



ENVIRONMENTAL POLICY  
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# State Revolving Funds Policy Frameworks


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

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# Types of Assistance from SRFs

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

# Acronyms & definitions of terms



<b>DAC</b>	Disadvantaged Communities (also used for affordability criteria)
<b>BIL</b>	Bipartisan Infrastructure Law
<b>EJ</b>	Environmental Justice
<b>PF</b>	Principal Forgiveness
<b>SRFs</b>	State Revolving Funds
<b>IUP</b>	Intended Use Plan
<b>DW</b>	Drinking Water
<b>CW</b>	Clean Water

# 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



Options for incorporating EJ norms into state SRF policy frameworks

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

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

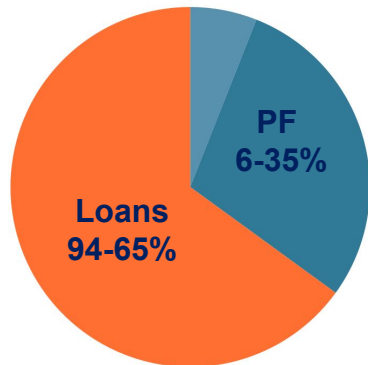


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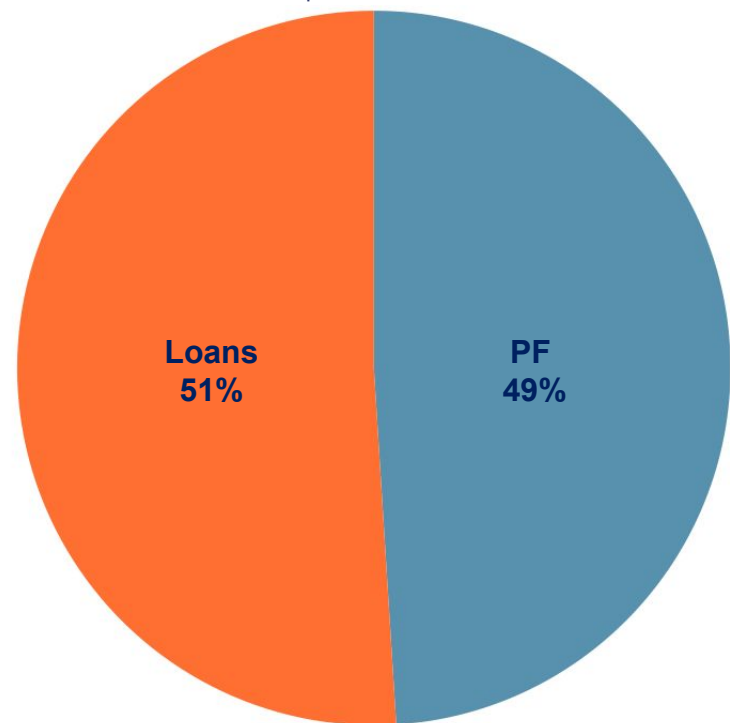
# Bipartisan Infrastructure Law dramatically increases Principal Forgiveness to DACs



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




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



# State policy hierarchy



- State Statutes
  - Administrative Rules
    - aka "state regulations" or "secondary legislation"
- } State law
- 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



## How states define DACs

- **Community size**
- **Economic indicators**
- **Social determinants of health**
- **Spatial boundary of community**

## How states distribute PF to DACs

- **Broad or concentrated distribution?**
- **Ranking for distribution of PF**

**Let's take a closer look at each of these . . .**

# How states define DACs



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# 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

Points	Population
0	10,000+
5	8,500–9,999
10	5,000–8,499
15	3,000–4,999
20	2,000–2,999
25	1,500–1,999
30	1,000–1,499
35	500–999
40	250–499

# 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

Wisconsin

Points	MHI Percent
0	126%+
5	116% to <126%
10	106% to <116%
15	101% to <106%
20	96% to <101%
25	91% to <96%
30	86% to <91%
40	81% to <86%
50	76% to <81%
60	71% to <76%
70	66% to <71%
85	61% to <66%
100	<61%

## 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

# 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

# Ranking communities for PF distribution



## 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



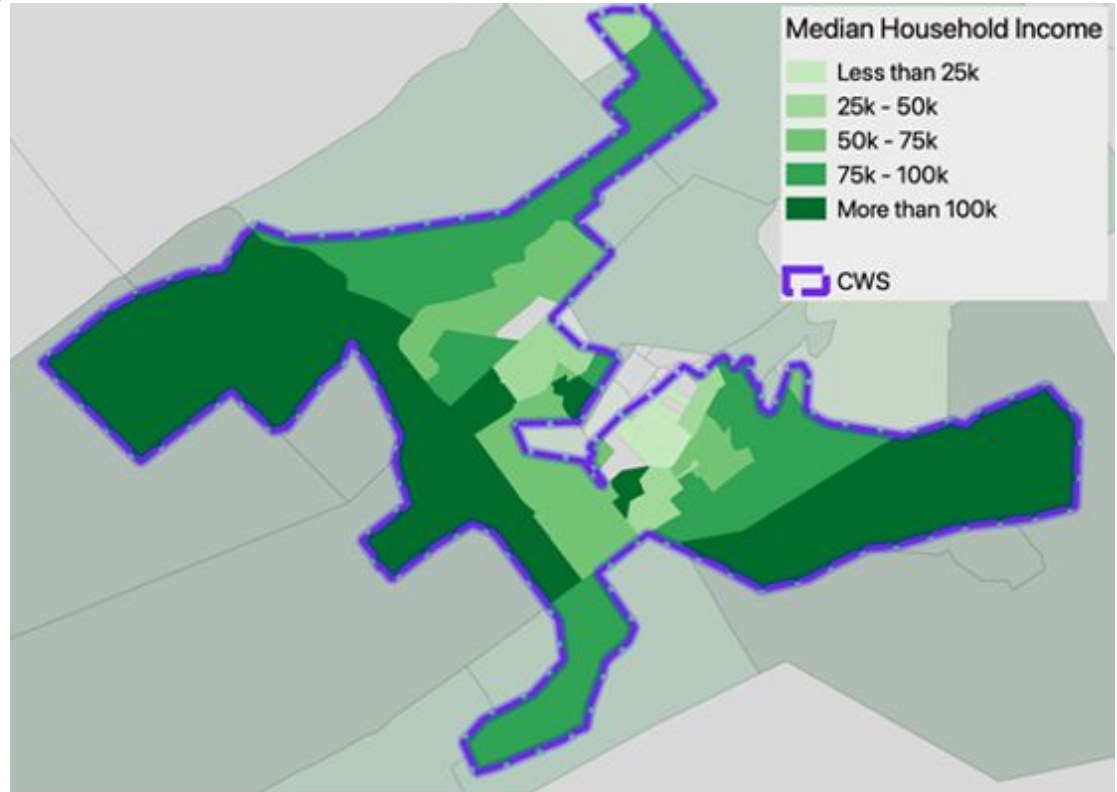
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# Flexible spatial boundary of community defined as DAC



## 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

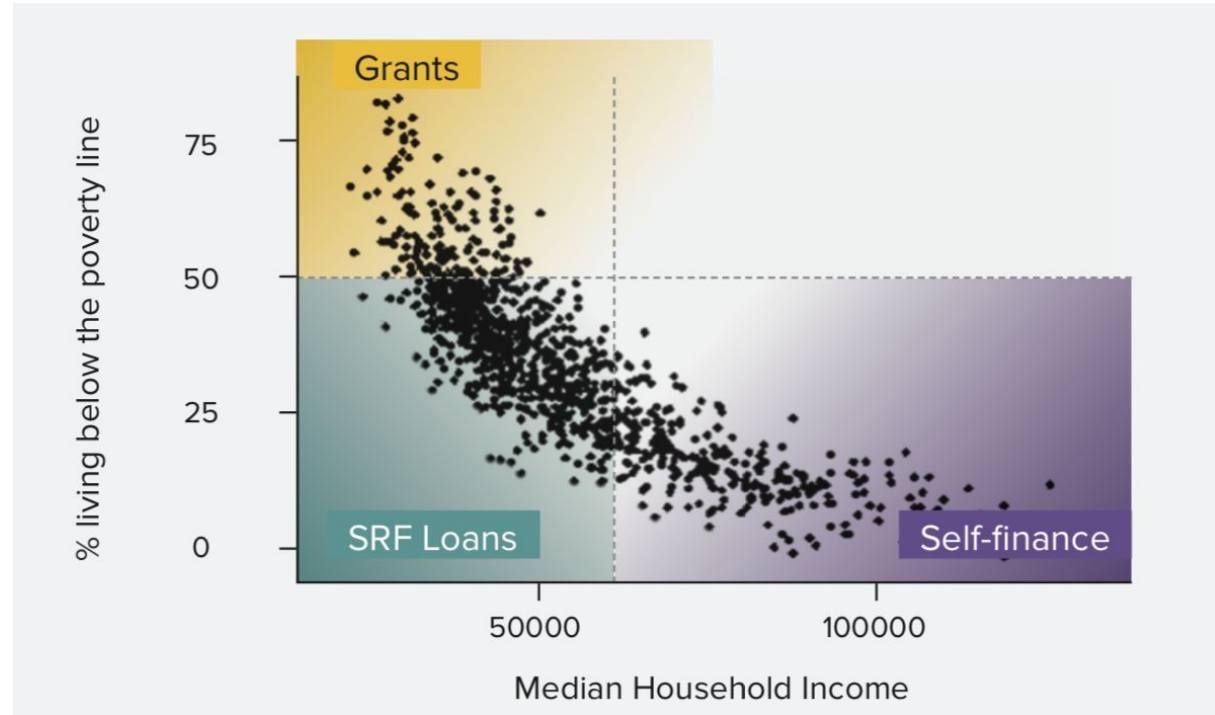
## EJ Screening Tools – new metrics at the census-tract level

- **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!

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