

## Appendix 2: Drinking Water Affordability Criteria

The 1996 amendments to the Safe Drinking Water Act (SDWA) established the Drinking Water State Revolving Fund (DWSRF) to help water systems finance infrastructure improvements needed to ensure compliance with drinking water standards or otherwise advance the public health protection objectives of the SDWA. To achieve this goal, DWSRF financing is subsidized through below-market interest rates and extended loan terms. However, this subsidized financing may still be insufficient for some water systems that face greater challenges to financing and implementing critical drinking water infrastructure improvements. To assist these water systems, the SDWA requires that each state establish affordability criteria to define “disadvantaged communities” (DACs) in the state. Under the SDWA, a “disadvantaged community” is defined as “the service area of a public water system that meets affordability criteria established after public review and comment by the State in which the public water system is located. The public review and comment requirement was originally accomplished through New Jersey’s SFY 2023 DWSRF IUP proposal and undergoes an annual review and comment period with each year’s proposed IUP.

In SFY26, the Department amended its Affordability Criteria to base the AC threshold from the lowest scoring 25% of municipalities. The quartile is calculated after municipality project scores have been calculated and is then applied to both PWSID systems for drinking water projects and for clean water projects sponsored by wastewater systems serving more than one municipality. The lowest quartile for SFY26 is 86.19.

The list of water systems meeting the Affordability Criteria and other resources related to Affordability will be posted to the Water Infrastructure Investment Plan (WIIP) website at:

<https://dep.nj.gov/wiip/nwb-process/how-to-apply/resources-and-guidance>

In New Jersey, those applicants that meet either of the following two criteria are considered to have satisfied the State’s **DWSRF Affordability Criteria**:

1. Project Affordability Score of 86.19 or less; or
2. The project is eligible to receive 80 Environmental Justice Economic Overburdened Community Criteria DWSRF ranking points.

**Project Affordability Score = Project Median Household Income (MHI) Factor – Project Unemployment (UE) Factor – Project Population Trend (PT) Factor**

Project MHI Factor =  $100 \times (\text{Project MHI}/\text{State MHI})$  (Rounded down to the nearest integer)

Project UE Factor = 1 if Project Unemployment Rate > State Unemployment Rate

Project PT Factor = 0 if Project Unemployment Rate < or = State Unemployment Rate

= 1 if Project Population Trend < State Population Trend

Project PT Factor = 0 if Project Population Trend > or = State Population Trend

Project Unemployment Rate is equal to weighted unemployment rate of the project service area using service area populations and municipal unemployment data. Calculation is similar to weighted MHI example below.

Project Population Trend is equal to the weighted population trend for the project service area using service area populations and municipal population trend data. Calculation is similar to weighted MHI example below.

Consideration will be given for projects with a qualifying service area population within a municipality that does not meet the DWSRF Affordability Criteria.

Values are subject to change given future updates to Census data, and Affordability Scores may be updated throughout the year. Refer to the most recent publication of the Affordability Scores.

#### **Data Sources:**

**MHI Percent** - Municipal median reported household income (MHI) as a percent of the statewide MHI. The income reported is an estimate from 2022 from the U.S. Census Bureau's ACS 2017-2022 5-year estimates, also found in the 2023 Municipal Revitalization Index (<https://www.nj.gov/dca/home/MuniRevitIndex.html>) provided by the New Jersey Department of Community Affairs. Values are expressed in 2022 dollars. Values over 100 indicate that the municipality has a MHI greater than the state. Conversely, values under 100 show that the MHI in the municipality is lower than the state. This statewide MHI used was \$97,126.

**Municipal Unemployment** - Annual average municipal unemployment rate as provided by the New Jersey Department of Labor [Annual Municipal Labor Force Estimates: 2010-2023](#). These values are compared to the statewide annual average unemployment rate. The statewide annual average used was 3.9%.

**Population Change** - The average annual rate of change in total population from 2012 to 2022, also provided by NJDCA in the [Municipal Revitalization Index](#). These values are compared to the statewide population change during that same time period. The statewide rate of change used in this analysis was 4.7%.

A weighted MHI is calculated for a project sponsor whose drinking water system serves more than one municipality, as shown in the example below. The population served is based on the permanent population of the water system service area.

Example:

Municipalities Served	MHI	Populations Served	Fraction of total population served	Weighted municipal MHI
Lancaster	30,000	5,000	0.167	5,000
Mayberry	20,000	10,000	0.333	6,660
Hometown	25,000	15,000	0.500	12,500
<b>Total</b>	<b>30,000</b>	<b>1.00</b>		<b>24,160</b>

Please note for applicants that service more than 10 municipalities, the 10 municipalities that have the highest populations served will be considered in the above table for the affordability factor.

A weighted unemployment rate for use in the UE Factor is calculated for a project sponsor whose clean water system serves more than one municipality/county, as shown in the example below. The population served is based on the permanent population of the water system service area.

Example:

Municipalities Served	County Unemployment Rate	Populations Served	Fraction of total population served	Weighted Municipal Unemployment Rate
Lancaster, County A	4.0%	5,000	0.167	0.668%
Mayberry, County A	4.0%	10,000	0.333	1.332%
Hometown, County B	6.5%	15,000	0.500	3.250%
<b>Total</b>		<b>30,000</b>	<b>1.00</b>	<b>5.25% (Project Unemployment Rate)</b>

Please note for applicants that service more than 10 municipalities, the 10 municipalities that have the highest populations served will be considered in the above table for the affordability factor.

A weighted population trend for use in the Population Trend Factor is calculated for a project sponsor whose clean water system serves more than one municipality/county, as shown in the example below. The population served is based on the permanent population of the water system service area.

Example:

Municipalities Served	Municipal Population Trend	Populations Served	Fraction of total population served	Weighted Municipal Population Trend
Lancaster	2.0%	5,000	0.167	0.334%
Mayberry	2.0%	10,000	0.333	0.660%
Hometown	-1.0 %	15,000	0.500	-0.500%
<b>Total</b>		<b>30,000</b>	<b>1.00</b>	<b>0.494% (Project Population Trend)</b>

Please note for applicants that service more than 10 municipalities, the 10 municipalities that have the highest populations served will be considered in the above table for the affordability factor.

## Tiered Affordability Packages

To equitably distribute financial assistance and support the most disadvantaged communities in New Jersey, the NJWB has implemented a tiered system for Affordability Scores. The tiered structure ensures that communities facing the highest economic challenges receive the most beneficial financial assistance. The NJWB has developed tiered Affordability funding packages to provide additional financial assistance to the most disadvantaged communities. The tiers are as follows:

- **Tier AC2 (Affordability Scores 69.12 to 86.19 and sponsors that meet the Environmental Justice Economic Overburdened Community Criteria):** This tier includes 97 water systems that face certain economic challenges but are relatively better off compared to those in Tier AC1. Projects in these communities continue to receive the same generous principal forgiveness that has been provided in previous years. This ensures ongoing support for these communities in their efforts to improve water infrastructure and public health.
- **Tier AC1 (Affordability Scores 69.11 or below):** Representing the most economically challenged segment, based on the lowest 10% of municipal AC scores, this tier comprises approximately 47 water systems. The support for Tier AC1 surpasses that of Tier AC2, offering better financing packages, including significantly increased principal forgiveness. This heightened level of support is particularly focused on critical projects such as lead service line replacement.