

The Department of Natural Resources (DNR) is seeking public input on changes to the methodology used to determine Principal Forgiveness (PF) allocations in the Clean Water Fund Program (CWFP) and Safe Drinking Water Loan Program (SDWLP). Principal Forgiveness is loan funding that does not need to be repaid (similar to a grant). The methodology for calculating PF has been modified to include affordability criteria, now required for CWFP projects. The methodology will also form the basis for calculating reimbursement of costs incurred for Fiscal Sustainability Plan development in the CWFP.

A. Why Are We Proposing This Policy? The Federal Water Resources Reform and Development Act (WRRDA) that was passed June 10, 2014, included the requirement for all states to develop Affordability Criteria no later than September 30, 2015. These affordability criteria are to be used to allocate additional subsidy, otherwise known as principal forgiveness, through the CWFP. For consistency purposes, the same methodology will also be used to allocate PF in the SDWLP. The WRRDA also requires municipalities to develop Fiscal Sustainability Plans (FSPs) -- including asset management plans -- for their municipal treatment works. The DNR is proposing to use this methodology to provide financial assistance to help offset the costs of FSP development.

B. Background. The WRRDA requires the Affordability Criteria to be based on income and unemployment data, population trends, and other data determined to be relevant by the State. The methodology Wisconsin was already using to allocate PF included income and population but not unemployment data or population trends. The DNR has modified the existing methodology to include these additional components. This methodology will also be used to allocate additional PF to municipalities that currently do not have an asset management plan, to help meet the federal FSP requirements.

C. Summary of Proposed Policy. The DNR proposes Affordability Criteria that assigns the highest points to municipalities with the smallest populations and lowest median household incomes and assigns extra points to municipalities projected to be losing 10% or more of their population over the next twenty years and to those municipalities located in counties with an unemployment rate greater than the state average. The more points assigned to a municipality, the higher the percentage of PF that municipality could receive.

D. Remaining Steps. After the 21-day comment period is complete, DNR will consider all comments, revise the policy as necessary, prepare a Response Summary and Final Policy document, and make the final policy available on DNR's website.

Please forward your comments regarding these proposed policies by May 1, 2015.

Contact Name: Becky Scott, Financial Assistance Specialist

Phone: (608) 267-7584

Email Address: rebecca.scott@wisconsin.gov

I. Principal Forgiveness Allocation Methodology/Affordability Criteria

The Federal Water Resources Reform and Development Act (WRRDA), which was passed on June 10, 2014, modified the Federal Clean Water Act in a number of areas that apply to the Clean Water Fund Program (CWFP). One of the new WRRDA provisions requires states to develop Affordability Criteria for use in allocating additional subsidy, which in Wisconsin is awarded as Principal Forgiveness (PF). Though WRRDA only applies to the CWFP, the Department of Natural Resources (DNR) plans to use the same methodology to allocate PF in the Safe Drinking Water Loan Program (SDWLP).

The WRRDA requires State Affordability Criteria to reflect income, unemployment data, and population trends. The DNR's existing PF allocation methodology, which was used during the previous 3 state fiscal years, included income and population data but did not include unemployment criteria or population trends. Those criteria have been added to the new proposed methodology.

The proposed PF allocation methodology is structured to allocate PF funds to the highest priority projects in municipalities with the greatest financial need, as determined by median household income (MHI), population, population projections over 20 years, and county unemployment rate. Applications submitted by the established deadline will be ranked in priority score order and then the following PF methodology will apply:

- Population points ranging from 0 to 50 are awarded with the highest points assigned to the smallest populations. See Table 1 on the next page.
- MHI points ranging from 0 to 100 are awarded based on the municipality's MHI's percentage of the state's MHI, with the highest points assigned to the lowest MHI percentages. See Table 2 on the next page.
- Additional points for population trends and unemployment are awarded as follows (See Table 3 on the next page):
 - 5 points assigned to municipalities projected to lose 10% or more of their population over the next 20 years;
 - 5 points assigned to municipalities with a county unemployment rate that is greater than the state's unemployment rate by less than one percentage point; and
 - 10 points assigned to municipalities with a county unemployment rate greater than the state's unemployment rate by one percentage point or more.
- Scores from Tables 1 through 3 are totaled and then used to determine the eligible PF percentage indicated in Table 4.
- Projects in municipalities that are Green Tier Legacy Communities or SDWLP projects that are providing disinfection where it was not provided previously are eligible for an additional 10% PF on top of the percentage determined by Table 4, with the caveat that no municipality may receive PF for more than 70% of total project costs.
- PF caps will be imposed per municipality in both the CWFP and the SDWLP. These caps may differ by program and may be different amounts in different years depending on how much PF, if any, is available in a particular year. The caps and the total amounts of PF available will be described in the annual Intended Use Plans that the DNR publishes for public comment.

Table 1	
Points	Population
0	15,000+
2	10,000–14,999
5	8,500–9,999
10	5,000–8,499
15	3,000–4,999
20	2,000–2,999
25	1,500–1,999
30	1,000–1,499
35	500–999
40	250–499
50	0-249

Table 2	
Points	MHI Percent
0	141%+
2	126-140%
5	116-125%
10	106-115%
15	101-105%
20	96-100%
25	91-95%
30	86-90%
40	81-85%
50	76-80%
60	71-75%
70	66-70%
85	61-65%
100	<61%

Table 3	
Points	Additional Criteria
5	Projected to lose 10% or more of population over 20 years
5	County unemployment rate is > state's unemployment rate by less than one percentage point
10	County unemployment rate is > state's unemployment rate by one percentage point or more

Table 4	
Total Score	PF Percent
0-29	No PF
30-54	15%
55-79	30%
80-99	45%
100-165	60%

- MHI data comes from the U.S Census Bureau's American Community Survey 5-year estimates. <http://www.census.gov/acs/www/> The most recent MHI data for Wisconsin municipalities is available on the Environmental Improvement Fund's MHI webpage at: <http://dnr.wi.gov/Aid/documents/EIF/Guide/hardmhi.html>
- Unemployment data comes from the Wisconsin Department of Workforce Development and is updated monthly. Data used will be the most recent month available as of the application deadline date. <http://worknet.wisconsin.gov/worknet/dalaus.aspx?menuselection=da>
- Population projections are developed by the Wisconsin Department of Administration – Demographic Services Section. Data used will be the most recent projections as of the application deadline date. <http://www.doa.state.wi.us/Divisions/Intergovernmental-Relations/Demographic-Services-Center/Wisconsin-Population-Projections/>
- Information on becoming a Green Tier Legacy Community can be found at the following links: <http://greentiercommunities.org/> and at <http://dnr.wi.gov/topic/GreenTier/Participants/LegacyCommunities.html>
To receive the additional 10% PF for being a Green Tier Legacy Community, the municipality must have signed the Green Tier Charter prior to the application deadline date.

II. Fiscal Sustainability Plan Development “Grants”

Section 603(d)(1)(E) of the Clean Water Act, as modified by the WRRDA, requires the recipient of a loan for a project that involves the repair, replacement, or expansion of a publicly owned treatment works to develop and implement a fiscal sustainability plan (FSP) or certify that it has developed and implemented such a plan. This provision applies to all loans for which the borrower submitted an application on or after October 1, 2014.

The CWFP has a number of federal requirements with which municipalities must comply. In order to assist municipalities with the new FSP requirement, and in recognition of the importance of asset management planning (a significant component of the FSP), the DNR is proposing to offer “grants” in the form of principal forgiveness (PF) for the costs of FSP development to municipalities that qualify under the PF allocation methodology/affordability criteria. This funding will be available for a minimum of two state fiscal years. Using the PF allocation methodology as the basis, the following methodology will be used to award PF for the costs of developing FSPs. This PF will be in addition to any other PF the municipality may be allocated, and is subject to a separate cap as detailed below.

➤ **For municipalities with populations under 5,000:**

- If the PF % that the municipality is eligible for is 30% or greater, then the CWFP would provide PF to cover 100% of the FSP development costs up to a cap of \$30,000.
- If the PF % that the municipality is eligible for is 15% to 25%, then the CWFP would provide PF to cover 50% of FSP development costs up to a cap of \$15,000.
- Any costs for FSP development in excess of \$30,000 would be covered at the eligible PF % up to an additional \$10,000 (so the maximum a municipality under 5,000 population could receive is \$40,000 or \$25,000 depending on the PF % they are eligible for).
- Any FSP development costs in excess of the caps would be loan eligible.

➤ **For municipalities with populations of 5,000 or greater:**

- If the PF % that the municipality is eligible for is 30% or greater, then the CWFP would provide PF to cover 50% of FSP development costs up to a cap of \$30,000.
- If the PF % that a municipality is eligible for is 15% to 25%, then the CWFP would provide PF to cover 25% of FSP development costs up to a cap of \$15,000.
- Any FSP development costs in excess of the caps would be loan eligible.

The PF for FSP development will be a reimbursement disbursed as part of the CWFP loan. The eligible FSP development costs would be forgiven at the time of loan disbursement.