Innovative Programs for Land Preservation:

"Sponsorship" Programs under the Clean Water Act

In 1987, Congress amended the Clean Water Act by replacing the $70+ billion construction grant program for sewage treatment plants with a loan program called the "Clean Water State Revolving Fund" (CWSRF). To date, the CWSRF has provided financial assistance for over $110 billion of projects, 96% of which has gone to sewage treatment plants. But, in addition to financing sewage treatment plants, Congress authorized loans to address non-point source pollution as well. Non-point source projects include the protection of groundwater resources as well as watershed preservation.

As you know, loans to sewer systems are very straightforward. They are repaid out of the sewer rates charged to usually thousands of customers. Non-point source projects, on the other hand, have no ratepayers. They are often on private land. They often have no readily available source of repayment.

In the late nineties, the State of Ohio began to address this problem with a concept they call "sponsorship". "Sponsorship Programs" were developed by the State of Ohio's Environmental Protection Agency in conjunction with the Ohio Water Development Authority, which manages the CWSRF. Since Ohio created its program the States of Iowa and Idaho, through their respective CWSRFs, have followed suit. Many other States are now considering developing such programs.

A Sponsorship Program looks very much like a grant program. But it isn't. It is actually a loan to a sponsor who adds it on to one of its own projects and pays off the loan for both projects at a much lower rate of interest that actually saves the sponsor a little money.

Here is a good example of a sponsorship project from the State of Iowa.

In 2014, the Sioux City sewer system applied to the CWSRF to borrow $14 million to modernize some of their facilities. At the same time Sioux City was vexed by the water quality of a stream that ran right through town. The problem dealt with the eroding banks of the Ravine Park waterway that polluted the water before it entered the City of Sioux City proper. Ravine Park was "characterized by steep, eroded gullies". What was needed was a project to shore up these gullies and stream banks to prevent the erosion, which would reduce the pollution coming downstream into Sioux City. Every time it rained, there was a torrent of muddy water pushing its way through town. The State did some engineering work and estimated that it would cost $1.4 million to stabilize the banks and get rid of the problem. But who would undertake the project? How would it get paid for? Nobody knew.

The State went to the Sioux City sewer system. They told them that they could get a 2% (subsidized) loan for $14 million for 20 years, which would cost them $880,657 per year, *OR*, they could agree to "sponsor" (undertake) the stream-bed project too, in which case the SRF would give them a $15.8 million loan for 20 years at 1.03%, which would cost them $878,209! Two projects for the price of one! And actually a modest savings!

So, who actually pays for the "sponsored" project? The answer is: the people of Iowa. Here's how this works. The funds in the CWSRF come from three sources: 1) annual federal capitalization grants, 2) state matching funds at a 1:5 ratio, and 3) interest earned on the loans as well as temporary investments. So, the people of Iowa own these funds. And when they choose to subsidize projects – including sponsorship projects – the CWSRF is actually losing money.

How much can sponsorship projects be subsidized? Would the Ravine Park sponsorship project worked if it were, say, $3 million. The answer is no. Here is some math.

If the market interest rate were 4% then most state CWSRFs would make their subsidized interest rate loans in the 2% range. Using a $10,000,000 project as the "main" project, how much of a “sponsored” project the CWSRF afford to finance? Well, the annual payment on the “main” project itself for 20 years at 2% would be: $611,567. If we added a $1 million “sponsored” project, then it would be an $11 million loan. So, lets drop the interest rate to 1% and see what happens. The annual payment on a 20-year loan of $11 million at 1% would be $609,568. So, it works when the “sponsored” project is 10% of the size of the main project.

But what if the sponsored project were $2 million, or 20% of the size of the “main” project? Then the total loan would have to be $12 million. Would the sponsorship work at this level? No, clearly the SRF would have to reduce the interest rate even further. To what level would the SRF have to reduce the interest rate to make it work? Well the answer is that the interest rate would have to be about 0.1%, which is one-tenth of one percent. To be exact, the annual payment on a $12 million loan for 20 years at 0.1% interest is $606,319. So it works!

In other words, sponsorship projects work when the “sponsored” project is 20%, or less, of the “main” project. But they do work and they can be an invaluable tool for paying for groundwater source protection and watershed preservation projects that otherwise would not get done.