



M A S S A C H U S E T T S
C L E A N W A T E R T R U S T

**Affordability Calculation to Govern Distribution of
Principal Forgiveness**

The Affordability Calculation to Govern Distribution of Principal Forgiveness

Background: The Clean Water Trust (the Trust) in cooperation with MassDEP administers the State Revolving Fund (SRF) program for Massachusetts. The SRF is a partnership with the Environmental Protection Agency (EPA) and the Commonwealth. Massachusetts receives federal EPA grants and provides financial assistance to cities, towns and regional districts in the form of subsidized loans for water and wastewater infrastructure projects. The Trust provides approximately \$350 million annually of state-subsidized loans to borrowers and since its inception has provided more than \$6 billion in loans to over 300 communities throughout the Commonwealth.

Federal Requirement: This document outlines the process the Trust and MassDEP developed in order to meet new federal requirements enacted under the *Water Resources Reform and Development Act (WRRDA)* of 2014, included as **Attachment 1** is the EPA's *Final Interpretive Guidance* on the legislation, which amended a number of sections of the *Federal Water Pollution Control Act* and directly affected a number of sections governing the federal-state partnership under the Clean Water State Revolving Fund (CWSRF) program. The following is the amendment to the *Federal Water Pollution Control Act*:

Sect 603(i)(2).-Not later than September 30, 2015, and after providing notice and an opportunity for public comment, a State shall establish affordability criteria to assist in identifying municipalities that would experience a significant hardship raising the revenue necessary to finance a project or activity eligible for assistance under subsection (c)(1) if additional subsidization is not provided.

Communities that meet the following requirements will qualify for principal forgiveness on their loans, depending upon the availability of such funds. Pursuant to EPA guidance, the criteria must be based upon:

- Income;
- Unemployment data;
- Populations trends; and,
- Other data determined relevant by the state.

Calculation for Principal Forgiveness Distribution: Acting in its capacity as the Grantee in receipt of the CWSRF grant, the Trust, in consultation with MassDEP, has researched and formulated the following approach to apply principal forgiveness to both Clean Water and Drinking Water qualifying projects:

Adjusted Per Capita Income (APCI) = PCI *Employment Rate * (Population 2010/Population2000)

Per Capita Income (as listed on the most recent data tables of the Massachusetts Department of Revenue): Per Capita Income is a widely accepted metric of an ability to afford the cost of infrastructure projects.

Employment rate (as listed on the calendar year 2014 data tables of the Massachusetts Department of Revenue): The percentage of the workforce employed. Higher employment rates suggest that a community has more residents able to afford the cost of infrastructure than a community with lower employment rates.

Population Change: The percentage of gain or loss in a municipal population, between 2000 and 2010. Increase in population suggests that the community is experiencing growth, which provides a larger rate payer base to support infrastructure costs. Loss of population suggests negative growth, and leaves fewer taxpayers and rate payers to absorb the burden of the infrastructure cost.

The data sets being used for the calculation will be posted to the Trust's website. Additionally, the calculation will be reviewed once a year for effectiveness and to keep the data sets as current as possible.

The APCI formula will replace the current Environmental Justice designation the Trust uses to distribute principal forgiveness.

Based on the APCI formula described above, the Trust will calculate APCI for the state and its 351 individual municipalities annually. The Trust will distribute federal and state funds that are designated for a reduction to the loan amount in the form of principal forgiveness, should they be appropriated, by the following protocol:

Tier 1: Communities with APCI more than 80% of the State APCI, but less than 100% of the State APCI, would receive a half share.

Tier 2: Communities with APCI more than 60% of the State APCI, but less than 80% of the State APCI, would receive a full share.

Tier 3: Communities with APCI less than 60% of the State APCI, would receive a one and a half share.

Regional or multi-community wastewater districts: These districts may qualify for principal forgiveness under the affordability calculation. Each entity will have to provide the Trust with data showing the percentage of services of the regional entity that each member community receives. Using prorated APCI numbers for each member, the Trust will rank the district with the other cities and towns. If that blended APCI falls within the scope of the assistance tiers, the entity will be eligible for additional assistance.

The Trust's Proposed Process for Distribution of Principal Forgiveness: The amount of funds available for principal forgiveness each year will be provided by two sources, federal appropriations in the grant and state appropriations in the budget. The Trust cannot predict the amount that will be available each year but it can define the process that will be followed for allocating those funds.

Each year, projects that appear on an Intended Use Plan (IUP), published by MassDEP, which are eligible under the Tiers for additional assistance and meet the deadlines outlined in the IUP, will receive a share of the funds available for loan reduction. The Tier-candidate projects that have executed a construction contract will be locked in for principal forgiveness. MassDEP will provide the Trust with the qualifying contracts that are calculated against the total cost of all qualifying contracts, to arrive at that project's principal forgiveness amount. Note that if Tier 1 or Tier 2 community is phasing a large project over multiple years, only the contracts executed for the first year will be eligible for the loan principal forgiveness. Tier 3 communities can qualify each year for principal forgiveness on a large project over multiple years.

Example of Distribution of Principal Forgiveness

Community	Contract Cost	Tier	Tier multiplier	Weighted contract amount	% of total weighted contracts	\$ share of additional assistance	% of Project that is Principal Forgiveness
A	\$ 2,500,000	1	0.5	\$ 1,250,000	5.77%	\$ 28,835	1%
B	\$ 600,000	1	0.5	\$ 300,000	1.38%	\$ 6,920	1%
C	\$ 4,000,000	2	1	\$ 4,000,000	18.45%	\$ 92,272	2%
D	\$ 3,750,000	2	1	\$ 3,750,000	17.30%	\$ 86,505	2%
E	\$ 8,250,000	3	1.5	\$ 12,375,000	57.09%	\$ 285,467	3%
Total	\$ 19,100,000			\$ 21,675,000	100.00%	\$ 500,000	
Available Funds for Principal Forgiveness						\$ 500,000	

The percentage of the project that is principally forgiven each year will vary and depends on the following variables:

- What amount of funds have been appropriated by both the state and federal government for this purpose
- How many communities on that year’s IUP qualify for principal forgiveness
- What tier ranking the community receives

The above variables will affect the amount of principal forgiveness each project will receive but the process and calculation to distribute that principal forgiveness will be the same each year.

Conclusion

The approach detailed above is anticipated to identify those communities that are the most in need of additional financial assistance, in the form of principal forgiveness, to construct needed infrastructure improvements. The need is based upon metrics that are commonly known to reflect ability to pay, i.e. income, employment rate and customer base. The distribution formula and process will be implemented for both Clean Water and Drinking Water projects that apply for financing. The data used is publically available through the Massachusetts Department of Revenue.