The Unintended Impact of Congressionally Directed Spending on State Revolving Funds

Congressionally Directed Spending, or "earmarks," for water infrastructure projects are currently funded from the State Revolving Fund account. This practice significantly cuts the funding for states and territories, threatening the longevity of these programs and requiring Congressional action to address.

Background

The Clean Water and Drinking Water SRFs were established in 1987 and 1996 respectively to provide funding to states and territories to make low-interest loans for water infrastructure projects. The programs are funded through a mix of annual formula dollars, called capitalization grants, and recycled loan repayments. Each federal dollar invested via capitalization grants creates a permanent source of recurring revenue that states and territories leverage for critical projects into the future.

Issue: CDS Funded from SRF Account

Historically, Congressionally Directed Spending (CDS) for water projects were funded through a separate appropriation, but since FY22 this spending has drawn directly from the SRF program before remaining dollars are allocated by formula. The impact is stark: annual capitalization grants are cut for every state and territory, with $3.7 billion (45%) already diverted from these important, successful programs.

Impact: Most States and Territories Receive Less Water Funding

Even considering CDS, 47 states and all 5 territories saw cuts to net water infrastructure funding in at least one of the last three fiscal years. This includes states with and without CDS projects.

Impact: SRFs Face Long-Term Risk

Because capitalization grants are cut across the board, SRFs in every state and territory are harmed, including the few states with net funding increases. Unlike SRF programs which offer loans, CDS provides grants. This means that federal expenditures cannot be recaptured for future use and SRFs experience long-term harm. Many SRF programs also rely on formula dollars to support their administration. Unfortunately, the one-time funding boost from the Infrastructure Investment and Jobs Act has statutory limits and will leave SRF programs fiscally unsound over the long term when funding expires.

Congressional Action Needed

While lawmakers sponsor CDS to support their communities, the funding of CDS from the SRF account inadvertently hurts state and territorial water infrastructure efforts. Governors wish to work with Congress to seek a solution to this urgent issue.