

Financial Capability Assessments and Schedule Development for meeting CWA objectives

NJ Workshop: Reinvesting in Our Water Infrastructure Through CSO LTCPs

January 8, 2015

Key Points



- EPA considers Financial Capability Assessments (FCAs) when developing compliance schedules
 - FCAs are NOT used to lower existing regulatory or permit standards.
- EPA does not have one set formula for municipal Financial Capability Assessments
- Municipal FCAs have and continue to evolve
 - 1997 Guidance provides starting point
 - 2014 Framework recognizes programs and encourages continued improvement

Compliance Schedules



- 40 CFR 122.47 – Schedules for compliance shall require compliance as soon as possible.
- Considerations for Municipal Schedules
 - Protection of sensitive areas
 - Use impairment
 - Financial capability
 - Grant and loan availability
 - Previous and current sewer fees and rate structures
 - Other viable funding mechanisms and sources of financing

Why Consider Financial Capability?



- CWA obligations can create financial impacts on municipalities.
- Municipalities, States and EPA must be partners in moving forward in an affordable way.
- Financial impacts can be reduced by providing more time to comply.
- An FCA allows for an INFORMED DISCUSSION on timing (schedules) for reaching CWA objectives.

CSO Policy and Financial Capability Assessment Guidance

- CSO Policy issued in 1994
 - Policy negotiated by CSO municipal organizations, environmental groups, EPA and State NPDES authorities and others.
 - CSO Policy lists seven financial capability criteria to consider when developing construction schedule.
- “CSO-Guidance for Financial Capability Assessment and Schedule Development” issued in 1997
 - Provides detail to applying criteria identified in CSO Policy

Purpose of 1997 Guidance

- Allows individual without municipal financial assessment experience to assess financial capability and negotiate reasonable CSO/SSO controls and schedules.
 - Assessment process reflects approach taken by bond rating agencies to assess overall financial conditions and credit capacity.
- Encourages municipalities to submit additional information to document unique financial conditions.

Assessment in 1997 Guidance

- Financial Capability Assessment Approach
 - Two-Phase Approach
 - Residential Indicator
 - Household cost impact
 - Permittee Financial Capability Indicators (6)
 - Aim is to “evaluate the debt, socioeconomic, and financial conditions that affect a permittee’s financial capability to implement the CSO controls”
 - Community ability to pay
- A matrix approach is used to boil the indicators down to a single implementation schedule determination

Residential Indicator

- Average cost per household for Clean Water Act obligations as percentage of local median household income

Financial Impact	Residential Indicator (CPH as % MHI)
Low	Less than 1.0 Percent of MHI
Mid-Range	1. - 2.0 Percent of MHI
High	Greater than 2.0 Percent of MHI

Permittee Financial Capability Indicators

- Debt indicators

- Reflect the community's current debt burden and ability to issue more debt
 1. Bond ratings (see handout with list of S&P and Moody's indicators)
 2. Overall net debt as % of full market property value

- Socioeconomic indicators

- Reflect the general economic condition of residential users in the permittee's service area relative to national averages
 3. Unemployment rate
 4. Median household income

- Financial management indicators

- Reflect the permittee's ability to manage financial operations
 5. Property tax revenue collected as % of property tax assessed
 6. Property tax revenues as % of full market property value

Combining the Permittee Financial Indicators

- Strong, mid-range and weak benchmark ranges are defined for the 6 indicators:

Indicator	Strong	Mid-Range	Weak
Bond Rating	AAA-A (S&P) or Aaa-A (Moody's)	BBB (S&P) Baa (Moody's)	BB-D (S&P) Ba-C (Moody's)
Overall Net Debt as a Percent of Full Market Property Value	Below 2%	2% - 5%	Above 5%
Unemployment Rate	More than 1 Percentage Point Below the National Average	± 1 Percentage Point of National Average	More than 1 Percentage Point Above the National Average
Median Household Income	More than 25% Above Adjusted National MHI	±25% of Adjusted National MHI	More than 25% Below Adjusted National MHI
Property Tax Revenues as a Percent of Full Market Property Value	Below 2%	2% - 4%	Above 4%
Property Tax Collection Rate	Above 98%	94% - 98%	Below 94%

Combining the 6 indicators into a single financial capability judgment

- Then assign 1 point for each weak indicator, 2 for each mid-range and 3 for each high indicator
- Average the community's points across the indicators



Initial Burden Assessment

Permittee Financial Capability Indicators Score (Socioeconomic, Debt and Financial Indicators)	Residential Indicator (Cost Per Household as a % of MHI)		
	Low (Below 1.0 %)	Mid-Range (Between 1.0 and 2.0%)	High (Above 2.0 %)
Weak (Below 1.5)	Medium Burden	High Burden	High Burden
Mid-Range (Between 1.5 and 2.5)	Low Burden	Medium Burden	High Burden
Strong (Above 2.5)	Low Burden	Low Burden	Medium Burden

Discussions with Conference of Mayors

- Discussion of how the financial capability of a community should be considered in developed schedules.
 - Prioritizing Investments
 - Will consider both stormwater and wastewater costs
 - Low Income Households
 - EPA encourages communities to establish lower rates or subsidies for low income households
 - Permittee may submit supplemental information
 - Role of MHI - 2% MHI is only guidance
 - Community Specific Factors



2014 Framework: Informing the Dialogue

2014 Financial Capability Assessment Framework

- Elements
- Encourages additional Information



Elements

- 1997 Guidance assessment provides a common basis.
- 2% MHI is not a rigid threshold.
- EPA will consider all CWA costs, including stormwater costs, in the residential indicator.
- EPA will consider SDWA obligations as part of financial capability indicators.
- Communities should assure that CWA obligations that are addressed as costs will be implemented.

Additional Information

Related to Residential Impacts

- Income distributions
- Rate structures with differential rates for low income customers
- Poverty rates and trends in service area

Related to Financial Strength

- Population trends and projections
- Unemployment data
- Rate or revenue models

