEFO loans are financed from the CWSRF Administrative Fund.

At the end of FY 2020, Delaware had more than 530 SLRP and SEFO loans outstanding worth **\$9.3 million**.

The average loan is **\$18,000**.

The delinquency rate is **less than 2%**.

The loans pay for **planning, design, and construction costs**.

Conduit Lending

Description: Lending via an intermediary such as state and local government agencies, banks, and non-profits.

Types: (1) Linked Deposit; (2) Pass-Through

Selecting a Conduit Lender for Decentralized System Projects

Partner Eligibility	Borrower Eligibility	Willing Partner	Accessibility	Availability
The conduit lender must be eligible under state and federal CWSRF regulations.	The financing recipient (e.g., homeowners) must be an eligible borrower for the conduit lender and the SRF.	The partner should have similar goals as the CWSRF program.	The partner should be engaged with the target borrower community.	The CWSRF and the partner must have the staffing and infrastructure to manage and oversee the program.

Conduit Lending: Linked Deposit Mechanics

Partner: Local Bank

Description: Bank works directly with homeowner to (1) implement project; (2) conduct credit review; (3) approve loan

Key Features:

- CWSRF works “behind the scenes”
- CWSRF has some influence over lending criteria
- Property owners can work directly with community lender

Iowa Onsite Assistance Program (OSWAP)

OSWAP has over **400 participating bank lenders**. Many are community banks.

- Lenders apply at www.iowalinkeddeposit.com.



After the OSWAP project has been approved by the IA Department of Natural Resources, **Iowa SRF deposits an amount equal to the loan** with the lender. The lender reimburses the homeowner from this account.



- The lender establishes the loan terms.
- The CWSRF limits terms to up to 3% interest and 10 years
- Minimum loan is \$2,000
- 100% of project costs
- Principal repayments are credited back to the CWSRF



In FY2020, Iowa lenders signed over \$1 million in OSWAP linked deposit loans. Since OSWAP's inception in 2003, over \$18.6 million in loans have been signed.



Maryland Linked Deposit Program for Onsite Systems

Lenders must be approved by the **State Treasurer's Office** through an RFP process. They can participate in any state lending programs, not just the SRF. About 20 lenders participate.

https://mde.maryland.gov/programs/Water/WQFA/Pages/linked_deposit.aspx

After the lender approves the loan, the **Maryland SRF purchases a CD in the amount of the loan** at the lender. The CWSRF accepts a discounted rate of return. The lender passes the discount on to the borrower.

- The interest rate is the lender's market rate minus the SRF discount
- 100% of project costs

Since its inception in 1999, Maryland has funded 100 linked deposit loans. In recent years, low market interest rates have diminished demand.

Property owners must receive a permit from the county prior to going to the lender.

Conduit Lending: Pass-Through Mechanics

Partner: (1) Governmental Entity; (2) Community Development Financial Institution; (3) Other Community Funding Agencies

Description: Partner connects loan recipient to CWSRF financing and evaluates, approves, and services the loan

Key Features:

- Partner requests disbursements from CWSRF
- Partner depends on state's CWSRF legal constraints & partner willingness



Virginia Middle Peninsula Planning District Commission (MPPDC) Septic Repair Program

MPPDC consists of 3 towns and 6 counties, with significant rural and coastal areas. The Septic Repair Program was first **capitalized with a \$250,000 CWSRF loan** in 1997. It has received 3 more CWSRF loans and funding from other programs.

CWSRF loans are at **0% interest for 15 years**.

Homeowner loan terms range from 0% to prime +2%, and repayment within 15 years. Low-income homeowners may receive grants.

Referrals are typically by the county Health Department, septic inspectors, and contractors.

MPPDC has provided \$1.4 million in assistance, 55% as loans. 174 projects have been completed. There are 50-60 active loans at any time. Interest earnings are used for administration.



Rhode Island Community Septic System Loan Program (CSSLP)

Since 1999, **local governments may apply for CWSRF loans** to capitalize a CSSLP for septic system repair and replacement. There is a similar program for sewer tie-ins.

Local governments apply with an Onsite Wastewater Management Plan and provide additional security in the event of homeowner defaults (e.g., general revenue pledge). **The CWSRF loan is at 0%.**

Homeowner credit reviews are conducted by a state agency, RI Housing.

There is a 1% annual fee and a \$300 loan origination fee.

60 CCSLP have been made to 17 communities totaling \$21.1 million.

Sub-State Revolving Fund Mechanics

Partner: (1) Governmental Entity; (2) Community Development Financial Institution; (3) Other Community Funding Agencies

Description: CWSRF capitalizes another revolving loan fund

Key Features:

- Any eligible CWSRF borrower can start a sub-state revolving fund
- Sub-state revolving fund establishes lending criteria
- Typically offers loans and grants

Sponsorship Mechanics

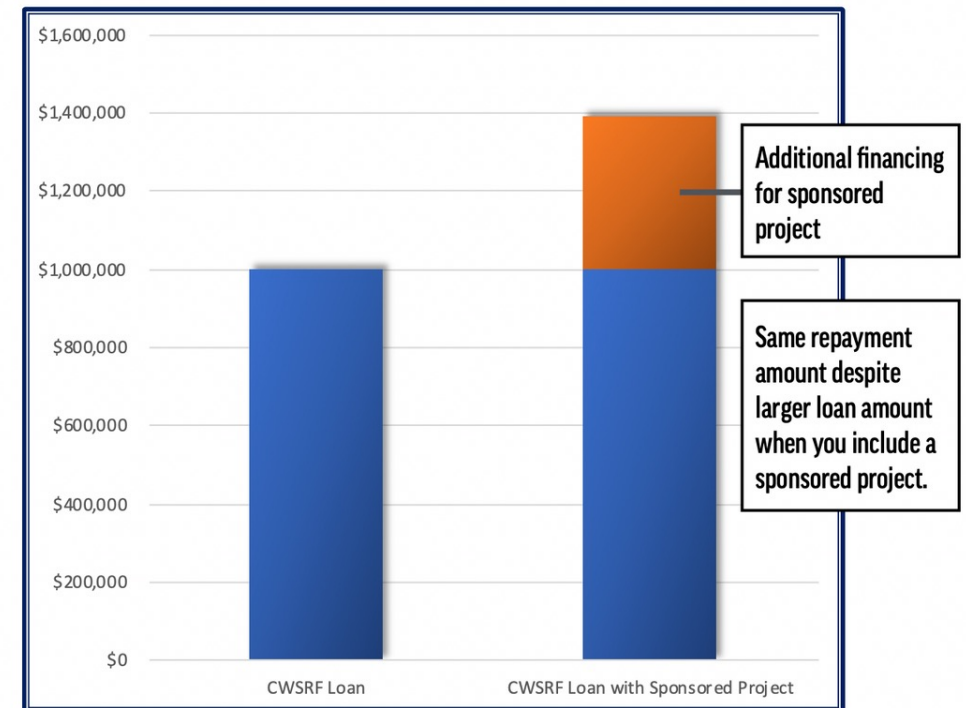
Partner: Publicly-Owned Utility; Local Government Entity

Description: Public CWSRF borrower sponsors a septic project under its CWSRF loan.

Key Features:

- The CWSRF borrower funds two projects (their own AND the sponsored project) for the price of one
- Best suited to projects that lack repayment revenues

	Loan Amount	Interest Rate	Total Repayment over 20 Years
CWSRF Loan	\$1,000,000	3.8%	\$1,436,707
CWSRF Loan with Sponsored Project	\$1,393,442	0.3%	\$1,436,707



Co-financing Mechanics

Partner: Any other financing program

Description: Pairing CWSRF funds with other state or federal water quality financing programs

Key Features:

- Common partner programs: USDA-Rural Development; HUD Community Development Block Grant; EPA's WIFIA Program
- Can bring down costs for borrowers
- Can be used to directly finance projects or to establish a sub-state revolving fund



Repaying CWSRF Loans

Property Tax Assessment Financing

Helps homeowners avoid high upfront costs by allowing the lender to secure the loan using a lien against the property when the system is being installed.

The loan is repaid through incremental increases on the property owner's property tax bill

Septic Utility Fees

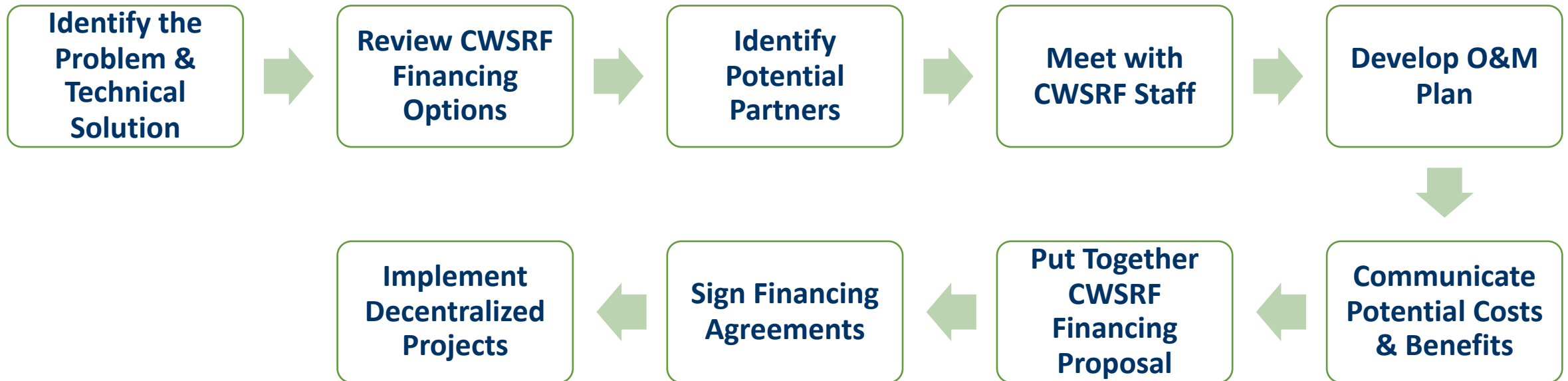
Fees collected by a designated organization called a Responsible Management Entity. Fees are collected from a group of households for O&M on a cluster system or package plant.

Collected fees can be used as a loan repayment source.

HOA Dues

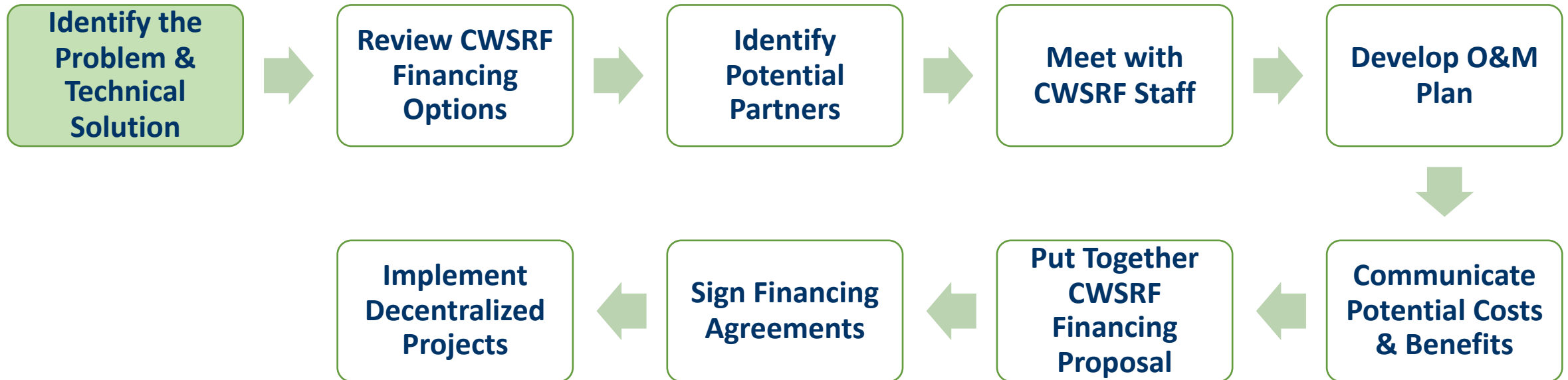
When the CWSRF makes loans directly to a HOA, HOA fees can be used to repay the loan.

Decentralized Financing – A Framework for Implementation



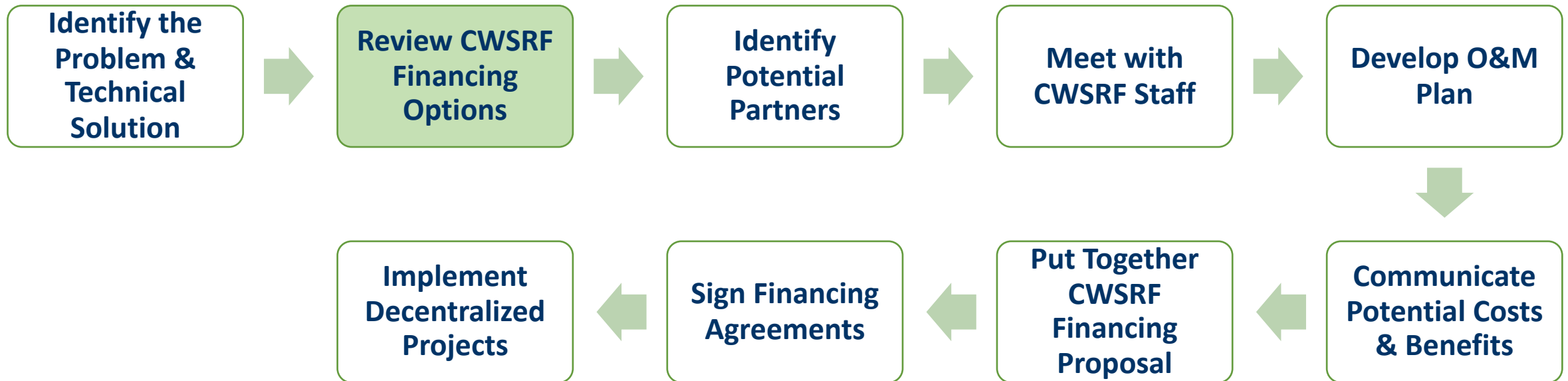
Decentralized Financing –

(1) Identifying the problem & technical solution



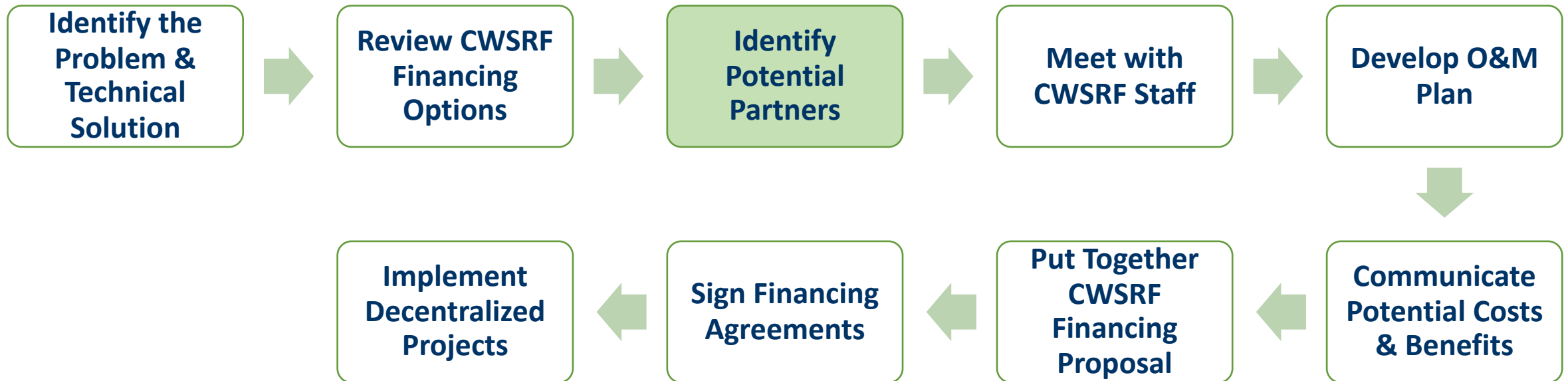
Decentralized Financing –

(2) Review CWSRF Financing Options



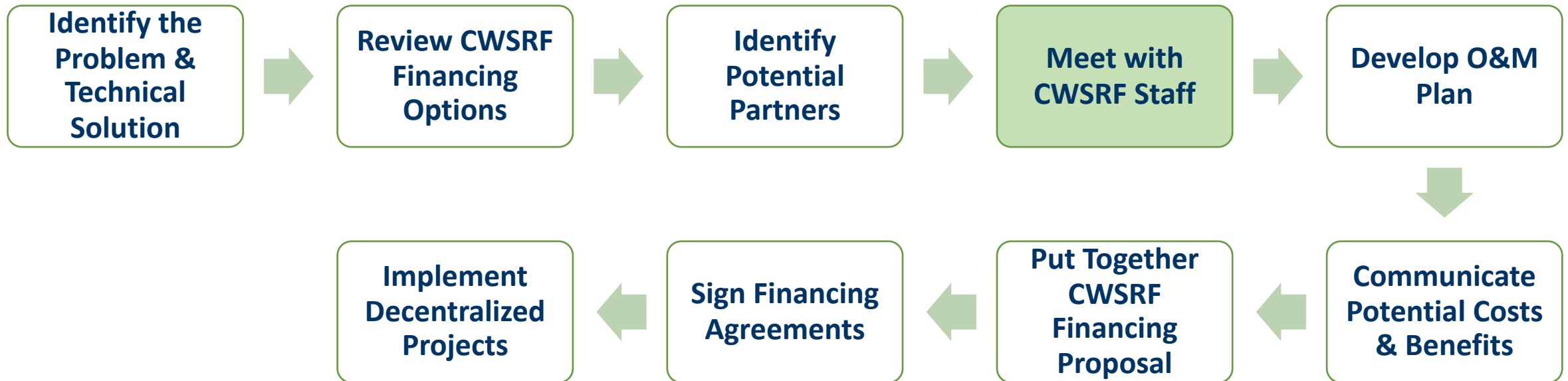
Decentralized Financing –

(3) Identify Potential Partners



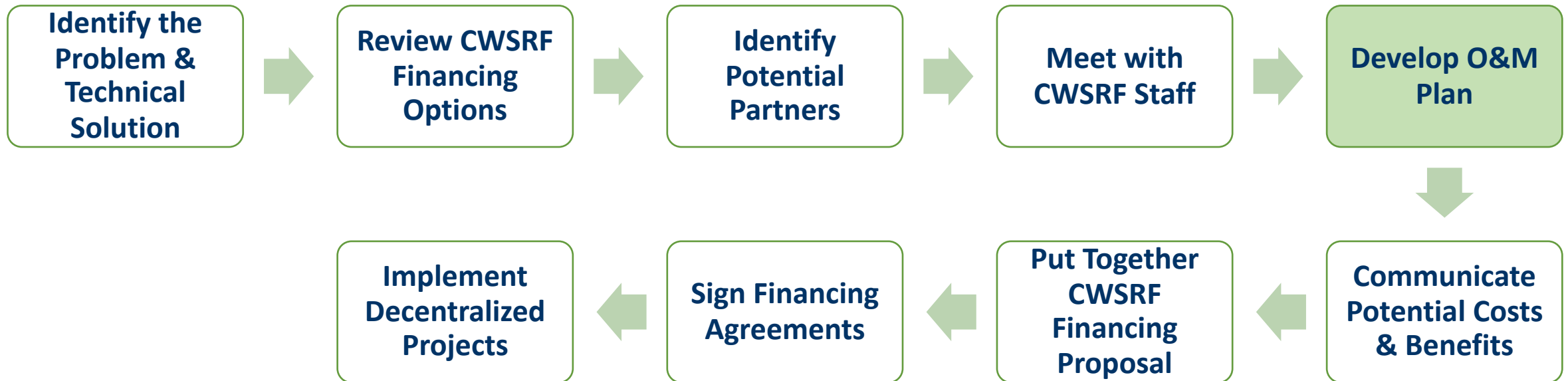
Decentralized Financing –

(4) Meet with CWSRF Staff



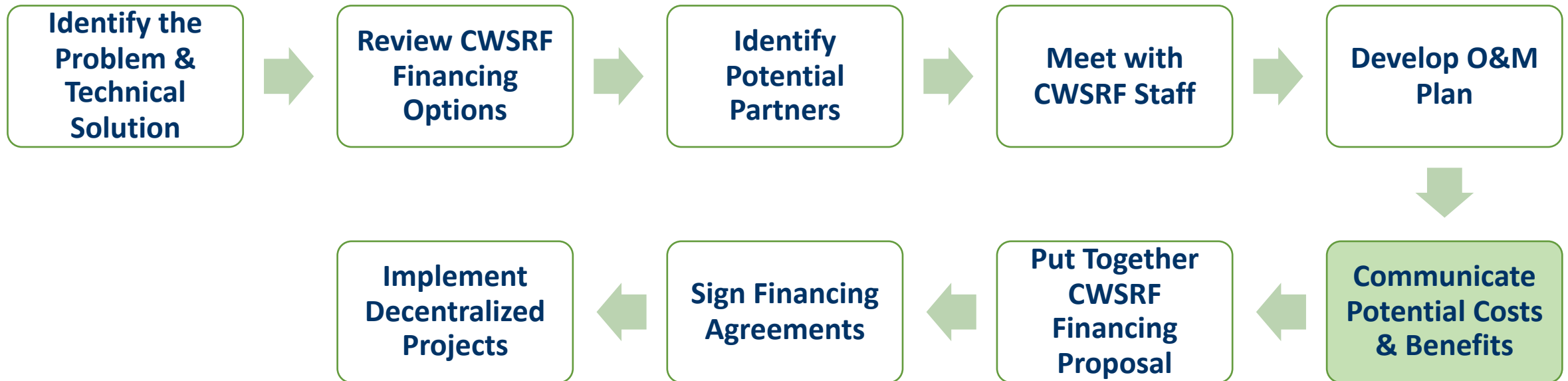
Decentralized Financing –

(5) Develop O&M Plan



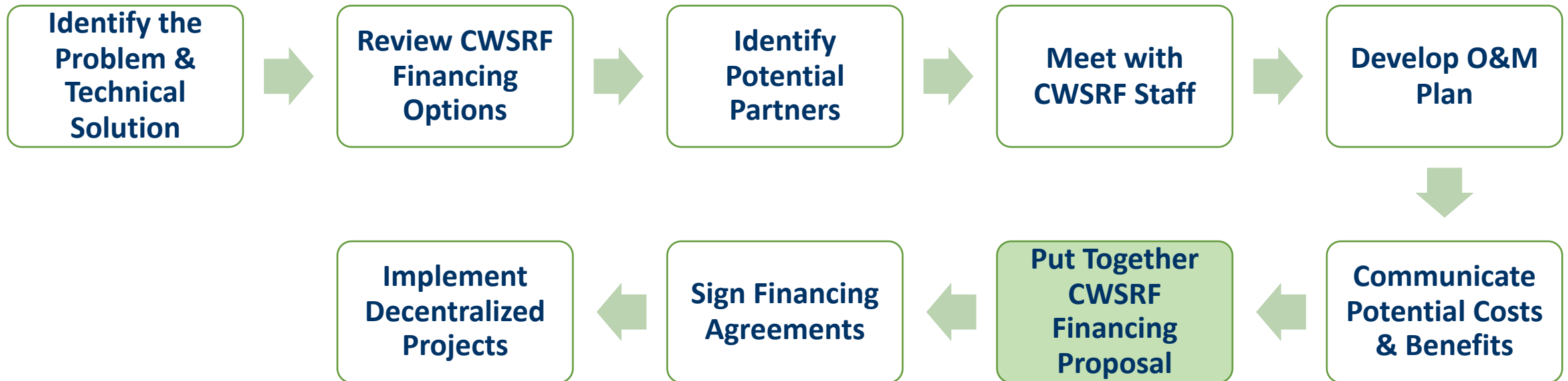
Decentralized Financing –

(6) Communicate Potential Costs & Benefits



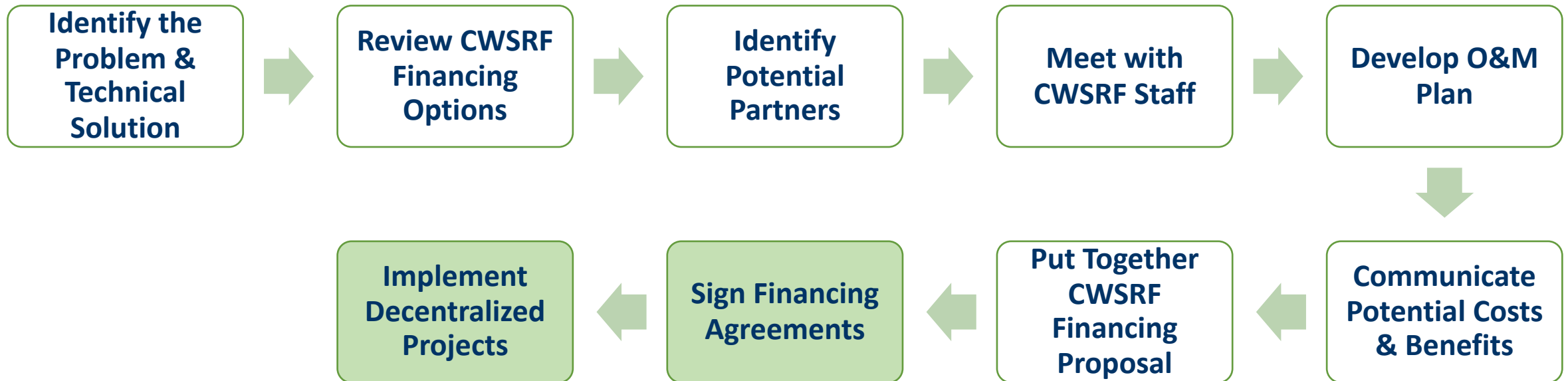
Decentralized Financing –

(7) Put together CWSRF Financing Proposal



Decentralized Financing –

(8) Sign Financing Agreements, (9) Implement!



Best Practices: Successful Decentralized System Project Implementation



01 Educate Homeowners

Proper system care & maintenance are essential to system longevity

02 Effective Outreach

For a decentralized system financing program to thrive, communication to stakeholders about financing options is crucial.

03 Messaging

Consider your audience and use appropriate terminology and phrasing.



Questions?