

# Ask me Anything: I'm Confused, where do I start?

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## Quick recap

The session focused on the State Revolving Fund (SRF) process and funding mechanisms for water infrastructure projects. Ashley presented an overview of how SRF funding works, including the difference between funding and financing, and discussed the importance of project readiness and financial planning. She emphasized the need for communities to consider long-term infrastructure needs and develop sustainable funding strategies. Ashley also covered the various sources of pre-construction funding available to communities, including SRF programs, USDA Rural Development grants, and National Rural Water Association loans. The session concluded with a discussion of financial statements and audits required for SRF applications, as well as the importance of evaluating user rates for sustainability and equity.

## Summary

### SRF Program Overview and Process

Ashley presented an overview of the SRF (State Revolving Fund) program, explaining how federal and state funds are allocated and used for water quality and drinking water projects. She outlined the general process for both borrowers and states, highlighting key steps such as pre-application, project priority ranking, environmental review, financial and technical review, contracting, construction, and repayment. Ashley emphasized that while every state's program may differ, the overall process remains similar, with states working closely with communities to ensure proper project implementation.

### SRF Program Funding Process Overview

Ashley explained the SRF program's funding process, which involves multiple stages including environmental, financial, and technical reviews, with communities potentially receiving pre-development funding for feasibility studies or preliminary engineering work. She noted that final design reviews are crucial and require state approval, while environmental reviews must be carefully timed to avoid delays. As an example, Ashley notes that Massachusetts offers planning money for early project stages but not for final design. Pre-construction activities like hiring engineers, pilot testing, and permitting can be funded, but routine testing and maintenance cannot.

## Preconstruction Funding for Small Communities

She emphasized the importance of preconstruction funding for small communities, highlighting its role in providing financial breathing room and enabling communities to start project development earlier. Ashley also noted that while every state's SRF program is different, preconstruction activities are often eligible for reimbursement, though it may take years to recoup the investment.

## Non-SRF Funding Options Overview

Ashley discussed various funding options for infrastructure projects, including USDA Rural Development SEARCH grants and a National Rural Water Association (NRWA) loan program. She explained the limitations and requirements of these programs, noting that the NRWA loan program is capped at \$350,000 for communities with populations under 10,000 and median household incomes below the statewide average.

## Project Priority Ranking

Ashley also described the pre-application process, known by many names, which states use to assess project needs and determine funding priorities. She emphasized that while most states require a priority list application for all projects, others like Pennsylvania and Maryland require a more complete funding application or that the project be ready to proceed to construction prior to being placed on the priority list.

## Project Funding Readiness Requirements

Ashley explained the importance of getting on a priority list for funding, emphasizing that being on the list does not require applying for funding or accepting money. She stressed that project readiness, including obtaining necessary permits and approvals, is crucial for securing funding, regardless of a project's ranking on the priority list. Ashley highlighted that some states prioritize projects that are ready to proceed by awarding additional points for readiness milestones, while others, like Oklahoma and Arkansas, offer significant point bonuses for projects that are fully prepared.

## Infrastructure Funding Methods Overview

Ashley explained the differences between funding and financing, emphasizing that funding refers to subsidized money from programs like SRFs and USDA, while financing involves borrowing at full cost from capital markets. She outlined four methods for paying infrastructure costs: Pay As You Go (PAYGO), reserves, subsidies, and loans, noting that small communities often struggle with long-term infrastructure funding.

## Infrastructure Funding Challenges for Small Communities

Ashley discussed different funding approaches for infrastructure investments, explaining that while larger communities use reserves and depreciation, these methods are less suitable for smaller communities. She criticized relying on depreciation for reserve contributions, noting it creates a financial gap after spending. Ashley also warned against relying on grants and subsidies, as funding availability decreases while costs rise, potentially leading to environmental hazards and fines. She concluded by mentioning previous training on debt financing and suggested future sessions to further explore reserve fund usage.

## Debt Strategies for Infrastructure Financing

Ashley discussed the strategic use of debt in community infrastructure projects, emphasizing that it can be a more efficient way to finance large-scale investments than saving over an extended period. She highlighted that while debt incurs interest and administrative fees, these costs, if the SRFs are used, are often lower than those of municipal bonds and can be mitigated by grants and additional subsidies. Ashley recommended aligning the term of loans with the expected lifespan of assets, suggesting that short-term loans (5-20 years) are suitable for infrastructure with a corresponding lifespan, while longer-term financing (up to 100 years) can be justified for enduring assets like water mains. Though finding lenders willing to extend credit for 100 years may be difficult.

## Intergenerational Infrastructure Funding Challenges

Ashley discussed intergenerational equity in infrastructure funding, explaining how the burden of paying for long-lived assets should be spread across the users who benefit from them. She emphasized the importance of financial planning for communities accessing funding programs, including the need for regular financial audits and projected budgets. Ashley also highlighted the challenges of raising user rates to cover infrastructure costs, noting that some city councils may be reluctant to increase rates due to re-election concerns. She encouraged communities to plan for infrastructure projects early and to consider pre-development funding opportunities.

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

## From the Chat:

C: The issue with us... is City Council not wanting to raise rates, due to re-electability

C: I always learn something during your webinars. Thank you! My SRF bingo card was just shy of a win - I didn't hear you say "Scrooge McDuck pile of money/gold".

C: To register for an upcoming non-AMA training, go to: <https://efcnetwork.org/event/ak-online-training-what-is-an-iup-how-intended-use-plans-can-serve-as-secret-decoder-rings-for-the-state-revolving-loan-funds-srfs/>

Q: Will the link to your paper on funding v. financing be active in the archive on the EFCN webpage?

A: <https://efcnetwork.org/event/virtual-office-hours-ask-me-anything-srf-technical-assistance-open-discussion-2/>

Q: Question for you after the session. I have had a situation arise and looking for some advice, although I'm certain that I'll need to speak with legal counsel. It has to do with the public notification process.