



Department of  
**Environment &  
Conservation**

**Drinking Water  
State Revolving Fund**

**Annual Report State Fiscal Year 2023**

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## Executive Summary

The State of Tennessee, Department of Environment and Conservation (TDEC) developed its Annual Report for State Fiscal Year (SFY) 2023 (July 1, 2022 - June 30, 2023). This report defines how the State of Tennessee met the goals and objectives of its Drinking Water State Revolving Fund (DWSRF) Loan Program identified in the Intended Use Plan (IUP) and assisted public water systems with drinking water infrastructure loans. This report details the actual use of funds, state match and principal forgiveness, amongst other information. A full list of all SFY 2023 loan recipients and the assistance amounts are found in the Appendix of this report.

### **Goals and Accomplishments for SFY 2023**

The U.S. Congress gives state DWSRF programs flexibility to design a program tailored to meet the needs of the state, local communities, and public water systems. Tennessee's DWSRF program has developed long and short-term goals as a framework for decisions Tennessee makes in the DWSRF program.

<b>Long- and Short-Term Goals, Objectives, and Results Drinking Water SRF Program for SFY 2023</b>			
	<b>Goals</b>	<b>Objectives</b>	<b>Results</b>
<b>Long Term Goals</b>	Provide local governments and utility districts with low-cost financial assistance and assure drinking water projects are affordable and comply with the Safe Drinking Water Act (SDWA)	Ensure financial stability of loan recipients	Fiscal responsibilities are coordinated with TDEC, the Comptroller's Office and the Dept. of Finance and Administration to ensure appropriate internal controls and proper accounting procedures.
		Ensure use of generally accepted accounting principles (GAAP)	Revised operating budget, internal audit, and end of year fiscal reporting
		Obligate funds in a timely manner	Ongoing, including development of new database for tracking funds and project progress
	Protect and enhance water quality in TN by ensuring the technical integrity of funded projects	Ensure adequate and efficient project planning, design, and construction	Ongoing, including development of standard operating procedures (SOPs), financial sufficiency process, new database for tracking projects, documentation, and integration with other TDEC programs
		Maintain and award high ranking projects on the priority ranking list (PRL)	Ongoing, including updating solicitation process, creating a marketing and outreach campaign, instituting new allocation of

			principle forgiveness; increase in solicitation response by 60%; All projects reviewed for compliance with federal crosscutting authorities and an approved SERP prior to loan award.
Short Term Goals	Maximize funds available through cooperation with EPA	Apply for capitalization grant and submit intended use plans (IUPs)	Complete, including redesign of the IUP format
		Work with all potential borrowers that have eligible projects	Ongoing including innovative pilot project strategy to strengthen and grow types of effective SRF projects
		Submit Annual Report to EPA	Ongoing, including redesign of Annual Report format
	Manage an effective and efficient DWSRF Loan Program	Prepare and update administrative policies, guidance, and standard operating procedures	Developed new SOPs for technical and financial review process, developed a streamlined contacts database

## Financial Summary

### *Source and Use of Funds*

The SDWA allows each state flexibility in establishing how much of the Capitalization Grant will be used for infrastructure loans, assistance to financially disadvantaged communities, and set-aside activities. The state, in turn, has the responsibility to best direct the funds to address drinking water infrastructure problems. The state has agreed to direct all monies to compliance-based issues first, and to fund projects that are ready to proceed.

The SRF Loan Program applied for the Federal Fiscal Year (FFY) 2022 Capitalization Grant in the amount of \$12.2M with state match funds in the amount of \$2.4M. The SRF Loan Program also applied for FFY 2022 BIL Supplementation Capitalization Grant in the amount of \$31.2M with a state match of \$3.1M. The total, \$49M, represents the SFY 2023 appropriated funds to be used for drinking water projects and other approved technical assistance activities. (See Table 2)

TDEC DWSRF obligated \$47.3M in loans during SFY 2023, with \$46.6M in total loans and \$755K in loan forgiveness to projects. Additionally, the set-aside activities included operator training, compliance inspections to support public water systems and the TDEC Public Water Systems Supervision Program. In SFY 2023, DWSRF expended \$2.7M for set-aside activities.

An administrative loan fee of eight basis points (.008%) is charged by the Comptroller's Office to process loan documents and payments associated with SRF loans since October 1, 2009. This state fiscal year, the Comptroller's Office collected fees in the amount of \$81K. The administrative fee is used to process pay requests, create financial journals, process incoming payments, correspond with borrowers, review deposits and borrower balances for correctness, complete audit confirmations, assist with year-end reports, audits by the state, assist with SRF programmatic administration, and assist with TLDA board meetings.

## ***Financial Overview***

During SFY 2023 the DWSRF program awarded ten (10) loans totaling \$47.7M (Table 1). TDEC DWSRF disbursed \$20.9M in loan payments to loan recipients, the state provided the necessary match.

TDEC SRF beginning balance for SFY 2023 was \$97.2M. TDEC DWSRF received revenue from principal repayments in the amount of \$7.7M, principal interest in the amount of \$1.2M, and treasury interest in the amount of \$4.1M in SFY 2023 (See Appendix).

The state has an unobligated ending fund balance of \$112.3M for SFY 2023. The DWSRF does not hold an unliquidated obligations balance. Details for the financial summary of DWSRF are found in Table 2. Cumulatively, the state has received approximately \$160.7M in principal repayment, \$30.4M in loan interest and \$14.4M in Treasury interest income since the inception of the DWSRF. Please see the details in Table 1 and Table 2.

Additionally, the DWSRF used a total of \$2.7M in federal set-aside funds, including administrative expenditures in the amount of \$434K, Public Water Supply Supervision Program (PWSS) in the amount of \$1.6M, Public Water Supply Supervision Program (PWSS)- Operator Certification Program in the amount of \$144K, Small Systems Technical Assistance in the amount of \$359K, Local Assistance – Drinking Water Capacity Development (TN H2O) in the amount of \$7.5K, Local Assistance – Source Water Protection in the amount of \$144K and Local Assistance – Well Head Protection in the amount of \$34K for the implementation of the DWSRF program.

<b>Table 1: Annual Highlights from Drinking Water SRF State Fiscal Year (SFY) 2023</b>	
Ten (10) New Loans Awarded	\$47,345,000
Three (3) Projects Requested Loan Decreases	\$(524,889)
DWSRF Binding Commitments	\$47,345,000
DWSRF Loans Awarded Small/Disadvantaged Communities (4)	\$5,770,000
DWSRF Loan Forgiveness (3) Entities	\$755,000
<b>Four (4) Loans Awarded - SRF Revolving Base</b>	
	\$38,925,000
<b>Six (6) Loans Awarded - Capitalization Grant</b>	
	\$8,420,000
<b>Five (5) Project Starts</b>	
	\$33,395,000
<b>Six (6) Projects Initiated Operations</b>	
	\$7,910,000

<b>Table 2: Financial Summary for Drinking Water SRF Fund Balance less Set Asides State Fiscal Year (SFY) 2023</b>	
Financial Summary	Amount
Carryover from 2022	\$97,180,324
Capitalization Grant Award FFY22 Available for Projects	\$12,172,000
BIL Award FFY22 Available for Projects	\$31,253,000
State Appropriations - Cap Grant	\$2,434,400
State Appropriations - BIL	\$3,125,300
Binding Obligations	\$(47,345,000)
Loan Decrease	\$524,889
Principle Repayments	\$7,663,629
Loan Interest	\$1,256,106
Treasury Income	\$4,126,007
<b>Unobligated Balance as of June 30, 2023</b>	
	\$112,390,655

### ***Types of Assistance***

DWSRF provided a variety of assistance based on project needs. There were two projects, totaling \$2.9M that provided funding for communities needing improvements to their water supply storage systems. There were two projects, totaling \$37M to address treatment needs. And there were eight (8) projects with needs based on improvements to the transmission and distribution

lines, totaling \$7.5M. Further information on types of assistance and funding amounts can be found in the Appendix.

## **Financing Rates**

SRF interest rates are based on a community's ability to pay determined through the State of Tennessee Ability to Pay Index (ATPI). Interest rates can vary from zero to 100 percent of the interest rate reported on the 20-year Bond Buyer Index and the Municipal Market Data General Obligation Yields published every Thursday. The SRF program provides an updated interest rate weekly each Monday. The State may also recommend a reduction of the interest rate to incentivize green projects and sustainable & resilient projects, but nothing below zero percent. Disadvantaged communities, as defined by the ATPI, are eligible for a lower interest rate, or principal forgiveness and an extended loan repayment period. The interest rates for utility districts and water authorities that have service areas in more than one county are evaluated and ranked by utilizing the lowest ATPI for the county or city that directly benefits from the project(s) associated with the loan. The loan can last for a maximum of 30 years (40 years for disadvantaged communities), or until the end of the project's useful life, whichever comes first.

## **Use of Drinking Water Set Asides**

The U.S. Congress recognized that not all drinking water problems can be solved through new or improved infrastructure, therefore, amendments to the SDWA allows States to set aside up to 31% of the Capitalization Grant and the BIL Supplemental Grant for specific uses. The eligible DWSRF set-aside types include administration and technical assistance (4%), small systems technical assistance (2%), state program management (10%) and Local Assistance (15%). TDEC SRF elected to utilize 4% of the capitalization grant award for eligible set aside activities, which is equal to \$487K and 21.1% of the BIL Supplemental Grant for set aside activities, which is equivalent to \$5.3M. Additionally, TDEC SRF expended set-asides total is \$2.7M for SFY 2023. The following table details the use of set-aside funds (Table 3).

<b>Table 3: SET ASIDE Summary for Drinking Water SRF State Fiscal Year (SFY) 2023</b>			
<b>Activity</b>	<b>Set Aside Beginning Balance</b>	<b>Expenditure Amount</b>	<b>Set Aside Ending Balance</b>
Administrative Expenditures	\$ 1,787,392	\$ 434,649	\$ 1,352,743
Small Systems - Technical Assistance	\$ 791,428	\$ 359,310	\$ 432,118
Public Water System Supervision Program	\$ 2,858,366	\$ 1,594,635	\$ 1,263,732
Public Water System Supervision Program - Operator Certification	\$ 382,004	\$ 143,908	\$ 238,096
Local Assistance - TN H2O Project	\$ 506,763	\$ 7,694	\$ 499,070
Local Assistance - Sourcewater Protection	\$ 466,037	\$ 144,272	\$ 321,765
Local Assistance - Well Head Protection	\$ 149,060	\$ 34,364	\$ 114,696
<b>Total DWSRF Program Expenditures for Set Asides - Combined</b>			
	\$ 6,941,050	\$ 2,718,831	\$ 4,222,219

## ***Public Water System Supervision Program***

Tennessee's Public Water System Supervision Program (PWSS) conducted an array of activities under the Drinking Water Set Aside Funds. The PWSS program reviewed drinking water engineering plans, provided data management for drinking water compliance information, provided technical assistance to small systems, conducts laboratory certifications and audits, provided critical evaluation, and compliance inspections to ensure safe and reliable drinking water for the citizens of Tennessee.

The State used a portion of set asides for the PWSS program. A portion of the funding was directed to programmatic positions in the Division of Water Resources (DWR) at TDEC that conduct drinking water related work and to continue the existing level of activity. In addition to continuing existing activities, DWR used the set-aside money to continue addressing issues raised by the 1996 amendments to the SDWA, the Revised Total Coliform Rule and the Lead and Copper Rule.

The PWSS program goals, objectives, and deliverables for this year were a continued implementation of the Enforcement Tracking Tool in conjunction with formal enforcement efforts; we continued to manage and implement the laboratory certification program statewide; record keeping and evaluation of voluminous water quality data; and closely tracked monitoring and reporting requirements for all public water systems. Our work efforts also included incorporating capacity development activities into the technical assistance provided to Tennessee's public water systems. The set-aside was used to pay for necessary travel and training expenses associated with the PWSS program and laboratory certification program. Additional technical services and assistance to public water systems included addressing challenges associated with the technical capacity of public water systems and state participation in the Area Wide Optimization Program (AWOP) and technical assistance with challenges associated with the managerial, technical, and financial capacity of public water systems (Capacity Development). The PWSS program will continue to evaluate its success in assisting public water supply systems to achieve compliance with the SDWA. Results of the PWSS program are provided below for the SFY 2023 (July 1, 2022 – June 30, 2023) Annual Report (Table 4).

Table 4: PWSS SET ASIDE ACTIVITY RESULTS State Fiscal Year (SFY) 2023 and Federal Fiscal Year (FFY) 2022		
ACTIVITY	PROJECTED	Number Achieved
Technical Assistance visits to PWS's (Field Offices)	200	120
Drinking Water Laboratory Audits	40	44
Engineering Plans reviewed	100% reviewed within 30 days of receipt	1096 plans reviewed
Enforcement / Compliance	150 Compliance Status correspondence	335 Compliance Status correspondence; 11 Director's Orders issued
Data Management	All reports entered into SDWIS database within 60 days of receipt	Violations, enforcement, site visits (sanitary surveys) and inventory data reports entered into SDWIS database within 60 days of receipt
Compliance Monitoring Data Portal Onboarding	6-9 laboratories	3
Database Planning and Design	One business document or draft Request for Proposal with cost estimates for FFY23 requests.	Began the Requirements Gathering process for the DW Compliance Database

### ***Public Water System Supervision Program – Operator Certification***

The Fleming Training Center (FTC) in Murfreesboro, Tennessee administered the small system technical assistance set aside. FTC conducted operator training for water and wastewater operators across the state. In SFY 2023, the small system technical assistance program provided training for 138 water treatment and distribution system operators from systems serving 10,000 people or fewer. A total of 560 student days were provided during the period July 1, 2022, through June 30, 2023. FTC offered 125 water treatment, distribution systems, wastewater treatment, and collection systems operator classes. Beginning in April 2020, most classes also allowed for a virtual platform option. The summary of results and detail of classes are included in the attachments. A table of classes provided can be found in the Appendix.

### ***Local Assistance – Source Water Protection***

The State utilized local assistance set asides to support the source water protection program in SFY 2023. The source water protection staff reviewed 119 community source water/wellhead protection plans in SFY 2023. Staff continued to support the source water protection program and the three-component project with the USGS by implementing improvements to the Source Water Protection Plan review process, and by continuing data cleanup of the public water systems sources spatial dataset. In addition, the State continues its joint funding agreement with the United States Geological Survey (USGS) for the continued implementation of the source water assessment component. This agreement is effective through September 30, 2025, and will allow for refinement of the GIS analysis for the new state-wide source water assessment along with enhancement of the reporting structure. TDEC staff continue to work closely with USGS staff in the implementation of this project to plan and collaborate in each

phase. The funding for the TDEC Drinking Water Unit staff as well as the source water protection project are planned to continue into future years.

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

TDEC SRF continued its contract with the Tennessee Association of Utility Districts (TAUD) to provide targeted technical assistance to distressed or disadvantaged communities. This contract focuses on challenges with public water and wastewater systems; managerial, financial, and technical capacities for systems; assistance to reduce occurrence of health-based drinking water violations; optimizing 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 TNH2O. Technical assistance is provided at no cost to eligible communities.

## **Provisions of the Operating Agreement and Conditions of the Capitalization Grant**

### ***State Match***

TDEC SRF provided the required state match in the amount of \$2.4M for the FFY 2022 Capitalization Grant award of \$12.2M. To date, Tennessee has received \$308.5M in capitalization grants from EPA since the inception of the DWSRF. The total amount of state match required for these funds is \$57.6M. TDEC SRF also provided the required state match in the amount of \$3.1M for the FFY 2022 BIL Supplemental Capitalization Grant of \$31.2M.

### ***Binding Commitments***

Federal regulations require the State to make binding commitments in an amount equal to 120 percent of each quarterly capitalization grant payment. TDEC SRF made eight binding commitments to provide assistance equal to 120% of the amount of each grant payment within one year after receiving the grant payment.

## Binding Commitments by Quarter:

The current DWSRF Operating Agreement requires reporting of loan terms annually for new assistance projects. Please see Table 5 & 6 for the details of the loan terms established in the DWSRF binding commitments from SFY 2023.

Table 5: Binding Commitments State Fiscal Year (SFY) 2023			
Quarter	Total Amount	Federal Amount	State Amount
First Quarter (July 1-September 30, 2022)	\$30,825,000	\$ 24,784,960	\$ 6,040,040
Second Quarter (October 1-December 30, 2022)	\$ 5,720,000	\$ 4,599,188	\$ 1,120,812
Third Quarter (January 1-March 31, 2023)	\$ 9,700,000	\$ 7,799,322	\$ 1,900,678
Fourth Quarter (April 1- June 30, 2023)	\$ 1,100,000	\$ 884,459	\$ 215,541

## Project Assistance, Subsidy, and Loan Terms

Table 6: Binding Commitments and Loan Terms For Drinking Water SRF State Fiscal Year (SFY) 2023 and Federal Fiscal Year (FFY) 2022								
	Agreement Date	Loan Recipient	Loan Number	Loan Term	Interest Rate	Loan Amount	Base	Loan Forgiveness
Capitalization Grant	10/19/2022	Elizabethton	DG20 2022-252	20yrs	1.19%	\$ 1,350,000	\$ 1,350,000	\$ -
	10/19/2022	Kingsport	DG8 2022-249	20yrs	1.06%	\$ 1,300,000	\$ 1,300,000	\$ -
	10/19/2022	LaFollette	DW9 2023-255	5yrs	0.66%	\$ 170,000	\$ 85,000	\$ 85,000
	10/19/2022	Trenton	DW8 2022-245	20yrs	1.82%	\$ 650,000	\$ 520,000	\$ 130,000
	11/28/2022	Hartsville-Trousdale County Government	DW8 2021-239	20yrs	2.78%	\$ 2,250,000	\$ 2,250,000	\$ -
	03/27/2023	South Pittsburg	DW9 2023-256	20yrs	2.01%	\$ 2,700,000	\$ 2,160,000	\$ 540,000
				<b>Total Capitalization Grant</b>			<b>\$ 8,420,000</b>	<b>\$ 7,665,000</b>
DWSRF Revolving Fund	07/26/2022	Cleveland	DWF 2022-247	20yrs	1.33%	\$ 825,000	\$ 825,000	\$ -
	07/26/2022	Oak Ridge	DWF 2022-253	20yrs	2.48%	\$ 30,000,000	\$ 30,000,000	\$ -
	02/15/2023	Kingsport	DWF 2023-254	20yrs	2.13%	\$ 7,000,000	\$ 7,000,000	\$ -
	05/31/2023	Smyrna	DWF 2022-246-01	20yrs	3.10%	\$ 1,100,000	\$ 1,100,000	\$ -
				<b>Total DWSRF Revolving Fund</b>			<b>\$ 38,925,000</b>	<b>\$ 38,925,000</b>

## Timely Expenditure of Funds

The State of Tennessee's DWSRF program provides timely disbursements of funds for projects.

This assists the state in reducing unliquidated obligations. When a loan is executed, the date is set for the first repayment based on the scheduled completion date for project construction. The fixed repayment date is rarely revised to accommodate project delays and serves as incentive for timely construction of the project.

TDEC generally processes disbursement requests within the required timeline, which is 30 calendar days of receipt. This requirement is per C.F.R. § 200.305 (Payment) which states: *reimbursement is the preferred method when the requirements in paragraph (b) cannot be met, when the Federal awarding agency sets a specific condition per § 200.207. Specific conditions, or when the non-Federal entity requests payment by reimbursement. This method may be used on any Federal award for construction, or if the major portion of the construction project is accomplished through private market financing or Federal loans, and the Federal award constitutes a minor portion of the project. When the reimbursement method is used, the Federal awarding agency or pass-through entity must make payment within 30 calendar days after receipt of the billing, unless the Federal awarding agency or pass-through entity reasonably believes the request to be improper.*

TDEC DWSRF disbursed \$21.4M in loan payments and with each disbursement to loan recipients, the state provided the necessary match. The Table below provides details of disbursement totals by project through SFY 2023.

<b>Table 7: Disbursed Loan Payments State Fiscal Year (SFY) 2023</b>					
Entity	Loan Number	Federal Funds	State Match	Revolving Base (SRF)	Total
Alexandria	DWF 2021 -234	\$ 3,809	\$ 931		\$ 4,740
Arthur Shawanee Utility District	DW8 2021-234	\$ 11,527	\$ 2,745	\$ 57,088	\$ 71,360
Carthage	DW7 2021-223	\$ 60,427	\$ 14,719		\$ 75,146
Cookeville	DWF 2022-244			\$ 1,846,605	\$ 1,846,605
Erwin Utilities Authority	DG7 2020-222	\$ 7,916	\$ 1,929	\$ 47,905	\$ 57,750
Fayetteville	DWF 2021-230	\$ 38,170	\$ 9,302		\$ 47,472
Hampton Utility District	DW8 2020-227	\$ 690,880	\$ 167,455	\$ 311,326	\$ 1,169,660
Kingsport	DG8 2022-249			\$ 891,500	\$ 891,500
LaFollette	DW8 2022-248	\$ 242,940	\$ 58,392	\$ 102,850	\$ 404,181
Nashville	DWF 2020-224	\$ 804,054	\$ 195,946	\$ 14,114,401	\$ 15,114,401
Ocoee Utility District	DWF 2021-242	\$ 96,152	\$ 23,432	\$ 318,203	\$ 437,787
Smyrna	DG9 2021-231	\$ 968,542	\$ 236,031		\$ 1,204,573
Trezevant	DW7 2021-235	\$ 25,844	\$ 6,242		\$ 32,086
Woodbury	DW7 2020-220	\$ 69,481	\$ 16,854		\$ 86,335
<b>Total</b>		<b>\$ 3,019,742</b>	<b>\$ 733,977</b>	<b>\$ 17,689,877</b>	<b>\$ 21,443,596</b>

The State's Drinking Water State Revolving Fund Fiscal Year 2022 Review Program Evaluation Report conducted by EPA indicates the pace rate is 73 percent. This is a 1% increase over the prior fiscal year. The program continues to focus on programmatic and process improvements. DWSRF has seen significant changes in this fiscal year with vacancies of its manager and several team members on both the financial and technical teams. DWSRF anticipates that in the next fiscal year, that the pace rate will improve and will par with the national average.

### ***Assurances of Compliance***

TDEC SRF ensured all activities in the Drinking Water program comply with all state and federal requirements. This includes requiring recipients of funds directly made available by capitalization grants to comply with applicable federal authorities. The State attests adherence to the rules of cash draws. All cash draws for administrative assistance were made after costs had been incurred and in compliance with federal rules. The State attests to complying with state and federal requirements concerning grant payments and expenditures. TDEC SRF certifies state laws regarding commitments and expenditure of revenue is followed. Further, the state attests to accepting grant payments in accordance with the negotiated payment schedule.

TDEC SRF ensures each financial assistance recipient provides assurances of compliance with all applicable federal and state requirements. These assurances include all financial requirements, adhering to generally accepted accounting principles, adhering to government accounting standards, and complying with the federal Single Audit Act. These assurances are incorporated into the loan or bid documents (where applicable) to assure compliance with all state and federal regulations.

### ***State Environmental Review Process***

During SFY 2023 the TDEC SRF program conducted environmental reviews on all funded projects in accordance with the State Environmental Review Process. It was determined that no Environmental Impacts Statements (EIS) were necessary. Instead, an Environmental Assessment (EA) / Finding of No Significant Impact (FNSI) or Categorical Exclusion (CE) was issued for each project.

## ***Additional Requirements***

### ***Ability to Pay Index (ATPI)***

TDEC SRF is required by the EPA to use an appropriate ATPI in order to administer SRF clean water and drinking water loans. In addition, the Water Resources Reform and Development Act (WRRDA) of 2014 requires that all state SRF programs use relevant data associated with population trends, income, unemployment, and “other” metrics in the determination of priority ranking and project scoring, tiered interest rates, distribution of additional subsidy, and eligibility for planning and design loans or other benefits for disadvantaged communities. TDEC SRF has contracted with the University of Tennessee Institute of Agriculture (UTIA) Department of Agriculture and Resource Economics Development to update the ATPI annually for all TN counties, cities, and municipalities. The ATPI is a database of socioeconomic and financial data which serves as the foundation for an index used to help make decisions regarding determination interest rates, allocation of subsidy, and identification of options intended to benefit communities that need it the most. Through this contract, a consistent, transparent, and annually updated index is provided to improve decision making in loan and grant administration by TDEC. The ATPI will also enhance coordination between TDEC, ECD, and Tennessee USDA Rural Development regarding potential use of resources to best serve disadvantaged communities.

### ***Disadvantaged Business Requirements***

TDEC negotiated with EPA Region 4 an overall fair share objective of 2.60% for construction and 5.20% for supplies, services, and equipment for Minority Business Enterprise (MBE) and 2.60% for construction and 5.20% for supplies, services, and equipment for Women’s Business Enterprise (WBE) participation on DWSRF projects. During SFY 2023, a total of \$87,273,601 in prime contractor’s total procurement amounts was reported. The table below provides the details.

<b>SFY 2023 SRF Fair Share Goal</b>	
<b>EPA Requirements</b>	<b>SRF Total Numbers for SFY 2023</b>
MBE Construction 2.6%	MBE Construction 0.00%
WBE Construction 2.6%	WBE Construction 0.20%
MBE Supplies, Services, Equipment	MBE Supplies, Services, Equipment 0.00%
WBE Supplies, Services, Equipment	WBE Supplies, Services, Equipment 0.00%
Total fair share goal percentage SFY 2023	Total fair share goal percentage SFY 2023 0.20%

<b>SFY 2023 SRF Fair Share Goal</b>		
Total MBE Construction	\$0	0.00%
Total WBE Construction	\$177,372	0.20%
Total MBE Supplies	\$0	0.00%
Total WBE Supplies	\$0	0.00%
Total MBE Services	\$0	0.00%
Total WBE Services	\$0	0.00%
Total MBE Equipment	\$0	0.00%
Total WBE Equipment	\$0	0.00%
Grand Totals MBE	\$0	0.00%
Grand Totals WBE	\$177,372	0.20%

The DWSRF program informs and works with the loan recipients and their consulting engineering firms to contact the Office of Minority Business for additional MBE/WBE guidance and assistance. The DWSRF Loan Application contain the DWSRF Loan recipient's responsibilities for DBE participation.

***Davis Bacon Wage Rate***

The FFY 2022 DWSRF Capitalization Grant requires the Davis-Bacon Act wage rules to apply to all assistance agreements made in whole or in part with funds appropriated under the FFY 2022 Capitalization Grant. The SRF Loan Program along with the Department of Labor provides all pertinent information related to compliance with labor standards, including prevailing wage rates, and reporting requirements.

***American Iron, Steel, and Manufactured Goods***

TDEC SRF attests to the adherence of projects by loan recipients for the requirements of the American Iron and Steel (AIS) provision. The AIS provision requires DWSRF assistance recipients to use iron and steel products that are produced in the United States. This requirement applies to projects for the construction, alteration, maintenance, or repair of a public water system if the project is funded through an assistance agreement executed on or after January 17, 2014.

The America's Water Infrastructure Act of 2018 extends the AIS provision for DWSRF projects through State Fiscal Year 2023.

***Additional Subsidization (Principal Forgiveness)***

The state is required, by section 1452(a)(2) of the SDWA, to use 20 percent of the FFY 2022 Project Funds to provide loan assistance to systems serving fewer than 10,000 persons to the extent that

there are a sufficient number of eligible projects to fund. Tennessee struggles to meet these requirements. The State provided three projects with principal forgiveness totaling \$755,000. This amount equals approximately 6.2% of the DWSRF Capitalization Grant for FFY 2022. The state is working to develop a marketing and outreach strategy to assist and provide funding to more small and disadvantaged communities in future years.

In 2021 the State of Tennessee announced \$1 billion in American Rescue Plan (ARP) Act funding. These grant dollars were directed to every public drinking water system in the state. Further, TN used the ATPI and population to prioritize funding to disadvantaged and small systems at risk. Millions of dollars have been distributed to our most distressed systems. These systems have been focusing on the use of their ARP grant dollars to address critical needs. TN DWSRF is working to ensure these systems come back to SRF in SFY 2024.

### ***Environmental Results***

Projects are entered into the NIMS database quarterly. This database is current for all projects funded in Tennessee during SFY 2023. Reports are electronically available to the USEPA for all Drinking Water SRF loans.

# Performance Evaluation Reports (PER) Recommendations and Findings

The USEPA Region 4 SRF program conducted a Financial and Compliance Audit Report in April 2023. The audit resulted in no findings. There were four items identified by USEPA that require action to improve efficiencies in the DWSRF program. See Table below for highlights of the recommendations by the USEAP and actions taken by DWSRF.

Recommendations from USEPA Annual Review		
Item	Action Needed	Status
EPA requests that the state evaluate different approaches and options such as utilization of cash flow modeling and increased marketing of the SRF to decrease uncommitted balances and increase program pace.	Increase number of loans awarded by increasing demand through education, outreach, technical assistance, and other actions.	Continue to increase community engagement; improve PRL solicitation method with greater response in PRLs; improve internal communication and monitoring of PRLs; developed a strategy for small and disadvantaged communities.
Continue to ensure borrowers follow DBE affirmative steps	Ensure borrowers follow the six affirmative steps to maximize DBE participation	SRF loan documents have been revised to include the six DBE affirmative steps; SRF reviews borrowers' submittals to ensure compliance; and ensures borrowers have made a good faith effort to incorporate DBE participation
EPA recommends the state maintain a fully staffed programmatic and engineering team to maintain best practices and mitigate risk to the program.	Hire additional staff.	We have hired seven new staff since the last program evaluation. We currently have multiple open positions that are actively being recruited and interviewed. We are currently pursuing a contract with an outside firm to assist us with site inspections and other project management related duties until all positions are filled.

<p>EPA recommends the state review project AIS letters for required elements or implement a process for ensuring AIS letters submitted to borrowers follow EPA guidelines.</p>	<p>Ensure that a required element of site visits continues to include review of AIS letters to ensure EPA compliance.</p>	<p>All Tech staff have been re-trained on AIS requirements and accurate review of AIS letters.</p>
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# Appendix

SFY 2023 Types of Assistance							
Category Description	Report Group	State	Borrower	Loan Number	Agreement Date	Number of Agreements	Project Type Amount
36: Transmission & Distribution	New Assistance	TN	Elizabethton	DG20 2022-252	10/19/2022	1	\$ 1,350,000.00
36: Transmission & Distribution	New Assistance	TN	Kingsport	DG8 2022-249	10/19/2022	1	\$ 1,300,000.00
35: Storage	New Assistance	TN	Hartsville-Trousdale County Government	DW8 2021-239	11/28/2022	1	\$ 1,687,500.00
36: Transmission & Distribution	New Assistance	TN	Hartsville-Trousdale County Government	DW8 2021-239	11/28/2022	1	\$ 562,500.00
36: Transmission & Distribution	New Assistance	TN	Trenton	DW8 2022-245	10/19/2022	1	\$ 650,000.00
36: Transmission & Distribution	New Assistance	TN	LaFollette	DW9 2023-255	10/19/2022	1	\$ 170,000.00
35: Storage	New Assistance	TN	South Pittsburg	DW9 2023-256	3/27/2023	1	\$ 1,200,000.00
36: Transmission & Distribution	New Assistance	TN	South Pittsburg	DW9 2023-256	3/27/2023	1	\$ 1,500,000.00
36: Transmission & Distribution	New Assistance	TN	Smyrna	DWF 2022-246-01	5/31/2023	1	\$ 1,100,000.00
36: Transmission & Distribution	New Assistance	TN	Cleveland	DWF 2022-247	7/26/2022	1	\$ 825,000.00
37: Treatment	New Assistance	TN	Oak Ridge	DWF 2022-253	7/26/2022	1	\$ 30,000,000.00
37: Treatment	New Assistance	TN	Kingsport	DWF 2023-254	2/15/2023	1	\$ 7,000,000.00
							\$ 47,345,000.00