



INTENDED USE PLAN  
DRINKING WATER STATE REVOLVING FUND

STATE FISCAL YEAR (SFY) 2026  
FEDERAL FISCAL YEAR (FFY) 2025



## **Drinking Water State Revolving Fund**

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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

#### 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 2025

TDEC's New Principal Forgiveness methodology for

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DWSRF loan program, individuals can refer to the TDEC [SRF website](#).

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.

### ***Capitalization Grants***

#### Drinking Water Base Capitalization Grant

TDEC's [Drinking Water IUP](#) is the planning document detailing how the federal fiscal year (FFY) 2025 appropriations for the DWSRF loan program will be used. The State of Tennessee's FFY 2025 Drinking Water Base Capitalization grant allotment is estimated to be \$18,716,897.

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The State is required to provide a 20% match of federal funds or \$3,743,379 to receive the full capitalization grant allotment. The EPA base capitalization grant plus state match will provide an expected \$22,460,276 in funds available for DWSRF projects in SFY 2026.

#### IIJA General Supplemental Capitalization Grant

In addition to the base allotment provided in FFY 2025, Congress passed the Infrastructure Investment and Jobs Act of 2021 (IIJA). The IIJA provides additional funding to strengthen the nation's drinking water, stormwater, and wastewater systems. More than \$50 billion will be invested in American water infrastructure over a five-year period. This funding is structured to finance three distinct drinking water areas:

- Provide general supplemental funding
- Address emerging contaminants
- Replacement of private service lead lines

Specifically for Tennessee, the FFY 2025 Drinking Water IIJA General Supplemental allotment is estimated to be \$41,912,000. To access the full general supplemental allotment, the State must provide a 20% match of federal funds, which equals \$8,382,400. Once these requirements are met, the IIJA General Supplemental will contribute an additional \$50,294,400 in funds to support set-aside initiatives and the DWSRF loan program for SFY 2026.

A key priority of IIJA is to ensure disadvantaged communities benefit equitably from this investment in water infrastructure. Through IIJA, Congress mandates that 49% of the general supplemental funding be provided as grants or forgivable loans to communities that meet the State's affordability criteria. Communities not meeting these criteria are still eligible for funding but will be funded according to the State's [Subsidies and Affordability Criteria](#).

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 (40 CFR 35.3135 (b)). This infusion of funds through the Bipartisan Infrastructure Law presents a significant opportunity to strengthen Tennessee's water infrastructure and

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ensure its communities benefit from improved access to safe and reliable drinking water systems.

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.

### **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. Tennessee has set its short- and long-term goals of this IUP to align with EPA's strategic goals and objectives FY2022-2026 EPA Strategic Plan, specifically Goal #5, to Ensure Clean and Safe Water for all communities. The Office of Water has identified specific measures that address the strategic goals and objectives outlined by EPA in its strategic plan. A basis for each goal in this program IUP has been identified. These references ensure that all the specific commitments made by the State are properly correlated to the strategic goals and objectives of the Agency.

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#### ***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)).
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.

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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.
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 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.
8. Develop a comprehensive database for managing drinking water project data and program management data.
9. Ensure that all grant award funds are expended promptly and in a timely manner.
10. Review the current DWSRF statute for potential updates, including improved clarity or language regarding source water protection eligibilities, extended loan terms, use

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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.

11. Review and develop recommendations for updates to the DWSRF priority ranking system.
12. 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](#).

Tennessee has set its short- and long-term goals of this IUP to align with EPA's strategic goals and objectives FY2022-2026 EPA Strategic Plan, specifically Goal #5, to Ensure Clean and Safe Water for all communities and Objective 5.2 to Protect and Restore Waterbodies and Watersheds. The Office of Water has identified specific measures that address the strategic goals and objectives outlined by EPA in its strategic plan. A basis for each goal in this program IUP has been identified. These references ensure that all the specific commitments made by the State are properly correlated to the strategic goals and objectives of the Agency.

#### Tennessee SRF Outputs and Outcomes:

1. Output: Promote projects that incorporate innovative water treatment technologies, such as advanced filtration systems that address emerging contaminants and other safe drinking water concerns, replace lead service lines and implement advanced treatment pilot projects.

Outcome: Modernize and enhance the resilience of its drinking water infrastructure to ensure reliable and safe water delivery to its residents.

2. Output: Prioritize funding for projects that benefit underserved and disadvantaged communities, addressing environmental health disparities, and ensuring equitable access to clean water and sanitation services for all residents of Tennessee.

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Outcome: Improved public health and safety in vulnerable communities.

3. Output: Prioritize projects that reduce water loss, water conservation, reuse, and efficiency.

Outcome: Improved resiliency, mitigated impacts of drought, and ensured sustainable water supplies for current and future generations.

By aligning the goals of the Tennessee SRF program with those of the EPA, the state can leverage federal resources, expertise, and guidance to advance its priorities related to drinking water infrastructure, quality, and sustainability, ultimately benefiting the health and well-being of its residents. Additionally, collaboration between the state and federal agencies can facilitate the exchange of best practices, data, and innovative solutions to address common challenges and achieve shared objectives more effectively.

## Drinking Water Priority Ranking System

**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

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

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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.

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 compliance and protecting public health.

<b>Eligible Drinking Water Project Categories</b>
• Water Quality Issues
• Source or Capacity Challenges
• Water Storage
• Leakage Problems
• Pressure Issues
• Replacement or Rehabilitation Needs
• Water Line Extensions
• Regional Drinking Water Consolidation
• Drinking Water Treatment

**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 2025 Base Capitalization Grant principal forgiveness, anticipated FFY 2025 IJA 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 that entities provided during the solicitation period. For projects to receive project priority points, it must meet the ranking criteria. The ranking criteria are defined as:

1. The community must have submitted the last 3 fiscal years of audited financial statements to the comptroller’s office; and

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2. A completed facilities plan has been developed for this project.

All eligible projects that meet the ranking criteria were scored, ranked, and listed above the ranking line on the PRL. Those projects that did not meet the ranking criteria are listed below the ranking line.

SRF may provide an additional opportunity for those projects listed below the ranking line to demonstrate that their project has met the criteria to be ranked. Once a project meets the ranking criteria, SRF may rank the project and move it above the ranking line. Any project moved above the ranking line will be ranked after projects previously listed above the ranking line. Ranked projects will be prioritized for loan assistance agreements based on an entity's readiness to proceed.

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 2025 Base Allotment and IIJA 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 2025 DWSRF PRL. The projects with the highest number of priority points and that are ready to proceed are given preference for funding, particularly the FFY 2025 Base Allotment and IIJA 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 2025 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

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supports the timely implementation of critical water infrastructure improvements across Tennessee.

#### ***Readiness to Proceed***

Applicants can demonstrate readiness to proceed online through the [Grants Management System](#) (GMS). Once an applicant has received a funding letter indicating their position on the priority ranking list the following can be completed by logging onto GMS:

Readiness to proceed will be established once the applicant has provided:

- Attest that the three most recent fiscal years of audited financials have been submitted to and are on file with the State of Tennessee Comptroller.
- Entities must upload audited financial statements.
- Provide the specific dollar amount needed from SRF to satisfy the project scope.
- Clearly identify the legal entity requesting the loan. This should be the entity legally authorized to take on debt. This could be the utility name, municipal system, utility district or jointly operated system.
- Verify the project description provided in the Questionnaire
- Upload an aerial and a topographic map for the project location.

#### ***Project By-Passing Procedures***

Despite their ranking on the PRL, projects selected for loans may risk being bypassed if communities are unprepared to proceed. However, the DWSRF loan program is dedicated to collaborating with these bypassed entities to help maintain their project eligibility for funding in the following fiscal year to the maximum extent practical. The DWSRF program now facilitates the entire application process online via the Grants Management System (GMS) platform. After completing the Questionnaire, applicants must adhere to established timelines to advance their projects efficiently through the DWSRF process. Currently, the estimated time for the state to complete each phase is as follows:

- Phase 2 (Financial Sufficiency Review and Initial Environmental Review): 90 days. In this phase, entities will provide initial financial and environmental information. The state will conduct a Financial Sufficiency Review to determine if the entity is financially fit to receive a loan. And an Interdisciplinary Environmental Review (IER) will be initiated and will include a 30-day comment period by federal and state agencies to receive feedback on the potential impact from the project.

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- Phase 3 (Environmental Determination): During this 180-day phase, the state will determine whether the proposed project should be issued as a Categorical Exclusion (CE) or Finding of No Significant Impact (FNSI) ; and review and approve the planning document.
- Phase 4 (Design Review): 90 days. In this phase, the state will review design and technical documents to ensure SRF requirements are met.
- Phase 5 (Loan Application): 120 days. In this phase, the loan application will be sent to the entity, the loan package will be compiled, and signatures will be obtained.

The program acknowledges unforeseen circumstances, and exceptions to the funding order may be permitted in emergencies. Emergency projects typically involve unexpected failures that necessitate immediate action to protect public health and safety and enhance water quality. More information regarding the DWSRF's response to infrastructure emergencies can be found in this document's Sources and Uses of Funds section. By providing flexibility and support, the DWSRF grant, and loan program aims to meet community needs and ensure that essential water infrastructure projects receive the necessary assistance, even in difficult circumstances.

### 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 drinking water infrastructure improvements. When 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

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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 funds provided 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 2025 [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.

1. Disadvantaged communities for planning, design, and/or construction projects,
2. Small communities with planning and design projects, or
3. Utilities proposing projects that meet DWSRF green project reserve criteria on the SFY 2026 PRL.

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Base Capitalization Grant		
Capitalization Grant	Disadvantaged Communities (12%)	Small Systems or Green Projects (14%)
\$18,716,897	\$2,246,028	\$2,620,366
IIJA General Supplemental		
Capitalization Grant	Disadvantaged Communities (49%)	Small Systems or Green Projects (0%)
\$41,912,000	\$20,536,880	\$0
<b>TOTAL AVAILABLE DWSRF SUBSIDY</b>	<b>\$22,782,908</b>	<b>\$2,620,366</b>
Eligible Categories	DWSRF Subsidy (%)	Dollar Amount
Principal Forgiveness for Disadvantaged Communities	30 - 50%	Up to \$5,000,000
Principal Forgiveness for Small Systems	50%	Up to \$250,000
Green Project Reserve (GPR) Principal Forgiveness	20%	Up to \$2,500,000

Table 1: SFY 2026 DWSRF Available Subsidy

All principal forgiveness options are awarded on a “first-come-first-serve” basis for eligible entities ready to proceed until funds are no longer available. DWSRF will work to maximize an entity’s principal forgiveness where possible.

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

Eligibility of DWSRF principal forgiveness for disadvantaged communities will be determined based on the current ATPI. To be considered disadvantaged, the community must score 50 or less on the ATPI. The affordability score in the ATPI will also be used to prioritize projects that have scored the same number of points. To avoid multiple projects with the same score and ranking number on the PRL, communities with a lower affordability score and smaller populations will be given a higher ranking.

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The DWSRF loan program designed a tiered subsidy award methodology for disadvantaged communities corresponding to their ATPI with a maximum award of up to \$3-\$5 million determined each year based on the qualifying projects received:

- Low-range (0-10) will be awarded 50% in principal forgiveness
- Mid-range (20-30) will be awarded 40% principal forgiveness
- High-range (40-50) will be awarded 30% principal forgiveness

#### **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 SRF
5. Projects must include construction (planning, design, and construction projects or construction solely).
6. Cannot be combined with other forms of principal forgiveness

#### ***Principal Forgiveness for Small Systems***

Small systems can receive 50% loan forgiveness specifically for planning and design purposes. The total principal forgiveness per project should not exceed \$250,000.

#### **Eligibility Requirements:**

1. Communities must have a population served of 10,000 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 SRF

#### ***Principal Forgiveness for Green Projects***

The FFY 2025 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

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qualify for GPR funding. In the case of Tennessee, a minimum of 10% of the FFY 2025 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 considered a "green project," a project must meet the eligibility requirements outlined in the [EPA Eligibilities Handbook](#). These projects may receive a 20% principal forgiveness of the loan amount, with a maximum limit of \$2,500,000 in principal forgiveness per project. The selection and ranking process for green projects will follow the same procedure as all other SRF projects.

#### **Eligibility Requirements for Principal Forgiveness for Green Projects**

Communities of all sizes, irrespective of their ATPI, have the opportunity to qualify for principal forgiveness as long as their proposed projects meet the specified eligibility criteria. To be considered eligible for principal forgiveness, green projects must be included in the current Priority Ranking List (PRL), meet the defined criteria for a green project, and involve construction. These 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.

These projects must meet EPA criteria and eligibility requirements for [GPR projects](#). Additionally, green projects will be drawn separately from FFY 2025 project funds until the 10% allocation has been met. The SRF Base Capitalization Grant or the IJJA General Supplemental Grant will be used to provide GPR principal forgiveness as funds are available. A detailed list of Green Project Reserve project eligibilities and examples of common practices can be found in the [EPA guidance](#) document.

#### **Entity Eligibility Requirements:**

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

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Please note that the specific eligibility criteria and subsidy amounts for DWSRF eligible projects 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 an entity's 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.

Starting July 1, 2025, interest rates are set by the SRF program on a quarterly basis. Rates will be published on the first Monday of the first month of the quarter and based on 100 percent of the interest rate reported on the 20-year, 25-year, and 30-year Bond Buyer Index and the Municipal Market Data General Obligation Yields. Interest rate quarterly updates will be published to the SRF website.

A community's interest rate will be based partly on its ATPI. Interest rates can vary from 40 percent of the quarterly interest rate reported for communities with a low affordability score and low ATPI to 100 percent of the quarterly interest rate. The interest rates for utility districts and water authorities that have service areas in more than one county will be evaluated and ranked by utilizing the lowest ATPI for the county or city that directly benefits from the project(s) associated with the loan.

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The State has developed a tiered interest rate reduction methodology corresponding to a community's ATPI. Low-range ATPIs (0-20) will be awarded a 0.40 multiplier. ATPI scores ranging from 30-40 will be awarded a 0.60 multiplier, 50-60 will be awarded a 0.80 multiplier, and ATPIs of 70 or greater will receive the standard reported interest rates. SRF interest rates are further stratified by the term of the loan. Once loan terms are established, the appropriate base interest rate is selected. The community ATPI is verified, then the multiplier corresponding to the ATPI is multiplied by the base interest rate to establish the SRF awarded interest rate. (Figure 1)

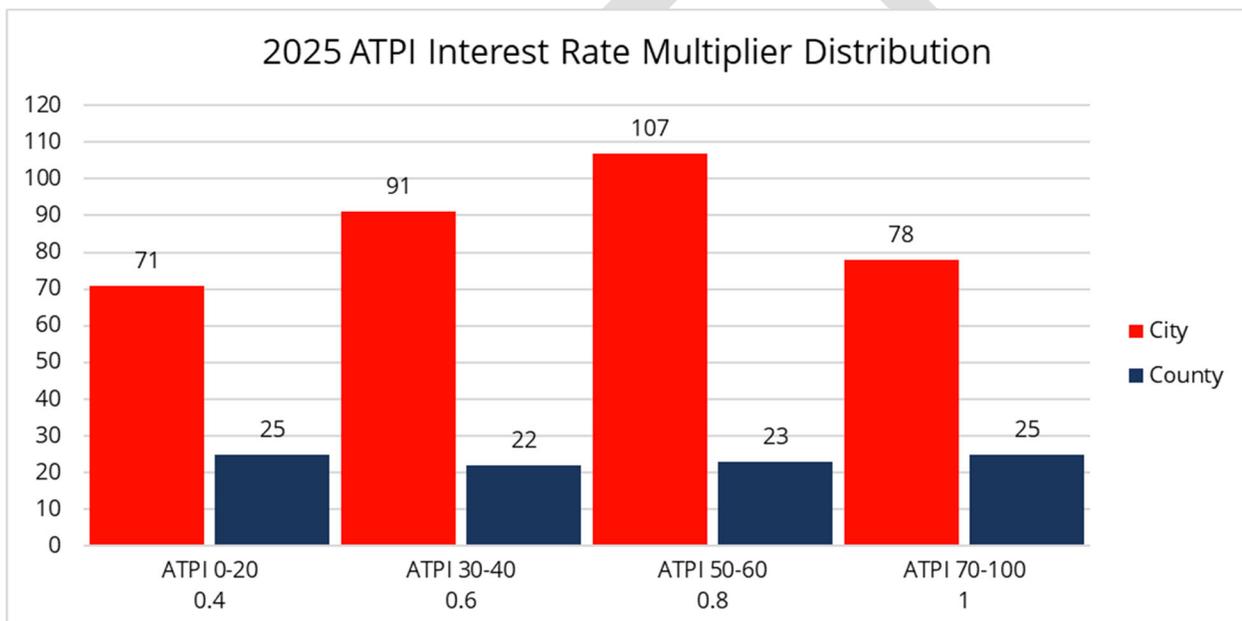


Figure 1: ATPI Interest Rate Multiplier Distribution

**Loan Terms and Fees**

The term for an SRF loan funded by the FFY 2025 Base allocation or IJA General Supplemental funding is limited to a maximum of 30 years or the project's useful life, whichever is shorter and 40 or a projects useful life for qualifying disadvantaged communities. 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

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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 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 (TMF) capabilities of PWSS providers.

The DWSRF loan program ensures a system has TMF by conducting a Capacity Development Review (CDR) supporting an applicant's ability to adequately manage and operate a system as well as incur and repay a new debt. 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 all systems and requires 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 for FFY 2025 DWSRF Base Capitalization Grant dollars is \$18,716,897. The State is required to provide a 20% match of federal funds or \$3,743,379. The Base Capitalization Grant plus State match, less set-asides (\$4,680,729) will provide an

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expected \$17,779,547 in funds available for the DWSRF loan program in SFY 2026. The State of Tennessee's IJA General Supplemental allotment for FFY 2025 is \$41,912,000. The State must provide a 20% match of federal funds, or \$8,382,400, to receive the full general supplemental allotment. The IJA General Supplemental plus State match, less set-asides (\$10,481,542) will provide an additional \$39,812,858 in funds available to the DWSRF loan program in SFY 2026. Based on the estimated carry forward funds, principal repayments, loan interest income, and treasury interest income added to the available funds from the FFY 2025 DWSRF Base and IJA General Supplemental Capitalization Grants, the state can provide approximately \$191,801,220 for project loans (Table 2).

Sources of program funds include loan repayments of principal and interest, interest on SRF fund cash balances, and unobligated fund balances carried forward from SFY 2025.

Non-program funds include fees to non-disadvantaged borrowers. These funds are used for administrative services during the repayment period of the loan term. Based on established amortization SRF estimates fees collected for SFY 2025 will be approximately \$119,640.

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Financial Status of Funds for the DWSRF Loan Program		
Prior-Year (FFY2025) Carry-forward Funds*		\$196,330,999
Less Unliquidated Obligations		(\$141,387,578)
Principal repayments **		\$8,033,335
Loan Interest Income**		\$1,528,956
Treasury Interest Income**		\$5,906,348
Banked Set Asides		\$8,394,103
FFY 2024 Base Capitalization Grant***		\$7,476,876
20% of FFY 2024 Base Capitalization Grant matched by State***		\$1,495,375
FFY 2024 IIJA General Supplemental Capitalization Grant***		\$38,692,000
20% FFY 2024 IIJA General Supplemental Capitalization Grant - State Match Funds***		\$7,738,400
FFY 2025 Base Capitalization Grant		\$18,716,897
20% of FFY 2025 Base Capitalization Grant matched by State		\$3,743,379
FFY 2025 IIJA General Supplemental Capitalization Grant		\$41,912,000
20% FFY 2025 IIJA General Supplemental Capitalization Grant - State Match Funds		\$8,382,400
Set Aside Activities:		
<u>Base Capitalization Grant</u>	<u>IIJA Supplemental Grant</u>	(\$15,162,270)
SRF Administration: \$748,665	SRF Administration: \$1,676,480	
State Program Management Public Water Supply Supervision (PWSS): \$1,156,452	State Program Management Public Water Supply Supervision (PWSS): \$2,598,633	
State Program Management – Operator Certification (FTC): \$467,782	State Program Management – Operator Certification (FTC): \$1,047,547	
Small System Technical Assistance (SMS): \$308,963	Small System Technical Assistance (SMS): \$691,882	
Local Assistance:		
<u>Base Capitalization Grant</u>	<u>IIJA Supplemental Grant</u>	
SRF Wellhead Local Assistance: \$79,603	SRF Wellhead Local Assistance: \$178,263	
SRF Source Water Protection: \$66,989	SRF Source Water Protection: \$150,011	
AMP Supplemental Grants: \$1,852,275	AMP Supplemental Grants: \$4,147,725	
<b>TOTAL \$4,680,729</b>	<b>TOTAL \$10,481,541</b>	<b>\$191,801,220</b>
<b>DWSRF Loan Program Project Funds***</b>		
* Estimated balance at April 30, 2025, includes awarded CAP grants		
** estimated Principal, loan interest, and treasury interest for SFY 2025 based on SFY 2024		
*** Grant applied for but, Notice of Award has not been received as of 4/2025		

Table 2: Financial Status of Funds for the DWSRF Loan Program

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Tennessee SRF is currently working toward 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

Of the 4% allowable administrative and technical assistance set aside, the SRF intends to use \$748,665 of the FFY 2025 DW Base Capitalization grant and \$1,676,480 of the FFY2025 IJJA 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.

#### ***Emergency Relief Funding***

Emergency projects may be submitted at any time during the program year and included on the PRL based upon the applicant's successful demonstration of an emergency situation. Emergency projects may be added to the PRL at any time and, if all applicable requirements have been met, may be funded at any time.

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The SRF program will allocate emergency relief funding to eligible entities in accordance with both federal and state requirements. This funding is intended to assist water systems that have encountered emergency situations that threaten public health, safety, and environmental integrity.

Emergency relief funding from the SRF will be provided for projects that respond to unexpected, critical needs such as natural disasters, system failures, or significant contamination events. All funding allocations and use of funds must comply with the Safe Drinking Water Act (SDWA) and Tennessee Department of Environment and Conservation (TDEC) regulations.

#### Categories for Emergency Relief Funding

1. Natural Disasters
  - a. Includes earthquakes, floods, tornadoes, and other acts of nature that cause immediate system damage or failure.
  - b. Relief efforts are aimed at restoring services to pre-disaster conditions or mitigating further risks.
2. Infrastructure Failures
  - a. Sudden failures in critical water and wastewater system infrastructure, including pipe bursts, pump failures, or treatment plant malfunctions.
  - b. Funding can be used for repairs or emergency replacements to restore system operations.
3. Contamination Events
  - a. Incidents involving hazardous material spills, contamination of drinking water sources, or wastewater leaks that pose public health threats.
  - b. Funding will cover cleanup, system rehabilitation, and immediate response efforts.
4. Cybersecurity Breaches
  - a. Attacks that compromise water system operations, disrupt services, or pose risks to water quality.
  - b. Relief includes restoring system operations, securing digital infrastructure, and protecting sensitive data.

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#### Eligibility Criteria for Emergency Relief Funding

1. Immediate Threat to Public Health or the Environment
  - a. The emergency situation must present an imminent risk that could lead to a significant adverse impact on human health or the environment.
2. Eligible Entities
  - a. Only publicly owned water or wastewater systems, municipal entities, and certain nonprofit organizations are eligible for funding.
3. Proof of Financial Need
  - a. Entities must demonstrate that their own reserves or local funding options are insufficient to address the emergency needs in a timely manner.
4. Compliance with Federal and State Regulations
  - a. Entities must ensure that proposed projects meet all applicable environmental, engineering, and regulatory standards, including those set forth by the EPA and TDEC Division of Water Resources.
5. Ability to Complete Project on an Emergency Timeline
  - a. Entities must demonstrate the ability to execute the project on an expedited schedule to resolve the emergency as quickly as possible.
6. No Duplication of Federal Funding
  - a. The project must not be funded by other federal emergency response programs to avoid duplication of funding.
7. Commitment to Long-Term System Resiliency
  - a. Entities seeking emergency relief must demonstrate a plan for future system improvements that enhance resiliency and reduce future risks.

#### **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 \$4,680,729 in Base and \$10,481,541 in IJA for the total set-asides DWSRF will use for SFY 2026. Table 3 outlines the DWR funding source, program, amount of Base

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Capitalization Grant and IJJA 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 of the fiscal year will be carried forward. The State of Tennessee reserves the right to use these funds later.

Category	Base Cap. Grant	% of Funding	IJJA Cap. Grant	% of Funding	Total
SRF Administration	\$748,665	4.00%	\$1,676,480	4.00%	\$2,425,145
State Program Management Public Water Supply Supervision (PWSS):	\$1,156,452	6.18%	\$2,589,633	6.18%	\$3,746,085
State Program Management Operator Certification:	\$467,782	2.50%	\$1,047,547	2.50%	\$1,515,329
Small System Technical Assistance	\$308,963	1.65%	\$691,882	1.65%	\$1,000,845
Source Water Protection	\$66,989	0.36%	\$150,011	0.36%	\$217,000
Wellhead Protection	\$79,603	0.43%	\$178,263	0.43%	\$257,866
Local Assistance AMP Supplemental Grants	\$1,852,275	9.90%	\$4,147,725	9.90%	\$6,000,000

Table 3: DWSRF Base and IJJA 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,

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state program management, and special activities. Outcomes from these activities are reported to EPA in the DWSRF Annual Reports.

#### ***State Program Management (PWSS)***

The State of Tennessee intends to set aside \$1,156,452 for the FFY 2025 DW Base Capitalization grant and \$2,589,633 of the FFY 2025 DW IJA 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
- To Implement a Drinking Water Compliance database

Tennessee Department of Environment and Conservations' (TDEC) Division of Water Resource (DWR) intends to use this 8 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 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 / Trainings

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- Regulatory adoption and implementation activities associated with Cybersecurity and Consumer Confidence Reports revisions
- Drinking Water Compliance Database implementation

The State Program Management set-aside for PWSS will also be directed towards salaries and benefits to retain approximately 34 positions or partial positions in DWR for those who conduct drinking water-related work activities along with the time and travel. During SFY 2026, DWR will use the majority of the set-aside money to continue the existing level of 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 continued implementation of the Revised Total Coliform Rule, SDWA updates and regulatory adoption and rulemaking for Cybersecurity oversight, per- and polyfluoroalkyl substances (PFAS) rulemaking and Consumer Confidence Report rule revisions. Further, DWR has begun work 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 SFY25 to continue to analyze existing in-house technologies, programmatic needs, and define project requirements to inform a procurement for a third-party contractor to either develop a Drinking Water database or acquire an existing commercial off the shelf solution. For continuing support of electronic reporting and EPA's efforts to utilize Compliance Monitoring Data Portal (CMDP), DWR continues to onboard laboratories. As of today, all drinking water (and commercial) labs certified for bacteriological analysis reporting compliance monitoring data into the CMDP production environment. DWR staff are in the discussion stage with the TN Department of Health, Division of Laboratory Services for them to begin testing CMDP in Pre-Production with the intention of transitioning into Production environment in the coming months.

#### Sustained Benefits

The PWSS program goals, objectives, and deliverables for SFY26 include such activities as continued implementation of the Enforcement Tracking Tool in conjunction with formal enforcement efforts; continue to manage and implement the laboratory certification

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program statewide, continue 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 be used to provide the necessary training and travel expenses associated with the PWSS program and laboratory certification program. Other technical services and assistance to public water systems include addressing challenges associated with 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 to achieve compliance with the SDWA. Results of the PWSS program will be provided in the DWSRF Annual Report.

Project Team

- One Drinking Water Program Manager
- One Drinking Water Program Fellow
- Two Administrative Support Members
- Five Drinking Water Engineers
- Ten Drinking Water Laboratory Certification Officers
- Eight Drinking Water Compliance Data Management
- Three Drinking Water Order Writers
- Three Area Wide Optimization Program (AWOP) staff
- One Division of Water Resources Data Steward

<b>ACTIVITY</b>	<b>NUMBER PROJECTED</b>
Technical Assistance Visits (Field Offices)	150
Drinking Water Laboratory Certifications	75
Drinking Water Laboratory Audits	40
Engineering Plans reviewed	100% reviewed within 30 days of receipt
Enforcement / Compliance	200 Compliance Status correspondence
Data Management	Reports entered into SDWIS database within 60 days of receipt
Compliance Monitoring Data Portal Onboarding	TN Dept of Health Lab

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Database Planning and Design	Draft Request for Proposal and executed contract and kick off meeting with 3 <sup>rd</sup> party contractor and STS.
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Table 4: 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 \$467,782 for the FFY 2025 DW Base Capitalization grant and \$1,047,547 of the FFY 2025 DW IJA General Supplemental Capitalization Grant to provide support of the Operator Certification Program. These funds will provide total 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	
Monthly Expenditures	\$193,460
Total 12 Month Cost	\$2,321,520

Table 5: Operator Certification Cost

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

1. Training individuals to become certified 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 2025 classes that are available to public water systems is available online, to view click on the link – [Registration, Schedule of Classes & Seminars](#).

In FFY 2025, 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

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Training Center created a 4-day course designed specifically for operators of small water systems that is offered at different locations and virtually in the state. A training focal point this year will be on laboratory analyses. Seminars are offered for several analyses which include how to interpret their results including chlorine and bacteriological testing. These seminars can be applied toward the required continuing education requirement for the operator. In addition to this course, FTC offers multiple mathematics classes, multiple lab classes including a method update seminar, as well as multiple classes which cover pumps and motors, metering, VFDs, and other operator certification classes throughout the year to meet the needs of the operators.

The three instructors and certification staff at FTC can provide technical assistance and consultation to small systems through on-site visits to the water systems, Facebook and other social media, technical bulletins, e-mail, or by telephone. FTC provides Lab QA/QC training, general operational training, tutoring sessions, training workshops, continuing education opportunities for operators, regulatory 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 and the instructor 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, include identifying additional classes needed to meet the training needs of the operator. After staff members provide on-site technical assistance and follow-up visits, trip reports are completed. The information 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

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and designing training classes incorporating the new equipment. Training and continuing education will be provided to water and wastewater operators using a wide variety of classes and seminars. FTC will also coordinate with TDEC staff and staff from other departments and agencies to provide classes 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 of an aging workforce and succession planning in the water utilities.

The Tennessee Water and Wastewater Operator Certification Board is currently utilizing ABC/WPI generated examinations to assess for operator competency. The Operator Certification Program is working with WPI to pilot test their Standardized Certification Exam that is utilized nationally by 45 States. These certification exams are psychometrically validated and is a legally defensible exam.

#### Technical Assistance

Additionally, these funds will provide total funding for seven (7) 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.

#### ***Small Systems Technical Assistance***

The TN Department of Environment and Conservation (TDEC) plans to set aside of \$308,963 for the FFY 2025 DW Base Capitalization grant and \$691,882 of the FFY 2025 DW IJA General Supplemental Capitalization Grant to fully fund SRF's existing contract with Tennessee Association of Utility Districts as well as partially fund Asset Management Plan Grants.

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

TDEC SRF will contract with the Tennessee Association of Utility Districts (TAUD) 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

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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. A new and emerging concern for systems in Tennessee is vulnerabilities to threats from natural disasters, bioterrorism and cyber-attacks. TAUD will make this emerging issue a key component of their technical assistance for TN systems under the SRF contract. Technical assistance will be provided at no cost to eligible communities. DWSRF will set aside \$200,000 for this work.

### **Program Assistance Contracts**

#### **[Ability To Pay Index \(ATPI\)](#)**

The EPA requires the SRF loan program to use appropriate affordability criteria to administer SRF drinking water loans. In addition, the WRRDA requires that state SRF loan programs use relevant data associated with population trends, income, unemployment, and “other” metrics in the determination of priority ranking and project scoring, tiered interest rates, distribution of additional subsidy, and eligibility for planning and design loans or other benefits for disadvantaged communities. TDEC has contracted with the University of Tennessee Institute of Agriculture (UTIA) to update the ATPI annually for all TN counties, cities, and municipalities. The DWSRF will use \$200,000 in administrative funding from FFY 2025 for this purpose. The ATPI is a socioeconomic and financial data database that serves as the foundation for an affordability index used to help make decisions regarding determining interest rates, allocation of subsidy, and identification of options intended to benefit communities that need it the most. Through this contract, a consistent, transparent, and annually updated index is provided to improve decision-making in loan and grant administration by TDEC and the Tennessee Department of Economic & Community Development (ECD). The ATPI will also enhance coordination between TDEC, ECD, and Tennessee USDA-Rural Development regarding the potential use of resources to better serve disadvantaged communities.

Additionally, UTIA will develop recommendations to capture the actual cost of providing drinking water and wastewater services to communities and improve the efficiency of these

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systems. This information will be used to survey and gather information from public drinking water and wastewater systems. The data will be utilized to assist programs responsible for providing affordable funding for water infrastructure projects to improve services and the application process timeline for communities and utilities.

### ***Local Assistance and Other State Programs***

The State of Tennessee intends to set aside \$1,998,867 of the Local Assistance set-aside from the FFY 2025 DW Base Capitalization grant. This includes \$66,989 for source water protection, \$79,603 for wellhead protection to develop a further DWR's Capacity Development Strategy under 1420 of the SDWA and \$1,852,275 for Asset Management Project (AMP) Grants. Tennessee will set-aside a total of \$4,475,999 of the Local Assistance set-aside from the FFY 2025 DW IIJA General Supplemental Capitalization grant. This includes \$150,011 for source water protection, \$178,263 for wellhead protection to develop a further DWR's Capacity Development Strategy under 1420 of the SDWA and \$4,147,725 for Asset Management Project (AMP) Grants.

### **Asset Management Plan Grants**

The State of Tennessee intends to use the Local Assistance set-aside funds from the Drinking Water IIJA General Supplemental Capitalization Grant in the form of subawards (grants) to aid entities in meeting the basic [Asset Management Plan \(AMP\)](#) requirements.

### **Project Priorities**

The Tennessee Department of Environment and Conservation (TDEC), Division of Water Resources (DWR), State Water Infrastructure Grants (SWG) program has allocated set-aside funding for Drinking Water (DW) projects. The eligible entities for AMP grants are all public drinking water systems. Additionally, special emphasis will be placed on providing small and disadvantaged communities with this funding.

### **Program Requirements**

SWG will open this grant program as a competitive grant. SWIG staff will score grant applications and rank projects based on their application's merits and the application's correctness.

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For this program, SWIG will require a funding match from the entity that ranges between 15% and 25% of the grant award. The maximum grant award is \$250,000 per grant. A proposal's total project budget is the sum of the grant award plus their match. Match will be applied to the total project budget for each reimbursement request.

#### Program Goals

This program aims to assist entities in meeting the minimum AMP elements detailed in DWR's AMP guide, as well as the minimum criteria for the Water Infrastructure Investment Plan (WIIP) and the AMP requirements for State Revolving Fund loans.

#### **Source Water Protection Program**

The State of Tennessee intends to use Local Assistance Set Aside Funds to be utilized to assist public water systems and enhance the Source Water Protection Program. The funds will be used to enhance the statewide Source Water Assessment, improve the accuracy of wellhead protection area delineations in West TN, and geologic mapping in West TN priority areas to support wellhead protection activities.

#### Geographic Information Systems - Source Water Assessment Update

Tennessee Department of Environment and Conservation (TDEC), Division of Water Resources (DWR) continues to work with partner divisions and the United States Geological Survey (USGS) to update the Source Water Assessment Program for the state of Tennessee through the development of a geographic information system decision support tool. This continued work will use FFY25 funds to ensure an effective implementation of the assessment tools and enhance the geographic information system model to evaluate physical parameters along with sources of potential contamination to assign susceptibility rankings to each public water system. The continued development of SWAP tools includes a Statewide report of all public water systems, explanation of the assessment process, and susceptibility patterns across the state. The FFY25 additional funding will also be used to enhance public education and outreach to inform citizens and stakeholders of this continued work.

#### Geographic Information Systems - Source Water Assessment Update

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Tennessee Department of Environment and Conservation (TDEC), Division of Water Resources (DWR) continues to work with partner divisions and the United States Geological Survey (USGS) to update the Source Water Assessment Program for the state of Tennessee through the development of a geographic information system decision support tool. This continued work will use FFY25 funds to ensure an effective implementation of the assessment tools and enhance the geographic information system model through technical support, maintenance, and continued development of SWAP tools. The continued development of SWAP tools includes integrating live data within the analysis tools, update tools based upon feedback from bug testing phases, a Statewide report of all public water systems, explanation of the assessment process, and susceptibility patterns across the state. The FFY25 additional funding will also be used enhance public education and outreach to inform citizens and stakeholders of this continued work.

#### Wellhead Protection Areas within West Tennessee

TDEC intends to begin working with University of Memphis – Center for Applied Earth Science and Engineering Research (UoFM CAESER) for technical assistance to support the Source Water Protection Program. This would consist of hydrogeologic evaluations and groundwater modeling to re-delineate Wellhead Protection Areas for West Tennessee public water systems. The re-delineation of these WHPAs will assist public water systems within West Tennessee in updating their records and Wellhead Protection Plans while providing them with a more up-to-date understanding of their wellfields. TDEC proposes to use FFY24 funds to fund the initial portions of this initiative.

#### West Tennessee Geologic Mapping

TDEC Division of Water Resources plans to establish an interagency agreement with TDEC Division of Mineral and Geologic Resources to map geology in West TN to better inform development of wellhead protection areas by modeling groundwater travel times, using the physical characteristics from geologic quadrangle mapping at the 24,000:1 scale. Geologic mapping activities will also help better support Source Water Assessment Reports developed through the TN SWAPyT GIS model being produced through the TDEC/USGS partnership.

The following positions will perform the activities:

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

Projected Activity	Projected Outputs
Source Water Assessment Update	1 Statewide - 782 Individual PWSs
West Tennessee Geologic Mapping	1 1:24,000 scale geologic quadrangle in West TN

Table 6: 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 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 be responsible for assisting in coordination of the Source Water Program, educational outreach, review of Source Water

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protection plans, steward of database required for the Source Water Assessment report update, and to help guide protection and conservation funding efforts with State Revolving Fund staff and partner agencies. The following positions - Environmental Consultant - (1) and members from partner agencies will perform the following activities for the Drinking Water Wellhead Protection Program (table 7).

Projected Activity	Projected Outputs
Wellhead Protection Plan Reviews	150 plans/year
Source Water Assessment Update	1 Updated Assessment
Conservation Project Coordination	10 sites/year
GIS analysis – internal/external	50 inquiries/year (estimated)
Education events	3 events/year

Table 7: Projected Wellhead Protection program activities

***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 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

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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***

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 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).

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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 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,

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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),
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.

### **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

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- 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
- 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.

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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.

### **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.

### **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**

Sources and Uses Summary				
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, 2025				
Sources and Uses	Federal Contribution	State Contribution	CW SRF Fund	Total
<i>Funding Sources</i>				
Prior Year Project Carry Forward Funds*	\$ 66,678,294	\$ 10,431,848	\$ 119,220,857	\$ 196,330,999
Loan Repayments (P&I) **	\$ -	\$ -	\$ 9,562,291	\$ 9,562,291
Investment Income**	\$ -	\$ -	\$ 5,906,348	\$ 5,906,348
Banked Set Asides	\$ 8,394,103	\$ -	\$ -	\$ 8,394,103
FFY 2024 Base Capitalization Grant	\$ 7,476,876	\$ 1,495,375	\$ -	\$ 8,972,251
FFY 2024 IJJA General Supplemental Capitali	\$ 38,692,000	\$ 7,738,400	\$ -	\$ 46,430,400
FFY 2025 Base Capitalization Grant	\$ 18,716,897	\$ 3,743,379	\$ -	\$ 22,460,276
FFY 2025 IJJA General Supplemental Capitali	\$ 41,912,000	\$ 8,382,400	\$ -	\$ 50,294,400
<b>Totals for Funding Sources</b>	<b>\$ 181,870,170</b>	<b>\$ 31,791,402</b>	<b>\$ 134,689,496</b>	<b>\$ 348,351,068</b>
<i>Funding Uses</i>				
Project Disbursements	\$ 145,945,725	\$ 31,791,402	\$ 134,689,496	\$ 312,426,623
Set Asides Spending	\$ 35,924,445	\$ -	\$ -	\$ 35,924,445
	\$ -	\$ -	\$ -	\$ -
<b>Total for Funding Uses</b>	<b>\$ 181,870,170</b>	<b>\$ 31,791,402</b>	<b>\$ 134,689,496</b>	<b>\$ 348,351,068</b>
* Estimated balance at April 30, 2025, includes awarded CAP grants				
** Principal, loan interest, and treasury interest based on SFY 2024				

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Sources and Uses Detail		
Sources	%	Amount
<b>Projects</b>		
FFY 2024 Base Capitalization Grant		\$7,476,876
20% State Match		\$1,495,375
Set-Aside	23.1%	-\$1,726,120
<b>Total Project Fund</b>		<b>\$7,246,131</b>
FFY 2024 IJJA General Supplemental Capitalization Grant		\$38,692,000
20% State Match		\$7,738,400
Set-Aside	27.5%	-\$10,641,952
<b>Total Project Fund</b>		<b>\$35,788,448</b>
FFY 2025 Base Capitalization Grant		\$18,716,897
20% State Match		\$3,743,379
Set-Aside	25.0%	-\$4,680,729
<b>Total Project Fund</b>		<b>\$17,779,547</b>
FFY 2025 IJJA General Supplemental Capitalization Grant		\$41,912,000
20% State Match		\$8,382,400
Set-Aside	25.0%	-\$10,481,541
<b>Total Project Fund</b>		<b>\$39,812,859</b>
FFY 2021 Base Capitalization Grant - project fund		\$2,029,919
FFY 2021 Capitalization Grant 20% State Match		\$482,477
FFY 2022 Base Capitalization Grant - project fund		\$11,685,120
FFY 2022 Capitalization Grant 20% State Match		\$2,434,400
FFY 2022 IJJA Capitalization Grant - project fund		\$19,610,347
FFY 2022 IJJA Capitalization Grant 20% State Match		\$2,308,271
FFY 2023 Base Capitalization Grant - project fund		\$6,694,136
FFY 2023 Capitalization Grant 20% State Match		\$1,662,400
FFY 2023 IJJA Capitalization Grant - project fund		\$26,658,772
FFY 2023 IJJA Capitalization Grant 20% State Match		\$3,544,300
<b>Total Available Cap Grant Funds</b>		<b>\$77,110,142</b>
<b>Set Aside Funds</b>		
SRF Administration		\$5,088,604
State Program Management Public Water Supply Supervision (PWSS):		\$9,573,569
State Program Management Operator Certification:		\$2,689,020
Small System Technical Assistance		\$2,180,883
Source Water Protection		\$736,018
Wellhead Protection		\$627,051
Local Assistance AMP Supplemental Grants		\$15,029,300
<b>Total Set Aside Funds</b>		<b>\$35,924,445</b>
<b>Revolving Fund</b>		<b>\$134,689,496</b>
<b>Total Sources of Funds</b>		<b>\$348,351,068</b>

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<b>Uses</b>		
<b>Projects</b>		
Executed Loans		\$141,387,578
Anticipated Loan Commitments SFY25		\$5,967,200
Anticipated Loan Commitments SFY26*		\$128,467,381
Anticipated Loan Commitments SFY27		\$36,604,464
<b>Total Anticipated Loan Commitments</b>		<b>\$312,426,623</b>
<b>Set Asides</b>		
SRF Administration		\$5,088,604
State Program Management Public Water Supply Supervision (PWSS):		\$9,573,569
State Program Management Operator Certification:		\$2,689,020
Small System Technical Assistance		\$2,180,883
Source Water Protection		\$736,018
Wellhead Protection		\$627,051
Local Assistance AMP Supplemental Grants		\$15,029,300
<b>Total Set Aside Funds</b>		<b>\$35,924,445</b>
<b>Total Uses of Funds</b>		<b>\$348,351,068</b>
* from PRL - maximum available for funding or all available projects (whichever is less)		