



INTENDED USE PLAN  
CLEAN WATER STATE REVOLVING FUND

STATE FISCAL YEAR (SFY) 2021  
FEDERAL FISCAL YEAR (FFY) 2020





# Clean Water State Revolving Fund Intended Use Plan

October 2020

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## Clean Water State Revolving Fund

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## Introduction

When the Tennessee General Assembly passed the “Wastewater Facilities Act of 1987,” it established the Tennessee Clean Water State Revolving Fund (CWSRF) as a way to provide low-interest loans to local governments and publicly owned treatment works to finance wastewater infrastructure improvement projects. Since its creation, the CWSRF, which is within the [State Revolving Fund \(SRF\)](#) program of the Tennessee Department of Environment and Conservation (TDEC) Division of Water Resources, has provided hundreds of millions of dollars in assistance to Tennessee communities. The SRF program provides low-interest loans and technical assistance to cities, counties, utility districts, and wastewater and energy authorities across the State for planning, design, and construction of wastewater infrastructure projects. The SRF program supports TDEC’s mission to protect and promote human health and safety, and to protect and improve water quality across the state by helping communities afford safe, sustainable, and resilient water systems. The CWSRF is designed as a federal-state partnership program to assist public water systems (PWS) with an independent source of low-cost financing for a wide range of water quality infrastructure projects. The program was created through the 1987 Amendments to the Clean Water Act (CWA) which authorized the US Environmental Protection Agency (EPA) to establish a CWSRF loan program to further the protection of public health and the water quality objectives of the CWA.

#### Elements of the Clean Water State Revolving Fund Intended Use Plan:

TDEC SRF long term and short-term goals

The financial status of the Clean Water SRF loan program

Description of the methods and criteria used to distribute funds

Automated Standard Application for Payments (ASAP) Schedule

Priority Ranking List (PRL) for FFY 2020

Description of non-point source (NPS) activities eligible for assistance under Section 319 of the CWA

TDEC’s new Small and Disadvantaged Community program

TDEC’s new Ability To Pay Index

The EPA awards a Clean Water Capitalization Grant annually to the State; in turn, the State obligates federal funds, along with a 20% state match, to provide financing to wastewater treatment systems for planning, design, and construction projects that include (but are

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not limited to); plant replacement and upgrade; collection system installation, repair, and upgrade; treatment; storage; water reuse; green infrastructure; energy optimization; and resilience. These funds are repaid over time, ensuring the long-term viability of the CWSRF program.

Section 606(c) of the CWA requires each state to annually prepare an Intended Use Plan (IUP) to outline the use of grant funds awarded to the state and to describe how those uses support the goal of protecting public health and the environment.

TDEC's [Clean Water IUP](#) serves as the planning document detailing how the federal fiscal year (FFY) 2020 appropriations for the CWSRF loan program will be used. The State of Tennessee's allotment of FFY 2020 CWSRF Loan Program dollars is \$23,085,000. The State is required to provide a 20% match of federal funds or \$4,617,000 to receive the full allotment. The EPA Capitalization Grant plus State match will provide an expected \$27,702,000 in funds available for CWSRF projects in SFY 2021.

## **Clean Water State Revolving Fund Goals and Objectives**

Congress allows state CWSRF programs flexibility to design a program tailored to meet the needs of the state, local communities, and publicly owned wastewater treatment works. Tennessee's [CWSRF program](#) developed long and short-term goals as a framework for decisions Tennessee makes in the CWSRF program.

### ***Long-Term CWSRF Goals***

1. Protect and enhance the water quality in Tennessee by ensuring the technical integrity and long-term sustainability of funded projects.
  - a. Objective: ensure adequate and effective project planning, design, and construction management.
  - b. Objective: maintain a priority ranking system and offer available funds to projects with the highest priority points that are ready to proceed.
2. Maintain the long-term financial integrity of the CWSRF program through the judicious use and management of its assets and by realizing an adequate rate of return, preventing fraud, waste, and abuse.
3. Maintain a self-sustaining revolving fund through the CWSRF Loan Program to provide

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local governments in Tennessee with low-cost financial assistance for wastewater infrastructure projects.

- a. Objective: Ensure the use of accounting, audit, and fiscal procedures that conform to generally accepted governmental accounting principles.
  - b. Objective: Ensure the financial stability of loan recipients by reviewing the financial history, loan security, and proposed user rates of loan applicants.
  - c. Objective: Obligate funds in a timely manner and provide technical and administrative assistance for efficient project management.
4. Facilitate allocation of program resources to address the most significant public health and water quality compliance problems by actively working with these systems and the TDEC regulatory staff.
  5. Promote the development of the technical, managerial, and financial capability of all publicly owned wastewater treatment works to maintain or come into compliance with state and federal requirements.
  6. Provide clean water assistance in an orderly and environmentally sound manner.
  7. Assure that all new wastewater systems funded by the program demonstrate technical, managerial, and financial capability with respect to state and federal regulations.

### ***Short Term Goals***

1. Manage an effective and efficient CWSRF Loan Program
  - a. Objective: Update administrative policies and guidance including standard operating procedures for the CWSRF Loan Program.
  - b. Objective: Coordinate and work with the Comptroller of the Treasury to ensure the best financing alternative(s) to local governments.
2. Assist the development and implementation of local water quality protection initiatives.
3. Partner with TN Department of Agriculture, Non-Point Source 319 program to promote water quality protection through use of 319 funds, CWSRF funds, and project leveraging.
4. Provide support and assistance to ensure compliance with state and federal water quality standards by all funded publicly owned wastewater treatment works.

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5. Expand the use of [Green Project Reserve \(GPR\)](#) funding to include more projects and encourage innovative use of SRF funds following EPA's guidance. The SRF Program has elected to strive for a goal of up to 18% of grant funds to be used for innovative, green, or resilient projects.
6. Provide direct technical assistance to publicly owned wastewater treatment works.
7. Expand and broaden our community outreach activities to ensure that publicly owned wastewater treatment works are aware of and understand CWSRF assistance options and the loan application process by presenting an annual statewide workshop to publicize the CWSRF program in coordination with Tennessee Department of Economic & Community Development and USDA-Rural Development.
8. Develop a database for clean water project data and program management data to ensure effective and efficient program implementation.
9. Ensure that all funds in the SRF and grant award are appropriately expended in an expeditious and timely manner.
10. Review current CWSRF rules and statute for potential updates. Recommendations for updates may include improved clarity or language concerning stormwater project eligibilities, use of SRF funds for non-point source projects, and inclusive language for green infrastructure elements that improve hydrology and water quality.
11. Review and develop recommendations for updates to the CWSRF priority ranking system. These updates may include, but are not limited to, improved accounting for green infrastructure and stormwater management.
12. Research other state SRF Programs and conduct a cost benefit analysis to make recommendations for implementing a loan closing fee to support a sustainable funding source and reduce the SRF Program reliance on state appropriations for match funding.

## Clean Water Priority Ranking System

TDEC's CWSRF program uses a priority ranking system to develop the [Priority Ranking List](#) (PRL). The State's CWSRF Priority Ranking System rules, Tenn. Comp. R. & Regs. ("Rule") Chapter 0400-46-01, provide a clear, objective order of ranking wastewater infrastructure projects. The PRL focuses on projects aiming to achieve optimum water quality management



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consistent with the goals and requirements of the CWA and the Tennessee Water Quality Control Act. The rationale for funding projects in an order other than that shown on the PRL shall be in accordance with the rules for the Priority Ranking System, Chapter 0400-46-01-.03. Exceptions to the order of funding may be allowed under special circumstances. Such projects would include those where unanticipated failures requiring immediate attention to protect public health occur.

Applicants seeking funding must submit a [CWSRF Questionnaire](#) which includes a detailed project description, explanation of project need, location of the project, cost estimate and project start and completion dates to the SRF Loan Program. Projects eligible for CWSRF funding are described in the [EPA eligibility handbook](#). Projects are prioritized by those that address reducing risks to human health or those working to maintain or improve water quality. All proposed projects will be assigned Project Criteria Points based on the project criteria established in Rule 0400-46-01-.02(2). Project Criteria Points will be assigned to individual wastewater facilities projects based on the following:

- Wastewater treatment plant (WWTP) discharges to a water-quality impaired stream segment will receive 100 Project Criteria Points in addition to any other applicable Project Criteria Points. WWTP projects with a compliance schedule in the NPDES permit requiring construction will receive 50 Project Criteria Points in addition to any other applicable Project Criteria Points;
- Wastewater collection system projects with a compliance schedule in the NPDES permit requiring construction will receive 50 Project Criteria Points in addition to any other applicable Project Criteria Points;
- Nonpoint Source (NPS) pollution projects affecting a water-quality impaired stream segment will receive 100 Project Criteria Points. Other NPS pollution projects will receive 25 Project Criteria Points. NPS pollution projects may be directed toward protection or improvement of the quality of groundwater, surface water, or wetlands. NPS pollution projects must be consistent with Tennessee's approved Nonpoint Source Management Program requirements and be included in the State's current EPA approved Nonpoint Source Management Plan;
- Effluent-trading projects will receive 50 Project Criteria Points in addition to any other applicable Project Criteria Points;
- Combined Sewer Overflow (CSO) projects will receive 25 Project Criteria Points;
- Infiltration/Inflow (I/I) correction projects and major sewer rehabilitation projects will receive 25 Project Criteria Points. Construction of projects that will transport and

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treat I/I at the WWTP will receive 10 Project Criteria Points;

- Stormwater management projects affecting a water-quality impaired stream segment will receive 100 Project Criteria Points. Stormwater management projects with a compliance schedule in the NPDES permit requiring construction will receive 50 Project Criteria Points. All other stormwater management projects will receive 25 Project Criteria Points;
- Collection lines to be constructed to address an existing public health problem caused by failed septic systems will receive a minimum of 40 Project Criteria Points up to a maximum of 100 Project Criteria Points;
- Any wastewater project proposed for development or growth potential, i.e., projects that were not planned to address a water quality problem or a public health problem, will receive 5 Project Criteria Points. WWTPs that are required to serve new collectors as part of the approved facilities plan will receive the same Project Criteria Points as the collectors;
- Interceptors and pump stations will receive varying Project Criteria Points. Interceptors or pump stations that eliminate a WWTP discharge point that was included in an approved facilities plan will receive the same Project Criteria Points as the WWTP. Interceptors or pump stations proposed as part of an I/I elimination project will receive the same Project Criteria Points as the I/I elimination project. Interceptors or pump stations proposed as part of a collection system project will receive the same Project Criteria Points as the collection system project;
- Planning/Design projects will receive Project Criteria Points based upon the proposed project type;
- CWA Section 212 projects that are also associated with the construction of nonpoint source projects shall have an additional 20 Project Criteria Points;
- CWA Section 212 projects with zoning that demonstrates preservation of greenspace



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shall have an additional 15 Project Criteria Points;

- CWA Section 212 projects with zoning that demonstrates riparian buffer zones of at least 150 feet shall have an additional 10 Project Criteria Points;
- CWA Section 212 projects demonstrating an enforced buffer zone ordinance shall have an additional 5 Project Criteria Points;
- Refinancing projects will receive 1 Project Criteria Point; and
- In accordance with Tenn. Code Ann. § 6-58-109(b), all SRF projects within counties that have an approved growth plan will receive 5 Project Criteria Points in addition to any other applicable Project Criteria Points.

The assigned Project Criteria Points are calculated to determine the Priority Point Value and are applicable only to WWTP projects. The Project Criteria Points are summed to establish a proposed project's Priority Rank. Projects will be placed on the PRL in ascending order by Priority Rank, i.e., in descending order by total project priority points. Projects requesting funds for ineligible activities will not be assigned priority points. Projects with the

same priority points will be ranked based on consideration of the Ability to Pay Index (ATPI) and population served to assist smaller and less affluent communities in addition to making the most targeted investment with the greatest potential outcome for Tennessee communities.

The CWSRF Loan Program may not provide assistance to any system that does not maintain an adequate level of financial capability to assure sufficient revenues to operate and maintain the wastewater facility for its useful life, agree to periodic adjustment of fees and services of the wastewater facility in order to repay the loan in a timely manner, agree to maintain financial records in accordance with governmental accounting standards, conduct an annual financial audit of the facility, and provide any additional assurances as requested by TDEC (Rule 0400-46-06-.04(1)).

#### Eligible Project Categories

- Construction of municipal wastewater facilities
- Control non-point source pollution
- Decentralized wastewater treatment systems
- Green infrastructure projects
- Water quality projects
- Stormwater management
- Brownfields
- Consolidation
- Recycled water
- Asset management
- Capacity management

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### ***List of Projects***

In accordance with section 606(c)(1) of the CWA, 40 CFR § 35.3150, the SRF Program has developed a list of projects to receive funding in the first year after the grant award and a comprehensive priority list of eligible projects for funding in future years (CWSRF will maintain past PRLs). The PRL includes community information, project description, related assigned points, the ATPI, watershed total project cost, amount of GPR (if applicable), anticipated construction start and end date, and EPA Needs Survey Category. The CWSRF PRL (Appendix) includes eligible projects for which the total cost of assistance requested is at least equal to the amount of the Capitalization Grant being applied for before the EPA awards the grant. In addition to the projects listed, the CWSRF loan program may consider loan increases for existing projects, projects carried forward from SFY 2020, and other CWSRF-eligible projects. The CWSRF project list may include NPS projects since the State's NPS Assessment and Management Program has been approved.

### **Criteria and Methods for Distributing Funds**

The SRF Program will provide funding letters to all communities with projects on the state fiscal year (SFY) 2021 PRL after the EPA loan award date. For the FFY 2020 capitalization grant, funding priority will be directed to highest-ranked projects that are ready to proceed with construction. This includes small and disadvantaged communities, green and resilient infrastructure projects, and projects with subsidies. Communities with projects on the CWSRF PRL may be bypassed based on failure to submit a complete application 90 days after being notified or are not ready to proceed.

The primary use of capitalization grant funding is for assistance to stormwater and wastewater utilities for capital improvements (infrastructure projects). This assistance can be provided as planning and design loans or construction loans. Not all clean water compliance problems, however, can be solved through capital financing of infrastructure improvements.

TDEC has determined, based on the projected total award dollars and the previous year carry-forward balance, the State can provide up to \$137,289,377 to loan for projects ([Table 1](#)).

The State's NPS Management Program has been approved and the IUP may include NPS projects and activities for funding under the CWSRF when viable projects are identified.

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#### ***Interest Rates and Affordability Criteria***

The SRF program has developed multiple ways for communities and utility systems to benefit from SRF financing. Reduced interest rates, principal forgiveness, and green project reserve subsidy are all financing options an applicant can explore in an attempt to reduce their overall financial burden for wastewater and stormwater infrastructure improvements. Communities and utility systems seeking infrastructure financing from SRF can take advantage of the following rate reducing strategies.

1. **ATPI Reduced Interest Rates:** The SRF program bases interest rates on a community's Ability To Pay Index and the Market Rate. Communities at a greater economic disadvantage will be awarded lower interest rates.
2. **Principal Forgiveness for Small and Disadvantaged Communities:** Small communities with low ATPIs may be eligible for principal forgiveness. Details on qualifications can be found in the [Principal Forgiveness for Small and Disadvantaged Communities](#) section of this document. Communities can qualify for both (1) ATPI Reduced Interest Rates and (2) principal forgiveness.
3. **Green Project Reserve (GPR) Interest Rate Reductions:** The SRF program may award additional interest rate reductions if the project proposal incorporates a significant amount of green infrastructure, water and energy efficiency, or sustainable, resilient, and innovative practices. Details on project requirements can be found in the [Green Project Reserve Interest Rate Reductions](#) section of this document. Communities can qualify for both (1) ATPI Reduced Interest Rates and (3) GPR Interest Rate Reductions if their proposal qualifies.
4. No single project submission is eligible for all three rate reducing strategies at one time.

#### ***ATPI Reduced Interest Rates***

The State will use the ATPI for the allocation of CWSRF subsidies and interest rates. The development and use of the index are required for the administration of SRF loans by the Water Resources Reform and Development Act (WRRDA) of 2014, 33 U.S.C.A. §§ 2201 to 2355. The index is derived from a database of socioeconomic and financial data. It is used to assist in decision making regarding interest rates, allocation of subsidy, and identification of options intended to benefit communities most in need. The index is determined based on a normal distribution of affordability scores for cities and for counties. The affordability score is a simple average of seven (7) factors unique to each community. Together, these factors: median household income, unemployment, food stamp dependence, families in poverty, community bond rating, community debt, and change in population determine a community's Ability To Pay Index value. Tennessee intends to update the ATPI annually to

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capture the most current fiscal capacity, changes, and economic trends of communities across the state.

A community's interest rate will be based, in part, on their ATPI. Interest rates can vary from 40 percent of the interest rate reported to 100 percent of the interest rate reported on the 20-year, 25-year, and 30-year Bond Buyer Index and the Municipal Market Data General Obligation Yields published every Thursday. Communities that fall within the lower economic scale of the ATPI will be eligible for a lower interest rate.

The state has developed a tiered interest rate reduction methodology that corresponds to a community's ATPI. Low range ATPI's (0-20) will be awarded a 0.40 multiplier. ATPI scores with a range of 30 – 40 will be awarded a 0.60 multiplier, 50-60 will be awarded a 0.80 multiplier and ATPIs of 70 or greater will receive the standard reported interest rates. SRF interest rates are further stratified by the term of the loan. Once loan terms are established, the appropriate base interest rate is selected. The community ATPI is verified, then the multiplier corresponding to the ATPI is multiplied by the base interest rate to establish the SRF awarded interest rate.

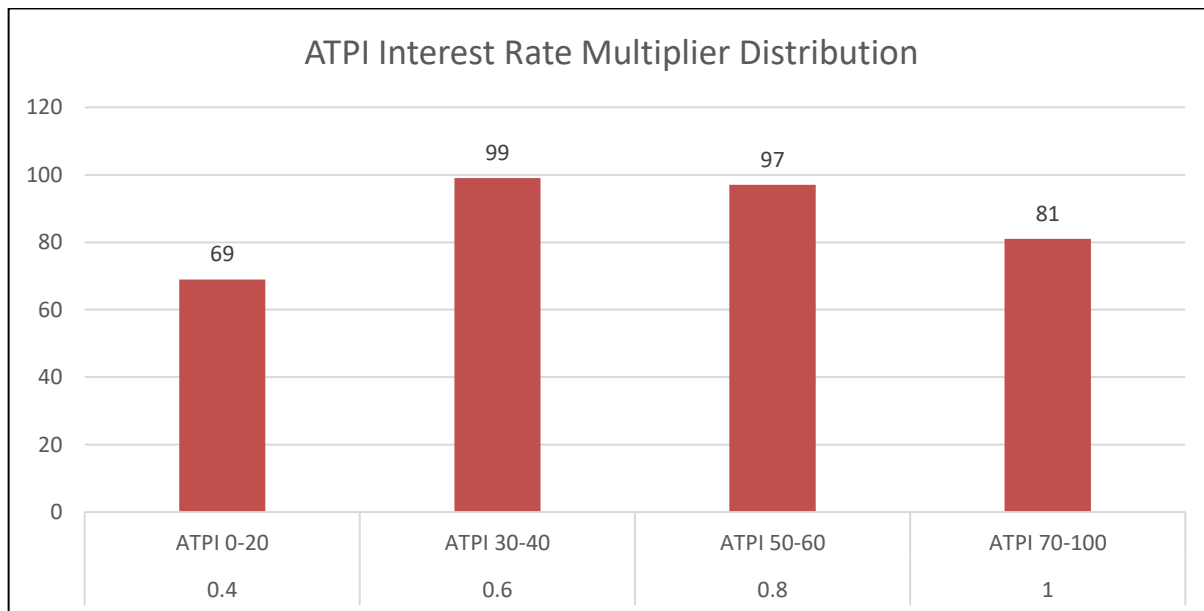


Figure 1: ATPI Interest Rate Multiplier Distribution

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The State may also recommend a reduction of the interest rate to incentivize [Green Project Reserve \(GPR\)](#) and sustainable & resilient projects, but not below zero percent. Interest rate reductions for GPR will be based on the scale, complexity, and environmental benefits of the proposed project. The GPR reductions will follow a process where first, the SRF awarded interest rates are determined based on a communities' ATPI, then if the project qualifies, rates can be further reduced from 0.1% - 0.3%. Amount of GPR rate reductions will be determined after an evaluation by SRF technical staff using the GPR interest rate reduction requirements and based on project descriptions from loan applicant Questionnaire submittals.

### ***Principal Forgiveness for Small and Disadvantaged Communities***

The SRF Program continues to respond to requests from Governor Lee regarding rural community assistance by prioritizing allocation of subsidy for water and wastewater infrastructure (in the form of principal forgiveness and lower interest rates) to communities identified as both small and economically disadvantaged. Eligibility of CWSRF principal forgiveness will be determined based on the most current ATPI. Small communities are those with a population of 10,000 or less per designation by EPA guidelines. To be considered disadvantaged, the community must score 50 or less on the ATPI. The affordability criteria from the ATPI will also be used to prioritize projects that have the same number of points from the PRL. Communities with greater economic need and smaller populations will be given a higher ranking. Standard principal forgiveness for eligible communities will be provided at 20% of the loan value (not to exceed \$2,500,000 in total principal discounted for a single loan or project within a year, and within total SRF allotted principal forgiveness for a given fiscal year).

As part of TDEC's effort to assist small, disadvantaged, and rural communities, SRF has developed a small and disadvantaged community subsidy of 50% principal forgiveness for planning or planning and design loans only. These projects are considered pilots and should address high priority water infrastructure challenges. Communities on the FFY 2020 PRL will be invited to compete for this opportunity. A small number of pilots may be selected for implementation based on funding availability. Cooperatively, communities and TDEC will develop pilot projects and in-kind efforts that allow the community to take a leadership position to develop innovative solutions and to educate other communities across the state. In-kind efforts will be included as part of the SRF loan agreement and considered a binding agreement at the time of loan approval.

The SRF Program will allocate proportional amounts of principal forgiveness on an annual basis for those communities in the lowest tier of ability to pay. This ensures the long-term

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stability of SRF Program. The SRF program will also develop a cash flow model to analyze the CWSRF funding base and forecast impacts to the overall SRF Program. This information will assist the State in program evaluation and make future programmatic decisions regarding fund management for GPR projects and small and disadvantaged communities.

#### Eligibility Requirements for Principal Forgiveness

Small and disadvantaged communities are eligible for standard principal forgiveness or the pilot project program if the proposed projects meet specific eligibility requirements:

1. Communities must have a population of 10,000 or less
2. Communities must have an ATPI of 50 or less
3. Projects must be on the current CWSRF Priority Ranking List (PRL)
4. Projects shall be ready to proceed (based on type of loan)
5. Entity must pass a financial sufficiency review by TDEC SRF
6. May not be combined with other forms of principle forgiveness

#### **Standard Principal Forgiveness**

1. 20% loan forgiveness not to exceed \$2,500,000 per project and shall apply as long as CWSRF has not already met the annual cap on principal forgiveness
2. Projects must include construction (planning, design, and construction projects or construction solely).
3. Standard principal forgiveness will not be given for planning and design loans (unless the project qualifies for the pilot program).

#### **Pilot Project Principal Forgiveness**

1. 50% loan forgiveness not to exceed \$500,000 per project
2. Projects are for planning, or planning and design loans
3. Pilot project loan forgiveness will not be available for construction projects
4. Utility system reporting must conform (or work to conform) to most current TDEC DWR reporting standards
5. Agree to a DWR/SRF led, water quality-based decision making, pre-coordination meeting
6. TN Utility Scorecard complete as part of the project
7. Implementation Plan- collaboration with SRF on a project plan outlining innovative and resilient practices
8. Partnering with SRF to ensure knowledge transfer through development of a case study of the pilot project



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9. Deliver 2 workshops in connection with pilot project
10. Maintains a social media campaign that highlights project progress

### ***Green Project Reserve (GPR) Interest Rate Reductions***

The FFY 2020 CWSRF Capitalization Grant requires that a portion of the funds must be allocated to GPR projects, which address green infrastructure, resilience, water or energy efficiency improvements, or other environmentally innovative activities. The State will allocate a minimum of 10% of the FFY 2020 project funds to fund eligible green projects. The State has elected to strive for a goal of 18% allocation for green projects.

Interest rate reductions for green projects will be awarded to communities that meet state criteria and eligibility requirements for [GPR projects](#). These reductions will be allocated after the SRF awarded interest rate, based on a community's ATPI, has been set. Therefore, interest rates can be further reduced by implementing activities that qualify as a green project. Selection and ranking of projects meeting GPR criteria will follow the same process as all other SRF projects. Additionally, green projects will be drawn separately from FFY 2020 project funds until the 18% allocation has been met.

The State will have met the GPR requirement when the minimum percentage of the capitalization grant for FFY 2020 is in executed assistance agreements for qualifying green projects. If a green project is underbid and the State has not met the required percentage for GPR, the difference between the amount in the executed assistance agreement and the winning bid must be used by the state for another green project(s).

#### Eligibility Requirements for Interest Rate Reductions for Green Projects

All communities, regardless of size and ATPI, are eligible for interest rate reductions if the projects proposed meet specific eligibility requirements. All eligible green projects must appear on the current PRL, meet the definition of a [Green Project Reserve](#) project, submit a business case to demonstrate green project costs and environmental benefits, and include construction. The amount of interest rate reduction will be based on the scale and complexity of the green project proposal. There are three primary project categories eligible for interest rate reductions. Projects should fall within at least one of the following categories: Water and Energy Efficiency, Green Infrastructure and Stormwater BMPs, or Resilient, Sustainable, and Environmentally Innovative.

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SRF projects should meet at least one criterion to qualify for green project subsidy:

1. Increase water efficiency
2. Increase energy efficiency
3. Reduce storm water runoff
4. Recycle/reuse water
5. Production/use of clean energy
6. Establish or restore wetlands
7. Reduce, prevent, or remove non-point source pollution
8. Build system resiliency from an identified hazard while addressing one or more criteria above

A detailed list of Green Project Reserve project eligibilities and examples of common practices can be found in the [EPA guidance](#) document.

### **Green projects eligible for 0.1% interest rate reduction, not to exceed \$250,000**

#### Water Efficiency

1. 10%-20% water loss reduction.
2. Cost/benefit ratio (low benefit/value per dollar spent—possibly a 0-20% cost saving)

#### Energy Efficiency

1. 10%-20% reduction in energy savings or reduction.
2. Cost/benefit ratio (low benefit/value per dollar spent—possibly a 0-20% cost saving)

#### Green Infrastructure and Stormwater BMPs

1. Project increases pervious land cover at the site scale by 10-20% through installation of native vegetation, stream buffers, stream or wetland rehabilitation and the like **OR**
2. Increases infiltration, evapotranspiration, or reuse on-site through capture and treatment of 0.5 inches of runoff in a 1 year, 24-hour storm event **OR**
3. 20% of overall project costs are associated with green infrastructure practices as defined by [EPA guidance](#).

#### Resilient, Sustainable, and Environmentally Innovative

1. 20% of overall project costs are associated with components defined as resilient, sustainable, environmentally innovative and green according to [EPA guidance](#)

### **Green projects eligible for 0.2% interest rate reduction, not to exceed \$500,000**

#### Water Efficiency

1. 21-40% in water loss savings or water loss reduction

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2. Cost/benefit ratio (low benefit/value per dollar spent—possibly a 21-30% cost saving)
3. Must meet at least three green criteria eligible activities from above list

#### Energy Efficiency

1. 21-40% in energy savings or reduction
2. Cost/benefit ratio (low benefit/value per dollar spent—possibly a 21-30% cost saving)
3. Must meet at least three green criteria eligible activities from above list

#### Green Infrastructure and Stormwater BMPs

1. Project increases pervious land cover at the site scale by 21- 30% through installation of native vegetation, stream buffers, stream or wetland rehabilitation and the like **OR**
2. Increases infiltration, evapotranspiration, or reuse on-site through capture and treatment of 0.75 inches of runoff in a 1 year, 24-hour storm event **OR**
3. 30% of overall project costs are associated with green infrastructure practices as defined by EPA guidance.

#### Resilient, Sustainable, and Environmentally Innovative

1. 30% of overall project costs are associated with components defined as resilient, sustainable, environmentally innovative and green according to [EPA guidance](#)

### **Green projects eligible for 0.3% interest rate reduction, not to exceed \$1,000,000**

#### Water Efficiency

1. 41% or greater water loss reduction
2. Cost/benefit ratio (low benefit/value per dollar spent—greater than 31% cost saving)
3. Must meet at least four green criteria eligible activities from above list
4. Water meter replacement (WMR) projects not eligible

#### Energy Efficiency

1. 41% or greater energy savings or energy reduction
2. Cost/benefit ratio (low benefit/value per dollar spent—greater than 31% cost saving)
3. Must meet at least four green criteria eligible activities from above list

#### Green Infrastructure and Stormwater BMPs

1. Project increases pervious land cover at the site scale by 31% or more through installation of native vegetation, stream buffers, stream or wetland rehabilitation and the like **OR**
2. Increases infiltration, evapotranspiration, or reuse on-site through capture and

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treatment of 1 inch of runoff in a 1 year, 24-hour storm event **OR**

3. 40% or greater of overall project costs are associated with green infrastructure practices as defined by EPA guidance **OR**
4. Three (3) or more green infrastructure (stormwater) BMPs, as defined by EPA guidance, implemented at site scale

#### Resilient, Sustainable, and Environmentally Innovative

1. 40% or greater of overall project costs are associated with components defined as resilient, sustainable, environmentally innovative and green according to [EPA guidance](#)
2. Supports long term solutions or behavioral changes and strategies for change specific to the innovative nature of the project

#### ***Loan Terms and Fees***

The term of the loan will be a maximum of 30 years or the useful life of the project, whichever is shorter. A loan fee of 8 basis points (0.08%) is charged by the Office of State and Local Finance for the CWSRF loans that are awarded on or after October 1, 2009. The interest rates for utility districts and water authorities that have service areas in more than one county will be evaluated and ranked by utilizing the lowest ATPI for the county or city that directly benefit from the project(s) associated with the loan.

#### ***Loan Recipient Project Requirements***

All CWSRF projects are required to comply with all current CWSRF rules, regulations, policies, and procedures provided in this section and elsewhere in this document. In addition to this section, the [Federal Fiscal Year Appropriations Bill](#) outlines requirements for all federally funded projects. More information on those requirements is provided in that section of this document.

To be considered for FFY 2020 CWSRF GPR funding, not less than 20% of the total project cost must be used towards the green component. If the green component cost is less than 20%, the total project funding will be adjusted such that the green component cost will be equal to 20% of the funded project cost.

#### Cost and Effectiveness Analysis

Under the CWA section 602(b)(13), the statute requires all assistance recipients meeting the definition of municipality or inter-municipal, interstate, or state agency to certify that they have conducted the studies and evaluations referred to as a cost and effectiveness analysis. The statute requires that a cost and effectiveness analysis involve, at a minimum: the study and evaluation of the cost and effectiveness of the processes, materials, techniques, and

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technologies for carrying out the proposed project or activity for which assistance is sought under this title; and the selection, to the maximum extent practicable, of a project or activity that maximizes the potential for efficient water use, reuse, recapture, and conservation and energy conservation, taking into account –

- The cost to construct the project or activity
- The cost of to operate and maintain the project or activity over the life of the project or activity; and
- The cost to replace the project or activity

A cost and effectiveness analysis is an eligible cost, and CWSRFs can provide assistance for planning or engineering activities that involve this analysis; however, the certification must be provided before loan approval. This provision applies to all types of assistance provided to the public entities described above for which the recipient applies on or after October 1, 2015.

#### Generally Accepted Accounting Principles (GAAP)

The State requires assistance recipients to follow CWA section 602(b)(9) and maintain project accounts according to Generally Accepted Accounting Principles (GAAP) as issued by the [Government Accounting Standards Board \(GASB\)](#). This provision requires assistance recipients to use standards relating to the reporting of infrastructure assets. The most recent applicable standard is GASB Statement No. 34 (GASB 34), issued in June 1999, which details governmental reporting requirements including standards for reporting of infrastructure assets. Further details on the requirements, as well as the full text of GASB 34, can be obtained through the GASB.

#### Fiscal Sustainability Planning (FSP)

As amended, by the WRRDA, the CWA §603(d)(1)(E) requires a recipient of a loan for a project that involves the repair, replacement, or expansion of a publicly owned treatment works to develop and implement a fiscal sustainability plan (FSP) or certify that it has developed and implemented such a plan. This provision applies to all loans for which the borrower submitted an application on or after October 1, 2014.

FSPs should be treated as “living documents” that are regularly reviewed, revised, expanded, and implemented as an integral part of the operation and management of the system. At a minimum, the FSPs should include:

- An inventory of critical assets that are part of the treatment works;

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- An evaluation of the condition and performance of inventoried assets or asset groupings;
- A certification that the assistance recipient has evaluated and will implement water and energy conservation efforts as part of the plant; and
- A plan to maintain, repair, and, as necessary, replace the treatment works and a plan to fund such activities

The State has determined that certification will be submitted to SRF before loan approval, and the FSP must be completed and in place by the “Notice to Proceed” and made available for review by SRF staff upon the first interim construction inspection visit.

#### Architectural and Engineering Procurement

According to the Amendments to the Water Resources Reform and Development Act, any capitalization grant awarded after October 1, 2014, the State must ensure that all architectural and engineering (A/E) contracts for projects identified as using funds “directly made available by” a capitalization grant (i.e. equivalency projects) comply with the elements of the procurement processes for A/E services as identified in 40 U.S.C. 1101 et seq., or an equivalent state requirement.

To the extent possible, the State should identify all equivalency projects in its IUP. The State should also identify all equivalency projects in its Annual Report and specify whether those projects include any A/E services. Only the SRF-funded contracts for A/E services associated with equivalency projects must comply with this requirement.

The State intends to use one or a combination of the projects identified on the Clean Water Priority Ranking List (Attachment A) for the Cities of Cleveland, Springfield, or Kingsport to satisfy its CWSRF equivalency project requirements.

## **Financial Status of the CWSRF Loan Program**

Required state match funds for the FFY 2020 Capitalization Grant is 20% of the Capitalization Grant. In SFY 2021 the state will match \$23,085,000 of CW Capitalization Grant dollars. This state match requirement is \$4,617,000 to the CWSRF Loan Program project fund. Based on the carry forward dollars and the available funds from the FFY 2020 Capitalization Grant, the State can provide up to \$137,289,377 for projects. These funds are expended, at the 80% federal and 20% state match. Reimbursements are submitted by loan recipients; once approved by the State, the funds are reimbursed to the recipient. Recipients repay the loans





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and these dollars are deposited into the Fund and interest is earned.

Financial Status of the CWSRF Loan Program		
<b>Prior-Year (SFY2020) Carry-forward Funds*</b>		<b>\$ 45,411,711</b>
Principal repayments and loan revenue**		57,601,139
Treasury Interest Income**		6,574,527
FFY 2020 Capitalization Grant		23,085,000
20% of FFY 2020 Capitalization Grant matched by State		4,617,000
<b>CWSRF Loan Program Project Funds***</b>		<b>\$137,289,377</b>
*Estimated balance at June 30, 2020 pre-year-end adjustments		
** Estimated principal, interest, and treasury interest for SFY 2020		
*** Pursuant to §603 (d)(7) of the CWA, the State intends to use up to 1/5 percent of the current valuation of the fund for administrative support.		

Table 1: Summary of CWSRF Financial Status

## Administrative and Technical Assistance

The State intends to utilize up to 1/5 percent of the current valuation of the CWSRF Revolving Fund for administration and technical assistance, pursuant to section 603(d)(7) of the CWA. The valuation calculation shall be based upon "Total Net Position" of the Fund as determined by the Comptroller of the Treasury state fiscal yearend (June 30) and reported in the Annual Audit. The net position of the CWSRF fund balance for the State FY 2020 is yet to be available and therefore, we estimate up to \$2,500,000 may be allocated for administration, management, and operation of the CWSRF Loan Program.

The administrative support includes salaries and benefits of employees; travel of staff relating to project management, conferences, seminars, and workshops; technical assistance contracts, training for state employees; general office supplies; equipment purchases (as needed), communication and printing, and rent of office space. Funds may also be used for monitoring activities relative to nutrient / plant optimization projects.

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#### ***Program Assistance Contracts***

##### Ability To Pay Index (ATPI)

The SRF Program is required by the EPA to use an appropriate ATPI in order to administer SRF clean water and drinking water loans. In addition, the WRRDA requires that all state SRF programs use relevant data associated with population trends, income, unemployment, and “other” metrics in the determination of priority ranking and project scoring, tiered interest rates, distribution of additional subsidy, and eligibility for planning and design loans or other benefits for disadvantaged communities. TDEC has contracted with the University of Tennessee Institute of Agriculture (UTIA) to update the ATPI annually for all TN counties, cities, and municipalities. The CWSRF will use \$45,000 in administrative funding from FFY 2020 for this purpose. The ATPI is a database of socioeconomic and financial data that serves as the foundation for an index used to help make decisions regarding determination interest rates, allocation of subsidy, and identification of options intended to benefit communities that need it the most. Through this contract, a consistent, transparent, and annually updated index is provided to improve decision making in loan and grant administration by TDEC and the Tennessee Department of Economic & Community Development (ECD). The ATPI will also enhance coordination between TDEC, ECD, and Tennessee USDA Rural Development regarding the potential use of resources to best serve disadvantaged communities.

Additionally, UTIA will develop recommendations to capture true cost of providing drinking water and wastewater services to communities and improve efficiency of these systems. This information will be used to create a survey and gather information from public drinking water and wastewater systems. The information will be utilized to assist programs responsible for providing affordable funding for water infrastructure projects to improve services and the application process timeline for communities and utilities. The CWSRF will use \$90,000 in allowable administrative funding for this purpose. A total amount of \$135,000 will be available for these services

##### Targeted Technical Assistance and Training for Small and Disadvantaged Communities

The SRF Program will contract with the Tennessee Association of Utility Districts (TAUD) to develop a consolidated technical assistance program to provide targeted technical assistance to distressed or disadvantaged communities. This contract (using \$100,000 from FFY 2020 CWSRF administrative funding) will focus on technical assistance needs for both public water and wastewater systems; managerial, financial, and technical capacities for systems; assist in reducing occurrence of health-based drinking water violations; optimize resources and support to small and disadvantaged communities and systems across the state; develop new capacity to make full use of Federal Capitalization Grant set-asides for

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drinking water; and implement priorities under [Tennessee's water plan, TN H2O](#). Technical assistance will be provided at no cost to eligible communities.

#### Water Loss Training for Tennessee Communities

The SRF Program is working to develop a contract focused on water loss training for TN communities, utilities, and commissions using a unique water loss data collection system and training methodology with a basic foundation in AWWA methods. This effort will aid utilities in determining where their water loss is originating and help them identify mitigation actions specifically for their systems. TDEC will work directly with a contractor to develop a customized training system based on the priorities of the Water and Wastewater Financing Board and the Utility Management Review Board of the Treasury to specifically address priorities related to water loss in the State of Tennessee, and to ensure objective and reproducible results that can be used to measure water loss in TN. The developed training program is tailored to issues researched by TDEC to address the needs of the state and incorporate the priorities of TNH20.

## **Annual Report Requirements**

Section 606(d) of the CWA requires that, beginning the first fiscal year after receiving payments under the CWSRF, the State shall provide an Annual Report to EPA. The Annual Report shall be submitted to EPA within 90 days after the end of the fiscal year covered by the IUP. This report shall identify loan recipients (name and identification number), loan amounts and terms, Green Projects, projects receiving subsidization (principal forgiveness), amount of subsidy, similar details on other forms of financial assistance provided from CWSRF, population of the loan recipient, and other such information as EPA may require.

## **Assurances and Specific Proposals**

The State shall provide the necessary assurances and certifications described in the Operating Agreement submitted as part of the Capitalization Grant Application. This Operating Agreement is the official agreement between the State and EPA and is incorporated herein by reference. Pursuant to sections 606(c)(4) (5) of the CWA, the State certifies that:

- The State will enter into binding commitments equal to at least 120% of each quarterly grant payment within one year after receipt of the payment
- The State will expend all funds in the CWSRF in an expeditious and timely manner
- Funds will first be used to assure maintenance of progress toward compliance with

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enforceable deadlines, goals, and requirements of the CWA

- The State agrees to commit or expend each quarterly capitalization grant payment in accordance with the state's own laws and procedures

In addition, the State certifies that it will conduct environmental reviews on wastewater facility projects in satisfying the National Environmental Policy Act (NEPA)-like requirements. The State's NEPA-like procedures are contained in the approved Operating Agreement.

## **Federal Fiscal Year 2020 Appropriations Bill and Other Requirements**

### ***Subsidization***

The FFY 2020 CWSRF Capitalization Grant requires a portion of the funds to be allocated towards subsidy. The federally required minimum for subsidization is 10% of the grant award. The state intends to meet that obligation by providing 20% principal forgiveness subsidy to eligible small and disadvantaged communities with an ATPI of 50 or less and on the FFY 2020 PRL.

### ***Davis-Bacon***

The Davis-Bacon Act, 46 Stat. 1494 (Pub. Law 71-800), and Related acts apply to contractors and subcontractors performing on federally funded or assisted contracts in excess of \$2,000 for the construction, alteration, or repair (including painting and decorating) of public buildings or public works. The Davis-Bacon Act (DBA) and Related Acts require contractors and subcontractors to pay their laborers and mechanics employed under the contract no less than the locally prevailing wages and fringe benefits for corresponding work on similar projects in the area. The Davis-Bacon Act directs the Department of Labor to determine such locally prevailing wage rates. The Davis-Bacon Act applies to contractors and subcontractors performing work on federal or District of Columbia contracts. The prevailing Davis-Bacon Act wage provisions apply to the "Related Acts," under which federal agencies assist construction projects through grants, loans, loan guarantees, and insurance.

For prime contracts in excess of \$100,000, contractors and subcontractors must also, under the provisions of the Contract Work Hours and Safety Standards Act, as amended, pay laborers and mechanics, including guards and watchmen, at least one and one-half times their regular rate of pay for all hours worked over 40 in a workweek. The overtime provisions of the Fair Labor Standards Act may also apply to DBA-covered contracts.

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#### ***American Iron and Steel***

The American Iron and Steel (AIS) provision requires CWSRF and DWSRF 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 or treatment works and if the project is funded through an assistance agreement executed beginning January 17, 2014.

The AIS provision is a permanent requirement for all CWSRF projects. The America's Water Infrastructure Act of 2018 extends the AIS provision for DWSRF projects through Fiscal Year 2023.

#### ***Disadvantaged Business Enterprise (MBE)/Women's Business Enterprise (WBE) Goals***

MBE/WBE reporting is required in annual reports. Reporting is required for assistance agreements where there are funds budgeted for procuring construction, equipment, services, and supplies, including funds budgeted for direct procurement by the recipient or procurement under sub-awards or loans in the "Other" category that exceed the threshold amount of \$150,000, including amendments or modifications.

The State of Tennessee has negotiated the following, applicable MBE/WBE fair share objectives/goals with EPA as follows:

MBE: CONSTRUCTION 2.6%; SUPPLIES 5.2%; SERVICES 5.2%; EQUIPMENT 5.2%

WBE: CONSTRUCTION 2.6%; SUPPLIES 5.2%; SERVICES 5.2%; EQUIPMENT 5.2%

In accordance with 40 CFR, Part 33, Subpart D, established goals/objectives remain in effect for three fiscal years unless there are significant changes to the data supporting the fair share objectives. The loan recipient is required to follow requirements as outlined in 40 CFR Part 33, Subpart D when renegotiating the fair share objectives/goals.

Pursuant to 40 CFR § 33.301, the recipient agrees to make the following good faith efforts whenever procuring construction, equipment, services, and supplies under an EPA financial assistance agreement, and to require that sub-recipients, loan recipients, and prime contractors also comply. Records documenting compliance with the six good faith efforts shall be retained:

1. Ensure Disadvantaged Business Enterprises (DBE) are made aware of contracting

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opportunities to the fullest extent practicable through outreach and recruitment activities. For Indian Tribal, State, and Local and Government recipients, this will include placing DBEs on solicitation lists and soliciting them whenever they are potential sources.

2. Make information on forthcoming opportunities available to DBEs and arrange time frames for contracts and establish delivery schedules, where the requirements permit, in a way that encourages and facilitates participation by DBEs in the competitive process. This includes, whenever possible, posting solicitations for bids or proposals for a minimum of 30 calendar days before the bid or proposal closing date.
3. Consider in the contracting process whether firms competing for large contracts could subcontract with DBEs. For Indian Tribal, State, and local Government recipients, this includes dividing total requirements when economically feasible into smaller tasks or quantities to permit maximum participation by DBEs in the competitive process.
4. Encourage contracting with a consortium of DBEs when a contract is too large for one of these firms to handle individually.
5. Use the services and assistance of the Small Business Administration (SBA) and the Minority Business Development Agency of the Department of Commerce.
6. If the prime contractor awards subcontracts, require the prime contractor to take the steps in paragraphs (1) through (5).

### ***Environmental Benefits***

To conform to EPA's Policy for Environmental Results under EPA Assistance Agreements, EPA Order 5700.7, and the Consolidated Appropriations Act of 2017, P.L. 115-31, The SRF Program agrees to comply with all requests for data by EPA related to the use of the funds under Subchapter VI of the CWA, and to report all uses of the funds within the CWSRF Benefits Reporting database no less than quarterly. This reporting will include but not be limited to data with respect to compliance with the Green Project Reserve.

### **Amending the Intended Use Plan**

The SRF Program reserves the ability to amend the IUP as needed to implement an efficient and effective program. Changes to the IUP that impact the administration of the program will be made public on the SRF website and through appropriate communication channels.





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## **Appendix**

[Priority Ranking List](#) (PRL)