



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

OFFICE OF
WATER

June 6, 1997

SRF 97-07

MEMORANDUM

SUBJECT: State Revolving Fund (SRF) Planning Model

FROM: Connie M. Bosma, Chief /s/
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Office of Ground Water and Drinking Water

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TO: Clean Water and Drinking Water SRF Program Contacts

We at EPA are keenly aware that each state manages its Clean Water State Revolving Fund (SRF), and will manage its Drinking Water SRF, according to its particular requirements and goals. The Agency is firmly committed to providing ongoing support and tools that our state partners can use to most effectively manage the SRFs.

As part of our ongoing assistance efforts, we have enclosed a copy of a new computer software tool -- the *SRF Planning Model* -- that EPA has designed to help you manage your state's SRF programs. The enclosed package also contains user documentation to guide you through the use of the model.

By providing this model as an analytical tool, we hope to make it easier for you to develop and evaluate a range of possible scenarios for managing your SRFs. Using the model, you will be able to forecast the amount of annual financial assistance that the SRFs will be able to provide in the future. More specifically, you may explore the effect of various financial management options on the financial performance of the funds.

By manipulating a series of assumptions built into the model, you can gauge how the decisions you make in the state program may affect the future level of assistance that your SRFs may provide. The *Planning Model* should be particularly helpful with regard to assessing the effect of various levels of Drinking Water SRF set-asides and disadvantaged community assistance, and their impact on the long-term funding level of the Drinking Water SRF program.

Assumptions that you may modify include, but are not limited to, federal capitalization; state match percentage; percentage of state match funded with revenue bonds; leverage ratio; loan terms; and inflation rate. As mentioned above, you may also project the potential effect of various set-aside alternatives on your Drinking Water SRF.

While we hope that this model will prove useful in your decision making, please note that it is for planning purposes only, and is intended to provide forecasts based on a limited set of assumptions. The *SRF Planning Model* can be used to determine the relative, order-of-magnitude effects of various management options, and can help you make informed program decisions. Of course, fund performance depends not only on management choices, but also on macroeconomic factors (e.g., changing inflation rates, etc.) that we cannot predict.

The enclosed diskette includes a Lotus for Windows spreadsheet that encompasses the assumption menu and charts to show the effect of those assumptions on your SRFs. We have also included the user documentation noted above, as well as samples of the tables and charts that the model can generate. We hope that you will provide constructive suggestions or observations about the *Planning Model* during the next three months, so that we can assure that it is user-friendly and appropriate for your needs. As you use the *Model* in your SRF programs, please keep in mind that this version is a "working draft," and that your suggestions for improvement are welcome.

For your information, we will soon be distributing two additional tools that will be of use to you. Within the next few weeks, you will receive a copy of the *SRF Cash Flow Model*, a powerful, user-friendly, and flexible financial planning tool designed to model the many financial transactions associated with SRF programs. In addition, we are planning to release a proposed future capitalization schedule for both the Clean Water and Drinking Water SRFs. Information about this capitalization proposal, which is consistent with the Administration's deficit reduction efforts, will assist states in planning for future SRF matching funds, and will help you forecast SRF revolving levels with the *SRF Planning Model*.

If you have any questions or suggestions about the *SRF Planning Model*, please contact your EPA Regional SRF Coordinator, or Kevin Rosseel at (202) 260-3715. Thank you for your continued efforts to make the SRFs a viable source of financial assistance to meet environmental and public health objectives.

Attachments

cc: Clean Water and Drinking Water SRF Regional Coordinators