



INTENDED USE PLAN DRINKING WATER STATE REVOLVING FUND

STATE FISCAL YEAR (SFY) 2024
FEDERAL FISCAL YEAR (FFY) 2023





Drinking Water State Revolving Fund Intended Use Plan

October 25, 2023

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Introduction

The Tennessee General Assembly passed the “Drinking Water Revolving Fund Act of 1997” to provide low-interest loans to local governments for water infrastructure improvement projects, leading to the establishment of the Drinking Water State Revolving Fund (DWSRF) Loan Program within the Tennessee Department of Environment and Conservation (TDEC) Division of Water Resources (DWR). The DWSRF Loan Program, part of the TDEC State Revolving Fund (SRF), offers low-interest loans and technical assistance to cities, counties,

utility districts, and water authorities across Tennessee. Its main purpose is to support the planning, design, and construction of drinking water, stormwater, and wastewater infrastructure projects. Since its inception, this program has provided Tennessee communities with over 300 million dollars in assistance. As a federal-state partnership program, the DWSRF aims to help public water systems (PWS) achieve safe and reliable drinking water. The federal program was established through Congress' 1996 amendments to the Safe Drinking Water Act (SDWA), granting the U.S. Environmental Protection Agency (EPA) authority to create the DWSRF Loan Program and advance the objectives of the SDWA. The SDWA directs states to use DWSRF funds to address health risks and drinking water compliance issues, particularly assisting PWS with the greatest needs. The primary objective of the DWSRF Loan Program aligns with TDEC's mission to safeguard and enhance water quality and protect and promote human health and safety throughout Tennessee. By enabling communities to afford safe, sustainable, and resilient water systems, the SRF Loan Program plays a crucial role in achieving these goals. For more detailed information about the DWSRF Loan Program, individuals can refer to the TDEC SRF website.

Elements of the Drinking Water State Revolving Fund Intended Use Plan:

TDEC SRF long-term and short-term goals

The financial status of the Drinking Water SRF Loan Program

Description of the methods and criteria used to distribute funds

Description of the amount of set aside funds and details on how the state intends to use those monies.

Priority Ranking List (PRL) for 2022

TDEC's new Small and Disadvantaged Community program

TDEC's new Ability To Pay Index

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The EPA awards annual Drinking Water Capitalization Grant funds to the State, which are used to finance various water system projects and support critical programs. Under the Drinking Water Capitalization Grant program, the EPA allocates funds to the State. In return, the State commits federal funds and a 20% state match to offer financial assistance to public and private water systems. These funds are used for a range of projects, including but not limited to plant replacement and upgrades, distribution system installation and repair, water loss management, treatment enhancements, storage improvements, water reuse initiatives, green infrastructure implementation, energy optimization measures, and resilience enhancement.

To ensure the sustainability of the DWSRF Loan Program, these funds are repaid over time by the water systems, thus maintaining the program's long-term viability. Furthermore, a portion of the Capitalization Grant, up to 31%, can be designated as a "set aside" to directly support critical state staff, DWSRF administration, water system capacity development, operator certification, source water protection, small systems technical assistance, and the Public Water System Supervision (PWSS) program. Each state determines the allocation between water infrastructure projects and these set-asides based on its unique circumstances and needs.

As per Section 1452(b) of the Safe Drinking Water Act (SDWA), each state is required to prepare an Intended Use Plan (IUP) annually. The IUP outlines how the grant funds awarded to the state will be used and demonstrates how these uses align to safeguard public health and the environment. This comprehensive funding framework, supported by the EPA's Drinking Water Capitalization Grant program and the State's commitment, enables the financing of vital water system projects and the implementation of essential programs, ultimately promoting public health and environmental protection.

TDEC's Drinking Water Intended Use Plan (IUP) outlines the allocation of federal funds for the DWSRF loan program in FFY 2023, with an anticipated total of \$9,974,400 available for the program in SFY 2024. The Drinking Water IUP prepared by TDEC serves as the planning document for utilizing FFY 2023 appropriations designated for the DWSRF loan program. In FFY 2023, the State of Tennessee has been allocated \$8,312,000 as the DWSRF Base Capitalization Grant funds. To fulfill the requirements, the State must provide a 20% match of federal funds, amounting to \$1,662,400. By combining the Base Capitalization Grant and the State match, \$9,974,400 is expected to be available for the DWSRF Loan Program in the

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state's fiscal year (SFY) 2024. These funds will play a crucial role in supporting water infrastructure improvement projects and promoting the objectives of the DWSRF program in Tennessee. The Drinking Water IUP serves as a critical roadmap for allocating and effectively utilizing these funds, ensuring that they are directed towards initiatives that protect public health, enhance water quality, and address the evolving needs of the state's water systems.

BIL General Supplemental Capitalization Grant

The Infrastructure Investment and Jobs Act of 2021, also known as the Bipartisan Infrastructure Law (BIL), provides additional funding to strengthen the nation's water infrastructure, with significant benefits for the DWSRF Loan Program. In addition to the base allotment for FFY 2023, the passing of the BIL by Congress introduces substantial funding to enhance drinking water, stormwater, and wastewater systems across the country. Over the next five years, more than \$50 billion will be invested in American water infrastructure, supporting three key areas of focus.

The first area is the provision of general supplemental funding for both the DWSRF and Clean Water State Revolving Fund (CWSRF) Loan Programs. Secondly, BIL addresses emerging contaminants through the DWSRF and CWSRF Loan Programs. Lastly, the legislation prioritizes eliminating lead service lines in drinking water systems through the DWSRF.

These additional funds will finance vital water infrastructure projects, targeting the treatment and elimination of emerging contaminants, removing and replacing lead service lines in public and private entities, and offering supplemental support for traditional SRF projects. Notably, BIL emphasizes equitable distribution of resources and mandates that 49% of the General Supplemental funding and lead service line (LSL) funding be provided as forgivable loans or grants to communities meeting the State's definition of disadvantaged. Other communities not meeting these criteria remain eligible for funding but will be allocated according to the State's Subsidies and Affordability Criteria.

Specifically for Tennessee, the FFY 2023 Drinking Water BIL General Supplemental allotment amounts to \$35,443,000. To access the full general supplemental allotment, the State must provide a 10% match of federal funds, which equals \$3,544,300. Once these requirements

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are met, the BIL General Supplemental will contribute an additional \$38,987,300 in funds to the DWSRF Loan Program for SFY 2024.

The necessary funds for the state match have already been approved in the State of Tennessee's general budget and will be appropriated once the grant is received from the EPA. This infusion of funds through the Bipartisan Infrastructure Law presents a significant opportunity to strengthen Tennessee's water infrastructure and ensure its communities benefit from improved access to safe and reliable drinking water systems.

Drinking Water State Revolving Fund Program Goals

The U.S. Congress grants states the flexibility to shape their own DWSRF Loan Program, allowing Tennessee to establish its own program goals and framework to address the needs of local communities and water systems. By having the authority to establish its own goals and framework, Tennessee can optimize the use of DWSRF funds, allocate resources efficiently, and implement targeted initiatives that prioritize improving drinking water infrastructure. This state-level autonomy enables Tennessee to proactively address water quality concerns, enhance system resilience, promote sustainable practices, and effectively support the development of safe and reliable drinking water systems across the state.

Tennessee's DWSRF Loan Program has formulated a comprehensive framework of long and short-term goals. These goals serve as a guiding foundation for decision-making within the program, ensuring that Tennessee's actions and investments in the DWSRF Loan Program are strategic **and** impactful and effectively address the challenges faced by communities and water systems in the state.

Long-Term DWSRF Loan Program Goals

The DWSRF Loan Program will:

1. Ensure a safe and adequate water supply for small communities by actively involving them in program participation.
2. Assist with projects that promote compliance with national primary drinking water regulations outlined in section 1412 of the SDWA or contribute significantly to the Act's health protection objectives (section 1452(a)(2)).

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3. Safeguard and improve water quality in Tennessee by ensuring the technical integrity of funded projects.
4. Preserve its long-term financial integrity by prudently managing its assets, realizing an appropriate rate of return, and safeguarding against fraud, waste, and abuse.
5. Ensure adherence to [Generally Accepted Accounting Principles \(GAAP\)](#) issued by the Government Accounting Standards Board (GASB) through implementing accounting, audit, and fiscal procedures.
6. Expedite fund obligations and offer technical and administrative assistance to promote efficient project management.
7. Strategically use set-aside funds in coordination with program loans to maximize the impact of the DWSRF loan account in achieving affordable compliance and protecting public health.
8. Actively collaborate with systems and drinking water regulatory staff to effectively allocate program resources toward addressing the most significant public health and compliance challenges.
9. Promote advancing technical, managerial, and financial capabilities for all PWS to achieve and sustain compliance with state drinking water and federal SDWA requirements.
10. Actively promote the consolidation or regionalization of PWS that face challenges in operating and maintaining systems cost-effectively, enabling them to benefit from the economies of scale associated with larger water systems.
11. Ensure the provision of drinking water assistance in a methodical and environmentally responsible manner.
12. Ensure that all newly funded water systems demonstrate the necessary technical, managerial, and financial capabilities to comply with every applicable national primary drinking water regulation.

Short-Term DWSRF Loan Program Goals

The DWSRF Loan Program will:

1. Coordinate the completion of set-aside work plans for each set-aside activity annually.
2. Provide support for the continuation of source water protection programs.
3. Coordinate the implementation of the capacity development strategy with PWSS staff.

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4. Update administrative policies and guidance, including standard operating procedures, for the DWSRF Loan Program.
5. Provide supervision and direct technical assistance to Public Water Systems (PWS).
6. Assist in the development and implementation of local drinking water protection initiatives.
7. Expand green project funding to include more projects and encourage innovative use of SRF funds, following the EPA's guidance. The TDEC SRF has set a goal of allocating up to 18% of grant funds for innovative, green, or resilient projects.
8. Expand and broaden outreach activities to ensure that public and private water systems are well-informed about DWSRF assistance options and the loan application process. This includes presenting at regional roundtables and an annual statewide workshop in collaboration with the Tennessee Department of Economic & Community Development and USDA-Rural Development to promote the DWSRF Loan Program.
9. Develop a comprehensive database for managing drinking water project data and program management data.
10. Ensure that all grant award funds are expended promptly and in a timely manner.
11. Review the current DWSRF statute for potential updates, including improved clarity or language regarding source water protection eligibilities, extended loan terms, use of SRF funds for asset management plans, land conservation, and inclusive language for green infrastructure elements that enhance hydrology, drinking water quantity, and drinking water quality.
12. Review and develop recommendations for updates to the DWSRF priority ranking system.
13. Conduct research on SRF Loan Programs in other states and perform a cost-benefit analysis to recommend the implementation of a sustainable funding source, reducing the SRF Loan Program's reliance on state appropriations for match funding.

The DWSRF program strives to be a good partner with the EPA. Aligning the program goals is one part of the good partnership agreement both agencies maintain. Below is a table demonstrating the connection between the states program goals above and the goals outlined within the [EPA's strategic plan for FY 2022 -2026](#).

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Long-Term EPA Alignment				
EPA Strategic Goal/Activity Alignment			TN SRF Results	
EPA Strategic Plan	Goals & Core Elements	Activity	Outputs	Outcomes
Safeguard and Revitalize Communities	Goal 6	Water Quality Assurance	Ensure a safe and adequate water supply for small communities by actively involving them in program participation	Safeguard drinking water quality standards for all communities
Enforce Environmental Laws and Ensure Compliance	Goal 3	Promotion of Project Compliance Components	Assist with projects that promote compliance with national primary drinking water regulations outlined in section 1412 of the SDWA or contribute significantly to the Act's health protection objectives (section 1452(a)(2))	Safeguard drinking water quality and standards for all communities
Safeguard and Revitalize Communities	Goal 6	Project Integrity Oversight	Safeguard and improve water quality in Tennessee by ensuring the technical integrity of funded projects	Quality project components that safeguard drinking water quality and standards for all communities
Ensure Clean and Safe Water for all Communities	Goal 5	Program Financial Sustainability	Preserve its long-term financial integrity by prudently managing its assets, realizing an appropriate rate of return, and safeguarding against fraud, waste, and abuse	Ensure safe drinking water and reliable water infrastructure
Ensure Clean and Safe Water for all Communities	Goal 5	Program Financial Accountability	Ensure adherence to Generally Accepted Accounting Principles (GAAP) issued by the Government Accounting Standards Board (GASB) through implementing accounting, audit, and fiscal procedures	Ensure safe drinking water and reliable water infrastructure
Ensure Clean and Safe Water for all Communities	Goal 5	Program Efficiency	Expedite fund obligations and offer technical and administrative assistance to promote efficient project management	Ensure safe drinking water and reliable water infrastructure
Enforce Environmental Laws and Ensure Compliance	Goal 3	Detect Violation and Promote Compliance	Strategically use set-aside funds in coordination with program loans to maximize the impact of the DWSRF loan account in achieving affordable compliance and protecting public health	Program coordination to uphold compliance through funding, training and collaboration

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Enforce Environmental Laws and Ensure Compliance	Goal 3	Detect Violation and Promote Compliance	Actively collaborate with systems and drinking water regulatory staff to effectively allocate program resources toward addressing the most significant public health and compliance challenges.	Program coordination to uphold compliance through funding, training and collaboration
Enforce Environmental Laws and Ensure Compliance	Goal 3	Detect Violation and Promote Compliance	Promote advancing technical, managerial, and financial capabilities for all PWS to achieve and sustain compliance with state drinking water and federal SDWA requirements.	Program coordination to uphold compliance through funding, training and collaboration
Ensure Clean and Safe Water for All Communities	Goal 5	Education and Outreach	Actively promote the consolidation or regionalization of PWS that face challenges in operating and maintaining systems cost-effectively, enabling them to benefit from the economies of scale associated with larger water systems.	Ensure safe drinking water and reliable water infrastructure
Ensure Clean and Safe Water for All Communities	Goal 5	Education and Outreach	Ensure the provision of drinking water assistance in a methodical and environmentally responsible manner.	Ensure safe drinking water and reliable water infrastructure
Enforce Environmental Laws and Ensure Compliance	Goal 3	Detect Violation and Promote Compliance	Ensure that all newly funded water systems demonstrate the necessary technical, managerial, and financial capabilities to comply with every applicable national primary drinking water regulation.	Program coordination to uphold compliance through funding, training and collaboration

Short-Term Goals EPA Alignment

EPA Strategic Goal/Activity Alignment			TN SRF Results	
EPA Strategic Plan	Goals & Core Elements	Activity	Outputs	Outcomes
Enforce Environmental Laws and Ensure Compliance	Goal 3	Internal Coordination and Collaboration	Coordinate the completion of set-aside work plans for each set-aside activity annually.	Work plan completion assurance
Enforce Environmental Laws and Ensure Compliance	Goal 3	Financial and Technical Support	Provide support for the continuation of source water protection programs.	Program continuation
Enforce Environmental	Goal 3	Internal Coordination	Coordinate the implementation of the capacity development strategy with PWSS staff.	Program continuation

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Laws and Ensure Compliance		and Collaboration		
Enforce Environmental Laws and Ensure Compliance	Goal 3	Internal Coordination and Collaboration	Update administrative policies and guidance, including standard operating procedures, for the DWSRF Loan Program	Program continuation
Ensure Clean and Safe Water for All Communities	Goal 5	Education, Training and Technical Assistance	Provide supervision and direct technical assistance to Public Water Systems (PWS)	Ensure safe drinking water and reliable water infrastructure
Ensure Clean and Safe Water for All Communities	Goal 5	Education, Training and Technical Assistance	Assist in the development and implementation of local drinking water protection initiatives	Ensure safe drinking water and reliable water infrastructure
Ensure Clean and Safe Water for All Communities	Goal 5	Education, Training and Technical Assistance	Expand green project funding to include more projects and encourage innovative use of SRF funds, following the EPA's guidance. The TDEC SRF has set a goal of allocating up to 18% of grant funds for innovative, green, or resilient projects	Ensure safe drinking water and reliable water infrastructure
Ensure Clean and Safe Water for All Communities	Goal 5	Education, Training and Technical Assistance	Expand and broaden outreach activities to ensure that public and private water systems are well-informed about DWSRF assistance options and the loan application process. This includes presenting at regional roundtables and an annual statewide workshop in collaboration with the Tennessee Department of Economic & Community Development and USDA-Rural Development to promote the DWSRF Loan Program	Ensure safe drinking water and reliable water infrastructure
Ensure Clean and Safe Water for All Communities	Goal 5	Ensure Scientific Integrity and Science-Based Decision Making	Develop a comprehensive database for managing drinking water project data and program management data	Ensure safe drinking water and reliable water infrastructure
Ensure Clean and Safe Water for All Communities	Goal 5	Financial Efficiency and Organizational Excellence	Ensure that all grant award funds are expended promptly and in a timely manner	Ensure safe drinking water and reliable water infrastructure

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Enforce Environmental Laws and Ensure Compliance	Goal 3	Detect Violation and Promote Compliance	Review the current DWSRF statute for potential updates, including improved clarity or language regarding source water protection eligibilities, extended loan terms, use of SRF funds for asset management plans, land conservation, and inclusive language for green infrastructure elements that enhance hydrology, drinking water quantity, and drinking water quality	Program coordination to uphold compliance through funding, training and collaboration
Ensure Clean and Safe Water for All Communities	Goal 5	Ensure Scientific Integrity and Science-Based Decision Making	Review and develop recommendations for updates to the DWSRF priority ranking system	Ensure safe drinking water and reliable water infrastructure
Ensure Clean and Safe Water for All Communities	Goal 5	Ensure Scientific Integrity and Science-Based Decision Making	Conduct research on SRF Loan Programs in other states and perform a cost-benefit analysis to recommend the implementation of a sustainable funding source, reducing the SRF Loan Program's reliance on state appropriations for match funding	Ensure safe drinking water and reliable water infrastructure

Table 1: Strategic Goal Table

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Drinking Water Priority Ranking System

TDEC's DWSRF Loan Program uses a priority ranking system to develop the Priority Ranking List (PRL). Applicants seeking funding must submit a Questionnaire containing detailed project information such as project description, cost, construction timeline, loan amount, and term. The eligibility of projects for DWSRF funding is outlined in the EPA Eligibility Handbook. Projects are prioritized based on their ability to reduce health risks or improve compliance with the SDWA. Tennessee has implemented a priority ranking system aligned with

the SDWA, employing a 100-point scale. Priority points are assigned based on the project type and severity of the problem being addressed. Projects targeting acute health risks receive a maximum of 100 points, while others are assigned 20, 40, 60, or 80 points depending on problem severity and compliance status. Projects involving ineligible activities like fire protection or future growth do not receive priority points. The highest priority points are given to projects with the most significant health risks, followed by compliance-related projects, and then projects addressing other needs. In case of a tie in priority points, ranking considerations include the Ability To Pay Index (ATPI) and the population served to support small and disadvantaged communities.

Fundable Drinking Water Project Categories

- Water Quality Issues
- Source or Capacity Challenges
- Water Storage
- Leakage Problems
- Pressure Issues
- Replacement or Rehabilitation Needs
- Water Line Extensions
- Regional Drinking Water Consolidation
- New Drinking Water Systems

Projects and activities not eligible for funding and primarily intended for the following:

- Future growth
- Economic development
- Fire protection
- Dams
- Reservoirs
- Water rights
- Laboratory fees for monitoring
- Operation and maintenance expenses

Section 1452(3)(A)(i) and (ii) of the SDWA specifies that the DWSRF Loan Program cannot provide assistance to systems in significant non-compliance or with variances unless the State conducts a review. The review must determine that the project enables the system to return to compliance and maintain an adequate level of technical, managerial, and financial capability for continued compliance. This provision ensures that the DWSRF Loan Program focuses its support on systems with demonstrated commitment

and capability to meet national drinking water regulations, encouraging sustained

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compliance and protecting public health.

List of Projects

In accordance with Section 1452(b)(3)(B) of the SDWA, TDEC SRF has developed a PRL to identify projects that may receive funding in the initial year following the grant award. The PRL contains essential information about each community, including project description, total priority points, Ability To Pay Index (ATPI), total project cost, funding source, associated water system identification number, anticipated FFY 2023 Base Capitalization Grant principal forgiveness, anticipated FFY 2023 BIL General Supplemental principal forgiveness, amount of Green Project Reserve (GPR), expected construction start and end dates, and the projected terms of financial assistance.

The PRL contains a list of all eligible projects entities provided during the solicitation period. All projects that meet the definition of ready to proceed were scored, ranked, and listed above the Ranking Line on the PRL. Those projects not ready to proceed are listed below the Ranking Line. Once a project meets the definition of ready to proceed SRF may rank it and move it above the line at the end of the ranked list. SRF will focus efforts on entities with projects ready to proceed.

Readiness to proceed includes the following requirements:

- 3 years audited financials must have been submitted to Comptroller's office
- Projects that include construction must have a drafted Facilities Plan or Preliminary Engineering Report

The Appendix contains the DWSRF PRL, which exclusively includes eligible projects where the requested assistance's total cost is at least equal to the amount of the FFY 2023 Base Allotment and BIL General Supplemental Capitalization Grants. This ensures that the PRL focuses on projects that align with the available funding and prioritizes those with the greatest need and potential impact.

Funding of Projects

DWSRF Loan Program projects are prioritized based on the number of priority points awarded to them on the 2023 DWSRF PRL. The projects with the highest number of priority

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points and that are ready to proceed are given preference for funding, particularly the FFY 2023 Base Allotment and BIL General Supplemental Capitalization Grant funding. This prioritization emphasizes projects that are prepared to proceed with planning or construction, including those from small and disadvantaged communities, green and resilient infrastructure projects, and projects with subsidies. Once the EPA loan award date is determined, the SRF Loan Program will issue funding letters to all communities whose projects are listed on above the Ranking Line on the 2023 PRL. Project loans can be awarded on a monthly basis depending on the community's readiness to proceed and the scheduling of the Tennessee Local Development Authority board meeting. This systematic approach ensures the efficient allocation of resources to projects that are ready to move forward and supports the timely implementation of critical water infrastructure improvements across Tennessee.

Project By-Passing Procedures

Regardless of their rank on the 2023 PRL, projects may face the possibility of being bypassed if the communities are not prepared to proceed or fail to respond to the funding notification letter. However, the DWSRF Loan Program is committed to working closely with these bypassed entities to ensure that their projects remain eligible for funding in the subsequent fiscal year to the greatest extent possible. The program recognizes that unforeseen circumstances can arise, and exceptions to the funding order may be allowed under special circumstances. These exceptional projects typically involve unanticipated failures that require immediate attention to safeguard public health and safety, as well as improve water quality. By offering flexibility and assistance, the DWSRF Loan Program strives to address the needs of communities and ensure that critical water infrastructure projects receive the necessary support, even in challenging situations.

Subsidies and Affordability Criteria

The DWSRF Loan Program has established a range of opportunities through which communities and utility systems can harness SRF subsidies to their advantage. These options include reduced interest rates, which are detailed in the [ATPI Reduced Interest Rates](#) section, as well as principal forgiveness and the green project reserve subsidy. By exploring these alternatives, applicants can endeavor to alleviate the financial strain associated with their

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drinking water infrastructure improvements. Whether seeking funding for infrastructure projects, communities, and utility systems can leverage the program's multiple subsidy strategies to their benefit.

Total additional subsidy requirements for SRF may change annually based on federal legislation. Recent amendments to the SDWA have established additional subsidy requirements for states. The State is obligated to allocate a minimum of 12% of the capitalization grant amount as an additional subsidy. Additionally, Congress has stipulated at least 14% of the capitalization grant amount must be designated as an additional subsidy specifically targeted at disadvantaged communities.

Furthermore, the Bipartisan Infrastructure Law imposes a requirement for states to allocate 49% of the grant amount as additional subsidies. In line with this obligation, the state of Tennessee has developed multiple assistance options to support eligible entities with projects that fulfill the criteria for small, disadvantaged communities or align with the green project reserve.

By adhering to these regulations, Tennessee aims to ensure that funding is strategically allocated to projects on the 2023 Priority Ranking List (PRL) that fulfill the eligibility requirements for small, disadvantaged communities or green initiatives. These efforts emphasize the state's commitment to providing targeted assistance and support to those in need while advancing sustainable and environmentally conscious water infrastructure projects.

Principal Forgiveness for Small and Disadvantaged Communities

In response to Governor Lee's requests for rural community assistance, SRF gives high priority to small and economically disadvantaged communities for principal forgiveness. The designation of a disadvantaged community is based on the most up-to-date Ability to Pay Index (ATPI). To be considered disadvantaged, a community must score 50 or less on the ATPI. Small communities are defined as those with a population of 20,000 or fewer. The affordability criteria derived from the ATPI will also be used to prioritize projects with the same number of points on the PRL. Communities with greater economic needs and smaller populations will be ranked higher.

As part of TDEC's commitment to assist small, disadvantaged, and rural communities, SRF has developed various subsidy options. Principal forgiveness options are granted on a "first-

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come-first-serve" basis to eligible entities that are ready to proceed with their projects, until the available funds are depleted. SRF strives to maximize the amount of principal forgiveness for each entity wherever possible.

BIL General Supplemental Capitalization Grant Projects

First, SRF will distribute BIL General Supplemental funds and required principal forgiveness until available funding is exhausted. Entities on the PRL and above the Ranking Line are eligible to receive BIL funding on a first come first serve basis.

BIL Principal Forgiveness for Disadvantaged Communities: Eligible communities have the opportunity to receive 50% principal forgiveness, with a maximum amount of \$5,000,000 in forgiveness per project.

BIL General Capitalization Grant Additional Subsidy Available FFY 2023/SFY 2024		
Available Principal Forgiveness	Required 49%	\$ 17,367,070
Eligible Categories	BIL Principal Forgiveness (%)	Forgiveness Range
Principal Forgiveness for Disadvantaged Communities	50%	\$1 – \$5,000,000 per project

Table 2: BIL General Capitalization Grant Additional Subsidy

BIL Principal Forgiveness Eligibility Requirements:

1. Communities must have an ATPI of 50 or less
2. Projects must be on the current PRL
3. Projects shall be ready to proceed (based on the type of loan)
4. Entity must pass a financial sufficiency review by DWSRF
5. Projects must include construction (planning, design, and construction projects or construction solely).
6. Projects must include construction (planning, design, and construction projects or construction solely).
7. Cannot be combined with other forms of principal forgiveness

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Base SRF Capitalization Grant Projects

After BIL General Supplemental funds are exhausted, SRF will distribute Base Capitalization Grant dollars on a first come, first serve basis. Eligible entities on the PRL and above the Ranking Line will be eligible to receive Base Capitalization Grant principal forgiveness in one of three ways.

1. **Principal Forgiveness for Disadvantaged Communities:** Communities with ATPIs of 50 or lower are eligible for 20% principal forgiveness, with a maximum of \$2,500,000 in principal forgiveness per project.
2. **Priority Principal Forgiveness for Small Communities:** Small communities can receive 50% loan forgiveness specifically for planning and design purposes. The total principal forgiveness per project should not exceed \$250,000.
3. **Green Project Reserve Principal Forgiveness:** Communities of any size or ATPI may be eligible for this additional subsidy. Projects may receive up to 20% principal forgiveness of the loan amount, with a maximum limit of \$2,500,000 in principal forgiveness per project.

Base SRF Capitalization Grant Additional Subsidy Available FFY 2023/SFY 2024		
Available Principal Forgiveness	Required Minimum 26%	\$ 2,161,120
	Required Maximum 30%	\$ 2,909,200
Eligible Categories	Base Principal Forgiveness (%)	Forgiveness Amount
Principal Forgiveness for Disadvantaged Communities	20% of loan amount	\$1 – \$2,500,000
Priority Principal Forgiveness for Small communities	50% of loan amount	\$1 - \$250,000
Green Project Reserve (GPR) Principal Forgiveness	20% of loan amount	\$1 – \$2,500,000

Table 3: Base SRF Capitalization Grant Additional Subsidy

Standard Principal Forgiveness Eligibility Requirements:

1. Communities must have an ATPI of 50 or less

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2. Projects must be on the current PRL
3. Projects shall be ready to proceed (based on the type of loan)
4. Entity must pass a financial sufficiency review by DWSRF
5. Projects must include construction (planning, design, and construction or construction only).
6. Standard principal forgiveness will not be given for planning or planning and design loans.
7. Can only be combined with Green Project Reserve (20%) principal forgiveness if 20% of the loan costs are dedicated to projects that qualify as green infrastructure activities.

Priority Principal Forgiveness Eligibility Requirements:

1. Communities must have a population of 20,000 or fewer
2. Projects must be on the current PRL
3. Projects shall be ready to proceed (based on the type of loan)
4. Entity must pass a financial sufficiency review by DWSRF
5. Projects include planning or planning and design only
6. Cannot be combined with other forms of Principal Forgiveness

Green Project Reserve (GPR) Principal Forgiveness Eligibility Requirements:

The FFY 2023 Capitalization Grant provides flexibility for DWSRF funding to support environmentally innovative activities, such as green infrastructure, resilience, water or energy efficiency improvements. Each state has the discretion to determine which projects qualify for GPR funding. In the case of Tennessee, a minimum of 10% of the FFY 2023 project funds has been allocated to support eligible green projects. Furthermore, the state aims to achieve a target allocation of 18% for green projects.

To be eligible for a "green project," subsidy:

1. Projects must meet the definition of green project, including the eligibility requirements outlined in the [EPA Eligibilities Handbook](#)
2. Communities of any size and irrespective of their ATPI must have a project above the Ranking Line on the PRL
3. Projects must include construction

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4. Projects should align with one or more of the following categories: Water and Energy Efficiency, Green Infrastructure and Source Water Protection, or Resilient, Sustainable, and Environmentally Innovative initiatives.

Please note that the specific eligibility criteria and subsidy amounts for TN State Revolving Fund Capital Grants can vary depending on the type of project, the program within the SRF, and other factors. Additionally, the dollar amounts can vary depending on the project's scope and financial need.

ATPI Reduced Interest Rates

The Ability To Pay Index (ATPI) is a vital tool used by the State to allocate DWSRF subsidies and determine interest rates. Its creation and implementation are mandated by the Water Resources Reform and Development Act (WRRDA) of 2014 (33 U.S.C.A. §§ 2201 to 2355). The ATPI relies on a comprehensive socioeconomic and financial data database to aid in decision-making related to interest rates, subsidy allocation, and options designed to benefit communities with the greatest needs. This index is determined based on a standard distribution of affordability scores derived from nine factors specific to each community, including median household income, unemployment, food stamp dependence, families in poverty, community assets, revenues, debt, expenditures, and change in population. To ensure accuracy, the ATPI will be updated annually to reflect the current fiscal capacity, economic trends, and changes within communities across the state.

The interest rates assigned to communities in the DWSRF Loan Program are determined by their ATPI scores. These interest rates can range from 40 percent to 100 percent of the 20-year, 25-year, and 30-year Bond Buyer Index and the Municipal Market Data General Obligation Yields, which are published on a weekly basis. For utility districts and water authorities that serve multiple counties, the interest rates will be evaluated based on the lowest ATPI among the counties or cities directly benefiting from the associated project(s) linked to the loan.

The state has implemented a tiered interest rate reduction methodology aligned with a community's ATPI. Communities with ATPI scores in the low range of 0-20 receive a 0.40 multiplier, while those with scores ranging from 30-40 are awarded a 0.60 multiplier. Communities with ATPI scores between 50 and 60 receive a 0.80 multiplier, and those with scores of 70 or higher are assigned the standard reported interest rates. Additionally, the

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term of the loan further stratifies SRF interest rates. Once the loan terms are established, the appropriate base interest rate is selected. Following that, the community's ATPI is verified, and the corresponding multiplier is applied to the base interest rate to determine the SRF-awarded interest rate.

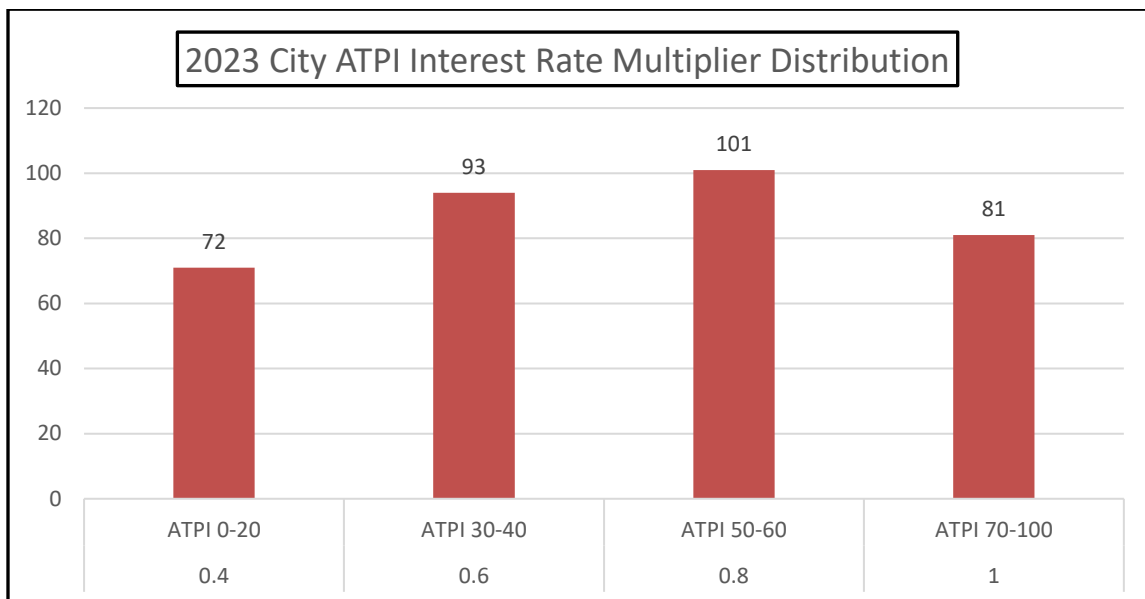


Figure 1: ATPI Interest Rate Multiplier Distribution

Loan Terms and Fees

The term for an SRF loan funded by the FFY 2023 Base allocation or BIL General Supplemental funding is limited to a maximum of 30 years or the project's useful life, whichever is shorter. Additionally, a loan fee of 8 basis points (0.08%) is charged by the Office of State Government Finance for all DWSRF loans awarded on or after October 1, 2009. These fees serve to cover the costs associated with personnel, operations, loan administration, payment disbursement requests, repayments, and fund management within the State Government Finance office.

Financial, Managerial, and Technical Capacity

Under Section 1452(a)(3) of the SDWA, the State is mandated to establish a process for evaluating the technical, financial, and managerial capabilities of water systems before granting a loan. On March 10, 1998, state law was amended to grant TDEC the authority to

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require new community water systems and non-transient, non-community water systems commencing operations after October 1, 1999, to demonstrate compliance with national primacy drinking water regulations, Tennessee SDWA provisions, and related rules. Furthermore, TDEC was empowered to develop a strategy to support PWSS (Public Water Supply Systems) in acquiring and maintaining the necessary capacities. The Capacity Development Program regulations for new systems came into effect on August 29, 1999. The state adheres to SDWA Section 1420(c)(3), which mandates evaluating the effectiveness of its capacity development strategy for ensuring the technical, managerial, and financial capabilities of PWSS providers.

To evaluate the technical, financial, and managerial capacities of water systems eligible for DWSRF loans, the state has established two boards. The Water and Wastewater Financing Board reviews cases involving county and municipal government water systems, as well as water and wastewater authorities. The Utility Management Review Board handles cases concerning utility districts and water and wastewater authorities. SRF loan applicants found to be in significant noncompliance will be required to demonstrate to the DWSRF Loan Program how their proposed project will achieve compliance. The program assesses documents providing evidence of the applicant's managerial, technical, and financial capacity. This evaluation enables TDEC to recommend loan approval to the Tennessee Local Development Authority Board.

Sources and Uses of Funds

The State of Tennessee's allotment of FFY 2023 DWSRF Base Capitalization Grant dollars is \$8,312,000. The State is required to provide a 20% match of federal funds or \$1,662,400. The Base Capitalization Grant plus State match less the 4% funds for administration will provide an expected \$14,166,880 in funds available for the DWSRF Loan Program in SFY 2024. The State of Tennessee's BIL General Supplemental allotment for FFY 2023 is \$35,443,000. The State must provide a 10% match of federal funds, or \$3,544,300, to receive the full general supplemental allotment. The BIL General Supplemental, less set-asides and 4% administrative funding plus state match, will provide an additional \$38,987,300 in funds available to the DWSRF Loan Program in SFY 2024. Based on the carry forward funds, principal repayments, loan interest income, and treasury interest income added to the available funds from the FFY 2023 DWSRF Base and BIL General Supplemental Capitalization Grants, the state can provide approximately **\$136,757,026** for project loans (Table 4).

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Financial Status of Funds for the DWSRF Loan Program	
Prior-Year (SFY2023) Carry-forward Funds*	\$85,871,313
Principal repayments **	\$11,028,000
Loan Interest Income**	\$1,217,000
Treasury Interest Income**	\$232,000
FFY 2023 Base Capitalization Grant	\$8,312,000
20% of FFY 2023 Base Capitalization Grant matched by State	\$1,662,400
FFY 2023 BIL General Supplemental Capitalization Grant	\$35,443,000
10% FFY 2023 BIL General Supplemental Capitalization Grant - State Match Funds	\$3,544,300
<u>Set Aside Activities:</u>	
SRF Administration:	
Base Capitalization Grant	\$0
BIL Supplemental Grant	\$969,466
State Program Management Public Water Supply Supervision (PWSS):	
Base Capitalization Grant	\$535,360
BIL Supplemental Grant	\$2,834,991
State Program Management – Operator Certification (FTC):	
Base Capitalization Grant	\$317,957
BIL Supplemental Grant	\$626,447
Small System Technical Assistance (SMS):	
Base Capitalization Grant	\$199,061
BIL Supplemental Grant	\$626,447
<u>Local Assistance:</u>	
SRF Wellhead Local Assistance:	
Base Capitalization Grant	\$0
BIL Supplemental Grant	\$187,884
SRF Source Water Protection:	
Base Capitalization Grant	\$0
BIL Supplemental Grant	\$260,000
BIL AMP Supplemental Grants:	
Base Capitalization Grant	\$0
BIL Supplemental Grant	\$3,886,620
DWSRF Loan Program Project Funds***	\$ 136,865,778
*Estimated balance at June 30, 2022, pre-year-end adjustments	
** Estimated principal, interest, and treasury interest for SFY 2023	

Table 4: Financial Status of Funds for the DSRF Loan Program

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Tennessee SRF is currently using cash flow modeling. This forecasting tool incorporates all inflows and outflows of the funds to estimate a state's capacity to make loans, ensuring the fullest use of available SRF infrastructure financing resources.

Uses of Funds

The SDWA allows each state the flexibility to establish the allocation of funds from Capitalization Grants used for infrastructure loans, assistance to financially disadvantaged communities, and set-aside activities. The state, in turn, is responsible for directing the funds to address water infrastructure problems.

The primary use of the Capitalization Grant and state match funds is to provide low-interest loans and other financial assistance to municipalities and rural water districts for the construction of public water supply projects. This assistance can be provided as one of the following loans, planning, planning and design, or construction. It is to be noted that not all drinking water compliance problems can be solved through capital financing of infrastructure improvements.

Administrative and Technical Assistance

The DWR intends to use \$969,466 of the FFY2023 BIL General Supplemental Capitalization Grant for administrative support, including database development, 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.

Set-Aside Activities

Sections 1452(g) and (k) of the Safe Drinking Water Act allow states to set aside up to 31% of the Capitalization Grant for specific activities. The eligible DWSRF set-aside types include administration and technical assistance (4%), small systems technical assistance (2%), state program management (10%), and local assistance and other state programs (15%). TDEC SRF intends to use \$10,552,985 total set-asides allowable under the law. Table 4 outlines the DWR funding source, program, amount of Base Capitalization Grant and BIL General Supplemental Capitalization Grant (both in percent and funds), and activities TDEC intends to fund through the set-aside allotment. Funds not expended in these categories by the end

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of the fiscal year will carry forward. The State of Tennessee reserves the right to use these funds later.

Category	Base Cap. Grant	% of Funding	BIL Cap. Grant	% of Funding	Total
SRF Administration	\$0	0%	\$969,466	2.5%	\$969,466
State Program Management Public Water Supply Supervision (PWSS):	\$535,360	5.4%	\$2,834,991	7.3%	\$3,370,351
State Program Management Operator Certification:	\$317,957	3.2%	\$626,447	1.6%	\$944,404
Small System Technical Assistance	\$199,061	2.0%	\$626,447	1.6%	\$934,260
Source Water Protection/Wellhead	\$0	0%	\$447,884	1.1%	\$447,884
AMP Grants	\$0	0%	\$3,886,620	10.0%	\$3,886,620

Table 5: DWSRF Base and BIL General Supplemental Capitalization Grant Set-aside Activities

The SDWA allows each state to set aside these funds from its federal capitalization grant to support various drinking water programs, including administration, technical assistance, state program management, and special activities. Outcomes from these activities are reported to EPA in the DWSRF Annual Reports.

State Program Management

The State of Tennessee intends to set aside of 8.6% or \$853,317 for the FFY 2023 DW Base Capitalization grant and 8.9% \$3,461,438 of the FFY 2023 DW BIL General Supplemental Capitalization Grant for Public Water Supply Supervision and State Operator Certification.

Public Water Supply Supervision (PWSS)

- For Public Water System Supervision programs activities under Section 1443(a)
- To further develop and implement a Capacity Development Strategy under Section 1420
- To implement a Laboratory Certification Program

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Tennessee Department of Environment and Conservations' (TDEC) Division of Water Resource (DWR) intends to use this 10 percent set-aside, also known as the State Program Management set-aside, to implement the Public Water System Supervision (PWSS) to purchase technical supplies along with the equipment necessary for the Drinking Water Program and to continue operator training efforts with the Fleming Training Center (FTC). DWR intends to use this set-aside fund to conduct the following activities:

- Review Drinking Water Engineering Plans
- Compliance Monitoring Data Management
- Technical Assistance
- Laboratory Certifications / Audits
- Enforcement / Compliance
- Sanitary Surveys
- Area Wide Optimization Program / Capacity Development Training and Assistance
- Technical Meetings / Training
- Regulatory adoption and implementation activities associated with the Lead and Copper Rule revision, Cybersecurity, and Consumer Confidence Reports
- Drinking Water Database research and business requirements identification

The State Program Management set aside for PWSS will also be directed towards salaries and benefits to retain approximately 25 positions or partial positions in DWR for those who conduct drinking water-related work activities along with the time and travel. During SFY 2024, DWR will use most of the set-aside money to continue the current activities related to Tennessee's PWSS program. Our work efforts include incorporating capacity development activities into the technical assistance provided to Tennessee's public water systems. In addition to continuing existing activities, DWR proposes to use set-aside money to continue to address issues raised by the 1996 amendments to SDWA, along with the continued implementation of the Revised Total Coliform Rule, SDWA updates, and regulatory adoption and rulemaking of the Lead and Copper Rule Revision, Cybersecurity rule revision, per-and poly-fluoroalkyl substances (PFAS) rulemaking and Consumer Confidence Report rule revisions. Further, DWR has begun identifying database needs across the drinking water compliance program. Due to upcoming Lead and Copper requirements, DWR has decided to review all drinking water compliance databases. DWR plans in SFY24 to analyze existing in-house technologies and programmatic needs and define project requirements to inform a

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third-party contractor procurement to either develop a Drinking Water database or acquire an existing commercial off-the-shelf solution. DWR continues to onboard laboratories to support electronic reporting and EPA's efforts to use Compliance Monitoring Data Portal (CMDP). DWR currently has five (5) commercial labs with approved users and thirteen (13) Public Water Systems with authorized users. DWR would like to work the next 12-15 months to double or triple the number of laboratories using CMDP.

Sustained Benefits

The PWSS program goals, objectives, and deliverables for SFY24 include such activities as continued implementation of the Enforcement Tracking Tool in conjunction with formal enforcement efforts; continuing to manage and implement the laboratory certification program statewide, continuing to improve TN's Area Wide Optimization Program (AWOP), record-keeping and evaluation of voluminous water quality data; and closely tracking, monitoring and reporting requirements for all public water systems. The set-aside will also provide the necessary training and travel expenses associated with the PWSS and laboratory certification programs. Other technical services and assistance to public water systems include addressing challenges related to the managerial, technical and financial capacity of public water systems. The PWSS program will continue to evaluate its success in assisting public water supply systems in achieving compliance with the SDWA. Results of the PWSS program will be provided in the DWSRF Annual Report.

Project Team:

- One Drinking Water Program Manager – Anna Sartors
- One Drinking Water Program Fellow – Erich Webber
- Two Administrative Support Members – Sandy Rittenhouse and Sandy Favinger
- Three Drinking Water Engineers – Cindy Wheeler, Souraya Fathi, Johanna McMinn
- Eight Drinking Water Laboratory Certification Officers – Prasad Subbanna, Amy Francis, Tim Hill, Will Pride, Lonnie McCloud, Crystal Stacy, Jason Benton, Dawn Taylor
- Six Drinking Water Compliance Data Management– Jeff Bagwell, Rebecca Rush, Sophia DeMarse, Tom Moss, Chris Allen, Vacant TDEC-Environmental Manager 2
- Two Area Wide Optimization Program staff -Thomas Killion, Jessica Rader,
- One Division of Water Resources Data Steward – Erin McComas
- One Administrative Service Assistant position – to be established and hired (using .5

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- yr salary)
- One Environmental Consultant (Cap Dev/QAQC/Cybersecurity) – to be hired (using .5 yr salary)

ACTIVITY	NUMBER PROJECTED
Technical Assistance Visits (Field Offices)	200
Drinking Water Laboratory Certifications	75
Drinking Water Laboratory Audits	40
Engineering Plans reviewed	100% reviewed within 30 days of receipt
Enforcement / Compliance	150 Compliance Status correspondence
Data Management	Reports are entered into the SDWIS database within 60 days of receipt.
Compliance Monitoring Data Portal Onboarding	6-9 laboratories
Database Planning and Design	One business document or draft Request for Proposal with cost estimates for FFY24 requests

Table 6: Projected activities scheduled for completion using PWSS set-aside funds

Operator Certification Program

The TN Department of Environment and Conservation (TDEC) plans to set aside two percent (2.0%) of the funds available in the FFY 2023 Capitalization Grant of \$1,190,188 to support the Operator Certification Program. These funds will provide partial funding for five (5) full-time positions at the Fleming Training Center and the data management program to track and certify operators.

Projected Grant Expenditures per month:

Month	1	2	3	4	5	6	7	8	9	10	11	12
Monthly Amount	\$99,182	\$99,182	\$99,182	\$99,182	\$99,182	\$99,182	\$99,182	\$99,182	\$99,182	\$99,182	\$99,182	\$99,182
Total to Date	\$99,182	\$198,364	\$297,564	\$396,728	\$495,910	\$595,092	\$694,274	\$793,456	\$892,638	\$991,820	\$1,091,002	\$1,190,188

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The FTC provides four primary services to water and wastewater treatment systems and operators:

1. Training individuals to become water and wastewater system operators;
2. Administering the State water and wastewater operator certification program;
3. Providing Continuing Education classes and seminars to certified operators allowing them to meet their CEU requirements; and
4. Providing technical assistance to water and wastewater facilities/operators.

A listing of the FY 2023 classes that are available to public water systems is available online at <https://www.tn.gov/environment/program-areas/wr-water-resources/fleming-training-center/ftc-redirect/schedule-of-classes---seminars.html>.

In FY 2023-24, the FTC instructor goals are to provide training and technical assistance to small water system operators to help them calibrate equipment, provide health and safety training needed for persons working at water and wastewater treatment facilities, promote compliance with the SDWA, and protection of public health and the environment. Fleming Training Center created a course specifically designed for operators of small water systems. Over time the class has grown from 3 days to 4 days in length. This course is offered at FTC at no charge to any operator of an SWS and virtually for remote training. A focal point of training this year will be laboratory testing. FTC staff have created seminars to assist operators in the methods for running lab tests as well as interpreting the test results. Course topics include bacteriological testing, chlorine, jar testing, and solids. Credit from these courses can be applied toward the required continuing education requirement for the operator. In addition to these courses, FTC offers multiple lab classes, applied mathematics classes, method update rule seminars, and various topics, such as safety, equipment, pumps, and regulations, covered in courses and seminars throughout the year. FTC is working toward offering more classes free of charge to small systems to ensure the needs of the operators are met.

The four instructors and certification staff at FTC can provide technical assistance and consultation to small systems through on-site visits to the water systems, social media, technical bulletins, e-mail, or by telephone. FTC provides Lab QA/QC training, general operational training, continuing education opportunities for operators, regulatory

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compliance guidance, operator certification assistance, and cross-connection control training. FTC will continue offering training and technical assistance to small systems serving 3,300 customers or less.

FTC will assess work accomplished each quarter. This includes training, continuing education classes, operator certification, and annual operator recertification. Class attendees take a pre-test and end-of-week test for each course, excluding math, to assess the knowledge gained and areas that need improvement. FTC also asks class attendees to complete evaluations of the training at the end of each class. This information helps evaluate trainers, class content, and class setting. This information is used to improve classes and seminars. Trip reports are completed after staff members provide on-site technical assistance and follow-up visits. The data is used to evaluate how well training classes prepare operators for their daily responsibilities.

FTC receives feedback from operators and regulators and has identified the need for additional training in laboratory testing and regulatory compliance resulting in expanded course offerings for SWS operators in these areas. FTC plans to continue addressing the laboratory training needs of the operators by purchasing additional laboratory equipment and designing training classes incorporating the new equipment. There is also an increasing need for training and certification for cross-connection control. FTC plans to meet this training demand by offering more certification courses, purchasing additional equipment, and upgrading and expanding the on-site, hands-on demonstration area. Training and continuing education opportunities will be provided to water and wastewater operators using various classes and seminars. FTC will also coordinate with TDEC staff and staff from other departments and agencies to offer courses and seminars across the state for more efficient and less costly operator training. Additionally, FTC staff has developed partnerships with institutions of higher learning in the region to expand training opportunities for current SWS operators and persons interested in becoming certified water and wastewater treatment plant operators. With the average age of the certified Tennessee Small Water System Operator being 58, these partnerships are necessary to address the need for an aging workforce and succession planning in water utilities.

The Tennessee Water and Wastewater Operator Certification Board uses ABC-generated examinations to assess operator competency. The Operator Certification Program is



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working with MTSU and COHRE to complete the development of a Tennessee Operator Certification Exam based on specific subject matter for the Tennessee Operator. The process began with a job task analysis and is currently in the item validation phase. The process will conclude in May 2023 with a validated subject matter and legally defensible exam for Tennessee Operators.

Small Systems Technical Assistance

The TN Department of Environment and Conservation (TDEC) plans to set aside two percent (2.0%) or \$199,061 of the funds available in the Small System Technical Assistance Set-Aside in the FFY 2023 Base Capitalization Grant and (1.6%) or \$626,447 of the FFY 2023 BIL Capitalization Grant to provide technical assistance to public water systems serving 10,000 or fewer persons. These funds will provide total funding for one (1) and partial funding for six (6) full-time positions at the Fleming Training Center (FTC) and training for small water system operators. FTC plans to increase the training center staff by one full-time position to meet the training needs of operators. Funds will be expended monthly across the fiscal year.

Local Assistance and Other State Programs

The State of Tennessee intends to set aside 1.1% or \$447,884 of the FFY 2023 BIL General Supplemental Capitalization Grant for source water protection and wellhead protection and to develop a set-aside assistance program for small or disadvantaged communities to further DWR's Capacity Development Strategy under 1420 of the SDWA as well as source water protection loans.

Source Water Protection Program

The State of Tennessee intends to use Local Assistance Set Aside Funds to assist public water systems and enhance the Source Water Protection Program.

Geographic Information Systems – Source Water Assessment

The Tennessee Department of Environment and Conservation (TDEC), Division of Water Resources (DWR) used FFY20 and FFY22 Local Assistance Set Aside Funds to work with partner divisions and the United States Geological Survey (USGS) to update the Source Water Assessment for the state of Tennessee. This assessment work will continue using

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FFY23 funds to enhance the geographic information system model, evaluate physical parameters and potential contamination sources, and assign vulnerability rankings to each public water system. The FFY23 additional funding will also be used to enhance public education and outreach to inform citizens and stakeholders of this continued work.

Real-time Groundwater Level Monitoring

TDEC is working with USGS to enhance the state's groundwater wells network. FFY20 and FFY22 funds were used to initiate this work, and FFY23 funds will continue to support this initiative to expand the network of wells. The intent is to establish a more robust groundwater level monitoring network to aid in evaluating aquifer conditions at representative areas throughout the state. Prioritization for monitoring locations will be weighted by drought-prone and historically affected areas. The information from these stations is intended to assist public water systems with establishing additional metrics for drought plan implementation and further research on water availability and capacity of public water systems.

Expenditures and technical assistance to protect and update SWP areas

TDEC is currently working with USGS for technical assistance and funding to support the Source Water Protection Program. This consists of activities to protect source water and delineate/update wellhead protection areas for public water systems. FFY20 and FFY22 funds were used to fund the initial portions of this initiative, and FFY23 funds are proposed to be used to continue this cooperative work for the same purposes. These projects include hydrogeologic evaluations, surface water and groundwater modeling, and/or dye tracing to identify groundwater recharge areas for aquifers used by public water systems.

The following positions will perform the activities:

- Drinking Water Consultant - (1)
- Drinking Water Consultant - (1)
- Partner agencies

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Projected Activity	Projected Outputs
Source Water Assessment Update	1 Statewide – 782 Individual PWSs
Real-time Groundwater Level Monitoring	Ten sites
Expenditures and technical assistance to protect and update SWP areas	Define recharge areas for some public water systems using springs

Table 7: Projected Source Water Protection program activities

Wellhead Protection Program

The State of Tennessee intends to use Local Assistance Set Aside Funds to continue funding a position responsible for coordinating Wellhead Protection Program activities, including:

- Review Wellhead Protection Plans provided by utilities
- Provide technical assistance and guidance to utilities for developing Wellhead Protection Plans
- Work with partners in other agencies to prioritize source water protection conservation projects
- Create a database of potential contaminant sources from state and other agencies. Geographic Information System (GIS) layers
- GIS analysis to examine potential sources of contamination within source water protection areas
- Work with interagency partners to update a statewide Source Water Assessment
- Assist internal and external customers with data requests regarding the proximity of municipal wells and wellhead protection areas

This additional position mentioned above has been integrated into the Drinking Water Unit to provide technical assistance for Well Head Protection Program implementation and assistance to public water systems. The position will assist in coordinating the Source Water Program, educational outreach, review of Source Water protection plans, steward of database required for the Source Water Assessment report update and help guide protection and conservation funding efforts with State Revolving Fund staff and partner agencies.

The following positions will perform the activities:

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- Drinking Water Wellhead Protection Program – Environmental Consultant -(1)
- Partner Agencies

Set-Aside Assistance Program

DWR will develop an assistance program for small or disadvantaged PWSs. The assistance program will focus on providing grants for capacity development programs and source water protection loans. During SFY 2024, staff from the drinking water program and the State Water Infrastructure Grants (SWIG) program will work together to create guidance documents, ranking systems, and priority list protocols for an assistance program focusing on supporting small or disadvantaged communities. SWIG staff's time dedicated to this effort will cost \$38,604 and include partial funding for three (3) State Water Infrastructure Grants staff. SWIG will coordinate with existing drinking water program staff to create a framework for the assistance program.

TDEC anticipates launching the assistance program by SFY 2024. DWR will publish outputs before the program's launch, including guidance and program requirements, define eligible entities, and define project criteria. Launching the program will require education, outreach, and marketing to small or disadvantaged public water systems. DWR will work with our existing program assistance vendor (TAUD) to reach the desired audience. In addition, the new program will require the development of a virtual portal for application submission and review. DWR will work with our TDEC Grants Management team to build a digital application and review process.

Program Assistance Contracts

Targeted Technical Assistance and Training for Small and Disadvantaged Communities

TDEC SRF will contract with the Tennessee Association of Utility Districts to develop a consolidated technical assistance contract to provide targeted technical assistance to distressed or disadvantaged communities. This contract will focus on issues with public water and wastewater systems; managerial, financial, and technical capacities for systems; assist in reducing the 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 drinking water; and implement priorities under TN H2O. Technical assistance will be

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provided at no cost to eligible communities.

State Program Management

DWR intends to set aside \$478,093 from FFY 2023 BIL LSL Capitalization Grant for program implementation. This effort will establish dedicated Public Water System Supervision (PWSS) staff and expand DWR's capacity by adding four (4) full-time positions dedicated to assisting PWSs with new lead and copper rule compliance and establishing pathways for complete LSL replacement.

DWR's Lead and Copper Rule Revision working group will identify small or disadvantaged systems with potential lead service line issues, provide education and training on LSL detection, and recommend replacement processes. PWSS staff will coordinate with technical assistance providers, including FTC, to create targeted LSL technical assistance for small and disadvantaged communities that need help addressing LSL issues.

DWR Staff will provide compliance assistance to water systems to support the rapid development of lead service line inventories (LSLI), replacement plans, and education and outreach material, all aimed at meeting the compliance deadline of October 16, 2024. We estimate 480 water systems with 2.8 million connections (excluding schools and Child Care Facilities) need compliance assistance with new Lead and Copper Rule Revisions (LCRR).

The PWSS LSL program aims to provide regulatory oversight and technical assistance to public water systems preparing for the LCRR. Staff will be responsible for the following activities:

- Assisting PWSs in maintaining current LCR requirements and preparing for LCRR rule adoption;
- Assist PWSs with accurate inventories of all LSLs in their distribution systems;
- Develop TDEC's standard inventory/replacement program structure and methodology in accordance with EPA guidance;
- LSL Replacement Program development;
- Provide LSL assistance such as evaluating draft inventories, reviewing identification; planning, design, and replacement plans and other associated activities;
- Conduct, coordinate and develop public education and outreach materials;
- Provide input and review of the LSL grant program framework, including eligibility; ranking criteria, and electronic grant application process;

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- Support small and disadvantaged systems with specific assistance for addressing LSL issues;
- Establish a data management schema for collection, evaluation, and reporting

The following positions will perform the duties:

- TDEC-Environmental Consultant 1 (1)
- TDEC-Environmental Scientist 3 (1)
- TDEC-Environmental Scientist 2 (1)
- TDEC-Environmental Protection Specialist 1 (1)

Local Assistance

TDEC intends to set aside \$8,975,600 from FFY 2023 conditional BIL LSL Grant to continue the development, launch, and execution of a grant assistance program for small or disadvantaged communities investigating and addressing lead service line issues and provide direct and indirect technical assistance for PWSs. This funding will award PWSs funds to investigate lead service line issues in their service area, establish compliant inventories, and provide dollars for planning and design for complete LSL replacement. The LSLI investigation, inventory, and planning assistance program will allow the rapid identification and inventory of LSLs and ensure PWSs have a plan for a series of projects for LSL replacement financed with SRF loans.

LCRR's dedicated staff will work with SWIG to develop the LSLI assistance program. During SFY 2024, LCRR and SWIG staff will work together to finalize the guidance documents, ranking systems, and priority list protocols for an assistance program that focuses on providing grants to small PWSs or disadvantaged PWSs. In the fall of 2023, SRF will solicit LSL construction loans. Executing this new loan opportunity will require the development of priority ranking systems, modification of the SRF loan document, and coordination for review and approval with the TN Local Development Authority and the Office of General Counsel to formalize the process. It will also take considerable time to conduct proper education and public outreach on applying for and securing funding for LSL inventories and replacements. SWIG and SRF staff time for this effort will be the standard 4% administration costs and include partial funding for three (3) State Water Infrastructure Grants staff and 3 SRF staff, the SRF Manager, Technical Manager, and Administration and Finance Manager. The 4% grant administration costs represented with the set-asides is 1,969,720.

TDEC is launching the assistance program in late FFY 2023. DWR will publish outputs before the program's launch, including guidance and program requirements, define eligible entities, and define project criteria. Launching the program will require education, outreach, and marketing to public water systems. DWR will work with our existing program assistance

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vendor (TAUD) to reach the desired audience. In addition, the new program will require the development of a virtual portal for application submission and review. DWR will work with our TDEC Grants Management team to build a digital application and review process.

Accurate inventories and plans ensure effective and efficient use of future BIL funds. Priority may be given to disadvantaged communities. The initial framework for an assistance program may include the following:

Development of the LSLI Program

- LSLI with material details for all service connections in the distribution system;
- Public records review, physical inspections, statistical analysis, investigative sampling (not for compliance), locating and mapping LSLs;
- LSLI activities that follow minimum requirements set by Federal and State regulations and guidance;
- Improve or establish PWSs internal capacity to collect, digitize, maintain, and report data

Development of LSL Replacement Plan Framework for PWSs

- Prioritization goals targeting known LSLs and LSL replacement for disadvantaged communities
- Complete Inventory of all LSLs in the distribution system
 - Method for identifying service lines of unknown material
 - Distribution of health effects and notices to all sites with unknown materials
- Strategies for informing customers before a full LSL replacement,
- An LSL replacement goal rate in the event of a lead trigger level exceedance,
 - Pitcher filter tracking and maintenance system
 - A procedure for customers to flush service lines and premise plumbing of particulate lead
- Non-compliance sampling of lead and copper after replacement service line

LSL Planning and Design Grants for Small or Disadvantaged Communities

- Follow minimum requirements set by Federal and State regulations and guidance;
- Full LSL replacement required;
- Planning and design must be for infrastructure projects;

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- Public outreach and notification campaigns, including costs to obtain customer's consent;
- Option to hire contractors to assist in LSLI activities.

BIL LSL Capitalization Grant

In addition to the base allotment and general supplemental allotment for FFY 2023, the passing of the BIL by Congress introduces substantial funding to provide assistance for systems to remove and replace lead service lines in drinking water systems. Over the next five years, billions will be invested in American water infrastructure, supporting this key area of focus. For FFY 2023, Tennessee's allotment for Lead Service Line (LSL) Replacement capitalization grant amounts to \$89,756,000. No state match is required for utilization of these funds. DWSRF intends to conditionally apply for the LSL capitalization grant to first use set aside funds to assist systems with inventory and planning for LSL replacement. DWSRF will continue to build internal and external capacity to educate, identify and address LSL issues throughout the state. DWR intends to set aside \$8,975,600 from FFY 2023 BIL LSL Grant for program execution.

DWR proposes the development of LSL inventory and planning grants and LSL direct and indirect technical assistance efforts, both aimed at helping small and disadvantaged systems identify needs, fund project development, build capacity, and create training opportunities.

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Capitalization Grant	Division and Program	Set Aside %	Activities	Funds
BIL LSL Capitalization Grant	DWR/ Drinking Water Unit	1% State Program Management - Public Water System Supervision (PWSS) LSL section	Develop LCRR program, investigation, publications, compliance, and inventory framework	\$478,093
	DWR/SWIG/SRF	4% Administration	Grant program launch and execution, sub-recipient monitoring, LSL loan program development, and execution	\$3,590,240
	DWR	10% Local Assistance	LSL grant program launch and execution, LSL Replacement Plan framework and execution, LSL Planning and Design grants program for SDCs	\$8,975,600
	TOTALS			\$ 13,043,933

Table 8: BIL LSL Capitalization Grant Expense Table

BIL Lead Service Line Replacement Capitalization Grant Additional Subsidy

Like the SRF Base Capitalization Grant and the BIL General Supplemental Grant, SRF will distribute BIL Lead Service Line Replacement Supplemental funds and required principal forgiveness until available funding is exhausted. Entities on the LSL PRL and above the Ranking Line are eligible to receive LSL funding on a first come first serve basis. All SRF loan requirements are also applicable to LSL loans.

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LSL Principal Forgiveness for Disadvantaged Communities: Eligible communities have the opportunity to receive 50% principal forgiveness, with a maximum amount of \$5,000,000 in forgiveness per project.

BIL Lead Service Line Replacement Capitalization Grant Additional Subsidy Available FFY 2023/SFY 2024		
Available Subsidy Funding	Required 49%	\$43,980,440
Eligible Categories	BIL Subsidy (%)	Dollar Amount (Approximate)
Principal Forgiveness for Disadvantaged Communities	50%	\$1 – \$5,000,000 per project

Table 9: LSL Funding Table

BIL Lead Principal Forgiveness Eligibility Requirements:

1. Communities must have an ATPI of 50 or less
2. Projects must be on the current PRL
3. Projects shall be ready to proceed (based on the type of loan)
4. Entity must pass a financial sufficiency review by DWSRF
5. Projects must include construction (planning, design, and construction projects or construction solely).
6. Projects must include construction (planning, design, and construction projects or construction solely).
7. Cannot be combined with other forms of principal forgiveness

Loan Recipient Project Requirements

All DWSRF projects must comply with all current DWSRF rules, regulations, policies, and procedures provided in this section.

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 over \$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

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projects in the area. The Davis-Bacon Act directs the Department of Labor to determine locally prevailing wage rates. The Davis-Bacon Act applies to contractors and subcontractors working 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 over \$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.

Disadvantaged Business Enterprise (DBE) Goals

DBE reporting is required in annual reports. Reporting is required for assistance agreements where funds are 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) with a cumulative total that exceeds the threshold amount of \$250,000, including amendments and/or modifications. All procurement actions are reportable when reporting is required, not just that portion that exceeds \$250,000.

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 must follow the requirements 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 DBEs are made aware of contracting opportunities to the fullest extent

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practicable through outreach and recruitment activities. For Indian Tribal, State, and Local 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 whether firms competing for large contracts could subcontract with DBEs in the contracting process. 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, the prime contractor must take the steps in paragraphs (1) through (5).

The recipient agrees to comply with the contract administration provisions of 40 CFR, Section 33.302 (a)-(d) and (i). Recipients of a Continuing Environmental Program Grant or other annual reporting grant agree to create and maintain a bidders list. Recipients of an EPA financial assistance agreement to capitalize a revolving loan fund also agree to require entities receiving identified loans to create and maintain a bidders list if the loan recipient is subject to competitive bidding requirements. Please see 40 CFR, Section 33.501 (b) and (c) for specific requirements and exemptions.

A class exception to the entire Subpart D of 40 CFR Part 33 has been authorized pursuant to the authority in 2 CFR 1500.3(b). Notwithstanding Subpart D of 40 CFR Part 33, recipients are not required to negotiate or apply fair share objectives in procurements under assistance agreements. The recipient agrees to complete and submit an "MBE/WBE Utilization Under Federal Grants and Cooperative Agreements" report (EPA Form 5700-52A) annually when

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required.

American Iron and Steel

The American Iron and Steel (AIS) provision requires the DWSRF assistance recipients to use iron and steel products produced in the United States. This requirement applies to projects for the construction, alteration, maintenance, or repair of a PWSS or treatment works and if the project is funded through an assistance agreement executed beginning January 17, 2014. AWIA extends the AIS provision for DWSRF projects through Fiscal Year 2023.

On October 23, 2018, the President signed AWIA, which includes several updates and revisions to the SDWA, including the DWSRF provisions. Section 2022 of AWIA amended Section 1452(a)(4)(A) of SDWA to extend the requirement for the use of American Iron and Steel (AIS) products in projects receiving financial assistance from the DWSRF during fiscal years 2019 through 2023.

Build America, Buy America (BABA) Act

The Bipartisan Infrastructure Law Title IX, Subtitle A, Part 1 requires all federal equivalency projects funded after May 14, 2022, to meet BABA requirements. BABA requires all the iron, steel, manufactured products, and construction materials used in the project to be produced in the United States. Iron and Steel products will still have to comply with AIS guidelines. For manufactured projects to meet BABA requirements, the cost of components mined, produced, or manufactured in the United States must be 55% or more of the total cost of all components and does not include labor costs. Common construction materials include non-ferrous metals, plastic, and polymer-based products (including polyvinylchloride, composite building materials, and polymers used in fiber optic cables, glass (including optic glass), lumber, and drywall.

Environmental Benefits

The State agrees to complete on a real-time basis the DWSRF PBR in accordance with the Procedures for Implementing Certain Provisions of the FFY 2021 Appropriation. The following information will be entered quarterly into the DWSRF PBR:

1. Type of GPR Project, if funded (green infrastructure, water efficiency, energy efficiency, environmentally innovative),

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2. Amount of SRF loan and amount of GPR funding,
3. Brief description of the GPR project,
4. The amount of subsidy provided,
5. Population served by the project, and
6. Information on the Environmental Benefits of the SRF Assistance Agreements.

Copies of the PBR worksheets will be placed in the Annual Report.

Annual Report Requirements

Section 1452 of the SDWA requires the State to complete and submit an Annual Report within 90 days after the end of the fiscal year covered by the IUP. This report will contain detailed information on how the State has met the goals and objectives of the previous year as stated in the IUP and Capitalization Grant agreement. Additionally, the Annual Report identifies 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 by DWSRF, the population of 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.

Pursuant to Section 1452 of the SDWA, the State certifies that:

- The State has the authority to establish a DWSRF Loan Program project loan fund and to operate the DWSRF Loan Program in accordance with the SDWA
- The State will comply with its statutes and regulations
- The State has the technical capability to operate the program
- The State will accept Capitalization Grant funds in accordance with a payment schedule
- The State will deposit all Capitalization Grant funds in the DWSRF Loan Program project fund or set-aside account
- The State will deposit interest earnings and repayments into the DWSRF Loan Program project fund

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- The State will use Generally Accepted Accounting Principles
- The State will have the DWSRF Loan Program project fund and set aside accounts audited annually in accordance with Generally Accepted Government Auditing Standards
- The State will adopt policies and procedures to ensure that borrowers have a dedicated source of revenue for repayments
- The State will commit and expend funds as efficiently as possible and in an expeditious and timely manner
- The funds will be used in accordance with the IUP
- The State will provide EPA with an Annual Report
- The State will comply with all federal cross-cutting authorities
- In addition, the State certifies that it will conduct environmental reviews on water system projects to satisfy the National Environmental Policy Act-like requirements. The State's Environmental Review Process procedures are in the approved Operating Agreement.
- The State publishes the draft Intended Use Plan annually for public comment on the SRF and DWR websites. The State provides a 30-day public comment period followed by a public meeting where the details of the IUP are reviewed. Any public comments received during this period are responded to and posted as a public notice along with the updated IUP. Modifications are made to the IUP when needed and after appropriate public notice is given.
- The State opens the Solicitation for Drinking Water projects in the winter and the summer of every year.

States can transfer up to 33% of the DWSRF Capitalization Grant into the Clean Water State Revolving Fund (CWSRF) or an equal dollar amount from the CWSRF into the DWSRF. 40 C.F.R. § 35.3555(c)(8). Tennessee reserves the right to transfer between these funds.

Amending the Intended Use Plan

The SRF Loan Program can amend the IUP to implement an efficient and effective program. Changes to the IUP that impact the program's administration will be made public on the SRF website and through appropriate communication channels.

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Appendix

[DW Priority Ranking List](#)
[Sources and Uses Table](#)

Appendix Drinking Water State Revolving Fund (DWSRF) Sources and Uses Administered by Tennessee Department of Environment and Conservation - State Revolving Fund Loan Program State Fiscal Year July 1, 2024 - June 30, 2024				
Sources and Uses	Federal Contribution	State Contribution	DW SRF Fund	Total
<i>Funding Sources</i>				
Prior Year Carry Forward Funds	\$ -	\$ -	\$ 85,871,313.00	\$ 85,871,313.00
Loan Repayments (P&I)	\$ -	\$ -	\$ 12,245,000.00	\$ 12,245,000.00
Investment Income	\$ -	\$ -	\$ 232,000.00	\$ 232,000.00
Banked Set Asides	\$ -	\$ -	\$ -	\$ -
FFY 2023 Capitalization Grant	\$ 8,312,000.00	\$ 1,662,400.00	\$ -	\$ 9,974,400.00
FFY 2023 BIL Capitalization Grant	\$ 35,443,000.00	\$ 3,544,300.00	\$ -	\$ 38,987,300.00
Totals for Funding Sources -	\$ 43,755,000.00	\$ 5,206,700.00	\$ 98,348,313.00	\$ 147,310,013.00
<i>Funding Uses</i>				
Project Disbursements	\$ 33,310,765.00	\$ 5,206,700.00	\$ 98,348,313.00	\$ 136,865,778.00
State Asides Spending	\$ 9,475,290.00	\$ -	\$ -	\$ 9,475,290.00
FFY 2023 Administration	\$ 968,945.00	\$ -	\$ -	\$ 968,945.00
Total for Funding Uses -	\$ 43,755,000.00	\$ 5,206,700.00	\$ 98,348,313.00	\$ 147,310,013.00