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COMMENTS

Comments on the New Jersey Department of Environmental Protection's Proposed Changes to the State Revolving Fund (SRF) Affordability Criteria for State Fiscal Year 2026

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Below are recommendations and questions from New Jersey Future (NJF) on the New Jersey Department of Environmental Protection's (NJDEP) Proposed Changes to the State Revolving Fund (SRF) Affordability Criteria for State Fiscal Year 2026 (SFY26).

We highly value your willingness to consider these ideas and the ongoing dialogue with Department staff on refining affordability criteria. NJF does not have any specific concerns about the proposed changes. However, we strongly recommend reconsidering the underlying metrics that NJDEP uses to assess affordability.

As outlined in the 2023 report "Improving a Program That Works: Recommendations to the New Jersey Water Bank for Advancing Equity," NJF recommends that the Department use a more robust measure of economic hardship. Median Household Income (MHI) is currently the predominant measure determining if a municipality qualifies as a disadvantaged community (DAC). However, we recommend adopting a more comprehensive measure of economic hardship, such as the Department of Community Affairs' (NJDCA) Municipal Revitalization Index (MRI) or United for ALICE's New Jersey research data, to better capture the true financial challenges localities and their residents face.

Relying primarily on MHI is insufficient for assessing economic hardship. In contrast, the MRI and ALICE data incorporate other economic, social, fiscal, educational, and cost of living metrics, such as poverty rate, educational attainment, tax capacity, tax effort, per capita income, and median home value. Other considerations could include the lowest quintile income, the percentage of residents below 200% of the federal poverty level, bill delinquency rates, and participation in assistance programs like LIHEAP, SNAP, or Section 8 housing.

In addition to the above data sources, NJF also recommends that the following measures be considered as a part of the affordability methodology:

- Incorporate rate levels into the methodology to enhance affordability criteria by allowing metrics like utility bills as a percentage of income to be included.
- Evaluate the intensity of public utility service utilization versus wells or septic systems to better assess the scale of community vulnerability.
- Incorporate insights from the U.S. Environmental Protection Agency's 2024 Water Affordability Needs Assessment Report, including the Household Burden Indicator (HBI) and Poverty Prevalence Indicator (PPI), for a more comprehensive affordability measurement.

While assessing the underlying affordability data, the Department could consider a short-term fix by refining the affordability score formula with a greater weight to the Unemployment Rate (UE) and Population Trend (PT) factors. Currently, the MHI factor dominates the calculation, while UE and PT have binary weightings of 0 or 1. Increasing the weights of UE and PT would allow the formula to capture significant economic challenges more effectively, resulting in a more equitable measure that considers the combined influence of all three factors.

A comprehensive measurement of economic hardship is essential for determining DAC status, as it reduces year-to-year data fluctuations and provides a more stable assessment. Relying almost entirely on median household income does not fully reflect municipal financial challenges and should not dominate the affordability criteria. Median household income overlooks critical factors contributing to household vulnerability and disadvantage, underscoring the need for a broader, more inclusive approach.

In addition, NJF staff analysis shows that the number of municipalities identified as distressed under the MRI fluctuates less between NJDEP's periodic updates compared to those classified as DACs under the DEP's current affordability criteria. We recommend that the Department assess whether an affordability criterion using a more comprehensive measure of hardship based on multiple data points would result in less fluctuation and grandfathering between the three-year period updates.

Based on the above recommendation, NJF has the following questions.

- As noted above, NJF supports using a more robust measure of affordability to ensure distressed municipalities are accurately identified. Could the Department clarify why MHI remains the primary metric for calculating the affordability score, with the MRI used for comparison purposes rather than fully transitioning to the MRI? Has NJDEP determined that MHI is more effective in capturing disadvantaged communities?

- Is it a coincidence that, with the updated data and methodology, all municipalities scoring within the 86 affordability threshold align with those classified as distressed under the MRI, or does this alignment always occur?