



October 14, 2020

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SENT VIA ELECTRONIC MAIL

RE: Proposed 2020 Financial Capability Assessment for Clean Water Act Obligations ([EPA-HQ-OW-2020-0426](#))

Dear Messrs. Sawyers and Pollins,

Thanks to you and your staff for the effort that has gone into developing a response to the National Academy of Public Administration (NAPA) report, [Developing a New Framework for Community Affordability of Clean Water Services](#). We especially appreciate the consideration given to the analysis, [Developing a New Framework for Household Affordability and Financial Capability Assessment in the Water Sector](#), which was collaboratively funded by the undersigned organizations.

Overall, we find that this guidance is a considerable improvement over the 1997 version, offering appropriate indicators in alternative 1 and adding alternative 2. EPA should move forward expeditiously in finalizing this guidance as a replacement for current guidance, while keeping the door open for additional adjustments and complementary materials in the future. We hope that these comments will assist EPA revising this guidance and plan those future steps.

The financial capacity of communities to support all their water infrastructure needs and regulatory responsibilities requires a thoughtful consideration of the impacts on low-income households. The

proposed guidance is an important step toward that goal. Our collective review of the proposed guidance noted the following important elements:

1. Including alternatives 1 and 2 as equally viable methodologies that are available to all potential applicants;
2. Basing alternative 2 on a well-tested and reliable analytical tool, the cash-flow forecasting modeling;
3. Appropriately incorporating the lowest quintile residential income indicator into both alternatives 1 and 2;
4. Not only including a poverty indicator in alternative 1 and 2, but also providing flexibility to use both generally available alternatives and where available community specific data; and
5. Recognizing the importance of evaluating household-level affordability where that household is a ratepayer for multiple water services (e.g., drinking water, wastewater, stormwater, recycling, etc.) and providing flexibility in both alternative 1 and 2 for “total” water household burden.

We do have several concerns with the proposal, but we also realize that EPA is trying to create a guidance that balances numerous perspectives. The proposed guidance includes pathways to address two of our concerns on a community-specific basis. In our view, the retention of the 1997 guidance is unnecessary and inappropriately preserves flaws that NAPA recommended addressing. We are also concerned that the proposed adjustment for household size across income strata is not appropriate. Our third concern, however, is the most pressing. In preparing the proposed guidance, EPA appropriately includes LQRI but does not provide a clear basis for applying 2 percent of income as an actionable benchmark. Also, the proposed guidance appears to apply the same threshold criteria to whether the analysis encompasses just wastewater infrastructure or wastewater plus other water infrastructure service/s. Based on current rate-setting experience this percentile may be too low, especially if evaluated relative to the burden of all water services, and more importantly its basis is not clear. This concern is both an analytical issue and represents a challenge for communicating with the public.

In finalizing the guidance there are opportunities to clarify the guidance. In particular, the linkage between the financial capability assessment and the extent of schedule flexibility afforded is not clearly communicated. Similarly, the Agency notes the importance of considering the useful life of infrastructure in determining the duration of an implementation schedule, but EPA’s intent is not clear. Water infrastructure encompasses many long-lived assets and financial instruments typically reflect expected asset life. We assume that EPA envisions a parallel framework in this guidance; clarity from the Agency on this point would improve implementation.

In keeping with our previous analysis, we engaged our panel of experts in a review of the proposed guidance. They identified several areas where continued refinement would improve implementation of the new guidance:

1. Advancing use of the new guidance once finalized will be facilitated through the development of model templates and case studies. We look forward to working with EPA to develop such materials.
2. The proposed guidance allows but does not encourage total water household burden analysis, potentially out of concern regarding analytical complexity. This is one aspect of the guidance that can be strengthened through additional supporting materials and educational efforts.

We look forward to continuing to work with EPA on this important topic. Please feel free to contact any of the undersigned if our organizations can be of assistance in the interim.

Best regards,



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