

February 23, 2022

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1200 Pennsylvania Avenue, N.W.
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**Re: Technical Assistance for Accessing SRF Funding Provided by
the Infrastructure Investment and Jobs Act of 2021**

Dear Assistant Administrator Fox,

Thank you for the opportunity to submit input on the Environmental Protection Agency's implementation of the State Revolving Fund (SRF) provisions of the Infrastructure Investment and Jobs Act (IIJA). The IIJA funding for the SRF programs over the next five years will provide much-needed federal support for drinking water, wastewater, and stormwater projects. Distributing these resources will require close collaboration between EPA, the states, communities, and advocates, and we look forward to engaging with you throughout the process.

We particularly appreciate your commitment to allocating funding to the communities that need it most, a critical priority that we share. Achieving this goal will require overcoming barriers that have left potential applicants out of the SRF program. Completing an application for funding can be costly; for example, estimates suggest the average cost to simply develop and submit application materials for state water infrastructure financing in California is \$17,000.¹ Communities that are resource-constrained—due to size, income, staffing, or other capacity limitations—often have difficulty completing the technical components and bearing the expense of planning and applying. This inability to access funds can result in the inequitable distribution of resources. Estimates suggest that only 7.1 percent of eligible community water systems received a DWSRF award from 2011-2020.²

To change this dynamic and meaningfully change the number of disadvantaged communities that benefit from SRF funds, direct technical assistance (TA) must be provided to underserved communities. We use the term to refer to the formal technical assistance that EPA provides through education and training as well as individualized pre-development work with communities on preparing applications and managing awards. Support and expansive outreach to engage and empower historically excluded populations within communities to be a part of the planning and prioritization of water infrastructure projects is crucial.

¹ Sprague M, Wilson KF, Cain BE. "Reducing Local Capacity Bias in Government Grantsmanship." *The American Review of Public Administration*. 2019;49(2):174-188. <https://journals.sagepub.com/doi/abs/10.1177/0275074018814242>.

² Hansen, Katy, Sara Hughes, Andrea Paine, and James Polidori. (2021). "Drinking Water Equity: Analysis and Recommendations for the Allocation of the State Revolving Funds." Environmental Policy Innovation Center. https://static1.squarespace.com/static/611cc20b78b5f677dad664ab/t/614a45ffeac8517336243cdb/1632257542836/SRFs_Drinking-Water-Analysis.pdf.

Technical assistance reduces the burden that communities must shoulder in the entire process, from envisioning a project to securing funding to managing the funds. Proactive TA can ensure that the IJA infusion of funds into SRF programs is distributed equitably and delivers the highest quality projects—providing cost-efficient, sustainable solutions to pressing water infrastructure needs that would otherwise remain unaddressed. We urge the agency to ensure that much or most of the approximately \$1 billion in IJA’s authorized set-aside funding “for salaries, expenses, and administration” is allocated to outreach and assistance activities that can help small and/or disadvantaged communities understand their needs, build internal capacity, and apply for and obtain infrastructure funding.

While we look forward to structured opportunities for consultation, we know that your office is already hard at work developing its TA and outreach strategy for the implementation of IJA funds. Therefore, we want to share some high-level recommendations on the provision of technical assistance to small and disadvantaged communities now. Additionally, although in this letter, we focus specifically on the SRFs, the same core concepts apply to distribution of the non-SRF water infrastructure funding within IJA (and other pending or future legislation).

We share these basic principles to guide the distribution of funding-related technical assistance and request that you take near-term actions to ensure communities have the technical capacity to access SRF funding.

Principles for Providing Technical Assistance for Accessing SRF Funding

The technical assistance provided must allow the following objectives to be met.

- EPA and the states meet the goal established in Executive Order 14008 of directing 40 percent of the benefits of funding to disadvantaged communities.
- The assistance accounts for and meets the needs of the residents of underserved, disadvantaged, and EJ communities where they are, and ensures an opportunity for robust and open communication with community members.
- The assistance lowers barriers to accessing funding, thereby substantially and measurably increasing the number of communities with access to the resources they need to provide safe, affordable water and protect their waterways.
- The assistance enables small, rural, disadvantaged, and EJ communities to implement high-quality projects providing cost-efficient, sustainable solutions to pressing water infrastructure needs that would otherwise either remain unaddressed or impose costs that would add to the rate burden of low-income households.
- The assistance provides drinking water, wastewater, and stormwater operators with the information they need to mitigate and adapt to climate change and natural hazards, especially in underserved, disadvantaged, and environmental justice communities.
- The assistance catalyzes long-term shifts in SRF practices to ensure more equitable distribution of SRF funds.

Requests for Near-Term Agency Actions

We ask the agency to take certain key actions, as soon as possible, to ensure that these objectives are met.

- As the agency develops its TA and outreach strategy for IIJA implementation, **EPA should proactively seek and consider the feedback of underserved, disadvantaged, environmental justice, and small communities.** These communities can describe the barriers they encounter in accessing SRF or bond market financing and what is necessary to overcome them. While we understand that EPA plans to conduct community outreach at some point in 2022, it must do so early enough to incorporate that input into the TA plans under development. We believe the EPA can prioritize quick implementation side by side with the consideration of community voices.
- **EPA should encourage states to target technical assistance towards underserved, disadvantaged, and environmental justice communities who are not currently served by technical assistance providers.** Most utilities that serve larger communities have in-house engineers and other technical staff. Some utilities that serve smaller communities have sufficient resources to hire for-profit engineering and consulting firms. The EPA and states should focus efforts on underserved, disadvantaged, and environmental justice communities that have less access to internal or external technical expertise. This is a technical capacity gap that needs to be filled.
- **EPA should ensure sufficient public involvement by training utilities and TA providers in community engagement best practices.** Effective technical assistance is grounded in trust, with active outreach, clear communications, shared information, and support from the TA providers to build relationships with the community and develop an understanding of their needs. The lessons from the allocation of American Recovery and Reinvestment Act (ARRA) funds show that “early and frequent communication among stakeholders, with regularly scheduled meetings and webinars that began before ARRA was even passed, helped to form solid working relationships.”³ EPA should train utilities and TA providers on the importance of holding meetings and other local engagement opportunities within communities, clearly communicating and sharing information with residents, and using participatory planning processes.
- In guidance and other agency communications, **EPA should encourage states to be proactive in identifying, recruiting, and providing technical assistance to disadvantaged communities to procure applications for shovel-worthy projects.** Given the technical expertise, time, and costs required to prepare applications, passive reliance on submissions of “shovel-ready” projects often yields a disproportionately wealthy applicant pool and hinders the equitable distribution of SRF awards. States’ identification and recruitment of communities in need of technical assistance should aim to ensure better outcomes in terms of (1) more equitable distribution of SRF awards and

³ U.S. Environmental Protection Agency (EPA) & Major Partners’ Lessons Learned from Implementing EPA’s Portion of the American Recovery and Reinvestment Act: Factors Affecting Implementation and Program Success; Summary of Six Specific Reports, at Appendix 1-8 (Sep. 2013), <https://nepis.epa.gov/Exe/ZyPDF.cgi/P100HDB2.PDF?Dockey=P100HDB2.PDF>.

(2) better projects. Without proactive efforts and targeted outreach, the neediest communities—with limited capacity to even bring their needs to the table—will be left out. Moreover, without proactive efforts, the scope, type, and sustainability of projects will be limited.

- **EPA should provide trainings and other support to state SRF administrators to help them strengthen their proactive recruitment and outreach efforts.** The agency should help states understand which utilities to prioritize and develop suggested outreach messaging. EPA can help states identify where SRF support would be most impactful based on direct and proactively solicited input from underserved, disadvantaged, and EJ community representatives; EJ screens and vulnerability indices; data on disadvantaged communities that have not previously applied for or received support; reviews of critical infrastructure needs; and feedback from regulators. The agency can also share suggested outreach messaging, highlighting, for example, the dramatically increased availability of principal forgiveness mandated in IIJA.
- **EPA’s technical assistance should include helping communities collect and report data that inform needs assessments.** Water infrastructure needs assessments determine the allocation of federal SRF funding across the states and territories. For these assessments to be accurate, they must include inputs from disadvantaged communities. However, these communities are less likely to have the technical capacity to collect, monitor, and report these data. This data gap reduces the portion of SRF funding distributed to the state to address water infrastructure needs, perpetuating the inequitable distribution of SRF funding. This cycle of structural inequity that must be corrected by providing technical assistance to disadvantaged communities to routinely assess their water infrastructure needs.
- **EPA should ensure that disadvantaged communities receive direct one-on-one technical assistance,** either through the agency’s own TA funds or through guidance encouraging states to use their TA funds for this work. Much of the current EPA and state TA focuses on education (e.g., instruction manuals, webinars or other training). While these are very valuable, many communities need tailored assistance to address the unique needs of their community. Underserved, disadvantaged, and environmental justice communities should receive direct one-on-one support for completing needs assessments, engaging stakeholders, developing project plans, and filling out applications. The USDA circuit rider program and WEP technical assistance and training program for small water systems provides a good model for this.
- **EPA’s technical assistance should address every phase of the SRF process.** Utilities need help assessing problems, building internal capacity, gathering community input, planning and designing projects, and receiving and managing awards. EPA should fund TA efforts to assist disadvantaged and EJ communities in all stages of the process. For example, EPA-funded small system training and technical assistance grants have enabled the Rural Community Assistance Partnership, the National Rural Water Association, and the Environmental Finance Center Network to address many of these issues for some communities. More is needed. For example, utilities need help developing and administering request for proposal (RFPs) for engineering design, choosing potential funding options, understanding the terms and financial implications of various loans and grants, and managing the award.

- **EPA’s technical assistance should include grants to disadvantaged and EJ communities for planning and design.** Planning grants can help communities assess which problems to tackle, develop projects, involve the community in the decision-making, complete paperwork, and submit applications. While these expenses can probably not be reimbursed from an SRF loan, they are critical for the equitable distribution of SRF funds. Utilities that do not have sufficient revenue to fund planning and designing work need grants to cover the costs. With sufficient funding, communities can plan projects that are climate-resilient and reflect the needs of the community.
- **EPA’s technical assistance should support pre-development expenses through loans and third-party loan guarantees.** Securing an SRF loan requires several technical documents, such as a preliminary engineering report and environmental review, which can cost thousands of dollars to complete. If pre-development funds are not available, applicants must cover these costs up-front. The cash flow still impedes progress even in cases where the costs are forgiven or reimbursed after construction is initiated. Many consulting engineers delay billing for these pre-development expenses until the SRF award is issued, but this practice favors well-resourced communities who engender confidence that an ultimate SRF award will be obtained. Current pre-development loans to address these needs can be limited or hard to obtain. Third party intermediaries could reduce the inefficiencies of state-issued pre-development loans by privately providing small pre-development loans to disadvantaged and EJ communities, but only if SRF awards will reimburse the loan expenses. EPA should issue guidance both encouraging states to expand accessibility of their pre-development loans for disadvantaged and EJ communities, and facilitating third-party pre-development loans by clarifying that federal legislation allows SRF funding to pay off loans for qualified pre-development expenses.⁴
- **EPA should provide TA to support the development of natural or green infrastructure projects.** Many communities may not have the knowledge, resources or capacity to identify and apply for funds to support green infrastructure and climate resiliency projects. EPA should provide technical assistance to communities to help identify applicable green projects and support applications for funds, as well as incentivize state programs to identify new priority projects and assist smaller and underserved entities in applying for SRF to finance natural or green infrastructure projects.
- **EPA should encourage states to use more set-aside for TA.** For both the Drinking Water SRF and Clean Water SRF, federal statute allows states to use up to 4 percent of their annual capitalization grant for program administration and technical assistance.⁵ States may also use an additional 2 percent of their DWSRF capitalization grant for technical assistance to systems serving fewer than 10,000 people.⁶ In addition, states can set aside up to 10 percent of their DWSRF capitalization grant for public water system supervision (PWSS) programs⁷ or to develop and implement a capacity development

⁴ DWSRF: 42 U.S.C. § 300j-12(a)(2)(B); 40 C.F.R. §§ 35.3520(c)(1), 35.3525(c). CWSRF: 33 U.S.C. § 1383(c)(11); 40 C.F.R. §§ 35.3120(b), 35.3155(d)(4).

⁵ 42 U.S.C. § 300j-12(g)(2)(A)(ii); 33 U.S.C. § 1383(d)(7).

⁶ 42 U.S.C. § 300j-12(g)(2)(C).

⁷ 42 U.S.C. § 300j-12(g)(2)(B)(i).

strategy.⁸ This is all in addition to the IIJA-authorized set-asides from the SRFs of 2 to 3 percent for salaries, expenses, and administration. Through PWSS and capacity development, states provide technical assistance to small and disadvantaged communities for engineering, needs assessments, and asset planning, among others.

On average, states do not fully utilize these set-asides.⁹ States should set aside more funds for technical assistance to help systems apply for SRFs. These funds can support nonprofit organizations to reach out to communities and explain the program, project eligibility, and application requirements as well as help communities connect with the resources they need to apply for and manage awards. EPA should encourage states to target these funds to disadvantaged and EJ communities regardless of size. These programs could provide more systematic and on-going support to small and disadvantaged communities rather than cyclic support towards applications.

- **EPA should provide TA funding to nonprofit partners to develop other models, such as the Water Assistance Corp, the Funding Navigator, and peer-to-peer initiatives.** Nonprofits are developing programs to help utilities that serve underserved, disadvantaged, and environmental justice communities seek and secure SRFs and other funds. Two examples are the Water Assistance Corp and Funding Navigator. The goal is to ensure more communities benefit from critical investments in safe and climate-resilient drinking water, wastewater treatment, and stormwater management. Working in close partnership with existing TA providers, other nonprofit organizations, and for-profit businesses, these programs will assemble teams of experts in community engagement, funding and finance, and technical assistance to recruit utilities, diagnose problems, match utilities with technical assistance providers, and help complete applications. EPA should support these programs. EPA should also continue to support utility peer to peer initiatives, in which more resourced utilities provide assistance to less resourced utilities in their region. Such assistance could include help with the planning, design, permitting, application, and implementation of the SRF-funded project itself.¹⁰
- **EPA should lift up best practices and share resources about how states provide various forms of technical assistance.** The Office of Water should ask Regional Administrators to find and feature the best TA work in their regions. EPA should host webinars featuring SRF leaders to highlight best practices in state legislation. For example, the State of Maryland is now considering legislation to create separate sub-accounts for federally-provided TA funds. EPA should also study and train state program managers on how different SRF award terms affect the likelihood that communities will seek funding through the program. Lifting up more examples and lessons like these will help other states understand and replicate innovative practices.

⁸ 42 U.S.C. § 300j-12(g)(2)(B)(iii).

⁹ Hansen, Katy, Sara Hughes, Andrea Paine, and James Polidori. (2021). “Drinking Water Equity: Analysis and Recommendations for the Allocation of the State Revolving Funds.” Environmental Policy Innovation Center. https://static1.squarespace.com/static/611cc20b78b5f677dad664ab/t/614a45ffec8517336243cdb/1632257542836/SRFs_Drinking-Water-Analysis.pdf.

¹⁰ Horne, John. 2017. Water Sector Peer-to-peer exchange: cConvening and Next Steps. https://www.nacwa.org/docs/default-source/resources---public/2017-07-22horne_pres.pdf?sfvrsn=2.

Thank you for considering our recommendations. Our organizations may be in touch with you to share further details. We look forward to working with the agency throughout the IJA implementation process. Please feel free to contact us with any questions.

Sincerely,

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