

EPA Webinar: Proposed 2020 Financial Capability Assessment for Clean Water Act Obligations

Transcript

September 22, 2020

Hello, everyone. Welcome. We will get started shortly. Thank you.

All right, I see people are still joining, but we'll get started. Hello, everyone. Welcome. My name is Melissa Bañales and I work at Ross Strategic. We are contractors to EPA. And welcome to the proposed 2020 financial capability assessment for cleaner water act obligations webinar.

I would like to quickly go over the agenda. I will be doing some Zoom introductions in a bit. We have three speakers who will be presenting today. And we just want to mention that today's webinar will be recorded and made available on the EPA website at a later date.

And just to give you as a few Zoom logistics, participants have entered automatically muted. If you do not have any speaking privileges at the moment, you are in listen-only mode. We will not be taking any questions during this webinar. And if you have any questions, we encourage you to visit the EPA finance website.

And for any technical issues during the meeting, please feel free to email me at mbanales@rossstrategic.com. And just some few logistics. And I would now like to introduce our presenters. So our first presenter is Shari Barash. And Shari has been with EPA since 1981, and with the standards and health protection division since 2004.

She is currently the chief of the National branch and manages the national water quality standards program as well as EPA's beach program, fish advisory program, and fish tissue contaminant moderating program. Shari has also many years of experience in writing industry-specific effluent guidelines regulations. Shari has a bachelors of science in chemical engineering from John Hopkins University.

Our next speaker will be Sarah Rae. And Sarah is an attorney-adviser with the Office of Civil enforcement of the US environmental protection agency's office of enforcement and compliance assurance. Mrs. Rae works in the municipal enforcement branch. And her work focuses on municipal wastewater judicial enforcement actions, integrated planning, green infrastructure, and financial capability.

Mrs. Rae graduated magna cum laude from the University of Colorado Boulder with a BA in environmental studies and hold a JD from the University of San Diego school of law. She is an active member of the state bar of California.

And our last speaker will be Sonia Brubaker. And Sonia leads EPAs water infrastructure and resilient finance center. The water finance center provides information on financing approaches to help local leaders make informed drinking water, wastewater, and stormwater infrastructure decisions.

Sonia has a masters of environmental management with an emphasis in leadership from Duke University. And a Bachelor in Science and environmental policy and planning from Virginia tech. And I will now hand it over to you, Sonia. Thank you.

Thanks, Melissa. I'm Sonia Brubaker. And we'll start the presentation today. So today, we are holding this webinar to give information on the proposed 2020 financial capability assessment guidance for clean water act obligations. We'll refer to this as the proposed 2020 FCA during this presentation.

So this proposed guidance incorporates aspects of EPAs 1997 guidance titled, combined sewer overflows guidance for financial capability assessment. And also, EPAs 2014 framework titled, financial capability assessment framework for municipal clean water act requirements. Once finalized, EPA intends to use the 2020 FCA to evaluate the affordability of clean water act control measures applicable to most counties and both the permitting and the enforcement context.

So this includes upgrades to publicly owned treatment works, control measures to address combined sewer overflows, sanitary sewer overflows, stormwater, and total maximum daily loads, and also for integrated planning. So the agenda for the presentation is just to start by me giving background on why EPA is doing this. And then I'll hand it off to Sarah to get the bulk of the presentation on what's in the proposed 2020 FCA.

She will hand it off to Shari to discuss how this proposal can be used to support water quality standards decisions. And then I'll conclude by letting you know how you can comment on the proposal. So we are not taking any questions today.

Well, I guess to jump back and to give a little bit of background, for a number of years, the agency has received feedback from a variety of stakeholders into how affordability is assessed in the water contacts. And as part of the 2016 appropriation, Congress directed EPA to contract with the National Academy of Public Administration, NAPA, to create a framework for community affordability.

And so the resulting report from NAPA included several recommendations that directly advised on this issue. So the proposed 2020 FCA guidance reflects these recommendations as well as recommendations from all stakeholders that we've heard from over the years. And the proposed guidance includes new metrics to inform communities implementation schedule, including

indicators that more accurately reflect how much low-income communities can afford to pay for water infrastructure upgrades.

And so now, to give that broad, high-level overview on the next slide, the proposed 2020 FCA sets forth two alternative general approaches for assessing a community's financial capability. So the first alternative includes recommended critical metrics with established thresholds and instructions. And the second alternative includes submitting financial on rate models along with a poverty indicator.

Under each alternative, a community may choose to submit additional metrics, which will show metrics that have standardized instructions. And then also metrics that the community can determine how to submit the format. So as I mentioned before, the proposed 2020 FCA directly incorporates relevant portions of the '97 FCA guidance and the 2014 FCA framework. And these can be found in the appendices.

And when finalized, EPA expects to use the 2020 FCA to support negotiations of schedules for implementing clean water act requirements. So now, I'm going to hand it over to Sarah to talk about the specific details of alternative one. Sarah?

Great. Thanks, Sonya. So now we're going to talk about the proposal. I'll start with alternative one under the proposed 2020 FCA. So under this alternative, the proposal includes four recommended critical metrics with established thresholds and instructions. The first is the residential indicator, and that is the cost per household as a percentage of MHI. And this is imported from our 1997 FCA guidance. And you'll see in the proposal as appendix A. We have attached the worksheets for doing the calculation of the residential indicator.

The second recommended critical metric is the financial capability indicator or FCI. And this is six socioeconomic debt and financial indicators that are used to benchmark the community's financial strength. And this is also imported from our 1997 FCA guidance. And the worksheets for doing this calculation are attached to the proposal as appendix B.

The two new critical metrics that the proposal includes is the LQRI, or the lowest quintile residential indicator, which is cost as a percentage of low-income households. And also, poverty indicator, or PI, which is five indicators that are used to benchmark the prevalence of poverty throughout the service area. And I'll talk about both of these in detail on the upcoming slides.

First, let's talk about LQRI or the lowest quintile residential indicator. Included in the proposal, we have this template that will walk a community or an EPA staff member and how to calculate the LQRI for the community. You first start out with looking at the ratio of lowest quintile household size to median household size. And you'll see in the template, we've used national data. And that is a 70.2% ratio.

And this is based on 2018 values. Of course, when we have the 2020 census data, we encourage communities to use the most up-to-date available information. And we also have a note in the proposal that says this ratio can be superseded by local information when that's available. We

just request that the community submits that supporting documentation when they're deciding to use the local ratio instead of using the national numbers.

In box number two, you'll see we input the costs for medium households. And this is calculated under line 109 when you're doing the residential indicator calculation. In box three, we're going to come up with the cost per lowest quintile households. And that is by multiplying lines one and line two.

And again, I'll note for box number one that ratio, some thinking behind it, and this is explained in the proposal as the lowest quintile households when looking at national data are smaller typically than the medium household sizes. So typically, there's lower water usage. And that would correspond to a lower monthly and annual water bill. So that is why we're doing the line number one multiplied by line number two, and that results in your cost for lowest quintile household.

The next step in box four is looking up the upper limit of lowest income quintile for the service area. And once you have that information from the ACS, you're able to calculate box five, which is cost of the lowest quintile households as a percentage of that low-income household.

And you'll see on the right-hand side of the screen, we have benchmarks that are attached. So once you get that percentage, you would calculate what would the impact be for your LQRI. Low impact would be below 1%. Mid-range impact is between 1% and 2%. And high impact would be above 2%. Next slide, please.

So the next proposed critical metric, and this is a new one, is poverty indicator or PI. Here, you'll see the template that's included in the proposal. And we have proposed five poverty indicators. The first one is percentage of population with income below 200% of the federal poverty level. PI number two is percentage of the population with income below the federal poverty level.

PI number three is the upper limit of lowest income quintile. PI four is lowest quintile income as a percentage of aggregate income. And PI five is percentage of population receiving food stamps or SNAP benefits. And for each of these poverty indicators, you benchmark the local data comparing to the national values. And you'll see in the template that results in a strong mid-range or weak, and a score of three, two, or one accordingly.

So you score each of the five poverty indicators and then take the average of the five. And then you apply that to the poverty indicator benchmarks that you see on the right-hand side of the screen. So for low impact, that would be above 2.5. Mid-range impact would be between 1.5 and 2.5. And high impact would be below 1.5. Next slide, please.

So now that we have proposing four critical metrics, we now discuss how that those four metrics would be giving equal weight, and they would be combined. So the first step would be doing the financial capability matrix, which is a combination of your residential indicator and your financial capability indicator. So see here that you're combining the two to get either a low burden, medium burden, or a high burden. For example, if you have a high impact residential indicator in a mid-range, find FCI, that would result in a high burden. Next slide, please.

The next step is to take those two new proposed critical metrics and to combine them to get your burden level. So you have your LQRI and your poverty indicator scores that we calculated using the templates and standardized instructions. And you would combine them to get either a low burden, medium burden, or high burden. And this is your lowest quintile burden matrix. Next slide, please.

The last step to get your overall burden level for the service area is now combining those two burden levels that we just calculated using the first two matrices. So you use your FCA burden, which again is the combination of your RI and your FCI. And you combine that with your LQ burden, which is the combination of LQRI and the poverty indicator. So here you would get either a low burden, medium burden, or a high burden. And again, using this expanded FCA matrix, this will be your overall burden level for the service area. Next slide, please.

So for this alternative one, after you've gone through calculating the scores for each of the proposed critical metrics and doing the expanded FCA matrix to get your overall burden level. And there are recommended implementation schedule benchmarks that are attached to each of the burden levels.

For low burden, that would be the normal engineering and construction schedule. For medium burden, up to 15 years. In high burden, it would be recommended up to 25 years. And that there is a note that that is absent consideration of additional information.

As Sonia said, under either alternative one or alternative two, a community can choose to submit other metrics. And we have other metrics of standardized instructions. We also have a category of other metrics where community would determine how to submit that information. So consideration of other metrics may support an implementation schedule that would go beyond these scheduled benchmarks. However, EPA does not anticipate establishing implementation schedules that would exceed the useful life of the community's water infrastructure assets.

So now, I'll move on to alternative two. Next slide, please. So under alternative two, there are two recommended critical metrics. The first is a financial and rate models. This looks at the impact of rate increases over time on utilities customers, including those with incomes in the lowest quintile. The second proposed critical metric is a poverty indicator, and that would be calculated the same way as under alternative one. And that's the five poverty indicators that are used to benchmark the prevalence of poverty throughout the service area.

Communities with more expensive clean water act obligations may choose to employ the second alternative, given that it's more sophisticated evaluation of affordability over time. And I'll reiterate too, in the proposal, both alternative one and alternative two are available to all communities. The idea in the proposal is that a community could choose between which alternative suits their needs the best and which one they would like to submit for consideration. Next slide, please.

So under the financial and rate model, which is the first proposed critical metric, there are standardized instructions included in the proposal, as well as a list of supporting documentation that a community would be required to submit. And also, a list of instructions on how to submit

alternative scenarios under a rate model analysis, and how to incorporate both residential indicator in LQRI into your rate model analysis.

So on this screen on slide 18 is just an example of the template that is included in the proposal that shows how a community can submit alternative scenarios. And in this example, you can see there's three scenarios being looked at, 2047, 2036, and 2041. And you could see year by year, the rate increases. And on this example, you can see how the residential indicator changes with each of those rate increases year by year.

In the proposal, there's also another example that shows how LQRI would be incorporated into an evaluation of alternative scenarios. But here on this slide, it's just the example of residential indicator. You can find the other example in the full proposal. Next slide, please.

Unlike alternative one, EPA has not established benchmark percentages of household income. However, EPA intends to keep the percentage of household income spent on wastewater utility bills within reasonable bounds when establishing compliance schedules. EPA does not intend for such a schedule to exceed the useful life of a community's water infrastructure asset. Next slide, please.

Again, we'll reiterate that the proposal allows, under either alternative one or alternative two, for a community to choose to submit other metrics. We have two categories. We have other metrics with standardized instructions. And that includes drinking water cost, potential built impact relative to household size, customer assistance program, asset management activities, stormwater management costs, and comparisons to national data.

And we also have a section in the proposal titled other metrics with submission of information determined by a community. And some examples of these types of metrics could be trends in unemployment rates, debt service coverage ratio, debt to income ratio, service area trends, such as population decline, locality specific information on household size, state or local legal restrictions or limitations on property taxes or other revenue streams or debt levels, and again, other metrics. So that is just a catch-all that really encourages a community to submit any information they find relevant. And we will be willing to consider that. Next slide, please.

I'm going to spend some time talking about some of the other metrics that the proposal includes standardized instructions for. First, I'll talk about drinking water cost. The proposal includes standardized instructions for incorporating drinking water costs and submitting that information under alternative one or alternative two. And if information is submitted on drinking water cost and supported by the documentation that's required under the standardized instructions. Under alternative one, EPA make permitted community to move from low burden to a medium burden, or from a medium burden to high burden.

Or if a community is already experiencing a high burden, EPA may use this additional information to support a schedule that would go beyond the high burden schedule benchmarks. However, not to exceed the useful life of the community's water infrastructure assets. Under alternative two, this information on drinking water costs will be used to evaluate the impacts of rates for both wastewater and drinking water on the household bills.

And there are standardized instructions on the types of supporting documentation a community would submit and how that community would identify that they have, in fact, folded in drinking water costs into their financial and rate model analysis. And again, EPA does not intend for schedules to exceed the useful life of the community's water infrastructure asset. And that applies to both alternative one an alternative two and when considering other metrics. Next slide, please.

Another metric that includes standardized instructions is potential bill impact relative to household size. We include standardized instructions for completing this analysis and submission of supporting documentation. EPA intends to view this data as an additional way for communities to demonstrate the impacts of program costs on various household sizes.

If the table with modeled future rates in aggregate shows that most cells are in the low burdened cost per household category, then the program is relatively affordable, as opposed to a scenario where most cells are in the hybrid and cost per household category. Based on the extent of high burden cells, EPA may use this information under alternative one to allow an implementation schedule that would go beyond the scheduled recommendations proposed in exhibit six. EPA may also use this information under alternative two. And again, just to reiterate, EPA does not intend such a schedule to exceed the useful life of the community's water infrastructure assets. Next slide, please.

And here's an example from the proposal that shows how this analysis can be done when I was talking about the cells. In this example, you have household size broken down from sizes of one to seven. And then you also have the percentage of the surface area of that household size.

So, for example, a 33.76% of the service area in this example is made up of two-person households. You also have the MHI per household size. And then you have broken out based on CCF, which is water usage monthly bills. So you have the dollar amount for the monthly bill and also the percentage, which is the residential indicator or cost per household.

And you'll see the green boxes equate to low burden, which is under 1%. Medium burden is between 1% and 2%, and that's the blue boxes or cells. And high burden is the red cells, and that is above 2%. And you can see here there's a larger number of red high burden cells. Next slide, please.

We also provide standardized instructions for customer assistance programs, asset management activities, and stormwater management cost their standardized instructions for submitting this cost information, and the supporting documentation. Submission of their requested information should allow EPA to confirm that the appropriate costs are included as part of the community's FCA and will provide EPA with the appropriate assurances that those expenditures will be made. Such costs may be reflected in there RI and LQRI under alternative one. Or, if a community chooses to recede under alternative two, these may be included in your financial and rate model analysis. Next slide, please.

There is also a section in the proposal called additional scheduling consideration. EPA is proposing the following additional considerations for scheduling clean water control measures. Such as discharges to sensitive areas, use impairments, public health, and environmental justice.

And this just re-emphasizes that financial capability is not the only thing that is looked at when determining implementation schedules for clean water act obligations. It is looked at in totality with these other considerations. Next slide, please. Now, I'm going to hand it over to Shari Barash to talk about the water quality standards decisions.

Thank you, Sarah. Good afternoon. The next several slides provide an overview of the agency's thinking on how the proposed 2020 financial capability assessment, or FCA, would be applied to water quality standards decisions. The current 1997 financial capability guidance and the public sector portions of the 1995 water quality standards economic guidance are substantively identical.

EPA states tribes, and stakeholders use the 1995 water quality standards economic guidance to develop supporting analysis for revisions to designated uses justifications for water quality standards variances, and for making decisions to allow a discharge that will use a similar capacity in a high-quality water. The two guidance documents use the same approach and the same data and metrics. Only the terminology is different.

You will recall Sarah talking about the residential indicator, or RI, and the financial capability indicator, or FCI. In the 1995 water quality standards economic guidance, you refer to RI as your municipal preliminary screener. Again, that's the cost as a percentage of medium household income. And the FCI, we refer to as a secondary score, which uses the same six measures of a community's financial health and tallies a score same as the financial capability indicator.

Because the FCA and the water quality standards economic guidance are still aligned, the agency is proposing to apply alternative one of the 2020 FCA as well as the information and instructions on the other indicators that Sarah presented for use in determining economic impacts for water quality standard decisions for public entities. Next slide.

Since Sarah viewed all the new indicators and matrices for the proposed 2020 FCA, I'm only going to summarize how it would work for water quality standards decisions. First, you start by determining the initial economic impact by using the 1995 water quality standard guidance matrix for the public sector. This is a matrix of the residential indicator, which is the municipal plenary screener. And the financial capability indicator, which is in the standards terms called the secondary score.

Appendix D of the proposed 2020 FCA has this all laid out. And you can see the matrices there. Second, you use the same critical metrics from the propose 2020 FCA to determine the lowest quintile impact as Sara demonstrated using the poverty indicator and the lowest quintile residential indicator. Third, you use the expanded economic impact matrix to combine the results of step one and step two, just as Sarah demonstrated for the expanded financial capability matrix. This step combined the initial economic impact from step one with the lowest quintile impact from step two. Next slide.

This slide presents the combined expanded economic impact matrix for use in water quality standards decisions. The only difference between this version of the expanded matrix and the one presented earlier in the presentation by Sarah is that for water quality standards, we use the terms

substantial impact instead of high burden. Impact unclear instead of medium burden, and impact not likely to be substantial for low burden.

Otherwise, the results in the matrix are the same. As described in appendix D of the proposed 2020 FCA, EPA intends that this expanded economic impact matrix would be used along with the EPA's electronic spreadsheet tools for the public sector to replace the worksheets and the calculations for the public sector sections of the 1995 water quality standards guidance. Next slide.

Finally, this slide with the results of the expanded economic impact matrix of alternative one into the context of water quality standards decisions. This table can be found in appendix D of the proposed 2020 FCA. If the results from a matrix is impact not likely to be substantial, this means that the economic analysis does not support a change to water quality standards. If the result is impact unclear, this means that more information would be needed to support a water quality standards change.

EPA recommends evaluation of other metrics that are discussed in the proposed 2020 FCA or even looking to financial and rate models if a community wants to continue to pursue a water quality standards change based on economic factors. If the result is substantial impact, this means that the change to water quality standards is supported. As we go to the next slide, I will turn it back to Sonia Brubaker.

Thanks, Shari. EPA is seeking public comment on this proposal and has specific questions incorporated within the proposal. So the comment period is open for 30 days with comments received on or before October 19th, 2020. And on our final slide of today's webinar, you can find the web link and the docket number for the proposed 2020 FCA. Please send all questions and comments through the docket.

So let's go ahead and show the last slide. So thank you for joining us for this presentation. A recording of the webinar will be posted on our website in the next few days. Our presentation is now concluded.