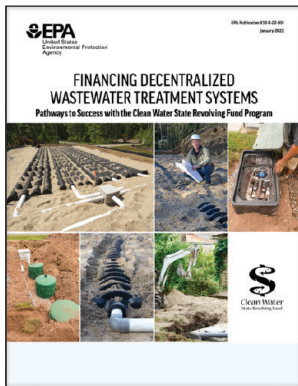


INTRODUCTION

Approximately one in five households in the United States rely on decentralized wastewater systems, such as single-family home septic systems or community cluster systems, for wastewater treatment and disposal. For communities relying on decentralized systems,



costs to repair, replace, or install systems can be expensive, and these costs are often the homeowner's responsibility. EPA's [Financing Decentralized Wastewater Treatment Systems: Pathways to Success with the Clean Water State Revolving Fund Program](#) Guide helps community leaders, local and state decentralized

wastewater treatment programs and state Clean Water State Revolving Fund (CWSRF) administrators understand how the CWSRF can be a viable source of financing for decentralized systems.

The Guide details (1) the CWSRF Program; (2) How to Use the CWSRF to Finance Decentralized System Projects; (3) Options for CWSRF Loan Repayment; and (4) Initiating a Financing Program for Decentralized Wastewater Systems with the CWSRF. This summary sheet highlights key content from these sections.

1 The CWSRF Program

EPA's CWSRF Program, administered individually by each state and Puerto Rico, provides low-cost financing for wastewater infrastructure and water quality projects, including decentralized wastewater system projects. The CWSRF functions like an environmental infrastructure bank, providing funding, primarily in the form of below-market interest rate loans to eligible borrowers. However, it is important to note that States are afforded extensive flexibility in administering their program, including defining project and applicant eligibilities, financing terms, and loan forgiveness options for qualified borrowers. Contact your state for [details](#).

CWSRF Financing Fundamentals



Is my project eligible for CWSRF funding?

- Planning and design
- Construction
- CWSRF CANNOT pay for *operations and maintenance* (O&M)

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?

- 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 loans
- 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.

2

How Can I Use the CWSRF to Finance My Decentralized System Project?

Federal statutes give states the ability to finance decentralized systems, but states determine whether and how to provide the financing. If a CWSRF program determines there is a need and demand for decentralized system financing, it will assess the best way(s) to offer financing. The table below highlights the most common mechanisms used by states for financing decentralized systems. As of 2020, only 11 states regularly use the CWSRF to finance decentralized wastewater projects. The Guide provides detailed information on each of these mechanisms, including case studies.

How Do CWSRF Decentralized System Financing Programs Work?

Lending Structure	How does it work?	Who is doing it?
Direct homeowner loan	The state CWSRF signs a loan directly with the property owner.	DE
Linked deposit loan	The borrower applies for funding at a participating bank. The CWSRF buys down the interest rate that the bank charges the borrower.	IA, MD, OH
Pass-through loan	The CWSRF makes a loan to a state or local government unit (agency, county, or special district), which uses the funds to make loans for decentralized projects. The government unit ensures repayment of the CWSRF loan.	CT, MA, MN, NJ, OH, PA, WV
CDFI pass-through	Same as above, but through a CDFI or other financial institution.	ID, OR, WA, WV
Sub-state revolving fund	The CWSRF makes a loan to the partner to capitalize another revolving fund. Returns on the sub-state revolving fund are used to repay the CWSRF and to make new loans.	MO, OH, RI, VA, WA
Sponsorship	A utility increases the size of its loan to sponsor a NPS project. In exchange, the CWSRF reduces the interest rate on the loan to cancel out the cost of the NPS project.	DE, IA, OH, OR all have sponsorship programs but they have not been used for decentralized projects
Co-funding	The CWSRF co-finances projects with another funding entity.	Every state does this, but may not have used this approach for financing decentralized projects.

3

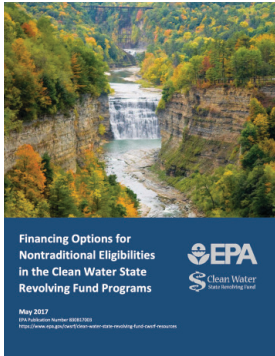
Options for Loan Repayment

Federal statutes require that borrowers have a viable source of loan repayment. The three most common forms of repayment for decentralized system projects include:

- **Property Tax Assessment Financing (PTAF):** A commonly used tool to help avoid high upfront costs with decentralized system projects. This approach allows the homeowner to pay for the project through a long-term, fixed-cost financing option underwritten by the value of the property.

- **Septic Utility Fees:** A cluster system or group of households may collect fees to pay for O&M. This fee can be used as a potential repayment source for the installation, repair, or replacement costs of decentralized systems.

• **Homeowners Association Dues:** The CWSRF can make loans directly to homeowner’s associations (HOAs), which are then repaid with revenues from HOA dues. Maryland has used this approach for several types of nonpoint source projects and could also include decentralized system projects.



In addition to these options, the [Financing Options for Non-Traditional Eligibilities in the CWSRF](#) report features a variety of additional potential repayment sources.

- 6. Communicate Potential Costs and Benefits.** Meet with community members to discuss the potential costs, benefits, timelines, and plans.
- 7. Put Together a CWSRF Financing Proposal.** Identify the financing mechanism and tailor the CWSRF application to suit it.
- 8. Sign Financing Agreements.** This arrangement is dependent on the type of financing mechanism selected.
- 9. Implement Decentralized System Projects.** These can include construction, repair, and replacement of a septic system.

Finally, for a decentralized system financing program to thrive, communication to stakeholders about financing options available is critical. The Guide provides several outreach examples for reaching potential borrowers.

4 Initiating a Financing Program for Decentralized Wastewater Systems with the CWSRF

Stakeholders may approach a CWSRF with a decentralized system financing proposal if the CWSRF does not already offer decentralized financing or if a different mechanism than what is offered would be a better fit. The Guide provides a roadmap for how a decentralized system program can be successfully financed by the CWSRF.

- 1. Identify the Problem and Technical Solution.** Issues are determined by public health, environmental, and economic impacts. Technical solutions include community engagement as well as consulting engineers/designers early in the process.
- 2. Review CWSRF Financing Options.** These include eligibility, repayment, and types of financing mechanisms.
- 3. Identify Potential Partners.** Partnering organizations must be eligible CWSRF participants.
- 4. Meet with CWSRF Staff.** CWSRF program staff can discuss proposed projects and identify the best financing mechanism.
- 5. Develop an O&M Plan.** These activities are not eligible expenses for CWSRF financing, yet property owners should be equipped with appropriate education and training tools.

MORE INFORMATION

CWSRF State Program Contacts: www.epa.gov/cwsrf/state-cwsrf-program-contacts

Financing Decentralized Wastewater Treatment Systems: Pathways to Success with the Clean Water State Revolving Fund Program: www.epa.gov/system/files/documents/2022-02/financing-dwts.pdf

Financing Options for Nontraditional Eligibilities in the Clean Water State Revolving Fund Programs: epa.gov/cwsrf/financing-options-nontraditional-eligibilities-cwsrf

