

DRAFT MEMORANDUM

DATE:

TO: John Madras, Director
Water Protection Program

THROUGH: Eric Crawford, Director
Financial Assistance Center

FROM: Emily Carpenter
Financial Assistance Center

SUBJECT: Clean Water State Revolving Fund Additional Subsidization Affordability
Analysis

Pursuant to the Federal Water Pollution Control Act (FWPCA) as amended, the Missouri Department of Natural Resources' (department) is required to establish affordability criteria for the Clean Water State Revolving Fund program no later than September 30, 2015.

Background

On June 10, 2014, President Obama signed into law the Water Resources and Development Act of 2014 (WRRDA). Among its provisions are amendments to Titles I, II, V, and VI of the FWPCA. These amendments affected the Clean Water State Revolving Funding program.

As amended, the FWPCA now includes section 603(i) and reads:

(i) **ADDITIONAL SUBSIDIZATION.**—

(1) **IN GENERAL.**—In any case in which a State provides assistance to a municipality or intermunicipal, interstate, or State agency under subsection (d) the State may provide additional subsidization, including forgiveness of principal and negative interest loans—

(A) to benefit a municipality that—

(i) meets the affordability criteria of the State established under paragraph (2);
or

(ii) does not meet the affordability criteria of the State if the recipient—

(I) seeks additional subsidization to benefit individual ratepayers in the residential user rate class;

- (II) demonstrates to the State that such ratepayers will experience a significant hardship from the increase in rates necessary to finance the project or activity for which assistance is sought; and
- (III) ensures, as part of an assistance agreement between the State and the recipient, that the additional subsidization provided under this paragraph is directed through a user charge rate system (or other appropriate method) to such ratepayers; or
- (B) to implement a process, material, technique, or technology—
 - (i) to address water-efficiency goals;
 - (ii) to address energy-efficiency goals;
 - (iii) to mitigate stormwater runoff; or
 - (iv) to encourage sustainable project planning, design, and construction.
- (2) AFFORDABILITY CRITERIA.—
 - (A) ESTABLISHMENT.—
 - (i) IN GENERAL.—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.
 - (ii) CONTENTS.—The criteria under clause (i) shall be based on income and unemployment data, population trends, and other data determined by the State, including whether the project or activity is to be carried out in an economically distressed area, as described in section 301 of the Public Works and Economic Development Act of 1965 (42 U.S.C. 3161).
 - (B) EXISTING CRITERIA.—If a State has previously established, after providing notice and an opportunity for public comment, affordability criteria that meet the requirements of subparagraph (A)—
 - (i) the State may use the criteria for the purposes of this subsection; and
 - (ii) those criteria shall be treated as affordability criteria established under this paragraph.
 - (C) INFORMATION TO ASSIST STATES.—The Administrator may publish information to assist States in establishing affordability criteria under subparagraph (A).
- (3) LIMITATIONS.—
 - (A) IN GENERAL.—A State may provide additional subsidization in a fiscal year under this subsection only if the total amount appropriated for making capitalization grants to all States under this title for the fiscal year exceeds \$1,000,000,000.
 - (B) ADDITIONAL LIMITATION.—

(i) GENERAL RULE.—Subject to clause (ii), a State may use not more than 30 percent of the total amount received by the State in capitalization grants under this title for a fiscal year for providing additional subsidization under this subsection.

(ii) EXCEPTION.—If, in a fiscal year, the amount appropriated for making capitalization grants to all States under this title exceeds \$1,000,000,000 by a percentage that is less than 30 percent, clause (i) shall be applied by substituting that percentage for 30 percent.

(C) APPLICABILITY.—The authority of a State to provide additional subsidization under this subsection shall apply to amounts received by the State in capitalization grants under this title for fiscal years beginning after September 30, 2014.

(D) CONSIDERATION.—If the State provides additional subsidization to a municipality or intermunicipal, interstate, or State agency under this subsection that meets the criteria under paragraph (1)(A), the State shall take the criteria set forth in section 602(b)(5) into consideration.

The Environmental Protection Agency has issued two interpretive guidance documents regarding WRRDA on September 18, 2014 and January 6, 2015.

Missouri must establish affordability criteria by September 30, 2015 including an opportunity for public comment and a public notice period. The department may offer additional subsidization in the form of grant funds to applicants identified by the affordability criteria as having difficulty financing the proposed clean water infrastructure project. The affordability analysis must include the applicant's income, unemployment data, population trends, and other data determined relevant by the department.

The department may provide the following percentage of their federal capitalization grant as SRF additional subsidization as shown in the table below.

Total Federal Appropriation Amount	State SRF Additional Subsidization Percentage
≤ \$1,000,000,000	0%
\$1,000,000,000 – \$1,300,000,000	A percentage equal to the percentage by which the appropriation exceeds \$1 billion (e.g. \$1.1 billion = 10%)
≥ \$1,300,000,000	30%

Missouri Cost Analysis for Compliance

In 2011, House Bill 89 required the department to adopt procedures to determine whether a permit or enforcement decision is affordable and make a finding of affordability for each permit or enforcement decision related to combined or separate sanitary sewer systems or publically owned treatment works in accordance with Section 644.145 RSMo.

The department issued an interim procedure on affordability on September 12, 2011. Since that time, stakeholder meetings were held to discuss the affordability procedure. On September 17, 2014, the department issued a guidance document for conducting and developing a “Cost Analysis For Compliance” (CAFCom) previously known as a “Affordability Analysis”. The department continues to host stakeholder meetings to refine the affordability process. At present, the department is proposing a rule amendment to 10 CSR 20-6.010 to incorporate the requirement to conduct a CAFCom.

The CAFCom evaluates many socioeconomic factors to determine the financial burden of a community to implement upgrades to the collection system or wastewater treatment facility. The CAFCom includes but is not limited to the following indicators:

- Median household income (MHI);
- Percent unemployment; and
- Percent population growth/decline.

Clean Water SRF Additional Subsidization Affordability Analysis

The Financial Assistance Center has chosen to develop an affordability process, guidance, and template titled Clean Water SRF Additional Subsidization Affordability Analysis. This analysis was developed by applying portions of the CAFCom that were practicable. Staff will utilize many of the same tools and data as used to develop CAFComs. However, the purpose and determinations of these two affordability analyses are not equivalent. Attached is the “Guidance for Conducting and Developing a Clean Water State Revolving Fund Additional Subsidization Affordability Analysis”.

The department has decided to use and expand the Financial Capability Indicator table described in the Environmental Protection Agency’s (EPA) “Combined Sewer Overflows – Guidance for Financial Capability Assessment and Schedule Development”. The department has added the following indicators to the Financial Capability Indicator table:

- Population trends;
- Percent of households in poverty; and
- Percent of households relying on food stamps.

These additional indicators satisfy the requirements of the FWPCA and provide supplementary socioeconomic Missouri specific indicators. In the Financial Capability Indicator table shown below, a score of one through three is assigned to the financial benchmark of weak, mid-range, or strong. Each indicator is assumed to be of equal weight. The average score is calculated by the sum of the values in the Score column and divided by the number of entries.

Financial Capability Indicator Table				
Indicators	Strong (3 points)	Mid-Range (2 points)	Weak (1 point)	Score
Bond Rating Indicator	Above BBB or Baa	BBB or Baa	Below BBB or Baa	
Overall Net Debt as a % of Full Market Property Value	Below 2%	2% - 5%	Above 5%	
Unemployment Rate	>1% below Missouri average	± 1% of Missouri average	>1% above Missouri average	
Median Household Income	More than 25% above Missouri MHI	± 25% of Missouri MHI	More than 25% below Missouri MHI	
Population Trend				
Percent of Households in Poverty	>10% below Missouri average	± 10% of Missouri average	>10% above Missouri average	
Percent of Households Relying on Food Stamps	>5% below Missouri average	± 5% of Missouri average	>5% above Missouri average	
Property Tax Revenues as a % of Full Market Property Value	Below 2%	2% - 4%	Above 4%	
Property Tax Collection Rate	Above 98%	94% - 98%	Below 94%	

Comment [ETC1]: Benchmarks are under development.

Implementation

Once a SRF application is received by the department, staff will determine whether a Clean Water SRF Additional Subsidization Affordability Analysis will be performed based upon the condition that the proposed user rate is equal to or greater than one percent of the applicant’s MHI. The department intends to use this analysis to identify applicants with projects that result in a high financial burden. Applicants with a user rate less than one percent of the their MHI are unable to receive a high financial burden rating according to the Financial Capability Matrix table as shown below and in the Clean Water SRF Additional Subsidization Affordability Analysis and originating from the EPA’s “Combined Sewer Overflows – Guidance for Financial Capability Assessment and Schedule Development”.

Financial Capability Matrix Table			
Financial Capability Indicators Score	Residential Indicator (User cost as a % of MHI)		
	Low (Below 1%)	Mid-Range (Between 1.0% and 2.0%)	High (Above 2.0%)
Weak (below 1.5)	Medium Burden	High Burden	High Burden
Mid-Range (1.5 – 2.5)	Low Burden	Medium Burden	High Burden
Strong (above 2.5)	Low Burden	Medium Burden	High Burden

Applicants with a high financial burden determination may be qualified for additional subsidization subject to other eligibility requirements and to the availability of grant funds as described in the current version of the Clean Water State Revolving Fund Intended Use Plan.

The MHI is found using the American Community Survey conducted by the U.S. Census Bureau. In some cases, a community may believe the American Community Survey did not accurately reflect the demographics of their community. If an applicant submits a United States Department of Agriculture Rural Development or Missouri Department of Economic Development’s Community Development Block Grant approved income survey, the income value will replace the reported MHI in the Clean Water SRF Additional Subsidization Affordability Analysis. Currently, the department does not have a policy or procedure to determine or review and approve income surveys.

Each Clean Water SRF Additional Subsidization Affordability Analysis is project specific. Therefore, an applicant with multiple active SRF applications will receive a Clean Water SRF Additional Subsidization Affordability Analysis for each submitted SRF application/project.

Department staff will request applicants to complete the Financial Questionnaire form, available online at dnr.mo.gov/forms/780-2511-f.pdf. This form is an opportunity for an applicant to present the department with their current financial and socioeconomic situation. Any applicant may elect to waive the Clean Water SRF Additional Subsidization Affordability Analysis by notifying the department in writing.

After a “complete” facility plan has been received and the applicant has provided documentation of an acceptable debt instrument, staff will draft a Clean Water SRF Additional Subsidization Affordability Analysis. A facility plan is considered “complete” once item Nos. 1 – 4 are accomplished on the Facilities Plan Submittal Checklist form, available online at dnr.mo.gov/forms/780-2041-f.pdf. A “complete” facility plan should not be construed as an approvable facility plan. The environmental requirements of 10 CSR 20-4.050 and the public meetings and hearings are necessary prior to facility plan approval.

A “complete” facility plan and an acceptable debt instrument demonstrate an applicant’s readiness to proceed. It is at this time, the department makes a request to the Clean Water Commission to place an applicant on a Fundable List of the Intended Use Plan in accordance with 10 CSR 20-4.010(2)(A).

An applicant may propose a user rate based on less than the standard 5,000 gallons per month. However, the lower water use must be documented by at least one year of water use records for all users. If the proposed project includes expansion of the service area, the water user records for those future users must also be included.

Staff will provide the applicant with a 15 day pre-review period in order to obtain comments. Applicants may request a reasonable time extension with justification during the 15 day pre-review period. Following the pre-review period, staff will finalize the Clean Water SRF Additional Subsidization Affordability Analysis and send a copy to the applicant and retain a copy for the project file.

When plans and specifications are received, staff will reevaluate the affordability determination to ascertain the following:

- A change in the applicant’s economic conditions;
- A substantial change to the proposed scope of work; or
- Five or more years have elapsed between the last Clean Water SRF Additional Subsidization Affordability Analysis and receiving the plans and specifications.

If no change is evident and less than five years has elapsed, staff will make note of this evaluation in the project file. However if there has been a material alteration, staff will draft an updated Clean Water SRF Additional Subsidization Affordability Analysis as instructed above.

Nothing in the department’s Clean Water SRF Additional Subsidization Affordability Analysis removes any obligations to comply with 10 CSR 20-4.040 or any other department regulations and requirements. The finalized Clean Water SRF Additional Subsidization Affordability Analysis does not singly determine nor guarantee whether the department will enter into a binding commitment for a SRF loan or additional subsidization with an applicant.

The department plans to incorporate the affordability criteria conditions in a rule amendment of 10 CSR 20-4.040 in the future.

Stakeholder Meetings

Three stakeholder meetings have or will occur to discuss the draft policy and implementation for Clean Water SRF projects. The dates for these meetings are as follows: May 20, 2015, June 17, 2015, and July 29, 2015.

Public Notice Period

The department will provide a 30 day public notice period for public comments beginning July 6, 2015. Persons wishing to comment on the proposed policy are invited to submit them in writing to Mrs. Emily Carpenter, Missouri Department of Natural Resources, Financial Assistance Center, P.O. Box 176, Jefferson City, MO 65102-0176. E-mail comments will be accepted at the following address: DNR.SRFPublicNotice@dnr.mo.gov. All comments must be received or postmarked by 5:00 p.m. on August 5, 2015.

Comments should be confined to the issues relating to the proposed policy. The department will consider all written comments in preparation for the final policy decision.

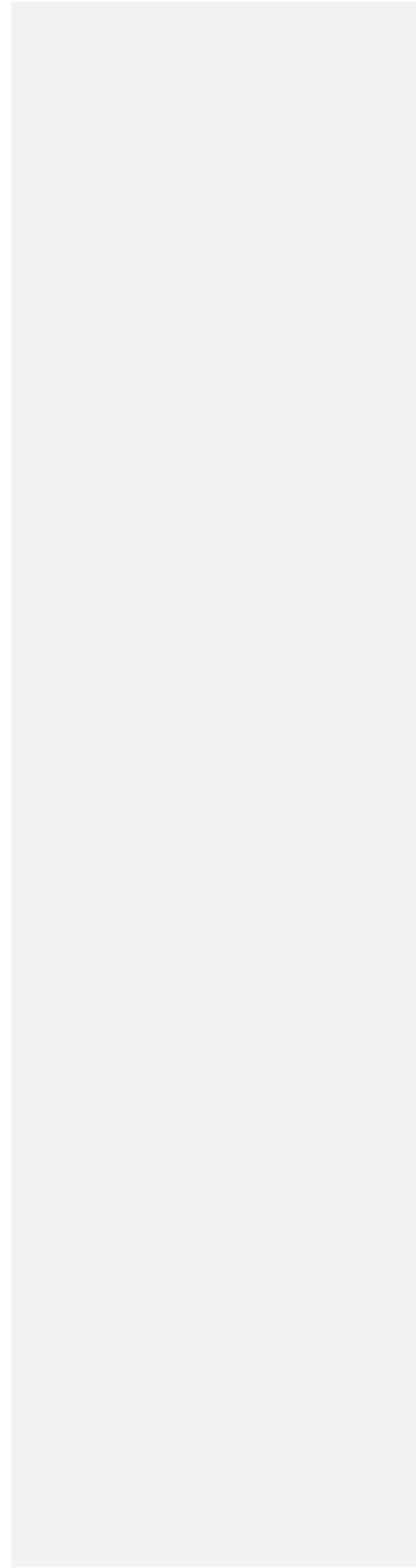
Questions regarding this memorandum can be directed to Mrs. Emily Carpenter of the Water Protection Program at (573) 751-6569 or emily.carpenter@dnr.mo.gov.

EC:

c: Financial Assistance Center

Attachments

DRAFT



ATTACHMENT 1

Guidance for Conducting and Developing a Clean Water State Revolving Fund Additional Subsidization Affordability Analysis

Requirement:

The Federal Water Pollution Control Act (FWPCA) section 603(i) requires the Department of Natural Resources' (department) to develop affordability criteria and an implementation procedure. Clean Water State Revolving Fund (SRF) additional subsidizations may only be granted to those applicants for whom the department has made an affordability determination. The affordability criteria must include income, unemployment data, population trends, and other data determined relevant by the department.

Purpose:

This guidance document provides a uniform and consistent approach to conducting a Clean Water SRF Additional Subsidization Affordability Analysis to meet federal requirements. Preparing and finalizing a Clean Water SRF Additional Subsidization Affordability Analysis provides the department with the option to expend federal capitalization grant funds as additional subsidization to applicants who qualify.

Process:

The department will use the format described within this document to develop the Clean Water SRF Additional Subsidization Affordability Analysis.

The analysis will be based on reasonably verifiable data. A draft Clean Water SRF Additional Subsidization Affordability Analysis will be completed by staff and shared with the applicant for a pre-review for a period of 15 days. Applicants may provide written comments on the draft analysis. A final Clean Water SRF Additional Subsidization Affordability Analysis will be provided to the applicant after considering and incorporating relevant comments and additional information.

Format:

A draft template format to serve as a basis for consistent Clean Water SRF Additional Subsidization Affordability Analysis is included as Attachment 2.

Clean Water State Revolving Fund Loan Application:

The first step by the application is the submittal of the Clean Water State Revolving Fund Loan Application, available online at dnr.mo.gov/forms/780-1951-f.pdf. The application will be reviewed by staff to determine the applicant's potential to receive SRF funding.

Acceptable Debt Instrument:

The applicant must provide documentation of an acceptable debt instrument. An acceptable debt instrument includes, but is not limited to, general obligation bonds, revenue bonds, and/or an annually appropriated debt structure approved by the department and the Environmental Improvement and Energy Resources Authority.

Facility Plan:

A "complete" facility is provided by the applicant. A facility plan is considered "complete" once item Nos. 1 – 4 are accomplished on the Facilities Plan Submittal Checklist form, available online at dnr.mo.gov/forms/780-2041-f.pdf. A "complete" facility plan should not be construed as an approvable facility plan. The environmental requirements of 10 CSR 20-4.050 and the public meetings and hearings are necessary prior to facility plan approval. A "complete" facility plan demonstrates one portion of an applicant's readiness to proceed.

The facility plan describes the purpose of the project, analyzes alternatives, states the recommended project alternative, and includes the preliminary design, estimated costs and the proposed user rate.

A "complete" facility plan and an acceptable debt instrument demonstrate an applicant's readiness to proceed. It is at this time, the department will make a request to the Clean Water Commission to place an applicant to a Fundable List of the Intended Use Plan in accordance with 10 CSR 20-4.010(2)(A).

User Rate:

The Clean Water State Revolving Fund Loan Application form requests submittal of the proposed user rate based on 5,000 gallons per customer per month. The facility plan should include the proposed user rate. The Clean Water SRF process also requires the following:

- Draft user rate methodology;
- Draft user charge rate ordinance; and/or
- User rate public hearing.

If there is a discrepancy between any of the available proposed user rates, staff will contact the applicant to verify the most recent and agreed upon proposed user rate.

The department has developed the Clean Water State Revolving Fund Rate Assist Program to help applicants create a user rate methodology and a sustainable user rate. The Rate Assist

Program is Microsoft Excel spreadsheet and is available online at dnr.mo.gov/env/wpp/srf/wastewater-project-guidance.htm.

The draft user charge rate ordinance must comply with 10 CSR 20-4.040(17). The department will review and approve this ordinance prior to adoption. An example draft user charge rate ordinance is available online at dnr.mo.gov/env/wpp/srf/wastewater-project-guidance.htm.

The applicant must host a public hearing to address the proposed user rate. The public hearing notice must be published at least 30 days prior to the meeting date. The applicant must prepare and submit a transcript or complete record of the hearing to the department. Refer to 10 CSR 20-4.040(14)(B) for more information.

An applicant may propose a user rate based on less than the standard 5,000 gallons per customer per month. However, the lower water use must be documented by at least one year of water use records for all users. If the proposed project includes expansion of the service area, the water user records for those future users must also be included.

State Revolving Fund System Database:

The department maintains an internal web-based State Revolving Fund System database to track active and completed Clean Water SRF projects. Information in this database includes, but is not limited to: project status, financing, awarded contracts, and loan repayments.

Financial Questionnaire Form:

Prior to developing the Clean Water SRF Additional Subsidization Affordability Analysis, staff will request the applicant to submit the Financial Questionnaire form, available online at dnr.mo.gov/forms/780-2511-f.pdf. Staff may contact the applicant and request additional information should the Financial Questionnaire form be incomplete.

Pre-screening Tool:

Staff will utilize the same pre-screening tool as the Water Protection Programs' Cost Analysis for Compliance (CAFCom).

Income Survey:

The median household income (MHI) is found using the American Community Survey conducted by the U.S. Census Bureau. Information regarding the American Community Survey can be found online at www.census.gov/acs/www/.

In some cases, a community may believe the American Community Survey did not accurately reflect the demographics of their community. Currently, the department does not have a policy or procedure to determine or review and approve income surveys.

An applicant may submit a United States Department of Agriculture Rural Development or Missouri Department of Economic Development's Community Development Block Grant approved income survey. This surveyed income value will replace the reported MHI in the Clean Water SRF Additional Subsidization Affordability Analysis template.

Completing the Template:

Staff shall complete the following items in the template included as Attachment 2. Any decisions made need to be clearly documented.

(1) Project Description:

The information presented in the Clean Water State Revolving Fund Loan Application, the documentation of an acceptable debt instrument, and the facility plan shall be utilized to develop the project description section.

(2) Inclusion of ongoing costs of operating and maintaining the existing wastewater collection and treatment system, including payments on outstanding debts for wastewater collection and treatment systems when calculating projected rates:

If no information for this item has been supplied by the applicant with the submission of the Financial Questionnaire form, then it is important for staff to contact the applicant and ask for this information. Staff may also search for the applicant in the State Revolving Fund System database. This database may reveal an applicant with a previously awarded State Revolving Fund Loan with a current loan repayment schedule and an outstanding balance.

(3) An assessment of other community investments and operating costs relating to environmental improvements and public health protection:

Staff should identify any items they are aware of that may impact the entity's ability to provide the necessary funding to construct the proposed project and operate and maintain the system. The applicant should have provided this information in the Financial Questionnaire form. Staff should determine whether the applicant has other active Clean Water or Drinking Water State Revolving Fund projects in the State Revolving Fund System database. Staff should generate a concluding statement to summarize the other investments and identify possible overlap or complications.

(4) Distressed:

The FWCPA section 603(i)(2)(A)(ii) requires a determination of whether the proposed project is to be carried out in an economically distressed area, as described in section 301 of the Public Works and Economic Development Act of 1965 (42 U.S.C. 3161).

The federal and Missouri definitions of "distressed" are not equivalent. Therefore, the department has included an examination of both definitions. An applicant may or may not meet the requirements of one or both of the federal and Missouri distressed definitions.

Federally Distressed Areas:

An area may be defined as distressed if it meets one or more of the following criteria in accordance with 42 U.S.C. 3161:

- Low per capita income – The area has a per capita income of 80% or less of the national average.
- Unemployment rate above national average – The area has an unemployment rate that is, for the most recent 24-month period for which data is available, at least one percent greater than the national average unemployment rate.
- Unemployment or economic adjustment problems – The area is an area that the Secretary of Commerce determines has experienced or is about to experience a special need arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short-term or long-term changes in economic conditions.

Staff will use the pre-screening tool to determine the per capita income of the applicant's area is 80% or less of the national average for the past 12 months.

Staff will use the pre-screening tool to determine whether the applicant's unemployment rate is above the national average for the past 24-months by one percent or more.

The burden of proof for an unemployment or economic adjustment problem approved by the U.S. Secretary of Commerce is upon the applicant. Staff will review the applicant provided documentation for validity. Staff will provide a short summary of when and the reasons the applicant was approved as a distressed area.

If an applicant met one or more of these three criteria, the applicant is considered to be located in a distressed area.

Missouri Distressed Communities:

Section 135.530.1 RSMo defines a distressed community as a municipality within a metropolitan statistical area which has a median household income (MHI) of under 70% of the MHI for the metropolitan statistical area. In addition, the definition includes municipalities not in a metropolitan area statistical area, with a MHI under 70% of the MHI for the nonmetropolitan areas in Missouri. The Missouri Department of Economic Development identifies and provides a list of distressed communities in Missouri online at ded.mo.gov/upload/2010_distressed_communities-entire_municipalities.pdf.

Staff will determine whether the applicant is included in the distressed communities list at the website above. Staff will use the pre-screening tool to complete the applicant's adjusted median household income (MHI) and the applicable metropolitan MHI or Missouri nonmetropolitan MHI.

(5) An assessment of factors set forth in the United States Environmental Protection Agency's guidance, including but not limited to the "Combined Sewer Overflow Guidance for Financial Capability Assessment and Schedule Development":

These indicator values need to be clearly identified as they will be utilized in the completion of the Financial Capability Indicator Table and the Financial Capability Matrix Table. Update the References as necessary.

Staff should search for the most bond rating available. Staff may use the following webpage as a reference: <http://emma.msrb.org/IssuerView/IssuerDetails.aspx?cusip=795169>. Staff should indicate the applicable bond rating agency. If the applicant does not have a recent bond rating, state the rating as "Not applicable". The overall net debt should be found on the applicant's most recent annual financial statement. If the applicant does not provide their financial statements, assert that the overall net debt and market value of property values are "unknown".

Debt Indicators:

Bond Rating ⁵ (emma.msrb.org):	<u>XXX [Moody's/S&P]</u>
Overall Net Debt:	<u>\$XXX</u>
Market Value of Property:	<u>\$XXX</u>
Overall Net Debt as a Percent of Full Market Value:	<u>X%</u>

Staff will use the pre-screening tool to fill out the Socioeconomic Indicators below.

Socioeconomic Indicators:

Unemployment Rate ¹ :	<u>X%</u>
Adjusted Median Household Income ² (MHI):	<u>\$XXX</u>
Percent Change in MHI (1990-2012) ² :	<u>+/- X%</u>
Residential Indicator (Estimated User Rate as a % of MHI)	<u>X%</u>
Percent Population Growth/Decline (1990-2012) ³ :	<u>+/- X%</u>
Change in Median Age in Years (1990-2012) ³ :	<u>+/- X%</u>
Percent of Households in Poverty ⁴ :	<u>X%</u>
Percent of Households Relying on Food Stamps ⁴ :	<u>X%</u>

The Financial Management Indicators values should be found on the applicant's the most recent annual financial statement. If the applicant does not provide this information, state that the values are "unknown".

Financial Management Indicators:

Property Tax Revenues as a Percent of Full Market Property Value:	<u>X%</u>
Property Tax Revenue Collection Rate:	<u>X%</u>

Financial Capability Indicator Table:

Staff should analyze the “Financial Capability Indicators” as identified in the Environmental Protection Agency’s “Combined Sewer Overflows – Guidance for Financial Capability Assessment and Schedule Development”. See pages 20 through 41 available online at <http://water.epa.gov/polwaste/npdes/cso/upload/csofc.pdf>. When little to no information has been provided by the applicant, this table can be a challenging process to complete. If no information has been provided, an explanation should be included with the analysis.

For each line item, staff should calculate the statistic for the entity and log the appropriate score of 1, 2, or 3 or specify that the information is “unknown”. However, some of the line items are not applicable for all applicants. If a line item is not applicable mark the score as “N/A”. It is important for staff to maintain accurate notes documenting the sources of data and the calculations as part of the project file.

- Determine the most recent bond rating (if available). Staff may use the following webpage as a reference:
<http://emma.msrb.org/IssuerView/IssuerDetails.aspx?cusip=795169>.
- Calculate the overall net debt as a percent of full market property value. The debt information should be available on the applicant’s most recent financial statements.
- Compare the unemployment rate to the Missouri average. Utilize the pre-screening tool.
- Compare the median household income to the Missouri average. Utilize the pre-screening tool.
- Compare the population trend to the Missouri average.* Utilize the pre-screening tool.
- Compare the percent households in poverty to the Missouri average.* Utilize the pre-screening tool.
- Compare the percent of households relying on food stamps to the Missouri average.* Utilize the pre-screening tool.
- Determine the property tax revenue as a percentage of full market property value. This information should be provided by the applicant.
- Determine the property tax collection rate. This information should be provided by the applicant.

*Items are specific to the State of Missouri Clean Water SRF Additional Subsidization Affordability Analysis.

Staff will calculate the average score (total the numeric values and divide the sum by the number of entries that have a valid numeric value). This result is considered the Financial Capability Indicator (FCI).

Financial Capability Matrix Table:

The Residential Indicator is the percentage of the applicant’s MHI expended on wastewater systems based on the estimated user rate. The FCI is an assessment of the applicant’s debt burden, socioeconomic conditions, and financial operations. These two measures are subsequently entered into the financial capability matrix table to determine the level of financial burden that the proposed wastewater project will place on residential customers and the applicant.

Using the resulting Residential Indicator value and the FCI score, determine the suggested burden using the Financial Capability Matrix table by plotting the results on the respective axis. Identify the resultant Estimated Financial Burden.

(6) An assessment of any other relevant local community economic condition:

Staff should use the information provided by the applicant in the Financial Questionnaire form. If staff are aware of any relevant information that has or will have an impact on economic conditions, it is important to note them here. Example items might include knowledge that a major local employer is ceasing operation, significant population loss, or natural disaster.

(7) Conclusion:

A high burden determination may make the applicant eligible for additional subsidizations subject to other eligibility requirements and to the availability of funds as described in the current version of the Clean Water SRF Intended Use Plan.

However, an applicant with a resulting medium or low burden is not eligible for additional subsidizations pursuant to the affordability criteria.

Staff should develop a narrative conclusion and identify the level of financial burden. The conclusion should consider any significant subjective factors along with the objective measures that are formula driven.

ATTACHMENT 2

MISSOURI DEPARTMENT OF NATURAL RESOURCES
WATER PROTECTION PROGRAM

CLEAN WATER STATE REVOLVING FUND
ADDITIONAL SUBSIDIZATION AFFORDABILITY ANALYSIS

Project Identification: **Project Name**

Applicant: **Applicant**

Project No.: **C295XXX-XX**

Facility: **Name WWTF**

MSOP No.: **MO-XXXXXX**

City: **City Name**

County: **County Name**

State: Missouri

Total Project Amount: **\$XXX**

Potential Loan: **\$XXX**

Pursuant to the Federal Water Pollution Control Act (FWPCA) section 603(i), the Missouri Department of Natural Resources' (department) may elect to award additional subsidization (i.e. grant funds) to a municipality based on affordability criteria. The department has elected to conduct an affordability analysis for potential Clean Water State Revolving Fund (SRF) recipients in order to determine which municipalities may be eligible to receive grant funding. The estimated financial burden determination will support the department in additional subsidization funding decisions. However, this affordability analysis does not singly determine nor guarantee whether the department will enter into a binding commitment for a SRF loan or additional subsidization with the applicant.

This affordability analysis is based on data available to the department as provided by the SRF applicant and data obtained from readily available sources. For the most accurate analysis, it is essential that the applicant provides the department with current information about the local financial and socioeconomic situation. The Financial Questionnaire form is available online at dnr.mo.gov/forms/780-2511-f.pdf.

(1) Project Description:

Application: The Clean Water SRF Loan Application was submitted by **Applicant** on **Received DATE**. The department evaluated the number of priority points for the applicant and assigned **XXX** priority points.

Debt Instrument: The **Applicant** passed a sewer revenue bond on **DATE** for the amount of **\$XXX**.

Facility Plan: The recommended project and associated costs, including the estimated user rate, is in accordance with the facility plan **[add Addendum Nos. if appropriate]** submitted by **Consulting Firm** on **Received DATE** and signed and sealed by **Consultant, P.E.** on **DATE**.

Purpose and Need: **Usually from the facility plan you will get the wording for the purpose and need of the project. On sewer projects, you should say something about eliminating failing septic tanks to protect the environment and public health or rehabilitation of sewers which are a cause of I/I. On treatment plant projects, it is growth issues, noncompliance issues, or old wore out plant. Some sewer projects are for overloaded sewers or pump stations.**

Design Factors: **This information is usually contained in the facility plan. The proposed X WWTF will treat a design average flow of XX gallons per day (gpd) and a peak wet weather flow of XX gpd. The facility will treat an organic load of XX lbs/day of Biochemical Oxygen Demand₅ (BOD₅). The proposed X WWTF will be designed to meet the monthly average effluent limits of the following: X mg/L BOD₅, X mg/L Total Suspended Solids (TSS), X mg/L Ammonia as Nitrogen in the summer, X mg/L Ammonia as Nitrogen in the winter, X colonies/100mL E. coli, and X mg/L Oil and Grease.**

For sewer projects, just describe approximately how many feet of sewer pipe, how many pump stations and how many houses or buildings will be served. You should probably indicate the preliminary pipe sizes. Pump stations say how big they are in terms of gallons per minute. The design will comply with 10CSR20-8.

Number of Connections:

Residential Connections: _____
Commercial Connections: _____
Industrial Connections: _____
Total Connections for this facility: _____

Recommended Project: **Describe the recommended project from the facility plan but don't fill it up with unnecessary engineering details such as horsepower of motors or depth of tanks, etc. State whether the recommended project is the lowest cost or explain why the recommended project was selected instead of the lowest cost option. Including all necessary appurtenances to complete the project.**

Capital Cost: _____ \$
Annual Operation & Maintenance Cost: _____ \$

Anticipated Loan Term:	X years
Present Worth Cost:	\$
Total SRF Eligible Cost:	\$

User Rate: The current user rate is based on \$X.XX minimum and \$X.XX/1,000 gallons based on metered water usage. The SRF non-eligible costs, \$X, are to be financed by (Missouri Department of Economic Development’s Community Development Block Grant, United States Department of Agriculture Rural Development with an interest rate of X% and loan term of X years, private financing with an interest rate of X% and loan term of X years, capital improvement funds, etc.).

Current User Rate:	\$XX.XX/5,000 gal/month
Monthly Loan Repayment Cost:	\$X/month
Monthly Operation & Maintenance Cost:	\$X/month
Estimated User Rate:	\$XX.XX/5,000 gal/month

(2) Inclusion of ongoing costs of operating and maintaining the existing wastewater collection and treatment system, including payments on outstanding debts for wastewater collection and treatment systems when calculating projected rates:

[A] The applicant reported their outstanding debt for their current wastewater collection and treatment systems to be \$XXXXXX. The applicant reported that each user pays \$XXXXXX each month, which is used toward payments on the current outstanding debt.

[B] The applicant has reported that they have no outstanding debts for the current wastewater collection system and treatment facility.

[C] The applicant did not provide the department with this information, nor could it be found through readily available data.

[D] The applicant did not provide the department with this information. However, the State Revolving Fund System database revealed the Applicant was awarded a previous State Revolving Fund Loan in YEAR for \$XXXXXX. The applicant has an outstanding balance of \$XXXXXX.

Comment [ETC2]: Choose the applicable language below (A, B, C, or D) and delete the remainder.

(3) An assessment of other community investments and operating costs relating to environmental improvements and public health protection:

[A] The applicant did not report any other investments relating to environmental improvements.

[B] The Applicant did not report any other investments relating to environmental improvements. However, the applicant has applied for a Clean/Drinking Water State Revolving Fund Loan for Project Name, Project # [repeat as necessary]. This project is currently on the Planning/Fundable List of the Fiscal Year 20XX Intended Use Plan.

Comment [ETC3]: Choose the applicable language below (A, B, or C) and delete the remainder.

[C]The Applicant reported the following other community investments and operating costs related to environmental improvement and public health protection:...

(4) Distressed:

Comment [ETC4]: Choose the applicable languages below (A or B) for both sections and delete the remainder.

Federally Distressed Areas:

An area may be defined as distressed if it meets one or more of the following criteria in accordance with 42 U.S.C. 3161:

- Low per capita income – The area has a per capita income of 80% or less of the national average.
- Unemployment rate above national average – The area has an unemployment rate that is, for the most recent 24-month period for which data is available, at least one percent greater than the national average unemployment rate.
- Unemployment or economic adjustment problems – The area is an area that the Secretary of Commerce determines has experienced or is about to experience a special need arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short-term or long-term changes in economic conditions.

National per capita income:	_____	\$XXX
Applicant per capita income:	_____	\$XXX
National unemployment rate:	_____	X.X%
Application unemployment rate:	_____	X.X%
Approved U.S. Secretary of Commerce area:	_____	Yes/No

[A]The Applicant is classified as a federally distressed area. [Provide summary of which criteria made this determination. If approved by U.S. Secretary of Commerce, provide date approved and explanation.]

[B]The Applicant is not classified as a federally distressed area.

Missouri Distressed Communities:

Section 135.530.1 RSMo defines a distressed community as a municipality within a metropolitan statistical area which has a median household income (MHI) of under 70% of the MHI for the metropolitan statistical area. In addition, the definition includes municipalities not in a metropolitan area statistical area, with a MHI under 70% of the MHI for the nonmetropolitan areas in Missouri. The Missouri Department of Economic Development identifies and provides a list of distressed communities in Missouri online at ded.mo.gov/upload/2010_dstressed_communities-entire_municipalities.pdf.

Adjusted Median Household Income (MHI) ² :	_____	\$XXX
[A] Metropolitan MHI:	_____	\$XXX
[B] Missouri Nonmetropolitan MHI:	_____	\$XXX

A The Applicant is classified as a Missouri distressed community.

B The Applicant is not classified as a Missouri distressed community.

(5) An assessment of factors set forth in the United States Environmental Protection Agency's guidance, including but not limited to the "Combined Sewer Overflow Guidance for Financial Capability Assessment and Schedule Development":

Debt Indicators:

Bond Rating⁵ (emma.msrb.org): XXX [Moody's/S&P]
 Overall Net Debt: \$XXX
 Market Value of Property: \$XXX
 Overall Net Debt as a Percent of Full Market Value: X%

Comment [ETC5]: Select the appropriate rating agency: Moody's Bond Record or Standard & Poor's Corporation.

Socioeconomic Indicators:

Unemployment Rate¹: X%
 Adjusted Median Household Income² (MHI): \$XXX
 Percent Change in MHI (1990-2012)²: +/- X%
 Residential Indicator (Estimated User Rate as a % of MHI) X%
 Percent Population Growth/Decline (1990-2012)³: +/- X%
 Change in Median Age in Years (1990-2012)³: +/- X%
 Percent of Households in Poverty⁴: X%
 Percent of Households Relying on Food Stamps⁴: X%

Financial Management Indicators:

Property Tax Revenues as a Percent of Full Market Property Value: X%
 Property Tax Revenue Collection Rate: X%

Financial Capability Indicator Table				
Indicators	Strong (3 points)	Mid-Range (2 points)	Weak (1 point)	Score
Bond Rating Indicator ⁵	Above BBB or Baa	BBB or Baa	Below BBB or Baa	
Overall Net Debt as a % of Full Market Property Value	Below 2%	2% - 5%	Above 5%	
Unemployment Rate	>1% below Missouri average of 6.6%	± 1% of Missouri average of 6.6%	>1% above Missouri average of 6.6%	
Median Household Income	More than 25% above Missouri	± 25% of Missouri MHI (\$47,333)	More than 25% below Missouri MHI	

Comment [ETC6]: Make sure to update with the pre-screening tool value.

	MHI (\$47,333)		(\$47,333)	
Population Trend ⁶				
Percent of Households in Poverty ⁶	>10% below Missouri average of 14.0%	± 10% of Missouri average of 14.0%	>10% above Missouri average of 14.0%	
Percent of Households Relying on Food Stamps ⁶	>5% below Missouri average of 11.4%	± 5% of Missouri average of 11.4%	>5% above Missouri average of 11.4%	
Property Tax Revenues as a % of Full Market Property Value	Below 2%	2% - 4%	Above 4%	
Property Tax Collection Rate	Above 98%	94% - 98%	Below 94%	

Comment [ETC7]: Make sure to update with the pre-screening tool value.

Comment [ETC8]: Benchmarks are under development.

Financial Capability Indicators⁶ Average Score: _____

The Residential Indicator is the percentage of the applicant’s MHI expended on wastewater systems based on the estimated user rate. The Financial Capability Indicator (FCI) is an assessment of the applicant’s debt burden, socioeconomic conditions, and financial operations. These two measures are subsequently entered into the financial capability matrix (below) to determine the level of financial burden that the proposed wastewater project will place on residential customers and the applicant.

Financial Capability Matrix Table			
Financial Capability Indicators Score from above ↓	Residential Indicator (User cost as a % of MHI)		
	Low (Below 1%)	Mid-Range (Between 1.0% and 2.0%)	High (Above 2.0%)
Weak (below 1.5)	Medium Burden	High Burden	High Burden
Mid-Range (1.5 – 2.5)	Low Burden	Medium Burden	High Burden
Strong (above 2.5)	Low Burden	Medium Burden	High Burden

Estimated Financial Burden: XX Burden

(6) An assessment of any other relevant local community economic condition: _____

Comment [ETC9]: Choose the applicable language below (A, B, or C) and delete the remainder.

A The applicant did not report any other relevant local economic conditions.

B The applicant did not report any other relevant local economic conditions. However, the Applicant was recently in the media as a result of a major local employer is ceasing operation, natural disaster, etc.

C The Applicant reported the following other relevant local economic conditions: ...

(7) Conclusion:

Comment [ETC10]: Choose the applicable language below (A or B) and delete the remainder.

The department considered the financial and socioeconomic criteria above to determine the affordability of the proposed project. The department found that the proposed project may result in a **XX** burden with regard to the **Applicant**'s overall financial capability.

A This high burden determination may make the **Applicant** eligible for additional subsidization in the form of a grant subject to other eligibility requirements and to the availability of grant funds as described in the current version of the Clean Water State Revolving Fund Intended Use Plan.

B Additional subsidization is not available, since the proposed project is expected to result in a **medium/low** burden for the **Applicant**. This determination does not impact the **Applicant**'s eligibility for a low-interest loan from the SRF.

References:

1. The Median Household Income was found using the American Community Survey by the U.S. Census Bureau
2. Unemployment data was obtained from Missouri Department of Economic Development (July 2014) – <http://www.missourieconomy.org/pdfs/urel1407.pdf>
3. Population trend data was obtained from online at: 2012 Census Bureau Population Data - http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?_afpt=table, 2000 Census Bureau Population Data - <http://www.census.gov/popest/data/cities/totals/2009/tables/SUB-EST2009-04-29.xls>, 1990 Census Bureau Population Data - <http://www.census.gov/prod/cen1990/cp1/cp-1-27.pdf>
4. Poverty data – American Community Survey- <http://factfinder2.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t>
5. Bond ratings website: <http://emma.msrb.org/IssuerView/IssuerDetails.aspx?cusip=795169>
6. Financial Capability Indicators are specific to the State of Missouri