September 14, 2025

Texas Water Development Board
P.O. Box 13231
Austin, TX 78711
Via email: CWSRF@TWDB.Texas.gov and DWSRF@TWDB.Texas.gov

RE: State Fiscal Year (SFY) 2026 State Revolving Fund (SRF) Intended Use Plan (IUP) Comments

On behalf of the undersigned organizations, please accept the following comments on the Draft SFY 2026 Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) IUP's. We recognize that fiscal year 2026 marks the end of the regular SRF programs' supplementation with funds from the Infrastructure Investment and Jobs Act (IIJA), and that capacity for state SRF capitalization is further diminished by current federal policy regarding community assistance grants. This is a concerning trend for our organizations: TWDB's method for allocating the first Texas Water Fund appropriation (by identifying projects with conservation or water loss mitigation benefits on that year's Project Priority List) clearly illustrates the benefits of directing additional funds to the SRF programs. As advocates for the appropriation of dedicated revenue to the Texas Water Fund (TWF) and the preservation of TWDB's flexibility in allocating those resources, we hope additional SRF-eligible projects will continue to be funded though Texas Water Fund after the passage of Proposition 4 in November.

<u>Positive Program Updates - Thank You!</u>

We appreciate proposed changes that provide additional prioritization points for projects that serve disadvantaged areas. This straightforward adjustment ensures that projects serving areas with the greatest financial need will remain competitive.

We also appreciate what appears to be an increased allocation for Very Disadvantaged communities from $1 million to $2 million in both programs, but the "Total for IUP" column in the table on page 11 of the CWSRF IUP shows $1 million, which appears to be a typographical error. As we explained in our comments on the draft SFY 2025 CWSRF IUP, research indicates this category of eligible applicants has been under-served by SRF resources and would benefit from additional support.

Recommendations: Disadvantaged Community (DAC) Policy

1. **Re-institute a range of possible principal forgiveness levels corresponding to levels of economic hardship.** The draft IUP's offer 70% principal forgiveness for all DAC's. This approach ensures IIJA funding provisions are easily met but is not ideal for the efficient distribution of funds in an oversubscribed program. Principal forgiveness is a limited and valuable form of assistance, and should be offered at levels corresponding to applicants' needs.
2. **Implement a revised Household Cost Factor (HCF) to more accurately assess affordability burdens.** The HCF described in the draft IUP is based closely on the EPA's Residential Cost Indicator, which was developed in 1997 to calculate the costs of utility service and project loan payments as a percentage of the service area's Annual Median Household Income (AMHI). In 2019, a report released by the American Water Works Association (AWWA)[1] suggested an improved method to evaluate water affordability burdens and the prevalence of poverty conditions by combining the Household Burden Indicator (HBI, which evaluates total basic service costs as a percentage of the lowest quintile household income) and Poverty Prevalence Indicator (PPI, which considers the percentage of households at or below 200% of the federal poverty level). These metrics were developed as improvements to the Residential Cost Indicator, and we recommend using them to supplement or replace AMHI in affordability determinations.
3. **Adopt a DAC score that considers additional factors in determining prioritization points and available principal forgiveness.** As an example, the Wisconsin SRF programs use a DAC score that assigns points based on population, AMHI, family poverty percentage, population trends, unemployment rate, and lowest quintile household upper income limit. The scores from these individual metrics are combined to determine the level of principal forgiveness offered. While the current Texas DAC policy already uses some of this data, its structure creates a narrow path to achieving principal forgiveness. The DAC score approach is preferable because it considers a wider variety of circumstances facing Texas communities and allows for different combinations of these circumstances to influence the final outcome, while the weight of each factor can be adjusted as needed to maintain programmatic balance.

   As an example, the Wisconsin DWSRF program uses a DAC score based on the data outlined in Table 1. Any project can earn points, but only those with a score over 60 qualify for principal forgiveness. Forgiveness is increased at 5% intervals, with the highest level corresponding to the highest DAC score.

[1] American Water Works Association, R. Raucher, PhD., J. Clements, E. Rothstein, J. Mastracchio, and Z. Green, Developing a New Framework for Household Affordability and Financial Capability Assessment in the Water Sector (April 17, 2019): https://www.awwa.org/wp-content/uploads/Developing-New-Framework-For-Affordability.pdf.

Example: Wisconsin DAC Score	
Census Data	Impact on Score
Population	Up to 100 points; favors smaller size
AMHI	Up to 100 points; favors lower AMHI
Family Poverty Percentage	Up to 100 points; favors higher percentage
Population Trends	Up to 15 points; favors large population loss
County Unemployment Rate	Up to 25 points; favors higher rate
Lowest Quintile Household Upper Limit (LQI)	Up to 20 points; favors lower LQI compared to state

Table 1: Outline of the Wisconsin DWSRF DAC score

4. **Clarify the documentation standards required to identify a disadvantaged project based on its benefit area rather than the utility's entire service area.** In Appendix D, the draft IUP explains that a "project area" can be used as the geographic scale for identifying a disadvantaged community only for Nonpoint Source pollution control projects, but this limitation does not appear in the Clean Water Act or Safe Drinking Water Act.

   We recommend removing limitations on the use of project area geography for DAC determinations and clarifying that the proration method described in Appendix D may be used for DAC determination across all eligible project types.

Recommendations: Program Accessibility

1. **Leverage data to streamline submittal requirements.** The data used to identify disadvantaged areas and inform project rankings is available to TWDB, and can be leveraged more effectively to streamline submittal requirements. Wrangling with Census data, service area maps, and state compliance records can constitute a significant portion of the effort involved in submitting a Project Information Form (PIF) and directly corresponds to the administrative burden faced by eligible applicants when they consider SRF assistance. We recommend re-assessing the PIF and online application system with the view that actively managing public data for the benefit of communities with strained administrative resources will help improve the accessibility of valuable SRF assistance.
2. **Recommended considerations for regionalization projects.** In alignment with program goals, the draft IUP's adjust the project rating criteria to offer additional points for regionalization projects. We recommend additional considerations - including additional rating points - for straightforward regionalization projects that do not constitute full mergers, acquisitions, a sale of assets, or a shutdown of neighboring facilities. Regionalized solutions can involve complex underlying agreements between multiple jurisdictions, and may be appealing to those partners for many different reasons. We therefore recommend expanding general guidance and technical assistance offerings for regionalization projects. While the IUP focuses on SRF terms, capacities, and

requirements, we feel the complexities of regionalization warrant additional guidance regarding the TWDB's preferences for the number of PIFs and applications submitted, forms of formal organization among regional partners that may be required to secure funding, and the financial requirements those partners should expect if invited to proceed with the application process.

Recommendations: Green Project Reserve (GPR) and Water Efficiency

We are pleased to see the continued inclusion of a GPR under both programs for projects that address green infrastructure, water or energy efficiency, and other environmentally innovative activities. The initial lists of invited "Green" projects under both programs are dominated by efficiency and reuse projects, indicating that funding for water efficiency and reuse is in high demand. According to Texas Living Waters' recent publication "Planning for a Resilient Texas: Water Loss & Conservation Over the Next 10 Years[2]," Texas utilities will save over 272,000 acre-feet per year by 2034 by reaching their adopted conservation plan goals. For some communities, the infrastructure improvements necessary to reach these goals will present an affordability challenge exacerbated by the fact that their lost water is also lost utility revenue.

1. **Consider additional points or principal forgiveness for water loss mitigation and reuse projects.** Since efficiency is listed in both IUP's as a short-term program goal and is closely linked to affordability, we recommend additional scoring or project forgiveness considerations for certain efficiency projects – especially those serving disadvantaged areas.
2. **Ensure applicants are fully aware of GPR opportunities.** While we appreciate seeing these projects invited, we also recommend focusing on GPR eligibility for green infrastructure and environmental innovation in future outreach to ensure this important category is fully utilized.
3. **Examine financial requirements and terms to maintain a level playing field.** Green infrastructure projects often result from innovative partnerships and community involvement. Considering the fact that nonprofit organizations are eligible SRF recipients but rarely able to qualify for financing as project sponsors, we recommend examining financial review requirements and offering more generous loan forgiveness terms to ensure innovative projects are able to compete for and secure their share or limited GPR funds.

Thank you for the opportunity to submit these comments. We appreciate the 30-day comment period, as well as the time taken by staff to ensure each comment receives a response. While public comment periods are sometimes shorter, we feel 30 days should be the minimum and that only business days should be counted.

[2] Texas Living Waters, J. Walker and S. Diringer, Planning for a Water Resilient Texas: Water Loss & Conservation Over the Next 10 Years (May 20, 2025): https://texaslivingwaters.org/deeper-dive/planning-for-a-water-resilient-texas-water-loss-conservation-over-the-next-10-years/

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