DRINKING WATER STATE REVOLVING FUND
INTENDED USE PLAN
AND PROJECT PRIORITY LIST

STATE FISCAL YEAR 2017

JULY 1, 2016

MONTANA DEPARTMENT OF ENVIRONMENTAL QUALITY
Water Quality Division
Drinking Water State Revolving Fund
1520 East Sixth Avenue
P.O. Box 200901
Helena, MT 59620-0901
Phone: 406.444.6697
Fax: 406.444.6836
www.deq.mt.gov

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TABLE OF CONTENTS

1.0 Introduction 1
2.0 Long-Term Goals 2
3.0 Short-Term Goals 2
4.0 Project Priority List 3
4.1 Eligible Systems 4
4.2 Limitations on Individual Project Financing 4
5.0 Subsidies to Disadvantaged Communities 5
6.0 Anticipated Funding List 5
7.0 Criteria and Method Used for Distribution of Funds 8
8.0 Summary of Ranking Criteria for DWSRF Priority List 9
9.0 Financial Status 9
10.0 Uses of the Drinking Water Revolving Fund 10
11.0 Transfer of Funds between the WPCSRF and the DWSRF 14
12.0 Set-Asides 15
13.0 Administration 16
14.0 Technical Assistance for Small Communities 16
15.0 State Program Management 17
16.0 Capacity Development 19
17.0 Operator Certification 20
18.0 Public Water Supply Program (PWSP) 20
19.0 Source Water Assessment Program 21
19.1 Administration and Technical Assistance 21
19.2 Wellhead Protection Program - Local Assistance 21

APPENDIX 1: RANKING CRITERIA FOR DWSRF PRIORITY LIST
APPENDIX 2: DWSRF COMPREHENSIVE PROJECT LIST – SFY 2014
APPENDIX 3: GLOSSARY OF ACRONYMS AND INITIALIZATIONS

LIST OF TABLES

Table 1. DWSRF Projects Anticipated to Receive Funding FFY 2015 6
Table 2. Federal Grants and State Matches by FFY 10
Table 3. State DWSRF Set-Aside Activity 13
Table 4. DWSRF Program Funding Status 14
Table 5. Amounts Available to Transfer between SRF Programs 15

FINAL

Table 6. Montana's 1 to 1 Match Expenditures 18
Table A2-1. Numeric Project Priority List Ranking A2-6

FINAL

1.0 INTRODUCTION

The 1995 Montana Legislature created the drinking water revolving fund with the passage of HB493. In 1997, the Legislature amended the program with HB483 to make Montana law consistent with the reauthorization of the Safe Drinking Water Act (SDWA) passed in 1996. This legislation, now codified as Montana Code Annotated (MCA) 75-6-201, et seq., authorizes the Montana Department of Environmental Quality (DEQ) and the Montana Department of Natural Resources and Conservation (DNRC) to develop and implement the program, and it established the Drinking Water State Revolving Fund (DWSRF) Advisory Committee.

The Advisory Committee consists of one state representative, one state senator, one member representing the Montana League of Cities and Towns, one county commissioner representing the Montana Association of Counties, one representative from DNRC and one representative from DEQ. The Committee advises DEQ and DNRC on policy decisions that arise in developing and implementing the DWSRF, and it reviews the program's Intended Use Plan (IUP). The DWSRF is administered by DEQ and DNRC and is similar to the Water Pollution Control State Revolving Fund (WPCSRF).

The DWSRF program received U.S. Environmental Protection Agency (EPA) approval and was awarded its first (Federal Fiscal Year [FFY] 1997) capitalization grant on June 30, 1998. The FFY 1998 through 2016 capitalization grants have subsequently been awarded. DEQ will likely apply for at least portions of the FFY 2017 grant later in State Fiscal Year (SFY) 2017.

The program offers below-market loans for construction of public health-related infrastructure improvements as well as provides funding for other activities related to public health and compliance with the SDWA. These other activities, or set-asides, include administration of the DWSRF program, technical assistance to small communities, as well as financial and managerial assistance, source water protection (SWP) activities, operator certification and assistance with administration of activities in the Public Water Supply Program (PWSP).

As the primacy agency responsible for implementation of the SDWA, DEQ is also responsible for the oversight of the State Revolving Fund (SRF) program. This role consists primarily of providing technical expertise, while DNRC provides financial administration of project loans and oversees the sale of state General Obligation (GO) bonds. The majority of the funds for this program come to Montana in the form of capitalization grants through EPA. Montana provides the required 20% matching funds by issuing state GO bonds. Interest on the project loans is used to pay the GO bonds, thus using no state general funds to operate the program. The repaid principal on the project loans is used to rebuild the DWSRF loan fund and to fund additional projects in the future. The federal capitalization grants were only authorized through FFY 2004; however Congress continues to appropriate funding for the program. Federal and state law requires the DWSRF to be operated in perpetuity.

The 1996 Amendments to SDWA include requirements for each state to prepare an annual IUP for each capitalization grant application. This is the central component of the capitalization grant application, and describes how the state will use the DWSRF to meet SDWA objectives and further the protection of public health. The IUP contains the following elements:

1. Short and long-term goals of the program.
2. Project priority list, including description and size of community.

3. Criteria and method used for distribution of funds.
4. Description of the financial status of the DWSRF program.
5. Amounts of funds transferred between the DWSRF and the WPCSRF.
6. Description of the set-aside activities and percentage of funds, that will be used from the DWSRF capitalization grant, including DWSRF administrative expenses allowance, PWSP support, technical assistance, etc.
7. Description of how the program defines a disadvantaged system and the amount of DWSRF funds that will be used for this type of loan assistance.

As required, DEQ has prepared this IUP and is providing it to the public for review and comment prior to submitting it to EPA as part of its next capitalization grant application. Additionally, pursuant to state law, after public comment and review, DEQ will submit the IUP and a summary of public comments to the Advisory Committee for review, comment and recommendations.

2.0 Long-Term Goals

1. To maintain a permanent, self-sustaining SRF program that will serve as a cost-effective, convenient source of financing for drinking water projects to ensure SDWA compliance and sustainable infrastructure in Montana.
2. To provide a financing and technical assistance program to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water.

3.0 Short-Term Goals

1. To continue implementation and maintain the DWSRF program in Montana.
2. To fund projects that address specific and immediate requirements of the SDWA, including the Disinfectant/Disinfection By-Products, Long Term 2 Enhanced Surface Water Treatment, and Arsenic Rules. Montana anticipates funding at least six projects to address these rules in SFY 2017.
3. To fund projects that promote regionalization and/or achieve consolidation of two or more existing public water supplies, thereby improving water quality. Montana expects to fund three consolidation projects in SFY 2017.
4. To fund projects that address replacement of aging infrastructure. Montana anticipates funding at least 12 projects of this type in SFY 2017.
5. To fund projects that develop system sustainability through financial capacity by refinancing existing debt. At least two refinancing loans are expected in SFY 2017.
6. To ensure the technical integrity of DWSRF projects through the review of planning, design plans and specifications, and construction activities.
7. To provide outreach to communities and utilize the set-aside funding by:
    a. providing technical assistance to water supplies who request help with their system operation and maintenance procedures.
    b. providing financial and managerial assistance as part of capacity development education to those water supplies who request this type of help.
    c. assisting communities with the next phase of implementation of their Source Water/ Wellhead Protection Plans.

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d. emphasizing that PWSP staff perform sanitary surveys; facilitate SDWA compliance of the Long Term 2 Enhanced Surface Water Treatment, Stage 2 Disinfectant/Disinfection By-Products, Groundwater, and Arsenic Rules.
e. ensuring that 95% or more of the state's community and non-transient non-community water systems continue to have certified operators.

8. To ensure the financial integrity of the DWSRF program through the review of the financial impacts of the set-asides and disadvantaged subsidies and individual loan applications and the ability for repayment.
9. To ensure compliance with all pertinent federal, state, and local safe drinking water rules and regulations.

In SFY 2017, Montana expects to execute 23 new binding commitments, and close 23 loans totaling approximately $52 million in drinking water infrastructure projects that will serve a total population of approximately 147,959. (Please see Anticipated Funding List, **Section 6.0**).

Through SFY 2016, Montana's DWSRF fund utilization rate (cumulative loan agreement dollars to the cumulative funds available for projects) was approximately 76.9% ($231.2M in non-American Recovery and Reinvestment Act (ARRA) loans to $300.5M available funds). In the coming SFY 2017, we anticipate our pace to be approximately 89.0% ($283.5M in expected loans to approximately $318.6M in funds available for projects.)

In SFY 2016, the rate at which DWSRF projects progressed as measured by disbursements as a percent of assistance provided was approximately 93.8% ($216.9M in disbursements to $231.2M in non-ARRA loans), above the national average of 85%. In SFY 2017, the DWSRF program intends to maintain this construction pace at or above 90%.

It is anticipated that approximately 100 small public water systems will again receive on-site Technical Assistance through providers under contract with DEQ. In addition, it is expected that approximately another 25 public water systems will receive on-site Capacity Development assistance with financial and managerial issues through providers also under contract with DEQ.

The PWSP will continue to develop, maintain, and utilize the Safe Drinking Water Information System (SDWIS)/State database for compliance reporting; develop, maintain, and implement requirements for primacy of all primary SDWA contaminants, and perform approximately 350 engineering design reviews for proposed water system improvement projects. The Operator Certification program is planning to hold, sponsor, or participate in approximately 16 training workshops and administer approximately 300 certification exams.

Finally, the SWP program has previously completed all Source Water Delineation and Assessments reports, and will continue SWP Plan implementation in SFY 2017.

4.0 Project Priority List

To update its comprehensive project list, DEQ initially sent surveys to all community and non-profit non-community water systems in Montana. Approximately 870 public water supplies were originally contacted. DEQ and DNRC staff also confer with many of these systems on an on-going basis in an attempt to build as current of a comprehensive list as possible.

Systems that are in significant non-compliance with regulatory requirements must adopt a plan for returning to compliance as part of their DWSRF funding proposal (if the proposal does not intrinsically address this concern). Projects that primarily expand system capacity or enhance fire protection capabilities may not be eligible for funding unless public health or compliance issues also are addressed by the project.

Appendix 2 contains a comprehensive list of public water systems in Montana that have expressed interest in the DWSRF, that are planning capital improvement projects, or that have been identified as serious public health risks by DEQ. It is not anticipated that all of the projects in **Appendix 2** will use SRF funds. Some systems do not have major projects planned; the remainders expect to be proceeding with projects in the near future or next several years. Cost information is not always available, as some systems may have not completed the financing plans for their projects at the time they are added to the project list.

4.1 Eligible Systems

The SDWA allows DWSRF assistance to publicly and privately owned community water systems and nonprofit non-community water systems, other than systems owned by Federal agencies. Federal Regulations also set forth certain circumstances under which systems that will become community water systems upon completion of a project may be eligible for assistance. The SDWA requires that loan recipients must demonstrate the technical, financial, and managerial capacity (TFM) to comply with the SDWA and not be in significant noncompliance with any requirement of a national primary drinking water standard or variance. The DEQ and DNRC will assess TFM and compliance in accordance with Chapter One of their Handbook of Procedures after loan applications have been received. Those systems lacking in TFM or compliance may still be eligible for a loan if the loan will address the non-compliance, or the system agrees to undertake feasible and appropriate changes in operations, which may include changes in ownership, management, accounting, rates, maintenance, consolidation, alternative water supply or other procedures as an enforceable term of the loan agreement or pursuant to an enforceable Administrative or Court Order. (Please also see discussion of Capacity Development, **Section 16.0**.)

Due to recent significant population growth in Montana and the expansion of water and sewer services to accommodate that growth, both the WPCSRF and DWSRF programs have modified and continue to implement growth policies which address the eligibility of certain types of projects to receive SRF funding.

4.2 Limitations on Individual Project Financing

DEQ, DNRC and the DWSRF Advisory Committee have previously discussed at length whether to attempt to limit the total amount of loans available to any one project and if so, how. The Committee determined that should the actual demand for funds during the period of time covered by an IUP exceed the funds available for that same period, then the maximum amount of loan funds available to any one project could not exceed either $5 million or 50% of the total capitalization grant amount for that period. Actual demand is not known until applications are received from those projects ready to proceed within the timeframe of a particular capitalization grant. At that point, DEQ and DNRC, in consultation with the Advisory Committee determine whether the limit on individual projects should be applied in that round. To date, no limitations have been placed on the amount of the loan applications.

5.0 Subsidies to Disadvantaged Communities

Communities seeking a DWSRF loan that meet the disadvantaged community criterion listed below may receive an additional subsidy on their SRF loans, beyond the standard below-market rate financing, in the form of some principal forgiveness. This includes communities that will meet the disadvantaged criterion based on projected rates as a result of the project.

A community is considered economically disadvantaged when its combined annual water and wastewater system rates are greater than or equal to 2.3% of the community's Median Household Income (MHI). If the community has only a water system, the percentage is 1.4% of the community's MHI. These percentages are consistent with affordability requirements for other state funding agencies in Montana. The water and sewer rates used for this calculation include new and existing debt service and required coverage, new and existing operation and maintenance charges, and normal depreciation and replacement expenses.

To assist these economically disadvantaged communities, the DWSRF loan program will provide to qualifying communities 50% principal forgiveness of the loan amount, up to a maximum of $500,000. The regular interest rate will apply to the balance of the loan. Only one principal forgiveness subsidy, up to $500,000 total, will be allowed per project. Projects with the highest user rates relative to MHI will be given priority status. Refinancing of existing debt is not eligible for principal forgiveness. SRF funding must be utilized to include actual project construction and not just for preliminary or design engineering only. A project must be ready to proceed to construction. That is defined to include having all required permits and approvals, complete project funding in place, and in a position to advertise for bids and make a contract award.

The total amount of principal forgiveness that the DWSRF may make under the FFY 2016 capitalization grant will be limited to 30% of that capitalization grant. This measure is taken to ensure that the corpus of the DWSRF fund will be maintained and thus that the program will be able to operate in perpetuity, while still providing some additional assistance to economically disadvantaged communities. If any capitalization grant funds are transferred to the WPCSRF program, the corresponding principal forgiveness amount (30%) will also be transferred. Qualifying disadvantaged communities also are eligible for extended loan terms of up to 30 years, provided the loan term does not exceed the design life of the project.

6.0 Anticipated Funding List

DEQ became eligible to apply for the FFY 2016 federal capitalization grant on October 1, 2015, and this grant has subsequently been awarded. It is anticipated that we will apply for the FFY 2017 grant later in SFY 2017.

Montana matches its federal capitalization grant by 20% using state GO bonds, which would result in an 83/17 federal to state ratio in total. Since set-aside activities are funded entirely by federal grant funds, it leaves a lesser amount of federal funds, combined with all of the state match funds, to be used on projects. Montana also periodically deposits DWSRF fees into the fund to also be used for match. The entire state match for the current federal grant has already been deposited into the SRF fund and disbursed on eligible activities. Therefore, all cash draws in FY16 will be at a 100% federal proportion.

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During SFY 2017, the State of Montana will continue to issue state match bonds and sweep excess SRFfees, and deposit both sources of match into the SRF to be used for projects. These funds will be used to match future federal grants.

Table 1 contains those projects that the DWSRF program anticipates will be funded with the FFY 2016 and previous capitalization grants, in conjunction with the 20% state match. This list represents those projects most likely to proceed, starting from the highest ranked projects on the comprehensive priority list (see discussion of ranking criteria in **Appendix 1**). Projects that qualify for potential principal forgiveness are indicated with a "P" beside the proposed project cost. It is possible that, if other projects are ready to proceed before those on this list, the actual projects that are ultimately funded may vary from those indicated on this list. This did occur during calendar years 1998 through 2015. It is expected to happen again due to the high variability in project schedules, needs, other funding sources, etc.

Table 1. DWSRF Projects Anticipated to Receive Funding FFY 2016

Priority Rank	Project	Project Information	SRF Cost
4	Ronan	Population: 1871. Construct water treatment plant improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$1,000,000 P
6	Upper/Lower River Road W&SD	Population: 1075. Construct phase 5 of distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$290,000 P
7	Pinesdale	Population: 917. Assist with construct new membrane filtration plant. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$475,000 P
9	Yellowstone Boys and Girls Ranch WSD	Population: 350. Construct transmission main and storage tank improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$620,500
11	Flaxville	Population: 71. Construct nitrate treatment improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$45,000 P
12	Dry-Redwater Regional Water System	Population: 100. Construct next phase of distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$155,000
14	Helena	Population: 28,190. Construct improvements at the Ten Mile water treatment plant and construct distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$950,000 P
16	North Central Montana Regional Water System	Population: 16,652. Total project cost: approx. $218,000,000; expected total SRF portion approx. $7,720,000.Continue construction of extensive distribution system. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project	$660,000 P

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Table 1. DWSRF Projects Anticipated to Receive Funding FFY 2016

Priority Rank	Project	Project Information	SRF Cost
		is expected to include federally assisted funds.	
18	Laurel	Population: 6718. Construct new intake structure and sedimentation basin improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$5,100,000
39	Great Falls 4	Population: 58,505. Construct water treatment plant improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$25,000,000
63	Sheridan	Population: 685. Construct new storage tank and distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$618,000
70	Malta	Population: 1997. Construct distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$4,940,000 P
80	Winifred	Population: 208. Construct new storage tank and pump station improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$215,500 P
82	Bigfork WSD	Population: 2550. Construct new storage tank and transmission main. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$3,116,000
96	Circle	Population: 615. Construct distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$305,000
100	Harlowton	Population: 997. Construct distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to consist of federally assisted funds.	$758,000
103	Conrad	Population: 2,570. Construct distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to consist of federally assisted funds.	$1,660,000 P
111	Kalispell	Population: 19,927. Construct distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds.	$3,936,000
114	Roundup	Population: 1880. Construct distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to include federally assisted funds	$240,000 P
119	Fort Benton	Population: 1464. Construct new storage tank. Expected loan terms are 2.50% interest over a 20-year	$907,000 P

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Table 1. DWSRF Projects Anticipated to Receive Funding FFY 2016

Priority Rank	Project	Project Information	SRF Cost
		period. Funding for this project is expected to include federally assisted funds.	
124	Bainville	Population: 153; Storage and distribution improvements, in conjunction with joining Dry Prairie Regional Water System. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to consist of state funds.	$773,000 P
131	Medicine Lake	Population: 269. Refinance existing debt, in conjunction with joining Dry Prairie Regional Water System (no. 17 above). Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to consist of state funds.	$250,000
135	Froid	Population: 195. Refinance existing debt, in conjunction with joining Dry Prairie Regional Water System. Expected loan terms are 2.50% interest over a 20-year period. Funding for this project is expected to consist of state funds.	$250,000
		Project Total	**$52,264,000**

7.0 Criteria and Method Used for Distribution of Funds

The SDWA amendments of 1986 and 1996 imposed many new regulatory requirements upon public water suppliers. Public health and compliance problems related to these requirements, affordability, consolidation of two or more systems, and readiness to proceed all were considered in developing Montana's project ranking criteria.

DEQ initially proposed balancing these factors, with slightly more emphasis placed on health and compliance and less on affordability and readiness to proceed. In discussions with EPA and with our state's DWSRF Advisory Committee, it became clear that health risks and compliance issues needed to be given even more emphasis, and that readiness to proceed could be eliminated and handled through bypass procedures. (Please see **Appendix 1** for explanation of bypass procedures.)

Projects that address acute risks that are an immediate threat to public health, such as inadequately treated surface water, are given high scores. Proposals that would address lower risk public health threats, such as chemical contaminants present at low levels, are ranked slightly lower. Proposals that are intended to address existing or future regulatory requirements before noncompliance occurs also were given credit, and are ranked lower than projects with significant health risks.

The financial impact of the proposed project on the system users is considered as one of the ranking criteria. The communities most in need of low interest loans to fund the project are awarded points under the affordability criterion (see **Appendix 1**).

In addition to the limitations on financing for individual projects discussed earlier in this plan, DEQ is required annually to use at least 15% of all funds credited to DWSRF account to provide loan assistance

to systems serving fewer than 10,000 people, to the extent there are a sufficient number of eligible projects to fund.

A summary of the ranking criteria and scoring is listed below. The complete set of scoring criteria is attached to this plan as **Appendix 1**.

8.0 Summary of Ranking Criteria for DWSRF Priority List

1. Documented health risks
   a. Acute health risks - 120 points maximum
   b. Non-acute health risks - 60 points maximum

2. Proactive compliance measures - 50 points maximum

3. Potential health risks
   a. Microbiological health risks - 25 points maximum
   b. Nitrate or nitrite detects - 25 points
   c. Chemical contaminant health risks - 20 points maximum

4. Construction of a regional public water supply (PWS) that would serve two or more existing PWSs - 20 points

5. Affordability - 20 points maximum

9.0 Financial Status

The discussion and table on the following pages summarize the DWSRF expenditures to date and outline financial projections and assumptions for the future. The narrative addresses the project loan fund and the table summarizes the set-aside or non-project activities. The individual capitalization grants and corresponding state match for each FFY are listed below (**Table 2**).

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Table 2. Federal Grants and State Matches by FFY

FFY	Federal Grant	State Match
1997	$14,826,200	$2,965,240
1998	$7,121,300	$1,424,260
1999	$7,463,800	$1,492,760
2000	$7,757,000	$1,551,400
2001	$7,789,100	$1,557,820
2002	$8,052,500	$1,610,500
2003	$8,004,064	$1,600,820
2004	$8,303,100	$1,660,620
2005	$8,285,500	$1,657,100
2006	$8,229,300	$1,645,860
2007	$8,229,000	$1,645,800
2008	$8,146,000	$1,629,200
2009	$8,146,000	$1,629,200
2010	$13,573,000	$2,714,600
2011	$9,418,000	$1,883,600
2012	$8,975,000	$1,795,000
2013	$8,421,000	$1,684,200
2014	$8,845,000	$1,769,000
2015	$8,787,000	$1,757,000
2016	**$8,312,000**	**$1,662,400**
TOTAL	**$176,683,864**	**$35,336,380**

10.0 Uses of the Drinking Water Revolving Fund

The DWSRF may be used to:

1. Provide low interest loans to communities for cost-effective drinking water treatment systems, source developments and improvements, finished water storage, and distribution system improvements. The low interest loans can be made for up to 100% of the total project cost. At the beginning of SFY 2017 approximately $231.2 million in loans (non-ARRA) have been made to communities in Montana. All of these loans have had a total loan interest rate of 4% or less. Beginning July 1, 2003, interest costs decreased to a total loan interest rate of 3.75% or less. Beginning July 1, 2012, interest costs decreased to a total loan interest rate of 3.00% or less. Beginning July 1, 2014, interest costs decreased to a total loan interest rate of 2.50% or less.

   Program interest rates are evaluated and set annually. To establish the program interest rate, several items are considered, including the costs of the state's match. The ability to provide a lowest possible cost is also a consideration in setting the interest rate. In SFY 2017, the program provides principal forgiveness for a portion of the loan to help some economically struggling communities. The financial advisor also provides information to help the program provide interest rates below the market rate.

2. Refinance qualifying debt obligations for drinking water facilities if the debt was incurred and construction initiated after July 1, 1993. At the beginning of SFY 2017 approximately $21,116,845 of debt has been refinanced through this program;

3. Guarantee or purchase insurance for local debt obligations. At the beginning of SFY 2017 no loans have been made for this purpose;

4. Provide a source of revenue or security for GO bonds and Bond Anticipation Notes (BANs), the proceeds of which are deposited in the revolving fund. At the beginning of SFY 2017 $2,100,000 has been provided for this purpose. There is a 0.25% loan loss reserve surcharge included as part of the 2.5% interest rate. The use of the surcharge is to pay principal and interest on state GO Bonds if the Debt Service Account is insufficient to make payments. This is to secure $4,290,000 in State GO Bonds and $1,965,000 in BANs for a total of $6,255,000. The excess over the required reserve was transferred to the principle account to make loans;

5. Provide loan guarantees for similar revolving funds established by municipalities. At the beginning of SFY 2017 no loans have been made for this purpose;

6. Earn interest on program fund accounts; at the beginning of SFY 2016 our cash flow demonstrates this program will continue to be a strong source of loan funds once the federal grants are terminated. Interest income to date can be used to pay off program GO Bond debt and RANs. The projected interest of approximately $25,000 in SFY 2017 will be used to pay debt or make loans in the program;

7. Pay reasonable administrative costs of the DWSRF program not to exceed 4% (or the maximum amount allowed under the federal act) of all federal grants awarded to the fund. In addition to using DWSRF funds for administration, each loan has an administrative surcharge included in the 2.5% interest rate charged to borrowers. The surcharge is 0.25%. The revenue generated from this fee and surcharge, will be used for DWSRF administration costs not covered by the EPA grants after capitalization grants cease and pay for administration of recycled projects. At the beginning of SFY 2016, there was approximately $934,551available for this purpose. Capitalization grants are approved by Congress every year and proposed reauthorizing legislation is currently projecting DWSRF funding through approximately FFY 2017. If needed, these administrative funds could be transferred to the principle account and used to make loans.

Any unused administrative funds will be banked, i.e., placed in an account and used for administration in future years, after federal capitalization grants are no longer available and the program must rely solely on revolving funds.

Currently, federal capitalization grants were only authorized through FFY 2004. However, as mentioned above, Congress has continued to appropriate funds each year and continues to propose draft legislation that would reauthorize funding in the future. When capitalization grants are no longer available, the program is expected to be capitalized and to operate on its own revenue.

One option available to states is to use the federal funds to leverage additional state bond funds. This makes available more money to meet high demands, but it increases the financing costs and thus the loan rate charged to communities and districts. DEQ and DNRC still do not recommend using the program in this manner at this time, and do not currently foresee changing to a leveraged approach. The two departments previously explained the leveraging option to the Advisory Committee and to the people attending the 1997 public hearings, along with their recommendation not to pursue leveraging.

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The advisory committee concurred, and general agreement with this recommendation was expressed at each hearing.

The impacts of funding decisions on the long term financial health of the DWSRF are evaluated frequently during the course of the fiscal year. Prior to the application for a capitalization grant, DEQ program staff review and establish the requested set-aside amounts. The total set-aside amounts for the year are then considered in evaluating the status and availability of loan funds (see **Table 3**). The state does both short and long term cash flows. Each loan is evaluated and security is required to ensure that loans will be repaid to the fund. The long term cash flows extend over 20 years. This demonstrates there will be funding for future projects and that the fund will continue to grow.

DWSRF program funding status is shown in **Table 4**.

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Table 3. State DWSRF Set-Aside Activity

Set-Aside		Through FFY 2015 Grant	FFY 2016 Grant Set-Aside (for SFY 2017)	% of 2016 Grant	Total	Reserved Authority (year)	Reserved Authority Applied to Previous Grants	Total Remaining Authority Reserved
4% Administration		6,734,876	332,480	4%	7,067,356			0
10% State Program	Public Water Supply Supervision	8,287,020	617,200	7.4%	8,904,220	155,000 (2001) 92,930 (2006)	118,400 (2009) 95,000 (2011) 32,500 (2012)	2,030
	Source Water Protection	1,958,904	40,000	.5%	1,998,904			0
	Capacity Development	1,072,000	74,000	.9%	1,146,000	50,000 (2003)	50,000 (2012)	0
	Operator Certification	1,684,246	100,000	1.2%	1,784,246	70,000 (2001)	70,000 (2012)	0
Subtotal		*13,002,170*	*831,200*	*10%*	*13,833,370*			
2% Small System Technical Assistance		1,997,726	20,000	-	2,017,726	155,140 (2000) 155,782 (2001) 144,585 (2006)		455,507
15% Local Assistance	Loan Assistance for SWP							
	Capacity Development	838,900	332,800	4%	1,171,700			
	Source Water Assessment[a]	1,482,620	-	--	1,482,620			
	Wellhead Protection	1,147,900	42,500	.5%	1,190,400			
Total		**$25,204,192**	**$1,558,980**	**18.5%**	**$26,763,172**	**$823,437**	**$365,900**	**$457,537**

[a] *The SDWA only allowed funds for this activity to be set aside one time from the initial FFY 1997 capitalization grant. Montana elected to set aside the maximum allowable amount of $1,482,620 (10%).*

FINAL

Table 4. DWSRF Program Funding Status

	Projected thru SFY 2016	Projected for SFY 2017	Total
SOURCE OF FUNDS			
Federal Capitalization Grants	$176,683,864	$8,312,000	
Set-Asides (**Section 12.0**)	($25,204,192)	($1,560,000)	
Total to Loan Fund	**$151,479,672**	**$6,752,000**	**$158,231,672**
State Match			
Bond Proceeds	$35,336,380	$1,662,400	$36,998,780
Loan Loss Reserve Sweeps	$7,118,823	$150,000	$7,268,823
Loan Repayments	$93,338,857	$9,500,000	$102,838,857
Interest on Fund Investments	$1,936,560	$25,000	$1,961,560
Transfers from WPCSRF	$11,282,486	$0	$11,282,486
Total Source of Funds			**$318,582,118**
USE OF FUNDS			
Loans Executed			
Direct Loans	$231,200,000		$231,200,000
Transfer to WPCSRF	$19,130,213	$10,000,000	$29,130,213
Total Uses			$260,330,213
Funds Available for Loan			**$58,251,905**
Projected IUP Loans			
Direct Loans (SFY 2017)		$52,264,000	$52,264,000
Projected Balance Remaining			**$5,987,905**

11.0 TRANSFER OF FUNDS BETWEEN THE WPCSRF AND THE DWSRF

At the Governor's discretion, a state may transfer up to 33% of its DWSRF capitalization grant to the WPCSRF or an equal amount from the WPCSRF to the DWSRF. Transfers could not occur until at least 1 year after receipt of the first capitalization grant, which was June 30, 1999. This transfer authority was effective through FFY 2001. One-year extensions of this transfer authority were granted through Veterans Affairs, Housing and Urban Development, and Independent Agencies Appropriation Bill until the FFY 2006 appropriation bill, when the transfer provision was authorized indefinitely. In addition to transferring grant funds, States can also transfer state match, investment earnings, or principal and interest repayments between SRF programs.

There is an expectation that approximately $10 million in recycled funds will be transferred to the WPCSRF from the DWSRF programs in the SFY 2017. In the last 17 years funds have been transferred back and forth between the two programs.

Table 5 summarizes transfers to date, and funds still available for transfer.

FINAL

Table 5. Amounts Available to Transfer between SRF Programs

Year	Transaction Description	Banked Transfer Ceiling	Transferred from WPCSRF to DWSRF	Transferred from DWSRF to WPCSRF	DWSRF Funds Available for Transfer	WPCSRF Funds Available for Transfer
1997	DW Grant Award	$4,892,646	---	---	$4,892,646	$4,892,646
1998	DW Grant Award	7,242,675	---	---	7,242,675	7,242,675
1999	DW Grant Award	9,705,729	---	---	9,705,729	9,705,729
2000	DW Grant Award	12,265,539	---	---	12,265,539	12,265,539
2000	Transfer (2nd Rnd $)	12,265,539	4,750,328	-0-	17,015,867	7,515,211
2001	DW Grant Award	14,835,942	---	---	19,586,270	10,085,614
2001	Transfer (2nd Rnd $)	14,835,942	4,032,158	-0-	23,618,428	6,053,456
2002	DW Grant Award	17,493,267	---	---	26,275,753	8,710,781
2004	DW Grant Award	20,134,608	---	---	28,917,094	11,352,122
2004	Transfer (2nd Rnd $)	20,134,608	-0-	2,559,810	26,357,284	13,911,932
2005	Transfer (2nd Rnd $)	20,134,608	-0-	2,570,403	23,786,881	16,482,335
2005	Transfer (2nd Rnd $)	20,134,608	-0-	1,000,000	22,786,881	17,482,335
2005	DW Grant Awards	25,608,821	---	---	28,261,094	22,956,548
2006	Transfer (1st Rnd $)		-0-	5,000,000	23,261,094	27,956,548
2006	DW Grant Award	28,324,490	-	-	25,976,763	30,672,217
2007	DW Grant Award	31,040,060	-	-	28,692,333	33,387,787
2008	Transfer (2nd Rnd $)		2,500,000		31,192,333	30,887,787
2008	DW Grant Award	33,728,240			33,880,513	33,575,967
2009	Transfer (1st Rnd $)			5,000,000	28,880,513	38,575,967
2009	DW Grant Award	36,416,420			31,568,693	41,264,147
2009	DW ARRA Grant Award	42,851,420			38,003,693	47,699,147
2010	DW Grant Award	47,330,510			42,482,783	52,178,237
2011	Transfer (1st Rnd $)			3,000,000	39,482,783	55,178,237
2011	DW Grant Award	50,438,450			42,590,723	58,286,177
2012	DW Grant Award	53,400,200			45,552,473	61,247,927
2013	DW Grant Award	56,179,130			48,331,403	64,026,857
2014	DW Grant Award	59,097,980			51,250,253	66,945,707
2015	DW Grant Award	61,997,690			54,149,963	69,845,417
2016	DW Grant Award	64,740,650			56,892,923	72,588,377
2017	Transfer (2nd Rnd $)			10,000,000	$46,892,923	$82,588,377
Total			**11,282,486**	**29,130,213**		

12.0 SET-ASIDES

The DWSRF also is charged with funding certain provisions of the federal SDWA, through the use of "set-aside" accounts. States are given flexibility to set aside specified amounts of the federal drinking water capitalization grant for specific purposes outlined in federal law; also outlined in state law in MCA 75-6-201, et seq. These set-asides each have different purposes and conditions, and some are mandatory. Montana is continuing to fund the following set-asides, each of which is described in more detail in the following sections:

- Administration

- technical assistance for small communities
- capacity development
- operator certification
- PWSPs
- source water assessment -- program implementation and field data collection
- source water assessment -- wellhead protection program

13.0 ADMINISTRATION

DEQ set aside 4% of the FFY 2016 capitalization grant, or $332,480, for program administration, and is planning to set aside the full 4% (also estimated at $332,480) from the FFY 2017 grant. This will cover continued development of the program and the IUP, review of water system facilities plans, review of construction and bid documents, assistance and oversight during planning, design and construction, loan origination work, administering repayments, preparation of bond issuance, and costs associated with the advisory committee and the public comment process. This set-aside also will continue to fund one loan management position at DNRC, four engineering positions at DEQ, and one administrative support position at DEQ. These costs and new personnel were approved by the 1997 Montana Legislature.

Any funds that are set-aside for administration but not actually spent will be "banked;" i.e., they will be placed in an account and used for administration in future years, after federal capitalization grants are no longer available and the program must rely solely on revolving funds. Spending such funds is subject to approval of the Montana Legislature, although federal and bond restrictions will limit use of these funds to purposes related to this program. In recent years, actual program expenses have exceeded the maximum 4% cap grant funds for administration. Additional costs have been paid for with other DWSRF "state special administration" funds.

14.0 TECHNICAL ASSISTANCE FOR SMALL COMMUNITIES

This provision allows states to provide technical assistance to public water systems serving populations of 10,000 or less. The DWSRF program will continue to provide outreach to small PWS systems through an integrated approach designed to reach: (1) communities whose systems have chronic violations that threaten public health, (2) communities requesting help to correct operation and maintenance problems or to develop needed water system improvement projects, and 3) communities due for routine site visits by DEQ, to assist them with proper operation and maintenance procedures. These routine visits will be conducted with close coordination with and at the specific direction of the DEQ PWSP. These activities help achieve SRF program short and long term goals by providing technical expertise with system O&M and facilitating SDWA compliance.

Efforts focus on providing operation and maintenance (O&M) technical assistance to a large number of small systems throughout Montana. Services include help with source water problems, and systems for the treatment, pumping, storage, and distribution of safe drinking water. Technical assistance, including hands-on work as well as on-site training, can often correct difficulties and provide lasting benefits. Public health protection is enhanced through operator training and assistance and by providing immediate solutions to water system O&M problems. To augment long-term compliance and the continued delivery of safe drinking water, operators are given written information, including who can be

contacted for help with specific issues. In addition, written reports provide documentation and follow-up of the technical assistance effort to the water system operators, owners, and DEQ.

DEQ has contracted these services to a technical assistance provider within the state. Expenditures from this set-aside cover contractor salaries, travel expenses and costs related to reporting and follow-up activities, and DEQ contract administration and other small system technical assistance. The original contract was awarded to Midwest Assistance Program (MAP) to provide these services in June, 1999. By June 30, 2005, over 720 site visits were conducted at a total cost of approximately $718,200 under the original contract. In February 2005 a Request for Proposals (RFP) was issued to re-bid the contract and in July, 2005 a new contract was again awarded to MAP. Under this new contract, approximately 1,090 site visits were conducted in SFY 2006 to SFY 2012 at a total cost of approximately $820,500.

In April 2012 a new RFP was issued to solicit another technical assistance contract. Based on the outcome of this RFP, Rural and Tribal Environmental Solutions (RATES) was selected as the new contractor. This contract was renewed in SFY 2014, SFY 2015, and SFY 2016 and RATES completed 248 site visits by June 30, 2015 at a total cost of $132,115. RATES should complete an additional 75 technical assistance site visits by June 30, 2016.

Contract activities for SFY 2017 will be funded with set-aside balances from previous capitalization grants for technical assistance under this contract. An additional $20,000 was set aside from the FFY2016 capitalization grant for technical assistance work.

To determine the value and effectiveness of this set-aside, DEQ evaluates the program on a yearly basis. Evaluations are based on the contractor's written reports mentioned above and on a survey of water system personnel who have received technical assistance. These evaluations are used to identify positive results, or problems with the program, and to consider opportunities for improvement. The original contract with MAP was renewed annually from SFY 2000 to SFY 2005. The SFY 2006 contract with MAP was renewed annually from SFY 2007 to SFY 2012. The SFY 2012 contract with RATES was renewed in SFY 2013 to SFY 2016, and should be renewed in SFY 2017. The technical assistance contract will be reviewed annually with the option of renewing the contract if appropriate. Any significant changes would be discussed in future IUPs.

15.0 State Program Management

This group of set-asides consists of Capacity Development, Operator Certification, Public Water Supply Supervision (PWSS), and SWP. In addition to the state 20% match for the entire federal capitalization grant, DEQ is required to provide an additional 1 to 1 match for these four set-asides. Federal regulations allow that up to one half of that match can be shown from previous expenditures made in 1993. The other half of the match must be demonstrated from the most recent SFY expenditures. Montana set-aside$831,200 for State Program Management from the FFY 2016 grant. **Table 6** illustrates the State's 1 to 1 match expenditures. Please note that$1,546,388was available for match in SFY 2014, exceeding the federal requirement. A discussion of the individual set-aside activities follows after **Table 6**.

Table 6. Montana's 1 to 1 Match Expenditures

		FUND SOURCES		
State Fiscal Year End 1993		**FEDERAL**	**STATE MATCH**	**STATE EXCESS**
Activity	**R/C**			
Public Water Supply Program	2511/2512	738,559	246,186	
Drinking Water Fees	2512			203,526
Subdivisions	2515			173,061
Subdivision Supplemental	2518			101,731
Board Cert for Water and Wastewater Operators	2516			57,085
	TOTAL SFY 1993	**738,559**	**246,186**	**535,404**
		FUND SOURCES		
State Fiscal Year End 2015		**FEDERAL Performance Partnership Grant**	**STATE MATCH Performance Partnership Grant-25%**	**STATE MATCH for SRF Grant**
Activity	**Org Units**			
Public Water Supply Program - 02204	545811, 545819, 545820, 545831, 545832, 545840, 545842	1,350,000	337,500	
Subdivision Fees - 02418	546115, 546119, 546150, 546160			718,771
Drinking Water Fees - 02204	120520, 302824, 545812, 545819, 545830, 545841			680,662
Board Cert for Water and Wastewater Operators - 02420	545916, 545931			146,905
	TOTAL SFY 2015	**1,350,000**	**337,500**	**1,546,338**

FINAL

16.0 CAPACITY DEVELOPMENT

DEQ set aside $74,000 from the FFY16 capitalization grant for this activity. The 1996 Amendments to the SDWA allow states to use SRF funds to establish authority to enforce capacity requirements and to implement a capacity development strategy. The purpose of this effort is to ensure that all new and existing community and non-transient non-community PWS systems have the necessary TFM to comply with all of the primary requirements of the SDWA. EPA also requires that systems demonstrate adequate capability in these areas as a condition of approval for DWSRF loans.

The State could have lost substantial portions of successive capitalization grants if it did not develop and implement strategies to assist existing water systems with capacity development. The portions of the grants that could have been lost were 10% in SFY 2001, 15% in SFY 2002, and 20% of each subsequent year's funds. DEQ submitted its strategies to EPA in August 2000 in order to meet the October 1, 2000, deadline to avoid the withholding provisions. These strategies were then subsequently approved by EPA on October 10, 2000.

The strategies are a methodology used to identify and prioritize public water systems in need of improving TFM. (A complete copy of the capacity development strategies can be obtained from DEQ.) A part of these strategies include providing assistance to those systems by use of the set-aside funding. The state of Montana has over 1,900 public water supplies. Given the large number of systems and a shortage of staff with the requisite financial and managerial experience, DEQ has chosen to provide this assistance through contracted services. Through SFY 2016, contracted service providers have delivered in-depth financial and managerial assistance to approximately 282 public water systems at a total cost of approximately $1,042,000.
;cial and managerial assistance begins with telephone or written contact with the selected water system, followed by one or more on-site visits to evaluate the financial and managerial status of the system. Following the site visits, a written report is prepared and mailed to the system owner or manager, summarizing the observations and recommendations discussed during the evaluation. A copy of any written correspondence is also forwarded to DEQ.

This contract has been renewed annually. MAP was selected as the initial contractor, beginning work in March 2001. To comply with state procurement requirements, an RFP was issued in 2006 to allow MAP and other contractors the opportunity to continue providing these services to public water supplies. As a result of this process, MAP was again selected as the financial and managerial assistance provider. The contract with MAP expired on June 30, 2012, and another RFP was issued in the spring of 2012 to solicit a contractor to continue providing these services. As a result of that effort, RATES was selected to continue providing financial and managerial assistance. It is anticipated that these activities will be funded at a similar level from the FFY 2017 cap grant. The activities performed under this contract help achieve SRF program short and long term goals by providing financial and managerial expertise and facilitating SDWA compliance.

FINAL

17.0 Operator Certification

DEQ has a $100,000 set-aside from the FFY 2017 capitalization grant for this activity. These dollars will be used for personal services and operating expenses for staff in the Operator Certification Program. Set-aside funds are used to pay portions of the salary and benefits for full-time staff positions and the program manager and program operating expenses including organizing and providing training for certified operators on water system operations.

This program maintains the information for Montana certified water and wastewater operators, including operators for approximately 729 community systems and 286 non-transient non-community systems. These water and wastewater operators hold 3,489 certifications. Certification program activities will include public outreach, collection and processing of applications, collection and processing of exams and certification fees, training, administration of exams, monitoring of continuing education credits, compliance monitoring, and assistance with formal enforcement activities.

The changes made to the business processes and the testing processes in 2013 and 2014 will go forward in SFY 2017. The program has incorporated fully certified Association of Boards Certification (ABC) exams as a part of the operator certification. The funding to this contract will be increased for FY 2017.

18.0 Public Water Supply Program (PWSP)

The PWS administrative set-aside is for $950,000. This will fund salaries, benefits, and operating expenses for 1.85 administrative personnel (partial FTE [Full-Time Equivalent] of bureau chief, field section supervisor and fiscal) and 6.8 environmental science specialists assigned to the Helena, Billings, and Kalispell Offices. The positions have been previously funded through the set-aside grants SFY 2015, SFY 2016. The environmental science specialist positions assist in capacity development by providing technical assistance to water suppliers, performing sanitary surveys, operator training, and attend critical water system board meetings as requested to provide information and assistance. These positions also provided direct assistance to water suppliers in implementation of the Lead and Copper Rule, Phase 2/5 rules, Revised Total Coliform Rule, Consumer Confidence Report Rule, Long Term Enhanced Surface Water Treatment Rules, Filter Backwash Rule, Disinfection/Disinfection By-Products Rule, Radionuclide Rule, Long Term 2, Stage 2 Disinfection By-Product Rule, Groundwater Rule, and the State's ground water chlorination rule. The set-aside will also be used to fund database development expenses associated with implementation, upgrading to SDWIS PRIME; maintenance of SDWIS and the state database; the Montana State University Northern Montana Environmental Training Center training programs; specific contracted sanitary surveys for public water supplies. All of these activities help the PWSS Program achieve its overall goal of facilitating SDWA compliance by public water systems.

19.0 Source Water Assessment Program

19.1 Administration and Technical Assistance

Section 1452(g)(2)(B) of the SDWA allows Montana to set aside a portion of the capitalization grant to "administer or provide technical assistance through source water assessment programs." Set-aside funds in the amount of $40,000 from the FFY 2016 grant will be used in SFY 2017 to administer the Source Water Protection Program and to provide technical assistance to local communities in support of source water protection activities. The source water delineation and assessment reports are the basis upon which local source water protection plans are developed. This set-aside helps provide the assistance needed to utilize those technical reports.

The specific goals are to:

- Maintain and enhance public accessibility to spatial data essential to the local development of source water protection plans. In SFY 2016, DEQ is in the process of transitioning some of that data to in-house management to improve data quality and public access.
- Continue the project to improve PWS feature locational data in SDWIS State database by reconciling against source water assessments and sanitary surveys,
- Provide technical assistance and training to PWS operators, managers, and local officials in using source water delineation and assessment reports to develop local source water protection plans, this may include small grants to communities to support development of source water protection plans, to update source water protection area potential contaminant source (PCS) inventories, to implement components of a source water protection plan, or to better characterize a source water-related potential contaminant source.
- Develop and publish educational materials to provide outreach to communities on source water protection,
- Develop, review, or update source water assessment reports for new or existing public drinking water sources, and,
- Provide technical support to non-profit technical assistance providers (for example, Montana Rural Water, RATES, Midwest Assistance, Local Water Quality Districts) relating to source water protection plan development or implementation.

19.2 Wellhead Protection Program - Local Assistance

Section 1428 of the 1996 Amendments to the federal State Drinking Water Act (SDWA) requires primacy states to implement a program "*to protect wellhead areas within their jurisdiction from contaminants which may have any adverse effects on the health of persons."* Set-aside funds in the amount of $42,500 from the FFY 2016 grant will be used in SFY 2017 to administer the Wellhead Protection Program and to provide technical assistance to local communities in the development of source water protection plans. Effort continues on verify or improve PCS inventories and providing community outreach in the form of workshops on the operation and maintenance of wells and septic systems. Staff will continue to work with the Public Water Supply Section to further refine the understanding of ground water–surface water interaction and the hazard posed by on-site wastewater discharges or other PCSs.

The specific goals are to:

- Promote Source Water Protection and implementation of management practices to prevent degradation of state waters.
- Review source water protection plans submitted by PWSs and others,
- Provide input on hydrologic assessments for PWSs with GUDI potential,
- Review and update source water assessments where significant changes have occurred,
- Provide GW Basics training to PWS operators,
- Provide on-site groundwater and wastewater O&M workshops to citizens and others.

FINAL

APPENDIX 1: RANKING CRITERIA FOR DWSRF PRIORITY LIST

1. **Documented health risks**

   a. **Acute health risks - 120 points max.**

   Fecal coliform or other pathogens - two or more boil orders in any 12-month period. Risk must be documented as a reoccurring and unresolved problem that appears to be **beyond the direct control** of the water supplier.

   Surface Water Treatment Rule (SWTR) treatment technique violation - source must have been developed as an unfiltered supply, an inadequately filtered supply, Ground Water Under the Influence of Surface Water, and/or without adequate contact time **prior to the development of EPA** SWTR regulations that would have mandated improved treatment.

   Chemical contaminants (other than nitrate or nitrite) - risk must be documented as reoccurring and unresolved problem confirmed through quarterly sampling (or as determined by DEQ) that appears to be **beyond the direct control** of the water supplier. Contaminants must be present at levels exceeding Unreasonable Risk to Health (URTH) levels.

   Nitrate or nitrite Maximum Contaminant Level (MCL) violations - MCL violation must be confirmed through routine and check sampling as required by DEQ.

   <u>Guidance for ranking:</u> For unfiltered surface water, use 70% of max. Points in this category unless there have also been documented problems with turbidity, fecal contamination or disease outbreaks. Award an additional 10% of max points for each of the following: boil order resulting from a turbidity violation, fecal MCL violation, documented disease outbreak. If disease outbreak has been documented, award maximum points.

   For filtered surface water systems, a Contact Time violation without boil orders or fecal MCL violations, etc., should receive 50% of maximum points under this category. Award additional points for the additional violations.

   Example: an unfiltered surface water system has had turbidity violations resulting in a boil order, as well as a fecal MCL violation. There have been no documented disease outbreaks. The system would get 70% + 10% + 10% = 90% of max points in this category.

   b. **Non-acute health risks - 60 points max.**

   (Non-fecal) coliform bacteria - two or more Total Coliform Rule (TCR) (non-acute) MCL Significant Non-Compliances (SNCs) automatically qualify if the problem is documented as a regularly reoccurring and unresolved problem that is **beyond the direct control** of the water supplier.

   Man-made chemical contaminants - problem must be documented as a reoccurring and unresolved problem that is **beyond the direct control** of the water supplier. Contaminants must be present at levels that are above the Practical Quantification Limit (PQL), and less than the

FINAL

URTH level. Contaminants must be detected at least twice during quarterly monitoring in any 12-month period. MCL violations may or may not occur.

Natural chemical contaminants - problem must be documented as a reoccurring and unresolved problem through quarterly sampling (or as otherwise determined by DEQ) that is **beyond the direct control** of the water supplier. Contaminant levels must be confirmed as an MCL violation, but the averaged value of the violation must be less than the URTH level.

Guidance for ranking: Start with 50% of maximum points in this category for lead and copper or other chemical violations and go up or down in 10% increments depending on the severity of the problem.

2. **Proactive compliance measures - 50 points max.**

Improvements in infrastructure, management or operations of a public water system that are proactive measures to remain in compliance with current regulatory requirements, to ensure compliance with future requirements, or to prevent future, potential SDWA violations.

Guidance for ranking: If a system is reacting to an existing documented health violation under category 1a or 1b, it should receive no points under this category. Emphasis should be toward a deliberate proactive approach to potential health problems. A system with points awarded in this category typically will currently be in compliance with most or all SDWA regulations.

3. **Potential health risks**

   a. **Microbiological health risks - 25 points max.**

   Occasional but reoccurring detects of coliform bacteria resulting in one or less TCR (non-acute) MCL violation in any 12-month period.

   Reoccurring and unresolved problems with non-coliform growth that are beyond the direct control of the water supplier, and result in inconclusive coliform bacteria analyses.

   Water distribution pressures that routinely fall below 35 psi at ground level in the mains, or 20 psi at ground level in customers' plumbing systems. Problems must be the result of circumstances beyond the direct control of the water supplier.

   b. **Nitrate or nitrite detects - 25 points.**

   Occasional but reoccurring detects of nitrate or nitrite at levels above the MCL that occur once or less in a 12-month period. MCL violations are not confirmed by check sampling.

   c. **Chemical contaminant health risks - 20 points max.**

   Occasional but reoccurring detects of man-made chemical contaminants that occur once or less in any 12-month period. Levels must be above the PQL, but below the URTH level. MCL violations do not occur because of the presence of the contaminant is not adequately documented through check-sampling.

FINAL

Occasional but reoccurring detects of natural chemical contaminants (other than nitrate or nitrite) at levels above the MCL that occur once or less in a 12-month period. MCL violations are not confirmed by check sampling.

<u>Guidance for ranking:</u> No additional points should be given in this category for contaminants already addressed in categories 1 or 2. However, if a project scope includes remedies for different types of violations, it should receive points in each of the applicable categories.

4. **Construction of a regional public water supply that would serve two or more existing public water supplies - 30 points.**

Regionalization would increase the technical, managerial and/or financial capacity of the overall system, would result in some improvement to public health, or bring a public water system into compliance with the SDWA.

5. **Affordability (Only one applicable - maximum 20 points).**

Expected average household combined water and sewer user rates, including debt retirement and O&M are:

greater than 3.5% of MHI - 20 pts
between 2.5% and 3.5% (inclusive) of MHI - 15 pts
between 1.0% and 2.5% (inclusive) of MHI - 10 pts
1.0% or less of MHI - 5 pts

Expected average household user rates for water only, including debt retirement and O&M are:

greater than 2.6% of MHI - 20 pts
between 1.6% and 2.6% (inclusive) of MHI - 15 pts
between 0.1% and 1.6% (inclusive) of MHI - 10 pts
0.1% or less of MHI - 5 pts

DWSRF Priority List Bypass Procedures

If it is determined by DEQ that a project or projects are not ready to proceed or that the project sponsors have chosen not to use the DWSRF funds, other projects may be funded in an order different from that indicated on the priority list. If DEQ chooses to bypass higher ranked projects, it should follow the bypass procedure.

The bypass procedure is as follows:

1. DEQ shall notify, in writing, all projects which are ranked higher than the proposed project on the DWSRF priority list, unless it is known that a higher project will not be using DWSRF funds.
2. The notified water systems shall have 15 calendar days to respond in writing with any objections they may have to the funding of the lower ranked project.
3. DEQ shall address, within a reasonable time period, any objections received.

FINAL

EMERGENCY BYPASS PROCEDURES

If DEQ determines that immediate attention to an unanticipated failure is required to protect public health, a project may be funded with DWSRF funds whether or not the project is on the DWSRF priority list. DEQ will not be required to solicit comments from other projects on the priority list regarding the emergency funding.

FINAL

APPENDIX 2: DWSRF COMPREHENSIVE PROJECT LIST—SFY 2016

Table A2-1. Numeric Project Priority List Ranking

Rank No.	Total Points	Project Name	Description	Amount	Population
1	116	Denton	Water System Improvements	$3,000,000.00	255
2	104	Crow Tribe	Phase 4 Water System Improvements	$18,655,000.00	1522
3	104	Carter-Choteau Co. Water & Sewer District	New Water Treatment Plant	$1,000,000.00	200
4	99	Ronan	WTP Improvements	$1,000,000.00	1871
5	97.5	South Wind Water & Sewer District	Water System Improvements	$750,000.00	225
6	95	Upper/Lower River Road Water and Sewer	Connect to Great Falls	$2,103,036.00	1075
7	90	Pinesdale	Water Treatment Plant	$2,475,000.00	827
8	87.5	Neihart	New Intake, Storage Tank, and Distribution Improvements	$176,000.00	51
9	84	Yellowstone Boys & Girls Ranch WSD	Water System Improvements	$620,500.00	350
10	80	Neihart	Water System Improvements	$500,000.00	90
11	70	Flaxville	Nitrate Treatment Improvements	$45,000.00	71
12	70	Dry-Redwater Regional Water Authority	Distribution System Improvements	$155,000.00	100
13	70	Philipsburg 2	UV Treatment	$540,000.00	914
14	65	Helena	Tenmile Water Treatment Plant Improvements	$1,300,000.00	28190
15	65	Dry Prairie Regional Water System	Distribution Improvements	$1,000,000.00	24829
16	65	North Central Montana Regional Water System	Regional Water System	$180,000.00	45743
17	65	Central Montana Regional Water Authority	Construct Regional Water System	$0.00	7000
18	65	Laurel	Water Treatment Plant and System Improvements	$3,365,000.00	6718

FINAL

Table A2-1. Numeric Project Priority List Ranking					
Rank No.	Total Points	Project Name	Description	Amount	Population
19	60	Colstrip	Water Treatment Plant Improvements	$751,000.00	2214
20	60	Glendive	Treatment Plant, Storage and Distribution Improvements	$2,290,000.00	4729
21	57.5	Bynum-Teton Co. Water District	Water System Improvements	$500,000.00	45
22	56	Blue Cloud Subdivision	Arsenic Treatment	$50,000.00	50
23	55	Lewistown	Install Meters on Remaining	$550,000.00	6500
24	55	Hobson	New Water System	$150,000.00	230
25	55	Flathead Co. Water & Sewer District #1 Evergreen	Distribution	$132,513.00	4000
26	54	Lake Co. Transfer Station	Water System Improvements	$131,750.00	62
27	54	Sheavers Creek Water District/Woods Bay	Water System Improvements	$1,350,000.00	150
28	52.5	Fort Smith Water & Sewer District	New Well, Storage and Distribution System Improvements	$535,000.00	350
29	50	North Havre Water District	Distribution and Storage Improvements	$450,000.00	90
30	47.5	Oilmont Co. Water District	Extend Distribution System	$0.00	600
31	47.5	Deer Lodge	Well, Pump, Well House, Telemetry	$204,500.00	3375
32	47.5	Red Lodge	Treatment Plant Upgrades, Wells	$500,000.00	2255
33	45	Forsyth	Treatment Plant Upgrades	$27,192.00	2200
34	45	Custer Co. Water & Sewer District	Community Water System	$1,000,000.00	180
35	45	Melstone	New Well, Reverse Osmosis Treatment	$0.00	136
36	45	Firelight Meadows Subdivision	Corrosion Control and Disinfection	$30,000.00	500
37	45	Dutton	New Well	$0.00	447
38	45	White Sulphur Springs	New Storage Tank, Disinfection and Distribution Improvements	$2,560,000.00	984
39	45	Great Falls	Treatment Plant Improvements	$25,000,000.00	60000

FINAL

Table A2-1. Numeric Project Priority List Ranking					
Rank No.	Total Points	Project Name	Description	Amount	Population
40	45	Eureka	Connect Midvale W&SD	$532,000.00	1287
41	45	Tiber Co. Water District	Distribution, Telemetry, Controls	$0.00	300
42	45	Bridger Pines Water & Sewer District	Water System Improvements	$250,000.00	100
43	42.5	Miles City	(2) Treatment Plant, Storage	$1,950,000.00	8487
44	42	Hungry Horse Water District	Additional Storage and Distribution	$0.00	1000
45	40	Scobey	New Pumps, Controls, CL2	$140,000.00	1101
46	40	Sun Prairie Village Co. Water & Sewer District	Transmission Main, Storage, and Meters	$750,000.00	1483
47	40	Glendive	Distribution/Storage Improvements	$736,052.00	4802
48	37.5	Pleasant View Homesites	Storage and Distribution System	$420,000.00	82
49	37.5	Somers Co. Water & Sewer District	New Well, Additional Storage	$530,000.00	500
50	37.5	Sand Coulee Water District	Water System Improvements	$577,000.00	161
51	35.5	Dillon	Storage Reservoir, Distribution	$781,000.00	4050
52	35	Laurel	Water Treatment Plant Improvements	$950,000.00	6255
53	35	Fromberg	Water System Improvements	$147,000.00	486
54	35	Darby	Two Well Houses	$100,000.00	650
55	32.5	Thompson Falls	Transmission Main Replacement & Meters	$850,000.00	1313
56	32.5	Superior	Phase I Distribution System Improvements	$1,217,000.00	865
57	32.5	Judith Gap	Distribution System Improvements	$224,400.00	139
58	32.5	Libby	Distribution Improvements	$0.00	200
59	32.5	Ramsay Water & Sewer District	Water System Improvements	$165,000.00	100
60	32.5	Froid	New Storage Tank	$422,500.00	186
61	30	North Baker Water & Sewer District	Distribution System Improvements	$916,000.00	100
62	30	Loma Co. Sewer and Water District	Settling Pond	$100,000.00	495
63	30	Sheridan	Storage & Distribution Improvements	$618,000.00	685

FINAL

Table A2-1. Numeric Project Priority List Ranking					
Rank No.	Total Points	Project Name	Description	Amount	Population
64	30	Ekalaka	Distribution Improvements	$65,000.00	332
65	30	North Helena Valley Water & Sewer District	Consolidation of Existing PWSs	$0.00	5000
66	30	Ravalli Co.	Connection to Hamilton	$100,000.00	50
67	30	Cut Bank	Distribution Improvements	$229,000.00	3105
68	30	Wapiti Acres Water & Sewer District	New Well, Transmission Main, Storage Tank, S/L Meters	$377,000.00	41
69	30	Cascade	Distribution System Improvements	$735,000.00	685
70	30	Malta	Distribution & Well House Improvements	$6,100,000.00	2120
71	30	Fairview	Water System Improvements	$5,000,000.00	840
72	30	White Sulphur Springs	Distribution Improvements	$818,000.00	939
73	30	Valier	Water System Improvements	$900,000.00	469
74	30	Cooke City Water & Sewer District	Storage Tank and Distribution System Improvements	$1,000,000.00	300
75	30	Bainville	Distribution System Improvements	$1,500,000.00	208
76	30	Loma Co. Sewer and Water District	Treatment Plant Upgrade	$99,000.00	495
77	27.5	Troy	Replacement of Water Systems	$1,500,000.00	957
78	27.5	Pablo - Lake Co. Water & Sewer District	Distribution System Improvements	$157,000.00	1814
79	27.5	Martinsdale WUA (Water & Sewer District)	Water System Improvements	$100,000.00	100
80	27.5	Winifred	New Storage Tank & Distribution System Improvements	$215,500.00	208
81	27.5	Absarokee W&SD	Distribution System Improvements	$3,099,000.00	1100
82	27.5	Bigfork WSD	New Storage Tank & Transmission Main	$3,116,000.00	2550
83	27.5	Opheim	Storage Tank Improvements	$106,000.00	85
84	27.5	St. Ignatius	Water System Improvements	$155,000.00	825

FINAL

Table A2-1. Numeric Project Priority List Ranking					
Rank No.	Total Points	Project Name	Description	Amount	Population
85	27.5	Fort Peck Co. Water District	Distribution Improvements	$750,000.00	663
86	27.5	Fairfield	Distribution and Pump Control Improvements	$350,000.00	659
87	27.5	Stanford	Well and Distribution System Improvements	$90,000.00	401
88	25	Helena	West Side Service	$3,557,696.00	29000
89	25	Manhattan	Water System Improvements	$1,802,000.00	1396
90	25	Nashua	Distribution System Improvements	$150,000.00	296
91	25	Hot Springs	New Telemetry and SCADA	$75,000.00	544
92	25	Darby	Storage Tank, Additional Well	$0.00	650
93	25	Shelby	Distribution System Improvements	$1,321,200.00	3419
94	25	Ennis	New Well and Pumphouse	$200,000.00	1005
95	25	Flathead Co. Water & Sewer District #8	Water System Improvements	$1,194,000.00	480
96	25	Circle	Distribution System Improvements	$305,000.00	2570
97	25	Culbertson	Refinance Existing Debt	$207,535.00	716
98	25	Wilsall WSD	Storage Tank Improvements	$326,600.00	250
99	22.5	Whitefish	Distribution Improvements	$465,000.00	6357
100	22.5	Harlowton	Water System Improvements	$130,000.00	899
101	22.5	Three Forks	New Wells	$170,000.00	1845
102	22.5	Richey	New Storage Reservoir	$110,000.00	189
103	22.5	Conrad	Distribution System Improvements	$855,000.00	2570
104	22.5	Billings Heights Water District	Storage and Distribution System Improvements	$1,038,000.00	11418
105	22.5	Columbus	New Well	$320,000.00	1748
106	22.5	Lakeside Co. Water & Sewer District	New Storage Reservoir	$500,000.00	500
107	22.5	Seeley Lake	Storage Tank Improvements	$0.00	2000
108	22.5	Ryegate	Storage Tank Repairs	$158,000.00	245
109	22.5	Billings	Logan Storage Tank	$7,000,000.00	100000

FINAL

Table A2-1. Numeric Project Priority List Ranking					
Rank No.	Total Points	Project Name	Description	Amount	Population
110	20	Plains	Distribution Improvements and Service Meters	$420,000.00	1048
111	20	Kalispell	Distribution System Improvements	$3,936,000.00	19927
112	20	Helena	Distribution Improvements	$1,095,000.00	30000
113	20	Butte-Silverbow	Treatment Plant and Distribution Improvements	$7,414,000.00	33892
114	20	Roundup	Distribution System Improvements	$240,000.00	1880
115	20	Seeley Lake Water District	Distribution	$50,000.00	2000
116	20	Belgrade	Distribution System Improvements	$1,251,000.00	7323
117	20	Sidney	Storage and Distribution Improvements	$4,675,000.00	5191
118	20	Billings	Distribution System Improvements	$800,000.00	89847
119	20	Fort Benton	New Storage Tank	$907,000.00	1464
120	17.5	Flathead Co. Water & Sewer District #8	Additional Well	$85,000.00	490
121	17.5	Lewistown / Fergus Co. Fairgrounds	Distribution Improvements	$1,118,366.00	11586
122	15	Broadview	Water System Improvements	$175,000.00	150
123	10	Rexford	Refinance Existing Debt	$236,000.00	105
124	10	Bainville	Refinance Existing Debt	$326,000.00	153
125	10	Wolf Point	Refinance Existing Debt	$0.00	2621
126	10	Chinook	Refinance Existing Debt	$330,000.00	1203
127	10	Poplar	Refinance Existing Debt	$650,000.00	911
128	10	Hysham	Refinance Existing Debt	$200,000.00	330
129	10	Westby	Refinance Existing Debt	$15,592.00	172
130	10	Firelight Meadows Subdivision - Refinance	Refinance Existing Debt	$635,000.00	500
131	10	Medicine Lake	Refinance Existing Debt	$360,000.00	269
132	10	Outlook Water & Sewer District	Refinance Existing Debt	$0.00	123
133	10	Plentywood	Refinance Existing Debt	$0.00	2061
134	10	Brockton	Refinance Existing Debt	$0.00	245
135	10	Froid	Refinance Existing Debt	$221,000.00	195
136	10	Glasgow	Refinance Existing Debt	$1,374,203.00	3235

FINAL

Table A2-1. Numeric Project Priority List Ranking					
Rank No.	**Total Points**	**Project Name**	**Description**	**Amount**	**Population**
137	10	Geyser-Judith Basin Co. Water & Sewer District	Refinance Existing Debt	$0.00	299
138	10	Ryegate	Refinance Existing Debt	$0.00	268
139	10	Stanford	Refinance Existing Debt	$0.00	454
140	10	Nashua	Refinance Existing Debt	$60,000.00	325
141	7.5	Alberton	Storage and Distribution System Improvements	$0.00	374
			Total of All Amounts:	**$158,473,135.00**	

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APPENDIX 3: GLOSSARY OF ACRONYMS AND INITIALIZATIONS

Acronym	Definition
ARRA	American Recovery and Reinvestment Act (2009)
DEQ	Department of Environmental Quality (Montana)
DNRC	Department of Natural Resources and Conservation (Montana)
DW	Drinking Water
DWSRF	Drinking Water State Revolving Fund
EPA	Environmental Protection Agency (U.S.)
FFY	Federal Fiscal Year (begins October 1 and ends September 30)
FTE	Full-Time Equivalent
GO	General Obligation
IUP	Intended Use Plan
MAP	Midwest Assistance Program
MCA	Montana Code Annotated
MCL	Maximum Contaminant Level
MHI	Median Household Income
PCS	Potential Contaminant Source
PQL	Practical Quantification Limit
PWS	Public Water Supply
PWSP	Public Water Supply Program
PWSS	Public Water Supply Supervision
RAN	Revenue Anticipation Note
RATES	Rural and Tribal Environmental Solutions
RFP	Request for Proposals
SCADA	System Control and Data Acquisition
SDWA	Safe Drinking Water Act
SDWIS	Safe Drinking Water Information System
SFY	State Fiscal Year (begins July 1 and ends June 30)
SRF	State Revolving Fund
SWP	Source Water Protection
SWTR	Surface Water Treatment Rule
TCR	Total Coliform Rule
TFM	Technical, Financial, and Managerial Capacity
URTH	Unreasonable Risk to Health
WPCSRF	Water Pollution Control State Revolving Fund

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