

## Clean Water SRFs

The Clean Water State Revolving Fund (CWSRF) is one of the largest federal funding programs provided to the 50 states and Puerto Rico for wastewater and stormwater infrastructure projects, such as construction of municipal wastewater facilities, implementing [green infrastructure \(GI\)](#), and many other projects that improve water quality. The CWSRF was created in 1987 through amendments to the Clean Water Act, replacing a construction grants program. States operate their CWSRF programs primarily using low-interest revolving loans with revenue from loan repayments available to continue financing projects in the future.

### Who Can Apply for CWSRF Funds?

- Municipality, inter-municipal, interstate, and state agencies,
- Nonprofit entities,
- Private, for-profit entities,
- Watershed groups, community groups, homeowner's associations, and individuals for construction of publicly owned treatment works, wastewater, stormwater and groundwater projects, and other [eligible projects](#).

*Some states do not fund private systems or private entities.*

The CWSRF provides critical funding for water quality and climate resilience projects across the country. There are 11 categories of eligible projects for CWSRF assistance:

#### 1. Construction of Publicly Owned Treatment Works

This includes [devices and systems](#) used to store, treat, recycle, and reclaim municipal sewage.

#### 2. Nonpoint Source Pollution Control

Most CWSRF funding has historically gone to point source projects but some creative states are also using it as a vital source of funding to address [nonpoint source pollution](#). For example, Georgia Environmental Finance Authority (GEFA) finances land conservation projects to protect water quality and reduce the risk of flooding through the Georgia Land Conservation Program. EPA's [CWSRF Best Practices Guide for Financing Nonpoint Source Solutions](#) features several additional examples.

#### 3. National Estuary Program Projects

In [Delaware](#), public and private entities that implement projects under the state's Estuary Comprehensive Conservation Management Plans are eligible for CWSRF assistance as long as the project is within a national estuary.

#### 4. Decentralized Wastewater Treatment Systems

States can make businesses, community groups, farmers, conservation districts, nonprofits, and homeowners [eligible](#) for CWSRF funding for decentralized projects, including through linked deposit programs for private homeowners to replace their septic systems.

#### 5. Stormwater Management

Stormwater management includes projects that manage, reduce, treat, or recapture municipal stormwater or subsurface drainage water and includes both gray and green infrastructure. In [Camden City, NJ](#), the construction of rain gardens to reduce stormwater flow, conversion of impervious surfaces into a park, and separating parts of the city's combined sewer system were all components of a project aimed at reducing stormwater flooding.

#### 6. Water Conservation, Efficiency, Reuse

In [Tennessee](#), the state's Department of Environment & Conservation aims to use SRF funding to implement a training program for communities, utilities, and commissions about how to reduce system water loss and develop mitigation actions. In [Louisiana](#), the state's Department of Environmental Quality worked with the St. John the Baptist Parish to install smart water meters with leak detection software to improve water efficiency.

#### 7. Watershed Pilot Projects

These projects must [meet the criteria](#) in the Clean Water Act Section 122, which includes managing municipal combined sewer overflows (CSOs), sanitary sewer overflows, and stormwater discharges through watershed management, implementing stormwater best management practices, and reducing water quality impairments through municipality-wide stormwater management planning, among others. Public and private entities are eligible for these projects.

## 8. Energy Efficiency

This category includes projects that reduce the energy consumption needs of publicly owned treatment works. In [Alaska](#), the City of Soldotna installed new high-speed turbo blowers at their wastewater treatment plant, leading to around \$40,000 in energy cost savings each year, in addition to LED lighting, HVAC systems, and other new, more efficient equipment.

## 9. Water Reuse

In [Surprise, AZ](#), new booster pumps send reclaimed water to maintain the city's stadium, ball fields, green belts, and landscaping, reducing the amount of groundwater pumped by 2,000 acre feet/year.

## 10. Security Measures at Publicly Owned Treatment Works

Eligible [projects](#) include upgrading equipment and technology to ensure secure network backups, providing on-site back up power generation, installing threat detection systems, and other systems to increase cybersecurity.

## 11. Technical Assistance

The [New Mexico](#) Environment Department Construction Programs Bureau provides technical assistance to utilities related to asset management and improving operational and managerial capacity.

Through BIL, 49% of funds provided through the CWSRF General Supplemental Funding must be provided as additional subsidization to the following assistance recipients or project types ([excerpted from EPA's BIL SRF Implementation Memo](#)):

- Municipalities that meet the state's [affordability criteria](#). Note that your state may use a different set of parameters when determining affordability criteria through the CWSRF compared to their definition of "disadvantaged community" through the DWSRF.
- Municipalities that do not meet the state's affordability criteria, but seek additional subsidization to benefit individual ratepayers in the residential user rate class who would otherwise face financial hardship through rate increases used to finance the project.
- Entities that implement a process, material, technique, or technology that addresses water or energy efficiency goals; mitigates stormwater runoff; or encourages sustainable project planning, design, and construction.

Ensuring these funds make it to communities most in need is critical. Advocates can support this process in the following ways:

- Promoting changes to state processes to provide communities with more predictability regarding the outcome of the financing process (i.e., receiving a grant, loan, principal forgiveness, or some mixture).
- Working with local communities and water utilities to identify eligible projects and ensure they are prepared to apply for SRF funds.

- Participating in the Intended Use Plan (IUP) public engagement process, ensuring that the list of prioritized projects includes funding for communities most in need and the affordability criteria use the most effective metrics for identifying those communities.
- Advocating for their state to improve their public engagement opportunities, including making the IUP process more transparent and accessible for public review.
- Advocating for equitable affordability criteria. State capitalization grants are roughly based on needs assessments. Water advocates could work to improve these assessments at the state level.

For more information on how to play an active role in this process, see the [Tools section](#).

## Affordability Criteria

CWSRF programs are [required](#) through the Clean Water Act to use affordability criteria to identify economically disadvantaged municipalities based on income data, unemployment, and population trends. Many states rely on median household income (MHI) and unemployment rates at the county or state level, along with population trend thresholds measured by census data. States may create affordability criteria through state statute, administrative rule, or as a policy through an IUP. Revising a statute or rule can be difficult.

States have discretion to include other data in the criteria and determine which criteria is "[most relevant](#)." This can provide an opportunity for states to consider a broader range of information that could impact affordability, like health, education, and other factors that may contribute to [social vulnerability](#). [Additional subsidization](#) may be provided to applicants who meet a state's established affordability criteria and who would otherwise have difficulty financing projects.

The following three examples show states' different approaches to defining affordability criteria and how they include it to allocate priority points for their project priority lists. An equally important concern is how affordability criteria are used for the distribution of principal forgiveness to applicants.

### MEDIAN HOUSEHOLD INCOME (MHI) LIMITATIONS

The Median Household Income metric (MHI) refers to the middle income of a defined community—meaning 50% of that community earns more income and 50% earns less income. In this instance, states often define a community based on census tracts. Because many households may fall far below the median for their community, using MHI as the primary tool to determine affordability is ineffective as it does not accurately measure the actual prevalence of poverty in a given community and a given household's ability to pay their water bill.

The American Water Works Association (AWWA) provides an overview of the pitfalls of relying on MHI as a measure of affordability needs in their report [Assessing the Affordability of Federal Water Mandates](#).



Other indicators that could be used to better assess affordability impacts include:

- Poverty rate
- Lowest quintile income
- Unemployment rate
- Other household cost burdens
- Social vulnerability index

## States' Definitions of Affordability Criteria and Project Priority List Ranking

## States' Consideration of Affordability Criteria in Determining Distribution of Principal Forgiveness



OREGON

**2023** – Oregon’s [Administrative Rule](#) outlines how the Department of Environmental Quality (DEQ) establishes affordability criteria. The most weight is given to “distressed communities” using Oregon Business Development Department’s Oregon [Distressed Index](#), and considers negative population trends calculated using the American Community Survey. The index varies for counties, cities, and “other geographic areas.”

Oregon’s CWSRF [project ranking criteria](#) does not include affordability criteria. Project ranking criteria are vague, and include: water quality standards, public health considerations, watershed health benefits, natural infrastructure inclusion, and “other considerations” according to the [2023 IUP](#).

[Principal forgiveness eligibility](#) includes applicants that either meet affordability criteria, address water-efficiency goals, energy-efficiency goals, to mitigate stormwater runoff, or to encourage sustainable project planning, design, and construction, or “applicants that do not meet the previous two requirements but have **individual ratepayers who will experience financial hardship from a rate increase that financing a project causes. Applicants qualifying under this section must have an established ratepayer hardship assistance program.**”

In Oregon’s [FY 2023 IUP](#) DEQ reserved **70% of the principal forgiveness allocation for applicants that meet affordability criteria as a distressed community** (DEQ reserves the other 30% of PF for projects meeting green/sustainability criteria). **DEQ will award up to \$500,000 in principal forgiveness per project, or 50% of the loan for a distressed community.** Eleven cities qualified for principal forgiveness based on affordability criteria in FY 2023.



MICHIGAN

**2023** – Michigan’s affordability criteria is defined in the state CWSRF laws, and are referred to as a “disadvantaged community determination.”

In the state’s [FY 2023 IUP](#), designation as a disadvantaged community means these conditions are met:

- “1. Users within the area served by a proposed project are directly assessed for the costs of construction.
2. The median annual household income of the area served by a proposed project does not exceed 120% of the statewide median annual household income (MAHI) for Michigan.
- 3. The municipality demonstrates at least 1 of the following:**
  - a. More than 50% of the area served by the proposed project is identified as a poverty area by the US bureau of the census.
  - b. The median annual household income (MAHI) of the area served by a proposed public water supply project is less than the most recently published federal poverty guidelines for a family of 4 in the 48 contiguous United States. In determining the MAHI of the area served under this the municipality shall utilize the most recently published statistics from the US bureau of the census ...
  - c. The MAHI of the area served by a proposed project is less than the most recently published statewide MAHI for the state and annual user costs for water supply exceed 1% of the median annual household income of the area served by the project.
  - d. The MAHI of the area served by the project is not greater than 120% of the statewide MAHI for this state and annual user costs do not exceed 3% of the MAHI of the area served by the project.”

In 2023, the Department of Environment, Great Lakes, and Energy (EGLE) planned to provide a total of \$68,018,720 in principal forgiveness, along with grant money exceeding \$210 million from the American Rescue Plan. Projects were placed in three tiers to allocate funding:

Tier 1 – **100% ARP grant. Projects qualifying as disadvantaged with a MAHI less than \$35,000.**

Tier 2 – 50% ARP grant, principal forgiveness, or some combination thereof. **Projects qualifying as disadvantaged with a MAHI greater than \$35,000.**

Tier 3 – 10% ARP grant, principal forgiveness, or some combination thereof. **All other projects not identified as disadvantaged.**



MAINE

**2023** – Maine’s [affordability criteria](#) includes consideration of income, unemployment data, and population trends. The Department of Environmental Protection (DEP) uses two additional criteria to determine municipality’s ability to raise the revenue necessary to finance a project – **the municipality’s poverty rate and the sewer user cost as a percentage of the Median Household Income (MHI). The five criteria are weighed the same but are not included in project ranking criteria.**

In 2022, principal forgiveness was awarded to projects that will realize the most environmental benefit and are dependent upon the project’s environmental ranking compared to other ranked applicant’s projects in the funding year. Environmental ranking factors include water supply protection (30 points), lakes protection (25 points), shellfishery protection (20 points), water quality concerns (15 points), and facility needs (10 points).

“A [municipality’s affordability points](#) must exceed the total of State average points by 40% in order to be eligible for additional subsidization (principal forgiveness). Therefore, the sum of a municipality’s affordability criteria must be a minimum of 7.0 (140% of 5.0) points to be eligible for possible affordability principal forgiveness”. For BIL supplemental funding, the state reduced this threshold to 120%.

The Maine Department of Environmental Protection estimates that approximately 20-25% of the municipalities in the state with wastewater infrastructure would meet the minimum requirement for principal forgiveness.

In [Maine’s 2022 IUP](#), affordability principal forgiveness was available for projects “that have the most environmental benefit and would experience a significant hardship financing the project if additional subsidies were not provided.” The state uses a formula to provide proportionally more principal forgiveness to communities that have greater need (have higher affordability points).



### EXAMPLE PROGRAM RECOMMENDATIONS FOR ADVOCATES

The Pennsylvania Environmental Council (PEC) [submitted comments](#) on the draft FY 2022 CWSRF IUP to the Pennsylvania Department of Environmental Protection (DEP). PEC requested that PENNVEST—the agency that administers and finances SRFs in the state—establish a grant-only program for a “clear, simple, and transparent process for disadvantaged and environmental justice communities<sup>3</sup> to apply for these PENNVEST Clean Water subsidized funds” and to separate this simplified grant process from the traditional affordability steps taken during funding decisions. They further explained their justification, stating, “Complicated processes deter participation particularly

in the very communities being targeted...those with few resources and limited staff capacity. Predictability and less complexity will enable more funds to reach disadvantaged and environmental justice communities.”

Advocates should engage in ground truthing with community members and public utility leaders and managers in their state to understand the challenges they are facing, and to identify the most important strategies to ensure that water infrastructure funding is directed to the communities that need it most.

<sup>3</sup> Advocates using the term “environmental justice communities” generally are referring to communities that experience disproportionately more negative environmental pollution, climate threats, and public health problems related to their proximity to polluting industries, exposure to failing infrastructure, etc. A community’s demographic and socioeconomic characteristics—particularly race and class—influences the environmental benefits and burdens they experience, with Black and Latinx populations more likely to suffer from environmental injustices. Some states have defined “environmental justice communities” in law or through regulation to identify where to target investment, consider permitting and siting decisions, and monitor environmental pollution. For example, in Pennsylvania, the [Department of Environmental Protection](#) defines an “EJ area” as “any census tract where 20 percent or more individuals live at or below the federal poverty line, and/or 30 percent or more of the population identifies as a non-white minority, based on data from the U.S. Census Bureau and the federal guidelines for poverty.”