



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

We conducted this review to determine how U.S. Environmental Protection Agency (EPA) policies have impacted State revolving funds (SRFs) and the related water infrastructure funding gap. We focused on how EPA policies allowing States to use bonds repaid from SRF interest to meet the match requirement have affected funds available.

## Background

The Clean Water and Drinking Water SRFs combined represent EPA's largest program. Congress created the SRFs to provide States with a continuous source of funding for needed water projects. The laws require States to contribute to the SRF a match of 20 percent of the Federal capitalization grant. In 2002, EPA identified that a significant funding gap exists between projected clean water and drinking water infrastructure needs and current levels of Federal, State, and local spending.

For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.

To view the full report, click on the following link:  
[www.epa.gov/oig/reports/2007/20070329-2007-P-00012.pdf](http://www.epa.gov/oig/reports/2007/20070329-2007-P-00012.pdf)

## ***EPA's Allowing States to Use Bonds to Meet Revolving Fund Match Requirements Reduces Funds Available for Water Projects***

### What We Found

EPA regulations and policies allowing States to use bonds repaid from SRF interest to meet SRF match requirements are resulting in fewer dollars being available for water projects. Twenty States have used the Clean Water SRF to repay bonds issued to meet the required fund match, and 16 of those States also did so for the Drinking Water SRF. Many States have issued bonds as general obligations of the State that could potentially be transferred to the SRFs, which could also significantly decrease the amount of funds available for future projects. Further, four States used short-term bonds for their State match and then retired those bonds from SRF funds within a week of issuing them. We acknowledge that States have funding limitations and depend on legislatures for funding. Nonetheless, the majority of States have been able to finance their 20-percent match without using bonds financed by the SRFs, and we believe this is a goal toward which all States should strive.

When Congress created the Clean Water and Drinking Water SRF programs, it intended that they would be ongoing sources of funding for water projects. The funds were to be used to allow communities to leverage and maximize resources. The expectation was that the funds would continue to grow into perpetuity. Current practices have resulted in an estimated \$937 million less available for loans since the inception of the SRF programs. This results in fewer projects being started and completed, resulting in more systems having public health concerns.

### What We Recommend

We recommend that the Assistant Administrator for Water revise its regulations and policy on State match options to no longer allow States to use bonds repaid from the SRF to meet State match requirements.

EPA stated that while it supports the State match policy decisions that were made at the inception of the programs, it also believes it is appropriate to assess the impacts under current conditions.