

**STATE OF WISCONSIN
SAFE DRINKING WATER LOAN PROGRAM
INTENDED USE PLAN
FOR FFY 2016 FUNDS
FOR THE SFY 2017 FUNDING CYCLE**



revised draft June 2016

**ADMINISTERED BY
THE DEPARTMENT OF NATURAL RESOURCES
AND
THE DEPARTMENT OF ADMINISTRATION**

**WISCONSIN DEPARTMENT OF NATURAL RESOURCES
SAFE DRINKING WATER LOAN PROGRAM INTENDED USE PLAN
Covering Funding During State Fiscal Year 2017
For Receipt of the EPA Federal Fiscal Year 2016 Capitalization Grant**

I. INTRODUCTION

The Safe Drinking Water Act (SDWA) Amendments of 1996 (Public Law 104-182) were signed into law on August 6, 1996. Section 1452 of this Act authorized the Administrator of the U.S. Environmental Protection Agency (EPA) to establish the Drinking Water State Revolving Fund (DWSRF) program. The DWSRF was established to assist public water systems with financing the costs of infrastructure needed to achieve and maintain compliance with the requirements of the SDWA and to protect public health.

Section 1452(b) of the SDWA requires that each state prepare an annual Intended Use Plan (IUP) that identifies the uses of the funds in the DWSRF and describes how those funds support the goals of the Act. This document and its attachments comprise the State of Wisconsin Intended Use Plan for Federal Fiscal Year (FFY) 2016 DWSRF Capitalization Grant funds and other monies available in the revolving loan fund. The IUP is a part of Wisconsin's capitalization grant agreement package for FFY 2016 and covers anticipated activity during State Fiscal Year (SFY) 2017. Assurances and specific proposals for meeting Federal requirements are provided in the Operating Agreement between the State and EPA Region 5.

II. DESCRIPTION OF THE SAFE DRINKING WATER LOAN PROGRAM

The SDWLP operates as a direct loan program. Proceeds from general obligation bonds issued by the State provide the state match (equal to 20% of the capitalization grant). The program is jointly administered by the Department of Natural Resources (DNR) and the Department of Administration (DOA) as a program under the Environmental Improvement Fund (EIF).

A local governmental unit may receive financial assistance for projects with the following purposes:

- 1) Address SDWA health standards that have been exceeded or to prevent future violations of health standards and regulations contained in ch. NR 809, Wis. Adm. Code. This includes projects to maintain compliance with existing regulations for contaminants with acute health effects and regulations for contaminants with chronic health effects.
- 2) Replace infrastructure if necessary to maintain compliance or further the public health protection goals of the SDWA. This includes projects with any of the following purposes:
 - a. To rehabilitate or develop sources, excluding reservoirs, dams, dam rehabilitation and water rights, to replace contaminated sources;
 - b. To install or upgrade treatment facilities if, in the department's opinion, the project would improve the quality of drinking water to comply with primary or secondary drinking water standards;
 - c. To install or upgrade storage facilities, including finished water reservoirs, to prevent microbiological contaminants from entering the public water system;
 - d. To install or replace transmission and distribution pipes to prevent contamination caused by leaks or breaks in the pipe, or improve water pressure to safe levels.
- 3) Consolidate existing community water systems that have technical, financial or managerial difficulties. Projects for consolidating existing systems shall be limited in scope to the service area of the systems being consolidated.
- 4) Purchase a portion of another public water system's capacity if it is the most cost effective solution.
- 5) Restructure a public water system that is in noncompliance with SDWA requirements or lacks the technical, managerial and financial capability to maintain the system if the assistance will ensure that the system will return to and maintain compliance with SDWA requirements.
- 6) Create a new community water system or expand an existing community water system that, upon completion, will address an existing public health threat from contaminated drinking water provided by individual wells or surface water sources. Projects to address existing public health threats associated with individual wells or surface water sources

shall be limited in scope to the specific geographic area affected by contamination and shall be a cost-effective solution to resolve the problem threatening public health. These types of projects must meet all of the following criteria:

- a. The municipality submits documentation, such as well sampling results, showing that the MCL (maximum contaminant limit) for a microbiological, nitrate or nitrite, or chronic contaminant is exceeded by 40% or more of the individual wells or surface water sources within the affected area; or other documentation that indicates contamination is imminent.
- b. The department determines that a community water system is a necessary and appropriate response to the contamination.

Subject to the applicable requirements of ss. 281.59 and 281.61, Wis. Stats., the SDWLP may provide the following types of assistance for an eligible project unless the project has been substantially complete for three years or longer or the applicant already has long-term outstanding debt for a completed or substantially completed project:

- 1) Purchase or refinance the debt obligation of a local governmental unit if the debt was incurred to finance the cost of constructing an eligible project that is located within the State.
- 2) Guarantee, or purchase insurance for, municipal obligations for the construction of public water systems, if the guarantee or purchase would improve credit market access or reduce interest costs applicable to the obligation.
- 3) Make loans below the market interest rate.

The SDWLP offers loans at a subsidized interest rate of 55% of the State's market rate. Loans to disadvantaged communities are at 33% of the State's market rate. The State's market rate is the effective interest rate, as determined by DOA, of a revenue obligation issued by the State to fund loans under the EIF. The market rate in effect for July 1, 2016 through September 30, 2016 is 3.00%. This rate is subject to change quarterly.

SDWLP loans must mature no more than 20 years from the date of the first loan disbursement to the community. Interest payments are required semi-annually on May 1st and November 1st while principal payments are required annually on May 1st. No fees are assessed under the SDWLP.

III. SOURCES AND USES OF FUNDS

The FFY 2016 appropriation for the DWSRF once again contained additional requirements including the requirement to allocate 20% of the capitalization grant as additional subsidization. The SDWLP will be providing 20% of the grant (\$2,899,200) as additional subsidy in the form of principal forgiveness. In addition to that 20%, EPA has interpreted the federal statutes and the appropriation act to allow an additional 30% of the capitalization grant (\$4,348,800) to be used as additional subsidy under the existing authority for a disadvantaged community program bringing the total available principal forgiveness for SFY 2017 to \$7,248,000. In addition, the department will make an additional \$7,500,000 in PF available from existing funds using the authority from two older capitalization grants where the State did not utilize all the PF funds available. The available principal forgiveness will be divided into two pots; one for regular principal forgiveness and the other for the purpose of replacing lead service lines on private property in communities that qualify as disadvantaged under the SDWLP's affordability criteria and principal forgiveness allocation methodology. Allocation of the regular principal forgiveness and the principal forgiveness for lead service line replacements is discussed in section IX below.

All state matching funds for the FFY 2016 capitalization grant will be disbursed to loan recipients before the State makes the first draw of federal funds from the grant. Thereafter, all draws against the FFY 2016 grant will be made at a cash draw ratio of 100% federal funds.

Funds available during SFY 2017 and their intended uses include the following:

FFY 2016 Capitalization Grant	\$14,496,000
State Match	\$2,899,200
Other Funds Available in the SRF	<u>\$94,958,200</u>
Total Amount for SFY 2017	\$112,353,400

Set-aside Amounts:		
Administration	\$779,840	
Wellhead Protection	\$587,535	
Technical Assistance	\$289,920	
Local Assistance	\$1,105,950	
State Program Management	<u>\$1,560,513</u>	
Total Amount of Set-asides	\$4,323,758	
Regular Principal Forgiveness	\$4,040,829	(includes \$1,140,829 rolled forward from SFY 2016)
Lead Service Line Principal Forgiveness	\$11,848,000	
Subsidized Loans	\$92,140,813	

IV. BANKING OF SET-ASIDE FUNDS

The State has previously banked \$3,242,204 in Administrative funds, \$10,055,860 in State Program Management funds, and \$534,580 in Small Systems Technical Assistance for a total of \$13,832,644 of banked set-aside funds. The State requests to draw \$110,913 of banked State Program Management funds and \$200,000 of banked Administrative funds under this IUP. This will reduce the total banked funds to \$13,521,731. These banked funds are available for possible designation from a future capitalization grant.

V. TRANSFER OF FUNDS FROM CWSRF TO DWSRF

Federal regulations allow a transfer between the State Revolving Funds of up to 33% of the amount of the Drinking Water Capitalization Grants. The State transferred a total of \$23,596,056 in funds from the Clean Water Fund Program (CWFP) to the SDWLP prior to FFY 2002. The State is considering an additional transfer from the CWFP to the SDWLP. The need for this transfer will be evaluated once the application deadline has passed. If a transfer is deemed necessary, it will be outlined in the Final IUP.

VI. SHORT- AND LONG-TERM GOALS

A. Short-Term Goals:

- Direct funds to the State's most urgent SDWA compliance and public health needs;
- Develop and improve strategies, programs, and mechanisms to ensure, improve and evaluate the ability of public water systems to provide safe drinking water;
- Provide financial assistance, including the maximum amount of federally required principal forgiveness, to economically disadvantaged communities for the purpose of installing the necessary infrastructure to provide an adequate supply of safe drinking water;
- Provide additional financial assistance in the form of principal forgiveness to economically disadvantaged communities for the purpose of replacing privately-owned lead service lines;
- Protect municipal drinking water supplies by facilitating the development and implementation of wellhead protection plans;
- Facilitate the use of Clean Water funds where infrastructure projects for water systems support the objectives of the Clean Water Act; and
- Encourage public water systems to plan for the impacts of climate change, and provide funding through the SDWLP for projects which implement climate change resiliency.

B. Long-Term Goals:

- Assist public water systems in achieving and maintaining compliance with all applicable State and Federal drinking water requirements;
- Facilitate the replacement of all the remaining lead service lines, in their entirety, in the State;

- Protect the public health and environmental quality of the State;
- Manage the revolving loan fund in such a way as to protect its long-term integrity and enable it to revolve in perpetuity;
- Maintain existing partnerships with other State and Federal financing sources to coordinate funding and promote efficiency for both the agencies and the applicants;
- Monitor the progress of State programs and strategies in improving the ability of public water systems to provide safe drinking water;
- Maintain a program for ensuring that all public water systems are constructed, operated, maintained, and monitored properly;
- Protect drinking water supplies by integrating wellhead protection and source water protection efforts with other water and land use programs;
- Expand eligibility for financial assistance to include non-municipal systems; and
- Develop methods and mechanisms for measuring program effectiveness.

VII. METHOD AND CRITERIA FOR DISTRIBUTION OF LOAN FUNDS

The priority scoring and ranking system for the SDWLP is detailed in Subchapter III of ch. NR 166, Wis. Adm. Code. The purpose of the priority scoring criteria is to establish a list of eligible projects to be funded in a manner that is in accordance with the Federal requirements of the 1996 SDWA reauthorization. The act requires, to the maximum extent practicable, that priority ranking be given to projects that: 1) address the most serious risk to human health; 2) are necessary to ensure compliance with the requirements of the SDWA (including requirements for filtration); and 3) assist systems most in need on a per household basis according to State affordability criteria.

Wisconsin's priority scoring and ranking criteria give first priority to acute public health risks, particularly those related to microbiological organisms, and second priority to situations that pose chronic and longer-term health risks to consumers, such as organic chemical contamination. The scoring criteria also consider issues that are related to infrastructure upgrading or replacement, to address those projects (or portions of a project) that are eligible for funding but not included in the first two sections.

Projects are granted additional points if the project is associated with a system considered most in need of financial assistance on a per household basis. A public water system must have a population less than 10,000 and a median household income (MHI) less than or equal to 80% of the State's MHI to qualify for any points related to financial need.

Projects which meet the application deadline are listed on the funding list in priority order. The fundable range is established in priority order, except when ranking projects in priority order does not result in at least 15% of the funds being allocated to small systems serving less than 10,000 people. In this case, systems serving less than 10,000 people are given priority until the 15% funding allocation requirement is met.

VIII. COMPLIANCE WITH FEDERAL REQUIREMENTS

A. Consolidated Appropriations Act of 2016

The FFY 2016 Consolidated Appropriations Act (P.L. 114-113) was enacted on December 15, 2015 and once again contained additional requirements beyond what is included in the federal regulations governing the DWSRF. The requirements for FFY 2016 include: the provision that not less than 20% of the amount of the FFY 2016 DWSRF capitalization grant be used to provide additional subsidization in the form of grants, principal forgiveness, or negative interest rate loans; and a requirement for the Use of American Iron and Steel. These requirements are addressed in further detail below. Projects which address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities are still eligible for funding but there is no longer a requirement to spend a specific percentage of the capitalization grant funds on green projects.

B. Use of American Iron and Steel

P.L. 114-113 continued the requirement for the Use of American Iron and Steel. This requires DWSRF assistance recipients to

use iron and steel products that are produced in the United States for projects for the construction, alteration, maintenance, or repair of a public water system. The requirement only applies to projects where the plans and specifications for the project were approved on or after December 16, 2014.

Information on this requirement has been detailed in the program newsletter and on the program website. Language has been added to the Financial Assistance Agreements and all municipalities with projects subject to the use of American iron and steel provisions are being required to certify that they will meet the requirements before closing on their loan and also to certify that the requirements were met as part of project closeout. More information on the requirement and the certification form are available on our program website at: <http://dnr.wi.gov/Aid/U AIS.html>.

C. Green Project Reserve

P.L. 114-113 did not reinstate the requirement to fund projects under the Green Project Reserve (GPR). The Appropriations Act instead stated that DWSRF capitalization grant funds may, at the discretion of the State, be used for projects which address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. The State is still asking applicants to complete the Green Project Reserve form (8700-357). Any GPR projects which receive funding will be reported to EPA in the Annual Report and as discussed in section VIII. F. below.

D. Davis-Bacon Act

P.L. 112-74 (the FFY 2012 Appropriations Act) extended the requirement for compliance with the Davis-Bacon wage rate requirements of section 1450(e) of the SDWA for each fiscal year thereafter. On November 30, 2009, EPA issued a memorandum interpreting the appropriations bill language as applying Davis-Bacon requirements to all projects funded by the State Revolving Funds.

Information has been posted on the program website stating that Davis-Bacon requirements apply. Required contract language is also posted on the website. All projects receiving funding are required to certify their weekly payrolls on their disbursement request forms. Compliance is further verified during field inspections of projects and an additional certification that the requirements were met is required as part of project closeout.

E. Federal Equivalency

EPA requires States to designate projects in an amount equal to each year's capitalization grant to meet some additional federal requirements. These projects are referred to as *Federal Equivalency* projects. Prior to SFY 2016, all SDWLP projects were treated as Federal Equivalency projects. Starting with SFY 2016 a decision was made to change how equivalency requirements are being handled in order to mirror the CWF. Every year, as necessary, a number of projects from the Project Priority List will be chosen and designated to meet the Federal Equivalency requirements. These will be larger projects in larger municipalities with the intent of relieving smaller municipalities of any additional costs related to the equivalency requirements.

Eight projects from the SFY 2017 Project Priority List were notified in March that they were being designated as Federal Equivalency. These projects all have estimated costs over \$2 million and are located in municipalities with populations over 20,000.

The additional requirements that Federal Equivalency projects must meet include: compliance with applicable "cross-cutting" federal regulations; compliance with the Single Audit Act; compliance with EPA's new signage requirement; submittal of form 8700-201, *Federal Equivalency Projects Assurances and Certification*; and compliance with the federal DBE solicitation rules. More information on these requirements – including a list of the cross-cutting federal regulations - will be added to our program webpages in the near future.

F. Reporting

The State agrees to comply with the reporting requirements contained in the *Procedures for Implementing Certain Provisions of EPA's Fiscal Year 2012 Appropriations Affecting the Clean Water and Drinking Water State Revolving Fund Programs* or any modified version of this guidance issued for FFY 2016. Information will be entered into the Drinking Water Project Benefits Reporting system (PBR) no less often than quarterly and will include the use of funds for the GPR and additional subsidization as well as project benefits.

The State has been using PBR for reporting project benefits of all SRF loans issued by the SDWLP starting with activity in SFY 2009.

IX. DISADVANTAGED COMMUNITIES PROGRAM & PRINCIPAL FORGIVENESS

The SDWLP offers a lower interest rate to local governmental units that meet two eligibility criteria. This rate is 33% of the State's market rate. Local governmental units that do not meet the two criteria receive loans at 55% of the State's market rate. The two eligibility criteria are:

- 1) the local governmental unit's population must be less than 10,000; and
- 2) the local governmental unit's MHI must be 80% or less of the State's MHI.

In addition, the methodology used to allocate principal forgiveness is based on population, MHI, and unemployment, and gives the highest percentage of principal forgiveness to those local governmental units that have the greatest financial need. The methodology for allocating principal forgiveness is described below and applies to regular principal forgiveness. The methodology is also used to determine eligibility for principal forgiveness allocated for lead service line replacement on private property. Any municipality receiving principal forgiveness must meet the affordability criteria described below.

A. Affordability Criteria and Methodology for Distribution of Regular Principal Forgiveness Funds

The Water Resources Reform and Development Act (WRRDA), which was passed on June 10, 2014, amended the Clean Water Act and imposed a number of new requirements on the Clean Water SRF. One of these was a requirement to develop affordability criteria for use in allocating additional subsidy (principal forgiveness). The affordability criteria are required to include income, unemployment data, and population trends. The previous methodology, which was used from SFY 2013 through SFY 2015 to allocate principal forgiveness (PF), took income and population into account but did not include unemployment data or population trends. Those criteria were added to the methodology starting with SFY 2016. The new methodology is being used to allocate PF in both the Clean Water Fund Program and the SDWLP.

The PF allocation methodology is structured to allocate PF funds to the highest priority projects in municipalities with the greatest financial need, as determined by MHI, population, population projections over 20 years, and average county unemployment rate over the past 12 months.

For SFY 2017, there will be two types of principal forgiveness funds – regular PF and PF for lead service line replacements on private property (described in section IX. C. below). The regular PF will be in the amount of \$2,900,000 plus \$1,140,829 that is being rolled forward from the SFY 2016 list for a total of \$4,040,829 in regular PF funds. Applications submitted by June 30, 2016 will be ranked in priority score order and then the following PF methodology will apply:

- Population points ranging from 0 to 50 are awarded under table 1 with the highest points going to the smallest populations. (See next page for tables.)
- MHI points ranging from 0 to 100 are awarded under table 2 based on the municipality's MHI's percentage of the State's MHI with the highest points going to the lowest MHI percentages.
- Additional points for population trends and unemployment are awarded under table 3. Unemployment data will be the average unemployment percentage for the most recent 12 months of data available as of the application date. Population projections used are those published by the DOA Demographic Services Section.
- Scores from tables 1 through 3 are added together and then used to determine the eligible PF percentage in table 4. (See tables below).
- Projects in municipalities that are Green Tier Legacy Communities or that are providing disinfection where it was not provided previously are eligible for an additional 10% PF on top of the percentage determined by table 4, with the caveat that no municipality can receive PF for more than 70% of total project costs.
- The amount of PF any municipality can receive in a SFY is capped at \$500,000. Additionally, a single project cannot

receive more than one full PF allocation (based on the eligible PF percentage and/or the cap) even if that project is funded from two or more SFYs.

Table 1	
Points	Population
0	15,000+
2	10,000–14,999
5	8,500–9,999
10	5,000–8,499
15	3,000–4,999
20	2,000–2,999
25	1,500–1,999
30	1,000–1,499
35	500–999
40	250–499
50	0-249

Table 2	
Points	MHI Percent
0	141%+
2	126-140%
5	116-125%
10	106-115%
15	101-105%
20	96-100%
25	91-95%
30	86-90%
40	81-85%
50	76-80%
60	71-75%
70	66-70%
85	61-65%
100	<61%

Table 3	
Points	Additional Criteria
5	Projected to lose 10% or more of population over 20 years
5	County unemployment rate is > State's unemployment rate by less than one percentage point
10	County unemployment rate is > State's unemployment rate by one percentage point or more

Table 4	
Total Score	PF Percent
0-29	No PF
30-54	15%
55-79	30%
80-99	45%
100-165	60%

B. Other Policies Regarding Regular Principal Forgiveness

- **No PF roll-down** - PF amounts may shift between projects within the fundable range on the final funding list. If any PF remains after all projects in the fundable range have closed on loans, this PF will be moved forward to the next year's funding list. No PF will roll down past the last project identified in the fundable range for PF on the Final SFY 2017 Funding List.
- **No PF-only awards** - In previous years, the SDWLP has allowed applicants to be awarded only the PF portion of their financial assistance without taking the remaining costs as a loan. Starting with SFY 2016 this is no longer allowed. In order to be awarded PF, all applicants will also be required to accept a loan from the SDWLP for additional project costs. The only exception to this policy will be in instances where the PF is being incorporated into a larger funding package with other governmental agencies such as USDA-Rural Development.
- **No PF on costs covered by other grant funding** – when calculating project costs eligible for PF, other grant funds (CDBG, USDA-RD, etc.) are deducted from total eligible project costs before applying the eligible PF percentage determined in table 4 above. *Loan* funds received from other sources are not deducted before calculating the eligible PF amount.
- **PF restrictions on refinancing** - due to restrictions contained in the FFY 2016 appropriations act (P.L. 114-113), PF cannot be used to refinance costs paid by interim financing that was incurred prior to December 18, 2015, the date the appropriations act was enacted. This restriction only applies to the \$2,899,200 that was mandated by the appropriations act.

C. Principal Forgiveness for Lead Service Line Replacements on Private Property

Recent events in Flint, Michigan, have focused the public's attention on the issue of lead leaching into drinking water from older lead pipes. Because lead may leach into drinking water and be released in scale during system repairs, the best option is to replace all pipes, joints, and fixtures that contain lead, including privately-owned service lines. This solution, while the best option, may be costly for municipalities and homeowners. An additional complication is the fact that in Wisconsin, municipalities are not allowed to incorporate the cost of privately-owned lead service line replacements into user rates.

To help municipalities deal with this public health threat, the department made a decision to allocate a portion of the available principal forgiveness to the replacement of privately-owned lead service lines (LSLs). During SFY 2017, a total of \$11,848,000 in PF will be available for this purpose. Of this amount, \$4,348,000 is from the FFY 2016 capitalization grant and \$7,500,000 is from existing funds using the authority from two older capitalization grants where the State did not utilize all the PF funds available. Any PF allocated for LSL replacement would be in addition to regular PF awarded through the methodology described above. Any unused LSL PF will be available for SFY 2018 LSL replacement projects.

➤ **General Description of Eligible Private LSL Replacement Program Projects**

Private LSL replacement projects can take several forms but must always result in complete LSL replacement. The SDWLP will not provide funding for private LSL replacement when the public side is still composed of lead unless the municipality replaces the lead public portion at the same time. The private LSL replacements can be done as part of a larger watermain replacement project. Private LSL replacements can be done as spot replacements where the municipality goes back and replaces the private LSL in areas where the public side of the LSL has already been replaced. Private LSL replacements can also be done through a municipal program. Municipal programs can be set up to provide 100% reimbursement of the homeowner's cost, partial reimbursement of the homeowner's cost, or could be implemented as a revolving loan fund for LSL replacements. The exact form the LSL replacements take is up to the individual municipality.

The original draft IUP also offered an option for municipalities that do not qualify under the PF allocation methodology to apply for targeted assistance to be used in low-income neighborhoods. EPA subsequently informed us that this option is not available under the federal regulations governing the SDWLP. This determination is based on the definition of a disadvantaged community contained in Section 1452 of the SDWA. Section 1452 defines a disadvantaged community as "the service area of a public water system that meets affordability criteria established after public review and comment by the State in which the water system is located." This definition precludes providing targeted assistance in municipalities that do not meet the affordability criteria (the PF methodology).

➤ **Amounts of LSL PF Funding Available**

Any municipality that qualifies under the PF allocation methodology described in section IX. A. (PF score of 30 points or more) is eligible to receive PF for LSL replacement, up to the cap established for their population, regardless of the project's ranking on the funding list. Any PF awarded to a municipality for LSL replacements will be in addition to any PF awarded through the normal process described in section IX. A. The PF for LSL replacements will be disbursed as a reimbursement for costs specific to LSL replacement. This can include any costs directly associated with the LSL work on private property (e.g., costs of determining where private LSLs are located, amounts paid to engineers or plumbers, administrative expenses incurred to run a municipal LSL replacement program, etc.).

Because the available funds are limited, the department has structured the LSL PF with three funding tiers based on municipal population. These funding tiers define the maximum amount of LSL PF that can be awarded to any one municipality in a single SFY for replacing private residential LSLs (not including any LSL PF awarded for K-12 schools and licensed daycare centers). The caps are as described below:

- The LSL PF cap for municipalities with a population less than 50,000 is \$300,000.
- The LSL PF cap for municipalities with a population of 50,000 up to 499,999 is \$500,000.
- The LSL PF cap for municipalities with a population of 500,000 or greater is \$1,000,000.
- Like the cap for regular PF, the caps for LSL PF limit the amount of LSL PF a municipality may receive in one SFY. A municipality may apply for LSL PF up to the applicable cap in each SFY that these funds are available until they've replaced all known private LSLs in the municipality.
- In addition to the caps described above, PF funds will also be awarded for the cost of replacing privately-owned LSLs for K-12 schools and licensed daycare centers. There is no cap on these specific costs.

➤ **More Detailed Information is on our Website**

A webpage specific to private LSL replacement projects is available on the program website - <http://dnr.wi.gov/Aid/documents/EIF/leadServiceLineFunding.html>. On this webpage you will find an addendum to the SDWLP Financial Assistance Application for the purposes of applying for LSL replacement PF as well as a FAQ document. Also, please note that for municipalities that did not submit Intent to Apply information by the October 31, 2015 deadline, the department is approving variances to the Intent to Apply deadline to allow those municipalities the opportunity to apply for LSL replacement PF. A template letter for requesting a variance is also available at the link above.

➤ **Prioritization and Allocation of Funds**

The existing Priority Scoring and Ranking Formula (PERF) does not adequately accommodate the private LSL replacement projects. The PERF ranks projects based on the project scope, which describes the problem being solved. For the LSL replacement program, the project scope will be the same for all LSL applications. The section of PERF scoring that could vary points for LSL projects is the Financial Needs Section. The Financial Needs Section awards 0 points to municipalities with a population above 10,000 or an MHI greater than 80% of the State's MHI. The Financial Needs Section is structured this way in recognition of the fact that in larger municipalities the cost of a traditional project is able to be spread among a larger number of users. In the case of private LSL projects, user fees cannot be used to cover the costs and thus the PERF ranking system is inappropriate to use for determining priorities for LSL program funding.

If the department receives applications for LSL PF that cumulatively total more than the funds available, a funding list will be developed using the prioritization methodology described below in order to allocate the funds.

Applicants for LSL PF will be ranked using a score based on two components: the regular PF score determination (which includes population, MHI and other economic factors) and criteria based on lead exceedances. The department will allocate LSL PF using the following steps:

- Determine the total PF points using tables 1-3 on page 8.
- Award 20 points to a municipality that has had at least one lead action level exceedance within the past five years.
- Award 10 points to municipalities that are under orders to replace 7% of their municipal LSLs per year.
- Add the regular PF points and the lead points and rank the LSL PF applications from highest points to lowest points.
- Allocate LSL PF funds to the projects starting with the highest point projects until the total amount of funds available are fully allocated.
- If two or more municipalities have the same LSL PF score, allocate funds within that group in order of highest population to lowest population.

D. Principal Forgiveness from Previous Years

All principal forgiveness from the FFY 2010 through 2014 grants has been awarded. All projects allocated PF on the SFY 2016 funding list (from the FFY 2015 grant) have either closed on loans or will by the end of June. Several applications that initially appeared on the funding list were subsequently withdrawn; this, along with changes to final budgets, resulted in \$1,140,829 in PF from the FFY 2015 grant being available to roll forward to the SFY 2017 funding list.

X. APPLICATION DEADLINE & DRAFT FUNDING LIST

The SDWLP received 242 Intent to Apply forms and Priority Evaluation and Ranking Formulas totaling \$301,725,955 in estimated project costs by the October 31, 2015 deadline. The projects were subsequently scored and placed on the Project Priority List in priority score order. Projects included on this list are eligible to apply for funding during SFY 2017. An additional 17 Intent to Apply forms were received for projects that were ineligible, undetermined, or did not have a defined project scope. The application deadline for SFY 2017 funding is June 30, 2016. Two funding lists will be developed – one for loan funds and regular PF and one for the LSL PF. The draft Funding Lists are anticipated to be published in early August.

XI. SET-ASIDES

1) Wellhead/Source Water Protection

The SDWA provides that a state may request up to 15% of the capitalization grant for Local Assistance and Other State Programs, with the stipulation that not more than 10% of the capitalization grant can be used for any one activity. One of the eligible uses is to support the establishment and implementation of wellhead protection (WHP) programs under section 1428 of the SDWA. Since the beginning of the SDWLP, the department has requested a total of \$3,293,485 for WHP activities, including \$416,714 which was transferred from source water assessment program (SWAP) funds.

The department is requesting an additional \$587,535 from the FFY 2016 capitalization grant to fund the following WHP activities:

- Sponsorship of three workshops to provide training to teachers on use of the groundwater sand tank model and associated outreach to promote source water protection based on increased local awareness. Teachers are specifically recruited from communities with state- or county-led wellhead protection initiatives underway. Past trainees are alerted about events such as Drinking Water Week as a reminder to use the models and deliver groundwater information. The DNR will work with the UW-Stevens Point Center for Watershed Science and Education and Wisconsin Geological and Natural History Survey to provide these educational tools and the training to use them (\$30,000).
- The *Buried Treasure* magazine supplement is a basic informational tool about groundwater and groundwater protection. The booklet is heavily used and frequently requested by agency staff, teachers, local governments, and university and water industry partners. While the substantive content about groundwater science is unchanged, the format and layout and contact information is badly outdated and compromises the value of reprints or distribution efforts. Wisconsin DNR magazine production staff will edit existing content to make this important informational tool useful for several more decades (\$38,183).
- Two wellhead protection projects will be funded through the State's joint solicitation process:
 - The second year of *Describing connected fracture flow with pressure waves – oscillating flow interference testing* by the University of Wisconsin-Madison (\$20,104)
 - *Evaluating the effects of septic system density on groundwater quality in Southeastern Wisconsin* by the University of Wisconsin-Madison (\$53,620)
- Maintenance and redesign of data management and mapping applications used to track contaminant sources, public wells, wellhead protection planning and implementation, other high-capacity wells, well construction reports, and groundwater quality.

DG Map Exporter Redesign	\$25,600
DG Updater (Data Loader)	\$16,000
GRN Updater (Data Loader)	\$38,400
DG Viewer Maintenance	\$12,000
Groundwater Retrieval Network (tabular maintenance)	\$13,600
Groundwater Retrieval Network (spatial maintenance)	<u>\$16,000</u>
Total data management and mapping request for SFY 2017	\$121,600

- Implementation of a community watershed intervention approach to protecting drinking water systems in priority geographic areas. Groundwater quality data from public water systems indicates an increasing trend of nitrate levels in public wells across the state. Nitrate contamination has spread and increased in intensity despite broad offerings of education on wellhead protection and decades of cost-sharing for best management practices. Continued increases in the nitrate levels will ultimately result in installation of water treatment equipment by water system owners in order to meet the SDWA standard for nitrate. This project is documenting the potential of and methods for changing the practices of the point and non-point contributors of nitrogen to groundwater in order to avoid the need for costly water treatment equipment. The project focuses on three selected municipal water systems with rising nitrates and well-studied hydrogeology. A range of groundwater and agricultural practice monitoring tools, groundwater and agricultural modeling are being deployed at each site. Incentives and innovative institutional arrangements are being developed.

Using baseline data and modeled scenarios, advanced nitrogen management systems will be developed, implemented and monitored to ensure protection of each well. Together these tools should achieve nitrogen loss targets that avoid violations of the nitrate standard. The project will document the methods and outcomes in a form suitable and accessible for adaptation in other geographic priority areas (\$324,028).

The total cost of these activities is itemized below:

Groundwater teacher workshops and video production	\$30,000
<i>Buried Treasure</i> magazine	\$38,183
Contracts for research and monitoring projects (above)	\$73,724
Data management and mapping applications	\$121,600
Incentivized Watershed Intervention Approach	<u>\$324,028</u>
Total set-aside request	\$587,535

2) Local Assistance to Water Systems as Part of a State Capacity Development Strategy

A state may provide assistance to a public water system as part of a capacity development strategy under section 1420(c) of the SDWA. Fifteen percent of total capitalization grant funds may be requested for Local Assistance and Other State Programs as long as no more than 10% is used for any one activity. Funds for this set-aside were first requested for SFY 2010 and a total of \$5,825,060 has been requested prior to SFY 2017.

In accordance with Wisconsin's capacity development strategy to direct efforts towards systems that face the risk of being out of compliance, the DNR is utilizing local assistance set-aside funding to contract with county and local health agencies for transient non-community (TNC) system inspection services. These services include: 1) conducting annual site visits, 2) collecting drinking water quality samples, and 3) conducting inspections (sanitary surveys) at least once every five years. With implementation of the Revised Total Coliform Rule, county and local health agencies are also assisting seasonal systems with reporting requirements for seasonal system start-up procedures.

There are approximately 9,500 TNC systems in Wisconsin (typically commercial establishments, restaurants, campgrounds, churches, etc. that serve at least 25 people at least 60 days of the year). These systems are generally small and are not required to have certified operators. By having county health employees conduct yearly site visits and collect drinking water quality samples, monitoring and reporting violations are greatly reduced and systems are more likely to meet SDWA requirements.

For calendar year 2016, the DNR entered into 42 contracts covering 51 counties with approximately 6,812 TNC systems. For calendar year 2017, the DNR is planning to continue the program at the same level. The department is requesting \$1,105,950 for this sampling and inspection program bringing total funds requested under this set-aside to \$6,931,010.

3) Small Systems Technical Assistance

The SDWA allows up to 2% of the capitalization grant to be requested every year for small systems technical assistance. From the beginning of the program through SFY 2016 Wisconsin has requested \$5,472,732 in set-aside funds for this purpose. The department is requesting an additional \$289,920 from the FFY 2016 capitalization grant to fund its technical assistance program.

The DNR contracts for delivery of a technical assistance program for other-than-municipal (OTM) community and non-transient non-community (NTNC) public water systems. Wisconsin has more than 1,300 of these small systems; many are not served by full-time operators and need help complying with regulatory requirements. Two types of technical assistance are delivered under this contract:

- (1) The contractor conducts 500 site visits per year at OTM and NTNC water systems around Wisconsin and provides on-site technical assistance on various subjects, including: monitoring requirements and schedules; sample collection protocols; reporting and public notice requirements; violation follow-up; contaminant exceedances; operation and maintenance problems; and regulatory compliance.
- (2) The contractor delivers quarterly monitoring reminders to all the OTM and NTNC water systems in Wisconsin, for a total of 5,560-5,680 contacts per year. The contacts provide information about monitoring, sampling and reporting

requirements, monitoring deadlines, sample collection protocols, sampling locations, public notice and notification requirements, and violation follow-up.

The DNR will rebid this contract in September 2016. Therefore, there may be adjustments to the number and types of technical assistance contacts delivered by the contractor.

The objectives of this technical assistance program are: to protect public health and safety by ensuring that OTM and NTNC public water systems in the state are operated and maintained properly, sampled in the appropriate manner and frequency, and provide drinking water that meets water quality standards; and to reduce historic rates of monitoring and reporting violations.

4) State Program Management

The SDWA provides that a state may request up to 10% of the capitalization grant for State Program Management activities. An additional \$1,560,513 from the FFY 2016 capitalization grant is being requested for State Program Management. The amount requested includes \$110,913 of State Program Management funds that were banked under previous grants. This set-aside contains a dollar-for-dollar state match requirement. This state match is being met through state overmatch funds from the Public Water System Supervision grant.

As a result of implementation of additional SDWA requirements (such as the Revised Total Coliform rule, Groundwater rule, Enhanced Surface Water Treatment rule, Disinfection/Disinfection Byproducts rule, Capacity Development requirements, Operator Certification requirements, as well as revised standards for arsenic and radionuclides), additional staff are necessary to meet basic program needs for new SDWA initiatives as well as existing program requirement changes (such as sanitary surveys being required every 3 years instead of every 5 years for some system types). Twelve and a half positions are assigned to these tasks which are described in more detail below. The State Program Management set-aside is being utilized to fund these activities.

- Engineering position (2) (1 currently staffed, 1 currently vacant): Responsible for performing engineering duties in the water program for municipal, OTM and NTNC water systems. This includes performing sanitary surveys, annual inspections, operation and maintenance assistance, consultation with systems and engineers on plan review and system design, monitoring water quality, contamination response, witnessing and monitoring of new construction, and enforcement activities.
- Engineering position (1) (currently vacant): Responsible for review of plans and specifications for community water systems for compliance with construction requirements of Chapter NR 811, Wisc. Adm. Code, review of sanitary survey inspections conducted at municipal water systems, coordinating regional engineering review of water system improvements, and coordinating regional review of existing water supply facilities.
- Water supply/program specialist positions (7) (5 currently staffed, 2 new positions): Responsible for implementing the SDWA program for community, OTM, NTNC, and TNC systems. This includes conducting sanitary surveys, preparing survey reports, enforcement activities, monitoring sample submissions and reports from these systems, operation and maintenance assistance, limited plan review, investigative sampling, providing public education, and training of system operators/samplers.
- Safe Drinking Water Act Monitoring Coordinator (1) (currently staffed): Responsible for coordinating the monitoring of public water systems statewide including work on monitoring schedules, monitoring plans, monitoring locations, frequency of monitoring, sample collection practices, and appropriate follow up monitoring. The position will routinely review the sample results and follow-up of field staff to ensure that the SDWA requirements are consistently applied statewide. The position will develop and implement process improvements to maintain and improve the public water supply program compliance with SDWA monitoring requirements.
- Environmental Program Associate (0.5) (currently staffed): This position manages real-time public drinking water supply monitoring data, providing professional and programmatic support services for the Drinking Water and Groundwater Program in the implementation of the SDWA. This includes providing first-line public contact for health and safety related activities and enforcement with public water systems, laboratories, local government officials, and other state agencies. This position also provides technical guidance, assistance, and training for drinking water and groundwater program staff and county contract agents.

- Capacity Development/Operator Certification Water Supply Specialist position (1) (currently staffed): Responsible for directing the capacity development, operator certification, and technical assistance portions of the state safe drinking water program. This includes development and implementation of capacity development objectives, administration of the water system and waterworks operator certification program, administration of the small system technical assistance program, preparation of program plan and progress reports, and interpretation of federal regulations.

The approximate staff budget for the 12.5 positions is \$1,003,609 per year. Other program expenses are as follows:

- Computer replacement and upgrades: Total cost \$10,000.
- Record keeping related to plans and specifications, administer the operator certification program, and conduct annual site visits at TNC systems (4 LTEs) (2 currently staffed, 2 currently vacant): Total cost per year \$99,044.
- Contractual activities:
 - Large volume source water assessment monitoring under the Revised Total Coliform Rule (RTCR) – The DNR will contract with the Wisconsin State Laboratory of Hygiene (WSLH) to implement a 100 liter microbial analysis for use with RTCR unsafe follow-up assessments. The WSLH will: train and coordinate with DNR staff to maintain hollow fiber ultrafiltration (HFUF) sampling hardware and capabilities; integrate a survey component to unsafe sample follow-up activities; conduct bi-weekly analysis of RTCR positive samples (unsafes) using HFUF concentrates for the full-suite of analytes; and perform a critical analysis of assessment information, monitoring data, and success of analytical designs. Total annual cost for the two-year project \$80,000.
 - Public Water Supply Data Management and Customer Support – The DNR is contracting with the WSLH to coordinate monitoring data exchange - including facility names, locations, monitoring requirements, and monitoring results - between the DNR and WSLH relative to Public Water Systems. The WSLH will also provide customer service to public water systems related to SDWA required monitoring. Annual Cost \$20,000.
 - Continuing education for OTM and NTNC water system operators - Certified operators of OTM and NTNC public water systems need to obtain six hours of continuing education credit per three-year renewal cycle. The DNR contracts for delivery of approximately 55 three-hour courses annually that are targeted and designed specifically for OTM and NTNC water systems and that cover regulatory and operational topics identified as critical for maintaining compliance with drinking water regulations. Annual Cost \$79,750.
 - OTM & NTNC Exam Preparation and Review Courses - The DNR contracts for delivery of 6 exam preparation courses annually that are designed to help individuals prepare for taking the Wisconsin non-municipal water system operator certification exam. The exam preparation training sessions are four hours long and are offered in spring and fall each year in advance of the certification exam sessions. The course is designed around the Wisconsin *Small Water System Operator Certification Manual*. Annual Cost \$7,950.
 - Technical School Education Program – The DNR contracts with Moraine Park Technical College (MPTC) for delivery of courses designed for certified waterworks operators (at municipal water systems). These courses provide opportunities for municipal waterworks operators to earn continuing education credits and also work towards an associate degree in Water Quality Technology. MPTC also provides courses to help operators, and individuals seeking to become operators prepare for certification exams. Annual Cost \$50,000.
 - Data system programming associated with the Drinking Water System and the Environmental Licensing and Certification Database. Annual Cost \$205,160.
 - Record storage costs for plan approval decisions. Annual Cost \$5,000.

The total cost for all activities funded under this set-aside will be \$1,560,513. These funds will be expended across the year following expenditure of the FFY 2015 set-aside funds.

XII. PUBLIC PARTICIPATION PROCESS

The draft IUP was posted on the Bureau of Community Financial Assistance web pages on the Wisconsin DNR's website on April 26, 2016. An e-mail notification was sent to a distribution list of approximately 1,800 recipients. Written comments on the draft IUP were taken through Tuesday, May 10, 2016. A responsiveness summary to comments received on the IUP has been posted on the website. The IUP was revised to reflect changes and clarification to the LSL funding program. This revised IUP is being posted on June 29, 2016. Public comments will once again be taken through July 13, 2016. The IUP will become final once the draft funding list has been developed.