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Water Quality Control Division
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Stakeholder Workshops

SRF Disadvantaged Community Redefined

Proposed Changes to how Colorado determines affordability, or Disadvantaged Community (DAC) status, for the Water Pollution Control Revolving Fund (“WPCRF”) and Drinking Water Revolving Fund (“DWRF”)



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SRF Disadvantaged Community Redefined

1. Redefinition Schedule
2. Why Redefine?
3. Review Existing DAC Definition
4. Proposed “Priority Factors”
5. Data Reliability and Substitutes
6. Example Criteria Tests
7. Possible Policy Changes
8. Next Steps

DAC – Redefinition Schedule

- ▶ June 9 – Front Range Stakeholder Webinar/Workshop
- ▶ July 20 – West Slope Stakeholder Webinar/Workshop
- ▶ July/August
 - Evaluate Stakeholder comments
 - Refine DAC model as needed
 - Propose any necessary CWRPDA Board Policy changes
 - Intended Use Plan (IUP) edits and CWRPDA Board approval process
- ▶ September – WQCC IUP Public Comment and Approval Process
- ▶ November WQCC IUP Approval
- ▶ January 1, 2017 – New Definition in Effect

DAC Redefined – Reasons for the change

- ▶ **Primary Reason: WRRDA**
 - Water Resources Reform & Development Act
 - Amended the Federal Water Pollution Control Act

- ▶ **Among many WRRDA requirements, at a minimum, affordability criteria for additional subsidy (DAC) to be based on:**
 - income
 - unemployment data
 - population trends

DAC Redefined – Reasons for the change

- ▶ The WRRDA Bill states the following:
 - a State “*shall establish affordability criteria to assist in identifying municipalities that would experience a significant hardship raising the revenue necessary to finance a project or activity eligible for assistance . . .*”
 - “*the criteria . . . shall be based on income and unemployment data, population trends, and other data determined relevant by the State . . .*”

DAC Redefined – Reasons for the change

- ▶ Currently, Colorado's SRF affordability criteria are based on:
 - Median Household Income (MHI)
 - Population Size and
 - Measures of county unemployment and population trends.
- ▶ For consistency, Colorado's SRF program is proposing to apply the new affordability criteria to both the WPCRF and DWRF.

DAC Redefined – Reasons for the change

▶ Other Redefinition Considerations:

- Improve/expand affordability criteria to help ensure Colorado's SRF program is more accurately and equitably determining DAC status.
- Where feasible allow multiple criteria and substitute data to be used to establish DAC status in order to minimize the use of the costly and cumbersome local community/income survey process.

DAC Redefined – Summary of Goals:

- ▶ Meet WRRDA requirements
- ▶ Transparent and defensible DAC definition
- ▶ Simple but complete
- ▶ Common criteria (useful) across multiple programs
- ▶ Maintain a sufficient set of eligible communities
- ▶ Better identifies DAC's than the existing process
- ▶ Verify a community is needy and reliably quantify that need
- ▶ Reduce need for community (income) surveys where feasible



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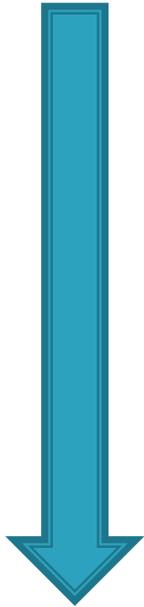
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Questions about the process so far?

DAC Models

▶ Simple



▶ Complex

▶ Current

▶ Priority Factors (proposed)

▶ Index / Score

Current:

Population less than 10,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	24 Month County Unemployment greater than 2%
MHI less than 80% State MHI (\$59,448)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Annual County Population change less than 5%



DAC

Index or Weighted Score:

Nebraska: AWIN
Sustainability Index



Florida: Logarithmic
Affordability Index
determines Interest Rate



Oregon: Financial
Capability Score



Tennessee: Ability to Pay
Index (ATPI)





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New DAC Factors

Proposed New DAC Factors

County / Region	Community / Local	Household / Water and Sewer System
Median Household Income (MHI)	MHI	Projected Residential Rates / MHI @ 110% Debt Service OR Current Full-Cost per Tap / MHI @ 100% Coverage
Unemployment Rate	Median House Value (MHV)	Current & Projected W&S Debt per Tap / MHV
OR 10 Year Avg Change in Total Jobs	Assessed Value / Household	10 Year Avg. Change in System Population (or Households)

= WRRDA requirement

Proposed Priority Factors DAC Redefinition

- ▶ 3 Primary Factors
 - P1 Community MHI (Median Household Income)
 - P2 Community MHV (Median House Value)
 - P3 County Unemployment Rate
or County 10 Year Average Change in Jobs

- ▶ 5 Secondary Factors
 - S1 MHI (County or Tract)
 - S2 10 year change in system population
 - S3 Assessed Value/Household
 - S4 Current & projected W&S debt/tap/MHV
 - S5 Current full cost tap/ MHI @ 100% Coverage
or Projected Rates for 110% Debt Service Coverage

Proposed Priority Factors:

Test 1: MHI + one of two additional primary factors



Test 2: Only MHI + two of five secondary factors



Test 3: Unreliable MHI but two primary factors + two of five secondary factors



DAC



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Factor Benchmarks and Reliability

County / Region	Community / Local	Household / Water and Sewer System
S1 MHI <80% of State MHI	P1 MHI <80% of State MHI	S5 Projected Residential Rates / MHI @ 110% Debt Service > Highest Quartile of Colorado Municipalities OR Current Full-Cost per Tap / MHI @ 100% Coverage > Median Colorado W/S System
P3 Unemployment Rate > State Rate + 1% OR 10 Year Avg Change in Total Jobs < 0% (loss of jobs)	P2 Median House Value (MHV) < 100% State MHV S3 Assessed Value / Household <Median Colorado Municipality	S4 Current & Projected W&S Debt per Tap / MHV > Median Colorado W/S System S2 10 Year Avg. Change in System Population (or Households) < 0% (population loss)

3 Primary Factors– Benchmarks

P1 Community Median Household Income (MHI)

- \leq 80% of State MHI

P2 Community Median Home Value (MHV)

- \leq 100% State MHV

P3 County 24 Month Average Unemployment Rate

- \geq State Average % + 1%

or County 10–Year Average Change in Jobs

- $<$ 0%

Communities with Primary DATA

Priority Factors						
Indicator	Benchmark		Less Than	Equal To	More Than	Total
Place (MHI)	80%	Count	235	0	222	457
State MHI	\$ 59,448	Percent	51%	0%	49%	100%
Median House Value(MHV)	100%	Count	311	0	146	457
State MHV	\$ 239,400	Percent	68%	0%	32%	100%
Unemployment Rate over State		Count	48	0	16	64
State Rate +1%	5.45%	Percent	75%	0%	25%	100%
OR						
10 Year Avg Chg Total Jobs		Count	30	0	34	64
Statewide Avg	0.00%	Percent	47%	0%	53%	100%

SAMPLE BENCHMARK VALUES

5 Secondary Factors– Benchmarks

S1 MHI (County) \leq 80% of State MHI

- Community is located in a county at less than or equal to State's MHI

S2 10 Year Change in System Population $<$ 0%

- Community/System has lost population over a ten year period

S3 Assessed Value/Household $<$ State Median Municipality

- Community's total assessed value per household is less than the median Colorado municipality

S4 Current & Projected System Debt/Tap/MHV $>$ Median Municipal System

- Current and proposed debt per Tap to median home value is more than median municipality

S5 System Full-Cost/Tap/MHI @ 100% Coverage $>$ Median Municipal System

- Revenue per tap to MHI necessary to cover operating expenses + depreciation $>$ median municipality

or Projected Rates for 110% Debt Service Coverage $>$ 75th Percentile or EPA

- Residential rates necessary for SRF required debt service are more than Colorado or EPA affordability

Communities with Secondary DATA

Secondary Factors						
Indicator	Benchmark		Less Than	Equal To	More Than	Total
10 Year Avg Chg Pop		Count	116	0	153	269
Benchmark	0.00%	Percent	43%	0%	57%	100%
County (MHI)	80%	Count	31	0	33	64
State MHI	\$ 59,448	Percent	48%	0%	52%	100%
Assessed Value / Household	100%	Count	135	1	135	271
Median CO Place	\$16,328	Percent	50%	0%	50%	100%

SAMPLE BENCHMARK VALUES

Survey Data Reliability

Much of the data used for the proposed Priority Factors is from surveys.

Survey data from small samples may not be reliable.

When data are unreliable, SRF Policy allows substitute data and/or alternative measures.

This proposal continues and builds upon the use of alternate data/measures when survey data are deemed unreliable or found unrepresentative.

Reliability Continued

Current SRF Policy defines ACS reliability at three levels: High, Medium, and Low.

- High reliability data can be used with confidence.
- Medium reliability data should be used with caution.
- Low reliability data should not be used.

ACS Reliability is statistically determined by the survey estimate's Coefficient of Variance (CV).

- High Reliability: $CV \leq 12\%$
- Low Reliability: $CV > 40\%$
- Medium: CV between Low and High

Alternates and Substitutes

Alternate Measures

- **P3** County Unemployment Rate
or County 10 Year Average Change in Jobs
- **S5** Current full cost / tap/ MHI @ 100% Coverage
or Projected Rates / MHI for 110% Debt Service Coverage

Substitute Data

- **Primary Factors**
or, if Test conditions are met, use **Secondary Factors**
- **P1** Community MHI (Median Household Income)
or, if MHI is unreliable, Overlapping Census Geography or Local/Community Income Survey
- **P2** Community MHV (Median House Value)
or, if MHV is unreliable, Overlapping Census Geography County Assessor's Community Parcel Data

Substitutes Continued

Unrepresentative

- Census geography mismatch or split Block Groups
- Small community that is unlike overlapping ACS data
- System financial statements don't reflect recent events
- Low community/income survey response rate
- Low community residential occupancy rate

Priority Factors vs Business Case

- If the Tests are marginally False or the data used are not representative of recent long-term changes, a business case may be made.



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Priority Factor Tests

Proposed Priority Factors:

Test 1: MHI + one of two additional primary factors



Test 2: Only MHI + two of five secondary factors



Test 3: MHI is unreliable but two primary factors + two of five secondary factors



DAC

Priority Factors – Tests

Test 1 – Any community that meets 2 of the 3 Primary factors is considered DAC (MHI must be 1 of the 2 met)

- A community meeting this Test requires no further evaluation to qualify as a DAC

Test 2 – If a community only meets 1 (MHI) of 3 Primary factors, it qualifies for further review of the 5 Secondary factors

- A community must meet MHI and 2 of the 5 Secondary factors to qualify as a DAC.

Test 3 – If a community meets 2 of 3 Primary factors but MHI is unreliable, it qualifies for further review of the 5 Secondary factors

- A community's MHI must be unreliable and 2 of the 5 Secondary factors must be met to be considered a DAC.

Proposed Priority Factors:

Test 1: P1 = TRUE and
P2 or P3 = TRUE



Test 2: P1 = TRUE and
P2 & P3 = FALSE and
any 2 of S1 - S5 = TRUE



Test 3: P1 is UNRELIABLE
P2 & P3 = TRUE and
any 2 of S1 - S5 = TRUE



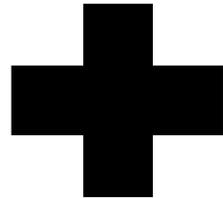
DAC

Priority Factors Test 1

One of the following:

P2 MHV less than State MHV
(\$239,400)

P1 MHI less than
80% State MHI
(\$59,448)



OR

P3 Unemployment rate
greater than State average
plus 1% (4.45%+1%)

OR

10 year average change in
jobs less 0%



DAC



Priority Factors Test 2

P1 MHI less than
80% State MHI



BUT NOT

P2 MHV less than State MHV
(\$239,400)



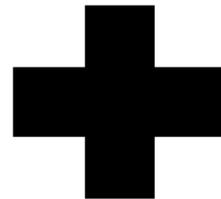
OR

P3 Unemployment rate greater
than State average plus 1%
(4.45%+1%)



OR

10 year average change in
Jobs less than 0%



DAC

Two of the following:

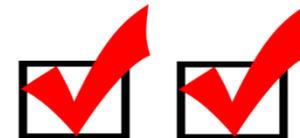
S1 MHI for County

S2 10 year change in
system population

S3 Assessed
Value/Household

S4 Current & projected
W&S debt/tap/MHV

S5 Current Full-Cost OR
Projected Coverage Rate



Priority Factors Test 3

P1 MHI is unreliable



Both of the following:

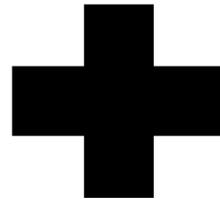
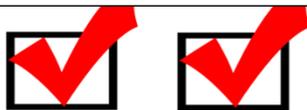
P2 MHV less than State MHV

AND

P3 Unemployment rate greater than State average plus 1%

OR

10 year average change in jobs greater than State average plus 1%



DAC

Two of the following:

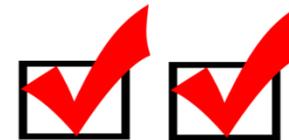
S1 MHI for County

S2 10 year change in system population

S3 Assessed Value/Household

S4 Current & projected W&S debt/tap/MHV

S5 Current Full-Cost OR Projected Coverage Rate





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Examples

Example SRF DAC Criteria Worksheet

2017 DAC Criteria		Benchmark	Applicant	Name:	
Population	<	10,000			
Primary Factors					Result
P1	MHI (Place)	<=	\$ 47,558		Possible Substitute
	Reliability (CV)	<=	12.0%		Range / Geography Policy or Survey if unreliable or geographic mismatch
P2	MHV (Place)	<=	\$ 239,400		Assessor Residential Parcel Data
	Reliability (CV)	<=	12.0%		if unreliable or geographic mismatch
P3	24 Month Unemployment (County)	>=	5.45%		
	or 10 Year % Chng. Jobs (County)	<=	0.0%		
Priority Factor Count					
Secondary Factors					Possible Substitute
S1	MHI (County)	<=	\$ 47,558		Range / Geography Policy
	Reliability (CV)	<=	12.0%		if unreliable or geographic mismatch
S2	10 Year % Chng. Population	<=	0.00%		
S3	Assessed Value / Household	<=	\$ 16,328		
S4	Current W&S Debt / Tap / MHV	>	0.85%		
S5	W&S Full Cost / Tap / MHI	>	2.44%		
	Projected Rate @ 110% Coverage	>	3.76%		
Secondary Factor Count					
Test Conditions: need to meet one test to be DAC				Result	
Test 1: P1 & P2 or P3					
Test 2: P1, Not P2 or P3, & 2+ S1-S5					
Test 3: P1 Unreliable, P2 & P3, & 2+ S1-S5					
					6/9/2016

Example Test #1 – applying Priority Factors

- ▶ An entity must meet 2 (one of which is MHI) of the 3 Primary Factors. If an entity meets 2 of the 3 = DAC status throughout the SRF process.
- ▶ Town of Naturita (using sample data on next slide)
 - MHI \$34,519 = TRUE
 - CV % = 11.08% (High reliability)
 - MHV less than State MHV = TRUE
 - Unemployment = TRUE
 - OR 10 year change in jobs = TRUE
 - Eligible for Secondary Factors (not needed)
 - MHI for County = TRUE
 - 10 year change in population = TRUE
 - Assessed Value/Household = TRUE
 - Current & projected W&S debt/tap/MHV = False
 - Current full cost tap/MHI@ 100% coverage = TRUE
 - or Projected Rate @110% Debt Service coverage = False

Test 1: Example

2017 DAC Criteria		Benchmark	Applicant	Name:	Town of Naturita
Population	<	10,000	532	Proceed	
Primary Factors				Result	Possible Substitute
P1	MHI (Place)	<= \$ 47,558	\$ 34,519	TRUE	Range / Geography Policy or Survey
	Reliability (CV)	<= 12.0%	11.08%	High	if unreliable or geographic mismatch
P2	MHV (Place)	<= \$ 239,400	\$107,200	TRUE	Assessor Residential Parcel Data
	Reliability (CV)	<= 12.0%	11.39%	High	if unreliable or geographic mismatch
P3	24 Month Unemployment (County)	>= 5.45%	6.08	TRUE	
	or 10 Year % Chng. Jobs (County)	<= 0.0%	-0.49	TRUE	
Priority Factor Count				2-3	
Secondary Factors					Possible Substitute
S1	MHI (County)	<= \$ 47,558	\$ 44,885	TRUE	Range / Geography Policy
	Reliability (CV)	<= 12.0%	2.83%	High	if unreliable or geographic mismatch
S2	10 Year % Chng. Population	<= 0.00%	-2.12	TRUE	
S3	Assessed Value / Household	<= \$ 16,328	\$ 8,216	TRUE	
S4	Current W&S Debt / Tap / MHV	> 0.85%	0	False	
S5	W&S Full Cost / Tap / MHI	> 2.44%	3.07%	TRUE	
	Projected Rate @ 110% Coverage	> 3.76%	3.37%	False	
Secondary Factor Count				4 of 5	
Test Conditions: need to meet one test to be DAC				Result	
Test 1: P1 & P2 or P3				TRUE	
Test 2: P1, Not P2 or P3, & 2+ S1-S5				FALSE	
Test 3: P1 Unreliable, P2 & P3, & 2+ S1-S5				FALSE	
					6/9/2016

Example Test #2– applying Priority Factors

- ▶ An entity meets 1 of 3 Primary Factors (MHI) but not the other two. If an entity meets 2 of the 5 Secondary Factors = DAC status.
- ▶ City of Salida (using sample data on next slide)
 - **MHI \$38,570= TRUE**
 - **CV % = 4.04% (High Reliability)**
 - Unemployment = False
OR 10 year change in jobs = False
 - MHV less than State MHV = False
 - **Eligible for Secondary Factors (TRUE)**
 - MHI for County = False
 - 10 year change in population = False
 - Assessed Value/Household = False
 - **Current & projected W&S debt/tap/MHV = TRUE**
 - Current full cost tap/MHI@ 100% coverage = False
 - Projected Rate @110% Debt Service coverage = False
- ▶ City of Salida does not qualify for DAC status in this example

Test 2: Example

2017 DAC Criteria			Benchmark	Applicant	Name:	City of Salida
Population	<		10,000	5,411	Proceed	
Primary Factors					Result	Possible Substitute
P1	MHI (Place)	<=	\$ 47,558	\$ 38,570	TRUE	Range / Geography Policy or Survey
	Reliability (CV)	<=	12.0%	4.40%	High	if unreliable or geographic mismatch
P2	MHV (Place)	<=	\$ 239,400	\$240,700	False	Assessor Residential Parcel Data
	Reliability (CV)	<=	12.0%	2.90%	High	if unreliable or geographic mismatch
P3	24 Month Unemployment (County)	>=	5.45%	4.02%	False	
	or 10 Year % Chng. Jobs (County)	<=	0.0%	0.71%	False	
Priority Factor Count					1-2	
Secondary Factors						Possible Substitute
S1	MHI (County)	<=	\$ 47,558	\$ 48,528	False	Range / Geography Policy
	Reliability (CV)	<=	12.0%	4.54%	High	if unreliable or geographic mismatch
S2	10 Year % Chng. Population	<=	0.00%	0.06%	False	
S3	Assessed Value / Household	<=	\$ 16,328	\$ 29,600	False	
S4	Current W&S Debt / Tap / MHV	>	0.85%	2.10%	TRUE	
S5	W&S Full Cost / Tap / MHI	>	2.44%	1.03%	False	
	Projected Rate @ 110% Coverage	>	3.76%	1.14%	False	
Secondary Factor Count					1 of 5	
Test Conditions: need to meet one test to be DAC					Result	
Test 1: P1 & P2 or P3					FALSE	
Test 2: P1, Not P2 or P3, & 2+ S1-S5					FALSE	
Test 3: P1 Unreliable, P2 & P3, & 2+ S1-S5					FALSE	
						6/9/2016

Example Test #3 – applying Priority Factors

- ▶ If an entity meets the other two Primary Factors but MHI is not reliable, it gets a 2nd chance at the Secondary factors.
- ▶ Town of Genoa (using sample data)
 - MHI \$54,375 = NO, but medium/high reliability
 - CV % = 38.36% (Medium Reliability)
 - Unemployment = False
 - OR 10 year change in jobs = TRUE
 - MHV less than State MHV = TRUE (but CV = 67.63% , substituted Assessor Data)
 - Eligible for Secondary Factors (TRUE)
 - MHI for County = TRUE
 - 10 year change in population = TRUE
 - Assessed Value/Household = TRUE
 - Current & projected W&S debt/tap/MHV = TRUE
 - Current full cost tap/MHI@ 100% coverage = False
OR Projected Rate @110% Debt Service coverage = False
- ▶ Town of Genoa qualifies for DAC status

Test 3: Example

2017 DAC Criteria			Benchmark	Applicant	Name:	Town of Genoa
Population	<		10,000	137	Proceed	
Primary Factors					Result	Possible Substitute
P1	MHI (Place)	<=	\$ 47,558	\$ 54,375	False	Range / Geography Policy or Survey
	Reliability (CV)	<=	12.0%	38.36%	Medium	if unreliable or geographic mismatch
P2	MHV (Place)	<=	\$ 239,400	\$ 50,000	TRUE	Assessor Residential Parcel Data
	Reliability (CV)	<=	12.0%	67.63%	Low	if unreliable or geographic mismatch
P3	24 Month Unemployment (County)	>=	5.45%	3.81%	False	
	or 10 Year % Chng. Jobs (County)	<=	0.0%	-0.36%	TRUE	
Priority Factor Count					2	(Not MHI)
Secondary Factors						Possible Substitute
S1	MHI (County)	<=	\$ 47,558	\$ 43,701	TRUE	Range / Geography Policy
	Reliability (CV)	<=	12.0%	10.46%	High	if unreliable or geographic mismatch
S2	10 Year % Chng. Population	<=	0.00%	-3.86	TRUE	
S3	Assessed Value / Household	<=	\$ 16,328	\$ 3,406	TRUE	
S4	Current W&S Debt / Tap / MHV	>	0.85%	7.58%	TRUE	
S5	W&S Full Cost / Tap / MHI	>	2.44%	1.59%	False	
	Projected Rate @ 110% Coverage	>	3.76%	1.75%	False	
Secondary Factor Count					4 of 5	
Test Conditions: need to meet one test to be DAC					Result	
Test 1: P1 & P2 or P3					FALSE	
Test 2: P1, Not P2 or P3, & 2+ S1-S5					FALSE	
Test 3: P1 Unreliable, P2 & P3, & 2+ S1-S5					TRUE	
						6/9/2016

DAC Related Policy Changes

ACS Data and DAC qualification useable for up to 3 years

Expand policy allowing substitute overlapping Block Group/Tract data useable when lower level ACS data is unreliable

- Currently CWR&PDA policy for MHI
- Expand policy to any ACS data being used in revised definition

Allow use of Medium and Low Reliability CV if estimate range/interval (MOE) falls entirely under benchmark

If Factor-based DAC determination is not representative, allow “Business-Case” to be made

Disadvantaged VS Distressed

- ▶ Disadvantaged Communities (DAC)
 - Planning Grants
 - Design and Engineering Grants
 - Direct Loans
 - Interest @ half-rate (currently 1%)
 - Up to 30 year term
 - Eligible for Principal Forgiveness

- ▶ Distressed Communities?
 - Required Community Efforts causing Distress
 - All DAC options plus Direct Loan interest @ 0%
 - Evaluate Options for Distressed Benchmarks?

DAC – Next Steps

- ▶ July 20 – West Slope Stakeholder Webinar/Workshop
- ▶ July/August
 - Evaluate Stakeholder comments
 - Refine DAC model as needed
 - Propose any necessary CWRPDA Board Policy changes
 - Intended Use Plan (IUP) edits and CWRPDA Board approval process
- ▶ September – WQCC IUP Public Comment and Approval Process
- ▶ November WQCC IUP Approval
- ▶ January 1, 2017 – New Definition in Effect for applications due Jan 15th
- ▶ Jan–Dec 2017, evaluate New Definition



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Please provide any feedback, comments, questions to the following program staff

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