



## ☰ | Drinking Water State Revolving Fund (DWSRF)

# How the Drinking Water State Revolving Fund Works

The Drinking Water State Revolving Loan Fund (DWSRF) was established by the 1996 amendments to the Safe Drinking Water Act (SDWA). The DWSRF is a financial assistance program to help water systems and states to achieve the health protection objectives of the SDWA. (See [42 U.S.C. §300j-12](#) [↗](#).) The program is a powerful partnership between EPA and the states.

Congress appropriates funding for the DWSRF. EPA then awards capitalization grants to each state for their DWSRF based upon the results of the most recent Drinking Water Infrastructure Needs Survey and Assessment. **The state provides a 20 percent match.**

**States have the option of taking a variety of set-asides. These set-asides help fund state programs and activities to ensure safe drinking water. In total, states may take approximately 31% of their capitalization grant in set-asides.**

After taking their set-asides, states place the balance of their capitalization grant, together with the state match, into a dedicated revolving loan fund. This revolving fund provides loans and other authorized assistance to water systems for eligible infrastructure projects.

As water systems repay their loans, the repayments and interest flow back into the dedicated revolving fund. These funds may be used to make additional loans.

Building on a federal investment of over \$21.0 billion, the state DWSRFs have provided more than \$41.1 billion to water systems through 2019. This assistance was provided through over 15,425 assistance agreements for:

- improving drinking water treatment
- fixing leaky or old pipes (water distribution)
- improving source of water supply
- replacing or constructing finished water storage tanks
- other infrastructure projects needed to protect public health

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## How the DWSRF Works

Under the DWSRF, EPA provides grants to all 50 states plus Puerto Rico to capitalize state DWSRF loan programs. The states contribute an additional 20 percent to match the federal grants. The program also provides direct grant funding for the District of Columbia, U.S. Virgin Islands, American Samoa, Guam, and the Commonwealth of Northern Marianas.

The 51 DWSRF programs function like infrastructure banks by providing low interest loans to eligible recipients for drinking water infrastructure projects. As money is paid back into the state's revolving loan fund, the state makes new loans to other recipients. These recycled repayments of loan principal and interest earnings allow the state's DWSRF to “revolve” over time.

States are responsible for the operation of their DWSRF programs. Under the DWSRF, states may provide various types of assistance, including:

- Loans
- Refinancing
- Purchasing
- Guaranteeing local debt
- Purchasing bond insurance

States may also set specific loan terms, including:

- Interest rates from zero percent to market rate
- Repayment periods of up to 30 years

States rank the project applications they receive from water systems and produce a Project Priority List. States have flexibility to tailor their ranking process while meeting the SDWA requirement to give priority to projects that:

- Address the most serious risks to human health
- Are necessary to ensure compliance with the SDWA
- Assist systems most in need according to state affordability criteria

States may customize loan terms to meet the needs of small and disadvantaged communities or to provide incentives for certain types of projects. DWSRFs have authority to provide additional subsidization (subsidy beyond a zero percent loan).

Additional subsidization may be provided as:

- Grants
- Principal forgiveness
- Negative interest rate loans

Review the [DWSRF Infographic 2023 \(pdf\)](#) (759.8 KB, May 2023) .

# DWSRF Eligibility Handbook

Review EPA's one-stop-shop manual for [DWSRF eligibility questions](#).

## Types of DWSRF Assistance

DWSRFs may offer a variety of financial assistance:

### Loans

- The terms of the loan may not exceed 30 years or the useful life of the project.
- Interest rates must be at or below market rate, including interest-free.

### Purchase of debt or refinance

- A community's debt may be purchased by a DWSRF program.
- The purchase may have terms up to 30 years or the useful life of the project.
- A DWSRF program may refinance previously issued debt.

### Guarantees and insurance

- Guarantees or insurance can be used where such assistance will result in improved credit market access or reduced interest rates.

### Guarantee SRF revenue debt

- DWSRF programs may issue debt guaranteed by DWSRF funds. The revenue generated is used to provide assistance to borrowers for eligible projects. This expands the capacity of a program in the near term.

### Provide loan guarantees

- Similar revolving funds established by municipalities or inter-municipal agencies can receive loan guarantees.

### Additional subsidization

- DWSRF programs provide up to a fixed percentage of their capitalization grants as additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants.

## Earn interest

- DWSRFs may invest available funds in short-term investments.
- All interest earnings must remain in the fund to be used for eligible purposes.

# How to Apply for DWSRF Assistance

DWSRF assistance is provided directly from state agencies.

Contact the [DWSRF program in your state](#) or information on how to apply.

## DWSRF Set-Asides

States have the option to take approximately 31% of their capitalization grant as set-asides. There are four distinct set-asides:

- **Four percent, \$400,000, or 1/5<sup>th</sup> percent of the current valuation of the fund for DWSRF program administration**
  - This set-aside may be used to cover the costs of administering the DWSRF program and to provide technical assistance to water systems.
- **Two percent for technical assistance to small systems** (systems serving 10,000 or fewer persons)
  - This set-aside may be used to provide technical assistance exclusively to systems serving 10,000 or fewer persons.
- **Ten percent for state program management.** This set-aside may be used to:
  - Develop and implement an operator certification program. An operator certification program governs the licensure of individuals who operate water treatment and distribution facilities. Such a program establishes educational requirements, experience requirements, and examinations for individuals who will serve as operators of water treatment and water distribution facilities.
  - Develop and implement a capacity development strategy. A state capacity development strategy is a plan for ensuring that all water systems develop and maintain the technical, financial and managerial capacity (or capabilities) to consistently deliver water complying with SDWA regulatory standards.
  - Administer or provide technical assistance through source water protection programs. Source water protection programs are designed to prevent contaminants from entering drinking water supplies.
  - Administer the state Public Water Supply Supervision (PWSS) program. The PWSS program is the core state drinking water program through which health-based regulatory standards for drinking water are implemented.
- **Fifteen percent local assistance and other state programs set-aside.** A state may take a total of up to 15 percent of its capitalization grant for this set-aside. However, no more than 10 percent of the capitalization grant may be used for any one of the following eligible activities:

- Loans to acquire land or conservation easements for protection of source waters. The acquisition of land or conservation easements for source water protection is not an eligible use of the DWSRF infrastructure loan fund. This set-aside makes it an eligible set-aside use. These loans would be subject to the same requirements as DWSRF infrastructure loans. The repayments could flow directly back into the dedicated revolving fund or they could flow back to a separate dedicated lending account for acquisition of land or conservation easements.
- Loans to provide funding to implement voluntary, incentive based source water quality protection measures. This set aside funds loans for measures to protect source water quality so long as the measures are voluntary and incentive based. These loans would be administered in the same way as those to acquire land or conservation easements.
- To provide assistance through a capacity development strategy.
- To make expenditures to delineate or assess source water protection areas or to update source water assessments.
- To make expenditures to establish and implement wellhead protection programs, and to implement efforts to protect source water.

Last updated on November 5, 2024

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