

## Appendix A - Disadvantaged Communities (DAC)

The affordability criteria established in this IUP after public review and comment will be the criteria used to determine DAC status.<sup>16</sup>

For SFY 2024, applicants with a Socioeconomic Assessment (SA) score of at least 11 points meet the affordability criteria of the DWSRF Program and are identified as a “Disadvantaged Community” for the Program purposes.

### REVISED AFFORDABILITY CRITERIA USED TO DETERMINE DAC STATUS

The DWSRF Program historically focused on low-to-moderate income metrics to identify borrowers that would experience a significant hardship raising the revenue necessary to finance a drinking water project. In SFY 2023, the Iowa SRF Program began using a **SA Tool** with a broad range of metrics to evaluate a community or service area’s underlying socioeconomic and demographic condition, in an effort to develop a more comprehensive definition of what it means to be DAC. This SA Tool provides a comprehensive analysis of factors that typically determine whether a community or service area is disadvantaged and can determine the affordability of water infrastructure projects.

The Iowa DWSRF Program will use the results of the SA Tool, or “Socioeconomic Assessment Score” to determine the disadvantaged status of a borrower and/or **eligibility to receive SRF loan forgiveness** (also referred to as additional subsidization) or other incentives offered by the DWSRF Program specifically for DAC.

The amount of additional subsidization available to a DAC will be established annually in the IUP.

### SA TOOL

In SFY 2023, the metrics used in the SA Tool were established using EPA guidance and revised with public input. The SA Tool was revised for SFY 2024 and is part of the annual IUP public review and comment process. It will go into effect upon approval of this IUP by the EPC.

There are two versions of the SA Tool:

- **Service Area-Based** - Metrics results are for an entire community or primary county
  - Applicable to: Municipalities which serve populations within incorporated boundaries
- **Census Tract-Based** - Metrics results are for Census tracts or primary county
  - Applicable to: Homeowner’s Associations (HOA), Sanitary Districts, Rural Water Associations and SRF borrowers for BIL LSL projects. This tool will be used when the primary purpose of a consolidation/regionalization project is to expand a system’s service area.

Both versions of the SA Tool are available to the public through the [SRF website](#).

The SA Tool assesses 10 datapoints from publicly available sources produced by the Census Bureau of the U.S. Department of Commerce and Iowa Workforce Development. The SA Tool **is updated annually** with the release of new data from these sources. In SFY 2024, the SA Tool will use 2017-2021 data from the American Community Survey and up-to-date employment data from Iowa Workforce Development. Figure 1 below provides a list of the metrics used in the SA Tool.

To use the SA Tool, a borrower will select each community that makes up the utility’s service area, along with the corresponding percent of population served. For each of the metrics evaluated, applicants will be given a score indicating the relative disadvantage to the other communities in the state (see Figure 1 and Figure 2)<sup>17</sup>. A weighted average for each metrics will be calculated and assigned points. Scores for each metric are totaled to produce an overall assessment of the applicant’s underlying social, economic, and demographic profile.

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<sup>16</sup> 40 CFR 35.3505 Definitions and IAC 265 Chapter 26.7 - Disadvantaged Community Status

<sup>17</sup> The only exception is Population Trend. No points for positive or 0% growth, 1 point for negative growth up to -2%, 2 points for more than -2% population growth.

**Example:** An applicant with a poverty rate falling in the 73<sup>rd</sup> percentile (a high rate) would be one of the bottom 1/3 of communities and receive 2 points for that metric.

	Points		
	0	1	2
1 Median Household Income	Top 1/3 (Highest MHI)	Middle 1/3	Bottom 1/3 (Lowest MHI)
2 Percent Below Poverty	Bottom 1/3 (Lowest %)	Middle 1/3	Top 1/3 (Highest %)
3 Percent Receiving Public Assistance or Supplemental Nutrition Assistance Program (SNAP)	Bottom 1/3 (Lowest %)	Middle 1/3	Top 1/3 (Highest %)
4 Percent Receiving Supplemental Security Income (SSI)	Bottom 1/3 (Lowest %)	Middle 1/3	Top 1/3 (Highest %)
5 Unemployment Rate (County 12-mo avg.)	Bottom 1/3 (Lowest %)	Middle 1/3	Top 1/3 (Highest %)
6 Percent Not in Labor Force	Bottom 1/3 (Lowest %)	Middle 1/3	Top 1/3 (Highest %)
7 Population Trend Between 2010 and 2020 Census	Positive population growth	Decline up to -2%	Decline of more than -2%
8 Percent with High School Diploma or less	Bottom 1/3 (Lowest %)	Middle 1/3	Top 1/3 (Highest %)
9 Percent of Vacant Homes (excluding 2nd/Vacation dwellings)	Bottom 1/3 (Lowest %)	Middle 1/3	Top 1/3 (Highest %)
10 Percent of Cost Burdened Housing (>= 30% of income spent on owner-occupied and renter-occupied housing)	Bottom 1/3 (Lowest %)	Middle 1/3	Top 1/3 (Highest %)

Figure 1

Percentile Rank	Relative Disadvantage	Points
Top 1/3	Low	0
Middle 1/3	Moderate	1
Bottom 1/3	High	2

Figure 2

### USING THE SA SCORE TO DETERMINE DAC STATUS

The following information applies to DWSRF Base and BIL Capitalization Grant Funds (General Supplemental, PFAS/EC and LSL):

- DAC status for the purposes of the DWSRF Program will be determined by completing the SA worksheet to produce a SA score.
- With 10 total metrics, equally weighted, the maximum number of points will be 20. Communities or service areas with a cumulative score of 11 and up (e.g., falling in the top 1/2 of the total possible cumulative score) indicates that the community or service area is socially, economically, and/or demographically disadvantaged relative to the other communities in the state. Conversely, applicants who score in the bottom 1/2 of total cumulative points (e.g., 10 total points or less), will not be considered disadvantaged for SRF Program purposes.

Applicants with a total SA score of at least 11 points meet the DWSRF Program’s definition of DAC.

	Point Range	Disadvantaged Community
Low	0-10	No
Moderate	11-15	Yes
High	16-20	Yes

## Appendix B - Additional Subsidization

Iowa applies additional subsidization in the form of loan forgiveness (LF). The final amount of LF offered will be based on the eligible construction costs related to the final amount drawn on the loan. LF is applied as principal forgiveness on the date of the final loan disbursement.

Borrowers being offered additional subsidization will be asked to accept the award by signing an offer letter of LF terms and conditions.

Time limits may be established for signing loan commitments in order to apply LF awards.

Maximum time limits may also be established for commencing construction of an eligible project. If construction has not been initiated or a loan commitment has not been signed by the date indicated in the LF terms and conditions award letter, the LF offer may be withdrawn or reassigned to meet grant timeline requirements.

Taxable portions of SRF projects are not eligible for LF.

Applicants who received a DAC determination from DNR prior to September 20, 2022 and are eligible for extended term financing (up to 30 years) at the 20-year interest rate, are not eligible for LF.

Borrowers receiving congressionally directed spending or additional subsidization awards from a previous cap grant will not be eligible to receive subsequent awards from the Iowa SRF program for the same project.

Unless otherwise allowed by the SRF Program, borrowers will only receive one LF award per project (LF awards may consist of more than one funding source).

### LOAN FORGIVENESS CRITERIA

The DWSRF Program will comply with additional subsidization requirements of each Cap Grant and will identify recipients of available funds during the fiscal year. Criteria for loan forgiveness eligibility is established with each Cap Grant (see below). Individual projects may be capped to allow more eligible borrowers to receive subsidization.

### FFY 2022 DWSRF BASE CAPITALIZATION GRANT AND BIL GENERAL SUPPLEMENTAL FUND

At the conclusion of SFY 2023, there was an estimated unobligated balance of LF over \$15 million using these criteria.

For the remainder of the unobligated FFY 2022 Base and BIL GS LF funds, the DWSRF Program, upon approval of this IUP, will conduct a “look-back” at all loans executed between July 1, 2022 and June 30, 2023. If a borrower meets the current DAC status requirements for SFY 2024, regardless of project type, the loan will be eligible for LF consideration. All qualifying project loans executed during this time period will be ranked highest to lowest by SA score and will be awarded LF in order of the date the loan was executed, until all funding is obligated. In the event of a tie, the project with the highest priority points (based on Appendix C - Project Ranking Criteria) will receive LF.

Funding for individual projects is **capped at \$2 million per project** and LF will be applied only to eligible construction costs. The DWSRF Program reserves the right to withdraw or modify the individual project cap.

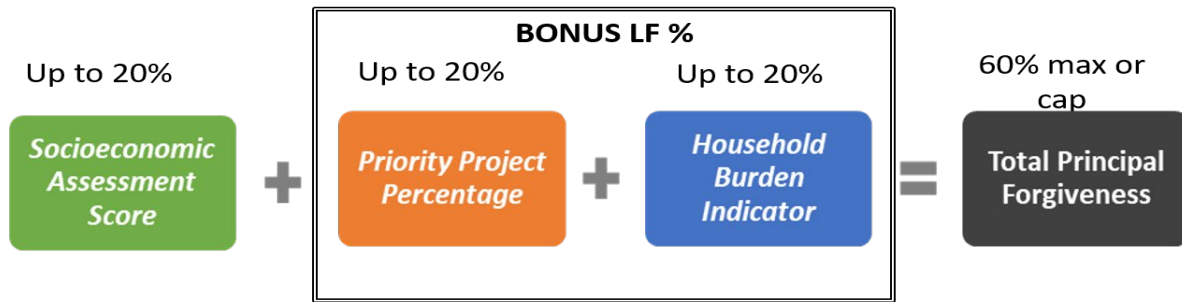
FFY 2022	LF Required	LF Obligated	LF Available to Award
DWSRF Base Cap Grant	\$2,886,260	\$1,514,400*	\$1,371,860
DWSRF BIL General Supplemental Fund	\$13,966,960	\$0	\$13,966,960

\*This amount is estimated as of the publication of this DRAFT IUP.

If LF funding still remains unobligated using these modified criteria, the balance of LF will be added to the FFY 2023 LF amounts and will become available to projects that execute a loan after July 1, 2023.

**FFY 2023 DWSRF BASE CAPITALIZATION GRANT AND BIL GENERAL SUPPLEMENTAL FUND**

LF of up to 20% may be offered for eligible construction costs to projects that meet the Iowa SRF’s DAC. An additional 20% may be offered to priority projects and/or 20% offered to projects that demonstrate a household user-rate burden, for a **total of 60% LF** of construction costs.



1. Up to 20% LF awarded for Disadvantaged Status (SA score of 11 or higher);

	Point Range	Principal Forgiveness
Low	0-10	0%
Moderate	11-15	15%
High	16-20	20%

2. Up to 20% LF awarded for constructing a priority project; and/or

Priority Projects for FFY 2023 DWSRF Base and BIL General Supplemental Funds	% Loan Forgiveness
Non-Compliance Issues (SDWA, Maximum Contaminant Levels (MCL) Violations, Identified Significant Deficiencies)	20%
Consolidation/Regionalization *	15%
Resiliency Projects (flood/drought, redundancy and cyber security)	10%
New Public Water System (PWS) for communities served by private wells	10%

\* This priority is intended for SRF-eligible applicants who are fully or partially consolidating or regionalizing with another system. The primary purpose of the consolidation or regionalization project must be for system A to obtain drinking water that more reliably meets SDWA requirements or to address technical, managerial, and/or financial issues within system A through consolidation or regionalization with system B. Consolidation or regionalization projects are eligible for this loan forgiveness even if there is no violation or compliance issue for system A. ***The socioeconomic assessment score for system A shall be used to determine the disadvantaged status and the corresponding level of loan forgiveness eligibility.*** The project cannot be primarily focused on expansion of system B's service area and must provide a public health benefit to those served by system A. When a consolidation project also includes expansion of system B, the costs related to connecting system A to system B are the only components eligible to receive loan forgiveness.

3. Up to 20% LF awarded based in the Household Financial Burden Indicator (see Determining Household Financial Burden Indicator section).

Burden	Principal Forgiveness
Low	0%
Moderate-Low	5%
Moderate	10%
Moderate-High	15%
High	20%

LF eligibility will be evaluated at the time of SRF loan application (see E. Financial Administration) and will be based on the current SA tool in effect at the time the loan application is approved by the IFA.

Awards will be assigned on a first ready, first served basis to projects that have executed an SRF loan commitment until all funding is obligated. Projects will be funded from the top socioeconomic score down with consideration given to readiness to proceed. In the event of a tie, the project with the highest priority points (based on Appendix C - Project Ranking Criteria) will receive LF.

Funding for individual projects is **capped at \$2 million per project** and LF will be applied only to eligible construction costs. The DWSRF Program reserves the right to withdraw or modify the individual project cap.

FFY 2023	LF Required	LF Obligated	LF Available to Award
DWSRF Base Cap Grant	\$1,930,240	\$0	\$1,930,240*
DWSRF BIL General Supplemental Fund	\$15,511,440	\$0	\$15,511,440*

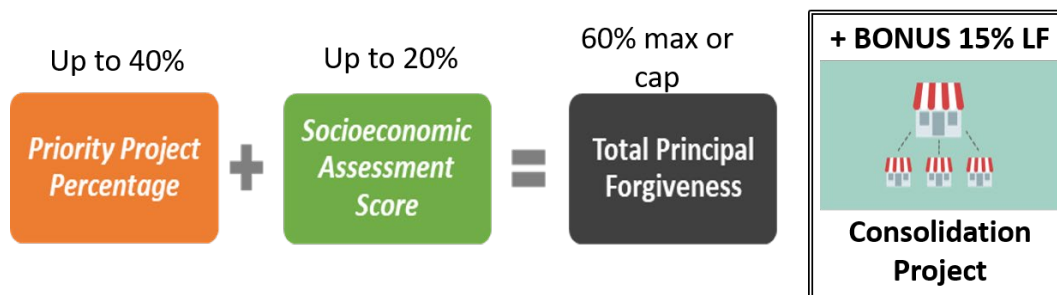
\*This is based on an award amount that is anticipated to be received by SFY 2024 but has not been received as of the publication of this DRAFT IUP.

At the conclusion of each fiscal year, unused portions of LF awards may be combined and reallocated to the next eligible borrower meeting the criteria established above.

#### FFY 2022 AND FFY 2023 BIL PFAS/EMERGING CONTAMINANTS (EC) FUND

LF may be issued to any applicant addressing PFAS or an emerging contaminant meeting the criteria described in the IUP D. SFY 2024 Program Activities to be Supported.

LF of up to 40% may be offered for eligible construction costs to projects that meet the contaminant and detection level priorities. An additional 20% may be offered to eligible projects that meet the Iowa SRF’s disadvantaged community definition, for a **total of 60%** of construction costs. Consolidation projects will be offered an additional 15% LF, for a **total of 75%** of construction costs.



1. Up to 40% LF awarded for constructing a priority project;

Emerging Contaminant	Detection Level (ppt) <sup>1</sup>	Loan Forgiveness %	
		Finish Water	Raw Water
PFAS	PFOA ≥ 4.0	40%	30%
	PFOS ≥ 4.0		
	Gen X ≥ 10		
	PFBS ≥ 2,000		
Health Advisories (HA) on EPA’s Contaminant Candidate Lists 1-5 (Non-PFAS)	≥ HA level	40%	30%
	≥ 50% of HA level	20%	N/A

2. Up to 20% LF awarded for Disadvantaged Status (SA score of 11 or higher);

	Point Range	Principal Forgiveness
Low	0-10	0%
Moderate	11-15	15%
High	16-20	20%

3. An additional 15% LF will be awarded if the project is a consolidation/regionalization project.

This priority is intended for SRF-eligible applicants who are fully or partially consolidating or regionalizing with another system. The primary purpose of the consolidation or regionalization project must be for system A to obtain drinking water that more reliably meets SDWA requirements or to address technical, managerial, and/or financial issues within system A through consolidation or regionalization with system B. Consolidation or regionalization projects are eligible for this loan forgiveness even if there is no violation or compliance issue for system A. ***The socioeconomic assessment score for system A shall be used to determine the disadvantaged status and the corresponding level of loan forgiveness eligibility.*** The project cannot be primarily focused on expansion of system B's service area and must provide a public health benefit to those served by system A. When a consolidation project also includes expansion of system B, the costs related to connecting system A to system B are the only components eligible to receive loan forgiveness.

Funding for individual projects is **capped at \$2 million per project** and LF will be applied only to eligible construction costs. The DWSRF Program reserves the right to withdraw or modify the individual project cap.

BIL Fund	LF Required	LF Obligated	LF Available to Award
2022 DWSRF PFAS/EC	\$11,969,000	\$0	\$11,969,000*
2023 DWSRF PFAS/EC	\$11,487,000	\$0	\$11,487,000*

\*This award amount is anticipated to be received by SFY 2024 but has not been received as of the publication of this DRAFT IUP.

LF will be awarded on a first ready, first served basis while funds are available.

**FFY 2022 AND FFY 2023 BIL LEAD SERVICE LINE REPLACEMENT FUND**

LF of **49%** may be offered **to any applicant** for eligible construction costs necessary to replace the privately owned portions of lead service lines in **qualifying DAC census tracts** within their service area. Qualifying census tracts are determined by the Census Tract-Based SA Tool (see Appendix A - Disadvantaged Communities (DAC)). Eligible project costs and project readiness are described in the IUP in section D. SFY 2024 Program Activities to be Supported.

Costs related to replacement of system-owned lead service lines, and lead service line replacements completed in census tract areas that do not meet the DAC criteria are not eligible for LF. Special interest rates or other incentives may be offered for costs not eligible for LF (see Appendix D - Interest Rates, Fees and Loan Terms).

LF will not be **obligated** to projects until the “contingency status” is removed (see B. SRF Program Overview) and DNR engineering staff have approved the applicant’s Lead Service Line Replacement Project Plan (project readiness is described in the IUP in section D. SFY 2024 Program Activities to be Supported.

FFY Fund	LF Required	LF Obligated	LF Available to Award
2022 DWSRF BIL LSL	\$22,007,370	\$0	\$22,007,370*
2023 DWSRF BIL LSL	\$14,366,310	\$0	\$14,366,310*

\*This is based on an award amount that is anticipated to be received by SFY 2024 but has not been received as of the publication of this DRAFT IUP

## DETERMINING HOUSEHOLD FINANCIAL BURDEN INDICATOR

The Household Financial Burden Indicator is an assessment of a household’s ability to afford the proposed project. The Assessment is made up of two components<sup>18</sup>:

- **New Residential Monthly Water or Sewer Bill at 4,000 gallons/mo.:** The projected residential water or sewer bill (including the proposed project and any known LF from the other two categories) for a residential user, normalized to 4,000 gallons of usage.
- **Poverty Prevalence Indicator:** The percentage of community households at or below 200% of the Federal Poverty Level

Using this combination of factors will indicate both the cost burden borne by lower-income households as well as the overall affordability challenges facing the community.

The resulting Household Financial Burden Indicator matrix corresponds to the resulting category of unaffordability as shown below:

		Poverty Prevalence*		
		Low <= 32.0%	Mid 32.0 - 41.0%	High > 41.0%
New Monthly Water Bill at 4,000 gal/month	High > \$42	Moderate-High	Moderate-High	High
	Mid \$30 - \$42	Moderate-Low	Moderate	Moderate-High
	Low <= \$30	Low	Moderate-Low	Moderate-High

\* Poverty Prevalence is measured by the percentage of people in the community living at or below 200% of the federal poverty level.

The amount of LF attributed to the Household Financial Burden may be different from grant to grant and will be indicated in the LF criteria for each Cap Grant.

<sup>18</sup> Credit to R Raucher, E Rothstein, and J Mastracchio’s [Developing a New Framework for Household Affordability and Financial Capability Assessment in the Water Sector](#), 2019