



Intended Use Plan
Drinking Water State Revolving Fund

State Fiscal Year (SFY) 2027
Federal Fiscal Year (FFY) 2026

Drinking Water State Revolving Fund

Draft Intended Use Plan

April 30, 2026

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Introduction

The Tennessee General Assembly passed the “Drinking Water Revolving Fund Act of 1997” to establish 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 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 infrastructure projects. Since its inception, this program has provided over \$500 million dollars in assistance to communities in Tennessee. As a federal-state partnership program,

Elements of the Intended Use Plan:

- TDEC DWSRF long and short-term goals
- DWSRF financial status
- Description of the methods and criteria used to distribute funds
- Set-aside amounts and details on their intended use.
- Priority Ranking List (PRL) for 2026
- Principal Forgiveness methodology for Small and Disadvantaged Communities
- TDEC’s Affordability Criteria

the DWSRF helps public water systems (PWS) achieve safe and reliable drinking water. The federal program was established by Congress through the 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 SDWA. 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.

EPA annually awards Drinking Water Capitalization Grants to states to finance water system projects and support critical programs. The State then accepts the federal funds with a commitment to provide the required state match to offer financial assistance to

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public and private water systems. The Capitalization Grant and state-matched 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.

DWSRF loans are repaid by the water systems over time, creating a sustainable fund and maintaining the long-term viability of the program. Furthermore, up to 31% of the Capitalization Grant 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 system 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 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

The Intended Use Plan (IUP) for the Drinking Water State Revolving Fund documents how the federal fiscal year (FFY) 2026 appropriations for the DWSRF Loan Program will be used in SFY 2027. Stakeholders and interested parties can access this and other IUPs on the [TDEC SRF website](#).

Drinking Water Base Capitalization Grant

The State of Tennessee's FFY 2026 Drinking Water Base Capitalization Grant allotment is estimated to be \$6,468,000. The State is required to provide a 20% match of federal funds or \$1,293,600 to receive the full capitalization grant allotment. EPA's base capitalization grant

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plus state match will provide an expected \$7,502,718 in funds available for DWSRF projects in SFY 2027. The funds needed for state match have been approved in the State of Tennessee general budget and will be appropriated when the grant has been received from EPA (40 CFR 35.3135 (b)).

IIJA General Supplemental Capitalization Grant

In addition to the Base Capitalization Grant allotment for FFY 2026, Congress passed the Infrastructure Investment and Jobs Act of 2021 (IIJA). 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 provides general supplemental funding for drinking water projects, addresses emerging contaminants, and funds the replacement of public and private lead service lines.

The State of Tennessee's Drinking Water General Supplemental allotment for FFY 2026 is \$41,896,000. The State is required to provide a 20% match of federal funds, or \$8,379,200, to receive the full general supplemental allotment. The IIJA General Supplemental Capitalization Grant plus state match will provide an additional \$48,599,361 in funds available for DWSRF projects in SFY 2027. The funds needed for state match have been approved in the State of Tennessee general budget and will be appropriated when the grant has been received from EPA (40 CFR 35.3135 (b)).

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.

Drinking Water State Revolving Fund Program Goals

Congress grants states 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. This allows Tennessee to optimize the use of DWSRF funds, allocate resources efficiently, and implement targeted initiatives that prioritize improving

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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 guide decision-making within the program, ensuring that Tennessee's actions and investments in the DWSRF loan program are strategic, impactful, and effectively address the challenges faced by communities and water systems in the state.

Long-Term DWSRF Loan Program Goals

1. Ensure a safe and adequate water supply in perpetuity for all Tennessee communities through the integrous and methodical technical, financial, and administrative management of the fund and the protection against waste, fraud, and abuse.
2. Preserve the probity and purpose of the fund through adherence to the [Generally Accepted Accounting Principles \(GAAP\)](#), compliance to SDWA, and promoting pathways through which all water systems can fully comply with their applicable state and federal regulations.
3. Strategically use set-asides to maximize the protection of human health and the environment.
4. Increase holistic collaboration with drinking water systems, DWR staff, and other state and federal agencies to better serve the customers.

Short-Term DWSRF Loan Program Goals

1. Streamline the lending process through the review and removal of redundancies and obsolete requirements, and by updating guidance and procedures.
2. Broaden the types of and routes for outreach to public and private water systems, with a focus on systems serving small communities, to increase their interest in the program and shape the program to better meet their needs.

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The DWSRF program strives to be a good partner with EPA. Aligning the State's program goals with EPA's is one part of the good partnership agreement both agencies maintain. Tennessee has set the short- and long-term goals of this IUP to align with EPA's strategic goals and objectives, specifically Pillar 1: Clean Air, Land, and Water for Every American. EPA's Office of Water has identified specific measures that address the strategic goals and objectives outlined by EPA in its strategic plan. DWSRF outputs and outcomes ensure that commitments made by the State are properly correlated to the strategic goals and objectives of EPA.

DWSRF Outputs and Outcomes

1. Output: Prioritize projects that promote water conservation, reuse, and efficiency, or reduce water loss.

Outcome: Improve resiliency, mitigate impacts of drought, and ensure sustainable water supplies for current and future generations.

2. Output: Fund projects that incorporate innovative water treatment technologies to address prevalent issues like emerging contaminants or energy efficiency, conservation, or production.

Outcome: Modernize and enhance the resilience of the State's drinking water infrastructure to ensure reliable and safe water delivery to its residents and align the DWSRF program with EPA Pillar 2: Restore American Energy Dominance.

3. 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.

Outcome: Improve public health and safety in vulnerable communities.

By aligning the goals of the Tennessee DWSRF program with those of EPA, the state leverages federal resources, expertise, and guidance to advance its priorities related to drinking water infrastructure, quality, and sustainability. 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.

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Drinking Water Priority Ranking System

TDEC's DWSRF loan program uses a priority ranking system to develop the Priority Ranking List (PRL). Applicants seeking funding must login to the TDEC [Grants Management System \(GMS\)](#) and create an account. Once the GMS account has been created, applicants must complete and submit a Drinking Water SRF Questionnaire detailing the project information such as project description, cost, construction timeline, loan amount, and loan 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 SDWA. Tennessee has implemented a priority ranking system aligned with SDWA, employing a 100-point scale.

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

Sections 1452(3)(A)(i) and (ii) of SDWA specify that the DWSRF loan program cannot fund systems that do not have the technical, managerial, and financial capability to ensure compliance or systems that are in significant non-compliance unless the State conducts a review. The review must determine that the project enables the system to return to

Eligible DWSRF Project Categories

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

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

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

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 which demonstrate the commitment and capability to meet national drinking water regulations, encouraging sustained compliance and protecting public health.

List of Projects

In accordance with Section 1452(b)(3)(B) of SDWA, DWSRF compiles a PRL to identify projects that may receive funding in the first year after the grant award. The PRL contains essential information about each community,

including project description, total priority points, ATPI, total project cost, funding source, associated water system identification number, anticipated 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 a project to receive project priority points, it must meet the following ranking criteria:

1. The community must have submitted the last 3 fiscal years of audited financial statements to the comptroller's office; and
2. A draft facilities plan has been developed for this project.

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

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DWSRF 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, DWSRF may score the project and move it above the ranking line in accordance with the associated score, but below any previously ranked projects. Ranked projects will be prioritized for loan assistance agreements based on an entity's readiness to proceed. Additionally, in accordance with Tennessee S.B. 2175, priority will be placed on funding infrastructure projects in rural counties.

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 2026 Base Allotment and IJJA 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.

Readiness to Proceed

Once projects are on the PRL, applicants with a ranked project will receive a letter indicating their position on the priority ranking list. The ranking letter instructs applicants to demonstrate their readiness to proceed by logging into the [Grants Management System](#) (GMS) and completing the following information:

- 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.
- Upload the audited financial statements.
- Provide the specific dollar amount needed from DWSRF 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 aerial and topographic maps for the project location.

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Funding of Projects

DWSRF projects are prioritized based on the number of priority points awarded to them on the PRL. The projects with the highest number of priority points that have demonstrated their readiness to proceed are given preference for 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.

The DWSRF loan program will finalize the IUP and PRL and post them to our website. Then SRF will issue funding letters to all communities whose projects are listed above the Ranking Line on the PRL. Project loans can be awarded on a monthly basis depending on the community's readiness to proceed and the scheduling of the Tennessee Local Development Authority board meeting. This systematic approach ensures the efficient allocation of resources to projects that are ready to move forward and supports the timely implementation of critical water infrastructure improvements across Tennessee.

Project By-Passing Procedures

Despite their ranking on the PRL, projects selected for loans may risk being bypassed if the project is not ready to proceed. Bypassing can occur when a loan applicant does not meet the communicated requirements. However, the DWSRF loan program is dedicated to helping these bypassed entities maintain their eligibility for funding in the following fiscal year. The DWSRF program now facilitates the entire application process online via the Grants Management System (GMS). After completing the Questionnaire (Phase 1), applicants must adhere to established timelines to advance their projects through the DWSRF process. Currently, the estimated time to complete each phase is as follows:

- Phase 2 (Financial Sufficiency Review and Initial Environmental Review): 90 days. In this phase, entities provide initial financial and environmental information. The State conducts a Financial Sufficiency Review to determine if the entity is financially fit to receive a loan. An Interdisciplinary Environmental Review (IER) is initiated, including a 30-day comment period by federal and state agencies to receive feedback on the potential impact of the project. This phase also includes the completion of a Capacity

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Development Review (CDR).

- Phase 3 (Environmental Determination): 180 days. During this phase, the State determines whether the proposed project will be issued as a Categorical Exclusion (CE) or Finding of No Significant Impact (FNSI), then reviews and approves the planning document.
- Phase 4 (Loan Execution): 120 days. In this phase, the loan application is sent to the entity, the loan package is compiled, and signatures are obtained. Loan borrowers will have a signed loan agreement at the end of Phase 4.
- Phase 5 (Design Review): 90 days. In this phase, the State reviews design and technical documents to ensure DWSRF requirements are met.

The program acknowledges that unforeseen circumstances can occur 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. By providing flexibility and support, the DWSRF program aims to meet community needs and ensure that essential water infrastructure projects receive the necessary assistance, even in difficult circumstances. More information regarding the DWSRF's response to infrastructure emergencies can be found in this document's Emergency Relief Funding section.

Sources and Uses of Funds

The State of Tennessee's allotment of FFY 2026 DWSRF Base Capitalization Grant dollars is expected to be \$6,468,000. The State is required to provide a 20% match of federal funds, or \$1,293,600. The Base Capitalization Grant plus state match, less set-asides (\$258,718) will provide \$7,502,882 for the DWSRF loan program in SFY 2027. The State of Tennessee's IJA General Supplemental allotment for FFY 2026 is \$41,896,000. The State must provide a 20% match of federal funds, or \$8,379,200, to receive the full general supplemental allotment. The IJA General Supplemental plus state match, less set-asides (\$1,675,839) will provide an additional \$48,599,361 in funds available to the DWSRF loan program in SFY 2027. Based on the estimated carry forward funds, principal repayments, loan interest income, and treasury

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interest income added to the available funds from the FFY 2026 DWSRF Base and IIJA General Supplemental Capitalization Grants, the state can provide approximately \$253,003,726 for project loans (Table 1).

Sources of program funds include loan repayments of principal and interest, interest on DWSRF cash balances, and unobligated fund balances carried forward from SFY 2026.

Non-program funds include fees from non-disadvantaged borrowers. These funds are used for administrative services during the repayment period of the loan term. Based on established amortization DWSRF estimates fees collected for SFY 2026 will be approximately \$119,640.

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Financial Status of Funds for the DWSRF Loan Program		
Prior-Year (FFY2025) Carry-forward Project Funds*		\$353,340,718
Less Unliquidated Obligations		(\$174,368,519)
Funds Transfer		\$0
Principal repayments **		\$10,348,932
Loan Interest Income**		\$1,979,380
Treasury Interest Income**		\$5,600,972
FFY 2026 Base Capitalization Grant		\$6,468,000
20% of FFY 2026 Base Capitalization Grant - State Match Funds		\$1,293,600
FFY 2026 IJA General Supplemental Capitalization Grant		\$41,896,000
20% FFY 2026 IJA General Supplemental Capitalization Grant - State Match Funds		\$8,379,200
Set Aside Activities:		
Base Capitalization Grant	IJA Supplemental Grant	(\$1,934,557)
SRF Administration: \$258,718	SRF Administration: \$1,675,839	
State Program Management Public Water Supply Supervision (PWSS): \$0	State Program Management Public Water Supply Supervision (PWSS): \$0	
State Program Management – Operator Certification (FTC): \$0	State Program Management – Operator Certification (FTC): \$0	
Small System Technical Assistance (SMS): \$0	Small System Technical Assistance (SMS): \$0	
Local Assistance:		
Base Capitalization Grant	IJA Supplemental Grant	
SRF Wellhead Local Assistance: \$0	SRF Wellhead Local Assistance: \$0	
SRF Source Water Protection: \$0	SRF Source Water Protection: \$0	
AMP Supplemental Grants: \$0	AMP Supplemental Grants: \$0	
TOTAL \$258,718	TOTAL \$1,675,839	
DWSRF Loan Program Project Funds		\$253,003,726
* Estimated balance at June 30, 2025, includes awarded CAP grants		
** Principal, loan interest, and treasury interest for SFY 2026 based on SFY 2025		

Table 1: Financial Status of Funds for the DWSRF Loan Program

TDEC SRF is currently developing 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.

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Uses of Funds

SDWA allows each state 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.

Transferred Funds

States can transfer up to 33% of its Drinking Water State Revolving Fund (DWSRF) base and supplemental Capitalization Grants, on a cumulative basis, into the Clean Water State Revolving Fund (CWSRF) or an equal dollar amount from the CWSRF into the DWSRF per 40 C.F.R. § 35.3555(c)(8). In addition to transferring grant funds, states can also transfer state match, investment earnings, or principal and interest repayments between SRF programs. Tennessee reserves the right to transfer between these funds.

The table in Appendix A entitled "Transfer of Funds Between SRF Loan Programs" itemizes the amount of base funds available for transfer and that have been transferred between the CWSRF and DWSRF programs to date based on the base SRF capitalization grants. This year TDEC does not plan to transfer any funds from the CWSRF fund into the DWSRF fund.

Set-Aside Activities

SDWA § 1452(g) and (k) 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 DWSRF intends to use \$258,718 in Base and \$1,675,839 in IJJA for the total set-asides DWSRF will use for SFY 2027. Table 2

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outlines the DWSRF funding source, program, amount of Base Capitalization Grant and IJA 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	IJA Cap. Grant	% of Funding	Total
SRF Administration	\$258,718	4.00%	\$1,675,839	4.00%	\$1,934,557
State Program Management Public Water Supply Supervision (PWSS):	\$0	0.00%	\$0	0.00%	\$0
State Program Management Operator Certification:	\$0	0.00%	\$0	0.00%	\$0
Small System Technical Assistance	\$0	0.00%	\$0	0.50%	\$0
Source Water Protection	\$0	0.00%	\$0	0.00%	\$0
Wellhead Protection	\$0	0.00%	\$0	0.00%	\$0
Local Assistance AMP Supplemental Grants	\$0	0.00%	\$0	0.00%	\$0

Table 2: DWSRF Base and IJA General Supplemental Capitalization Grant Set-aside Activities

SDWA allows each state to set aside these funds from its federal capitalization grant to support various drinking water programs, including administration, technical assistance, state program management, and special activities. Outcomes from these activities are reported to EPA in the DWSRF Annual Reports. Set-aside funds from previous capitalization grants will be drawn down in accordance with that year’s IUP.

Administrative and Technical Assistance

Of the 4% allowable administrative and technical assistance set-aside, DWSRF intends to use \$258,718 of the FFY 2026 DW Base Capitalization Grant and \$1,675,839 of the FFY 2026 IJA General Supplemental Capitalization Grant for administrative support, including database development, salaries, and benefits of employees; travel of staff relating to project

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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.

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 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 use \$100,000 in administrative funding from FFY 2026 for this work.

Program Assistance Contracts

Ability To Pay Index (ATPI)

EPA requires the DWSRF loan program to use appropriate affordability criteria to administer SRF drinking water loans. In addition, the WRRDA requires that state DWSRF 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 \$100,000 in administrative funding from FFY 2026 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

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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 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.

Process Streamlining

The SRF Loan program contracts with Ernst & Young (EY) to assist with streamlining the loan process for both the program and the borrowers. This contract will help to decrease time from borrower's initial request to loan execution by clarifying regulatory sticking points and creating internal procedures for handling common challenges. DWSRF will use \$150,000 in administrative funding from FFY 2026 for this purpose.

Criteria and Methods for Distributing Funds

The primary use of the DWSRF is to provide assistance to drinking water utilities for capital improvements (infrastructure projects). This loan assistance can be any combination of planning, design, and/or construction.

The DWSRF loan program will provide funding letters to all communities with projects above the ranking line on the FFY 2026 PRL after the IUP and PRL have been finalized, including responses to public comments. For the FFY 2026 capitalization grant, funding priority will be directed to ranked disadvantaged communities, small communities, rural communities, and entities with green and resilient infrastructure projects. Project loans may be awarded each

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month depending upon a community's readiness to proceed and the scheduling of the Tennessee Local Development Authority board meeting.

Subsidies and Affordability Criteria

The DWSRF loan program provides options for how communities and utility systems can harness DWSRF subsidies to their advantage. These options include principal forgiveness, the green project reserve subsidy, and reduced interest rates, which are detailed in the ATPI Reduced Interest Rates section. By exploring these alternatives, applicants can endeavor to alleviate the financial strain associated with their drinking water infrastructure improvements. Communities and utility systems seeking financing from DWSRF must meet the eligibility requirements to access the program's multiple subsidy strategies.

Total additional subsidy requirements for DWSRF may change annually based on federal legislation. Recent amendments to SDWA have established additional subsidy requirements for states. The State is obligated to allocate a minimum of 12% of the FFY 2026 DWSRF Capitalization Grant amount as an additional subsidy. Additionally, Congress has stipulated at least 14% of the capitalization grant amount must be designated as an additional subsidy specifically targeted at disadvantaged communities.

Furthermore, IJA 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 disadvantaged communities or align with the green project reserve.

By targeting the following types of projects, Tennessee aims to strategically allocate this subsidy to eligible projects for small or disadvantaged communities and green initiatives.

- Disadvantaged communities for planning, design, and/or construction projects,
- Small communities with planning and design projects, or
- Utilities proposing projects that meet DWSRF green project reserve criteria on the SFY 2027 PRL.

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These efforts emphasize the State's commitment to providing targeted assistance and support to those in need while advancing sustainable and environmentally conscious water infrastructure projects.

Principal Forgiveness Available for the DWSRF Loan Program	
Prior-Year (SFY 2026) Carry-forward Funds*	\$68,309,049
FFY 2026 Base Capitalization Grant	\$1,681,680
FFY 2026 IJA General Supplemental Capitalization Grant	\$20,529,040
DWSRF Unobligated Principal Forgiveness Funds	\$90,519,769
* Estimated balance at March 31, 2026, unobligated principal forgiveness	

Table 3: SFY 2027 DWSRF Available Principal Forgiveness

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Base Capitalization Grant		
Capitalization Grant	Disadvantaged Communities (12%)	Small Systems or Green Projects (14%)
\$6,468,000	\$776,160	\$905,520
IIJA General Supplemental		
Capitalization Grant	Disadvantaged Communities (49%)	Small Systems or Green Projects (0%)
\$41,896,000	\$20,529,040	\$0
TOTAL AVAILABLE DWSRF SUBSIDY	\$21,305,200	\$905,520
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 4: SFY 2027 DWSRF Available Subsidy

All principal forgiveness is awarded on a “first-come-first-serve” basis for eligible entities that are ready to proceed until funds are fully obligated. DWSRF will work to maximize an entity’s principal forgiveness where possible.

Principal Forgiveness for Disadvantaged Communities

Eligibility of disadvantaged communities for DWSRF principal forgiveness will be determined based on the most current ATPI. To be considered disadvantaged, a community must have an ATPI of 50 or less. 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 ATPI and a smaller population will receive 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 to be determined each year based on the qualifying projects received. The ATPI tiers are as follows:

- 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

Eligibility Requirements for Disadvantaged Community Principal Forgiveness:

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

Principal Forgiveness for Small Communities

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 for Small Community Principal Forgiveness:

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 DWSRF

Principal Forgiveness for Green Projects

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The FFY 2026 Capitalization Grant provides flexibility for DWSRF funding to support environmentally innovative activities, such as green infrastructure, resilience, water or energy efficiency improvements. Each state has the discretion to determine which projects qualify for GPR funding. Tennessee allocates a minimum of 10% of the FFY 2026 project funds 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 DWSRF projects.

Eligibility Requirements for Green Project Principal Forgiveness:

Communities of all sizes, irrespective of their ATPI, can 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 2026 project funds until the 10% allocation has been met. The DWSRF Base Capitalization Grant or the IJA 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 document; [2012 CWSRF 10% Green Project Reserve: Guidance for Determining Project Eligibility](#).

Additional Requirements for Green Project Subsidy:

1. Projects must be on the current PRL

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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

The specific eligibility criteria and subsidy amounts for DWSRF eligible projects can vary depending on the type of project, the program within DWSRF, and other factors. Additionally, the dollar amounts can vary depending on the project's scope and an entity's financial need.

Ability to Pay Index: Reduced Interest Rates

The 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. The ATPI will be updated annually to reflect the current fiscal capacity, economic trends, and changes within communities across the state.

Interest rates are set by the SRF program on a quarterly basis. Rates are 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 updates are published to the SRF website on the first Monday of the first month of the quarter.

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 projects that service more than one county will be evaluated and ranked using the ATPI of the benefiting

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service area. For these projects, the assigned ATPI will be based on the service area benefiting most from the project.

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's 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)

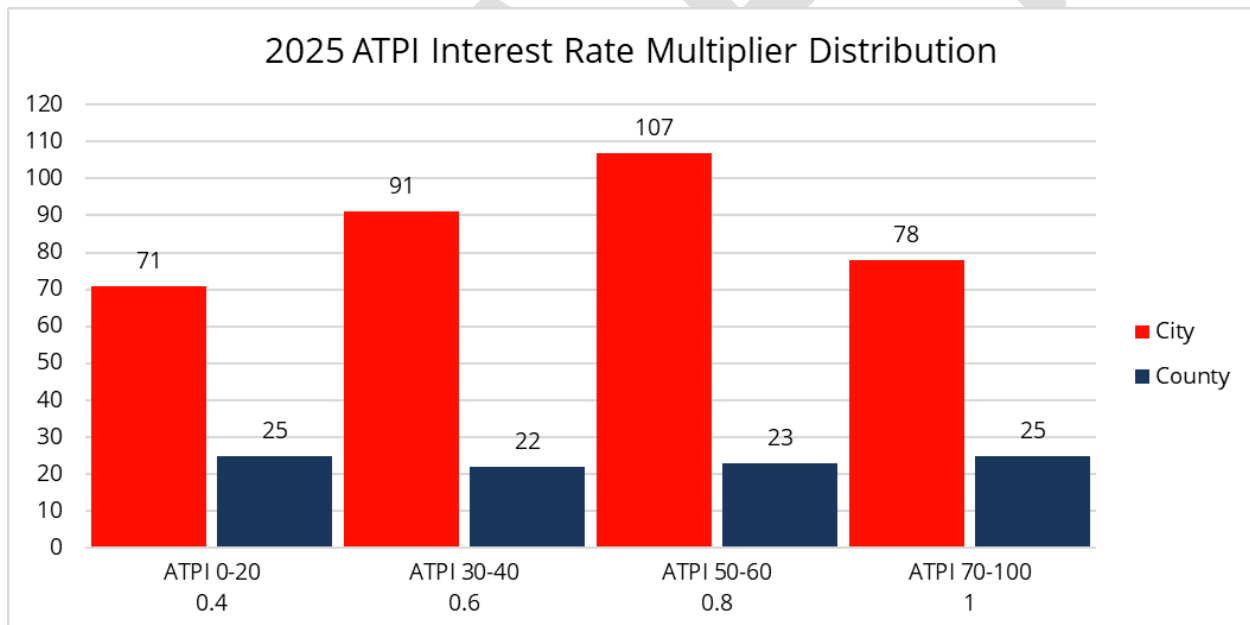


Figure 1: ATPI Interest Rate Multiplier Distribution

Loan Terms and Fees

The term for a DWSRF loan funded by the FFY 2026 DWSRF Capitalization Grant or IJJA General Supplemental funding is limited to a maximum of 30 years or the project's useful life (whichever is shorter) and 40 years or a projects useful life (whichever is shorter) for

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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 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.

Recipient Project Requirements

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

Davis-Bacon

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

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

Disadvantaged Business Enterprise (DBE) Goals

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

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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, arrange time frames for contracts, and establish delivery schedules where the requirements permit in a way that encourages and facilitates DBE participation 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 outlined by good-faith efforts one through five.

The recipient agrees to comply with the contract administration provisions of 40 CFR § 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

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to competitive bidding requirements. See 40 CFR § 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.

Build America, Buy America (BABA) Act

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

Generally Accepted Accounting Principles (GAAP)

The State requires assistance recipients to follow SDWA § 300j-12(g)(3) and maintain project accounts according to Generally Accepted Accounting Principles (GAAP) as issued by the [Government Accounting Standards Board \(GASB\)](#). This provision requires assistance recipients in using standards relating to the reporting of infrastructure assets. The most

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recent applicable standard is GASB Statement No. 34 (GASB 34), issued in June 1999, which details governmental reporting requirements, including standards for reporting infrastructure assets. Further details on the requirements and the full text of GASB 34 can be obtained through GASB.

Technical, Managerial, and Financial Capacity

Under SDWA § 1452(a)(3), the State must 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 § 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) to support an applicant's ability to adequately manage and operate a system and incur and repay new debt. 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.

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.

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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.

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

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- 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.

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 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

Entities seeking emergency relief must demonstrate a plan for future system improvements that enhance resiliency and reduce future risks.

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Environmental Benefits

The State agrees to report the environmental benefits for each applicable loan using EPA's Office of Water State Revolving Funds (OWSRF) System. The following information will be entered into the OWSRF System no less than quarterly:

1. Type of GPR Project, if funded (green infrastructure, water efficiency, energy efficiency, environmentally innovative),
2. Amount of DWSRF 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 reported information 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 § 1452 of SDWA, the State certifies that:

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

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- 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 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 fall of every year.

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Annual Report Requirements

SDWA § 1452 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.

Performance Evaluation Report (PER) Recommendations and Findings

The EPA Region 4 SRF program conducted a Financial and Compliance Audit Report in May 2024. The audit resulted in two (2) findings. There were five (5) items identified by USEPA that require action to improve efficiencies in the DWSRF program. See Table 5 below for highlights of the recommendations by EPA and actions taken by DWSRF.

Recommendations from EPA Annual Review		
Item	Action Needed	Status
The EPA recommends that TDEC increase the number of executed loan agreements to accelerate the DWSRF program and reduce uncommitted balances.	To address this issue, TDEC should explore all available funding sources for binding commitments and strategically manage cash flows to optimize fund allocation for projects.	TDEC is streamlining its loan process and working to decrease time from borrower’s initial request to loan execution. TDEC is exploring options to stimulate faster paced and more consistent disbursement requests from their borrowers.

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<p>The EPA recommends that TDEC intensify efforts to timely and expeditiously expend all available SRF resources.</p>	<p>Improve the disbursement ratio and reduce the rate of undisbursed funds to three-year average.</p>	<p>TDEC plans to prioritize projects that are ready to proceed, verify timely receipt of cost-incurred invoices, and process disbursements to eligible borrowers in a timely and expeditious manner.</p>
<p>The EPA recommends that TDEC update its Operating Agreement (OA) to document current practices.</p>	<p>One of the assigned tasks of TDEC's contractor is to improve the state's DWSRF program and OA.</p>	<p>Within 90 days of the end of the contract period, which TDEC anticipates being completed by October 2026, the EPA requests that TDEC provide the EPA with a draft of their updated OA.</p>
<p>The EPA recommends that TDEC continue to verify that it meets OWSRF database reporting requirements.</p>	<p>Includes reporting amendments to existing loan agreements, entries on additional subsidy assigned to drinking water projects.</p>	<p>TDEC has a system in place to reconcile all OWSRF data.</p>
<p>TMF Capacity review.</p>	<p>The EPA recommends that TDEC provide a copy of the SOP for TMF Capacity review within 90 days of this report.</p>	<p>TDEC has provided a copy of our CDR checklist, which is equivalent to the TMF Capacity review.</p>

Table 5: Performance Evaluation Report (PER) Recommendations and Findings, Suggested Actions, and Actions Taken by TDEC DWSRF.

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Amending the Intended Use Plan

The DWSRF 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, 2026 - June 30, 2027				
Sources and Uses	Federal Contribution	State Contribution	DW SRF Fund	Total
<i>Funding Sources</i>				
Prior Year Project Carry Forward Funds*	\$ 119,724,372	\$ 25,562,845	\$ 208,053,501	\$ 353,340,718
DW from CW Funds Transfer	\$ -	\$ -	\$ -	\$ -
Loan Repayments (P&I) **	\$ -	\$ -	\$ 12,328,312	\$ 12,328,312
Investment Income**	\$ -	\$ -	\$ 5,600,972	\$ 5,600,972
Banked Set Asides	\$ 30,140,617	\$ -	\$ -	\$ 30,140,617
FFY 2026 Base Capitalization Grant	\$ 6,468,000	\$ 1,293,600	\$ -	\$ 7,761,600
FFY 2026 IJJA General Supplemental Capitalization Grant	\$ 41,896,000	\$ 8,379,200	\$ -	\$ 50,275,200
Totals for Funding Sources	\$ 198,228,989	\$ 35,235,645	\$ 225,982,785	\$ 459,447,418
<i>Funding Uses</i>				
Executed Loans	\$ 145,301,287	\$ 29,067,232	\$ -	\$ 174,368,519
Anticipated Loan Commitments SFY26***	\$ 47,123,472	\$ 11,874,799	\$ 18,404,686	\$ 77,402,957
Anticipated Loan Commitments SFY27***	\$ -	\$ -	\$ 260,144,762	\$ 260,144,762
Anticipated Loan Commitments SFY28***	\$ -	\$ -	\$ 181,460,000	\$ 181,460,000
Set Asides Spending	\$ 32,075,174	\$ -	\$ -	\$ 32,075,174
	\$ -	\$ -	\$ -	\$ -
Total for Funding Uses	\$ 224,499,933	\$ 40,942,031	\$ 460,009,448	\$ 725,451,412
* Estimated balance at March 31, 2026, includes awarded CAP grants				
** Principal, loan interest, and treasury interest based on SFY 2026 projections				
*** from PRL - maximum available for funding or all available projects (whichever is less)				

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Sources and Uses Detail		
Sources	%	Amount
FFY 2026 Base Capitalization Grant		\$6,468,000
20% State Match		\$1,293,600
Set-Aside	4.0%	-\$258,718
Total Project Funds		\$7,502,882
FFY 2026 IJJA General Supplemental Capitalization Grant		\$41,896,000
20% State Match		\$8,379,200
Set-Aside	4.0%	-\$1,675,839
Total Project Funds		\$48,599,361
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		\$14,274,665
FFY 2022 IJJA Capitalization Grant 20% State Match		\$1,680,225
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
FFY 2024 Base Capitalization Grant - project fund		\$5,890,742
FFY 2024 Capitalization Grant 20% State Match		\$1,569,200
FFY 2024 IJJA Capitalization Grant - project fund		\$9,705,182
FFY 2024 IJJA Capitalization Grant 20% State Match		\$2,618,119
FFY 2025 Base Capitalization Grant - project fund		\$13,651,219
FFY 2025 Capitalization Grant 20% State Match		\$3,671,800
FFY 2025 IJJA Capitalization Grant - project fund		\$31,164,536
FFY 2025 IJJA Capitalization Grant 20% State Match		\$8,382,400
Total Available Cap Grant Funds		\$145,287,216
Set Aside Funds		
SRF Administration		\$5,235,065
State Program Management Public Water Supply Supervision (PWSS)		\$7,355,786
State Program Management Operator Certification		\$2,617,635
Small System Technical Assistance		\$1,739,419
Source Water Protection		\$538,060
Wellhead Protection		\$506,509
Local Assistance AMP Supplemental Grants		\$14,082,700
Total Set Aside Funds		\$32,075,174
Revolving Funds		\$225,982,785
Total Sources of Funds		\$459,447,418

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Uses		
Executed Loans*		\$174,368,519
Anticipated Loan Commitments SFY26**		\$77,402,957
Anticipated Loan Commitments SFY27***		\$260,144,762
Anticipated Loan Commitments SFY28****		\$181,460,000
Total Anticipated Loan Commitments		\$693,376,238
Set Asides		
SRF Administration		\$5,235,065
State Program Management Public Water Supply Supervision (PWSS)		\$7,355,786
State Program Management Operator Certification		\$2,617,635
Small System Technical Assistance		\$1,739,419
Source Water Protection		\$538,060
Wellhead Protection		\$506,509
Local Assistance AMP Supplemental Grants		\$14,082,700
Total Set Aside Funds		\$32,075,174
Total Uses of Funds		\$725,451,412
* Executed Loans		
** Loans expected to close by 6/30/2026		
*** through 2025 PRL		
**** 2026 PRL		

Drinking Water State Revolving Fund

Draft Intended Use Plan

April 30, 2026

DRAFT