

# **ALASKA DRINKING WATER FUND STATE REVOLVING FUND**

## **Intended Use Plan for State Fiscal Year 2022 and Federal Fiscal Year 2021 Grant Allotment**



**Submitted to the U.S. Environmental Protection Agency  
By  
Alaska Department of Environmental Conservation  
Division of Water  
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## Acronyms

AAC	Alaska Administrative Code
ACWF	Alaska Clean Water Fund
ADEC	Alaska Department of Environmental Conservation
ADWF	Alaska Drinking Water Fund
AIS	American Iron and Steel
AWIA	America's Water Infrastructure Act of 2018
AWWU	Anchorage Water and Wastewater Utility
CE	Categorical Exclusion
COVID-19	Coronavirus Disease of 2019
DBE	Disadvantaged Business Enterprise
DWP	Drinking Water Program
DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FFATA	Federal Funding Accountability Transparency Act
FFY	Federal Fiscal Year
FOCUS	Financial Operations and Cash Flow Utilization System
GPR	Green Project Reserve
IUP	Intended Use Plan
MHI	Median Household Income
OASys	Online Application System
PBR	Project Benefits Reporting
PPL	Project Priority List
SDWA	Safe Drinking Water Act
SERP	State Environmental Review Process
SFY	State Fiscal Year
SRF	State Revolving Fund
TAF	Technical Assistance and Financing
WIIN	Water Infrastructure Improvements for the Nation Act of 2016

## PROGRAM OVERVIEW

The Drinking Water State Revolving Fund (DWSRF), created by the 1996 amendments to the federal Safe Drinking Water Act (SDWA), assists public water systems with financing the cost of infrastructure needed to achieve or maintain compliance with the SDWA. Section 1452 of the SDWA authorizes the U.S. Environmental Protection Agency (EPA) to award capitalization grants to states to provide seed money for the purpose of establishing a low-interest loan program and other types of assistance to eligible water systems. The Alaska Department of Environmental Conservation (ADEC) State Revolving Fund (SRF) Program administers this funding source through the Alaska Drinking Water Fund (ADWF) on behalf of the State of Alaska.

This Intended Use Plan (IUP) describes how Alaska intends to use available funds during State Fiscal Year 2022 (SFY22), July 1, 2021 through June 30, 2022. This IUP will be submitted to the EPA as part of the application for the DWSRF Federal Fiscal Year 2021 (FFY21) capitalization grant. Alaska's allotment from the Consolidated Appropriations Act, 2021, is \$11,001,000.

## PROGRAM UPDATES

ADEC continues to make updates to the SRF Program in an effort to improve service to funding recipients and meet program goals.

- The SRF Program has implemented a cash flow model for forecasting the financial performance of the ADWF. This tool will be integral in developing a long-term lending strategy. During SFY22, key staff will work to become proficient in the use of the model and begin utilizing the result of modeling to inform programmatic decision.
- During SFY19 and SFY20, the SRF Program developed a framework for providing Micro Loans to rural Alaska communities. The SFY22 Project Priority List (PPL) includes seven projects submitted by rural communities for drinking water infrastructure needs. The Micro Loan Program offers up to \$500,000 per project with terms of up to 20 years and principal forgiveness ranging from 50% to 90%. Each applicant is required to meet a minimum Operations and Maintenance Best Practices score before a loan agreement is offered.
- The SRF Program continues to offer a Programmatic Financing (Pro Fi) option to its largest borrower, Anchorage Water and Wastewater Utility (AWWU), since the issuance of the first Pro Fi loan agreement in SFY20. Pro Fi offers an alternative to project-by-project financing by funding eligible work within the utility's capital improvement project portfolio.
- With implementation of Pro Fi, the SRF Program has modified its approach to equivalency requirements in an effort to reduce the administrative burden on the majority of borrowers. Historically, all projects have been required to meet all federal grant requirements regardless of the source of funds disbursed.

## PROGRAM GOALS

ADEC has identified several long- and short-term goals intended to promote sustainable improvements to the state's infrastructure and help ensure maximum environmental and public health benefits.

### Long Term Goals

1. Ensure full compliance with all applicable requirements for all SRF loans.
2. Foster coordination with other programs and agencies to improve assistance to water systems in their efforts to achieve compliance and improve capacity.
3. Establish a process for coordinating funding strategies with other lenders such as USDA Rural Development.
4. Develop program guidelines to improve the pace of loan projects.
5. Expand borrower pool through an established marketing and outreach plan.
6. Pursue methods for encouraging borrowers to pursue Green and Sustainable projects.
7. Fully implement the Financial Operations and Cash Flow Utilization System (FOCUS), a cash flow model for forecasting fund usage to allow for improved planning and funding allocation decisions and implementation of a long-term lending strategy.
8. Utilize a portion of the capitalization grant for set-aside activities that provide public water systems with guidance and technical assistance.
9. Implement a long-term strategy for utilizing the ADWF Fee Account and 4% Administrative Set-Aside for program administration expenses.

### Short Term Goals

1. Recruit and hire a dedicated program manager to oversee the day to day implementation of the SRF Program.
2. In response to the economic crisis associated with the COVID-19 pandemic, identify methods to provide support to borrowers that experience unanticipated financial hardships.
3. To promote project readiness and entice new borrowers, initiate a program to provide loan forgiveness of up to \$75,000 for water system planning project and related activities that promote sustainable water infrastructure.
4. Ensure that the SRF Program is meeting capitalization grant requirements for the allocation of additional subsidy.
5. Implement revised subsidy allocation methods to strategically use the DWSRF additional subsidy to achieve affordable compliance, especially for small disadvantaged communities.
6. Identify workflow processes needed to update and utilize FOCUS, including an improved method to track both the allocation and disbursement of additional subsidy.
7. Develop a revised Capacity Development Strategy that includes asset management in accordance with the 2018 America's Water Infrastructure Act (AWIA).
8. Complete revisions to the ADWF Operating Agreement.
9. Pursue revisions to the regulations at 18 AAC 76 to increase the SRF Program's agility in response to the needs of borrowers, as well as federal grant conditions.

10. Pursue revisions to Alaska Statute at AS 46.03, to broaden ADWF eligibility for private water systems and tribally owned utilities.
11. Develop and distribute guidance materials to current and potential borrowers, including Davis-Bacon guidance materials.
12. Develop and distribute marketing materials to improve outreach to potential borrowers.
13. Develop an online resource for borrowers about all potential sources of infrastructure funding.
14. Initiate enhancements to the online payment request and quarterly report system to improve the user experience and data collection.
15. Pursue a deviation from EPA to allow financing of construction or rehabilitation of dams or raw water impoundments, if such a project arises.

## FINANCIAL INFORMATION

### Amount of Capitalization Grant

Alaska's allotment from the FFY21 federal appropriation is \$11,001,000.

### State Match Requirement

Alaska must deposit an amount equal to at least 20% of the federal capitalization grant (\$2,200,200) into the ADWF. ADEC will provide the required state match from short term bonding. The interest income of the Fund is used as collateral to acquire bond receipts and avoids use of any general funds from the State budget. This process effectively substitutes bond receipts for interest income. ADEC is required to document that sufficient interest income exists in an amount equal to or greater than the proposed bonding amount, and that this process will still allow the Fund to grow in perpetuity. ADEC's program audits have documented the availability of the required amount of interest.

### Administrative Fees

Since December 29, 2000, assistance recipients have been assessed an administrative fee in the amount of 0.5% of the principal loan balance as prescribed in Title 18, Chapter 76 of Alaska Administrative Code (18 AAC 76). Fee revenue is kept in the ADWF Fee Account, separate from the regular loan fund, and is used exclusively to pay program administrative costs.

As noted in 18 AAC 76.258, ADEC will use administrative fees for direct costs including salaries, supplies, travel, and professional service contracts. For several years, most ADWF administrative expenses have been paid from the Alaska Clean Water Fund (ACWF) Fee Account as it had a larger balance than the ADWF Fee Account. As shown in Table 1, the accounts are now balanced.

In SFY22, the SRF Program intends to charge approximately half of ADWF administrative expenses to the ADWF Fee Account. The remaining charges, estimated at approximately \$400,000, will be charged to the ACWF Fee Account. All expenses for administration of the ACWF will be charged the 4% Clean Water Administrative Set-Aside, which the State has not made use of in recent years. In adopting this model, the SRF Program draws relatively equal

amounts from each fee account, while slowly increasing the balance in each. If the demand for loans from the ACWF increases such that use of the 4% Administrative Set-Aside limits the Program's ability to meet borrower demand, this strategy will be revisited.

**Table 1. ADWF and ACWF Fee Accounts**

	<b>ADWF Fee Account</b>	<b>ACWF Fee Account</b>
Fee Account Balance (3/30/2021)	\$6,659,152	\$6,229,558

### Fund Draw Procedures

Draws for loan funding are split between state match and federal funding following the grant-specific proportionality rate method. ADEC draws ADWF set-aside funding at 100% federal.

### Expeditious and Timely Expenditure

The State will commit and spend the capitalization grant and state matching funds in a timely and expeditious manner. Within one year of the grant award, the State will enter binding commitments with the recipients equal to the amount of the grant award and proportional state match.

The funds may be used for activities during more than one state fiscal year. To keep unliquidated obligations at a minimum, the State will fully expend the capitalization grant within a two-year period.

### Fund Transfer

Federal regulations allow a transfer of up to 33% of the DWSRF capitalization grants to the ACWF. ADEC reserves the authority to transfer funds between the ACWF and ADWF, as appropriate, at some time in the future.

### Fund Accounting Separation

The ADWF was established by statute as an enterprise fund of the State to serve as a revolving fund for financing drinking water system improvement projects. Funds allocated for set-aside activities authorized in Section 1452(k) of the SDWA are held in separate accounts; therefore, loan fund activities and set-aside activities are distinct and separate.

### Set-Aside Use

Short-term projections assume that ADEC will use a minimum of 29% of the capitalization grant for administrative, technical assistance, and program management activities allowed under the various set-asides. However, utilization of recently available banked Program Management set-aside funds is anticipated to increase.

### Estimated Funds Available – SFY22

In SFY22, the amount available for loans is the difference between the funds received and total program commitments, plus projected future loan repayments through SFY24, for a total of approximately \$87.0 million. Table 2 summarizes the funds contributed, as well as commitments and expenditures, since the inception of the ADWF.

**Table 2. Estimated Available Funding**

<b>Sources of DWSRF Funds</b>	
Federal Grants Received (cumulative through FFY19)	\$249,782,656
FFY 21 Federal Capitalization Grant	11,001,000
FFY 20 State Match Appropriation	2,200,200
State Match, prior years	46,051,313
Investment Income	17,492,734
Past Loan Repayments (principal + interest collected)	152,394,403
Projected Repayments SFY22	12,956,743
Projected Repayments SFY23	12,148,540
Projected Repayments SFY24	11,957,343
Transfer from ACWF to ADWF (SFY08)	29,000,000
<i>Subtotal</i>	<b>\$544,984,932</b>
<b>Uses of DWSRF Funds</b>	
Existing Loan Commitments	\$364,299,014
Previous Bonding & Transaction Costs	31,980,090
SFY22 Bonding – State Match	2,203,014
Total Set-Asides	59,503,974
<i>Subtotal</i>	<b>\$457,986,092</b>
<b>Total Available for DWSRF Loans</b>	<b>\$86,998,840</b>

### Loan Terms and Interest Rates for Eligible Projects

ADEC adopted revisions to the finance charge calculations in 18 AAC 76 on September 10, 2017. The revised regulations modified the calculation of finance charges to reflect current market trends based on the Bond Buyer's Municipal Bond Index, as shown in Table 3. The revised regulations also increase the allowable financing term from 20 years to 30 years. The finance rate includes the interest rate and an administrative fee.

**Table 3. Finance Rates (effective September 10, 2017)**

Loan Term	Finance Rate for any Bond Rate*Less than 4 Percent	Finance Rate for Bond Rate* Greater than 4 Percent
20-30 Years	2	$2 + (0.75 \times (\text{Bond Rate}^* - 4))$
5-20 Years	1.5	$1.5 + (0.625 \times (\text{Bond Rate}^* - 4))$
0-5 Years	1	$1 + (0.5 \times (\text{Bond Rate}^* - 4))$
<1 Year	0.5	0.5

\*Bond Buyer's Municipal Bond Index Current Day – Yield to Maturity



## CRITERIA AND METHOD FOR FUND DISTRIBUTION

### Project Priority List of DWSRF Projects

For a project to be considered for funding from the ADWF, it must be included in the State's PPL of DWSRF projects. The process is initiated when an eligible borrower completes a project questionnaire through the ADEC Online Application System (OASys).

In an effort to make loan funds more accessible, and to facilitate prioritization of construction-ready projects, ADEC implemented a revised schedule for questionnaire submittal beginning in 2018. Questionnaires are now accepted year-round through OASys rather than during one or two limited solicitation periods during the year. Questionnaires are reviewed by a scoring committee on a quarterly basis. The submittal deadlines for questionnaire reviews are February 28, May 31, August 31, and November 30. An email was sent to eligible borrowers in January 2021 providing information about the schedule and inviting submittal of project questionnaires to be considered for SFY22 funding assistance.

The project scoring committee, made up of representatives from the SRF Program, as well as the ADEC Drinking Water, Wastewater, Source Water Protection, and Nonpoint Source Programs, evaluates the project questionnaires based on the DWSRF criteria and assigns a numeric score to each project. Projects are added to the PPL in rank order. The SFY22 rating criteria are provided in Appendix 1.

Based on the financial data provided in Table 2, approximately \$87.0 million is currently available for new loans. The highest ranked projects that are within the anticipated amount of available funding for the fiscal year are given a priority status during the first two months following issuance of the final IUP. During that two-month period, applications are accepted only from priority projects. Further, any project on PPL, regardless of its rank on the list, which can demonstrate that ADEC Approval to Construct is in place at the time of issuance of the final IUP will be allowed to submit a loan application. After the two-month period, loan applications are accepted for any ready-to-proceed project on the list in accordance with the bypass procedures discussed this IUP.

### Amendments to the Project Priority List

ADEC will amend the PPL to include additional projects after each quarterly review and scoring of new project questionnaires. In the second, third and fourth quarters of SFY22, any projects reviewed and scored will be added to the PPL in ranked order. The amended funding list will be publicly noticed for 10 days.

### Project Readiness Bypass Procedure

When available funding exceeds demand, ADEC awards funding to ready-to-proceed projects without regard to project score or ranking because the Program has sufficient funds to finance all projects. This ensures timely utilization of federal funds.

In the event the SRF Program does not have sufficient funds available to offer loans to all projects that are ready to proceed, ADEC will work with water systems with the highest ranked projects on the PPL to ensure that those projects are given a chance to be funded first. However,

the final funding selection of projects from the PPL will be based primarily on the projects' readiness to proceed. Projects that are ready to proceed are prepared to begin design and/or construction and are immediately ready, or poised to be ready, to execute a loan agreement with ADEC. If, for whatever reason, an applicant is not ready to proceed with completing a loan application and initiating a project, the ADEC may select a lower ranking project for funding based on its ability to proceed in a timely manner. This bypass procedure is necessary to ensure that the available funds will be disbursed in a timely manner.

ADEC reserves the right to fund lower priority projects over higher priority projects if, in the opinion of ADEC, a higher priority project has not taken the steps necessary to expeditiously prepare for funding and project initiation (e.g., ADEC has not received the required documents to execute a loan agreement, the project is not ready to proceed with construction, or the applicant withdraws the project for consideration).

In addition, a project may be bypassed, as necessary, for the State to meet federal grant requirements for equivalency and additional subsidy. In the event that two or more projects have the same ranking, preference will be given to projects with the following criteria and in this order: ready to proceed; response to a compliance or legal order with a specific deadline; and inclusion of a Green component.

### Emergency Procedures

For purposes of the SRF Program, an emergency refers to a natural disaster or manmade disaster that damages or disrupts normal public water system operations and requires immediate action to protect public health and safety. Upon issuance of an emergency declaration by a federal or state emergency response official, or upon a finding by ADEC, funds may be made available for projects not currently described in an IUP. Bypass procedures may be waived under direct threat of severe public or environmental harm. Reasonable efforts to fund projects in priority order will still be followed under emergency situations.

### Removing Projects from the Project Priority List

Projects on the PPL will be monitored to ensure that applicants are proceeding with their projects in a timely fashion. A project may remain on the PPL for a maximum of two years (eight quarters). Projects will retain the same score originally assigned unless a revised questionnaire is submitted and reviewed by the project scoring committee. If an application has not been submitted for a project within eight quarters, the project will be removed from the list and a new questionnaire will be required to relist the project.

### Amendments to Existing Loans

A borrower may request an amendment to an existing loan agreement to modify the project scope, increase the loan amount, or both. Amendments that solely increase the loan amount by no more than 10% of the original loan amount, up to \$100,000, may be completed through an informal request for a loan amendment with the SRF Program Manager's approval. Similarly, minor scope changes that do not affect the location or purpose of the originally proposed project may also proceed with an informal request for a loan amendment with the SRF Program Manager's approval. Amendments that will increase the loan amount by more than 10% of the

original loan, or more than \$100,000, and/or include scope modifications that affect the footprint or purpose of the project, are required to be public noticed in an update to the PPL before the loan amendment is issued.

## FUNDING ALLOCATIONS

Each year, ADEC identifies funding levels for Green Project Reserve and additional subsidization based on administrative rules.

### Green Project Reserve (GPR)

The FFY21 capitalization grant encourages, but does not require, the use of funds to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. To incentivize borrowers to include such aspects in their projects, ADEC awards 25 additional points in the project questionnaire scoring process for eligible GPR work. Green projects are identified in the funding list by green project category type.

At the time this IUP was drafted, three projects had been initially identified with green components (see the PPL in Appendix 2). These projects will be further reviewed during the loan application process to ensure that each project, in whole or in part, qualifies for GPR. Borrowers will be required to provide a Green Project Assessment form with applicable backup documentation

### Additional Subsidy – Disadvantaged Community Assistance

There are two distinct and additive additional subsidy authorities in the FFY21 capitalization grant. Under the Congressional additional subsidy authority, Alaska must use 14% of the FFY21 capitalization grant to provide additional subsidization to any DWSRF-eligible recipient. Under the second authority, the SDWA mandates that states use at least 6%, but no more than 35%, of the capitalization grant amount for additional subsidy for state-defined disadvantaged communities. In combination, the additive additional subsidy authorities for the FFY21 federal capitalization grant require at least 20%, and no more than 49%, of the grant must be offered in the form of additional subsidy.

The amount of principal forgiveness ADEC allocates each year is dependent on the federal capitalization grant requirements and what ADEC forecasts the ADWF can afford while maintaining the Fund's perpetuity. As indicated on the PPL provided in Appendix 2, ADEC plans to offer approximately 24% of the capitalization grant as additional subsidy in the form of principal forgiveness to disadvantaged communities.

A utility is considered disadvantaged if it meets one or more of the following criteria:

- Median Household Income (MHI) is less than the state average MHI that is currently published by the Alaska Department of Labor and Workforce Development, Research and Analysis. For privately owned water systems, the MHI is based on the community in which the utility is located.

OR

- Rate of unemployment is above the state average unemployment rate that is currently published by the Alaska Department of Labor and Workforce Development, Research and Analysis. For privately owned water systems, the unemployment rate is based on the community in which the utility is located.

Subsidy funding will be awarded to disadvantaged entities proposing traditional projects according to overall project ranking on the PPL, from highest to lowest, until all funding is utilized. ADEC will offer borrowers that meet the disadvantaged community criteria subsidy of 50% of the total project costs, up to a cumulative maximum of \$500,000 per utility. The PPL prepared for the first quarter of SFY22 shows that the minimum subsidy requirement has been met and exceeded with approximately 24% of the FFY21 capitalization grant allocated as subsidy for drinking water projects.

Subsidy allocations for Micro Loan projects will range from 50% to 90% of the total project cost. No new Micro Loan projects were proposed during the first quarter PPL (Appendix 2); however, if additional Micro Loan projects are proposed during subsequent updates to the PPL during the rest of SFY22, principal forgiveness will be offered to each Micro Loan project. The amount of subsidy offered will be determined based on the community’s capacity as demonstrated by the Operation and Maintenance Best Practices score and the affordability of the utility’s current user rates. The Operation and Maintenance Best Practices is a criteria developed in 2015 by the ADEC Facilities Programs, in collaboration with the Rural Utility Business Advisor Program and the Alaska Native Tribal Health Consortium, to assess the technical, financial, and managerial capacity of rural water and wastewater utilities.

In 2018, ADEC developed an affordability indicator for use in determining whether a community’s users can afford the annual operation, maintenance, repair, equipment and capital replacement costs of their water, wastewater, or solid waste facilities. This Alaska Village Affordability Index will be used as a factor in determining the amount of subsidy to be allocated to Micro Loan projects as shown in Figure 1.

		Best Practices Score	
		50-75 pts	76-100 pts
Affordability of User Rates	Unaffordable (High Burden)	70%	90%
	Mid-Affordable (Medium Burden)	50%	70%

**Figure 1. Micro Loan Subsidy Matrix**

All projects that are identified for subsidy allocation on the PPL must meet the following milestones in order to retain eligibility for subsidy:

- Submit a loan application within six months of the project being listed on the PPL; otherwise, subsidy funds may be made available to the next highest ranked eligible project.
- Initiate design and/or construction of the project within one year of completion of a loan agreement; otherwise, the loan agreement may be amended to remove principal forgiveness.

Any uncommitted subsidies that exist after one year of publication of the IUP will be distributed to projects with existing subsidies, or to those projects which are the furthest along in completion of construction. The SRF Program will aim to allocate required subsidy as quickly as reasonably possible; all required subsidy will be allocated within three years of the grant award to ensure compliance with the federal grant conditions.

### Small System Assistance

Of the total amount available for assistance from the ADWF each year, ADEC must make at least 15% available solely for providing loan assistance to small systems, those serving populations less than 10,000, to the extent such funds can be obligated for eligible projects.

### Sustainable Infrastructure Planning Projects

In this IUP, ADEC is introducing a program to assist small public water systems with loan financing for water system planning and related activities that promote sustainable infrastructure. A maximum of \$75,000 in loan principal for Sustainable Infrastructure Planning Projects may be forgiven. Priority will be given to those systems that are considered disadvantaged communities.

Examples of eligible projects are described below:

- Feasibility Studies to evaluate infrastructure project feasibility. Studies may also include the evaluation of resiliency measures and continuity of operations, including identification of needed infrastructure improvements.
- Asset Management Plans for managing water system infrastructure assets.
- Consolidation Studies to evaluate potential for water system consolidation.
- Water Rate Analysis to evaluate water system rate charges, structure and adequacy.
- Leak Detection Studies to detect water system leakage and identify potential solutions.
- Water System Master Plan to evaluate the needs of the water system in the long term and make recommendations for future improvements.

Any water system receiving a loan that includes principal forgiveness for a Sustainable Infrastructure Planning Project must enter into a loan agreement within six months of receiving notification that the project has been added to the Project Priority List. The project must be completed within two years after signing the loan agreement. ADEC will allocate \$1,000,000 in subsidy funding for Sustainable Infrastructure Planning Projects during SFY22.

## ASSURANCES AND CERTIFICATIONS

The Operating Agreement, as well as each capitalization grant, contain conditions that must be met. ADEC is committed to complying with all conditions in both the Operating Agreement and each capitalization grant.

### Federal Reporting

EPA's Project Benefits Reporting (PBR) database collects project level information and anticipated environmental benefits associated with DWSRF projects, while the DWSRF National Information Management System (NIMS) produces annual reports that provide a record of progress and accountability for the Program. EPA uses the information provided to oversee the DWSRF state programs and develop reports to the US Congress concerning activities funded by the DWSRF Program. ADEC commits to entering benefits information on all projects into PBR by the end of the quarter in which the assistance agreement is signed. ADEC also commits to entering all program information into NIMS on an annual basis as EPA requests.

### Federal Requirements Applicable to All Projects

Loan applicants will be notified of all applicable federal requirements after a project is identified as a candidate for funding. The following federal requirements are required of all SRF loan recipients:

American Iron and Steel - The American Iron and Steel (AIS) provision requires SRF assistance recipients to use iron and steel products that are produced in the United States. This requirement applies to projects for the construction, alteration, maintenance or repair of a public water system. ADEC includes the AIS requirements in all funding agreements for construction projects.

Davis-Bacon Act Wage Rates - ADEC requires the inclusion of specific Davis-Bacon contract language in bid specifications and/or contracts and confirms that the correct wage determinations are being utilized. In addition, ADEC collects certifications of Davis-Bacon compliance from online project quarterly report statements.

Environmental Review - All proposed construction activities funded by the SRF Program undergo an environmental review in conformance with the EPA-approved State Environmental Review Process (SERP).

### Federal Equivalency Requirements

Per EPA's Standard Operating Procedures for the CWSRF and DWSRF, specific requirements, often referred to as federal equivalency requirements, apply only to a subset of loans equal to the amount of the capitalization grant, rather than to all loans funded by the SRF Program. In SFY22, ADEC intends to take full advantage of the flexibility offered by equivalency to reduce the burden of the specific federal equivalency requirements for most applicants. In SFY22, the Anchorage Water Wastewater Utility Pro Fi loan estimated at \$11.1 million will be required to meet all federal grant conditions.

For the DWSRF, these specific equivalency requirements are:

- Disadvantaged Business Enterprises (DBE)



- Federal cross-cutters
- Signage to enhance public awareness of SRF assistance agreements
- Single Audit
- Federal Funding Accountability and Transparency Act (FFATA)

#### Disadvantaged Business Enterprise (DBE)

Loan recipients and their contractors must comply with the federal DBE requirements throughout the life of equivalency projects.

#### Federal Crosscutters - Environmental Review

At a minimum, DWSRF projects funded to an amount equal to the federal capitalization grant must comply with the federal cross cutter laws including the environmental cross cutters.

#### Signage to Enhance Public Awareness

To enhance public awareness of EPA assistance agreements in Alaska, ADEC posts detailed project notices for equivalency on the following ADEC web site: <https://dec.alaska.gov/water/technical-assistance-and-financing/state-revolving-fund/project-posting-notice>.

#### Single Audit

Borrowers who have received federal funds through ADEC's SRF Program may be subject to the requirements of the Single Audit Act and 2 CFR 200. ADEC monitors borrowers' compliance with those requirements in an amount equal to the capitalization grant.

#### Federal Funding Accountability Transparency Act (FFATA)

FFATA reporting requirements apply in an amount equal to the capitalization grant. ADEC will report loans with a dollar value equaling the most recent federal capitalization grant award to comply with FFATA requirements. Information will be reported no later than the end of the month following the date of the finalized loan agreement.

As necessary, additional loans may be identified to include all federal requirements (including those associated with equivalency) to ensure that the ADEC has sufficient projects to report for FFATA in case any projects fail to fully disburse the loan amount as initially planned.

## **SET-ASIDES**

The SDWA authorizes each state to set-aside a maximum of 31 percent of the capitalization grant for Set-Aside activities including administration of the loan fund and assistance to water systems in meeting SDWA requirements. ADEC evaluated each of the four Set-Aside activities with the goal of protecting public health while maximizing loan fund dollars for infrastructure improvement projects. Set-Aside use for each of the four Set-Aside activities is listed in Table 4. In support of the long- and short-term goals of the DWSRF, Set-Aside funds are used to fund a variety of technical assistance and capacity development activities as described in the following paragraphs. Detailed work plans for each Set-Aside will be submitted for EPA review within 90 days of award of the capitalization grant.

There is a federal limit on the amount of funds used for each Set-Aside category and the types of activities funded. In accordance with keeping unliquidated obligations at a minimum, ADEC will fully expend Set-Aside funds within a two-year period.

**Table 4. Set-Aside Use**

Set Aside Activity	Requested Through SFY21	Requested in SFY22	"Banked" Through SFY22
Administration & Technical Assistance (4%)	\$8,939,384	\$440,040	\$1,020,642
Small Systems Technical Assistance (2%)	\$2,682,000	\$0	\$2,902,020
Local Assistance and Other State Programs (15%)			
Capacity Development & Operator Certification	\$13,635,700	\$1,100,100	
Drinking Water / Wellhead Protection Program	\$10,806,899	\$550,050	
State Program Management (10%)	\$15,444,830	\$1,600,100	\$7,421,336

### Administration and Technical Assistance Set-Aside (4%)

#### Drinking Water Program Technical Assistance

The 2016 Water Infrastructure Improvements for the Nation (WIIN) Act provisions provide states with three options with regard to the amount used for this Set-Aside as listed below:

- Four percent of the capitalization grant,
- Flat \$400,000, or
- 1/5 percent of the total valuation of the state revolving fund balance.

This year, ADEC plans to utilize four percent of the grant award, totaling \$440,040. This amount will be used by the Division of Environmental Health Drinking Water Program (DWP) for technical assistance to support public water systems.

#### Small System Technical Assistance (2%)

In SFY22, ADEC will bank \$220,020, or two percent of the capitalization grant amount, for future assistance activities for small systems that serve fewer than 10,000 people. Banking set-asides in the loan fund allows the funds to be used for loans now and reserves Alaska's authority to take these funds from future capitalization grants.

### Local Assistance and Other State Programs Set-Aside (15%)

The State may request up to fifteen percent of the annual DWSRF capitalization grant for Capacity Development, Operator Training and Certification, Wellhead Protection, and other appropriate technical assistance activities; however, no more than ten percent of the capitalization grant may be used for any one specific activity.

#### Capacity Development and Operator Certification Programs

During SFY22, ADEC will develop a revised Capacity Development Strategy for EPA approval, to incorporate asset management as required under AWIA and to address the current needs of Alaskan water systems.

In addition, the Operator Certification Program will provide direct technical assistance to water system operator and owners. A total of \$1,100,100 in Local Assistance set-aside funds will be



utilized by the TAF Program for implementation of the Capacity Development and Operator Certification Programs.

#### Drinking Water and Wellhead Protection Program

The Drinking Water Protection Program, within the DWP, will utilize five percent of the capitalization grant, \$550,050, for drinking water protection-related activities.

#### Program Management Set-Aside

To supplement the completion of Public Water System Supervision (PWSS) program management activities, the DWP will utilize \$1,100,100, or ten percent of the capitalization grant, plus \$500,000 in previously banked Program Management Set-Aside funds, for SDWA compliance requirements.

### **PUBLIC REVIEW AND COMMENTS**

A notice of the draft IUP was provided to all potential borrowers that submitted a project questionnaire. The notice was also posted on the ADEC Public Notice website. The draft IUP was available on the ADEC SRF Program website throughout the 30-day public comment period from April 15 through May 15, 2021. Interested parties were invited to review the IUP and submit written comments. No comments were received.