

# **State Revolving Fund Program - Disadvantaged Community Criteria**

## **Background**

The Alaska State Revolving Fund (SRF) Program uses affordability criteria established in accordance with the Safe Drinking Water Act (SDWA) and the Clean Water Act (CWA) to identify communities most in need of financial assistance. Each SRF capitalization grant awarded to Alaska designates a portion of funds that must be provided as additional subsidization. The Alaska SRF Program meets this requirement by offering principal forgiveness on low-interest loans to borrowers that qualify as disadvantaged.

In 2023, the Alaska State Revolving Fund (SRF) Program reviewed its disadvantaged community criteria and proposed a revised approach. Historically, the SRF Program relied on three key indicators—income, unemployment and population—to identify borrowers that would experience a significant hardship in raising the revenue necessary for infrastructure projects. To create a more comprehensive definition of a disadvantaged community, the revised method incorporates additional socioeconomic indicators as well as a factor to account for rural status.

## **Disadvantaged Community Criteria - Federal and State Requirements**

Under the Drinking Water State Revolving Fund (DWSRF) program, states may establish their own eligibility criteria and special funding options for economically disadvantaged communities. Section 1452 of the SDWA defines a disadvantaged community 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.” Under this section, states may provide additional subsidies—including principal forgiveness—to communities that meet the adopted criteria or are expected to meet them as a result of a proposed project.

In 2014, the Water Resources Reform and Development Act (WRRDA) amended the CWA to require all CWSRF programs to develop affordability criteria to determine which CWSRF borrowers are economically disadvantaged and eligible for additional subsidy. As required by WRRDA, these affordability criteria must consider income data, unemployment rates, and population trends, as well as any other factors the SRF Program deems relevant.

In Alaska, regulations limit the distribution of subsidy through the SRF Program to borrowers who meet the state definition of a disadvantaged community. As outlined in Alaska Administrative Code, Title 18, Chapter 76.035 (18 AAC 76.035), principal forgiveness may be provided through the Alaska Clean Water Fund “if the applicant demonstrates that it meets affordability criteria.” Similarly, the Alaska Drinking Water Fund regulations authorize the department to provide principal forgiveness to systems that qualify as disadvantaged.

## **DWSRF Additional Subsidy – Base Capitalization Grants**

The SDWA mandates that states use at least 12% but no more than 35% of the annual base capitalization grant to provide additional subsidization for state defined disadvantaged communities. Additional subsidization is funding beyond the savings provided by a below market rate subsidized loan. In Alaska, additional subsidization is provided in the form of principal forgiveness.

In addition to the additional subsidization identified in the SDWA, Congress has included further additional subsidization requirements through the annual appropriation language. For Federal Fiscal Year 2026 (FFY26), the Congressionally mandated subsidy requirement is 14% of the capitalization grant with no specific eligibility requirements. The two required groups of subsidies are additive, meaning that the state is obligated to offer 26 to 49% of the FFY26 base capitalization grant as additional subsidy. As noted previously, Alaska regulations restrict subsidy eligibility to disadvantaged communities.

## CWSRF Additional Subsidy – Base Capitalization Grants

The CWA mandates that states use at least 10% but no more than 30% of the annual base capitalization grant to provide additional subsidization for:

- any municipalities that meet the state’s affordability criteria;
- municipalities that do not meet the state’s affordability criteria but seek additional subsidization to benefit individual ratepayers in the residential user rate class; or
- entities that implement a process, material, technique, or technology that addresses water or energy efficiency goals; mitigates stormwater runoff; or encourages sustainable project planning, design, and construction.

The Congressionally mandated subsidy requirement is 10% of the FFY26 capitalization grant with no specific eligibility requirements. As with the DWSRF, the two groups of subsidies are additive, meaning that the state is obligated to offer a minimum of 20% and a maximum of 40% of the FFY26 capitalization grant as additional subsidy.

## CWSRF / DWSRF Additional Subsidy - Infrastructure Investment and Jobs Act (IIJA) Grants

The additional subsidy amounts specified for grants authorized under IIJA are listed in the table below:

Program / Grant	Additional Subsidy Amount
CWSRF General Supplemental	49% of capitalization grant
CWSRF Emerging Contaminants	100% of capitalization grant amount
DWSRF General Supplemental	49% of capitalization grant amount
DWSRF Emerging Contaminants	100% of capitalization grant amount, net of set asides taken

## Criteria for Defining Disadvantaged Communities

Disadvantaged community status is determined by considering four factors: household burden, socioeconomic indicators, rural community status and priority projects. Projects that are associated with a federal disaster declaration are also given consideration with regard disadvantaged criteria. Points are assigned for each factor as noted below.

### Household Burden

The Household Burden indicator focuses on household income and the affordability impacts on those households most affected by the cost of utility service. Income quintiles are a socio-economic measure that groups a community’s household income data into five equal parts. Each quintile represents 20% of the population.

#### Upper limit of lowest quintile income (LQI)

Income quintiles group a community’s household income data into five equal parts. Each quintile represents 20% of the population.

If the LQI is greater than the statewide LQI	No points
If the LQI is less than the statewide LQI	1 point
If the LQI is less than 80% of the statewide LQI	2 points

#### Cost of service as a percentage of LQI

The annual cost of service for both water and wastewater service (user fees) for residential connections is divided by the upper limit of the LQI to provide an indicator of the burden on lowest income earners in the community.

If the Cost of Service/LQI is less than 4%	No points
If the Cost of Service/LQI is greater than 4%	1 point
If the Cost of Service/LQI is greater than 6%	2 points

### Socioeconomic Factors

Socioeconomic factors are used to consider a variety of indicators that may demonstrate economic stress in a community including the percentage of households receiving public assistance, the percentage of households below the poverty level, unemployment rates, and population trends.

Percentage of households receiving Supplemental Nutrition Assistance Program (SNAP) benefits relative to the statewide average.

If the % of households receiving SNAP is less than statewide average	No points
If the % of households receiving SNAP is greater than statewide average	1 point
If the % of households receiving SNAP is 150% of statewide average	2 points

Percentage of households below poverty level relative to the statewide average.

The poverty level is determined by the U.S. Census Bureau.

If the % of households below poverty level is less than statewide	No points
If the % of households below poverty level is greater than statewide	1 point
If the % of households below poverty level is 150% of statewide or greater	2 points

### Unemployment Rate

The monthly unemployment rates posted by the Alaska Department of Labor for the borough or census area where the community is located for the previous calendar year are averaged and compared to the statewide unemployment rates.

If the unemployment rate is less than statewide rate	No points
If the unemployment rate is greater than statewide rate	1 point
If the unemployment is 150% of statewide rate or greater	2 points

### Population Trend

The 2010 population from the decennial Census data compared to the 2020 population.

If the community population increases or decreases by less than 10%	No points
If the community population changes by 10-20%	1 point
If the community population change exceeds 20%	2 points

## Rural Communities

Rural communities will receive four additional points in the scoring process. The following definition is used for a rural community:

- A community that is eligible for assistance under the Village Safe Water Act, or
- A community that meets each of the following criteria:
  - is not located in an area that is identified as a Metropolitan or Micropolitan according to the U.S. Office of Management and Budget **and**
  - is at least 300 road miles from a Metropolitan or Micropolitan area **and**
  - has a population that exceeds 25 but is less than 4,500.

Rural community status	4 points
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## Priority Projects

Eligibility for loan forgiveness will also be assessed based on the project type. If the project aligns with one of the priority types listed below, points will be added to the project's score as noted.

Project Priority Type	Points
Project will result in completion of a Lead Service Line Inventory or replace known lead service lines.	6 points
Project will address an emerging contaminant in drinking water, wastewater effluent, groundwater or surface water.	6 points
Project will resolve a health-based violation of the SDWA.	6 points
Project will plan, design, and/or construct domestic wastewater treatment to meet the minimum treatment requirements of 18 AAC 72.050	6 points
Project will result in consolidation of two or more public water systems or wastewater systems through outright purchase of a system and its assets, interconnection between systems, or administrative consolidation.	6 points
A water distribution system will be expanded to provide service to replace private sources that exceed the MCL for a primary drinking water contaminant.	6 points
A wastewater collection system will be expanded to provide service to individual services that use on-site wastewater	6 points
Project will improve the water quality of an impaired water body.	5 points
Project will result in development of an Asset Management Plan.	4 points
Project will address or mitigate a water or wastewater utility infrastructure issue or a water quality concern directly related to a federal disaster declaration. In the context of the Disadvantaged Community Criteria, a "federal disaster declaration" refers to a declaration made by the President of the United States and includes both emergency and disaster declarations.	Tier 5

## Data Sources

Data sources for the information included in the Household Burden and Socioeconomic indicators are listed below:

Category / Metric	Source
Income and Poverty	
Lowest quintile income	American Community Survey
% below poverty level	American Community Survey
% Public Assistance/SNAP	American Community Survey
Unemployment rate of borough/census area	Alaska Department of Labor
Population Trend	Decennial Census

## Disadvantaged Community - Tiers

Each loan applicant will be assessed based on household burden and socioeconomic factors to represent a base score for the community. Depending on the type of project proposed, additional points may be assigned to specific priority projects based on the criteria in the preceding section. Based on the points allotted, each project will be assigned to a tier with an associated percentage of loan forgiveness. To the extent that additional subsidy funds are available, disadvantaged communities may receive principal forgiveness associated with the base and supplemental capitalization grants as shown in the table below.

Tier	Point Range	Maximum Loan Forgiveness per Community/System	
		Clean Water Projects	Drinking Water Projects
Tier 1	0 to 3	Not applicable	Not applicable
Tier 2	4 to 6	\$500,000	\$1,500,000
Tier 3	7 to 9	\$1,000,000	\$2,500,000
Tier 4	10+	\$2,000,000	\$3,500,000
Tier 5	N/A	\$2,000,000 or 50% of project cost, whichever is greater	\$3,500,000 or 50% of project cost, whichever is greater

The provision of loan forgiveness for federal disaster declarations will be dependent on the availability of loan forgiveness funds at the time the funding request is submitted.

## Disadvantaged Communities – Base Scores and Tiers

The following table shows the Household Burden, Socioeconomic and Rural Community scores for several communities throughout the state. The communities represented in this table are either past or present SRF borrowers or have expressed an interest in pursuing financing through the SRF Program.

If a community proposes a project that qualifies as a "priority project" as defined by the SRF Program, additional Disadvantaged Community criteria points may be added to the proposed project. The higher level of forgiveness resulting from meeting the "priority project" definition can be used for the associated proposed project. The community cannot re-assign the higher level of forgiveness to other non-priority projects. If the community's ceiling for loan forgiveness is met by a priority project, no additional loan forgiveness will be assigned for the year.

<b>Community</b>	<b>Household Burden Score (1)</b>	<b>Socioeconomic Factors Score (2)</b>	<b>Rural Community (3)</b>	<b>Base Score (1)+(2)+(3)</b>	<b>Base Score Tier</b>
Anchorage	0	0	0	0	Tier 1
Anderson	0	5	4	9	Tier 3
Angoon	2	7	4	13	Tier 4
Bethel	2	5	4	11	Tier 4
Buckland	1	8	4	12	Tier 4
Cordova	0	2	4	6	Tier 2
Craig	2	3	4	9	Tier 3
Dillingham	1	4	4	9	Tier 3
Fairbanks	1	1	0	2	Tier 1
Gustavus	2	6	4	12	Tier 4
Haines	4	2	4	10	Tier 4
Homer	3	3	0	6	Tier 2
Hoonah	1	7	4	12	Tier 4
Hooper Bay	4	8	4	16	Tier 4
Juneau	1	0	0	1	Tier 1
Kenai	2	2	0	4	Tier 2
Ketchikan	3	1	0	4	Tier 2
Kiana	4	7	4	15	Tier 4
King Cove	1	4	4	9	Tier 3
King Salmon	0	2	4	6	Tier 2
Kodiak	2	1	0	3	Tier 1
Kotzebue	1	5	4	10	Tier 4
Naknek	1	2	4	7	Tier 3
Nenana	4	6	4	14	Tier 4
Nome	0	3	4	7	Tier 3
North Pole	0	0	0	0	Tier 1
Palmer	2	3	0	5	Tier 2
Petersburg	1	1	4	6	Tier 2
Point Lay	0	3	4	7	Tier 3
Russian Mission	2	6	4	12	Tier 4
Sand Point	2	3	4	9	Tier 3
Saint Paul	0	2	4	6	Tier 2
Selawik	3	6	4	13	Tier 4
Seldovia	0	4	4	8	Tier 3
Seward	3	3	0	6	Tier 2
Sitka	1	0	0	1	Tier 1
Skagway	1	4	4	9	Tier 3
Soldotna	4	4	0	8	Tier 3
Talkeetna	3	4	0	7	Tier 3
Togiak	3	6	4	13	Tier 4
Unalakleet	3	5	4	12	Tier 4
Unalaska	0	0	4	4	Tier 2
Utqiagvik	0	4	4	8	Tier 3
Valdez	0	2	0	2	Tier 1

Wainwright	1	3	4	8	Tier 3
Wasilla	4	6	0	10	Tier 4
Whittier	3	7	4	14	Tier 4
Wrangell	3	3	4	10	Tier 4
Yakutat	0	1	4	5	Tier 2