

Ask Me Anything! State Revolving Fund (SRF) Technical Assistance & Open Office Hours Declining Federal Capitalization Grants 10.1.2025

Quick recap

Ashley hosted an Ask Me Anything session to discuss declining capitalization grants and their impact on state revolving funds (SRF) programs and the borrowing community, explaining how SRFs are funded and operate across different states. She detailed the structure of subsidy floors and ceilings for capitalization grants, including how additional subsidies are calculated and provided, while noting that most states now offer principal forgiveness rather than negative interest. Ashley discussed the current period of increased funding and additional subsidies, highlighting the impact of congressionally directed spending changes and encouraging states to plan for reduced funding in the future.

Next steps

- States to plan for reduced capitalization grants and the impact on additional subsidy and set-asides.
- States to communicate to borrowing communities about the future reduction in available additional subsidy.
- States to consider how to maintain program operations with reduced federal funding.
- States to evaluate use of administrative fees as a potential source for additional subsidy when capitalization grants decrease.

Summary

SRF Capitalization Grants Discussion

Ashley hosted an Ask Me Anything session on October 1st to discuss declining capitalization grants and the impact on state revolving funds (SRF) programs and the borrowing community. She explained that SRFs are low-interest loan programs funded by federal appropriations and state matches, with some funds allocated for set-asides and bondholder repayments.

SRF Program Funding and Subsidies

Ashley explained that SRF programs vary by state due to different laws and regulations, with 102 programs across the country and Puerto Rico for drinking water and clean water. She discussed how additional subsidies are calculated and provided, noting that all states offer principal forgiveness or grants and not negative interest. Ashley highlighted the current period of increased funding and additional subsidies, which will decrease in the coming years as BIL appropriations expire.

DWSRF Subsidy

Ashley explained the structure of subsidy floors and ceilings for the federal capitalization grant, which for DWSRF requires states to provide 14% of the base grant as additional subsidy for any project, and a minimum of 12% up to a maximum 35% to disadvantaged communities. She noted that most states stack these percentages and provide additional subsidy to disadvantaged communities. BIL supplemental and Lead Service Line grants require 49% additional subsidy to disadvantaged communities.

CWSRF Subsidy

She detailed that for the CWSRF states are required to provide 10% additional subsidy for any project, plus a minimum of 10% up to a maximum of 30% for borrowers that qualify under affordability criteria, or projects that address energy/water efficiency, stormwater mitigation, or are sustainable, though states usually stack these percentages and provide additional subsidy to communities qualifying under affordability criteria. BIL supplemental grant requires 49% additional subsidy for borrowers that qualify under affordability criteria, or projects that address energy/water efficiency, stormwater mitigation, or are sustainable.

SRF Funding Changes in 2025

Ashley discussed the impact of the elimination of congressionally directed spending (CDS/earmarks) in 2025 on SRF programs, noting an increase in capitalization grants as a result. However, past and future SRF base capitalization grant reductions and subsequent effects on additional subsidy and set-asides from CDS cannot be ignored. She emphasized the importance of planning for these changes, as states may need to pivot their programs to accommodate reduced funding. Ashley encouraged states to start communicating these realities to the borrowing public and technical assistance providers.

Disclaimer: this summary was generated using AI but was reviewed and edited by a Human.