Department of Environment & Conservation

TN Department of Environment and Conservation Drinking Water State Revolving Fund Supplemental Appropriation for Hurricanes Helene and Milton and Hawai'i Wildfires (SA-HMW) Annual Report State Fiscal Year 2026

Table of Contents

Executive Summary 3
DWSRF SA-HMW Capitalization Grants 4
Goals and Accomplishments 4
Financial Summary 5
Source and Use of Funds 5
SA-HMW Drinking Water Financial Overview 6
Types of Assistance 7
Use of Drinking Water Set-Asides 8
Provisions of the Operating Agreement and Conditions of the Capitalization Grant 8
State Match 8
Additional Subsidization (Principal Forgiveness) 8
Binding Commitments 8
Project Assistance, Subsidy, and Loan Terms 9
Timely Expenditure of Funds 9
Assurances of Compliance 10
State Environmental Review Process 10
Additional Requirements 11
Ability to Pay Index (ATPI) 11
Disadvantaged Business Requirements 11
Davis Bacon Wage Rate 12
American Iron, Steel, and Manufactured Goods 12
Environmental Results 12
Appendix A 13

Executive Summary

The State of Tennessee, Department of Environment and Conservation (TDEC) developed this Annual Report for State Fiscal Year (SFY) 2026 (July 1, 2025 - June 30, 2026). This report defines how the State of Tennessee's Drinking Water State Revolving Fund (DWSRF) Loan Program met the goals and objectives identified in the SFY 2026 Supplemental Appropriation for Hurricanes Helene and Milton and Hawai'i Wildfires (SA-HMW) Intended Use Plan (IUP) and assisted disaster-impacted communities. This report details the actual use of funds for the Drinking Water SA-HMW capitalization grant. A full list of all SFY 2026 Drinking Water SA-HMW loan recipients and the assistance amounts can be found in Appendix A.

DWSRF SA-HMW Capitalization Grants

Goals and Accomplishments

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

Table 1: Goals, Objectives, and Results

Long- and Short-Term Goals, Objectives, and Results Clean Water SA-HMW SRF Program for SFY 2026			
	Goals	**Objectives**	**Results**
Long Term Goals	Ensure a safe and adequate water supply for small communities by actively involving them in program participation.	Return Helene-impacted communities to full operation while reducing the financial burden put on them by the disaster.	Fiscal responsibilities are coordinated with TDEC, the Comptroller's Office and the Dept. of Finance and Administration to ensure appropriate internal controls and proper accounting procedures
			Revised operating budget, internal audit, and end of year fiscal reporting
			Ongoing, including the continued development of a database for tracking funds and project progress
	Provide financial assistance to projects which repair, replace, or fortify drinking water systems that were damaged by Hurricane Helene.	Increase resilience of decentralized water treatment systems while reducing the financial burden put on them by the disaster.	Ongoing, including development of SOPs, financial sufficiency process, a database for tracking projects, documentation, and integration with other TDEC programs
			Ongoing, including updating the solicitation process, created a marketing and outreach campaign, instituting new allocation of principle forgiveness; increase in solicitation response by 60%; All projects reviewed for compliance with federal crosscutting authorities and an approved state environmental review process (SERP) prior to loan award.
Short Term Goals	Coordinate with current SRF loan recipients to determine the components of their ongoing projects which were damaged or destroyed by Hurricane Helene.	Assess the SRF pipeline for projects that are already in the system and ready-to-proceed to quickly designate funds for repairs and restore storm-impacted communities to full operation.	Complete, including targeted outreach and education sessions in the impacted region and follow-up discussions with communities.

	Restore disaster-damaged facilities to their pre-disaster design and function, including applicable codes and standards.	Ensure access to safe drinking water for all communities.	Developed new SOPs for technical and financial review processes, worked with contractors to remove vestigial requirements, and signed a contract to build out a new application and program management database.
	Provide public assistance funding for cost-effective hazard mitigation measures for disaster-damaged facilities.	Increase resilience to possible future impacts.	Ongoing.

Financial Summary

Source and Use of Funds

In late September 2024, Hurricane Helene devastated infrastructure in many communities in Northeast Tennessee. On December 21, 2024, the American Relief Act, 2025, P.L. 118-158, ("the Act") became law. Title VII of the Act included disaster relief supplemental funding for the State Revolving Fund (SRF) programs. This law includes appropriations for disaster relief funding due to Hurricane Helene via the Supplemental Appropriation for Hurricanes Helene and Milton and Hawai'i Wildfires (SA-HMW).

The Safe Drinking Water Act (SDWA) allows each state flexibility to establish how much of the capitalization grant will be used for infrastructure loans, assistance to financially disadvantaged communities, and set-aside activities. In turn, the State has the responsibility to direct the funds to best address drinking water infrastructure problems. The State of Tennessee has agreed to direct all monies to compliance-based issues first, and to fund projects that are ready to proceed.

The State of Tennessee's allotment of SA-HMW DWSRF capitalization grant dollars is $44,262,000. The State was not required to provide a match of federal funds. The SA-HMW capitalization grant, less $1,770,480 of administration set-asides provided an expected $42,491,520 in funds available for the DWSRF loan program in state fiscal year (SFY) 2027.

DWSRF obligated $0 in SA-HMW loans during SFY 2026, providing projects with $0 in loans and $0 in loan forgiveness.

An administrative loan fee of eight basis points (.08%) is charged by the Tennessee Comptroller's Office to process loan documents and payments associated with DWSRF loans since October 1, 2009. This SFY, the Comptroller's Office collected fees in the amount of $0.

SA-HMW Drinking Water Financial Overview

During SFY 2026 the SA-HMW DWSRF program awarded zero (0) loans totaling $0. Annual highlights can be found in the table below. DWSRF disbursed $0 in loan payments to loan recipients. No state match was required.

Table 2: Annual Highlights

Annual Highlights from Drinking Water SA-HMW State Fiscal Year (SFY) 2026	
Zero (0) New Loans Awarded	$ -
Zero (0) Projects Requested Loan Decreases	$ -
DWSRF Executed Assistance Commitments (net)	$ -
DWSRF Loans Awarded Small/Disadvantaged Communities (0)	$ -
DWSRF Loan Forgiveness (0) Entities	$ -
Zero (0) Project Starts	$ -
Zero (0) Projects Initiated Operations	$ -

DWSRF had a beginning SA-HMW balance of $0 for SFY 2026. There was an additional unliquidated EPA award balance of $44.2M. DWSRF received revenue from principal repayments in the amount of $0, principal interest in the amount of $0, and treasury interest in the amount of $0 in SFY 2026. The State has an unobligated ending fund balance of $44.2M for SFY 2026. Cumulatively, the State has issued $0 in loans and received approximately $0 in principal repayment, $0 in loan interest income, and $0 in Treasury interest income since the inception of the DWSRF. Details for these amounts are provided in Table 3 below.

Additionally, DWSRF used a total of $0 in federal set-asides for administrative expenditures.

Financial Summary for Drinking Water SA-HMW Fund Balance less Set Asides State Fiscal Year (SFY) 2026	
Financial Summary	Amount
SRF Carryover from 2025	$ -
Unliquidated EPA Awards Carryover from 2025	$ -
FFY 2025 Capitalization Grant Award Available for Projects	$ 42,491,520
SFY 2026 State Appropriations	$ -
Executed Assistance Commitments	$ -
Loan Decreases	$ -
SFY 2025 Principal Repayments	$ -
SFY 2025 Loan Interest	$ -
SFY 2025 Treasury Interest	$ -
Unobligated Balance as of June 30, 2026	$ 42,491,520

Types of Assistance

DWSRF will provide a variety of SA-HMW assistance based on project needs. There were zero projects, totaling $0, that provided funding for communities needing improvements to their water supply storage systems. There were zero projects, totaling $0, to address treatment needs. There were zero (0) projects with needs based on improvements to the transmission and distribution lines, totaling $0. Further information on types of assistance and funding amounts can be found in Appendix A.

Financing Rates

SRF interest rates are based on a community's ability to pay as determined through the Tennessee Ability to Pay Index (ATPI). Base interest rates can vary from zero to 100% of the interest rate reported on the 20-year Bond Buyer Index and the Municipal Market Data General Obligation Yields published every Thursday. Interest rates are set by the DWSRF program on a quarterly basis. Rates are published on the first Monday of the quarter and based on 100% 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. Quarterly updates to these interest rates are published to the SRF website. The State may also recommend a reduction of the interest rate to incentivize green, sustainable, and resilient projects, but nothing below 0%. Disadvantaged communities, as defined by the ATPI, are eligible for lower interest rates, or principal forgiveness, and an extended loan repayment period. The interest rates for utility districts and water authorities that have service areas in more than one county are evaluated and ranked using the lowest ATPI for the county or city that directly benefits from the project(s) associated with the loan. The loan can last for a maximum of 30 years (40 years for disadvantaged communities) or until the end of the project's useful life; whichever comes first.

Use of Drinking Water Set-Asides

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. From the SA-HMW award, Tennessee only utilized the SRF administration set-aside (4%) to maximize the funding available for SA-HMW projects. This amounts to $1,770,480 in set-aside funding the DWSRF program used from the SA-HMW grant. See the table below, Set Aside Summary for Drinking Water SA-HMW, for details.

Table 4: SFY 2025 Set-Aside Summary for Drinking Water SA-HMW

SET ASIDE Summary for Drinking Water SA-HMW State Fiscal Year (SFY) 2026				
Activity	**Set Aside Beginning Balance**	**Additions**	**Expenditure Amount**	**Set Aside Ending Balance**
Administrative Expenditures	$ 1,770,480	$ -	$ -	$ 1,770,480
Total DWSRF Program Expenditures for Set Asides	**$ 1,770,480**	**$ -**	**$ -**	**$ 1,770,480**

Provisions of the Operating Agreement and Conditions of the Capitalization Grant

State Match

No state match was required to receive the Drinking Water SA-HMW funding.

Additional Subsidization (Principal Forgiveness)

Through the SA-HMW, Congress mandates a minimum 30% and a maximum of 100% of the funding be provided as grants or forgivable loans to communities. These additional subsidy funds were not restricted to rural communities or those meeting affordability criteria. TDEC provided all DW SA-HMW funding as grants. The total amount of subsidization was $42.4M for SA-HMW Drinking Water.

Binding Commitments

Federal regulations found in 2 CFR Part 200 require the State to make executed assistance commitments in an amount equal to 100% of each quarterly capitalization grant payment. DWSRF made Zero (0) executed assistance commitments to provide assistance equal to 0% of the amount of each grant payment, within one year after receiving the grant award.

The current DWSRF Operating Agreement requires reporting of loan terms annually for new assistance projects. The tables below, Executed Assistance Commitments by Quarter and Executed Assistance Commitments and Loan Terms, provide the details of the loan terms established in the DWSRF executed assistance commitments from SFY 2026.

Executed Assistance Commitments by Quarter for Drinking Water SA-HMW State Fiscal Year (SFY) 2026			
First Quarter (July 1- September 30, 2025)	Second Quarter (October 1- December 30, 2025)	Third Quarter (January 1- March 31, 2026)	Fourth Quarter (April 1- June 30, 2026)
$ -	$ -	$ -	$ -

Executed Assistance Commitments and Loan Terms - SA-HMW State Fiscal Year (SFY) 2026							
Borrower Name	State Tracking Number	Current Agreement Date	Current Agreement Amount	Current Interest Rate	Current Repayment Period	Assigned Grant Subsidy	Assigned Grant GPR
				0.00%			$ -
							$ -
		TOTALS	$ -	0.00%		$ -	$ -

Project Assistance, Subsidy, and Loan Terms

Timely Expenditure of Funds

The State of Tennessee's DWSRF program provides timely disbursements of funds for projects. This assists the State in reducing EPA unliquidated obligations, found below in Table 7. When a loan is executed, the date for the first repayment is set based on the scheduled completion date for project construction. The fixed repayment date is rarely revised to accommodate project delays and serves as an incentive for the timely construction of the project.

Table 7: Unliquidated Obligations

Unliquidated Obligations - SA-HMW State Fiscal Year (SFY) 2026						
Entity	Loan Number	Award Amount	Funds Drawn	Total Remaining Grant Funds	Remaining Set Asides Available	Remaining Loan Funds Available
FFY 2025 SA-HMW Grant	SK-05D53625	$ 44,262,000	$ -	$ 44,262,000	$ 1,770,480	$ 42,491,520
State Fiscal Year (SFY) 2026		$ 44,262,000	$ -	$ 44,262,000	$ 1,770,480	$ 42,491,520

DWSRF generally processes disbursement requests within the required timeline, which is 30 calendar days of receipt. Per C.F.R. § 200.305 (Payment) *reimbursement is the preferred method when the*

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

SA-HMW DWSRF did not disburse any funds in SFY 2026. No State match was necessary.

As of June 30, 2026, the reported pace of DWSRF SA-HMW was 0%. The program continues to update its programmatic processes and modernize the program. The program has gone through significant changes due to staff turnover. This change required the program to re-evaluate its current processes. DWSRF SA-HMW expects the pace will improve over the next fiscal year.

Table 8: Disbursed Loan Payments

Disbursed Loan Payments - SA-HMW State Fiscal Year (SFY) 2026				
Entity	Loan Number	Loan Funds	Forgiveness Funds	Total
State Fiscal Year (SFY) 2026		**$ -**	**$ -**	**$ -**

Assurances of Compliance

DWSRF ensures that all activities in the Drinking Water program comply with all state and federal requirements. The State attests adherence to the rules of cash draws. All cash draws for administrative assistance were made in compliance with federal rules after costs had been incurred. The State attests to complying with state and federal requirements concerning grant payments and expenditures. DWSRF certifies state laws regarding commitments and expenditure of revenue are followed. Further, the State attests to accepting grant payments in accordance with the negotiated payment schedule.

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

State Environmental Review Process

During SFY 2026, the DWSRF program conducted environmental reviews on all funded projects in accordance with the State Environmental Review Process. It was determined that no Environmental

Impacts Statements (EIS) were necessary. Instead, a Categorical Exclusion (CE) or an Environmental Assessment (EA) coupled with a Finding of No Significant Impact (FNSI) was issued for each project.

Additional Requirements

Ability to Pay Index (ATPI)

TDEC SRF is required by EPA to develop and use affordability criteria for administering SRF clean water and drinking water loans. In addition, the Water Resources Reform and Development Act (WRRDA) of 2014 requires that all state SRF programs use population trends, incomes, unemployment rates, and other metrics to determine the priority ranking, project scoring, interest rates, distribution of additional subsidies, eligibility for planning and design loans, and other benefits for disadvantaged communities. The required metrics are weighed and combined to form Tennessee's Ability to Pay Index (ATPI); a single value crafted to represent a city or county's ability to afford a loan.

TDEC SRF contracts with the University of Tennessee Institute of Agriculture (UTIA) Department of Agriculture and Resource Economics Development to update the ATPI annually for all TN counties, cities, and municipalities. The ATPI is a database of socioeconomic and financial data which serves as the foundation for an index used to inform decisions to determine interest rates, allocate subsidies, and identify options intended to benefit communities that need it the most. Through this contract, a consistent, transparent, and annually updated index is provided to improve decision making in loan and grant administration by TDEC. The ATPI also enhances coordination between TDEC, Tennessee Department of Economic and Community Development (ECD), and Tennessee USDA Rural Development to best use resources to serve disadvantaged communities.

Disadvantaged Business Requirements

Pursuant to 40 CFR § 33.301, loan recipients agree 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 in the project files.

Loan recipients agree 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.

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

Davis Bacon Wage Rate

The FFY 2025 DW SA-HMW Capitalization Grant requires the Davis-Bacon Act wage rules to apply to all assistance agreements made in whole or in part with funds appropriated under SA-HMW. The SRF Loan Program, along with the Department of Labor, provides loan recipients with all pertinent information related to compliance with labor standards, including prevailing wage rates, and reporting requirements.

American Iron, Steel, and Manufactured Goods

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

The America's Water Infrastructure Act of 2018 extends the AIS provision for DWSRF projects through SFY 2025.

Environmental Results

Projects are entered into the Office of Water State Revolving Fund (OWSRF) Reporting System quarterly. This database is current for all projects funded in Tennessee during SFY 2026. Reports are electronically available to EPA for all Drinking Water SRF loans.

Appendix A

Appendix A: 2026 Drinking Water SA-HMW Types of Assistance

SFY 2026 Types of Assistance - SA-HMW							
State Fiscal Year (SFY) 2026	Report Group	State	Borrower	Loan Number	Agreement Date	Number of Agreements	Project Type Amount
							$ -