

**STATE OF WISCONSIN
SAFE DRINKING WATER LOAN PROGRAM
INTENDED USE PLAN
FOR FFY 2018 FUNDS
FOR THE SFY 2019 FUNDING CYCLE**



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**ADMINISTERED BY
THE DEPARTMENT OF NATURAL RESOURCES
AND
THE DEPARTMENT OF ADMINISTRATION**

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**WISCONSIN DEPARTMENT OF NATURAL RESOURCES
SAFE DRINKING WATER LOAN PROGRAM INTENDED USE PLAN
Covering Funding During State Fiscal Year 2019
For Receipt of the EPA Federal Fiscal Year 2018 Capitalization Grant**

I. INTRODUCTION

The Safe Drinking Water Act (SDWA) Amendments of 1996 (Public Law 104-182) were signed into law on August 6, 1996. Section 1452 of this Act authorized the Administrator of the U.S. Environmental Protection Agency (EPA) to establish the Drinking Water State Revolving Fund (DWSRF) program. The DWSRF was established to assist public water systems with financing the costs of infrastructure needed to achieve and maintain compliance with the requirements of the SDWA and to protect public health.

Section 1452(b) of the SDWA requires that each state prepare an annual Intended Use Plan (IUP) that identifies the uses of the funds in the DWSRF and describes how those funds support the goals of the Act. This document, along with the draft Funding List that is anticipated to be published in August 2018, comprise the State of Wisconsin Intended Use Plan for Federal Fiscal Year (FFY) 2018 DWSRF Capitalization Grant funds and other monies available in the revolving loan fund. The IUP is a part of Wisconsin's capitalization grant agreement package for FFY 2018 and covers anticipated activity during State Fiscal Year (SFY) 2019. Assurances and specific proposals for meeting federal requirements are provided in the Operating Agreement between the State and EPA Region 5.

II. DESCRIPTION OF THE SAFE DRINKING WATER LOAN PROGRAM (SDWLP)

The SDWLP operates as a direct loan program. Proceeds from general obligation bonds issued by the State of Wisconsin provide state match that equals 20% of the capitalization grant from EPA. The SDWLP is jointly administered by the Department of Natural Resources (DNR) and the Department of Administration (DOA) as a program under the Environmental Improvement Fund (EIF).

Under ch. NR 166, Wis. Adm. Code, a local governmental unit may receive financial assistance for projects with the following purposes:

- 1) Address SDWA health standards that have been exceeded or to prevent future violations of health standards and regulations contained in ch. NR 809, Wis. Adm. Code. This includes projects to maintain compliance with existing regulations for contaminants with acute health effects and regulations for contaminants with chronic health effects.
- 2) Replace infrastructure if necessary to maintain compliance or further the public health protection goals of the SDWA. This includes projects with any of the following purposes:
 - a. To rehabilitate or develop sources, excluding reservoirs, dams, dam rehabilitation and water rights, to replace contaminated sources;
 - b. To install or upgrade treatment facilities if, in the DNR's opinion, the project would improve the quality of drinking water to comply with primary or secondary drinking water standards;
 - c. To install or upgrade storage facilities, including finished water reservoirs, to prevent microbiological contaminants from entering the public water system;
 - d. To install or replace transmission and distribution pipes to prevent contamination caused by leaks or breaks in the pipe, or improve water pressure to safe levels.
- 3) Consolidate existing community water systems that have technical, financial or managerial difficulties. Projects for consolidating existing systems shall be limited in scope to the service area of the systems being consolidated.
- 4) Purchase a portion of another public water system's capacity if it is the most cost-effective solution.

- 5) Restructure a public water system that is in non-compliance with SDWA requirements or lacks the technical, managerial and financial capability to maintain the system if the assistance will ensure that the system will return to and maintain compliance with SDWA requirements.
- 6) Create a new community water system or expand an existing community water system that, upon completion, will address an existing public health threat from contaminated drinking water provided by individual wells or surface water sources. Projects to address existing public health threats associated with individual wells or surface water sources shall be limited in scope to the specific geographic area affected by contamination and shall be a cost-effective solution to resolve the problem threatening public health. These types of projects must meet all of the following criteria:
 - a. The municipality submits documentation, such as well sampling results, showing that the maximum contaminant limit (MCL) for a microbiological, nitrate or nitrite, or chronic contaminant is exceeded by 40% or more of the individual wells or surface water sources within the affected area; or other documentation that indicates contamination is imminent.
 - b. The DNR determines that a community water system is a necessary and appropriate response to the contamination.

Please note: The SDWLP will not provide funding for watermain replacements that do not result in complete removal of all lead components of water service lines from the watermain to the water meter or other connection point inside the property. This policy reflects the fact that partial lead service line replacements can result in elevated lead levels at the tap, potentially creating a public health hazard. If a lead service line is discovered during construction of a watermain replacement project, and the complete lead service line is not replaced from the watermain to the connection point inside the home, the SDWLP will not provide funding for the entire block in which the partial replacement occurred.

When lead service lines are discovered during a watermain replacement project funded by the SDWLP, and the private side of a lead service line is not able to be replaced at the same time as the public side, it is recommended that the private side replacement occur within 45 days but required that it occur within 180 days in order to be eligible for SDWLP funding. The water utility is also required to provide the customer with filtration during the time period between the replacements. Certification that these requirements were met, along with a list of addresses where private lead service lines were replaced, will be required as part of the loan closeout process.

Subject to the applicable requirements of ss. 281.59 and 281.61, Wis. Stats., the SDWLP may provide the following types of assistance for an eligible project unless the project has been substantially complete for three years or longer or the applicant already has long-term outstanding debt for a completed or substantially completed project:

- 1) Purchase or refinance the debt obligation of a local governmental unit if the debt was incurred to finance the cost of constructing an eligible project that is located within the State of Wisconsin.
- 2) Guarantee, or purchase insurance for, municipal obligations for the construction of public water systems, if the guarantee or purchase would improve credit market access or reduce interest costs applicable to the obligation.
- 3) Make loans below the market interest rate.

The SDWLP offers loans at a subsidized interest rate of 55% of the state's market rate. Loans to disadvantaged communities with populations less than 10,000 and median household incomes (MHIs) less than or equal to 80% of the state's MHI are at 33% of the state's market rate. The state's market rate is the effective interest rate, as determined by DOA, of a revenue obligation issued by the State to fund loans under the EIF. The market rate in effect for July 1 through September 30, 2018, is 3.40%. This rate is subject to change quarterly.

SDWLP loans must mature no more than 20 years from the date of the first loan disbursement to the community. Interest payments are required semi-annually on May 1st and November 1st while principal payments are required annually on May 1st. No fees are currently assessed under the SDWLP.

III. SOURCES AND USES OF FUNDS

The FFY 2018 appropriation for the DWSRF contains additional requirements that are basically identical to the FFY 2017 requirements, including the requirement to allocate 20% of the capitalization grant as additional subsidization. Based on a capitalization grant amount of \$18,931,000, the SDWLP would be required to provide a minimum of \$3,786,200 as additional subsidy. This additional subsidy will be provided in the form of principal forgiveness (PF).

All state matching funds for the FFY 2018 capitalization grant will be disbursed to loan recipients before the State makes the first draw of federal funds from the capitalization grant. Thereafter, all draws against the FFY 2018 grant will be made at a cash draw ratio of 100% federal funds.

Funds anticipated to be available during SFY 2019 and their intended uses include the following:

FFY 2018 Capitalization Grant	\$18,931,000
State Match	\$3,786,200
Other Funds Available in the SRF	<u>\$64,200,738</u>
Total Available for SFY 2019	\$86,917,938

Set-aside Amounts:

Administration	\$1,028,865
Wellhead Protection	\$396,419
Technical Assistance	\$235,080
Local Assistance	\$1,211,301
State Program Management	<u>\$2,228,655</u>
Total Amount of Set-asides	\$5,100,320

Principal Forgiveness	\$4,863,098	(This includes \$1,076,898 in PF from SFY '18 list.)
Subsidized Loans	\$76,954,520	

IV. BANKING OF SET-ASIDE FUNDS

The State has previously banked the following set-aside amounts (i.e., amounts authorized but not fully utilized under past federal capitalization grant agreements):

\$3,030,885	in Administrative funds,
\$9,030,927	in State Program Management funds, and
<u>\$581,940</u>	in Small Systems Technical Assistance for
\$12,643,752	in total banked set-aside funds.

The State requests to bank an additional \$143,540 in Small Systems Technical Assistance funds, and to draw \$335,555 of banked State Program Management funds and \$271,625 of banked Administrative funds under this IUP. This will reduce the total banked funds to \$12,180,112. These banked funds are available for possible designation from a future capitalization grant.

V. TRANSFER OF FUNDS FROM CWSRF TO DWSRF

Federal regulations allow a transfer between the State Revolving Funds of up to 33% of the amount of the Drinking Water Capitalization Grants. The State transferred a total of \$23,596,056 in funds from the Clean Water Fund Program (CWFP) to the SDWLP prior to FFY 2002. The State is not considering additional transfers at this time.

VI. PROPOSED POLICY CHANGES FOR SFY 2019

A number of policy changes are being implemented starting in SFY 2019. These proposed changes are discussed below.

A. Online Application Submittal and Elimination of Grace Period

Starting with SFY 2019 applications, which are due by June 30, 2018, all SDWLP applications are required to be submitted through the new online application system. Information on accessing and using the online application system will be published in the Environmental Loans e-bulletin later this spring.

In addition, since the new system includes prompts whenever attachments are required, there will no longer be a grace period provided for missing items. **All required information must be included with the application, by the application deadline, in order for the project to be included on the funding list.** Any application that is incomplete as of the application deadline will be added to the list as a supplemental application once the missing information is received and will not be eligible to receive PF. There is no guarantee that funds will be available for supplemental applications.

B. Reimbursement Resolution Required

Reimbursement resolutions will now be required to be submitted with the application. There will be no grace period for submittal of the reimbursement resolution. Incomplete applications will not be placed on the funding list and are ineligible for PF. This change should not impose undue hardship on applicants as the Reimbursement Resolution can be passed at the same time as the Authorized Representative Resolution, which is also required to be submitted by the application deadline.

C. Elimination of Non-Core Costs

For the past three SFYs, the SDWLP has allowed applicants to request a limited amount of funding for items and activities that fell outside of the core scope of the project being funded. These costs were described as *non-core costs*. Starting with SFY 2019, non-core costs will no longer be allowed to be included in financial assistance applications. This change in policy is primarily due to an increase in demand in the SDWLP, as non-core costs were only allocated funding if there was still money available after all core costs were funded on the draft funding list. Additionally, there has been very low demand among applicants for including non-core costs. If applicants still wish to apply for funding for these smaller scopes of work that were allowed as non-core costs, an Intent to Apply (ITA), Priority Evaluation and Ranking Formula information, and a Financial Assistance Application, can be submitted for them as stand-alone projects.

D. Change in Calculation of Median Household Income (MHI) Cutoff

The paper version of the SDWLP Priority Evaluation and Ranking Form (PERF) for many years stated that the percentage determined when dividing the MHI of the municipality by the State of Wisconsin's MHI would be rounded to the nearest whole number for purposes of eligibility for Financial Need points in the project priority score. Any percentage less than 80.5% provided points in this section. To be consistent with the PERF, this policy was extended to any use of MHI data in the SRF programs, including PF eligibility and subsidy amount determinations. With the streamlining efforts in the programs, especially with moving to online PERFs, ITAs, and applications, the policy will be changed to have 80.0% be the actual cutoff for eligibility, interest rate, and point determinations. The electronic systems will not round down on percentages; all MHI calculations will be truncated. This policy is truer to language in sections of the CWFPP and SDWLP statutes that read XX% or less. **This change will be effective for calculations pertaining to SFY 2020 projects** (starting with PERFs submitted in October 2018) in order to maintain consistency between the calculations which are performed at different times in the application cycle.

E. Disinfection

Projects that receive 400 hundred points on their PERF for implementing new disinfection that eliminates violations of filtration requirements in s. NR 810.29, Wis. Adm. Code, and disinfection requirements in ss. NR 810.09 and 810.31, Wis. Adm. Code, or confirmed microbial contamination - including giardia and cryptosporidium - found in finished water, will be required to operate and maintain the newly installed disinfection equipment for the life of the loan. Failure to comply with this requirement could jeopardize a municipality's ability to obtain future SDWLP funding.

F. Potential Extra Points for Lead ALEs

Municipalities that experience a lead action level exceedance (ALE), and are required to replace lead service lines (LSLs) under the Lead & Copper Rule, may qualify for "Risk to Human Health" (RHH) priority score points (section HH1d in the SDWLP PERF) for water main replacement projects. In order to receive RHH points in water main replacement projects, or portions of a project, at least 40% of the service lines being replaced must be lead. This also includes galvanized material that is downstream of lead goosenecks or services.

G. PERF Scoring Process Streamlining

In order to continue program streamlining efforts and maximize efficiencies, the SFY 2020 ITA/PERF review process will be modified. Potential loan applicants will continue to prepare and submit their projects' ITAs and PERFs by October 31, 2018 using the online system. The DNR will evaluate ITAs and PERFs solely for project eligibility, and eligible projects will be listed on the Project Priority List reflecting the self-scores as submitted by potential loan applicants. The DNR will review the scores of eligible projects for which complete applications are received by June 30, 2019. As a result of this change, the PERF score objection process will also be adjusted as explained in Section H. below.

H. PERF Score Objections

With streamlining the PERF scoring review process as described above, ss. NR 166.24 (7) and (8), Wis. Adm. Code, relating to objections to PERF score changes will no longer be relevant since scores will no longer be modified by the DNR at the time of ITA/PERF submittal. Instead, a loan applicant may request a score reevaluation after their application is submitted and the DNR has reviewed their initial PERF score, per s. NR 166.24 (9), Wis. Adm. Code.

I. Elimination of 15% Tier & Expansion of 30% Tier in PF Allocation Methodology

In previous years, applicants that received 30 – 54 points from Tables 1, 2 and 3 of the PF allocation methodology (see Section XI. A. Affordability Criteria and Methodology for Distribution of PF Funds) were eligible to receive up to 15% of their eligible costs in the form of PF (subject to a cap), if their project appeared in the fundable range for PF on the final Funding List. Because of limited PF funds, this IUP eliminates the 15% PF category in order to better focus PF funds on the municipalities with the greatest need. As part of this change, the lower end of the point range necessary to receive 30% PF has been reduced from 55 points to 50 points. This change will allow the applicants most in need from the previous 15% tier to qualify for the 30% tier. More information on the PF allocation methodology is included in section XI. A. below.

J. Changes to Table 3 of the PF Allocation Methodology

Starting in SFY 2019, the extra points available under the PF allocation methodology in Table 3 are changing. While population trends and county unemployment criteria are a required part of the CWFP, they are not required for the SDWLP and as such will no longer be included in Table 3 for the SDWLP. Instead, extra PF points will be available in four different areas: developing an approved Asset Management Plan; forming new Technical, Managerial, and Financial (TMF) partnerships between community water systems; implementing recommendations from an approved corrosion control study; and replacing lead service lines. Information regarding qualifying for these additional points, as well as the points available for each of these items, is included in Section XI. A. below.

VII. POTENTIAL CHANGES FOR SFY 2020

A. Online Training Required for Loan Recipients

Starting in SFY 2020, the DNR anticipates requiring all applicants that are awarded SDWLP funding to have a minimum of 50% of their city council, village board, or sanitary district or utility commission members complete online training on *Utility Management for Local Officials* prior to execution of their loan. An additional course, on *Financial Management for Local Officials*, will be required to be taken the next year, during SFY 2021. More information on this requirement will be included in the SFY 2020 IUP and detailed on the program website and in the Environmental Loans e-bulletin.

B. Change in Calculation of Median Household Income (MHI) Cutoff

This change will take effect for SFY 2020 projects. See Section VI. D. above for details.

C. SFY 2021 ITA/PERF Scoring Process Streamlining

The DNR will continue efforts to streamline the ITA and PERF scoring process for SFY 2021. A few potential changes include: implementing a one- or two-tier scoring process; altering the timing of ITA or PERF submissions or reviews; modifying the information requested as part of an ITA or PERF; or other adjustments evolving from the ongoing transition to online loans administration.

D. Incentives Related to DNR Priorities

Incentives may be available in SFY 2020 related to the following DNR priorities:

- Materials inventory for service lines;
- Replacement of LSLs;
- Conducting corrosion control studies;
- Implementing recommendations from corrosion control studies;
- Preparing Asset Management Plans.

These incentives may potentially be in the form of PF points, PF dollars, or PF percentages. More information will be included in the SFY 2020 IUP.

VIII. SHORT- AND LONG-TERM GOALS

Federal regulations require that short- and long-term goals be developed for the program. Progress in meeting these goals is discussed in each year's Annual Report to EPA. Goals that have been established for the SDWLP are listed below.

A. Short-Term Goals:

- Direct funds to the State's most urgent SDWA compliance and public health needs;
- Develop and improve strategies, programs, and mechanisms to ensure, improve, and evaluate the ability of public water systems to provide safe drinking water;
- Provide financial assistance, including principal forgiveness, to economically disadvantaged communities for the purpose of installing the necessary infrastructure to provide an adequate supply of safe drinking water;
- Incentivize public water systems to replace lead service lines, implement corrosion control study recommendations, develop and maintain asset management plans, and execute partnership agreements;

- Protect municipal drinking water supplies by facilitating the development and implementation of wellhead protection plans;
- Facilitate the use of Clean Water funds where infrastructure projects for water systems support the objectives of the Clean Water Act; and
- Encourage public water systems to plan for the impacts of extreme weather events and provide funding through the SDWLP for projects that implement sustainability and resiliency.

B. Long-Term Goals:

- Assist public water systems in achieving and maintaining compliance with all applicable State and Federal drinking water requirements;
- Facilitate distribution system materials inventories and the replacement of all remaining lead service lines, in their entirety, in the State of Wisconsin;
- Facilitate public water systems in conducting corrosion control treatment studies;
- Facilitate public water systems in developing and maintaining asset management plans;
- Encourage public water system partnerships;
- Protect the public health and environmental quality of the State of Wisconsin;
- Manage the state revolving loan fund in such a way as to protect its long-term integrity and enable it to revolve in perpetuity;
- Maintain existing partnerships with other State and Federal financing sources to coordinate funding and promote efficiency for both the agencies and the applicants;
- Monitor the progress of state programs and strategies in improving the ability of public water systems to provide safe drinking water;
- Maintain a program for ensuring that all public water systems are constructed, operated, maintained, and monitored properly;
- Protect drinking water supplies by integrating wellhead protection and source water protection efforts with other water and land use programs;
- Expand eligibility for financial assistance to include non-municipal systems; and
- Develop methods and mechanisms for measuring program effectiveness.

IX. METHOD AND CRITERIA FOR DISTRIBUTION OF LOAN FUNDS

The priority scoring and ranking system for the SDWLP is detailed in Subchapter III of ch. NR 166, Wis. Adm. Code. The purpose of the priority scoring criteria is to establish a list of eligible projects to be funded in a manner that is in accordance with the federal requirements of the 1996 SDWA reauthorization. The SDWA requires, to the maximum extent practicable, that priority ranking be given to projects that: 1) address the most serious risk to human health; 2) are necessary to ensure compliance with the requirements of the SDWA (including requirements for filtration); and 3) assist systems most in need on a per household basis according to state affordability criteria.

Wisconsin's priority scoring and ranking criteria give first priority to acute public health risks, particularly those related to microbiological organisms, and second priority to situations that pose chronic and longer-term health risks to consumers, such as organic chemical contamination. The scoring criteria also consider issues that are related to infrastructure upgrading or replacement, to address those projects (or portions of a project) that are eligible for funding but not included in the first two sections.

Projects are granted additional points if the project is associated with a system considered most in need of financial assistance on a per-household basis. A public water system must have a population less than 10,000 and an MHI less than or equal to 80% of the state's MHI to qualify for any points related to financial need.

Projects that meet the application deadline are listed on the Funding List in priority order (by project score). The fundable range is established in priority order, except when ranking projects in priority order does not result in at least 15% of the funds being allocated to small systems serving less than 10,000 people. In this case, systems serving less than 10,000 people are given priority until the 15% funding allocation requirement is met.

In the event of a disaster, as declared by the state or federal government, project priorities may be adjusted to ensure protection of public health and the environment.

X. COMPLIANCE WITH FEDERAL REQUIREMENTS

A. Water Infrastructure Improvements Act for the Nation (WIIN)

The Water Infrastructure Improvements Act for the Nation (P.L. 114-322) was enacted on December 16, 2016. Subtitle A of WIIN pertains to Safe Drinking Water and includes provisions impacting the DWSRFs.

One of the WIIN Act provisions impacting the DWSRFs was a change in how the allowable amounts of administrative funds are calculated, similar to the changes made to the Clean Water State Revolving Fund (CWSRF) when the Water Resources Reform and Development Act (WRRDA) was passed in June 2014. This change allows the State of Wisconsin to use the greatest of: \$400,000; 1/5 percent of the current valuation of the DWSRF; or an amount equal to four percent of all grant awards to the fund.

Based on Wisconsin's June 30, 2017, financial statements for the EIF, the total net position of the SDWLP is equal to \$418,907,349, yielding allowable administrative funds of \$837,814 under the 1/5 percent option. This amount is higher than 4% of the capitalization grant amount (\$757,240), but as the State still has \$3,030,885 in banked administrative funds, we are choosing to continue to utilize 4% of the grant along with a portion of the banked funds. (See Section IV above for details on banking of funds.)

Other provisions in Subtitle A of the WIIN Act may have an impact on the DWSRF but the State is currently waiting for guidance from EPA interpreting the WIIN Act language.

B. Consolidated Appropriations Act of 2018

The FFY 2018 Consolidated Appropriations Act again contained additional requirements beyond what is included in the federal regulations governing the DWSRF. The requirements for FFY 2018 included: the provision that not less than 20% of the amount of the FFY 2018 DWSRF capitalization grant be used to provide additional subsidization in the form of grants, principal forgiveness, or negative interest rate loans; and a requirement for the Use of American Iron and Steel. Projects that address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities are still eligible for funding, but there is no longer a requirement to spend a specific percentage of the capitalization grant funds on green projects.

C. Use of American Iron and Steel

The FFY 2018 Appropriations Act continued the requirement for the Use of American Iron and Steel. This provision requires DWSRF assistance recipients to use iron and steel products that are produced in the United States for projects for the construction, alteration, maintenance, or repair of a public water system. If requirements for the use of American iron and steel change, we will notify our recipients through the Environmental Loans e-bulletin.

Information on the Use of American Iron and Steel has been detailed in the Environmental Loans e-bulletin and on the program website. Language has been added to the Financial Assistance Agreements addressing this requirement and all municipalities with projects subject to the Use of American Iron and Steel provisions must certify that they will meet the requirement before closing on their loan and also to certify that the requirement was met as part of project closeout. The certification form and more information on the requirement are available on our [program website](#).

D. Green Project Reserve

The FFY 2018 Consolidated Appropriations Act did not reinstate the requirement to fund projects under the Green Project Reserve (GPR). The FFY 2018 appropriation instead stated that DWSRF capitalization grant funds may, at the discretion of the State, be used for projects that address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. The State is still asking applicants to complete the [GPR form \(8700-357\)](#). Any GPR projects that receive funding will be reported to EPA in the Annual Report and the Drinking Water Projects and Benefits Reporting database.

E. Davis-Bacon Act

P.L. 112-74 (the FFY 2012 Appropriations Act) extended the requirement for compliance with the Davis-Bacon wage rate requirements of section 1450(e) of the SDWA for each fiscal year thereafter. On November 30, 2009, EPA issued a memorandum interpreting the appropriations bill language as applying Davis-Bacon requirements to all projects funded by the State Revolving Funds.

Information has been posted on the [program website](#) stating that Davis-Bacon requirements apply. Required contract language is also posted on the website. All projects receiving funding are required to certify their weekly payrolls on their disbursement request forms. Compliance is further verified during field inspections of projects and an additional certification that the requirements were met is required as part of project closeout.

F. Federal Equivalency

EPA requires States to designate projects in an amount equal to each year's capitalization grant to meet some additional federal requirements. These projects are referred to as "Federal Equivalency" projects. Every year, as necessary, a number of projects from the Project Priority List will be chosen and designated to meet the Federal Equivalency requirements. Projects designated as equivalency will be larger projects in larger municipalities with the intent of relieving smaller municipalities of any additional costs related to the equivalency requirements.

The additional requirements that Federal Equivalency projects must meet include:

- compliance with applicable "cross-cutting" federal regulations;
- compliance with the Single Audit Act;
- compliance with EPA's new signage requirement;
- completion and submittal of Form 8700-201, *Federal Equivalency Projects Assurances and Certification*; and
- compliance with the federal disadvantaged business enterprise (DBE) solicitation rules.

More information on these requirements – including a list of the cross-cutting federal regulations - will be added to our program webpages in the future along with a revision of Form 8700-201.

XI. DISADVANTAGED COMMUNITIES PROGRAM & PRINCIPAL FORGIVENESS (PF)

The SDWLP offers a lower interest rate to local governmental units that meet two eligibility criteria. This interest rate is 33% of the state's market rate. Local governmental units that do not meet the two criteria receive loans at 55% of these state's market rate. The two eligibility criteria are:

- 1) the local governmental unit's population must be less than 10,000; and
- 2) the local governmental unit's MHI must be 80% or less of the state's MHI.

In addition, the methodology used to allocate PF is primarily based on population and MHI, and gives the highest percentage of PF to those local governmental units that have the greatest financial need. The methodology for allocating PF is described below and must be met by any municipality that is awarded PF.

A. Affordability Criteria and Methodology for Distribution of PF Funds

The PF allocation methodology is structured to allocate PF funds to the highest priority projects in municipalities with the greatest financial need, primarily determined by MHI and population, with additional points awarded based on a number of criteria included in Table 3. (See next page for tables.)

Regular PF in the amount of \$4,863,098 will be provided. Applications submitted by June 30, 2018, will be ranked in priority score order, and then the following PF methodology will be applied:

- Population points ranging from 0 to 50 are awarded under Table 1 with the highest points assigned to the smallest populations.
- MHI points ranging from 0 to 100 are awarded under Table 2 based on the municipality's MHI's percentage of the state's MHI with the highest points assigned to the lowest MHI percentages.
- Table 3 points will be awarded as follows:
 - Replacement of LSLs – 10 points for watermain projects that include LSL replacements when at least 40% of the services being replaced are composed of lead. This also includes galvanized material that is downstream of lead goosenecks or services. Service line material documentation must be submitted with the application in order to be awarded points. Note that a municipality does not need to be in receipt of an ALE to receive these points.
 - Implementing Corrosion Control Study Recommendations – 10 points for projects that are implementing the approved recommendations from a corrosion control study. Eligibility will be determined by the Drinking Water Program.
 - Development of New Asset Management Plans – 10 points for development of a new Asset Management Plan (completed within the previous 12 months). Minimum criteria for the asset management plans is available on our [program website](#). Plans must be submitted by August 1, 2018, and will be approved by the Drinking Water Program.
 - Revision/Updating of Asset Management Plans – 5 points for revising or updating an existing Asset Management Plan (within the previous 12 months). Criteria and approval will be the same as for new Asset Management Plans (above).
 - Public Water System Partnerships - 5 points for execution of a new public water system agreement (within the previous 12 months) between two or more water systems in which the TMF capacity will be improved in one or more water systems. Criteria for awarding TMF partnership points is available on our [program website](#).
- Scores from Tables 1 through 3 are added together and then used to determine the eligible PF percentage in Table 4. Note that Table 4 has been changed from previous years to eliminate the 15% PF tier and lower the bottom range of the 30% PF tier. (See tables below.)
- Projects in municipalities that are Green Tier Legacy Communities or that are providing disinfection where it was not

provided previously are eligible for an additional 10% PF on top of the percentage determined by Table 4, with the caveat that no municipality can receive PF for more than 70% of total project costs.

- The amount of PF any municipality can receive in a SFY is capped at \$500,000. Additionally, a single project cannot receive more than one full PF allocation (based on the eligible PF percentage and/or the cap) even if that project is funded from two or more SFYs.

Table 1	
Points	Population
0	15,000+
2	10,000–14,999
5	8,500–9,999
10	5,000–8,499
15	3,000–4,999
20	2,000–2,999
25	1,500–1,999
30	1,000–1,499
35	500–999
40	250–499
50	0-249

Table 2	
Points	MHI Percent
0	≥141%
2	126% to <141%
5	116% to <126%
10	106% to <116%
15	101% to <106%
20	96% to <101%
25	91% to <96%
30	86% to <91%
40	81% to <86%
50	76% to <81%
60	71% to <76%
70	66% to <71%
85	61% to <66%
100	<61%

Table 3	
Points	Additional Criteria
10	Projects including the replacement of LSLs (minimum of 40% of service lines)
10	Projects implementing recommendations from a corrosion control study
10	Applicants with a new Asset Mgmt. Plan approved by the Drinking Water Program
5	Applicants with a revised/updated Asset Mgmt. Plan approved by the Drinking Water Program
5	Applicants with a new executed agreement between two or more community water systems to improve TMF capacity

Table 4	
Total Score	PF Percent
0-49	No PF
50-79	30%
80-99	45%
100-165	60%

B. Other Policies Regarding Principal Forgiveness

- **Disbursement of PF** – The DNR modified its policy regarding disbursement of PF during SFY 2017. This policy change was posted for public comment in March 2017. No comments were received. Previously, PF was disbursed immediately following the minimum loan proceeds disbursement of 5% or \$50,000 that is required by IRS regulations. Starting with loans that closed after April 30, 2017, PF disbursements go out as a percentage of each disbursement request. The percentage is the percentage of PF that the municipality is eligible for, up to the cap, if applicable. The proportional disbursement of PF is a more fair and equitable way to distribute these funds and results in a more accurate payment of PF to each municipality. This policy reduces potential overpayments of PF and ensures that PF funds are distributed as widely as possible to eligible municipalities based on actual costs rather than anticipated costs.
- **No PF “roll-down”** – PF amounts may shift between projects within the fundable range on the Final Funding List. If any PF remains after all projects in the fundable range have closed on loans, this PF will be moved forward to the

next year's funding list. No PF will roll down past the last project identified in the fundable range for PF on the Final SFY 2019 Funding List.

- **No PF-only awards** - As a revolving loan program, fiscal prudence dictates that the SDWLP only award PF for projects for which loan funds are also awarded. This results in a continuation of fund integrity while providing some funding in the form of PF, helping disadvantaged municipalities offset some costs of their infrastructure improvements.
- **No PF on costs covered by other grant funding** – When calculating project costs that are eligible for PF, the amounts from other grant funding sources (CDBG, USDA-RD, etc.) are deducted from total eligible project costs before applying the eligible PF percentage determined in Table 4 above. Loan funds received from other funding sources, as well as internal funds, are not deducted before calculating the eligible PF amount.
- **PF restrictions on refinancing** - Due to restrictions contained in the FFY 2018 Consolidated Appropriations Act, PF is not allowed to be used to refinance costs paid by interim financing that was incurred prior to March 23, 2018, the date the Appropriations Act was enacted. This restriction only applies to the PF required by the Appropriations Act (20% of the capitalization grant), not to any additional PF that is provided.

D. Principal Forgiveness from Previous Years

All principal forgiveness from the FFY 2010 through 2016 grants has been awarded. All projects allocated PF on the SFY 2018 funding list (from the FFY 2017 grant) have closed on their loans. Any PF remaining from the FFY 2017 grant will be awarded during SFY 2019.

XII. APPLICATION DEADLINE & DRAFT FUNDING LISTS

The SDWLP received 228 ITA forms and PERFs totaling \$502,227,053 in estimated project costs by the October 31, 2017, deadline. The projects were subsequently scored and placed on the Project Priority List (PPL) in priority score order. Projects included on this list are eligible to apply for funding during SFY 2019. An additional 28 ITA forms were received for projects that were ineligible or undetermined. This included four ITAs submitted for private LSL replacements; these projects are ineligible as the private LSL replacement program has ended.

The application deadline for SFY 2019 funding was June 30, 2018. Thirty-eight complete SDWLP applications totaling \$64,510,215 in requested costs were received by the application deadline. Principal forgiveness was allocated to fifteen projects on the list; these allocations are draft and are subject to change on the Final Funding List. The draft funding list has been posted on the [program website](#).

XIII. SET-ASIDES

1) Wellhead/Source Water Protection

The SDWA provides that a state may request up to 15% of the Capitalization Grant for Local Assistance and Other State Programs, with the stipulation that not more than 10% of the capitalization grant can be used for any one activity. One of the eligible uses is to support the establishment and implementation of wellhead protection (WHP) programs under section 1428 of the SDWA. Since the beginning of the SDWLP, the DNR has requested a total of \$4,263,307 for WHP activities, including \$416,714 that was transferred from source water assessment program (SWAP) funds.

The DNR is requesting an additional \$396,419 from the FFY 2018 Capitalization Grant to fund the following WHP activities:

- Sponsorship of three workshops to provide training to teachers on use of the groundwater sand tank model and associated outreach to promote source water protection based on increased local awareness. Teachers are specifically recruited from communities with state- or county-led wellhead protection initiatives underway. Past trainees are alerted about events such as Drinking Water Week as a reminder to use the models and deliver groundwater information. The DNR will work with the UW-Stevens Point Center for Watershed Science and Education and Wisconsin Geological and Natural History Survey to provide these educational tools and the training to use them (\$32,000).
- Maintenance and redesign of data management and mapping applications used to track contaminant sources, public wells, wellhead protection planning and implementation, other high-capacity wells, well construction reports, and groundwater quality.

Drinking Water/Groundwater Bureau Map Exporter	\$8,000
Drinking Water/Groundwater Bureau Updater (Data Loader)	\$16,000
Drinking Water/Groundwater Bureau Viewer	\$16,000
Groundwater Retrieval Network Updater (Data Loader)	\$29,600
Groundwater Retrieval Network Web query	<u>\$16,000</u>
Total data management and mapping request for SFY 2019	\$85,600

- Implementation of a community watershed intervention approach to protecting drinking water systems in priority geographic areas. Groundwater quality data from public water systems indicates an increasing trend of nitrate levels in public wells across the State of Wisconsin. Nitrate contamination has spread and increased in intensity despite broad offerings of education on wellhead protection and decades of cost-sharing for best management practices. Continued increases in the nitrate levels will ultimately result in installation of water treatment equipment by water system owners in order to meet the SDWA standard for nitrate. This project is documenting the potential of, and methods for, changing the practices of the point and nonpoint contributors of nitrogen to groundwater in order to avoid the need for costly water treatment equipment. The project focuses on three selected municipal water systems with rising nitrates and well-studied hydrogeology. A range of groundwater and agricultural practice monitoring tools as well as groundwater and agricultural modeling are being deployed at each site. Incentives and innovative institutional arrangements are also being developed. Using baseline data and modeled scenarios, advanced nitrogen management systems will be developed, implemented, and monitored to ensure protection of each well. Together these tools should achieve nitrogen loss targets that avoid violations of the nitrate standard. The project will document the methods and outcomes in a form suitable and accessible for adaptation in other geographic priority areas (\$278,819).

The total cost of these activities is:

Groundwater teacher workshops and video production	\$32,000
Data management and mapping applications	\$85,600
Incentivized Watershed Intervention Approach	<u>\$278,819</u>
Total set-aside request	\$396,419

2) Local Assistance to Water Systems as Part of a State Capacity Development Strategy

A state may provide assistance to a public water system as part of a capacity development strategy under section 1420(c) of the SDWA. Fifteen percent of total capitalization grant funds may be requested for Local Assistance and Other State Programs as long as no more than 10% is used for any one activity. Funds for this set-aside were first requested for SFY 2010 and a total of \$8,247,432 has been requested prior to SFY 2019.

In accordance with Wisconsin's capacity development strategy to direct efforts towards systems that face the risk of being out of compliance, the DNR is utilizing local assistance set-aside funding to contract with county and local health agencies for transient non-community (TNC) system inspection services. These services include: conducting annual site visits; collecting drinking water quality samples; and conducting inspections (sanitary surveys) at least once every five years. With

implementation of the Revised Total Coliform Rule, county and local health agencies are also assisting seasonal systems with reporting requirements for seasonal system start-up procedures.

There are approximately 9,500 TNC systems in Wisconsin (typically commercial establishments, restaurants, campgrounds, churches, etc., that serve at least 25 people at least 60 days of the year). These systems are generally small and are not required to have certified operators. By having county health employees conduct yearly site visits and collect drinking water quality samples, monitoring and reporting violations are greatly reduced and systems are more likely to meet SDWA requirements.

For calendar year 2018, the DNR entered into 43 contracts covering 52 counties with approximately 6,849 TNC systems. For calendar year 2019, the DNR is planning to continue the program at the same level. The DNR is requesting \$1,211,301 for this TNC sampling and inspection program.

3) Small Systems Technical Assistance

The SDWA allows up to 2% of the capitalization grant to be requested every year for small systems technical assistance. From the beginning of the program through SFY 2018, the DNR has requested \$6,002,732 in set-aside funds for this purpose. The DNR is requesting an additional \$235,080 from the FFY 2018 Capitalization Grant to fund the technical assistance activities described below.

The DNR contracts for delivery of a technical assistance program for other-than-municipal (OTM) community and non-transient non-community (NTNC) public water systems. Wisconsin has more than 1,300 of these small systems; many are not served by full-time operators and need help complying with regulatory requirements. Two types of technical assistance are delivered under this contract:

- (1) The contractor conducts 600 site visits per year at OTM and NTNC water systems around Wisconsin and provides on-site technical assistance on various subjects, including: monitoring requirements and schedules; sample collection protocols; reporting and public notice requirements; violation follow-up; contaminant exceedances; operation and maintenance problems; and regulatory compliance.
- (2) The contractor delivers quarterly monitoring reminders to all the OTM and NTNC water systems in Wisconsin, for a total of approximately 5,760 contacts per year. The contacts provide information about monitoring, sampling and reporting requirements, monitoring deadlines, sample collection protocols, sampling locations, public notice and notification requirements, and violation follow-up.

The objectives of this technical assistance program are: to protect public health and safety by ensuring that OTM and NTNC public water systems in Wisconsin are operated and maintained properly, sampled in the appropriate manner and frequency, and provide drinking water that meets water quality standards; and to reduce historic rates of monitoring and reporting violations.

4) State Program Management

The SDWA provides that a state may request up to 10% of the Capitalization Grant for State Program Management (SPM) activities. An additional \$2,228,655 from the FFY 2018 Capitalization Grant is being requested for SPM. The amount requested includes \$335,555 of SPM funds that were banked under previous grants.

As a result of implementation of additional SDWA requirements (such as the Revised Total Coliform rule, Groundwater rule, Enhanced Surface Water Treatment rule, Disinfection/Disinfection Byproducts rule, Capacity Development requirements, Operator Certification requirements, as well as revised standards for arsenic and radionuclides), additional staff are necessary to meet basic program needs for SDWA initiatives as well as existing program requirement changes (such as sanitary surveys

being required every 3 years instead of every 5 years for some system types). Fourteen and a half positions are assigned to these tasks that are described in more detail below. The SPM set-aside is being utilized to fund these activities.

- Natural Resources Regional Program Manager (1): Responsible for management and supervision of the Public Water Supply Section. The section chief is responsible for setting program policies and processes to properly and effectively implement the SDWA.
- Engineering position (2): Responsible for performing engineering duties in the water program for municipal, OTM, and NTNC water systems. This includes performing sanitary surveys, annual inspections, operation and maintenance assistance, consultation with systems and engineers on plan review and system design, monitoring water quality, contamination response, witnessing and monitoring of new construction, and enforcement activities.
- Engineering position (1): Responsible for reviewing plans and specifications for community water systems for compliance with construction requirements of ch. NR 811, Wis. Adm. Code, reviewing sanitary survey inspections conducted at municipal water systems, coordinating regional engineering review of water system improvements, and coordinating regional review of existing water supply facilities.
- Water supply/program specialist positions (7): Responsible for implementing the SDWA program for community, OTM, NTNC, and TNC systems. This includes conducting sanitary surveys, preparing survey reports, enforcement activities, monitoring sample submissions and reports from these systems, operation and maintenance assistance, limited plan review, investigative sampling, providing public education, and training of system operators/samplers.
- Safe Drinking Water Act Coordinator positions (2): Responsible for development and implementation of public water supply program objectives, preparation of annual program plans and progress reports, interpretation of federal regulations and direct translation of federal rules into state codes, statewide coordination of Safe Drinking Water Program monitoring requirements, and review of Safe Drinking Water Program required water quality data.
- Environmental Program Associate (0.5): This position manages real-time public drinking water supply monitoring data, providing professional and programmatic support services for the Drinking Water and Groundwater Program in the implementation of the SDWA. This includes providing first-line public contact for health and safety related activities and enforcement with public water systems, laboratories, local government officials, and other state agencies. This position also provides technical guidance, assistance, and training for drinking water and groundwater program staff and county contract agents.
- Capacity Development/Operator Certification Water Supply Specialist position (1): Responsible for directing the capacity development, operator certification, and technical assistance portions of the State Safe Drinking Water Program. This includes development and implementation of capacity development objectives, administration of the water system and waterworks operator certification program, administration of the small system technical assistance program, preparation of program plan and progress reports, and interpretation of federal regulations.

The approximate staff budget for the 14.5 positions is \$1,623,108 per year. Other program expenses are as follows:

- Computer replacement and upgrades: Total cost \$5,000.
- Record keeping related to plans and specifications, administering the operator certification program, and conducting annual site visits at TNC systems (4 LTEs): Total cost per year \$101,419.
- Contractual activities:
 - Large volume source water assessment monitoring under the Revised Total Coliform Rule (RTCR) – The DNR will contract with the Wisconsin State Laboratory of Hygiene (WSLH) to implement a 100-liter microbial analysis for use with RTCR unsafe follow-up assessments. The WSLH will: train and coordinate with DNR staff to maintain hollow fiber ultrafiltration (HFUF) sampling hardware and capabilities; integrate a survey component to unsafe sample follow-up activities; conduct bi-weekly analysis of RTCR positive samples (unsafes) using HFUF concentrates for the full suite of analytes; and perform a critical analysis of

- assessment information, monitoring data, and success of analytical designs. Total annual cost for the two-year project \$80,000.
- Public Water Supply Data Management and Customer Support – The DNR is contracting with the WSLH to coordinate monitoring data exchange - including facility names, locations, monitoring requirements, and monitoring results - between the DNR and WSLH relative to Public Water Systems. The WSLH will also provide customer service to public water systems related to SDWA-required monitoring. Annual cost \$20,000.
 - Continuing education for OTM and NTNC water system operators - Certified operators of OTM and NTNC public water systems are required to obtain six hours of continuing education credits per three-year renewal cycle. The DNR contracts for delivery of approximately 55 three-hour courses annually that are targeted and designed specifically for OTM and NTNC water systems, and that cover regulatory and operational topics identified as critical for maintaining compliance with drinking water regulations. Annual cost \$79,750.
 - OTM & NTNC Exam Preparation and Review Courses - The DNR contracts for delivery of 6 exam preparation courses annually that are designed to help individuals prepare for taking the Wisconsin non-municipal water system operator certification exam. The exam preparation training sessions are four hours long and are offered in spring and fall each year in advance of the certification exam sessions. The course is designed around the Wisconsin *Small Water System Operator Certification Manual*. Annual cost \$7,950.
 - Technical School Education Program – The DNR contracts with Moraine Park Technical College (MPTC) for delivery of courses designed for certified waterworks operators (at municipal water systems). These courses provide opportunities for municipal waterworks operators to earn continuing education credits and also work towards an associate degree in Water Quality Technology. MPTC also provides courses to help operators, and individuals seeking to become operators, prepare for certification exams. Annual cost \$50,000.
 - Data system programming associated with the Drinking Water System, the Lab Data Entry System, and the Environmental Licensing and Certification Database. Annual cost \$198,000.
 - Record storage costs for plan approval decisions. Annual cost \$5,000.
 - Research project titled: *Geographic, hydrologic, and geochemical characterization of Radium contaminated groundwater in Wisconsin*. Total cost for year one of this two-year project \$58,428.

In total, the DNR is requesting \$2,228,655 from the FFY 2018 Capitalization Grant for activities under this set-aside. These funds will be expended across the year following expenditure of the FFY 2017 set-aside funds.

XIV. PUBLIC PARTICIPATION PROCESS

The draft IUP was posted for 21-day public comment on the DNR's Program Guidance web page on March 29, 2018. An e-mail notification was sent to a distribution list of approximately 2,100 recipients. Written comments on the draft IUP were taken through Thursday, April 19, 2018. A number of comments were received. Response to these comments was posted on the Program Guidance webpage on June 12, 2018. No changes were made in response to these comments. This final IUP is being posted along with the draft Funding List.