NEW JERSEY FUTURE

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COMMENTS

Comments on the New Jersey Department of Environmental Protection's Proposed SFY26 Clean Water and Drinking Water Intended Use Plans

By email to: waterbankinfo@dep.nj.gov

February 18, 2025

Contact: Diane Schrauth, Policy Director, Water
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Below are recommendations from New Jersey Future (NJF) on the New Jersey Department of Environmental Protection's (NJDEP) Proposed State Fiscal Year 2026 Drinking Water (DW) and Clean Water (CW) Intended Use Plans (IUPs). We highly value your willingness to consider these ideas and the ongoing dialogue with Department staff regarding these critical documents.

Affordability Criteria

New Jersey Future continues to strongly recommend reconsidering the underlying metrics that NJDEP uses to assess affordability, as noted in its comments related to proposed changes to the State Revolving Fund (SRF) affordability criteria submitted on December 23, 2024, and attached below.

Technical Assistance & Principal Forgiveness/Grants

New Jersey Future commends the Water Bank for aligning the CW Affordability Criteria with the DW Disadvantaged Community criteria. According to the proposed IUPs, disadvantaged communities (DACs) participating in the Technical Assistance Program are eligible to receive grants for planning and design and increased principal forgiveness for capital improvements. Water and wastewater systems serving DACs will benefit from this program. The CW IUP seems to have a more expansive definition of the eligibility to participate in the Technical Assistance Program since the project sponsor could receive technical assistance provided by the US Environmental Protection Agency (EPA), regional and national Environmental Finance Centers, and other partnering organizations. We recommend that both IUPs use the more expansive eligibility outlined in the CW IUP (page 18).

Additional Subsidization for Galvanized Lines
Recently adopted federal regulations mandate that all galvanized lines downstream of lead pipes be replaced by 2037. New Jersey has implemented more stringent requirements to remove all galvanized lines, regardless of proximity to lead pipes, by 2031. Federal funding for lead service line replacement is available for projects removing galvanized lines downstream of lead, possibly meaning there is a gap in funding for water systems with galvanized lines not downstream from lead. To align funding with state regulations, we encourage the Department to provide funding packages for removing galvanized lines not downstream of lead pipes. The Department could do this by setting aside a portion of the state match or repurposing a modest portion of loan repayments to increase principal forgiveness for these projects, especially for disadvantaged communities.

Tiering
NJF is encouraged to see NJDEP continuing with the concept of tiering the distribution of PF to DACs in the SFY26 IUPs. As noted in NJF's comments for the SFY25 IUPs, we strongly recommend revisiting the effort to target a greater share of the benefit to the most needy communities. As with SFY25, SFY26 IUPs include only two tiers. Other states have ranked the need for PF based on multiple factors beyond MHI (e.g., poverty, joblessness, population trends) and use those scores to distribute PF on a sliding scale that is much more extensive, thus driving more of the funds to the most distressed localities. See Principal Forgiveness Wisconsin DNR and Recommendation 5 of New Jersey Future's study, Improving a Program That Works: Recommendations to the New Jersey Water Bank for Advancing Equity.

Expand 0% Loans
As noted in NJF's SFY25 comments, we encourage the Department to consider using 0% interest loans more extensively for DAC projects. During stakeholder engagement for New Jersey Future's study, several stakeholders indicated that such an initiative would likely spark an increase in applications for SRF funding. This offering could appeal to water and wastewater systems serving DACs not interested in participating in NJDEP's structured Technical Assistance Program. NJDEP could develop a pilot program focusing on DACs to test the concept.

Gainsharing Initiatives
As noted in NJF's study, gainsharing provides incentives for increased efficiencies for both NJDEP and water utilities. NJF recommends that NJDEP significantly increase the ranking points awarded in the Project Priority List for "gainsharing" initiatives that benefit both the water utility and the state, such as water affordability programs (which support

appropriate rate setting while protecting low-income customers), asset management plans, and regionalization of water assets. At least 11 states, including Ohio, prioritize such projects when distributing PF. To this end, NJF supports the CW IUP ranking points for climate resilience, green infrastructure, and regional stormwater management planning.

Amendments to Financial Assistance Programs

What is the status of potential amendments to the Financial Assistance Programs for Environmental Facilities (N.J.A.C. 7:22) rules, which govern approval and funding through the New Jersey Water Bank Program, shared in September 2024? While NJF could not submit feedback in September, we generally support the proposed rule changes for asset management and climate resilience.

Transparent Communication

We commend the release of the What's New for CW and DW factsheets on the NJDEP Water Infrastructure Investment Plan webpage. These visually easy-to-understand factsheets support transparency by enabling water utilities to better understand the funding opportunities they can leverage to upgrade water infrastructure projects. We recommend the Department release a similar communication tool to help water systems and municipalities clearly understand the changes in year-to-year policies that could impact their projects and SRF applications.

Attachment - NJF Comments December 23, 2024

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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

By email to: waterbankinfo@dep.nj.gov

December 23, 2024

Contact: Diane Schrauth, Policy Director, Water
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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?