State Revolving Funds Policy Frameworks

Understanding how states define “Disadvantaged Communities” (DACs) and allocate Principle Forgiveness (PF) is the first step towards reform

Janet Pritchard, Senior Advisor for Water Law & Policy, EPIC
Types of Assistance from SRFs

- Financial Assistance
  - Low-interest loans
  - Interest rate discounts
  - Grants
  - Principal Forgiveness (PF)

- Technical Assistance
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
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<tbody>
<tr>
<td>DAC</td>
<td>Disadvantaged Communities (also used for affordability criteria)</td>
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<tr>
<td>BIL</td>
<td>Bipartisan Infrastructure Law</td>
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<tr>
<td>EJ</td>
<td>Environmental Justice</td>
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<tr>
<td>PF</td>
<td>Principal Forgiveness</td>
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<tr>
<td>SRFs</td>
<td>State Revolving Funds</td>
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<tr>
<td>IUP</td>
<td>Intended Use Plan</td>
</tr>
<tr>
<td>DW</td>
<td>Drinking Water</td>
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<tr>
<td>CW</td>
<td>Clean Water</td>
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Translating good norms into good practices

**New Norms** for defining “affordability” and “disadvantaged communities” (DACs)

Translate norms into policy mechanisms

**Attention to all relevant state policies** that determine how principal forgiveness is distributed

Reform laws & policies that undercut benefits for DACs

**GOAL:** State distribution of SRF assistance to maximize equity & resilience

Options for incorporating EJ norms into state SRF policy frameworks

Existing state SRF policy framework
Main Takeaways for Advocacy on SRFs

1. **State Policy Frameworks on SRFs are complex**
   - Consider all relevant policies, not just how DACs are defined

2. **Definition of Disadvantaged Communities**
   - Don’t limit to small towns
   - Include poverty indicators and other social determinants of health
   - Consider neighborhoods and census tracts as DACs

3. **Distribution of Principal Forgiveness**
   - Concentrate PF on communities with greatest financial hardship

4. **Exercise state agency discretion over DAC definition and PF distribution in IUPs to maximize Justice40 goals**
   - State’s DAC definitions for PPL or interest rates might not be controlling for PF allocation.
Background: Allocation of SRF Assistance
Bipartisan Infrastructure Law dramatically increases Principal Forgiveness to DACs

**Average Drinking Water PF 2010-2020**
$1 Billion

- **Loans**: 94-65%
- **PF**: 6-35%

**Annual Drinking Water PF from BIL 2022-2026**
$6.14 Billion

- **Loans**: 51%
- **PF**: 49%
State policy hierarchy

- State Statutes
- Administrative Rules
  - aka "state regulations" or "secondary legislation"
- Formal Policy Documents
  - E.g., SRF Intended Use Plan (IUP)
- Informal Guidance
- Agency Practices
Policies that determine how states define & distribute Principal Forgiveness to DACs

<table>
<thead>
<tr>
<th>How states define DACs</th>
<th>How states distribute PF to DACs</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Community size</td>
<td>● Broad or concentrated distribution?</td>
</tr>
<tr>
<td>● Economic indicators</td>
<td>● Ranking for distribution of PF</td>
</tr>
<tr>
<td>● Social determinants of health</td>
<td></td>
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<tr>
<td>● Spatial boundary of community</td>
<td></td>
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</table>

Let’s take a closer look at each of these . . .
How states define DACs
Community size to define DACs

● Size
  ○ Flat threshold: Only small communities can be DACs [Illinois]
  ○ Sliding scale: Smaller communities get more DAC points [Wisconsin]

● Trends
  ○ If population decreasing, get DAC points
Economic indicators to define DACs

- Median Household Income (MHI) relative to state MHI
- Water rate burden: % of household income needed to pay water bills
- Poverty rate
- Unemployment rate

### Michigan:

- MHI in the area does not exceed 120% of the state MHI
- Plus one of the following:
  - More that 50% of the area is identified as a poverty area
  - MHI for the area is less than federal poverty level for family of 4
  - MHI is less than state average, AND water rate burden is >1% MHI
  - MHI is less than 120% state average, AND water rate burden is > 3% MHI

### Wisconsin

<table>
<thead>
<tr>
<th>Points</th>
<th>MHI Percent</th>
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<tbody>
<tr>
<td>0</td>
<td>126%+</td>
</tr>
<tr>
<td>5</td>
<td>116% to &lt;126%</td>
</tr>
<tr>
<td>10</td>
<td>106% to &lt;116%</td>
</tr>
<tr>
<td>15</td>
<td>101% to &lt;106%</td>
</tr>
<tr>
<td>20</td>
<td>96% to &lt;101%</td>
</tr>
<tr>
<td>25</td>
<td>91% to &lt;96%</td>
</tr>
<tr>
<td>30</td>
<td>86% to &lt;91%</td>
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<tr>
<td>40</td>
<td>81% to &lt;86%</td>
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<tr>
<td>50</td>
<td>76% to &lt;81%</td>
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<tr>
<td>60</td>
<td>71% to &lt;76%</td>
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<tr>
<td>70</td>
<td>66% to &lt;71%</td>
</tr>
<tr>
<td>85</td>
<td>61% to &lt;66%</td>
</tr>
<tr>
<td>100</td>
<td>&lt;61%</td>
</tr>
</tbody>
</table>
How states distribute Principal Forgiveness
Broad distribution of PF

Many communities get a little bit of PF...

- Annual caps on PF per community
  - Flat caps: regardless of community size or project costs
    - $500,000 per community [Wisconsin DWSRF]
    - $400,000 per community [Illinois DWSRF]
  - Scaled caps: larger communities or projects capped at higher amounts [New Jersey]
  - Percentage caps: capped at % of project costs
Concentrated distribution of PF

Fewer communities get a lot of PF . . .

- Prioritize PF for types of projects state wants to promote (e.g., consolidation, nutrient reduction, green infrastructure)
  - Reserve PF for DACs proposing prioritized types of projects [Ohio]
  - Waive affordability criteria to focus PF on prioritized types of projects [Wisconsin]
- Prioritize PF for projects serving DACs with greatest financial hardship
Who gets first dips from a limited PF bucket?

- According to Project Priority List (PPL) scores
  - PPLs rank projects according to the severity of the water quality problem to be addressed
  - Although some states include DAC considerations as part of their PPL ranking [Michigan, Illinois], this is not a predominant factor.

- According to DAC scores
Additional Advocacy Recommendations
Flexible spatial boundary of community defined as DAC

Options:
- Area served by the water system
- City / town within consolidated water system
- Area served by the proposed project
- Individual households (e.g., rate relief based on income or water-rate burden)
Additional factors to consider to define DACs

EJ Screening Tools – new metrics at the census-tract level

- **Social determinants of health** – some communities are more vulnerable to negative impacts from water infrastructure problems
  - Lead poisoning from LSLs
  - Unmitigated property damage, reduced property values, and health impacts from basement backups and other flooding

- **Vulnerable sub-populations**
  - Wisconsin’s LSLR program considers number of children < 5 years of age

- **Greater need for project co-benefits**
  - Communities with low levels of green space and high heat island effect could benefit greatly from cooling and health benefits of Green Stormwater Infrastructure.
Focus PF distribution towards communities with the greatest financial hardship

Ensure DACs with the greatest financial hardship receive PF at levels sufficient to enable needed projects, up to 100% of project costs.
DAC definitions for PPL or interest rates don’t have to control PF distribution

Project Prioritization
Award points for DAC factors in PPL formula [Michigan, Illinois]

Interest Rate Discounts
Use DAC factors to determine eligibility for interest rate discounts for SRF loans [Wisconsin, Illinois]

Principal Forgiveness
State SRF administrative agency has broad discretion to determine, in the IUP, how PF is allocated.

Where a state defines DACs in a statute or administrative rule for the purpose of project prioritization or interest rates, this does not mean the same DAC definition must be adopted in the IUP to allocate PF unless state law specifically requires the same DAC factors be used to allocate PF.
EPA Implementation Memo on SRF funding from Bipartisan Infrastructure Law [Guidance]

Urges states to

- Evaluate and revise DAC definitions
- Consider financial hardship in project ranking
- Use technical assistance funding to help disadvantaged communities identify needs and access funding
- Engage residents and community stakeholders in disadvantaged communities

EPA will closely review IUPs with an eye to these concerns
Economic Indicators for DACs recommended in EPA Guidance

- MHI less than 80% of State MHI
- Upper limit of Lowest Quintile Income less than $25,766
- More than 30.9% Population Living Under 200% of Poverty Level
- More than 3.4% Unemployment rate for > 16 years of age
- More than 12.1 vacant Households
- Social Vulnerability Index score greater than 0.80
- Combined sewer and drinking water costs more than 2% for Lowest Quintile Income
- More than 11.7% receiving Food Stamps/SNAP Benefits
Thank you for your interest!

Janet Pritchard  
Senior Advisor for Water Law & Policy  
Environmental Policy Innovation Center (EPIC)  
janet@policyinnovation.org

For more information, please visit  
www.policyinnovation.org/water