



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF WATER

MEMORANDUM

SUBJECT: EPA Financing Available to Support Market-Based Water Quality Improvement Programs

FROM: David P. Ross
Assistant Administrator

TO: State and Tribal Environmental Agency Directors

In recent years, the U. S. Environmental Protection Agency (EPA) has strongly encouraged states and authorized tribes to adopt market-based water quality improvement programs, including water quality trading, to supplement traditional regulatory programs. In February 2019, I signed a memorandum, “Updating the EPA’s Water Quality Trading Policy to Promote Market-Based Mechanisms for Improving Water Quality,” which identified six broad market-based principles that EPA supports to reduce pollutants in our Nation’s waters. One of those principles is identifying financing opportunities that can assist with deployment of nonpoint land use practices.

At the Fall 2020 Hypoxia Task Force (HTF) virtual meeting, EPA presented to the HTF members additional opportunities to use traditional EPA funding mechanisms, including Clean Water Act (CWA) Section 319 grants, State Revolving Fund (SRF) loans, and Water Infrastructure Finance and Innovation Act (WIFIA) credit assistance, to help finance nonpoint pollution reduction efforts. Specifically, EPA communicated that CWA Section 319 funds may be used to purchase water quality credits that have been verified to produce environmental outcomes, consistent with the CWA Section 319 provisions and EPA’s implementing regulations. This would allow states and authorized tribes to directly participate in an environmental market as a credit purchaser and even retire those credits to promote longterm environmental improvements. Additionally, while SRF and WIFIA funds cannot be used to directly purchase water quality credits, they may be used to finance projects that will generate credits. Revenue from the sale of water quality credits could also be used as a loan repayment method. All such projects must meet applicable requirements to receive funding under these programs.

The purpose of this memorandum is to transmit to each state and tribal environmental agency copies of EPA’s presentations on these financing opportunities. We hope you find this information valuable as you consider whether to adopt market-based programs, including water quality trading, to improve water quality in your communities. EPA remains available to provide technical support to states and tribes that

wish to pursue market-based approaches, including through its Water Finance Center, which works with communities, financial institutions and experts to explore leading-edge approaches to procurement and funding solutions while developing roadmaps that identify and support best practices.

Attachments