



Drinking Water SRFs

The Drinking Water State Revolving Fund (DWSRF) program was created in 1996 through SDWA amendments. It is one of the largest federal funding programs for drinking water infrastructure projects, such as improving drinking water treatment, maintaining and improving pipes and storage facilities to ensure continuous access for households, schools, and other drinking water users, and many other projects that promote access to clean and safe drinking water.

Under BIL, the DWSRF received additional funding between 2022-2026 to address the many infrastructure needs across the country, including dedicated funding for lead service line replacement and emerging contaminants like PFAS. Through BIL, on top of these specific programs, 49% of supplemental DWSRF funds must be provided as additional subsidization to disadvantaged communities (DACs).

States are required to give [priority to projects](#) funded through DWSRF to address the most serious risks to human health, ensure compliance with SDWA requirements, and assist systems in disadvantaged communities. There is quite a bit of discretion and flexibility given to states for determining how to spend their capitalization grants. States can use up to 31% of their capitalization grants as “set-asides” to build technical, managerial, and financial (TMF) capacity of their water systems through state programs and third parties.

Who Can Apply for DWSRF Funds?

- Publicly owned community water systems
- Privately owned community water systems
- Nonprofit, non-community water systems (such as schools and publicly owned campgrounds)

The six eligible project categories for DWSRF assistance are:

1. Treatment

The village of [Philadelphia, NY](#), received DWSRF funding to construct a new water treatment building. [Killingworth, CT](#), used funds for PFAS and sodium remediation.

2. Transmission and Distribution (*such as repairing or replacing pipes*)

[Hillsboro, OH](#), replaced old lines, joints, and valves, some of which were made of lead.

3. Source (*development of sources to replace contaminated sources, rehabilitation of wells*)

In [Cadillac, MI](#), new wells and transmission lines were installed to replace older wells contaminated by a Superfund site.

In [Nebraska](#), nitrate contamination in the groundwater from fertilizer application has prompted dozens of communities to either drill new wells or connect to another water source.

4. Storage

[Aquifer storage and recovery systems](#) are eligible for DWSRF projects, which can include storage tanks, wellhead structures, pumps, pipes, and wells.

5. Consolidation (*connecting water systems*)

In [Dillard, GA](#), plans to construct a water tank and extension of the water system aims to connect residents to a public water system.

6. Creation of New Systems

In [Centertown, MO](#), a new water tower and waterlines were installed to replace a deteriorating older water system.

DWSRF Set-Asides:

Besides providing funding for updated or new infrastructure, each state can use some of their annual capitalization grant from the EPA to “[set-aside](#)” for administration and technical assistance (4%), small system technical assistance (2%), state program management (10%), and local assistance and other state programs (15%). [Go to the Technical Assistance section to learn more.](#) Pre-construction activities, like planning and design, can be paid for using set-asides. Set-asides can also finance local source water protection initiatives.

Using DWSRF Set-Asides for Local Source Water Protection:

The State Program Management set-aside allows states to administer source water protection programs, and the Local Assistance and Other State Programs set-aside also can be used for source water quality protection efforts.

For example, in [South Carolina](#), set-aside funds support public organizations like local governments, public drinking water utilities, soil and water conservation districts, watershed organizations, and nonprofit organizations to develop watershed-based plans (WBPs). These plans provide a framework for watershed-based water quality improvement activities to address surface water pollutants that may negatively impact the drinking water system’s source water. The South Carolina Department of Health and Environmental Control disburses funds as grants on a quarterly basis for reimbursement of costs incurred by grantees.

Advocates can get involved by:

- Working with local communities and water utilities to identify eligible projects and ensure they are prepared to apply for SRF funds. While advocates may not have the technical skills to directly assist in the drafting of an application, advocates can help connect water systems to [technical assistance](#), and can organize grassroots support for local electeds to pass a resolution in support of a project, often required as a part of the application.
- Participating in the Intended Use Plan (IUP) public engagement process, ensuring that the list of prioritized projects include funding for communities most in need and the state definition of DACs uses the most effective metrics for identifying those communities.
- Providing comments and feedback for changes related to the ranking process to increase the weight of certain components.
- Advocating for their state to improve their public engagement opportunities, including making the IUP process more transparent and accessible for public review.

- Changing 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).
- State capitalization grants are roughly based on [needs assessments](#). Water advocates could work to improve these assessments at the state level.

Disadvantaged Communities (DACs)

The SDWA requires each state to define “disadvantaged communities”—commonly referred to as “DACs”—to identify water systems that qualify for additional subsidies. 12-35% of capitalization grants are required to be used as additional subsidization for DACs through base funding (separate from BIL supplemental funding). [State definitions of disadvantaged communities vary widely](#), and EPA’s guidance memo urges states to revise and update both their affordability criteria for CWSRFs and their definition of DACs for DWSRFs to improve the equitable distribution of additional subsidies to urban and rural communities that would otherwise struggle to obtain financing. States may use an applicant’s designation of DAC in awarding points in their ranking criteria for project priority lists. In addition, state SRF programs can set longer loan terms, lower interest rates, and other assistance to water systems serving DACs. For example, in Maryland, the standard interest rate is 50% of the market rate, but the DAC rate is 25% of the market rate and loans can extend up to 40 years for DACs. Some states may apply the same DAC criteria for all of these types of additional assistance, but they may choose to tailor DAC definitions for different purposes.

States may define DAC through state statute, administrative rule, or as a policy through an IUP. Revising a statute or rule can be difficult. If your state defines DAC through state statute and you have a relationship with a state legislator, you may want to encourage them to introduce legislation to amend the DAC definition. For example, Michigan passed [legislation](#) in 2022 clarifying that the Department of Environment, Great Lakes, and Energy (EGLE), the agency administering SRFs, can develop its own scoring criteria and develop definitions of overburdened community and significantly overburdened community, and must consult key associations and organizations and provide opportunity for public comments and a hearing in EGLE’s decision-making process. Changes will take effect for FY 2024 projects. If the DAC definition is in legislation, new legislation might be one approach to amending it, but another solution might include adding other criteria to the IUP process that is defined in guidance or regulation.

It’s important to note that the same DAC criteria defined in a statute or rule [does not have to be adopted](#) in an IUP unless explicitly stated in state law. Many state agencies have the authority to determine how principal forgiveness is allocated and can make changes to DAC criteria.

States may use different disadvantaged community criteria for different BIL and base capitalization grants, which may help better target specific funding (like lead service line replacement funds) to communities with greatest need. If a state does use [more than one DAC definition](#), it will be explained in the Intended Use Plan.

Common indicators that states use in their definition of DAC include [Median Household Income](#) (MHI), system size, and water rates. Relying solely on MHI excludes details on the level of poverty within a community and may not do a good job of truly showing if households in a community can afford increased water rates that may result from taking out an SRF loan. Water rates are used to measure drinking water affordability, often as a percentage of MHI. About a third of states use the number of people served by a water system within their DAC definition, primarily focusing on small systems that serve 10,000 people or fewer. While small and rural communities often face affordability challenges, not all small systems struggle financially, and many poor urban areas may be excluded using these criteria.

Check out [this blog post from Environmental Policy Innovation Center](#) that reviews advocacy strategies from Wisconsin—including improving the methodology for how DACs are defined using a scaled point system to allocate principal forgiveness.

The three examples below are pulled from EPA’s [DWSRF Assistance to Disadvantaged Communities: A Summary for States](#) and demonstrate the variability between state definitions. Consider what factors you think should be present in a definition of DAC. Which communities are included or excluded? Should a community’s designation as a DAC be on a gradient (see Georgia), weighted by MHI (see Indiana), or be designated using environmental justice (EJ) criteria, such as Maryland’s use of “[Environmental Benefit Districts](#)”?



States’ Definitions of Disadvantaged Communities and Project Priority List Ranking

Georgia Environmental Finance Agency’s (GEFA’s) affordability criteria is used to award principal forgiveness to Georgia’s most disadvantaged communities. The criteria include median household income (MHI), unemployment percent, percentage not in labor force, poverty rate, percentage on Social Security, percentage on Supplemental Security Income (SSI), percentage with cash public assistance, percentage with Supplemental Nutrition Assistance Program (SNAP), age dependency ratio, and population trend from the U.S. Census Bureau’s 2018 American Community Survey. **The borrower’s data is categorized in 25th, 50th, and 75th percentiles and used to calculate an [affordability score and principal forgiveness percentage](#)** and principal forgiveness cap.

Projects are scored and ranked using points. GEFA’s total project maximum score is 100, and the [2022 IUP](#) shows how project ranking and affordability scores are listed separately.

States’ Consideration of Disadvantaged Community Status in Determining Distribution of Principal Forgiveness & Other Loan Terms

A project in a disadvantaged community may have a loan extension up to 40 years, not to exceed the useful life of the project.

For principal forgiveness, project scores and affordability scores are considered and caps are used for different levels of PF. GEFA categorizes applicants into four percentiles across the 10 criteria (listed in the left column). For FY 2022, the affordability score and potential principal forgiveness percentage broke down as: a score of 34 (out of 40 max) will receive 50% principal forgiveness, not to exceed \$1.5 million, score of 30-33 will receive 40%, not to exceed \$1.3 million, and a score of 29 will receive 35%, not to exceed \$1 million.



The Indiana Finance Authority includes consideration of disadvantaged communities in their project scoring and ranking system. The PPL is updated quarterly. Updates in [2022](#) to the state's disadvantaged community criteria enabled consideration of projects that “positively impact smaller areas of disadvantage within a wider community.”

DACs are defined as any applicant that meets one of the following:

- “1) A project area with an MHI below 80% of the State MHI, as established by 2015-2019 American Community Five Year Survey;
- 2) Projects that have a **positive, direct impact on a census tract(s), or other targeted project area**, which has an MHI below 80% of the State MHI may also receive Additional Subsidization;
- 3) An estimated post project user rate greater than \$45.00 per month;
- 4) An average annual residential post project user rate that would exceed one (1%) percent of the Participant’s Median Household Income (MHI).”

Indiana ensures that DACs receive the lowest interest rate available to DWSRF participants and may extend the loan terms to 40 years for DACs.

A project may receive up to 100 points, with an additional 30 “bonus points” possible on the PPL. “Affordability and population” is given [up to six points](#). “Affordability” is tied to the post-project annual water bill as a percentage of MHI and only applies to community water systems. A maximum of one point is given to projects that serve a population less than or equal to 10,000.

There is no cap on the amount of principal forgiveness an applicant may receive. In FY 2022, Indiana provided additional subsidization through base funding to DACs, as well as the required 49% of the BIL general supplemental funding.



In 2015, the [disadvantaged community \(DAC\) eligibility criteria](#) was revised to make it consistent with the Water Quality SRF program:

- 1) Water user rate per year per Equivalent Dwelling Unit (EDU) > 1% of Community Median Household Income (MHI);
- 2) **Project is physically located and benefits a Maryland Department of the Environment-approved Environmental Benefit District;**
- 3) Project is physically located and benefits a community with MHI less than 70% of State MHI;
- 4) Project is physically located and benefits a community in a Maryland County (including Baltimore City) with a high unemployment rate (upper 33rd percentile);
- 5) Project is physically located and benefits a community in a Maryland County (including Baltimore City) where the U.S. Census data shows a declining population.

Projects are scored and ranked using points. A total project maximum score is 200, and “affordability” accounts for a maximum of 10 points, and only considers community MHI. The other DAC criteria listed above (2-5) qualify projects for additional subsidy, lower interest rates, and longer loan terms.

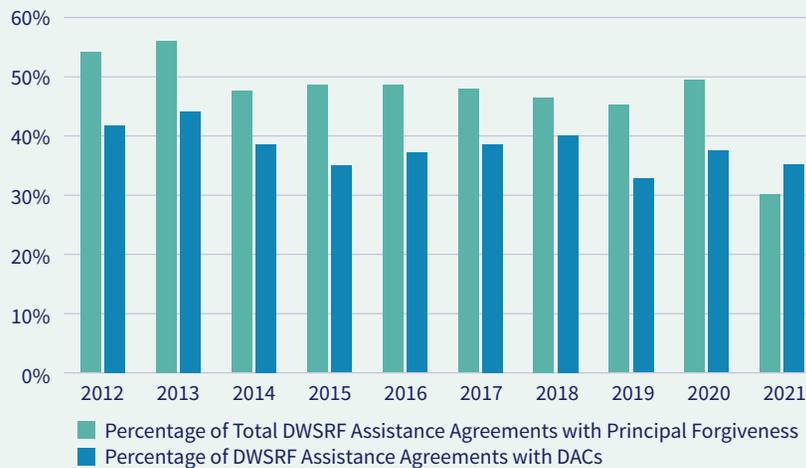
The loan term may be up to 40 years for a DAC and the interest rate is set at 25% of the market rate.

DAC projects are eligible to receive up to 50% of the DWSRF financing as loan principal forgiveness.

Additional subsidy is provided to DAC applicants in priority ranking order and readiness to proceed to construction.

According to the [FY 2021 IUP](#), “It has been MWQFA’s policy that loan principal forgiveness not exceed \$1.5 million per project and/or applicant; however, the Administration reserves the right to provide additional subsidy, should circumstances warrant.”

ANNUAL US DRINKING WATER SRF ASSISTANCE



Data from EPA's DWSRF State and National IMS Report. https://www.epa.gov/sites/default/files/2020-12/documents/state_and_national_ims_report.pdf

In the graph above, you can see the percentage of total DWSRF agreements made that included principal forgiveness, and the percentage of DWSRF agreements made with DACs over the course of ten years.

Once you have identified your state's DAC definition and understand how they allocate principal forgiveness and consider DAC in project priority ranking, you can assess how to strengthen the definition and/or allocation of principal forgiveness to disadvantaged communities. In the case of the Indiana and Maryland 2021 definitions above, these states only consider median household income (MHI) when scoring projects for the PPL, and affordability only accounts for 10% or less of a project score overall.* States could expand the indicators they consider when scoring projects, how they weigh each indicator, and increase the maximum number of points a project receives for affordability considerations to improve the chances of a DAC-designated project getting ranked higher on the PPL. If your state uses a flat cap to distribute principal forgiveness, it will likely make it more challenging for larger systems that have bigger (and more expensive) water infrastructure needs to qualify for an adequate amount of principal forgiveness.

**States are reevaluating their DAC definitions; hence these state examples may shift over time.*

ADVOCACY EXAMPLES:

Propose that projects should be ranked for distribution of principal forgiveness according to their principal forgiveness points, instead of how they rank on the Project Priority List (PPL). For example, in **Wisconsin**, the Coalition on Lead Emergency (COLE) and the Environmental Policy Innovation Center (EPIC), submitted [comments in 2022](#) urging the Wisconsin Department of Natural Resources to “avoid the use of flat caps on principal forgiveness, which would have the effect of undermining the PF eligibility assessments... [and] rank communities for the distribution of principal forgiveness in accordance with their PF scores, rather than PPL scores.”

Lead service line (LSL) replacement funding can be prioritized based on the prevalence of lead service lines in a community rather than by community size. In 2020, **Newark, NJ**, Mayor Ras Baraka [submitted comments](#) to the Department of Environmental Protection (DEP) arguing that the annual cap for principal forgiveness for LSLs of \$10 million unfairly limits the total principal forgiveness available for systems with high amounts of LSLs and requested that DEP maintain its previous cap of \$20 million for systems with over 5,000 LSLs. DEP responded by explaining that they were constrained by the amount of available principal forgiveness and were trying to balance the needs of LSL replacement projects in several DACs. *However*, DEP made changes in the IUP to fund an additional \$10 million for Newark's LSL replacement project through the state's [Water Bank](#). This advocacy approach may not be the right fit for each state, so consider what you know about lead service line distribution in your state. If inventories exist showing that they are prevalent across a slew of small, low-capacity communities, it may be more appropriate to advocate for additional subsidization of the full project costs up to a maximum amount in order to eliminate the presence of lead more quickly across communities.

Considering the specific geographic and/or climate issues in your state, you could make targeted recommendations to increase the level of climate resilient projects. For example, in **California**, the Community Water Center, Leadership Council for Justice and Accountability, and Clean Water Action [submitted comments in 2022](#) recommending a 5% set-aside for small water systems serving DACs to prepare for drought impacts.

Watch: [SRF Training Series: Influencing SRF Implementation](#), which includes an overview of Intended Use Plans by Nick Leonard of the Great Lakes Environmental Law Center, and a presentation by Janet Pritchard of Environmental Policy Innovation Center on how states define DACs and allocate principal forgiveness.