



INTENDED USE PLAN  
CLEAN WATER STATE REVOLVING FUND

STATE FISCAL YEAR (SFY) 2023  
FEDERAL FISCAL YEAR (FFY) 2022



**Clean Water State Revolving Fund**

**Intended Use Plan**

November 18, 2022

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## Introduction

The Tennessee General Assembly passed the “Wastewater Facilities Act of 1987,” to establish the Tennessee Clean Water State Revolving Fund (CWSRF) to provide low-interest loans to local governments and publicly owned treatment works to finance wastewater

infrastructure improvement projects. Since its creation, the CWSRF, which is within the [State Revolving Fund \(SRF\)](#) program of the Tennessee Department of Environment and Conservation (TDEC) Division of Water Resources, has provided hundreds of millions of dollars in assistance to Tennessee communities. The SRF Loan Program provides low-interest loans and technical assistance to cities, counties, utility districts, and wastewater and energy authorities across the State for planning, design, and construction of wastewater infrastructure projects. The SRF Loan Program supports TDEC’s mission to protect and promote human health and safety, and to protect and improve water quality across the state by helping communities afford safe, sustainable, and resilient water systems. The CWSRF is designed as a federal-state partnership program to assist public water systems (PWS) with an independent source of low-cost financing for a wide range of water quality infrastructure projects. The program was created through the 1987 Amendments to the Clean Water Act (CWA) which authorized the US Environmental Protection Agency (EPA) to establish a CWSRF loan program to further the protection of public health and the water quality objectives of the CWA.

The EPA awards a Clean Water Capitalization Grant annually to the State. The State obligates its federal funds allocation and 20% state match to provide financing to wastewater treatment systems for planning, planning and design, and construction projects that include (but are not limited to): plant replacement and upgrade; collection system installation, repair, and upgrade; treatment; storage; water reuse; green

#### Elements of the Clean Water State Revolving Fund Intended Use Plan:

TDEC SRF long term and short-term goals

The financial status of the Clean Water SRF loan program

Description of the methods and criteria used to distribute funds

Automated Standard Application for Payments (ASAP) Schedule

Priority Ranking List (PRL) for 2022

Description of non-point source (NPS) activities eligible for assistance under Section 319 of the CWA

TDEC’s new Small and Disadvantaged Community program

TDEC’s new Ability To Pay Index

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infrastructure; energy optimization; stormwater management; and resilience. These funds are repaid over time, ensuring the long-term viability of the CWSRF Loan Program.

Section 606(c) of the CWA requires each state to annually prepare an Intended Use Plan (IUP) to outline the use of grant funds awarded to the state and to describe how those uses support the goal of protecting public health and the environment.

TDEC's [Clean Water IUP](#) serves as the planning document detailing how the federal fiscal year (FFY) 2022 appropriations for the CWSRF Loan program will be used. The State of Tennessee's Capitalization Grant allotment for FFY 2022 CWSRF Loan Program's base dollars is \$16,808,000. The State is required to provide a 20% match of federal funds or \$3,361,600 to receive the full Capitalization Grant allotment. The EPA Capitalization Grant plus State match will provide an expected \$20,169,600 in funds available for CWSRF projects in SFY 2023.

In addition to the base allotment provided in FFY 2022, Congress passed the Infrastructure Investment and Jobs Act of 2021, also known as the Bipartisan Infrastructure Law (BIL). BIL 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 the next five years. This funding is structured to finance two distinct clean water areas:

- Provide general supplemental funding
- Address emerging contaminants

This additional funding will finance water infrastructure projects that treat and eliminate emerging contaminants of concern and provide supplemental support for traditional SRF projects. A key priority of BIL is to ensure disadvantaged communities benefit equitably from this investment in water infrastructure. Through BIL, 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 that do not meet these criteria are still eligible for funding but will be funded according to the State's [Subsidies and Affordability Criteria](#).

### ***BIL General Supplemental Capitalization Grant***

The State of Tennessee's Clean Water General Supplemental allotment for FFY 2022 is \$25,855,000. The State is required to provide a 10% match of federal funds, or \$2,585,500, to receive the full general supplemental allotment. The BIL General Supplemental Capitalization Grant plus State match will provide an additional \$27,406,300 available for CWSRF projects in SFY 2023.

The funds needed for state match has been approved in the State of Tennessee general

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budget and will be appropriated when the grant has been received from EPA.

## **Clean Water State Revolving Fund Goals and Objectives**

Congress allows state CWSRF Loan Programs flexibility to design a program tailored to meet the needs of the state, local communities, and publicly owned wastewater treatment works. Tennessee's [CWSRF Loan Program](#) developed long and short-term goals as a framework for decisions Tennessee makes in the CWSRF Loan Program.

### ***Long-Term CWSRF Goals***

1. Protect and enhance the water quality in Tennessee by ensuring the technical integrity and long-term sustainability of funded projects.
  - a. Objective: Ensure adequate and effective project planning, design, and construction management.
  - b. Objective: Maintain a priority ranking system and offer available funds to projects with the highest priority points that are ready to proceed.
2. Maintain the long-term financial integrity of the CWSRF Loan Program through the judicious use and management of its assets and by realizing an adequate rate of return, preventing fraud, waste, and abuse.
3. Maintain a self-sustaining revolving fund through the CWSRF Loan Program to provide local governments in Tennessee with low-cost financial assistance for wastewater infrastructure projects.
  - a. Objective: Ensure the use of accounting, audit, and fiscal procedures that conform to generally accepted governmental accounting principles.
  - b. Objective: Ensure the financial stability of loan recipients by reviewing the financial history, loan security, and proposed user rates of loan applicants.
  - c. Objective: Obligate funds in a timely manner and provide technical and administrative assistance for efficient project management.
4. Facilitate allocation of program resources to address the most significant public health and water quality compliance problems by actively working with these systems and the TDEC regulatory staff.
5. Promote the development of the technical, managerial, and financial capability of all publicly owned wastewater treatment works to maintain or come into compliance with state and federal requirements.

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6. Provide clean water assistance in an orderly and environmentally sound manner.
7. Assure that all new wastewater systems funded by the program demonstrate technical, managerial, and financial capability with respect to state and federal regulations.

### **Short Term Goals**

1. Manage an effective and efficient CW SRF Loan Program
  - a. Objective: Update administrative policies and guidance including standard operating procedures for the CW SRF Loan Program.
  - b. Objective: Coordinate and work with the Comptroller of the Treasury to ensure the best financing alternative(s) to local governments.
2. Assist the development and implementation of local water quality protection initiatives.
3. Partner with TN Department of Agriculture, Non-Point Source 319 program to promote water quality protection through use of 319 funds, CW SRF funds, and project leveraging.
4. Provide support and assistance to ensure compliance with state and federal water quality standards by all funded publicly owned wastewater treatment works.
5. Expand the use of [Green Project Reserve \(GPR\)](#) funding to include more projects and encourage innovative use of SRF funds following EPA's guidance. The SRF Loan Program has elected to strive for a goal of up to 18% of grant funds to be used for innovative, green, or resilient projects.
6. Provide direct technical assistance to publicly owned wastewater treatment works.
7. Expand and broaden our community outreach activities to ensure that publicly owned wastewater treatment works are aware of and understand CW SRF assistance options and the loan application process by presenting an annual statewide workshop to publicize the CW SRF Loan Program in coordination with Tennessee Department of Economic & Community Development and USDA-Rural Development.
8. Develop a database for clean water project data and program management data to ensure effective and efficient program implementation.
9. Ensure that all funds in the SRF and grant award are appropriately expended in

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- an expeditious and timely manner.
10. Review and develop recommendations for updates to the CW SRF priority ranking system. These updates may include, but are not limited to, improved accounting for green infrastructure and stormwater management.
  11. Research other state SRF Loan Programs and conduct a cost benefit analysis to make recommendations for implementing a loan closing fee or alternate state match to support a sustainable funding source and reduce the SRF Loan Program reliance on state appropriations for match funding.
  12. Develop an approach to identify and assess emerging contaminants that includes community outreach and education.
  13. Securing new computer equipment for CW SRF staff.

## Clean Water Priority Ranking System

TDEC's CW SRF Loan Program uses a priority ranking system to develop the [Priority Ranking List](#) (PRL). The State's CW SRF Priority Ranking System rules, Tenn. Comp. R. & Regs. ("Rule") Chapter 0400-46-01, provides a clear, objective order of ranking wastewater infrastructure projects. The PRL focuses on projects aiming to achieve optimum water quality management consistent with the goals and requirements of the CWA and the Tennessee Water Quality Control Act. The rationale for funding projects in an order other than that shown on the PRL shall be in accordance with the rules for the Priority Ranking System, Chapter 0400-46-01-.03. Exceptions to the order of funding may be allowed under special circumstances. Such projects would include those where unanticipated failures requiring immediate attention to protect public health occur.

Applicants seeking funding must complete and submit a [CWSRF Questionnaire](#) detailing a project description, explanation of project need, location of the project, cost estimate and project start and completion dates to the SRF Loan Program. Projects eligible for CW SRF funding are described in the [EPA Eligibility Handbook](#). Projects are prioritized by those that address reducing risks to human health or those working to maintain or improve water quality. All proposed projects will be assigned Project Criteria Points based on the project criteria established in Rule 0400-46-01-.02(2). Project Criteria Points will be assigned to individual wastewater facilities projects based on the following:

- Wastewater treatment plant (WWTP) discharges to a water-quality impaired stream segment will receive 100 Project Criteria Points in addition to any other applicable Project Criteria Points. WWTP projects with a compliance schedule in the NPDES



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- permit requiring construction will receive 50 Project Criteria Points in addition to any other applicable Project Criteria Points;
- Wastewater collection system projects with a compliance schedule in the NPDES permit requiring construction will receive 50 Project Criteria Points in addition to any other applicable Project Criteria Points;
  - Nonpoint Source (NPS) pollution projects affecting a water-quality impaired stream segment will receive 100 Project Criteria Points. Other NPS pollution projects will receive 25 Project Criteria Points. NPS pollution projects may be directed toward protection or improvement of the quality of groundwater, surface water, or wetlands. NPS pollution projects must be consistent with Tennessee's approved Nonpoint Source Management Program requirements and be included in the State's current EPA approved Nonpoint Source Management Plan;
  - Effluent-trading projects will receive 50 Project Criteria Points in addition to any other applicable Project Criteria Points;
  - Combined Sewer Overflow (CSO) projects will receive 25 Project Criteria Points;
  - Infiltration/Inflow (I/I) correction projects and major sewer rehabilitation projects will receive 25 Project Criteria Points. Construction of projects that will transport and treat I/I at the WWTP will receive 10 Project Criteria Points;
  - Stormwater management projects affecting a water-quality impaired stream segment will receive 100 Project Criteria Points. Stormwater management projects with a compliance schedule in the NPDES permit requiring construction will receive 50 Project Criteria Points. All other stormwater management projects will receive 25 Project Criteria Points;
  - Collection lines to be constructed to address an existing public health problem caused by failed septic systems will receive a minimum of 40 Project Criteria Points up to a maximum of 100 Project Criteria Points;
  - Any wastewater project proposed for development or growth potential, i.e., projects that were not planned to address a water quality problem or a public health problem, will receive 5 Project Criteria Points. WWTPs that are required to serve new collectors as part of the approved facilities plan will receive the same Project Criteria Points as the collectors;

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- Interceptors and pump stations will receive varying Project Criteria Points. Interceptors or pump stations that eliminate a WWTP discharge point that was included in an approved facilities plan will receive the same Project Criteria Points as the WWTP. Interceptors or pump stations proposed as part of an I/I elimination project will receive the same Project Criteria Points as the I/I elimination project. Interceptors or pump stations proposed as part of a collection system project will receive the same Project Criteria Points as the collection system project;
- Planning/Design projects will receive Project Criteria Points based upon the proposed project type;
- CWA Section 212 projects that are also associated with the construction of nonpoint source projects shall have an additional 20 Project Criteria Points;
- CWA Section 212 projects with zoning that demonstrates preservation of greenspace shall have an additional 15 Project Criteria Points;
- CWA Section 212 projects with zoning that demonstrates riparian buffer zones of at least 150 feet shall have an additional 10 Project Criteria Points;
- CWA Section 212 projects demonstrating an enforced buffer zone ordinance shall have an additional 5 Project Criteria Points;
- Refinancing projects will receive 1 Project Criteria Point; and
- In accordance with Tenn. Code Ann. § 6-58-109(b), all SRF projects within counties that have an approved growth plan will receive 5 Project Criteria Points in addition to any other applicable Project Criteria Points.

#### Eligible Project Categories

- Construction of municipal wastewater facilities
- Control non-point source pollution
- Decentralized wastewater treatment systems
- Green infrastructure projects
- Water quality projects
- Stormwater management
- Water conservation, efficiency, and reuse
- Brownfields
- Consolidation
- Recycled water
- Asset management
- Capacity management

The assigned Project Criteria Points are calculated to determine the Priority Point Value and are applicable only to WWTP projects. The Project Criteria Points are summed to establish a proposed project's Priority Rank. Projects will be placed on the PRL in descending order by total priority points. Projects with the same priority points will be ranked in ascending order

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based on the community's Ability to Pay Index (ATPI) and population in order to assist smaller and less affluent communities. Projects requesting funds for ineligible activities will not be assigned priority points or included on the PRL.

#### BIL General Supplemental Capitalization Grant Projects

Projects that are requesting to be funded using BIL supplemental funding will follow the same ranking criteria as the FFY 2022 CW SRF Loan Program's base funded projects.

The CW SRF Loan Program may not provide assistance to any system:

1. that does not maintain an adequate level of financial capability to assure sufficient revenues to operate and maintain the wastewater facility for its useful life,
2. agree to periodic adjustment of fees and services of the wastewater facility in order to repay the loan in a timely manner,
3. agree to maintain financial records in accordance with governmental accounting standards,
4. conduct an annual financial audit of the facility,
5. and provide any additional assurances as requested by TDEC (Rule 0400-46-06-.04(1)).

#### List of Projects

In accordance with section 606(c)(1) of the CWA, 40 CFR § 35.3150, the SRF Loan Program has developed a list of projects to receive funding in the first year after the grant award and a comprehensive priority list of eligible projects for funding in future years (CWSRF will maintain past PRLs). The PRL includes community information, project description, total priority points, the ATPI, total project cost, funding source, associated wastewater facility information, anticipated FFY 2022 Base Capitalization Grant principal forgiveness, anticipated FFY 2022 BIL General Supplemental principal forgiveness, anticipated principal forgiveness from the Revolving Base, amount of GPR, anticipated construction start and end dates, and the EPA Needs Survey Category. The CW SRF PRL (Appendix) will denote CW SRF projects for which the total amount of assistance requested is at least equal to the amount of the FFY 2022 Base Allotment and BIL General Supplemental Capitalization Grants. In addition to the projects listed, the CW SRF loan program may consider additional loans for existing projects, projects carried forward from 2020 and 2021 PRLs, and other CW SRF-eligible projects. The CW SRF project list may include NPS projects since the State's NPS Assessment and Management Program has been approved.

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## Criteria and Methods for Distributing Funds

The primary use of the capitalization grant funding is for assistance to stormwater and wastewater utilities for capital improvements (infrastructure projects). This assistance can be provided as planning and design loans, or construction loans. Not all clean water compliance problems, however, can be solved through capital financing of infrastructure improvements.

TDEC has determined, based on the projected total award dollars and the previous year carry-forward balance, the State can provide up to \$264,253,646 to loan for projects ([Table 1](#)). The SRF Loan Program will provide funding letters to all communities with projects on the 2022 PRL after the EPA loan award date. For the FFY 2022 Capitalization Grant, funding priority will be directed to projects that are ready to proceed with construction. This includes small and disadvantaged communities, green and resilient infrastructure projects, and projects with subsidies. Communities with projects on the CW SRF PRL may be bypassed based on failure to respond 90 days after being notified or are not ready to proceed. Project loans may be awarded each 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 FFY 2022 CW SRF Capitalization Grant requires states to use at least 10% but no more than 30% of the capitalization grant amount to provide additional subsidy. The FFY 2022 BIL General Supplemental Capitalization Grant requires states to use 49% of the grant amount to provide additional subsidy. The state of Tennessee intends to meet this obligation by providing standard principal forgiveness subsidy to projects that meet small and disadvantaged communities or green project reserve criteria and are on the 2022 PRL.

The SRF Loan Program has developed multiple ways for communities and utility systems to benefit from SRF subsidies. Reduced interest rates (discussed in the [ATPI Reduced Interest Rates](#) section), principal forgiveness, and green project reserve subsidy are all financing options an applicant can explore in an attempt to reduce their overall financial burden for wastewater and stormwater infrastructure improvements. Communities and utility systems seeking infrastructure financing from SRF can take advantage of the program's multiple subsidy strategies.

### Base SRF Capitalization Grant Projects

1. Principal Forgiveness for Small and Disadvantaged Communities: Small communities with ATPIs of 50 or less are eligible for 20% principal forgiveness (up to a maximum of \$2,500,000 in principal forgiveness per project). Details on qualifications can be found in

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the [Principal Forgiveness for Small and Disadvantaged Communities](#) section of this document.

2. Green Project Reserve (GPR) Principal Forgiveness: The SRF Loan Program may award 20% principal forgiveness (up to a maximum of \$2,500,000 in principal forgiveness per project) if the project proposal incorporates a significant amount of green infrastructure, water and energy efficiency, or sustainable, resilient, and innovative practices. Details on project requirements can be found in the [Green Project Reserve Principal Forgiveness](#) section of this document.
3. Asset Management Plan: The SRF Loan Program may award principal forgiveness to communities to aid in the development of an Asset Management Plan. Details regarding principal forgiveness qualifications can be found in the [Asset Management Plan Requirements](#) section of this document.

#### BIL General Supplemental Capitalization Grant Projects

Principal Forgiveness for BIL Funding: Communities may be eligible for 50% principal forgiveness (up to a maximum of \$5,000,000 in principal forgiveness per project) if they meet the qualifications found in the [Eligibility Requirements for BIL Principal Forgiveness](#) section of this document.

#### ***ATPI Reduced Interest Rates***

The State will use the ATPI for the allocation of CWSRF subsidies and interest rates. The development and use of the index are required for the administration of SRF loans by the Water Resources Reform and Development Act (WRRDA) of 2014, 33 U.S.C.A. §§ 2201 to 2355. The index is derived from a database of socioeconomic and financial data. It is used to assist in decision making regarding interest rates, allocation of subsidy, and identification of options intended to benefit communities most in need. The index is determined based on a normal distribution of affordability scores for cities and for counties. The affordability score is a simple average of nine (9) factors unique to each community. Together, these factors: median household income, unemployment, food stamp dependence, families in poverty, community assets, revenues, debt, expenditures, and change in population determine a community's Ability To Pay Index value. Tennessee intends to update the ATPI annually to capture the most current fiscal capacity, changes, and economic trends of communities across the state.

A community's interest rate will be based, in part, on their ATPI. Interest rates can vary from 40 percent of the interest rate reported for communities with a low affordability score and low ATPI to 100 percent of the interest rate reported on the 20-year, 25-year, and 30-year

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Bond Buyer Index and the Municipal Market Data General Obligation Yields published every Thursday. 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 benefit from the project(s) associated with the loan.

The state has developed a tiered interest rate reduction methodology that corresponds to a community's ATPI. Low range ATPI's (0-20) will be awarded a 0.40 multiplier. ATPI scores with a range of 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.

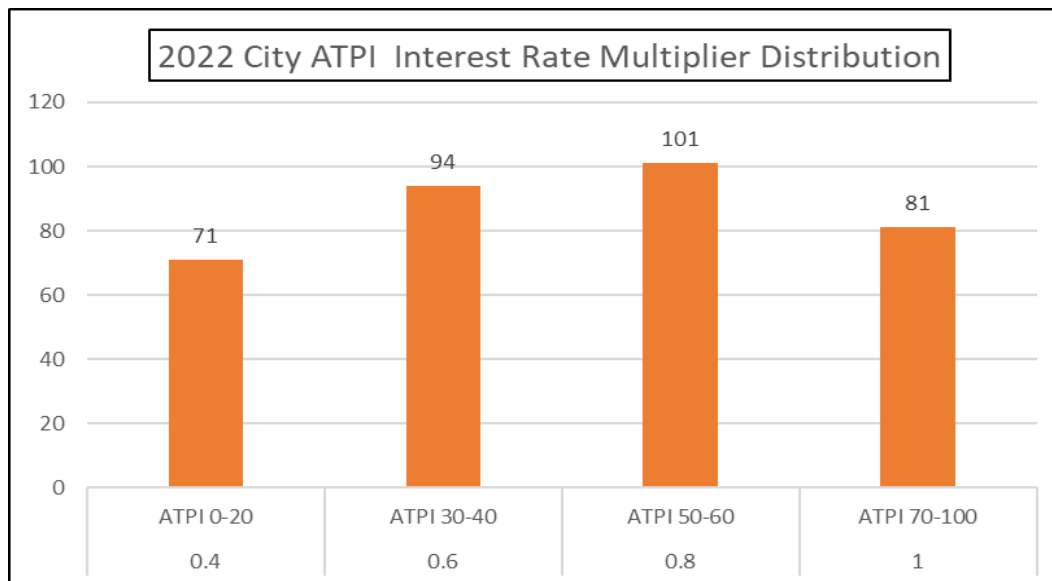


Figure 1: ATPI Interest Rate Multiplier Distribution

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

The SRF Loan Program continues to respond to requests from Governor Lee regarding rural community assistance by prioritizing allocation of subsidy for stormwater and wastewater infrastructure (in the form of principal forgiveness and lower interest rates) to communities identified as both small and economically disadvantaged. Eligibility of CWSRF principal forgiveness will be determined based on the most current ATPI. This year, TN SRF has expanded the definition of small to allow more communities access to subsidy. Small communities are now defined as those with a population of 20,000 or fewer. To be

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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 the same number of points from the PRL. Communities with a lower affordability score and smaller populations will be given a higher ranking.

As part of TDEC's effort to assist small, disadvantaged, and rural communities, SRF has developed two subsidy options.

1. Standard principal forgiveness for projects that include construction will be provided at 20% of the loan value (not to exceed \$2,500,000 in principal forgiveness per project).
2. Priority principal forgiveness of 50% for all planning or planning and design loans (not to exceed \$250,000 in principal forgiveness per project).

The SRF Loan Program will allocate proportional amounts of principal forgiveness on an annual basis for those communities in the lowest tier of ability to pay. This ensures the long-term stability of the SRF Loan Program. The maximum amount allowed for subsidization from the FFY2022 Base SRF Capitalization Grant is \$5,042,400.

The SRF Loan Program has developed a cash flow model to analyze the CW SRF funding base and forecast impacts to the overall SRF Loan Program. This information will assist the State in program evaluation and make future programmatic decisions regarding fund management for GPR projects and small and disadvantaged communities.

#### Eligibility Requirements for SRF Principal Forgiveness

1. Communities must have a population of 20,000 or fewer.
2. Communities must have an ATPI of 50 or less.
3. Projects must be on the current PRL.
4. Projects shall be ready to proceed (based on type of loan).
5. Entity must pass a financial sufficiency review by TDEC SRF.

#### SRF Base Capitalization Grant Projects

##### **Standard Principal Forgiveness**

1. 20% loan forgiveness not to exceed a total principal forgiveness of \$2,500,000 per project.
2. Projects must include construction (planning, design, and construction projects or construction solely).
3. Standard principal forgiveness will not be given for planning or planning and design loans.

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#### **Priority Principal Forgiveness**

1. 50% loan forgiveness not to exceed a total principal forgiveness of \$250,000 per project.
2. Projects cannot include construction (planning or planning and design loans only).
3. Priority Principal Forgiveness is only available to small and disadvantaged communities.

#### BIL General Supplemental Capitalization Grant Projects

Congress has mandated that 49% of funds provided through the CW SRF General Supplemental Capitalization Grant must be provided as grants or principal forgiveness. This additional subsidy provision seeks to provide aid to communities with a low affordability criterion.

#### **BIL Principal Forgiveness**

1. 50% loan forgiveness not to exceed a total principal forgiveness of \$5,000,000 per project.
2. Projects must include construction (planning, design, and construction projects or construction solely).
3. BIL General Supplemental projects are not eligible for principal forgiveness for planning or planning and design loans.

#### ***Green Project Reserve (GPR) Principal Forgiveness***

The FFY 2022 CW SRF Capitalization Grant requires that a portion of the funds must be allocated to GPR projects, which address green infrastructure, stormwater, resilience, water or energy efficiency improvements, or other environmentally innovative activities. The State will allocate a minimum of 10% of the FFY 2022 project funds to fund eligible green projects. The State has elected to strive for a goal of 18% allocation for green projects.

Projects that meet EPA criteria and eligibility requirements for [GPR projects](#) will receive principal forgiveness of 20% of the loan (not to exceed \$2,500,000 in principal forgiveness per project). Additionally, green projects will be drawn separately from FFY 2022 project funds until the 18% allocation has been met.

The State will have met the GPR requirement when the minimum percentage of the capitalization grant for FFY 2022 is in executed assistance agreements for qualifying green projects. If a green project is underbid and the State has not met the required percentage for GPR, the difference between the amount in the executed assistance agreement and the winning bid must be used by the state for another green project(s).



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

All communities, regardless of size and ATPI, are eligible for principal forgiveness if the projects proposed meet specific eligibility requirements. All eligible green projects must appear on the current PRL, meet the definition of a [Green Project Reserve](#) project and include construction. The amount of principal forgiveness is set to 20% of the loan, not to exceed \$2,500,000 in principal forgiveness per project. To be considered for FFY 2022 CW SRF GPR funding, not less than 20% of the total project cost must be used towards the green component. Projects should fall within at least one of the following categories: Water and Energy Efficiency, Green Infrastructure and Stormwater BMPs, or Resilient, Sustainable, and Environmentally Innovative. Examples of projects that qualify for green project subsidy could include one of the following criteria:

1. Increase water efficiency
2. Increase energy efficiency
3. Reduce storm water runoff
4. Recycle/reuse water
5. Production/use of clean energy
6. Establish or restore wetlands
7. Reduce, prevent, or remove non-point source pollution
8. Build system resiliency from an identified hazard while addressing one or more criteria above

A detailed list of Green Project Reserve project eligibilities and examples of common practices can be found in the [EPA guidance](#) document.

#### BIL General Supplemental Projects

All projects that meet GPR criteria are eligible for 20% principal forgiveness (not to exceed \$2,500,000 in principal forgiveness per project) under the BIL General Supplemental funds.

#### ***Asset Management Plan Principal Forgiveness***

The SRF Loan Program is offering 5-year loans with principal forgiveness to assist communities develop Asset Management Plans (AMP). These plans will allow communities to establish an inventory and condition of their wastewater and stormwater infrastructure assets. All communities regardless of size and ATPI are eligible for principal forgiveness. Communities with an ATPI of 50 or less are eligible for 75% principal forgiveness, not to exceed \$375,000 in principal forgiveness. Communities with an ATPI of 60 or greater are eligible for 50% principal forgiveness, not to exceed \$250,000 in principal forgiveness.

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#### ***Loan Terms and Fees***

The term for an SRF loan from base funding or general supplemental funding will be a maximum of 30 years or the useful life of the project, whichever is shorter. A loan fee of 8 basis points (0.08%) is charged by the Office of State Government Finance for all CW SRF loans that are awarded on or after October 1, 2009. Fees collected fund State Government Finance personnel and operational costs associated with administering loans, payment disbursement requests, repayments, and fund management.

#### ***Loan Recipient Project Requirements***

All CW SRF projects are required to comply with all current CW SRF rules, 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 in excess of \$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 such locally prevailing wage rates. The Davis-Bacon Act applies to contractors and subcontractors performing work 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 in excess of \$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

DBE reporting is required in annual reports. Reporting is required for assistance agreements where there are funds budgeted for procuring construction, equipment, services, and supplies, including funds budgeted for direct procurement by the recipient or procurement under sub-awards or loans in the "Other" category that exceed the threshold amount of \$150,000, including amendments or modifications.

The State of Tennessee has negotiated the following, applicable Minority Business

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Enterprises (MBE)/ Women's Business Enterprise (WBE) fair share objectives/goals with EPA as follows:

MBE: CONSTRUCTION 2.6%; SUPPLIES 5.2%; SERVICES 5.2%; EQUIPMENT 5.2%

WBE: CONSTRUCTION 2.6%; SUPPLIES 5.2%; SERVICES 5.2%; EQUIPMENT 5.2%

In accordance with 40 CFR, Part 33, Subpart D, established goals/objectives remain in effect for three fiscal years unless there are significant changes to the data supporting the fair share objectives. The loan recipient is required to follow requirements as outlined in 40 CFR Part 33, Subpart D when renegotiating the fair share objectives/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 and 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 in the contracting process whether firms competing for large contracts could subcontract with DBEs. 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, require the prime contractor to take the

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steps in paragraphs (1) through (5).

#### American Iron and Steel

The American Iron and Steel (AIS) provision requires CW SRF 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 or treatment works and if the project is funded through an assistance agreement executed beginning January 17, 2014 and is a permanent requirement for all CW SRF and DW SRF projects.

#### Build America, Buy America (BABA) Act

The Bipartisan Infrastructure Law Title IX, Subtitle A, Part 1 requires all federal equivalency projects, that are funded after May 14, 2022, met BABA requirements. BABA requires all of the iron, steel, manufactured products, and construction materials used in the project 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 that are 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.

#### Cost and Effectiveness Analysis

Under the CWA section 602(b)(13), the statute requires all assistance recipients meeting the definition of municipality or inter-municipal, interstate, or state agency to certify that they have conducted the studies and evaluations referred to as a cost and effectiveness analysis. The statute requires that a cost and effectiveness analysis involve, at a minimum: the study and evaluation of the cost and effectiveness of the processes, materials, techniques, and technologies for carrying out the proposed project or activity for which assistance is sought under this title; and the selection, to the maximum extent practicable, of a project or activity that maximizes the potential for efficient water use, reuse, recapture, and conservation and energy conservation, taking into account –

- The cost to construct the project or activity
- The cost of to operate and maintain the project or activity over the life of the project or activity; and
- The cost to replace the project or activity

A cost and effectiveness analysis is an eligible cost, and CW SRFs can provide assistance for planning or engineering activities that involve this analysis; however, the certification must

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be provided before loan approval. This provision applies to all types of assistance provided to the public entities described above for which the recipient applies on or after October 1, 2015.

#### Generally Accepted Accounting Principles (GAAP)

The State requires assistance recipients to follow CWA section 602(b)(9) 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 to use standards relating to the reporting of infrastructure assets. The most recent applicable standard is GASB Statement No. 34 (GASB 34), issued in June 1999, which details governmental reporting requirements including standards for reporting of infrastructure assets. Further details on the requirements, as well as the full text of GASB 34, can be obtained through the GASB.

#### Fiscal Sustainability Planning (FSP)

As amended, by the WRRDA, the CWA §603(d)(1)(E) requires a recipient of a loan for a project that involves the repair, replacement, or expansion of a publicly owned treatment works to develop and implement a fiscal sustainability plan (FSP) or certify that it has developed and implemented such a plan. This provision applies to all loans for which the borrower submitted an application on or after October 1, 2014.

FSPs should be treated as “living documents” that are regularly reviewed, revised, expanded, and implemented as an integral part of the operation and management of the system. At a minimum, the FSPs should include:

- An inventory of critical assets that are part of the treatment works;
- An evaluation of the condition and performance of inventoried assets or asset groupings;
- A certification that the assistance recipient has evaluated and will implement water and energy conservation efforts as part of the plant; and
- A plan to maintain, repair, and, as necessary, replace the treatment works and a plan to fund such activities

The State has determined that certification will be submitted to SRF before loan approval, and the FSP must be completed and in place by the “Notice to Proceed” and made available for review by SRF staff upon the first interim construction inspection visit.

#### Architectural and Engineering Procurement

According to the Amendments to the Water Resources Reform and Development Act, any capitalization grant awarded after October 1, 2014, the State must ensure that all

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architectural and engineering (A/E) contracts for projects identified as using funds “directly made available by” a capitalization grant (i.e., equivalency projects) comply with the elements of the procurement processes for A/E services as identified in 40 U.S.C. 1101 et seq., or an equivalent state requirement.

To the extent possible, the State should identify all equivalency projects in its IUP. The State should also identify all equivalency projects in its Annual Report and specify whether those projects include any A/E services. Only the SRF-funded contracts for A/E services associated with equivalency projects must comply with this requirement.

The State intends to use one or a combination of the projects identified on the Clean Water Priority Ranking List (Attachment A) for the Cities of Springfield, Chattanooga, Hamilton County WWTA, Kingsport, Brownsville, or Lakeland to satisfy its CW SRF equivalency project requirements.

## Sources and Uses of Funds

### Sources of Funds

Required state match funds for the FFY 2022 Capitalization Grant is 20% of the federal allocation. The required state match funds for the FFY 2022 Clean Water BIL Supplemental Grant is 10% of the federal allocation. Additionally, the carry forward dollar amount and allocated funds from the FFY 2021 Capitalization Grant, the State can provide up to \$264,253,646 for clean water projects.

Tennessee SRF is currently using cash flow modeling which is a forecasting tool that incorporates all inflows and all outflows of the funds to provide an estimate of a state’s capacity to make loans, ensuring the fullest possible utilization of all available SRF infrastructure financing resources.

<b>Financial Status of Funds for the CW SRF Loan Program</b>	
<b>Prior-Year (SFY2021) Carry-forward Funds*</b>	<b>\$ 65,001,035</b>
Principal repayments and loan revenue**	141,445,858
Loan Interest Income**	9,926,939
Treasury Interest Income**	303,914
FFY 2022 Base Capitalization Grant	16,808,000
20% of FFY 2022 Base Capitalization Grant matched by State	3,361,600
FFY 2022 BIL General Supplemental Capitalization Grant	25,855,500

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10% of FFY 2022 BIL General Supplemental Capitalization Grant by the State	2,585,000
4% Administration from FFY 2022 BIL General Supplemental Capitalization Grant	(1,034,200)
<b>CW SRF Loan Program Project Funds***</b>	<b>\$264,253,646</b>
*Estimated balance at June 30, 2021 pre-year-end adjustments	
** Estimated principal, interest, and treasury interest for SFY 2022	

Table 1: Financial Status of Funds for the CW SRF Loan Program

## Administrative and Technical Assistance

The State intends to utilize up to 1/5 percent of the current valuation of the CW SRF Revolving Fund for administration and technical assistance, pursuant to section 603(d)(7) of the CWA. The valuation calculation shall be based upon “Total Net Position” of the Fund as determined by the Comptroller of the Treasury state fiscal yearend (June 30) and reported in the Annual Audit. The net position of the CW SRF fund balance for the SFY 2022 is yet to be available and therefore, Tennessee SRF estimates up to \$1,500,000 may be allocated for the administration, management, and operation of the CW SRF Loan Program.

The administrative support includes 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; laptop computers; equipment purchases (as needed), communication; printing; and office rental space.

### ***Technical Assistance Set-Aside***

Section 50210 of the Bipartisan Infrastructure Law allows states to set aside up to 2% of the total Clean Water Capitalization Grant (Base allotment and BIL General Supplemental) to provide technical assistance consistent with section 603(k) of the CWA. The State of Tennessee is electing to reserve the right to utilize these funds at a later date.

### ***Program Assistance Contracts***

#### Ability To Pay Index (ATPI)

The SRF Loan Program is required by the EPA to use an appropriate ATPI in order to administer SRF clean water and drinking water loans. In addition, the WRRDA requires that state SRF Loan Programs use relevant data associated with population trends, income,

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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 ATPI is a database of socioeconomic and financial data that serves as the foundation for an affordability index used to help make decisions regarding determination interest rates, allocation of subsidy, and identification of options intended to benefit communities that need it the most. Through this contract, a consistent, transparent, and annually updated index is provided to improve decision making in loan and grant administration by TDEC 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 best serve disadvantaged communities.

Additionally, UTIA will develop recommendations to capture true cost of providing drinking water and wastewater services to communities and improve efficiency of these systems. This information will be used to create a survey and gather information from public drinking water and wastewater systems. The information 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. The CW SRF will use in allowable administrative funding for this purpose.

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

The SRF Loan Program will contract with the Tennessee Association of Utility Districts (TAUD) to develop a consolidated technical assistance program to provide targeted technical assistance to distressed or disadvantaged communities. will focus on technical assistance needs for both public water and wastewater systems; managerial, financial, and technical capacities for systems; assist in reducing 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 [Tennessee’s water plan, TN H2O](#). Technical assistance will be provided at no cost to eligible communities.

#### Water Loss Training for Tennessee Communities

The SRF Loan Program is working to develop a contract focused on water loss training for TN communities, utilities, and commissions using a unique water loss data collection system and training methodology with a basic foundation in AWWA methods. This effort will aid utilities in determining where their water loss is originating and help them identify mitigation actions specifically for their systems. TDEC will work directly with a contractor to develop a



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customized training system based on the priorities of the Water and Wastewater Financing Board and the Utility Management Review Board of the Treasury to specifically address priorities related to water loss in the State of Tennessee, and to ensure objective and reproducible results that can be used to measure water loss in TN. The developed training program is tailored to issues researched by TDEC to address the needs of the state and incorporate the priorities of the Tennessee's water plan, TN H20.

### **Annual Report Requirements**

Section 606(d) of the CWA requires that, beginning the first fiscal year after receiving payments under the CW SRF, the State shall provide an Annual Report to EPA. The Annual Report shall be submitted to EPA within 90 days after the end of the fiscal year covered by the IUP. This report shall identify 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 from CW SRF, population of the loan recipient, and other such information as EPA may require.

### **Environmental Benefits**

To conform to EPA's Policy for Environmental Results under EPA Assistance Agreements, EPA Order 5700.7, and the Consolidated Appropriations Act of 2017, P.L. 115-31, The SRF Loan Program agrees to comply with all requests for data by EPA related to the use of the funds under Subchapter VI of the CWA, and to report all uses of the funds within the CWSRF Benefits Reporting database no less than quarterly. This reporting will include but not be limited to data with respect to compliance with the Green Project Reserve.

### **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 and is incorporated herein by reference. Pursuant to sections 606(c)(4) (5) of the CWA, the State certifies that:

- The State will enter into binding commitments equal to at least 120% of each quarterly grant payment within one year after receipt of the payment
- The State will expend all funds in the CW SRF in an expeditious and timely manner
- Funds will first be used to assure maintenance of progress toward compliance with enforceable deadlines, goals, and requirements of the CWA
- The State agrees to commit or expend each quarterly capitalization grant payment in



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accordance with the state's own laws and procedures

In addition, the State certifies that it will conduct environmental reviews on wastewater facility projects in satisfying the National Environmental Policy Act (NEPA)-like requirements. The State's NEPA-like procedures are contained in the approved Operating Agreement.

### **Amending the Intended Use Plan**

The SRF Loan Program reserves the ability to amend the IUP as needed to implement an efficient and effective program. Changes to the IUP that impact the administration of the program will be made public on the SRF website and through appropriate communication channels.



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## Appendix

[Priority Ranking List \(PRL\)](#)

[Sources and Uses Table](#)

Appendix				
Clean Water State Revolving Fund (CWSRF) Sources and Uses				
Administered By Tennessee Department Environment and Conservation - State Revolving Fund Loan Program				
State Fiscal Year July 1, 2022 - June 30, 2023				
Sources & Uses	Federal Contribution	State Contribution	CWSRF Fund	Total
<b>Funding Sources</b>				
Loan Repayments (P&I)	-	-	151,372,797	151,372,797
Investment Income	-	-	303,914	303,914
Banked Setasides	-	-	-	-
FFY 2022 Capitalization Grant	16,808,000	3,361,600	-	20,169,600
FFY 2022 BIL Capitalization Grant	25,855,000	2,585,500	-	28,440,500
<b>Total Funding Sources</b>	<b>\$ 42,663,000</b>	<b>\$ 5,947,100</b>	<b>\$ 151,676,711</b>	<b>\$ 200,286,811</b>
<b>Funding Uses</b>				
Project Disbursements	41,628,800	5,947,100	151,676,711	199,252,611
Setasides Spending	-	-	-	-
FFY 2022 Administration	1,034,200	-	-	1,034,200
<b>Total Funding Uses</b>	<b>\$ 42,663,000</b>	<b>\$ 5,947,100</b>	<b>\$ 151,676,711</b>	<b>\$ 200,286,811</b>