STATE OF WISCONSIN

SAFE DRINKING WATER LOAN PROGRAM
INTENDED USE PLAN

FOR FFY 2017 FUNDS
FOR THE SFY 2018 FUNDING CYCLE

August 2017

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

WISCONSIN DEPARTMENT OF NATURAL RESOURCES
SAFE DRINKING WATER LOAN PROGRAM INTENDED USE PLAN
Covering Funding During State Fiscal Year 2018
For Receipt of the EPA Federal Fiscal Year 2017 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 and its attachments comprise the State of Wisconsin Intended Use Plan for Federal Fiscal Year (FFY) 2017 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 2017 and covers anticipated activity during State Fiscal Year (SFY) 2018. 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

The SDWLP operates as a direct loan program. Proceeds from general obligation bonds issued by the State of Wisconsin provide state match which 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 department'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 MCL (maximum contaminant limit) 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 department determines that a community water system is a necessary and appropriate response to the contamination.

The DNR has granted a variance to s. NR 166.07(2)(w), Wis. Adm. Code for the private lead service line replacement program.

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.

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 currently in effect for July 1, 2017, through September 30, 2017, 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 2017 appropriation for the DWSRF once again contains additional requirements, including the requirement to allocate 20% of the capitalization grant as additional subsidization. Based on a capitalization grant amount of $14,372,000, the SDWLP will be providing 20% of the grant ($2,874,400) as additional subsidy in the form of regular principal forgiveness (PF).

In addition, principal forgiveness (PF) for the private lead service line (LSL) replacement program is being provided by utilizing previously unused authority under the FFY 2010 and 2011 capitalization grants to provide PF in amounts up to 100% of the grants (minus any funds used for set-asides). The SDWLP originally awarded the minimum required amounts of PF in those years. The private LSL replacement program will use the remaining authority for PF under those grants. During SFY 2017, $10,086,500 was allocated to the LSL program under this older authority. During SFY 2018, the remaining $12,373,385 will be utilized. Further discussion of the private LSL replacement program can be found in section IX. C. below.

All state matching funds for the FFY 2017 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 2017 grant will be made at a cash draw ratio of 100% federal funds.

Funds anticipated to be available during SFY 2018 and their intended uses include the following:

FFY 2017 Capitalization Grant	$14,372,000	
State Match	$2,874,400	
Other Funds Available in the SRF	$73,106,702	
Total Available for SFY 2018	$90,353,102	
Set-aside Amounts:		
Administration *	$586,199	
Wellhead Protection	$382,287	
Technical Assistance	$240,080	
Local Assistance	$1,316,422	
State Program Management	$2,351,220	
Total Amount of Set-asides	$4,876,208	
Regular Principal Forgiveness	$5,348,489	(includes $348,489 from SFY 2017)
Lead Service Line Principal Forgiveness	$13,026,510	(includes $653,125 from SFY 2017)
Subsidized Loans	$67,101,895	

* Administrative funds in the amount of $11,319 will be deducted directly from the capitalization grant award to pay for half the cost of in-kind services provided by Northbridge Environmental for development of a FOCUS model for the EIF.

IV. BANKING OF SET-ASIDE FUNDS

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

$3,042,204 in Administrative funds
$9,944,947 in State Program Management funds, and
$534,580 in Small Systems Technical Assistance for
$13,521,731 in total banked set-aside funds.

The State requests to bank an additional $47,360 in Small Systems Technical Assistance funds, and to draw $914,020 of banked State Program Management funds and $11,319 of banked Administrative funds under this IUP. This will reduce the total banked funds to $12,643,752. 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. SHORT- AND LONG-TERM GOALS

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;

- Provide additional financial assistance in the form of principal forgiveness to economically disadvantaged communities for the purpose of replacing privately-owned lead service lines;
- 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 climate change, and provide funding through the SDWLP for projects which implement climate change resiliency.

B. Long-Term Goals:

- Assist public water systems in achieving and maintaining compliance with all applicable State and Federal drinking water requirements;
- Facilitate the replacement of all the remaining lead service lines, in their entirety, in the State of Wisconsin;
- 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.

VII. 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 act 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.

VIII. 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, 2016 financial statements for the EIF, the total net position of the SDWLP is equal to $399,546,954 yielding allowable administrative funds of $799,093 under the 1/5 percent option. This amount is higher than 4% of the capitalization grant amount ($574,880) but as the State still has $3,042,204 in banked administrative funds, we are choosing to continue to utilize 4% of the grant along with a small portion of the banked funds. (See section IV above for details on banking of funds.)

Another aspect of the WIIN Act that impacts the DWSRF was the requirement for the use of American Iron and Steel. Rather than make the requirement permanent as was done for the CWSRF under WRRDA in June 2014, the WIIN Act continued the requirement only for the duration of FFY 2017. The WIIN Act language also exempts projects where the plans and specifications were approved prior to the passage of the WIIN Act (December 16, 2016). At the time the WIIN Act was passed, the federal government was operating under a continuing resolution and the terms of the continuing resolution supersede the language contained in the WIIN Act. The FFY 2017 appropriation was enacted in May 2017 and did not contain an exemption for plans and specifications approved prior to passage of the appropriation act.

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 2017

The FFY 2017 Appropriations Act contains additional requirements beyond what is included in the federal regulations governing the DWSRF. The requirements for FFY 2017 include: the provision that not less than 20% of the amount of the FFY 2017 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 2017 Appropriations Act continues the requirement for the Use of American Iron and Steel. This 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 program newsletter.

Information on the Use of American Iron and Steel has been detailed in the program newsletter 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 are being required to certify that they will meet the requirements before closing on their loan and also to certify that the requirements were met as part of project closeout. More information on the requirement and the certification form are available on our program website at: http://dnr.wi.gov/Aid/UAIS.html.

D. Green Project Reserve

The FFY 2017 Appropriations Act did not reinstate the requirement to fund projects under the Green Project Reserve (GPR). The Appropriations Act instead stated that DWSRF capitalization grant funds may, at the discretion of the State, be used for projects which 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 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 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 near future along with a revision of Form 8700-201.

IX. 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 the 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 based on population, MHI, and unemployment, 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 applies to regular PF. The methodology is also used to determine eligibility for PF allocated for lead service line replacements on private property. Any municipality receiving PF must meet the affordability criteria described below.

A. Affordability Criteria and Methodology for Distribution of Regular Principal Forgiveness Funds

The WRRDA, which was passed on June 10, 2014, amended the Clean Water Act and imposed a number of new requirements on the CWSRF. One of these was a requirement to develop affordability criteria for use in allocating additional subsidy (i.e. principal forgiveness). The affordability criteria are required to include income, unemployment data, and population trends. The previous methodology, which was used from SFY 2013 through SFY 2015 to allocate PF, took income and population into account but did not include unemployment data or population trends. Those criteria were added to the methodology starting with SFY 2016. The revised methodology is being used to allocate PF in both the CWFP and the SDWLP.

The PF allocation methodology is structured to allocate PF funds to the highest priority projects in municipalities with the greatest financial need, as determined by MHI, population, population projections over 20 years, and average county unemployment rate over the past 12 months.

For SFY 2018, there will be two types of PF funds awarded – regular PF and PF for lead service line replacements on private property (described in Section IX. C. below). Regular PF in the amount of $5,000,000 will be provided from the capitalization grant along with $348,489 rolled forward from the SFY 2017 list, for a total of $5,348,489 in regular PF. Applications submitted by June 30, 2017, were ranked in priority score order and then the following PF methodology was 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.

- Additional points for population trends and unemployment are awarded under Table 3. Unemployment data will be the average unemployment percentage for the most recent 12 months of data available as of the application date. Population projections used are those published by the DOA Demographic Services Section.

- Scores from Tables 1 through 3 are added together and then used to determine the eligible PF percentage in Table 4. (See tables on next page).

- 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.

See Tables on the next page.

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	126-140%
5	116-125%
10	106-115%
15	101-105%
20	96-100%
25	91-95%
30	86-90%
40	81-85%
50	76-80%
60	71-75%
70	66-70%
85	61-65%
100	<61%

Table 3	
Points	**Additional Criteria**
5	Projected to lose 10% or more of population over 20 years
5	County unemployment rate is > State's unemployment rate by less than one percentage point
10	County unemployment rate is > State's unemployment rate by one percentage point or more

Table 4	
Total Score	**PF Percent**
0-29	No PF
30-54	15%
55-79	30%
80-99	45%
100-165	60%

B. Other Policies Regarding Regular 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 close after April 30, 2017, PF disbursements will go out as a percentage of each disbursement request. The percentage will be 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 will result in a more accurate payment of PF to each municipality. This policy will reduce 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 2018 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. The only exception to this policy is for the private lead service line replacement program.

- **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 are not deducted before calculating the eligible PF amount.

- **PF restrictions on refinancing** - Due to restrictions contained in the FFY 2017 Appropriations Act, PF is not allowed to be used to refinance costs paid by interim financing that was incurred prior to May 5, 2017, the date the Appropriations Act was enacted. This restriction only applies to the PF required by the appropriation act (20% of the capitalization grant - $2,874,400).

C. Principal Forgiveness for Lead Service Line Replacements on Private Property

In continued recognition of the human health risks associated with elevated lead levels related to lead leaching into drinking water from lead service lines, the Department will fund the second year of the private Lead Service Line (LSL) replacement program. This program provides PF to municipal water systems to off-set costs to homeowners for replacing their lead service lines when the municipality is not able to provide financial assistance using funds from user rates.

The SDWLP received 38 applications for private LSL funding in SFY 2017. Three applicants subsequently withdrew their applications. The DNR awarded 35 financial assistance agreements for LSL replacements totaling $13,781,375 during SFY 2017. During SFY 2017, a total of $14,434,500 in PF was made available for this purpose, with $4,348,000 from the FFY 2016 capitalization grant and $10,086,500 from existing funds using the authority under the SFY 2010 and 2011 capitalization grants where the State did not utilize all the PF funds available. Of the funds available in SFY 2017, $653,125 was released and rolled forward to SFY 2018.

Forty-two municipalities submitted *Intent to Apply* forms for SFY 2018 for the LSL replacement program. Thirty applications were received by the June 30, 2017 deadline. We will utilize all remaining PF authority from the FFY 2010 and 2011 grants ($12,373,385) for the SFY 2018 LSL replacement projects as well as the $653,125 that was rolled forward from SFY 2017, bringing the total LSL funds available for SFY 2018 to $13,026,510. Any PF allocated for LSL replacement is in addition to regular PF awarded through the methodology described above and does not count towards the $500,000 per municipality cap for regular PF.

- **General Description of Eligible Private LSL Replacement Program Projects**

Private LSL replacement projects can take several forms but must always result in complete LSL replacement. The SDWLP will not provide funding for private LSL replacement when the public side is still composed of lead unless the municipality replaces the lead public portion at the same time. The private LSL replacements can be done as part of a larger watermain replacement project or as spot replacements where the municipal portion of the LSL has already been replaced.

The private LSL programs can be ones in which the municipality contracts directly with plumbers for the replacements, or one where the municipality establishes a prequalified list of plumbers and the homeowner contracts directly with a prequalified plumber for this work. The different approaches impact the applicability of Davis-Bacon wage rate requirements; more information on this is available on our website. Municipalities have many options in developing the programs and in determining how the funds will be distributed. They may pay for full or partial costs of replacement, they may determine caps based on criteria established by the municipality, and they may make the replacement voluntary or mandatory, depending on the wishes of municipal leaders. Municipal programs can also be implemented as a revolving loan fund for LSL replacements. The exact form the LSL replacements take is up to the individual municipality.

- **Allocation of LSL PF Funding**

Any municipality that qualifies under the PF allocation methodology described in Section IX. A. (PF score of 30 points or more) is eligible to receive PF for private LSL replacement, regardless of the project's ranking on the funding list. Any PF awarded to a municipality for LSL replacements will be in addition to any PF awarded through the normal process described in Section IX. A. The PF for private LSL replacements will be disbursed as a reimbursement for costs specific to LSL replacement. This can include any costs directly associated with the LSL work on private property (*e.g.*, costs of determining where private LSLs are located, amounts paid to engineers or plumbers, administrative expenses incurred to run a municipal LSL replacement program, etc.).

Applicants will be required to submit a list of documented LSL locations with their SDWLP application. If exact locations are not known for all LSLs, a second estimate can be provided along with an explanation of the methodology used to arrive at the estimate.

Because the available funds are limited, the department has structured the LSL PF according to Table 5 below, which combines the municipality's MHI, as established by the American Community Survey (ACS), along with the documented number of private LSLs identified by the municipality as part of their application.

Table 5 SFY 2018 private LSL Funding Allocation Methodology			
Total Number of LSLs	**less than 75% WI MHI (<$39,818)**	**75-85% WI MHI ($39,818 - $45,090)**	**greater than 85% WI MHI (>$45,090)**
Lowest 20%	$200,000	$150,000	$100,000
21-55%	$300,000	$200,000	$150,000
56-90%	$500,000	$300,000	$200,000
Highest 10%	$1,250,000	$1,000,000	$750,000

These funding tiers define the maximum amount of LSL PF that can be awarded to any one municipality in SFY 2018, with the exception that if there are remaining LSL PF funds available after the initial allocation, those funds will be equitably distributed to the municipalities with the highest 10% of documented private LSLs until all funds are awarded. In addition, private LSL PF awards will be capped at the lower amount of $5,000/private LSL or the amount identified in Table 5.

Municipalities did not request a specific amount of private LSL funding in their applications, instead the amount identified above was allocated to the municipality depending on which category was appropriate.

- **More Detailed Information is on our Website**

A webpage specific to private LSL replacement projects is available on the program website: http://dnr.wi.gov/Aid/documents/EIF/leadServiceLineFunding.html.

- **Prioritization and Allocation of Funds**

The existing Priority Scoring and Ranking Formula (PERF) does not adequately accommodate the private LSL replacement projects. The PERF ranks projects based on the project scope, which describes the problem being solved. For the LSL replacement program, the project scope will be the same for all LSL applications. The section of PERF scoring that could vary points for LSL projects is the Financial Needs Section. The Financial Needs Section awards 0 points to municipalities with a population above 10,000 or an MHI greater than 80% of the State's MHI. The Financial Needs Section is structured this way in recognition of the fact that, in larger municipalities, the cost of a traditional project is able to be spread among a larger number of users. In the case of private LSL projects, user fees cannot be used to cover the costs and thus the PERF ranking system is inappropriate to use for determining priorities for LSL program funding.

For the purpose of the private LSL Funding List as well as award of private LSL funding, the PERF score will not be used but instead the methodology noted above will be used.

D. Principal Forgiveness from Previous Years

All principal forgiveness from the FFY 2010 through 2015 grants has been awarded. All projects allocated PF on the SFY 2017 funding list (from the FFY 2016 grant) have either closed on loans or will close by the end of June. PF from the FFY 2016 grant in the amount of $348,489 has been rolled forward to the SFY 2018 list.

X. APPLICATION DEADLINE & DRAFT FUNDING LISTS

The SDWLP received 310 *Intent to Apply* (ITA) forms and PERFs totaling $553,865,439 in estimated project costs by the October 31, 2016 deadline. These numbers include 41 lead service line replacement projects totaling $71,403,244. 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 2018. An additional 10 ITA forms were received for projects that were ineligible or undetermined, as well as eight lead service line replacement ITAs that were repeats of projects funded in SFY 2017.

The application deadline for SFY 2018 funding was June 30, 2017. Forty-eight regular SDWLP applications totaling $103,649,442 in requested costs were received by the application deadline. An additional thirty private LSL replacement applications were received. The LSL Funding List and draft regular SDWLP Funding List have both been posted on the program website.

XI. 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 department has requested a total of $3,881,020 for WHP activities, including $416,714 that was transferred from source water assessment program (SWAP) funds.

The DNR is requesting an additional $382,287 from the FFY 2017 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 ($31,000).

- One wellhead protection project to be funded through the State's joint solicitation process: "Quantifying effects of crop rotation on nitrate loading using lysimetry and groundwater monitoring approaches" by the University of Wisconsin Stevens Point ($24,035)

- 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 Redesign	$16,000
Drinking Water/Groundwater Bureau Updater (Data Loader)	$16,000
GRN Updater (Data Loader)	$28,800
Groundwater Retrieval Network (web query rewrite)	$37,500
Total data management and mapping request for SFY 2018	$98,300

- 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, groundwater and agricultural modeling are being deployed at each site. Incentives and innovative institutional arrangements are 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 ($228,952).

The total cost of these activities is:

Groundwater teacher workshops and video production	$31,000
Contracts for research and monitoring projects (above)	$24,035
Data management and mapping applications	$98,300
Incentivized Watershed Intervention Approach	$228,952
Total set-aside request	$382,287

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 $6,931,010 has been requested prior to SFY 2018.

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: 1) conducting annual site visits, 2) collecting drinking water quality samples, and 3) 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 2017, the DNR entered into 41 contracts covering 51 counties with approximately 6,813 TNC systems. For calendar year 2018, the department is planning to continue the program at the same level. In addition, the DNR is planning to contract for development of a web-based GeoCortex viewer that will allow county contract coordinators to view TNC well source water areas and potential contaminant source locations and to obtain additional information from department databases about these features. The DNR is requesting $1,201,422 for TNC sampling and inspection and $15,000 for development of a web-based viewer.

For SFY 2018, the DNR is planning to begin a new grant program to improve Technical, Managerial, and Financial (TMF) capacity at Small Municipal or Other-than-Municipal (OTM) community water systems. This new program will allot a total of $100,000 to be awarded in small amounts (up to $10,000 per system to eligible Small Municipal or OTM systems to conduct planning studies or infrastructure improvements to help improve their TMF capacity. These awards will only be provided to Small Municipal or OTM water systems that demonstrate TMF capacity will be improved through implementation of the project. Additionally, asset management milestones must be achieved to guarantee future compliance with SDWA requirements

In total, the DNR is requesting $1,316,422 from the FFY 2017 Capitalization Grant for activities under this set-aside, bringing total funds requested under this set-aside to $8,247,432.

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 2017, the State of Wisconsin has requested $5,762,652 in set-aside funds for this purpose. The department is requesting an additional $240,080 from the FFY 2017 Capitalization Grant to fund the following technical assistance activities.

The DNR contracts for delivery of a technical assistance program for 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.

The primary reference and study guide used by the certified operators of these small water systems is the *Small System Operator Certification Manual*. The most recent edition of the *Manual* is now out-of-print and out-of-date. The department plans to contract for a comprehensive review and revision of the *Manual* during the coming year. The revised edition will incorporate all recent rule changes along with all necessary updated/new information about water system operation, treatment, contaminants and monitoring. The goal of this project is to protect public health by ensuring that certified small system operators are adequately trained and have the information needed for effective, efficient and safe operation of these water systems.

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 $2,351,220 from the FFY 2017 Capitalization Grant is being requested for SPM. The amount requested includes $914,020 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 new 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). Sixteen 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) (Currently staffed): 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) (currently staffed): 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 (2) (currently staffed): Responsible for review of plans and specifications for community water systems for compliance with construction requirements of ch. NR 811, Wis. Adm. Code, review of 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 (8) (7 currently staffed, 1 vacant): 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) (currently staffed): 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) (currently staffed): 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) (currently vacant): 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 16.5 positions is $1,788,709 per year. Other program expenses are as follows:

- Computer replacement and upgrades: Total cost $10,000.
- Record keeping related to plans and specifications, administering the operator certification program, and conducting annual site visits at TNC systems (4 LTEs) (2 currently staffed, 2 currently vacant): Total cost per year $94,561.
- Contractual activities:
    - Large volume source water assessment monitoring under the Revised Total Coliform Rule (RTCR) – The department 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 department 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 department is contracting with the WSLH to coordinate monitoring data exchange - including facility names, locations, monitoring requirements, and monitoring results - between the department 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 need to obtain six hours of continuing education credit per three-year renewal cycle. The department 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 department 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 department 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 $215,250.
    - Record storage costs for plan approval decisions. Annual Cost $5,000.

In total, the department is requesting $2,351,220 from the FFY 2017 Capitalization Grant for activities under this set-aside. These funds will be expended across the year following expenditure of the FFY 2016 set-aside funds.

XII. PUBLIC PARTICIPATION PROCESS

The draft SDWLP IUP was posted for public comment on the DNR's Program Guidance web page on May 9, 2017. An e-mail notification was sent to a distribution list of approximately 1,800 recipients. Written comments on the draft IUP were taken through Wednesday, May 31, 2017. One comment was received.