Pennsylvania
Infrastructure Investment
Authority

Pennsylvania
Department of
Environmental Protection

Clean Water and Drinking Water State Revolving Fund Programs:

Federal Fiscal Year 2026 Intended Use Plans

Comment and Response Document

INTRODUCTION

On May 30, 2026, the Pennsylvania Infrastructure Investment Authority (PENNVEST) and the Pennsylvania Department of Environmental Protection (DEP) published notice in the *Pennsylvania Bulletin* [56 Pa.B. 3270] of the availability for public comment on the Clean Water and Drinking Water State Revolving Fund Programs Intended Use Plans (IUPs) for Federal Fiscal Year (FFY) 2026. A 30-day comment period was provided on the FFY 2026 CWSRF and DWSRF IUPs, and interested parties were directed to submit comments to DEP's eComment system or by e-mail to ecomment@pa.gov. The comment period ended on June 29, 2026.

DEP and PENNVEST received comments and questions from different individuals and organizations during the comment period. The purpose of this document is to present DEP's and PENNVEST's responses to these comments and to explain how the comments were considered in finalizing the CWSRF and DWSRF IUPs.

The names and, where available, addresses of individuals who submitted comments are identified in Attachment A, in no particular order. This document presents each comment received and identifies the commenter(s) by number in parentheses, corresponding to the list in Attachment A. Copies of all comments received during the public comment period are posted on the Department's eComment website at https://www.ahs.dep.pa.gov/eComment/.

COMMENTS AND RESPONSES

Comments received on DWSRF IUPs

1. **Comment:** The commenter recommends that the state consider making more strategic use of set-asides to support outcomes for small communities thereby ensuring sufficient resources to manage its DWSRF program and assist applicants. Also, the commenter asks that the state also consider increasing the use of set-aside funds under the General-Purpose program to bolster support for the small and disadvantaged systems such as Technical Assistance (TA) support to projects that don't meet readiness requirements. From time to time, small systems have been underrepresented on the fundable list compared to the comprehensive list between SFY21-SFY26. By increasing the set-asides funds, small communities facing barriers to navigating the DWSRF program could receive increased support to access loans. Since "the affordability analyses that determine disadvantaged community (DAC) eligibility for projects on the comprehensive lists occur after the IUPs are published, the commenter describes several ways to support improving access to SRF funding and provide support for continued outreach targeting small communities. Analyses illustrate in SFY25, "35.1% (33 of 94) projects on the comprehensive list served small communities, just 18.8% of projects (9 of 48) on the fundable list served small communities. In SFY26, 48.9% (23 of 47) projects on the comprehensive list serve small communities, and 42.1% (8 of 19) of projects on the fundable list serve small communities." SFY26 will also likely experience amended project lists that include additional lead projects and possible changes to proportions as well as increased demand from small communities due to system compliance with the Pennsylvania PFAS MCL Rule, EPA PFAS Rule, and Revised Lead and Copper Rule/Lead and Copper Rule Improvements. In SFY26, 59% (23 of 39) of systems on the comprehensive list serve small communities; a percentage that is much lower than the proportion of small systems (92.4% or 1,714 of 1,855 systems) statewide. As indicated by the SFY26 IUP, numerous outreach and technical assistance (TA) efforts are used "to ensure that small systems are better able to access the SRFs… [despite these] efforts, additional support may be needed to help small systems apply for funding in the first place, and then move from the comprehensive list to the fundable list." The commenter propose[s] the following:

(a) "We encourage the state to provide TA support to projects that don't meet readiness requirements. As noted in **Recommendation 4**, because projects that don't meet administrative and technical readiness requirements are not included in the comprehensive lists, it is not possible to determine the number of projects that are struggling with readiness requirements or the reasons that these projects were not included on the comprehensive list. If some projects are not being listed due to challenges with Pennsylvania's application process or meeting readiness requirements, as opposed to affordability concerns, then additional set-asides may be recommended to support more small systems in getting listed on the comprehensive list. In addition to the 2% Small Systems TA set-aside from the IIJA Gen Supp fed cap grant, the state can also consider allocating the 2% set-aside from its Base fed cap grant to provide additional support to small communities to better apply for and ultimately access SRF funding." **(2)**

Response: As detailed on page 9 of the DWSRF Intended Use Plan, the Department utilizes the 2% Set-aside to implement the Professional Engineering Services (PES) program to assist systems in meeting readiness requirements. The PES program provides small systems with the necessary engineering, project design, permitting and PENNVEST application development expertise to address infrastructure improvements. The program targets water systems that would otherwise lack the resources to apply for PENNVEST funding. The Department's Capability Enhancement Facilitators coordinate the program and work directly with small systems to provide assistance.

(b) "The state's Small Project Initiative (SPI) program provides up to $500,000 in loan support per project, with a total of $15,000,000 available from the SPI program in general. These funds are provided through low-interest loans and not through extended term bond purchases, grants, or principal forgiveness awards. We commend the state on this initiative and, while we understand that interest rates are required by state law to be a minimum of 1% and that the state offers funding awards to all projects that are administratively and technically ready, the state can consider utilizing DAC Principal Forgiveness (up to 35%) and Discretionary Principal Forgiveness (14%) from its Base fed cap grant to supplement the SPI program and support small and disadvantaged communities who may otherwise face affordability concerns, if not already doing so." **(2)**

Response: The SPI is designed as a loan only program for which the PENNVEST Board has granted staff permission to issue approvals without needing to go before the Board as an expedited approval process for small projects. Any applicant wanting to be considered for grants, principal forgiveness and/or extended terms needs to go through the traditional application process for consideration by the Board.

(c) "In addition to the 2% Small Systems TA set-aside, set-aside allowances for Administration and TA (4%), State Program Management (10%), and Local Assistance and Other State Programs (15%) can all be utilized in ways that would help to build a stronger pipeline of projects for small systems, and help these systems to meet readiness requirements. We would be happy to discuss further with the state on how other states make fuller use of these set-asides for the benefit of small systems." **(2)**

Response: The Department has a robust Capability Enhancement program supported by the eligible Set-aside funds. The Department's Capability Enhancement Facilitators work directly with small systems to identify and address capability weaknesses, making them eligible for infrastructure funding. This assistance coordinates seamlessly with the Professional Engineering Services program to help systems develop and finalize their PENNVEST applications. The Operator Outreach program, also funded by the Set-aside, helps small water systems address their capability weaknesses so they can meet the eligibility requirements for PENNVEST funding.

(d) “The state can consider clarifying or implementing additional principal forgiveness policies. The commenter proposes “If not already doing so, we encourage Pennsylvania to consider providing up to 100% principal forgiveness to small and disadvantaged communities with the greatest affordability concerns.” **(2)**

Response: There is never enough grant or principal forgiveness dollars to go around. Demand for grant dollars exceeds availability. Typically, PENNVEST has to prorate the available grant dollars while providing extended terms and makes up the difference of the funding offer with low interest loan for a full funding package for communities to have a complete financial solution. Communities can then decide to accept or reject the funding offer. PENNVEST makes its best funding offer with available financial resources at every meeting.

2. **Comment:** As the commenter remarked earlier, “there may be some applicants who struggle with affordability concerns and decide not to proceed with the proposed funding offer, where applicants are hoping for greater principal forgiveness components in the funding package, or even 100% principal forgiveness awards. Alternatively, some applicants may decide not to apply to the DWSRF at all due to lack of transparency regarding principal forgiveness awards. PENNVEST prorates available grant and principal forgiveness dollars according to the affordability analysis for each eligible applicant. In order to meet the target affordability range of 0.5 to 1.25% of adjusted median household income going towards drinking water, wastewater, or stormwater service, PENNVEST offers reduced interest rates, grants or principal forgiveness, and extended loan repayment periods. While it appears that principal forgiveness awards are customized and tiered based on the affordability analyses conducted for each project, the exact principal forgiveness policies regarding any tiers or caps (i.e., limits) per project are unclear. Some states offer up to 100% principal forgiveness to make projects affordable and avoid placing a significant burden on ratepayers for struggling systems.” The commenter recommends that PENNVEST “provide up to 100% principal forgiveness for state-defined DACs and small systems that would struggle to repay SRF loans.” **(2)**

   Response: PENNVEST area project specialists do a consultation with every potential applicant. As part of the consultation, advisement on possible funding awards is discussed based on proposed cost of a project. It is not uncommon for potential applicants to fully understand if they are grant eligible or not as part of the consultation. To suggest there is a lack of transparency is inaccurate. Unfortunately, there is never enough grant or principal forgiveness dollars to go around. Demand for grant dollars exceeds availability. Typically, PENNVEST has to prorate the available grant dollars while providing extended terms and makes up the difference of the funding offer with low interest loan for a full funding package for communities to have a complete financial solution. Communities can then decide to accept or reject the funding offer. PENNVEST makes its best funding offer with available financial resources at every meeting.

3. **Comment:** The commenter recommends that PENNVEST “consider leveraging Pennsylvania’s program to expand financial capacity and meet growing lead program demand… [and] provide additional support to communities in need of water infrastructure projects.” Although all projects meeting readiness-to-proceed requirements received funding offers, the demand for funds remains greater than available funds, based on the first quarterly PPL. Additionally, funding amounts are lower in SFY26 compared to the prior IIJA years (SFY22-SFY25). Pennsylvania should adopt a leveraging strategy—issuing bonds against the value of its revolving funds—to increase the pool of available loan funds. The commenter also noted that other states with established leveraging practices, such as New York, Ohio, and Texas, use this approach to offer more flexible loan terms, including lower interest rate tiers and increased principal forgiveness. **(2)**

Response: PENNVEST continuously monitors this issue and is prepared to leverage the program when and if it is necessary. Currently there is not sufficient demand coming into the program to warrant leveraging.

4. **Comment:** The commenter recommends that PENNVEST continue to increase program transparency by implementing the following considerations:
   (a) "Amending the IUP to update the amount of funds available for projects, including all sources of funds beyond the fed cap grants. Table 1 of the IUP includes the amount of funds available for projects ("Project Capital Available, Total"), … [but] non-match state funds, principal and interest repayments, and carryover funds are not included in these project totals… [due to] calendar restraints. As these values are important for providing transparency and clarity regarding total funding availability and funding sources, we encourage the state to provide an estimated total amount of [all sources] of funds available for projects in the draft IUPs… [Once] the budget is adopted, the state can consider amending the IUP with the finalized total amount of funds available for projects, or alternatively, publishing the finalized amount of funds available for projects in a given funding cycle in the following funding cycle's IUP (e.g., in the SFY26 draft IUP, including the estimated amount of funds available for projects in SFY26 as well as the finalized amount of funds available for projects in SFY25). **(2)**

   Response: The amount of non-match state funding to support programs is included in the budget publicly adopted annually by the PENNVEST Board of Directors. The amount is not included in the IUP as the calendar for adopting the budget and the submission of the IUP do not align.

   (b) Provide clear guidance in the IUPs regarding the amount of principal forgiveness available to eligible applicants, to allow for fuller transparency regarding potential principal forgiveness awards and caps. **(2)**

   Response: PENNVEST is funding projects quarterly from Base, General Supplemental, Emerging Contaminants, and Lead Service Line Replacement grants. Table 1 of the IUP shows additional subsidy available for each grant. A good assumption is that ¼ of the additional subsidy of each grant will be available for applicants at each quarterly Board meeting. However, additional subsidy offered to any one qualifying applicant is also influenced by the total requested project funding and project mix for each Board meeting. Therefore, it is impossible to predict how much additional subsidy is available for one qualifying applicant until the Board meeting. The applicant should work with their PENNVEST project specialist to better understand available subsidy as it is time dependent, project dependent, and demand dependent.

   (c) Identifying and publishing projects that do not meet readiness requirements, either in a separate project list or in a separate section from the existing quarterly comprehensive lists. While it is important to understand the scope of projects that are expected to receive funding in a given funding cycle, it is also equally important to understand which projects are dropping off during the application process and for which reasons. **(2)**

   Response: Applicants that did not meet readiness requirements are tracked and identified at every public board meeting which is hosted virtually as well for ease of public participation.

   (d) The Sources and Uses Charts in Attachment 9 appear to include aggregate data for multiple funding cycles, rather than data for the funding cycle for which the current IUP and associated documents cover. While these aggregate values are useful, we encourage the state to include a separate column in the charts to indicate the values for the current funding cycle." **(2)**

Response: Regarding identifying values for the current funding cycle in the sources and use chart, PENNVEST is working with EPA on how best to accomplish this for their purposes as well.

<u>Comments received on CWSRF IUP</u>

5. **Comment:** The commenter asks that PENNVEST consider the benefit of additional subsidy for many impoverished, underserved, and disinvested communities found in larger population areas where water rates are rapidly rising. For example, the most current research shows that 9% of families in Philadelphia County live between 150-200% of the Federal Poverty Level (FPL). Of the ten Pennsylvania counties receiving the most subsidy between July 2018 and June 2023, five counties had approximately 9% of families living between 150-200% of the FPL closely relating their populations to Philadelphia. These ten counties received 15% to 45% additional subsidy on approximately $10M to $133M loans while Philadelphia received no additional subsidy on $128.5M in loans. In a second example, townships in Wyoming County received 75% additional subsidy on loans in 2019 with 6% of families living between 150-200% of FPL. Accordingly, relying solely on the current affordability criteria appears to leave a gap in the equitable distribution of additional subsidy to vulnerable ratepayers.

   Additionally, the larger communities falling outside the PENNVEST affordability criteria find their options for providing the subsidy themselves, such as raising rates, limiting. Independent governing boards in Philadelphia and Pittsburgh often do not approve the rate increases sought by the municipalities. To illustrate, between 2023 and 2026, the Philadelphia Water Department (PWD) sought a 37% increase over the four years. However, the governing board approved PWD rates 11% lower than requested. Similarly, Pittsburgh Water's efforts to recover $84.4M in additional revenue for fiscal years 2026 and 2027 will yield 70% less new revenue than the original request. Years of under-investment in these communities' systems means less resources for supporting lower income residents. Access to additional subsidy is one way to reduce the cost of CWSRF loans while generating needed investments in their water systems.

   The commenter states that their "aim is to expand the scope of the applicants and projects that can be eligible for additional subsidy as an initial matter. Whether and how much additional subsidy to award to eligible applicants would, of course, be within PENNVEST's discretion. We concur with PENNVEST's view that expanding additional subsidy to include low-income populations in communities falling outside of the affordability criteria needs to be done in a manner that is fair and equitable across the state [and]… suggest that only communities with significant populations of residential ratepayers living between 150-200% of the FPL be eligible for this alternative path to additional subsidy."

   The illustrative earnings level stratum described here is ineligible for PWD's Tiered Assistance Rate Program and other assistance programs, yet it "experiences significant financial hardship from increases in household expenses. In this vein, PENNVEST could define 'communities with significant populations of residential ratepayers living between 150-200% of the FPL' as those applicants with at least 9% of residential ratepayers in the 150-200% FPL income bracket."
   The commenter recommends that PENNVEST update the IUP to reflect the following addition to page 14:
   "Supplemental Criteria for Additional Subsidy
   Applicants that do not meet the affordability criteria set out above may be eligible for principal forgiveness or other additional subsidization so long as all of the following conditions are met:"

- “The applicant seeks additional subsidy to benefit individual ratepayers in the residential user rate class and demonstrates the applicant’s community has at least 9% of residential rate payers living between 150-200% the Federal Poverty Level.”
- “The applicant demonstrates that these individual ratepayers will experience a significant hardship from the increase in rates necessary to finance the project or activity for which assistance is sought.”
- “The applicant ensures, as part of an assistance agreement with PENNVEST, that the additional subsidization provided is directed through a user charge rate system (or other appropriate method) to such residential ratepayers.”

“This change to the IUP would close a critical gap in the allocation of additional subsidy and prevent vulnerable residential ratepayers from experiencing significant financial hardship.” **(1)**

Response: PENNVEST uses an affordability analysis that takes into consideration a variety of socio-economic factors. As listed in the Intended Use Plan, PENNVEST utilizes the Median Household Income, the percentage of the population over age 64, the percentage of the population below the poverty line, and the rate of the population changes in the community between census data collection. A measure of local economic well-being constructed by the Department of Community and Economic Development (DCED) and used in its Financially Distressed Municipalities Matching Assistance Program is also used. The Early Warning System measure is constructed from multiple variables that measure the financial condition of each municipality in the Commonwealth and is updated annually.

The formula already takes into consideration the percentage of the population below the poverty line. Asking to have it considered twice and at a level that only benefits one community within the Commonwealth really isn’t a proper representation of a community's financial capability to implement a project. There are many other factors that need to be considered such as the actual impact on the residential user when the cost of the project is spread across all users.

Finally, how rates are established and applied to local ratepayers is a local decision.

ATTACHMENT A
LIST OF COMMENTERS

(1) Caroline Koch, WaterNow Alliance and PennFuture, 1016 Lincoln Blvd., San Francisco, CA 94129
(2) Lauren Kwan, Environmental Policy Innovation Center, 7761 Diamondback Dr. College Park, MD 20742