Funding Land Conservation Projects with the Clean Water State Revolving Fund

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The U.S. Environmental Protection Agency's (EPA) Clean Water State Revolving Fund (CWSRF) program is an affordable source of funding for a wide range of projects that address water quality, including land conservation and restoration projects. The conservation of natural lands reduces contamination at the source, protecting water quality and lessening the need for wastewater treatment through traditional methods. Additional benefits include habitat protection for plant and animal species, reforestation, wildfire prevention, ground water protection, and a multitude of economic and social benefits that healthy watersheds and public access to green space can provide.

How the CWSRF Works & Who May Qualify

CWSRF programs in each state and Puerto Rico operate like banks. Federal and state contributions are used to capitalize the programs. These assets are used to make low interest loans for important water quality projects. Funds are then repaid to the CWSRFs and are recycled to fund other water quality and public health projects. For land conservation projects, the CWSRF may provide assistance to any public, private, or non-profit entity[1].

CWSRF eligible land conservation projects include conservation easements, leasing of land, and fee simple purchase of land. Amenities that improve water quality on purchased land, such as water quality related signage, pervious trails, and tree planting, are also eligible[2]. Since the program is managed by the states, the funding of eligible projects may vary according to the priorities of each state.

Easements: Process and Partnerships

An easement is a binding agreement between a landowner and another entity that permanently limits uses of the land in order to protect natural resources. Easements keep the land on local tax records, where it generates revenue for the community, while the easement holder ensures compliance with the specified provisions of the easement, which can include watershed protection through maintaining natural vegetation like intact forests. These agreements run with the land in perpetuity, providing assurance of conservation of the land into the future.

Buying and managing land can be expensive. By establishing easements where landowners transfer property rights, such as the ability to subdivide or develop, land can typically be protected at a fraction of the cost of fee simple purchase (typically 30-50 percent of the fair market value of the property). Easement holders are typically public entities, such as land trusts, who enter into a permanent, binding legal agreement with the landowner.

Financial Benefits of CWSRF Funding

CWSRF assistance options deliver significant incentives to prospective borrowers. Incentives may vary by state program. CWSRF loans can provide the following benefits:

- Coverage of up to 100 percent of project costs;
- Deeply discounted loans that are well below the market rate down to zero percent;
- Deferred payments of principal and/or interest;
- Terms up to 30 years and extended term financing that reduces annual interest payments;
- Dedicated revenues for loan repayments that can come from any source;
- Low-cost project financing and reliable access to capital through the use of programmatic and portfolio financing options[3];
- Access to additional subsidies;
- Access to co-financing opportunities;
- Credit enhancements that lower the cost of borrowing for less than AAA green debt obligations; and
- Access to affordable assistance for technical assistance, project development, and planning.

[1] https://www.epa.gov/cwsrf/learn-about-clean-water-state-revolving-fund-cwsrf

[2] Assistance may be provided to any borrower for land conservation projects that implement a Section 319 NPS management program or Section 320 Comprehensive Conservation and Management Plan or manage, reduce, treat, or recapture stormwater; or to any municipality or municipal entity to develop or implement watershed partnerships to address nonpoint sources of pollution.

[3] https://www.epa.gov/sites/production/files/2018-02/documents/profi_activity_update_final.pdf

CWSRF loans offer significant savings and can be viewed from the approach of grant equivalency, or the benefit received by a borrower resulting from financing project costs at a below-market interest rate. In other words, a CWSRF loan at a below-market interest rate can be considered equal to a partial grant and partial loan at the market rate (see below chart).

CWSRF programs have the authority to provide a portion of their assistance as additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants. Each state CWSRF program determines how additional subsidy is applied and in what amount. Between 2009 and 2017, over $4.5 billion dollars of assistance was provided in the form of principal forgiveness and grants.

Strategic targeting of additional subsidization in appropriate situations can greatly assist the funding of land conservation projects by reducing or eliminating the amount that must ultimately be repaid.

CWSRF Assistance for Land Conservation Projects

CWSRFs can offer a variety of types of financial assistance. Potential CWSRF borrowers must identify a dedicated repayment source, that need not come from the project itself, before a loan is approved.

Though finding a source of repayment for watershed protection projects may prove challenging, many recipients demonstrate a high level of creativity.

Some potential repayment sources include:

- Recreational fees (fishing licenses, entrance fees),
- Dedicated portions of local, county, or state taxes or fees,
- Stormwater utility fees,
- Fees paid by developers,
- Donations or dues made to nonprofit organizations,
- Individual or business revenues,
- Revenue from sustainable timber harvest or other forest products,
- Nutrient credits, and
- Downstream water users.

SRF Grant Equivalency Chart

Market Rate	CWSRF Rate			
	0.00%	1.00%	2.00%	3.00%
4.00%	32%	25%	**17%***	9%
5.00%	38%	31%	24%	16%
6.00%	43%	36%	30%	23%
7.00%	47%	41%	35%	29%

***Example:** For a $100,000 project when the market rate is 4%, a CWSRF loan at 2% offers a 17% savings, which is equivalent to a $17,000 grant with a $83,000 loan at market rate.

Because land conservation projects seldom have associated available income streams, states use a variety of financing mechanisms to fund these projects.

While direct lending is one option, many states have used innovative partnership models to facilitate coordination and funding support for regional solutions to water quality problems. These additional options include sponsorship lending, intermunicipal and intermediary lending, and watershed partnership programs, among others. For more information on these financing mechanisms, please reference "Financing Options for Nontraditional Eligibilities in the Clean Water State Revolving Fund Programs," on EPA's website.

Getting a Project Funded

Each state CWSRF program has flexibility to strategically focus their program using Intended Use Plans (IUP). Required annually, a state's IUP explains the CWSRF program, goals, operations, and compliance to the public and EPA. For land conservation projects to be eligible for funding in a given year in a state, the activity must be included in their IUP for that year. EPA encourages states to open their CWSRFs to the widest variety of eligible water quality and public health projects.

Those interested in land conservation should seek out their state's CWSRF program to determine whether these types of

projects are eligible in their state and participate in the annual process that determines which projects are funded. The CWSRF in your state will be able to guide potential assistance recipients through the application process. Contact your state's CWSRF program for details.[4]

Clean Water Success Stories: Georgia

Brookhaven, Georgia was awarded a $5.7 million CWSRF loan by the Georgia Environmental Finance Authority (GEFA) executive committee. The loan will finance the acquisition of 33 acres of forested land adjacent to the DeKalb-Peachtree Airport (PDK) that will preserve one of the largest remaining tracts of urban forest in Metro Atlanta, and help protect the watershed of Peachtree Creek. The land will be publicly accessible and will include unpaved walking trails as part of the greenspace.

The city will pay 0.89 percent interest on the 20-year loan and will use their stormwater fund as the repayment source. The loan will finance an eligible conservation project, which qualifies for a reduced interest rate, and includes principal forgiveness up to $500,000.

For more information: https://gefa.georgia.gov/press-releases/2017-02-14/brookhaven-awarded-57-million-loan-land-conservation-project

Clean Water Success Stories: California

In 2011, the Yurok Tribe received an $18.8 million, zero interest CWSRF loan from the California State Water Resources Control Board (CSWRCB) with a 25-year repayment period to purchase 22,237 acres of forest land along the Lower Klamath River, consistent with the Board's "Plan for California's Nonpoint Source Pollution Control Program." The purpose of the project was to enable the Tribe to manage the acquired forest land in a sustainable manner, including no pesticide application, increased stream buffering, longer timber harvest rotations, no clear cutting, road decommissioning, and the setting aside of carbon reserves. The Tribe had long sought the return of ancestral land to create a salmon sanctuary and restore tribal cultural practices, including subsistence fishing, hunting, and gathering.

Photo courtesy of: CA State Water Resources Control Board

The Tribe pledged both timber harvest revenues and carbon credit revenues for repayment of the CWSRF loan. The initial plan had been to use revenues from timber harvest as repayment, but once it was determined that those revenues would not be available while the Tribe developed and implemented its Forest Management Plan, carbon offset revenues filled that gap. The Tribe entered into a five-year purchase agreement with CE2 California I LCC to sell carbon offsets.

Revenues from the sale of carbon credits under the Climate Action Reserve Forest Project Protocol were used for the first couple of years of repayment.

The Yurok Tribe acquired the acreage and, as a condition of the CWSRF loan, developed a set of documents that include implementation measures to correct and prevent the deterioration of the watershed due to timber harvest practices within the acquired property. The Tribe completed a Forest Management Plan, a Nonpoint Source Program Plan, and a Final Project Assessment and Evaluation Plan that will be used as guidelines for implementing the Project for over 20 years.

For more information: https://www.waterboards.ca.gov/board_info/minutes/2010/dec/121410_6_yuroktribepres.pdf

[4] https://www.epa.gov/cwsrf/forms/contact-us-about-clean-water-state-revolving-fund-cwsrf#state

Clean Water Success Stories: Ohio

Ohio's Water Resource Restoration Sponsor Program (WRRSP) employs sponsorship financing through the Water Pollution Control Loan Fund (WPCLF) program, Ohio's CWSRF program, to broadly support land conservation including fee simple acquisition, easements, and restoration activities on stream and wetlands and surrounding upland buffers. The entity applying to the WPCLF to finance a traditional wastewater infrastructure project, such as a publicly owned treatment works (POTW), volunteers to sponsor a protection or restoration project, in exchange for a lower interest rate on the overall loan. In this way, the protection or restoration project is paid for through the same revenue source as the traditional POTW project.

Photos courtesy of: Ohio EPA

In 2013, the Northeast Ohio Regional Sewer District (NEORSD) partnered with the Western Reserve Land Conservancy and the Medina County Park District to acquire the 87-acre Medina Marsh. NEORSD was the sponsoring entity and received a 0.06 percent discount on its standard, below-market interest rate to finance four nonpoint source projects, including the purchase of Medina Marsh. Through the sponsorship agreement, NEORSD saved an additional $432,900 in reduced interest payments on its loan by sponsoring this and other WRRSP projects.

The purchase was funded with a $963,702 Clean Ohio grant from the Clean Ohio Fund, a $75,000 U.S. Fish and Wildlife Service grant, and $257,100 of WRRSP funding. The property provides protection for 1,450 linear feet of floodplain and forested buffer along the West Branch of the Rocky River, approximately 5,366 linear feet of its tributaries, 32 acres of high quality wetlands, and a variety of habitats, including a heron rookery. The acquisition links a green corridor that is two miles long and covers more than 360 acres.

Ohio EPA established the WRRSP in 2000. Since that time, it has provided $185 million for sponsorship projects. Water resource protection accomplishments include preservation of more than 5,200 acres of wetlands and 90 miles of streams. As of 2018, the program continues to provide $15 million annually divided between protection and restoration projects.

For more information: https://epa.ohio.gov/defa/ofa#169558734-water-resource-restoration-sponsor-program-wrrsp

For more information on the CWSRF, contact:

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EPA Publication 832F17015
OCTOBER 2018
https://www.epa.gov/cwsrf

Clean Water
State Revolving Fund