

**DRINKING WATER
STATE REVOLVING FUND
Intended Use Plan and
Project Priority List**

State Fiscal Year 2014

July 1, 2013

Amended February 12, 2014

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**Montana Department of Environmental Quality
Drinking Water State Revolving Fund (SRF)
SFY 2014 Intended Use Plan**

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 passed in 1996. This legislation, now codified as MCA 75-6-201, et seq., authorizes the Department of Environmental Quality (DEQ) and the Department of Natural Resources and Conservation (DNRC) to develop and implement the program, and it established the Drinking Water SRF 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 Drinking Water SRF, and it reviews the program's Intended Use Plan (IUP). The Drinking Water SRF is administered by DEQ and DNRC and is similar to the Water Pollution Control SRF.

The Drinking Water SRF Program received EPA approval and was awarded its first (FFY 1997) capitalization grant on June 30, 1998. The FFY 1998 through the 2013 capitalization grants have subsequently been awarded. DEQ will likely apply for at least portions of the FFY 2014 grant later in state fiscal year 2014.

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 Safe Drinking Water Act (SDWA). These other activities, or set-asides, include administration of the Drinking Water SRF program, technical assistance to small communities, as well as financial and managerial assistance, source water protection 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 SRF Program. This role consists primarily of providing technical expertise, while DNRC provides financial administration of project loans and oversees the sale of state G.O. bonds. The majority of the funds for this program come to Montana in the form of capitalization grants through the U.S. Environmental Protection Agency. Montana provides the required twenty-percent matching funds by issuing state general obligation bonds. Interest on the project loans is used to pay the general obligation bonds, thus using no state general funds to operate the program. The repaid principal on the project loans is used to rebuild the Drinking Water SRF loan fund and to fund additional projects in the future. The federal capitalization grants were only authorized through federal fiscal year 2004; however Congress continues to appropriate funding for the program. Federal and state law requires the Drinking Water SRF to be operated in perpetuity.

The 1996 Amendments to SDWA include requirements for each state to prepare an annual Intended Use Plan (IUP) for each capitalization grant application. This is the central component of the capitalization grant application, and describes how the state will use the Drinking Water SRF 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. Priority list of projects, including description and size of community.
3. Criteria and method used for distribution of funds.
4. Description of the financial status of the Drinking Water SRF Program.
5. Amounts of funds transferred between the Drinking Water SRF and the Wastewater SRF.
6. Description of the set-aside activities and percentage of funds, that will be used from the Drinking Water SRF capitalization grant, including Drinking Water SRF administrative expenses allowance, PWSP support, technical assistance, etc.
7. Description of how the program defines a disadvantaged system and the amount of Drinking Water SRF 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 comment to the Advisory Committee for review, comment and recommendations.

LONG-TERM GOALS

1. To maintain a permanent, self-sustaining state revolving fund 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.

SHORT-TERM GOALS

1. To continue implementation and maintain the Drinking Water State Revolving Fund Program in Montana.
2. To fund projects that address specific and immediate requirements of the SDWA, including the Disinfectant/Disinfection Byproducts, Long Term 2 Enhanced Surface Water Treatment, and Arsenic Rules. Montana anticipates funding at least five projects to address these rules in SFY14.
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 two consolidation project in SFY14.
4. To fund projects that address replacement of aging infrastructure. Montana anticipates funding at least thirteen projects of this type in SFY14.
5. To fund projects that develop system sustainability through financial capacity by refinancing existing debt. At least three refinancing loans are expected in SFY14.
6. To ensure the technical integrity of Drinking Water SRF 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 Sourcewater/Wellhead Protection Plans.
 - d. emphasizing that Public Water Supply Program (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 Drinking Water SRF 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 14, Montana expects to execute 23 new binding commitments, and close 23 loans totaling approximately \$33,108,000 in drinking water infrastructure projects that will serve a total population of approximately 282,838. (Please see Anticipated Funding List, pg. 8).

Through SFY13, Montana's DWSRF fund utilization rate (cumulative loan agreement dollars to the cumulative funds available for projects) was approximately 82.3% (\$188.2M in non-ARRA loans to \$228.6M available funds). In the coming SFY14, we anticipate our pace to be approximately 93.4% (\$221.3M in expected loans to approximately \$244.8M in funds available for projects.)

In FY13, the rate at which DWSRF projects progressed as measured by disbursements as a percent of assistance provided was approximately 92.6% (\$174.2M in disbursements to \$188.2M in non-ARRA loans), above the national average of 85%. In FY2014, 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 MDEQ. 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 MDEQ.

The PWS Program will continue to develop, maintain, and utilize the 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 305 certification exams.

Finally, the Source Water Protection program has previously completed all Source Water Delineation and Assessments reports, and will continue SWP Plan implementation in SFY14.

PRIORITY LIST OF PROJECTS

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 Drinking Water SRF 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 Drinking Water SRF, 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.

Eligible Systems

The Safe Drinking Water Act (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 on page 24.)

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

Limitations on individual project financing

DEQ, DNRC and the Drinking Water SRF 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 Intended Use Plan 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 percent 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.

SUBSIDIES TO DISADVANTAGED COMMUNITIES

Communities seeking a Drinking Water SRF 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 percent of the community's Median Household Income (MHI). If the community has only a water system, the percentage is 1.4 percent 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 Drinking Water SRF 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. SRF funding must be utilized to include actual project construction and not just for preliminary or design engineering only. The total amount of principal forgiveness that the Drinking Water SRF may make under the FFY2013 capitalization grant will be limited to 30 percent of that capitalization grant.. This measure is taken to ensure that the corpus of the Drinking Water SRF 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.

GREEN PROJECTS

A new provision starting with the FFY2010 appropriations bill was that at least 20 percent of the capitalization grant must be used to fund green infrastructure projects as defined by EPA. These generally include projects that provide energy efficiency, water conservation, or other approved green infrastructure. This provision is not contained in the FFY 2013 appropriations bill. However, DEQ has elected to continue offering principal forgiveness to qualifying green projects to the extent that those funds are available.

To the extent that funds are available, projects that satisfy the EPA green project criteria may also be eligible for 50% principal forgiveness of the loan amount, up to a maximum of \$500,000. Only one principal forgiveness subsidy, up to \$500,000 total will be allowed per project. SRF funding must be utilized to include actual project construction and not just for preliminary or design engineering only.

ANTICIPATED FUNDING LIST

DEQ became eligible to apply for the Fiscal Year 2013 federal capitalization grant on October 1, 2012, and this grant has subsequently been awarded. It is anticipated that we will apply for the FFY14 grant later in SFY14.

Montana matches its federal capitalization grant by 20% using state general obligation 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. As a result, Montana has typically used a federal to state proportional ratio of 80:20 for funding projects. This 80 percent federal proportion is less than what the State of Montana could draw from federal funds for drinking water projects, which results in more match spent sooner than necessary. Periodically one federal draw of close to 100 percent is made to reconcile the federal and state match amounts.

The entire state match for current federal grants has already been deposited into the SRF and disbursed on eligible activities. Therefore, all cash draws in FY14 will be at a 100% federal proportion. During FY14, the State of Montana will continue to issue state match bonds and sweep excess SRF fees, and deposit both sources of match into the SRF to be used for projects. These funds will be used to match future federal grants.

The following list contains those projects that the Drinking Water SRF program anticipates will be funded with the FFY13 and previous capitalization grants, in conjunction with the 20 percent 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 as meeting the ‘green criteria’ are indicated with a “G” 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 2012. It is expected to happen again due to the high variability in project schedules, needs, other funding sources, etc.

Project and Priority Rank	Project Information	SRF Cost
5. South Wind W&SD	Population: 225. Construct water system improvements. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally-assisted funds.	\$750,000
7. Beaverhead-Jackson W&SD	Population: 36. Construct arsenic treatment, new storage and distribution system improvements. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally- assisted funds.	\$865,000
13. City of Helena	Population: 28,190. Construct backwash water treatment improvements at the Ten Mile water treatment plant. Expected loan terms are 3.00% interest over a 20 year period. Funding for this	\$1,300,000

<u>Project and Priority Rank</u>	<u>Project Information</u>	<u>SRF Cost</u>
	project is expected to include federally-assisted funds.	
14. Dry Prairie Regional Water System	Population: 27,829. Construct next phase of distribution system improvements. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally-assisted funds.	\$1,400,000
17. North Central Regional Water System	Population: 16,652. Total project cost: approx. \$218,000,000; expected total SRF portion approx. \$7,720,000. Begin construction of extensive distribution system. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally-assisted funds.	\$500,000
30. Bozeman	Population: 37,280. Continue next phase of new water treatment plant and system improvements. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include only state funds.	\$9,552,000
36. Elk Meadows W&SD	Population: 175. Construct distribution system improvements. Expected loan terms are 3.00% interest over a 20 year period. This project is expected to meet the green project criteria. Funding for this project is expected to include federally-assisted funds.	\$300,000G
40. Dutton	Population: 316. Transmission main replacement and storage improvements. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally-assisted funds.	\$310,000
45. Great Falls	Population: 58,505. Engineering for design of water treatment plant improvements. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally-assisted funds.	\$3,000,000
65. Libby	Population: 2628. Provide interim financing to construct distribution system improvements. Portions of this project are expected to meet the green project criteria. Expected loan terms are 3.00% interest over a 2 year period. Funding for this project is expected to include only state funds.	\$2,500,000G
72. Cascade	Population: 685. Construct distribution system Improvements. Expected loan terms are 3.00% interest over a 20 year period. This project is expected to meet the green project criteria. Funding for this project is expected to include federally-assisted funds.	\$735,000G

<u>Project and Priority Rank</u>	<u>Project Information</u>	<u>SRF Cost</u>
85. Belt	Population: 603. Construct new storage reservoir. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally assisted funds.	\$500,000
86. Fairfield	Population: 659. Install pump control improvements and construct distribution system improvements. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally-assisted funds.	\$570,000
92. Polson	Population: 4488. Construct distribution system improvements. Expected loan terms are 3.00% interest over a 20 year period. Portions of this project are expected to meet the green project criteria. Funding for this project is expected to include federally-assisted funds.	\$750,000G
102. Town of Nashua	Population: 296. Construct distribution system improvements. This project is expected to meet the green project criteria. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally-assisted funds.	\$150,000 G
105. Bigfork Co. W&SD	Population: 1200. Construct source and transmission main improvements. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally-assisted funds.	\$3,000,000
107. City of Billings	Population: 100,148. Construct new storage reservoir. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to include federally-assisted funds.	\$4,400,000
115. Ryegate	Population: 245. Construct new water storage reservoir. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to consist of state funds.	\$430,000
117. Three Forks	Population: 1869. Rehabilitation of the city's two water storage tanks, installation of 6200 lineal feet of water main, replacement of 300 water meters with radio read units, and upgrading of the SCADA system. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to consist of only state funds.	\$1,200,000
126. Broadview:	Population: 192. Construct water system improvements. Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is	\$100,000

<u>Project and Priority Rank</u>	<u>Project Information</u>	<u>SRF Cost</u>
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expected to consist of federally assisted funds.

128. Town of Bainville	Population: 153; Refinance existing debt, in conjunction with joining Dry Prairie Regional Water System (no.15 above). Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to consist of state funds.	\$326,000
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131. Town of Froid	Population: 195. Refinance existing debt, in conjunction with joining Dry Prairie Regional Water System (no.15 above). Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to consist of state funds.	\$250,000
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135. Town of Medicine Lake	Population: 269. Refinance existing debt, in conjunction with joining Dry Prairie Regional Water System (no.14 above). Expected loan terms are 3.00% interest over a 20 year period. Funding for this project is expected to consist of state funds.	\$250,000
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PROJECT TOTAL.....		\$33,108,000
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APPROXIMATE GREEN PROJECT TOTAL.....		\$4,435,000
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CRITERIA AND METHOD USED FOR DISTRIBUTION OF FUNDS

The Safe Drinking Water Act 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 Drinking Water SRF 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 by-pass procedures. (Please see Appendix 1, page 30, for explanation of by-pass 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 percent of all funds credited to Drinking Water SRF 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.

SUMMARY OF RANKING CRITERIA FOR DRINKING WATER SRF 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 that would serve two or more existing public water supplies - 20 points
5. Affordability - 20 points maximum

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 fiscal year are listed below.

<u>FFY</u>	<u>Federal Grant</u>	<u>State Match</u>
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
TOTAL	\$ 150,739,864	\$30,147,980

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 percent of the total project cost. At the beginning of FY14 approximately \$188.2 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 on July 1st, 2003, interest costs decreased to a total loan interest rate of 3.75% or less. Beginning on July 1st, 2012 interest costs decreased to a total loan interest rate of 3.00% 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 SFY14, the program provides principal forgiveness for a portion of the loan, or a reduced interest rate 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 FY14 approximately \$13,516,000 of debt has been refinanced through this program;
3. Guarantee or purchase insurance for local debt obligations. At the beginning of FY14 no loans have been made for this purpose;
4. Provide a source of revenue or security for general obligation bonds and Revenue Anticipation Notes (RAN), the proceeds of which are deposited in the revolving fund. At the beginning of FY14 \$1.05 million has been provided for this purpose. There is a 0.25% loan loss reserve surcharge included as part of the 3.00% interest rate for loans not qualifying for a hardship. The use of the surcharge is to pay principal and interest on state G.O. Bonds if the Debt Service Account is insufficient to make payments. This is to secure \$7,000,000 in State General Obligation Bonds and \$900,000 in Revenue Anticipation Notes (RANs) for a total of \$7,900,000. 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 FY14 no loans have been made for this purpose;
6. Earn interest on program fund accounts; at the beginning of FY13 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 G.O. Bond debt and RANs. The projected interest of approximately \$10,000 in FY14 will be used to pay debt or make loans in the program;
7. Pay reasonable administrative costs of the DWSRF program not to exceed four (4) percent (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 fee included in the principal and an administrative surcharge included in the 3.00% interest rate charged to borrowers. The fee is 0.575% and the surcharge is 0.75%. 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 FY14, there was approximately \$956,566 available for this purpose. Capitalization grants are approved by Congress every year and proposed reauthorizing legislation is currently projecting DWSRF funding through approximately FFY 2014. There is also a one (1) percent one time loan origination fee charged at loan closing. If needed, these administrative funds could be transferred to the principle account and used to make loans.

For SFY05 through SFY13, and again in SFY14, DEQ and DNRC have determined that the 0.575% administrative fee (surcharge) and the 1% loan origination fee can be waived. This determination will be reviewed at the beginning of each state fiscal year in the future.

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 FFY04. 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. 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. 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.

**DRINKING WATER REVOLVING FUND
PROGRAM FUNDING STATUS**

SOURCE OF FUNDS	PROJECTED THRU SFY 2013	PROJECTED FOR SFY 2014	TOTAL
Federal Cap. Grants	\$150,739,864	\$8,421,000	
Set-Asides (listed on pg.21)	(\$21,947,212)	(\$1,809,840)	
Total to Loan Fund	\$128,792,652	\$6,611,160	\$135,403,812
STATE MATCH			
Bond Proceeds	\$30,147,980	\$1,684,200	\$31,832,180
Loan Loss Reserve Sweeps	\$6,704,692	\$350,000	\$7,054,692
Loan Repayments	\$61,143,826	\$7,500,000	\$68,643,826
Interest on Fund Investments	\$1,843,858	\$10,000	\$1,853,858
Transfers from CWSRF	\$11,282,486	\$0	\$11,282,486
TOTAL SOURCE OF FUNDS			<u>\$256,070,854</u>
Use of Funds			
Loans Executed			
Direct Loans	\$188,151,930		\$188,151,930
Transfer to CWSRF	\$19,130,213	\$6,000,000	\$25,130,213
TOTAL USES			<u>\$213,282,143</u>
Funds Available for Loan			<u>\$42,788,711</u>
Projected IUP Loans			
Direct Loans (SFY14)		\$33,108,000	\$33,108,000
Projected Loans (SFY15-Great Falls)			\$21,000,000
Projected Balance Remaining			<u>(\$11,319,289)</u>

STATE DWSRF SET-ASIDE ACTIVITY

Set-Aside	Thru 2012 Grant	2013 Grant Set-aside	% of '13 Grant	Total	Reserved Authority (year)	Reserved Authority Applied to Previous Grants	Total Remaining Authority Reserved
4% Administration	5,692,756	336,840	4%	6,029,596			0
10% State Program							
PWS Supervision	6,580,270	492,100	5.8%	7,072,370	155,000 ('01) 92,930 ('06)	118,400 ('09) 95,000 ('11) 32,500 ('12)	2,030
Source Water Protection	1,574,600	140,000	1.7%	1,714,600			0
Capacity Development	917,000	90,000	1.1%	1,007,000	50,000 ('03)	50,000 ('12)	0
Operator Certification	1,325,000	120,000	1.4%	1,445,000	70,000 ('01)	70,000 ('12)	0
Subtotal	10,396,870	842,100	10%	11,238,970			
2% Small System Tech. Asst.	1,774,726	143,000	1.7%	1,917,726	155,140 ('00) 155,782 ('01) 144,585 ('06)		455,507
15% Local Assistance							
Loan Assistance for SWP							
Capacity Development		357,900	4.2%	357,900			
Source Water Assessment*	1,482,620	-	--	1,482,620			
Wellhead Protection	790,400	130,000	1.5%	920,400			
Totals	\$20,137,372	\$1,809,840	21.4%	\$21,947,212	\$823,437	\$365,900	\$457,537

* The SDWA only allowed funds for this activity to be set aside one time from the initial FFY97 capitalization grant.

Montana elected to set aside the maximum allowable amount of \$1,482,620 (10%)

TRANSFER OF FUNDS BETWEEN THE CLEAN WATER SRF AND THE DRINKING WATER SRF

At the Governor's discretion, a state may transfer up to 33 percent of its Drinking Water SRF capitalization grant to the Clean Water SRF or an equal amount from the Clean Water SRF to the Drinking Water SRF. Transfers could not occur until at least one year after receipt of the first capitalization grant, which was June 30, 1999. This transfer authority was effective thru fiscal year 2001. One-year extensions of this transfer authority were granted through the VA, HUD, and Independent Agencies Appropriation Bill until the FY06 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 \$6 Million in recycled funds will be transferred to the CWSRF from the DWSRF programs in the state fiscal year 2014. In the last 15 years funds have been transferred back and forth between the two programs.

Table 1 below summarizes transfers to date, and funds still available for transfer.

Table 1 - Amounts Available to Transfer between State Revolving Fund Programs

Year	Transaction Description	Banked Transfer Ceiling	Transferred from CWSRF to DWSRF	Transferred from DWSRF to CWSRF	DWSRF Funds Available for Transfer	CWSRF 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 (2 nd 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 (2 nd 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 (2 nd Rnd \$)	20,134,608	-0-	2,559,810	26,357,284	13,911,932
2005	Transfer (2 nd Rnd \$)	20,134,608	-0-	2,570,403	23,786,881	16,482,335
2005	Transfer (2 nd 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 (1 st 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 (2 nd 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 (1 st 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

Year	Transaction Description	Banked Transfer Ceiling	Transferred from CWSRF to DWSRF	Transferred from DWSRF to CWSRF	DWSRF Funds Available for Transfer	CWSRF Funds Available for Transfer
2011	Transfer (1 st 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	Transfer (2 nd Rnd \$)			6,000,000	42,331,403	70,026,857
Total			11,282,486	25,130,213		

TECHNICAL ASSISTANCE CONTRACT WITH MONTANA RURAL WATER SYSTEMS

In SFY 2014 and 2015, the DWSRF Program is funding a technical assistance contract between the DNRC and Montana Rural Water Systems. The services provided by this contract will include technical assistance of a wide variety to small rural water systems in the state. Funding for the contract will be \$100,000 for each fiscal year. The source of funding for the contract is the special administrative account, which consists of fees and surcharges collected on loans with communities for infrastructure projects.

SET-ASIDES

The Drinking Water State Revolving Fund also is charged with funding certain provisions of the federal Safe Drinking Water Act, 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
- public water supply programs
- source water assessment -- program implementation and field data collection
- source water assessment -- wellhead protection program

ADMINISTRATION

The DEQ set aside four percent of the FY13 capitalization grant, or \$336,840, for program administration, and is planning to set aside the full four percent (also estimated at \$336,840) from the FFY14 grant. This will cover continued development of the program and the intended use plan, 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 four percent cap grant funds for administration. Additional costs have been paid for with other DWSRF “state special administration” funds.

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 Drinking Water SRF program will continue to provide outreach to small public water supply 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 Public Water Supply Program. 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 an RFP was issued to re-bid the contract and in July, 2005 a new contract was again awarded to Midwest Assistance Program. 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. RATES started work in September 2012 and should complete approximately 120 site visits by June 30, 2013.

Contract activities for state fiscal year 2014 will be funded with \$125,000 set-aside from the federal fiscal year 2013 capitalization grant to fund technical assistance under this contract. Furthermore, funds have been reserved from the FFY2000 and FFY 2001 capitalization grants for this set-aside. However, those reserved funds were used to finance projects until they are needed for set-aside activities at a future date.

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 and the SFY2012 contract with RATES will be renewed for SFY2014. . 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 intended use plans.

STATE PROGRAM MANAGEMENT

This group of set-asides consists of Capacity Development, Operator Certification, Public Water Supply Supervision (PWSS), and Source Water Protection. 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 fiscal year expenditures. Montana set-aside \$842,100 for State Program Management from the FFY13 grant. A table illustrating the State's 1 to 1 match expenditures is shown below. Please note that \$914,394 was available for match in SFY12, exceeding the federal requirement. A discussion of the individual set-aside activities follows after the table.

**MONTANA DEPT OF ENVIRONMENTAL QUALITY
PUBLIC WATER SUPPLY PROGRAM**

INTENDED USE PLAN

State FYE 93 Activity	R/C	FUND SOURCES		
		FEDERAL	STATE MATCH	STATE EXCESS
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 W&WW Operators	2516			57,085
TOTAL FY 93		738,559	246,186	535,404

State FYE 12 Activity	Org Units	FUND SOURCES		
		FEDERAL PPG Grant	STATE Match PPG Grant-25%	STATE Match for SRF Grant
Public Water Supply Program - 02204	545811, 545819	1,344,000	448,000	
Subdivision Fees - 02418	120520,302827,545981, 546115 - 546160			413,621
Drinking Water Fees - 02204	120520, 302832, 545812, 545820, 545830, 545831, 545832, 545840, 545841, 545842			427,244
Board Cert for W&WW Operators - 02420	545916, 545931			73,529
TOTAL FY 12		1,344,000	448,000	914,394

CAPACITY DEVELOPMENT

DEQ set aside \$90,000 from the FFY13 capitalization grant for this activity. The 1996 Amendments to the Safe Drinking Water Act 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 public water supply systems have the necessary technical, financial and managerial capability 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 Drinking Water SRF 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 percent in FY 2001, 15 percent in FY 2002, and 20 percent 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 technical, financial, and managerial capacity. (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 1900 public water supplies. Given the large number of systems and a shortage of staff with the requisite financial and managerial experience, MDEQ has chosen to provide this assistance through contracted services. Through SFY13, **contracted service providers have delivered** in-depth financial and managerial assistance to approximately 217 public water systems at a total cost of approximately \$848,000.

The format for financial 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 MDEQ.

This contract has been renewed annually. The Midwest Assistance Program (MAP) was selected as the initial contractor, beginning work in March 2001. To comply with state procurement requirements, a Request for Proposals 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 Request for Proposals was issued in the spring of 2012 to solicit a contractor to continue providing these services. As a result of that effort, Rural and Tribal Environmental Solutions (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 FFY14 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.

OPERATOR CERTIFICATION

This set-aside is 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.

In the past year, the program has approximately 1,702 certified operators, including operators for approximately 704 community systems and 279 non-transient non-community systems. These water and wastewater operators hold 3,468 certifications. Certification program activities 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. Annual compliance for FY2013 for Non Transient Non Community systems ran on average for 10 months at 96.32% to 98.13% average for Community public water supply systems in each category having correct certified operators. This achieves Montana's IUP goal of 95%. Compliance levels have declined in the past two years but the operator certification program has more certified operators at the end of FY2013 than in the previous years. The expectation moving forward is for systems requiring operator compliance to begin increasing in percentage the next fiscal year.

The Operator Certification Program Manager sent the draft program to EPA Region VIII and Headquarters in October of 1999 and the program was formally approved in December 2000. The latest approval of Montana's Operator Certification Program annual submittal package was received from EPA in August 2012. Positive feedback for the program has been received from both EPA Region VIII and Headquarters. The annual report to SRF was submitted to EPA on May 13, 2013 for approval.

The DEQ requested and received approval for spending authority from the 2001 state legislature for very small water system expense reimbursement grant funding. EPA approved the grant application, and the reimbursement program began making reimbursements in October of 2002. Expenses associated with mandatory training qualified operators attended after July 1, 2002 is eligible for reimbursement. EPA granted an extension of the funds through December 31, 2012 in the last approved work plan in May 2012. The grant funding has been closed out as of December 31, 2012.

The department completed the transition of current water exams to standardized Association of Boards of Certification (ABC) water treatment and water distribution examinations and developed new On-Site Wastewater exams which utilize ABC and State Questions and four new Industrial Wastewater categories and exams. The program has converted the annual renewal program over to a new business process and recently completed a Third Wave business process review. Business process improvements will be implemented to improve the customer renewal process, enforcement and compliance tracking. The Department will continue to track progress and evaluate statistical data to ensure that the program administers valid, comprehensive, and fair examinations.

PUBLIC WATER SUPPLY PROGRAM (PWSP)

This set-aside funded salaries, benefits, and operating expenses for 8.38 environmental science specialists and 1.2 administrative personnel (partial FTE of bureau chief, field section supervisor and fiscal) assigned to the Helena, Billings, and Kalispell Offices. The positions are funded through the set-aside grants SFY12, SFY13. The environmental science specialist positions assist in capacity development by providing technical assistance to water suppliers, performing sanitary surveys, operator training, and attend critical board meetings. These positions also provided direct assistance to water suppliers in implementation of the Lead and Copper Rule, Phase 2/5 rules, 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 DBP Rule, Groundwater Rule, and the State's ground water chlorination rule. The set-aside also funded database development expenses associated with implementation, upgrading to SDWIS Web, and

maintenance of SDWIS/state database, associated state-specific Oracle modules, and contracted sanitary surveys for public water supplies. All of these activities help the PWSS Program achieve its over all goal of facilitating SDWA compliance by public water systems.

SOURCE WATER ASSESSMENT PROGRAM

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 \$140,000 will be used in SFY 14 to administer the Source Water Protection Program and to provide technical assistance to local communities in the development of source water protection plans; \$140,000 will be set aside from the FFY 13 grant for this activity. The source water delineation and assessment reports described in the next section 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,
- 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 one or two local communities to support development of source water protection plans, to update source water protection area potential contaminant source inventories, or to implement components of a source water protection plan
- 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, Midwest Assistance, Local Water Quality Districts) relating to source water protection plan development or implementation.

WELLHEAD PROTECTION PROGRAM-LOCAL ASSISTANCE

Section 1428 of the 1996 Amendments to the federal Safe 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*". EPA formally approved the Montana Wellhead Protection Program in October 1994 and approved the amended program in November 1999. The combined program was renamed the Montana Source Water Protection Program. DEQ utilizes a program that prioritizes implementation based on public water system classification, size, and apparent risk based on source water characteristics.

Set-aside funds in the amount of \$130,000 will be used in SFY 14 to administer the Wellhead Protection Program and to provide technical assistance to local communities in the development of source water protection plans; \$130,000 will be set aside from the FFY 13 grant for this activity. Effort continues on verifying potential contaminant source (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 potential contaminant sources.

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.

APPENDIX 1: RANKING CRITERIA FOR DRINKING WATER SRF 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 twelve-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.

Guidance for ranking: For unfiltered surface water, use 70 percent of max. Points in this category unless there have also been documented problems with turbidity, fecal contamination or disease outbreaks. Award an additional 10 percent 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 CT violation without boil orders or fecal MCL violations, etc. , should receive 50 percent 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 PQL, and less than the URTH level. Contaminants must be detected at least twice during quarterly monitoring in any twelve 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 percent of maximum points in this category for lead and copper or other chemical violations and go up or down in 10 percent 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 twelve 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 twelve 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 twelve 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.

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 twelve month period. MCL violations are not confirmed by check sampling.

Guidance for ranking: 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

Drinking Water SRF 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 Drinking Water SRF 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 Drinking Water SRF priority list, unless it is known that a higher project will not be using Drinking Water SRF 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.

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 Drinking Water SRF funds whether or not the project is on the Drinking Water SRF priority list. DEQ will not be required to solicit comments from other projects on the priority list regarding the emergency funding.

APPENDIX 2: DRINKING WATER SRF COMPREHENSIVE PROJECT LIST – SFY 2014

<i>Rank No.</i>	<i>Total Points</i>	<i>Project Name</i>	<i>Description</i>	<i>Amount</i>	<i>Population</i>
1	132	Brady W & S District	Transmission Main	\$257,000	173
2	110	South Chester Water Users	New Water Source	\$0	100
3	104	Carter - Chouteau Co. W & SD	New water treatment plant	\$1,000,000	200
4	104	Crow Tribe	Phase 4 Water System Improvements	\$18,655,000	1522
5	97.5	South Wind W & SD	Water System Improvements	\$750,000	225
6	95	Upper/Lower River Road Water and Sewer	Connect to City of Great Falls	\$2,103,036	1075
7	90	Beaverhead Co. - Jackson W & SD	Arsenic treatment, new storage and distribution improvements	\$865,000	36
8	90	Pinesdale, Town of	Water Treatment Plant Improvements	\$2,475,000	827
9	80	Eureka, Town of	Storage and Distribution Improvements	\$2,000,000	1017
10	80	Town of Neihart		\$500,000	90
11	70	Stevensville, Town of	Water System Improvements	\$7,500,000	1732
12	70	Sun Prairie Village Co. W & SD	New Wells		1400
13	65	Helena, City of	Tenmile WTP Improvements	\$1,300,000	28190
13	65.5	Jordan	New Well, Storage Reservoir	\$4,066,000	443
14	65	Dry Prairie Regional Water System	Distribution Improvements	\$8,000,000	24829
15	65	Hardin, City of	WTP Improvements	\$1,080,780	3510
17	65	Rocky Boys Regional Water System	Regional Water System	\$180,000	45743
18	60	City of Colstrip	Water Treatment Plant Improvements	\$751,000	2214
19	60	Glendive, City of	Treatment Plant, Storage & Distribution Improvements	\$2,290,000	4729
20	57.5	Bynum-Teton County Water District	Water System Improvements	\$500,000	45
21	56	Blue Cloud W & S, LLP	Arsenic Treatment	\$50,000	50
22	55	Flathead Co Water and Sewer District #1 Evergreen	Distribution	\$132,513	4000
23	55	Hobson, Town of	New Water System	\$150,000	230
24	55	Lewistown, City of	Install Meters on Remaining	\$550,000	6500
25	54	Lake County Transfer Station	Water System Improvements	\$131,750	62
26	54	Sheavers Creek WD/Woods Bay	Water System Improvements	\$1,350,000	150
27	52.5	Fort Smith W & D	New Well, Storage & Distribution System Improvements	\$535,000	350
28	50	Big Sky Water and Sewer District	Well, Storage, Transmission, Telemetry	\$5,000,000	4000
29	50	Billings, City of	Treatment Plant, Pump Station	\$50,000,000	92000
30	50	Bozeman, City of	Water System Improvements	\$40,700,000	28500
31	50	North Havre WD	Distribution and Storage Improvements	\$450,000	90
32	47.5	Deer Lodge, City of	Well, Pump, Well House, Telemetry	\$204,500	3375
33	47.5	Harlowton, City of	New storage tank.	\$875,000	899
34	47.5	Oilmont Co Water District	Extend Distribution System	\$0	600
35	47.5	Red Lodge, City of	Treatment Plant Upgrades, Wells	\$500,000	2255
36	47	Elk Meadows Ranchettes	System Upgrades, Storage, Supply	\$300,000	150
37	45	Anaconda - West Valley Consol.	Hearst Lake/Alt. Supply	\$6,500,000	1365
38	45	Birdger Pines W & S District	Water System Improvements	\$250,000	100
39	45	Custer County W & S Dist.	Community Water System	\$1,000,000	180
40	45	Dutton, Town of	New Well	\$0	447
41	45	Emkayan Village WD	Distribution System and Telemetry Control Improvements	\$200,000	150
42	45	Eureka, Town of	Connect Midvale Water & Sewer District	\$532,000	1287

<i>Rank No.</i>	<i>Total Points</i>	<i>Project Name</i>	<i>Description</i>	<i>Amount</i>	<i>Population</i>
43	45	Firelight Meadows Subdivision	Corrosion Control & Disinfection	\$30,000	500
44	45	Forsyth, City of	Treatment Plant Upgrades	\$27,192	2200
45	45	Great Falls, City of	Storage Rehab, Distribution	\$2,181,100	60000
46	45	Melstone, Town of	New Well, Ro Treatment	\$0	136
47	45	Roundup, City of	Water System Upgrade	\$0	1807
48	45	Tiber Co Water District	Distribution, Telemetry, Controls	\$0	300
49	45	White Sulphur Springs	New Storage Tank, Disinfection & Distribution Improvements	\$2,560,000	984
50	42.5	Miles City, City of	(2) Treatment Plant, Storage	\$1,950,000	8487
51	42	Hungry Horse Water District	Additional Storage and Distribution	\$0	1000
52	40	Flaxville, Town of	Water System Improvements	\$175,000	71
53	40	Glendive, City of	Distribution/Storage Improvements	\$736,052	4802
54	40	Scobey	New Pumps, Controls, CL2	\$140,000	1101
55	40	Sun Prairie Village Co. Water & Sewer District	Trans. Main, Storage, and Meters	\$750,000	1483
56	38	Belgrade, City of	Water Supply Well Construction, Replacement	\$8,132,850	5728
57	37.5	Pleasant View Homesites	Storage and Distribution System	\$420,000	82
58	37.5	Sand Coulee WD		\$577,000	161
59	37.5	Somers Co Water and Sewer District	New Well, Additional Storage	\$530,000	500
60	35.5	Dillon, City of	Storage reservoir, distribution	\$781,000	4050
61	35	Darby, Town of	Two Well Houses	\$100,000	650
62	35	Fromberg, Town of	Water System Improvements	\$147,000	486
63	35	Laurel, City of	WTP Improvements	\$950,000	6255
64	32.5	Judith Gap, Town of	Distribution System Improvements	\$224,400	139
65	32.5	Libby, City of	Distribution Improvements	\$0	200
66	32.5	Ramsay Water and Sewer District	Water System Improvements	\$165,000	100
67	32.5	Ronan, City of	Water System Improvements	\$4,495,000	2008
68	32.5	Superior, Town of	Phase I Distribution System Improvements	\$1,217,000	865
69	30	Bainville	Distribution System Improvements	\$1,500,000	208
70	30	Baker-North County Water & Sewer District	Distribution System Improvements	\$916,000	100
71	30	Bearcreek, Town of	Water System Improvements	\$500,000	200
72	30	Cascade, Town of	Distribution System Improvements	\$735,000	685
73	30	Cooke City Water and Sewer District	Storage Tank and Distrib. System Improvements	\$1,000,000	300
74	30	Cut Bank, City of	Distribution Improvements	\$229,000	3105
75	30	Dutton, Town of	Replace Transmission Main & Storage Improvements	\$310,000	316
76	30	Ekalaka, Town of	Distribution Improvements	\$65,000	332
77	30	Loma Co Sewer and Water District	Settling Pond	\$100,000	495
78	30	Loma Co Sewer and Water District	Treatment Plant Upgrade	\$99,000	495
79	30	Missoula Wye Area Regional System	Distribution Improvements, Consolidation of Systems	\$12,000,000	0
80	30	North Helena Valley Water and Sewer District	Consolidation of Existing PWSs	\$0	5000
81	30	Ravalli County	Connection to City of Hamilton	\$100,000	50
82	30	Town of Fairview	Water System Improvements	\$5,000,000	840
83	30	Valier, Town of	Water System Improvements	\$900,000	469
84	30	Wapiti Acres W & SD	New Well, Trans. Main, Storage Tank, S/L Meters	\$377,000	41

<i>Rank No.</i>	<i>Total Points</i>	<i>Project Name</i>	<i>Description</i>	<i>Amount</i>	<i>Population</i>
85	27.5	Belt, Town of	New Storage Tank	\$688,000	603
86	27.5	Fairfield, Town of	Distribution & Pump Control Improvements	\$350,000	659
87	27.5	Forseyth, City of	New Storage Tank, Trans. Main & Pumpstation, Distribution	\$3,151,000	1944
88	27.5	Fort Peck County Water District	Distribution Improvements	\$750,000	663
89	27.5	Homestead Acres Water & Sewer District	Water System Improvements	\$475,000	550
90	27.5	Martinsdale WUA (Water and Sewer District)	Water System Improvements	\$100,000	100
91	27.5	Pablo - Lake Co Water and Sewer District	Distribution System Improvements	\$157,000	1814
92	27.5	Polson	Water System Improvements	\$6,500,000	4041
93	27.5	St Ignatius, Town of	Water System Improvements	\$155,000	825
94	27.5	Stanford	Well and distribution system improvements	\$90,000	401
95	27.5	Troy, City of	Replacement of Water Systems	\$1,500,000	957
96	25	Culbertson, Town of	Refinance Existing Debt	\$207,535	716
97	25	Darby, Town of	Storage Tank, Additional Well	\$0	650
98	25	Ennis, Town of	New Well & Pumphouse	\$200,000	1005
99	25	Flathead County W & SD No. 8	Water System Improvements	\$1,194,000	480
100	25	Hot Springs, Town of	New Telemetry & SCADA	\$75,000	544
101	25	Manhattan, Town of	Water System Improvements	\$1,802,000	1396
102	25	Nashua, Town of	Distribution System Improvements	\$150,000	296
103	25	Shelby, City of	Distribution System Improvements	\$1,321,200	3419
104	25	Stevensville, Town of	Transmission & Distribution Replacement	\$2,260,000	1914
105	22.5	Bigfork County Water and Sewer District	Water System Improvements (Source, Storage, Distribution)	\$3,000,000	1200
106	22.5	Billings Heights W D	Storage and Distribution System Improvements	\$1,038,000	11418
107	22.5	Billings, City of	Zone 3 & 4 Storage Reservoirs	\$12,650,000	92000
108	22.5	Billings, City of Fox Reservoir	Fox Reservoir Expansion	\$6,200,000	100148
109	22.5	Columbus, Town of	New Well	\$320,000	1748
110	22.5	Conrad, City of	Distribution System Improvements	\$855,000	2570
111	22.5	Harlem, City of	Treatment Plant Upgrades	\$600,000	848
112	22.5	Harlowton, City of	Water System Improvements	\$130,000	899
113	22.5	Lakeside County Water and Sewer District	New Storage Reservoir	\$500,000	500
114	22.5	Richey, Town of	New Storage Reservoir	\$110,000	189
115	22.5	Ryagate, Town of	Storage Tank Repairs	\$158,000	245
116	22.5	Seeley Lake	Storage Tank Improvements	\$0	2000
117	22.5	Three Forks, City of	New Wells	\$170,000	1845
118	20	Belgrade, Town of	Distribution System Improvements	\$1,251,000	7323
119	20	Billings, City of	Distribution system improvements.	\$800,000	89847
120	20	Butte-Silverbow	Treatment Plant & Distribution Improvements	\$7,414,000	33892
121	20	Helena, City of	Distribution Improvemnets	\$1,095,000	30000
122	20	Plains, Town of	Distribution Improvements & Service Meters	\$420,000	1048
123	20	Seeley Lake Water District	Distribution	\$50,000	2000
124	20	Sidney	Storage & Distribution Improvements	\$4,675,000	5191
125	17.5	Flathead Co Water and Sewer District #8	Additional Well	\$85,000	490
126	15	Broadview, Town of	Water System Improvements	\$175,000	150
127	10	Antelope Water and Sewer District	Refinance Existing Debt	\$60,000	58
128	10	Bainville	Refinance Existing Debt	\$326,000	153
129	10	Brockton, Town of	Refinance Existing Debt	\$0	245

<i>Rank No.</i>	<i>Total Points</i>	<i>Project Name</i>	<i>Description</i>	<i>Amount</i>	<i>Population</i>
130	10	Firelight Meadows Subdivision - Refinance	Refinance Existing Debt	\$635,000	500
131	10	Froid, Town of	Refinance Existing Debt	\$221,000	195
132	10	Geysler-Judith Basin Co. Water & Sewer District	Refinance Existing Debt	\$0	299
133	10	Glasgow, Town of	Refinance Existing Debt	\$1,374,203	3235
134	10	Hysham, Town of	Refinance Existing Debt	\$200,000	330
135	10	Medicine Lake, Town of	Refinance Existing Debt	\$360,000	269
136	10	Nashua, Town of	Refinance Existing Debt	\$60,000	325
137	10	Outlook Water and Sewer District	Refinance Existing Debt	\$0	123
138	10	Plentywood	Refinance Existing Debt	\$0	2061
139	10	Poplar, City of	Refinance Existing Debt	\$650,000	911
140	10	Ryegate, Town of	Refinance Existing Debt	\$0	268
141	10	Stanford, Town of	Refinance Existing Debt	\$0	454
142	10	Sun Prairie Water and Sewer District	Refinance Existing Debt	\$200,000	1483
143	10	Westby, Town of	Refinance Existing Debt	\$15,592	172
144	7.5	Alberton, Town of	Storage and Distribution System Improvements	\$0	374
Total of All Amounts:				\$280,726,703	

APPENDIX 3: GLOSSARY OF ACRONYMS AND INITIALIZATIONS

ARRA	American Recovery and Reinvestment Act of 2009
ASAP	Automated Standard Application for Payments
AWWA/MWEA	American Water Works Association/Montana Water Environment Association
BAN	Bond Anticipation Note
CIFA	Council of Infrastructure Financing Authorities
DBE	Disadvantaged Business Enterprises
DEQ	Montana Department of Environmental Quality
DNRC	Montana Department of Natural Resources and Conservation
DWSRF	Drinking Water State Revolving Fund
EPA	Environmental Protection Agency
FFY	Federal Fiscal Year (which begins October 1 and ends September 30)
GAN	Grant Anticipation Note
GWUDISW	Ground Water Under the Direct Influence of Surface Water
GO	General Obligation
IUP	Intended Use Plan
LT2ESWTR	Long Term 2 Enhanced Surface Water Treatment Rule
LAC	Legislative Audit Committee
LAD	Legislative Audit Division
MBE	Minority Business Enterprises
MPDES	Montana Pollution Discharge Elimination System
NPS	Non-point Source
NMP	National Municipal Policy
PPAD	Planning, Prevention and Assistance Division

PPL	Project Priority List
PWSS	Public Water Supply Supervision
RAN	Revenue Anticipation Note
RSID	Rural Special Improvement District
SDWA	Safe Drinking Water Act
SFY	State Fiscal Year (which begins July 1 and ends June 30)
SID	Special Improvement District
SDWIS	State Drinking Water Information System
SWP	Source Water Protection
TFAB	Technical and Financial Assistance Bureau
TSEP	Treasure State Endowment Program
W₂ASACT	Water, Wastewater and Solid Waste Action Coordinating Team
WBE	Women Business Enterprises
WD	Water District
WPCSRF	Water Pollution Control State Revolving Fund
WSD	Water and Sewer District