

September 12, 2025

Texas Water Development Board

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Austin, TX 78711

Submitted via DWSRF@TWDB.Texas.Gov and CWSRF@TWDB.Texas.Gov

RE: DWSRF and CWSRF IUP Comments for SFY2026

To Whom It May Concern at the Texas Water Development Board,

This letter provides formal comments on behalf of Bayou City Waterkeeper, undersigned organizations, and community members on the Draft SFY 2026 Drinking Water State Revolving Fund (DWSRF) and Clean Water State Revolving Fund (CWSRF) Intended Use Plans (IUPs).

Introduction

The Infrastructure Investment and Jobs Act (IIJA) has provided unprecedented federal investments in water infrastructure since 2021, with \$55 billion allocated across the country through state SRF programs.¹ This funding has been transformative for Texas communities, with significant investments flowing through both DWSRF and CWSRF programs over the past four years. As the federal supplemental funds conclude, coordination with state funding mechanisms becomes increasingly important to maintain momentum in addressing Texas's water infrastructure challenges.

Based on the American Society of Civil Engineers' 2025 Infrastructure Report Card, Texas infrastructure received grade *decreases* in drinking water, energy, levees, solid waste, and wastewater compared to the 2021 report, despite the influx of IIJA funding.² This underscores the massive infrastructure gap and the importance of effectively utilizing remaining federal resources.

According to Texas 2036, the state needs to invest at least \$154 billion over the coming decades to address long-term water infrastructure challenges.³ This assessment includes \$59 billion for water supply projects, \$73.7 billion for fixing aging drinking water systems, and \$21.1 billion for deteriorating wastewater systems based on inflation-adjusted projections for the next 20 years.

Notable improvements in the SFY26 IUPs

We commend TWDB for positive changes in the most recent IUPs, including increased disadvantaged community priority from 20 to 30 points, increased project, acquisition, and design (PAD) continuation scoring from 10 to 30 points, expanded technical assistance

¹ <https://infrastructurereportcard.org/cat-item/iija-drinking-water-wastewater-stormwater/>

² <https://2021.infrastructurereportcard.org/texas-infrastructure-rates-at-c-in-2025/>

³ <https://texas2036.org/posts/texas-water-infrastructure-funding-needs/>

programs including the new Water Infrastructure Improvements for the Nation Act's Small, Underserved, and Disadvantaged Communities (SUDC) Grant, and strengthened cybersecurity requirements. We also appreciate the 30-day comment period with an in-person public hearing option for meaningful public participation.

Recommendations for SFY 2026 DWSRF and CWSRF IUPs

1. Enhance the Disadvantaged Community (DAC) scoring framework

Both programs would benefit from developing a comprehensive, multi-dimensional scoring system that incorporates additional tools and methodologies to more accurately identify communities experiencing the greatest infrastructure burden. This enhanced framework should evaluate multiple factors beyond the current Annual Median Household Income (AMHI) threshold for DAC qualification.

The state of Wisconsin provides a compelling model for how states can evolve beyond traditional DAC definitions. Its current DAC framework demonstrates the feasibility of implementing multi-factor assessment criteria. Their data-driven approach incorporates six key metrics: *population size, median household income, 200% family poverty percentage, population trends, county unemployment rate, and lowest quintile household income upper limit*. Each criterion is awarded points based on outlined parameters that are totaled to determine the percentage of principal forgiveness eligibility, ranging from 0-65%, though no more than 70% of total project costs are provided as principal forgiveness, the same limit as Texas.⁴

Other state models worth examining include Washington State's approach, which identifies disadvantaged communities by census tract that meet environmental health disparity metrics.⁵ Additionally, California incorporates CalEnviroScreen in their applications, a screening methodology that identifies communities disproportionately burdened by multiple sources of pollution, providing a more comprehensive view of community disadvantage than income alone.⁶

2. Adopt Census Tract Data for DAC Eligibility

Under the current methodology, DAC eligibility requires that "the Annual Median Household Income (AMHI) of the entity's area to be served must be less than or equal to 75 percent of the State's AMHI." When applied to large municipal service areas, this approach averages income across the entire city, potentially masking pockets of severe disadvantage within historically underinvested communities.

The City of Houston (COH) projects rankings demonstrate how current DAC criteria cannot capture disparities within large urban service areas. For the SFY2025 cycle, Houston identified neighborhoods that qualify as disadvantaged communities on a census block

⁴ <https://www.rivernetwork.org/policy/wisconsins-srf-disadvantaged-community-definition-scoring-criteria/>

⁵ <https://doh.wa.gov/sites/default/files/2024-08/331-753.pdf>

⁶ <https://oehha.ca.gov/calenviroscreen/scoring-model>

group basis but could not access DAC benefits because the utility service area exceeds the statewide AMHI threshold.

COH resubmitted these requests in the SFY2026 cycle but could not qualify them as DAC projects. The city was informed that only new service connections could be evaluated on a sub-municipal basis, while rehabilitation and renewal of existing assets would not qualify under current definitions. COH largely submits rehab and renewal projects for SRFs to address existing infrastructure challenges and compliance orders.

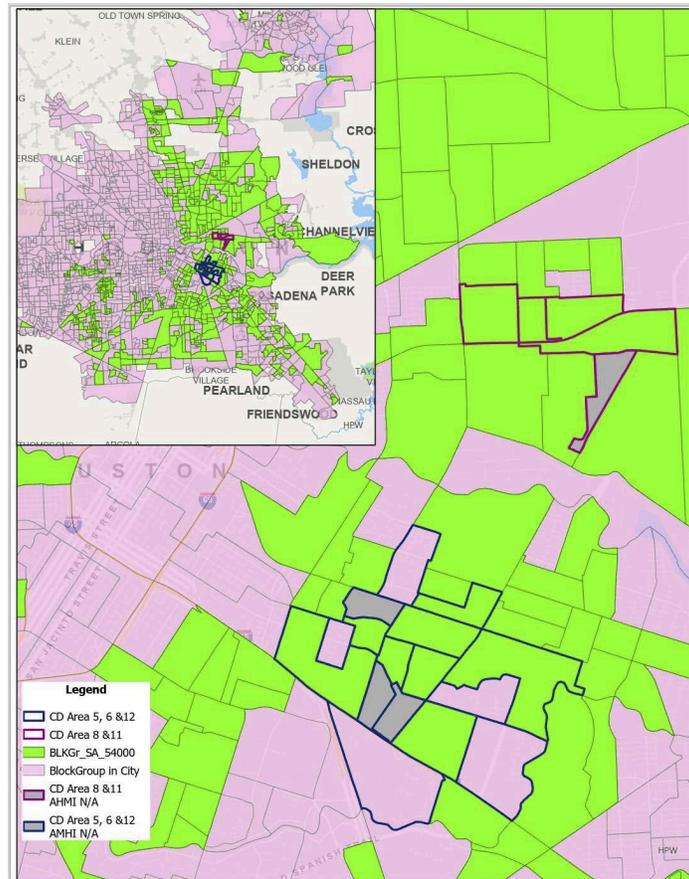


Figure 1: CWSRF Projects - Collection System and Capacity Remedial Measures Plan (CRMP) work in Areas 5/6/12 (Eastwood/Second Ward) and Areas 8/11 (Fifth Ward/Denver Harbor). The green highlights are census blocks meeting the DAC criteria (AMHI ≤ 75%), and the blue and pink border lines reflect the project-benefit areas within those block groups. Despite meeting AMHI requirements, these projects would be unable to qualify for DAC eligibility under city-level income averaging.

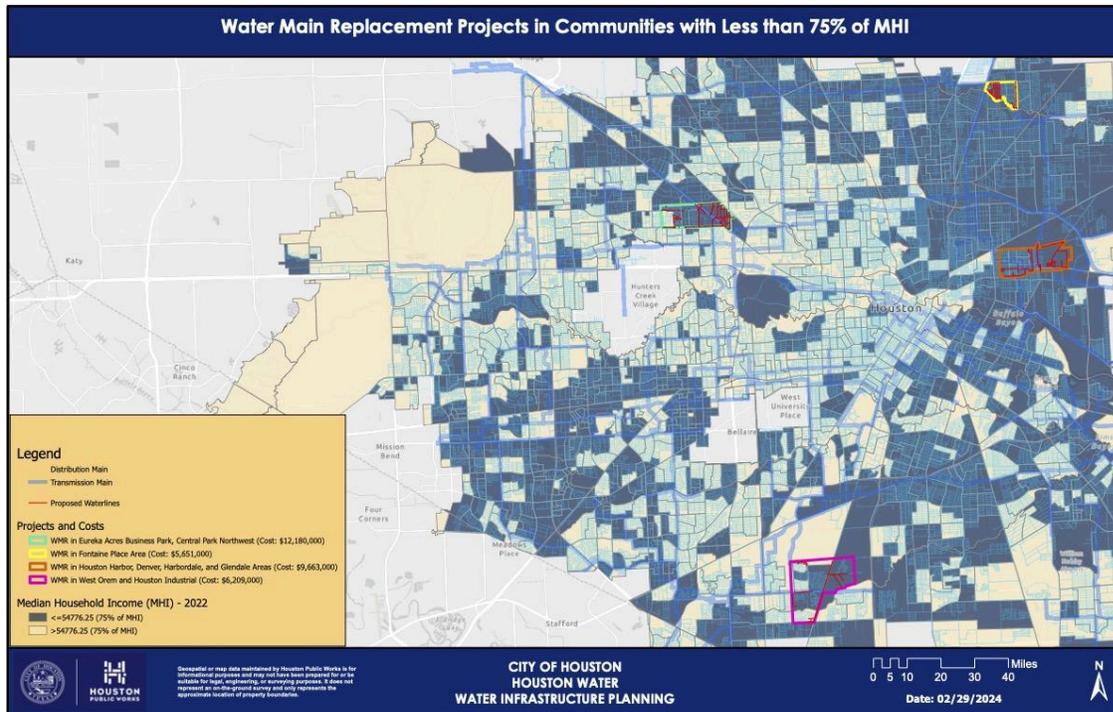


Figure 2: DWSRF Projects - Small diameter distribution water main replacement in Eureka Heights/Central Park Northwest (\$12.18 million), Fontaine Place (\$5.65 million), Denver Harbor/Harbordale/Glendale (\$9.66 million), and West Orem (\$6.21 million).

Bayou City Waterkeeper's Justice in the Sewers analysis reveals that from 2011 to 2017, Houston wastewater facilities reported over 13,000 overflows representing more than 80 million gallons of untreated sewage, with disproportionate impacts on lower-income communities.⁷ These infrastructure deficits require targeted investment, yet disadvantaged neighborhoods cannot access enhanced funding under current criteria that average income across the entire municipal service area.

Adopting census tract-level analysis would ensure that critical infrastructure projects serving historically underinvested neighborhoods receive appropriate prioritization and financial assistance. Creating a distinction between "project-service area" (the entire utility service territory) and "project-benefit area" (the specific geographic area where improvements occur) would enable prioritized resource allocation within large urban areas.

3. Maximize Principal Forgiveness

TWDB should utilize the full allowance for principal forgiveness (PF) by implementing a more nuanced sliding scale from 30% to 100% based on community and project need assessment. Currently, the programs operate with a largely binary approach where communities either qualify for 70% PF as disadvantaged or receive no additional subsidization. Federal regulations allow

⁷ <https://bayoucitywaterkeeper.org/justice-in-the-sewers-hub/>

states to provide up to 100% principal forgiveness to DACs, and while Texas has been utilizing this flexibility through the Very Disadvantaged Community category for systems with AMHI below 50%, gaps remain for communities that fall between standard DAC qualification and the Very Disadvantaged threshold. A comprehensive sliding scale would better match the level of subsidization to the degree of need.

Based on the current funding breakdown under regular/base appropriations, a total of \$20,611,590 (\$13,405,990 in DWSRF and \$7,205,600 in CWSRF) remains unallocated for principal forgiveness, representing 15% and 10% respectively of available capacity. This unallocated amount represents missed opportunities to provide additional subsidization to disadvantaged communities. While the IUPs have prioritized disadvantaged and very small systems through various subsidy categories, we believe that allocating this remaining amount toward additional PF would provide significant benefits by:

- Further supporting disadvantaged, very disadvantaged, and very small systems;
- Enhancing first-time service, urgent need, or green infrastructure categories where additional subsidy could improve project readiness or sustainability;
- Addressing any backlog of high-scoring projects that remain unfunded due to financial constraints.

4. Maximize Set-Aside Funds

TWDB should strategically utilize administrative set-aside funds to expand technical assistance (TA) programs that address the diverse capacity-building needs of water systems across Texas.

TA programs should help establish regional capacity-building partnerships with organizations that understand local challenges and can provide appropriate support. For border communities, this includes bilingual application assistance and coordination with federal programs serving colonias. For rural systems, technical assistance should focus on basic financial management. The Water Utilities Technical Assistance Program (WUTAP) initiative represents a positive step in this direction, and additional resources and targeted outreach are needed to reach the hundreds of small and disadvantaged systems across Texas that could benefit from SRF funding but currently lack the capacity to access it effectively.

Additionally, TA could be expanded to help address the water sector's skilled labor shortage, as the American Water Works Association estimates that the water industry will need to replace approximately 30-50% of its workforce over the next decade due to retirements.

5. Enhance the Green Project Reserve

Green infrastructure and nature-based solutions offer significant advantages over traditional gray infrastructure approaches. Research from the Rocky Mountain Institute on major global cities, including Houston, demonstrates that green and hybrid infrastructure could provide

considerable cost savings of as much as \$12 billion over 30 years compared to traditional infrastructure investments.⁸

Current Green Project Reserve (GPR) requirements mandate that eligible entities must have green components comprising 30% or greater of total project costs to qualify for up to 15% principal forgiveness on the green component. While this represents meaningful progress, Texas can significantly strengthen nature-based solution adoption by implementing more robust incentives and expanding eligibility criteria. The current framework primarily focuses on categorically eligible projects but provides limited pathways for innovative approaches that may not fit prescribed categories. TWDB should utilize existing external TWDB relationships, including standing contracts on green stormwater infrastructure and ecosystem service quantification, as well as the Water Conservation Advisory Council, to establish more concrete criteria for green project eligibility.

TWDB should prioritize projects that demonstrate quantifiable long-term operational cost savings, measurable co-benefits extending beyond traditional environmental metrics. The state's Flood Infrastructure Fund provides valuable precedent through its 5% additional grant allocation for projects with at least 30% green or nature-based components, and the SRF programs should leverage similar incentive structures in the name of long-term financial stewardship. Prioritizing natural infrastructure projects with reduced ongoing maintenance and operation schedules would position Texas in a more resilient and fiscally sustainable position, particularly as traditional gray infrastructure ages and requires increasingly costly repairs and replacements.

For nonprofit organizations undertaking nature-based solutions projects, TWDB should prioritize grant funding over traditional loan structures, recognizing that these entities often lack the revenue-generating capacity of traditional utilities yet provide significant public environmental benefits that warrant enhanced public investment. This approach would encourage broader participation in green infrastructure development while acknowledging financial constraints and public benefit focus of nonprofit-led projects.

6. Program Transparency

While TWDB provides public data upon request, the agency should establish a publicly accessible dashboard showing project progress, funding disbursement, completion metrics, and geographic distribution of investments.

The transparency framework should also include information about applicants that opted out of funding, projects that were not completed as planned, and lessons learned that could inform future program improvements. Regular public reporting should include community-level impact assessments and case studies demonstrating how SRF investments have improved public health, environmental quality, and community resilience.

⁸ <https://kinder.rice.edu/urbanedge/rmi-green-infrastructure-flooding-climate-houston>

A detailed geographic equity analysis should be conducted to ensure statewide access to SRF benefits, with particular attention to regions that may face barriers to accessing technical assistance or developing fundable projects.

Conclusion

The SFY 2026 IUPs represent a critical transition point as federal IIJA supplemental funding concludes and state funding mechanisms become increasingly important for maintaining infrastructure investment momentum.

We urge the TWDB to adopt these recommendations to ensure the DWSRF and CWSRF programs serve as models for sustainable water infrastructure investment. Our organizations are committed to supporting implementation of these improvements and to provide additional technical input, community engagement support, and policy advocacy to advance these recommendations. Please do not hesitate to contact Usman Mahmood at usman@bayoucitywaterkeeper.org with any questions or concerns.

Sincerely,

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