

THE BOND BUYER

NFMA releases best practices for EPA's SRF program

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The National Federation of Municipal Analysts has released best practices on Clean Water and Drinking Water State Revolving Funds, its first on the subject, which provides a roadmap for state and local governments as these investments become more essential to improving the infrastructure and quality of life around the country.

"SRFs were selected because they have truly become a critical financing vehicle for improving the quality of our nation's water infrastructure and public health," said Angela Kukoda, disclosure committee chair at NFMA.

Both the Drinking Water State Revolving Fund and the Clean Water State Revolving Fund, created in 1987 and 1996, respectively, are partnerships between the Environmental Protection Agency and states to help construct municipal wastewater facilities, control pollution, improve drinking water treatment as well as fund other water quality projects, among many other uses.



"Upholding high standards for transparency and making sure investors have access to the information they need to assess credit risk will help SRFs continue financing essential clean water and safe drinking water projects nationwide," said Mark Capell, NFMA chair.

Collectively, they provide between \$4 and \$5 billion each year in funding to states and the Bipartisan Infrastructure Law allocated \$11.7 billion to each program, which includes a 10% state match for 2022 and 2023, and increases to a 20% match for 2024-2026.

The best practices include ten categories that NFMA considers to be material in assessing credit risk for State Revolving Funds.

In a summary or general description, disclosures should include a description of the issuers and its relationship to the state, a description of outstanding SRF programs, a description of other state agencies or departments responsible for the administering of the SRF programs and should provide a link to the website where ratings and investors information can be found. All of this should be included in an issuer's official statement.

Issuers should, for each separately secured pool, provide a list of each individually pledged obligor, including full legal names, the security supporting

the payback of borrowed funds, the amount of principal funded and undrawn amounts, terms of the longest dated obligation and the percentage of each obligor of the overall pool or portfolio, included in both the official statement and annual report.

Official statements and annual reports should also include obligor performance and the forecasting of financial metrics related to debt service, including balances of funds pledged to bondholders. They should also include any material ongoing litigation that may affect operational autonomy, revenue collection expense management or overall financial performance.

NFMA also recommends that official statements and annual reports should include the existence of any environmental, social or governance ratings or third-party verifications, as well as the existence of any material cybersecurity breaches for the last three years.

The best practices provide additional guidance for debt portfolio structure and market risks, as well as governance management considerations.

NFMA welcomes comments on the recommended best practices until Sept. 30.

"Upholding high standards for transparency and making sure investors have access to the information they need to assess credit risk will help SRFs continue financing essential clean water and safe drinking water projects nationwide," said Mark Capell, NFMA chair. "Everyone involved in developing this draft understood its importance to communities nationwide. We appreciate their work and look forward to receiving additional feedback during the comment period that will help make it even more effective."