DRINKING WATER STATE REVOLVING FUND
BASE AND SUPPLEMENTAL
Intended Use Plan
and Project Priority List

State Fiscal Year 2026

June 30, 2025

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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. As such, the Drinking Water State Revolving Fund (DWSRF) program is administered by DEQ and DNRC and operates similarly to the Water Pollution Control State Revolving Fund (WPCSRF) program.

Along with the DWSRF program, Montana's legislation also established the 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 Plans (IUPs).

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 2024 capitalization grants have subsequently been awarded and DEQ is in the process of applying for the FFY 2025 grant. DEQ will likely apply for at least portions of the FFY 2026 grant later in State Fiscal Year (SFY) 2026. In 2021, the Infrastructure Investment and Jobs Act of 2021 (also known as the Bipartisan Infrastructure Law [BIL]) was signed into law. The BIL includes, among other things, an additional capitalization grant that state DWSRF programs can apply for separately from the 'base' grant and is referred to as DWSRF General Supplemental Funding. Both grants are discussed in this document and will be referred to as the base grant and supplemental grant, respectively. Since the inception of the program, federal capitalization grants had only been authorized through FFY 2004. Still, Congress has continued to appropriate funds each year. In 2021, the BIL included language that reauthorizes the base federal capitalization grant for each federal fiscal year from FFY 2022 through FFY 2026. The BIL also authorizes additional appropriations which encompass the supplemental federal capitalization grant for each federal fiscal year from FFY 2022 through FFY 2026.

The DWSRF program offers below-market loans for construction of public health-related infrastructure improvements and 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). Set-asides are discussed in more detail in **Section 12.0**.

As the primacy agency responsible for implementation of the SDWA, DEQ is responsible for the oversight of the DWSRF program with the primary role of providing technical expertise. DNRC provides financial administration of project loans and oversees the sale of state General Obligation (GO) bonds. Since the inception of the program, states are required to match federal capitalization grant funds with state funds. For Montana, state match funds are provided by issuing GO bonds. For the base grant, the required match is 20% of the grant. For FFY 2025, the supplemental grant also has a required match of 20% of the grant. 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 grow the DWSRF loan

fund and to fund additional projects in the future. Federal and state law requires the DWSRF to be operated in perpetuity.

The 1996 Amendments to SDWA included 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. Regarding additional grant funding from BIL, EPA is giving states the option to issue one IUP for both the base and supplemental FFY 2025 grants. This IUP contains the following elements pertaining to both the base and supplemental grants:

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.

1.1 PUBLIC PARTICIPATION

As required, DEQ prepared a draft IUP and provided it to the public for review and comment. The draft IUP and public meeting notification were posted on the DEQ website on May 30, 2025, and the meeting notification was published in 7 newspapers in the state under legal advertising. The public meeting was held on June 17, 2025. No one from the public attended the meeting and no comments were received from the public during the 30-day comment period which ended on June 30, 2025.

Additionally, pursuant to state law, after public comment and review, DEQ submitted the IUP to the Advisory Committee for review, comments, 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 implementing and maintaining the DWSRF program in Montana.
2. To fund projects that address specific and immediate requirements of the SDWA, for example the Disinfectant/Disinfection By-Products Rule, the Surface Water Treatment Rule, the Long Term 2 Enhanced Surface Water Treatment Rule, the Revised Total Coliform Rule, the Ground

Water Rule, the Phase II/V Rules, and the Radionuclides Rule. Montana anticipates funding at least 5 projects to address these rules in SFY 2026.

3. To fund projects that promote regionalization and/or achieve consolidation of two or more existing public water supplies, thereby improving water quality. One consolidation project is expected in SFY 2026.
4. To fund projects that address replacement of aging infrastructure. Montana anticipates funding at least 20 projects of this type in SFY 2026.
5. To fund projects that develop system sustainability through financial capacity by refinancing existing debt. No refinancing of loans is expected in SFY 2026.
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 suppliers 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 systems who request this type of help.
    c. Assisting communities with the next phases of implementation of their Source Water/ Wellhead Protection Plans.
    d. Emphasizing that PWSP staff perform sanitary surveys; facilitate SDWA compliance with all the National Primary Drinking Water Regulations such as the Lead and Copper Rule, all the Surface Water Treatment Rules, the Stage 2 Disinfectant/Disinfection By-Products Rule, the Revised Total Coliform Rule, and the Groundwater Rule.
    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 2026, Montana expects to execute 26 new binding commitments, and close 26 loans totaling approximately $67 million in drinking water infrastructure projects that will serve a total population of approximately 176,000. (Please see Anticipated Funding List, **Section 6.0**).

Through SFY 2025, Montana's DWSRF fund utilization rate (cumulative loan agreement dollars to the cumulative funds available for projects) was approximately 92% ($541.8M in loans to $586.1M available funds) for both the base and supplemental grants. In SFY 2026, we anticipate our pace to be approximately 94% ($608.8M in expected loans to approximately $645.0M in funds available for projects) for the base grant and supplemental grants.

In SFY 2025, for both base and supplemental grants, the rate at which DWSRF projects progressed as measured by disbursements as a percent of assistance provided was approximately 93% ($505.1M in disbursements to $541.8M in loans), above the national average of 85%. In SFY 2026, the DWSRF program intends to maintain this construction pace at or above 90%.

It is anticipated that approximately 75 small public water systems will receive Technical Assistance through providers under contract with DEQ. This Technical Assistance will be provided as Operation and Maintenance (O&M) or as Financial and Managerial Assistance (FMA).

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 over 500 engineering design reviews for proposed water system improvement projects. The Operator Certification program is planning to hold, sponsor, or participate in approximately 15 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 2026.

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 expand system capacity or enhance fire protection capabilities are not eligible for funding unless the primary purpose of the project is to address public health and/or compliance issues.

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 the projects in **Appendix 2** will use SRF funds. Some systems do not have major projects planned; the remaining systems expect to be proceeding with projects in the near future or for the next several years. Cost information is not always available, as some systems may not have completed the financing plans for their projects at the time they are added to the project list. If the need arises, the IUP can be amended throughout the course of the year to include additional projects. This has been done in past years.

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.

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 loan 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 provided to a community.

5.0 SUBSIDIES TO DISADVANTAGED COMMUNITIES

Communities seeking a DWSRF loan that meet the disadvantaged community criteria described below may receive an additional subsidy on their SRF loans, beyond the standard below-market rate financing, in the form of principal forgiveness. This includes communities that will meet the disadvantaged criterion based on projected user rates that consider the cost of the project as well as any potential principal forgiveness (i.e., the projected user rate assumes the rate based on the actual projected loan amount after principal forgiveness is applied). A community is considered economically disadvantaged when its combined annual water and wastewater or water only system rates are greater than the target rates established by the Montana Department of Commerce. These target rates 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.

For SFY 2026, to assist these economically disadvantaged communities, the DWSRF loan program will provide qualifying communities 50% principal forgiveness of the DWSRF loan amount, up to a maximum of $3,000,000, or an adjusted amount which may be less or more based on available funds. The regular interest rate will apply to the balance of the loan. Only one principal forgiveness subsidy will be allowed per project. In addition, in order to receive the principal forgiveness, a project must have addressed all SRF requirements prior to bidding, be ready to proceed to construction, have project funding in place, and be in a position to advertise for bids and make a contract award. Refinancing of existing debt is not eligible for this funding. Principal forgiveness must be used for construction projects (i.e., principal forgiveness cannot be applied to projects that are only for preliminary or design engineering).

Per the federal directive in BIL to identify new methods to improve the distribution of principal forgiveness funds to disadvantaged communities, the DWSRF program has also developed additional affordability criteria to target the very economically disadvantaged communities in Montana. The additional criteria are based on the ratio between user rates and the corresponding target rate, low-and moderate-income (LMI) data, and poverty data. Data for these criteria are derived from the most recent U.S. Census data provided by the Montana Department of Commerce. With this data, a composite

affordability score will be calculated to determine if the community is eligible for a higher percentage of principal forgiveness.

User Rates versus Target Rates

Target rates are based on a community's median household income (MHI). Affordability factors into communities with combined water and wastewater or water only rates that are higher than their respective target rates. As such, the greater the ratio between user rates and target rates, the more points a community will receive. For example, if a community has a current or projected water only rate of $75 and their water only target rate is $50, the ratio between the user rate and target rate would be 1.5 (or 150%). The points assigned in this example would be 50.

LMI Data

LMI households are those households whose income does not exceed 80% of the county median income for the previous year or 80% of the median income of the entire non-metropolitan area of the State of Montana, whichever is higher. To give credence to this factor, points will be assigned based on the LMI percentage for a community. For example, a community with an LMI of 44% will receive 44 points.

Poverty Data

Poverty Data for the State of Montana is compiled from the U.S. Census and is based on income thresholds and size of family. To account for this factor, points will be assigned based on the percentage of households considered in poverty status for a community. For example, a community with a poverty status of 10% will receive 10 points.

Based on these criteria, an affordability score will be calculated to determine if a community meets the higher threshold for very economically disadvantaged status. For SFY 2026, communities that score 110 or more points would receive a greater percentage of principal forgiveness, as funds are available. Qualifying communities serving a population over 1,000 will receive up to 60% principal forgiveness of the DWSRF loan amount, based on available funds. Qualifying communities serving a population of 1,000 or less will receive up to 75% principal forgiveness of the DWSRF loan amount, based on available funds.

It is important to keep in mind that the composite affordability score is just a relative comparison of a community's ability to "afford" the project based on the criteria considered and is not indicative of the importance or need for any project.

In addition to Public Water Supply's (PWSs) with established user rates, Montana also has approximately 90 schools that are PWSs that do not have established user rates. In July 2022, EPA provided guidance stating that schools that are PWSs can use DWSRF funds to replace interior plumbing. Without user rates, Montana's standard approach for determining disadvantaged communities is not applicable to schools. Therefore, Montana will consider schools economically disadvantaged when the percentage of students eligible for free or reduced lunch exceeds 20%. For SFY 2026, to assist these economically disadvantaged schools, the DWSRF loan program will provide qualifying schools 75% principal forgiveness of the DWSRF loan amount, based on available funds. As with economically disadvantaged communities, the regular interest rate will apply to the balance of the loan, only one principal forgiveness subsidy will be allowed per project, and funds must be used for actual project construction.

The total amount of principal forgiveness that the DWSRF may allocate under the FFY 2025 base 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 that the program will be able to operate in

perpetuity, while still providing some additional assistance to economically disadvantaged communities. The total amount of principal forgiveness that the DWSRF may allocate under the FFY 2025 supplemental capitalization grant will be limited to 49% of that capitalization grant. This amount is stipulated in the BIL. If any capitalization grant funds are transferred to the WPCSRF program, the corresponding principal forgiveness amount (30% [base] or 49% [supplemental]) will also be transferred.

6.0 ANTICIPATED FUNDING LIST

DEQ became eligible to apply for the FFY 2025 federal capitalization grant on October 1, 2024, and this grant is in the process of being awarded.

Montana will provide 20% match for both the base and supplemental federal capitalization grants using state GO bonds, which will result in an 83/17 federal to state ratio in total. Montana also periodically deposits DWSRF fees into the fund to also be used for match. Since set-aside activities are funded entirely by federal grant funds, it leaves a lesser amount of federal funds, combined with all the state match funds, to be used on projects. During SFY 2026, 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.

Table 1 contains those projects that the DWSRF program anticipates will be funded with either the base or supplemental FFY 2025 capitalization grants as well as previous capitalization grants, in conjunction with the respective state match (20% for the base grant and supplemental grants). 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. Due to the variability in project schedules and funding, this has occurred every year since the program's inception and is expected to happen again this year.

Table 1. DWSRF Projects Anticipated to Receive Funding SFY 2026

Priority Rank	Project	Project Information	SRF Cost
1	Anderson School	Population: 255. New treatment systems for 4-log virus inactivation. Expected loan terms are 2.5% interest over a 20-year period.	$53,000
5	CMRWA Phase 2	Population: 1900. Install a pipeline from Phase 1 to Roundup. New well #4. Expected loan terms are 2.50% interest over a 40-year period.	$11,934,262 P
7	Absarokee WSD	Population: 1,000. Cartridge filtration. Expected loan terms are 2.50% interest over a 20-year period.	$821,000 P
8	Harlem	Population: 822. Water distribution and WTP improvements for DBPs. Expected loan terms are 1.75% for interim funding of RD project.	$770,000
11	Whitehall	Population: 1038. New 1-million-gallon storage tank. Expected loan terms are 2.50% interest over a 30-year period.	$2,687,000 P

Priority Rank	Project	Project Information	SRF Cost
13	Boulder	Population: 1,400. Phase 1 – New well and distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period.	$1,274,000 P
14	Deer Lodge	Population 3056. Water main installation. Expected loan terms are 2.5% interest over a 20-year period.	$2,000,000 P
18	Chester	Population: 847. WTP improvements for DBPs. Expected loan terms are 2.50% interest over a 20-year period.	$433,300
22	Thompson Falls	Population: 1,460. New well and transmission main, new storage tank, and replace distribution mains. Expected loan terms are 1.75% for interim funding of RD project.	$1,365,538 P
23	Twin Bridges	Population: 235. New well, new storage, and distribution work. Expected loan terms are 2.50% interest over a 20-year period.	$350,000
24	Power-Teton WSD	Population: 172. Project to include new proposed ground water source for District. Expected loan terms are 1.75% for interim funding of RD project.	$1,384,300 P
27	Loma CWD	Population: 300. Main extensions for rural customers with source water quality/quantity issues. Expected loan terms are 2.50% interest over a 20-year period.	$707,000 P
35	View Vista Village WSD	Population: 213. Distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period.	$734,364 P
36	Red Lodge	Population: 2,212. Water System Improvements. Expected loan terms are 2.50% interest over a 20-year period.	$4,846,000 P
37	Clearview Heights WD	Population: 30. Distribution system improvements. Expected loan terms are 2.50% interest over a 30-year period.	$850,000 P
38	Havre	Population: 9786. Distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period.	$4,401,000 P
46	Bigfork WSD	Population: 4,449. Distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period.	$1,627,000
48	Kalispell	Population: 23,421. Replace the second of two existing concrete water storage tanks (with wooden roofs) with a new concrete storage tank in the lower pressure zone. Expected loan term of 30-years at 2.5% interest.	$7,892,000 P
49	Boulder	Population: 1,400. Phase 2 – New storage tank and generators. Expected loan terms are 2.50% interest over a 20-year period.	$2,128,000 P
52	Circle	Population: 481. Distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period.	$650,000 P

Priority Rank	Project	Project Information	SRF Cost
67	Missoula	Population: 75,757. 2026 Distribution system improvements including main. Expected loans terms are 2.5% interest over a 20-year period.	$9,697,964
71	Choteau	Population: 1713. New well and transmission main. Expected loan terms are 2.50% interest over a 20-year period.	$3,010,000 P
74	Richey	Population: 186. Distribution system improvements. Expected loan terms are 2.50% interest over a 20-year period.	$625,000
78	Helena	Population: 32,024. West side service and crosstown connector. Expected loan term of 20-years at 2.5% interest.	$4,271,000
79	Lockwood	Population: 7,463. New storage. Expected loan terms are 2.50% interest over a 20-year period.	$2,223,000 P
92	Roberts WSD	Population: 299. Well house and pump rehabilitation. Expected loan terms are 2.50% interest over a 20-year period.	$275,000 P
	TOTAL		**$67,009,728**

Table 2 contains the projects that the DWSRF program has deemed as equivalency projects for the FFY 2025 base and supplemental grants, respectively.

Table 2. Equivalency Projects for the FFY 2025 Base and Supplemental Grants

FFY 2025 Base Equivalency Projects	Project Cost
Lockwood distribution	$4,500,000
Sidney 4 tank/pipe	$6,020,000
Total Project Cost for Projects Assigned Equivalency for the FFY 2025 Base Grant	**$10,520,000**
Equivalency Required FFY 2025 Base (Less Set-asides)	**$9,212,160**
FFY 2025 Supplemental Equivalency Projects	**Project Cost**
Helena	$4,271,000
Kalispell Tank 2	$7,892,000
Lockwood storage	$2,295,000
Townsend 2024	$12,195,000
Total Project Cost for Projects Assigned Equivalency for the FFY 2025 Supplemental Grant	**$26,653,000**
Equivalency Required FFY 2025 Supplemental (Less Set-asides)	**$23,417,680**

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 were all 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**.

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 PWS that would serve two or more existing PWSs - 30 points
5. Affordability - 20 points maximum

8.0 FINANCIAL STATUS

Since the inception of the program, states are required to match federal capitalization grant funds with state funds. For Montana, state match funds are provided by issuing GO bonds. For the base federal capitalization grant, the required state match is 20% of that grant. For the supplemental federal capitalization grant, the required state match is 10% of that grant for FFY 2022 and FFY 2023 and 20% for FFY 2024 through FFY 2026. The individual capitalization grants and corresponding state match for each FFY for the base and the supplemental grants to-date are listed in **Table 3** and **Table 4**, respectively.

Table 3. Federal Grants and State Matches by FFY for Base Grant

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	$1,600,813
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	$1,757,400
2016	$8,312,000	$1,662,400
2017	$8,241,000	$1,648,200
2018	$11,107,000	$2,221,400
2019*	$11,103,000	$2,220,600
2020	$11,011,000	$2,202,200
2021	$11,001,000	$2,200,200
2022	$7,008,000	$1,401,600
2023	$4,938,000	$987,600
2024	$4,661,000	$932,200
2025	$10,906,000	$2,181,200
TOTAL	**$256,659,864**	**$51,331,973**

*Note: The 2019 federal grant amount was increased by $99,000 to include additional funds from EPA.

Table 4. Federal Grants and State Matches by FFY for Supplemental Grant

FFY	Federal Grant	State Match
2022	$17,992,000	$1,799,200
2023	$21,055,000	$2,105,500
2024	$22,985,000	$4,597,000
2025	$24,898,000	$4,979,600
TOTAL	**$86,930,000**	**$13,481,300**

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. States are given the flexibility to set aside specified dollar amounts of a capitalization grant to support state programs to meet the federal SDWA requirements (for a detailed description of set-asides, see **Section 12.0**). The total set-aside amounts for the year are then considered in evaluating the status and availability of loan funds. For the FFY 2025 grants, states have the option to take set-asides from both the base and supplemental grants. For SFY 2026, DEQ program staff will take set-asides from both grants. See **Table 5** for the base grant set-aside amounts and **Table 6** for the supplemental grant set-aside amounts.

Table 5. State DWSRF Set-Aside Activity for the Base Grant ($10,906,000)

Set-Aside		Through FFY 2024 Grant	FFY 2025 Set-Aside (for SFY 2026)	% of 2025 Grant	Total	Reserved Authority (FFY)	Reserved Authority Applied to Previous Grants (FFY)	Total Remaining Authority Reserved
4% Administration		10,228,796	436,240	4.0%	10,665,036			
10% State Program	Public Water Supply Supervision	13,768,174	665,600	6.1%	14,433,774	155,000 (2001) 92,930 (2006) 268,800 (2023) 266,100 (2024)	118,400 (2009) 95,000 (2011) 32,500 (2012)	536,930
	Source Water Protection	2,090,511	200,000	1.8%	2,290,511			
	Capacity Development	1,520,393	25,000	0.2%	1,545,393	50,000 (2003)	50,000 (2012)	0
	Operator Certification	2,803,392	200,000	1.8%	3,003,392	70,000 (2001)	70,000 (2012)	0
Subtotal		*20,180,470*	*1,090,600*	*10%*	*21,273,070*			
2% Small System Technical Assistance		2,703,726	163,590	1.5%	2,867,316	87,120 (2000) 155,782 (2001) 144,585 (2006)	21,240 (2023) 46,780 (2024)	319,467
15% Local Assistance	Loan Assistance for SWP							
	Capacity Development	2,652,500		--	2,652,500			
	Source Water Assessment[a]	1,482,620	-	--	1,482,620			
	Wellhead Protection	2,498,000		--	2,498,000			
Total		**39,748,112**	**1,690,430**	**15.5%**	**41,438,542**	**$1,290,317**	**$433,920**	**$856,397**

[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%).

Table 6. State DWSRF Set-Aside Activity for the Supplemental Grant ($24,898,000)

Set-Aside		Through FFY 2024 Grant	FFY 2025 Set-Aside (for SFY 2026)	% of 2025 Grant	Total	Reserved Authority (FFY)	Reserved Authority Applied to Previous Grants (FFY)	Total Remaining Authority Reserved
4% Administration		2,481,280	995,920	4.0%	3,477,200	-	-	-
10% State Program	Public Water Supply Supervision	2,250,000	484,400	1.95%	2,734,400	805,500 (2023) 948,500 (2024) 1,805,400 (2025)	-	3,559,400
	Source Water Protection	0	0	0%	0	-	-	-
	Capacity Development	0	0	0%	0	-	-	-
	Operator Certification	0	0	0%	0	200,000 (2023) 200,000 (2024) 200,000 (2025)	-	600,000
Subtotal		*2,250,000*	*484,400*	*1.95%*	*2,734,400*			
2% Small System Technical Assistance		0	0	0%	0	-	-	-
15% Local Assistance	Loan Assistance for SWP				0	-	-	-
	Capacity Development	0	0	0%	0	-	-	-
	Source Water Assessment	-	-	-	0	-	-	-
	Wellhead Protection	0	0	0%	0	-	-	-
Total		**4,731,280**	**1,480,320**	**5.95%**	**6,211,600**	**$4,159,400**	**$0**	**$4,159,400**

The state also evaluates the financial health of the program by examining 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. **Table 7** shows the funding status for the DWSRF base and supplemental grants.

Table 7. DWSRF Grant Funding Status

	Projected thru SFY 2025	**Projected for SFY 2026**	**Total**
SOURCE OF FUNDS			
Federal Capitalization Grants	$307,785,864	$35,804,000	
Set-Asides (**Section 12.0**)	($48,229,452)	($3,170,750)	
Total to Loan Fund	**$259,556,412**	**$32,633,250**	**$292,189,662**
State Match			
Bond Proceeds	$62,125,000	$7,300,000	$69,425,000
Loan Loss Reserve Sweeps	$11,674,653	$500,000	$12,174,653
Loan Repayments	$234,731,939	$16,631,958	$251,363,897
Interest on Fund Investments	$6,708,891	$1,828,881	$8,537,772
Transfers from WPCSRF	$11,282,486	$0	$11,282,486
Total Source of Funds	**$586,079,381**	**$58,894,089**	**$644,973,470**
USE OF FUNDS			
Loans Executed			
Direct Loans	$541,803,167		$541,803,167
Transfer to WPCSRF	$22,130,213	$0	$22,130,213
Total Uses			$563,933,380
Funds Available for Loan			**$81,040,090**
Projected IUP Loans			
Direct Loans (SFY 2026)		$67,009,728	$67,009,728
Projected Balance Remaining			**$14,030,362**

9.0 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. Low interest loans can be made for up to 100% of the total project cost. At the beginning of SFY 2026 approximately $541.8 million in loans have been made to communities in Montana. All 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 the lowest possible cost is also a consideration in setting the interest rate. In SFY 2026, the program

will provide principal forgiveness for a portion of the loan to help some economically struggling communities. A 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 2026, approximately $23,680,591 of debt has been refinanced through this program;

3. Guarantee or purchase insurance for local debt obligations. At the beginning of SFY 2026, 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 2026, $7,300,000 will be 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 $10,000,000 in BANs. The excess over the required reserve was transferred to the principal account to make loans;

5. Provide loan guarantees for similar revolving funds established by municipalities. At the beginning of SFY 2026, no loans have been made for this purpose;

6. Earn interest on program fund accounts. At the beginning of SFY 2026, the DWSRF cash flow demonstrates this program will continue to be a strong source of loan funds when the federal grants are terminated. Interest income to date can be used to pay off program GO Bond debt and revenue anticipation notes (RANs). The projected interest of approximately $1,828,881 in SFY 2026 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. If in the unlikely event there are unused administrative funds, they will be spent on administrative costs in the subsequent fiscal year. 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 2026, there was approximately $2,106,245 available for this purpose. If needed, these administrative funds could be transferred to the principal account and used to make loans.

8. Use a cash draw strategy that considers the individual needs of a project while maintaining the overall 20% state match requirements for the base and supplemental grants. For SFY 2026, most projects will likely be funded using the ratio of 80% federal funds and 20% state funds for the base and supplemental grants. However, we understand that there is flexibility which allows loan fund draws to be taken at 100% state match followed by 100% federal. That approach will be applied on a case-by-case basis. For example, for co-funded projects that require state match, state funds (i.e., bond proceeds) will be used which will require other projects to use 100% federal funds to maintain the overall state match requirements for both grants.

Since the inception of the program, federal capitalization grants had only been authorized through FFY 2004. Still, Congress has continued to appropriate funds each year. In 2021, the BIL included language that reauthorizes the base federal capitalization grant for each federal fiscal year from FFY 2022 through FFY 2026. The BIL also authorizes additional appropriations which encompass the supplemental federal capitalization grant for each federal fiscal year from FFY 2022 through FFY 2026. While Congress continues to appropriate funds each year, it should be noted that 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. In 1997, the DEQ and DNRC explained the leveraging option to the Advisory Committee and to the people attending the public meeting, along with their recommendation not to pursue leveraging. The advisory committee concurred, and general agreement with this recommendation was expressed at each meeting. Leveraging was again discussed with the Advisory Committee in 2024 and, based on recommendations from DEQ and DNRC, the Committee concurred that leveraging should not be pursued at this time.

10.0 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 no recycled funds will be transferred to the WPCSRF program from the DWSRF program in the SFY 2026 for either the base or supplemental grant. In the last 25 years, funds from the base grant have been transferred back and forth between the two programs, as needed.

Table 8 and **Table 9** summarize transfers to date, and funds still available for transfer for the base grant and supplemental grant, respectively.

Table 8. Amounts Available to Transfer between SRF Programs for the Base Grant

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	---	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	---	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	---	2,559,810	26,357,284	13,911,932
2005	Transfer (2nd Rnd $)	20,134,608	---	2,570,403	23,786,881	16,482,335
2005	Transfer (2nd Rnd $)	20,134,608	---	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 $)		---	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	DW Grant Award	67,460,180	---	---	59,612,453	75,307,907
2018	DW Grant Award	71,125,503	---	---	63,277,763	78,973,217
2019	Transfer (2nd Rnd $)		---	3,000,000	60,277,763	81,973,217
2019	DW Grant Award	74,789,493	---	---	63,941,753	85,637,207
2020	DW Grant Award	78,423,123	---	---	67,575,383	89,270,837
2021	DW Grant Award	82,053,453	---	---	71,205,713	92,901,167
2022	DW Grant Award	84,366,093	---	---	73,518,353	95,213,807
2023	DW Grant Award	85,995,633	---	---	75,147,893	96,843,347
2024	DW Grant Award	87,533,763			76,686,023	98,381,477
2025	DW Grant Award	91,132,743			80,285,003	101,980,457
Total			**$11,282,486**	**$22,130,213**		

Table 9. Amounts Available to Transfer between SRF Programs for the Supplemental Grant

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
2022	DW Grant Award	$5,937,360	---	---	$5,937,360	$5,937,360
2023	DW Grant Award	$12,885,510	---	---	$12,885,510	$12,885,510
2024	DW Grant Award	$20,470,560			$20,470,560	$20,470,560
2025	DW Grant Award	$28,686,900			$28,686,900	$28,686,900
Total			**$0**	**$0**		

11.0 ASSURANCES

As outlined in the Operating Agreement between the Montana DEQ, DNRC, and EPA, Montana will assure compliance with the SDWA, and all associated state and federal regulations related to the DWSRF program including:

- Environmental Reviews - Montana will conduct an environmental review and a determination will be executed and distributed using a state process in accordance with 40 CFR Part 35.3580 and Montana Code Annotated (MCA) 75-6-224(1)(g). Montana will follow EPA-approved, National Environmental Policy Act (NEPA)-like procedures in conjunction with such environmental reviews.
- Binding commitments – Montana will provide financial and technical assistance to a public water system in accordance with MCA 75-6-204(2)(d) in an amount equal to 120% of the amount of each grant payment within a period not to exceed 1 year after receipt of a grant.
- Timely expenditures – As required by Section 1452(g)(3) of the SDWA, the MCA 75-6-204 (2)(e) denotes that Montana will expend all funds in the revolving fund in an expeditious and timely manner.
- Timely data entry – As discussed in the Capitalization Grant Agreement, Montana will enter data for closed loans into the SRF Data System no less than quarterly.
- Federal Cross-cutters – In accordance with 40 CFR 35.550 (o), Montana will comply with all applicable Federal cross-cutting authorities in existence at the time the loan recipient receives a binding commitment.
- Capacity Development Strategies – Per Section 1452(a)(3) of the SDWA and MCA 75-6-212(2)(c)(i), funds can't be used to provide assistance to a PWS that does not have the financial, managerial, and technical capability to ensure compliance with the requirements of the SDWA. As such, Montana will ensure that funds are provided to systems that have the technical, managerial, and financial capability to ensure compliance (see **Section 12.3** for additional information on capacity development strategies). As part of the capacity development SDWA provisions, Montana DEQ currently has an operator certification program that provides training and certification testing to operators. The program received EPA approval on December 8, 2000. (see **Section 12.2.4** for additional information on operator certification).

12.0 SET-ASIDES

The DWSRF is also 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
- State programs including public water supply supervision, source water protection, capacity development, and operator certification
- Small system technical assistance

12.1 ADMINISTRATION

DEQ has the authority to set aside up to 4% of the FFY 2025 base and supplemental capitalization grants for program administration. DEQ has elected to set aside the full 4% for both the base grant ($436,240) and the supplemental grant ($995,920). This will cover continued operation of the program, including development of 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 will also continue to fund one loan management position at DNRC, 4.5 engineering positions at DEQ, and one administrative support position at DEQ. These costs and 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 before BIL funding, actual program expenses have exceeded the maximum capitalization grant funds for administration and the shortfall has been paid for with other DWSRF "state special administration" funds.

12.2 STATE PROGRAMS

DEQ has historically funded the Public Water Supply Supervision (PWSS) program, the source water protection program, capacity development, and operator certification under the state program set-aside.

12.2.1 Public Water Supply Supervision (PWSS)

The Public Water Supply Supervision (PWSS) set-aside of $1,150,000 will be funded from the FFY 2025 base and supplemental grant. Funds from this set-aside will be used for salaries, benefits, and operating expenses for environmental science specialists assigned to the Helena, Billings, Missoula, and Kalispell Offices. The positions have been previously funded through set-asides every state fiscal year since SFY 2015. These positions provide direct assistance to water suppliers through implementation of National Primary Drinking Water Regulations (NPDWR) such as: the Lead and Copper Rule, Phase II/V rules, Revised Total Coliform Rule, Consumer Confidence Report Rule, all of the Surface Water Treatment Rules including Long Term 1 and Long Term 2 Enhanced Surface Water Treatment Rules and Filter Backwash Rule, Stage 1 and Stage 2 Disinfection/Disinfection By-Products Rules, Radionuclide Rule, Groundwater Rule, PFAS/ PFOA Rule, and the State's ground water chlorination rule. They also assist in

capacity development activities by providing technical assistance to water suppliers, performing sanitary surveys, conducting operator training, monitoring compliance, and attending public meetings as requested to provide information and assistance. This set aside funding will also be utilized to provide Area-Wide Optimization Program (AWOP) training by a third party for PWSS staff including time, travel costs, and hotels, if needed, for the AWOP training.

The set-aside will also be used to fund database development expenses associated with implementation and upgrading to SDWIS SFTIES; maintenance of SDWIS and the state databases; and supporting the Montana Water and Wastewater Operators' Initiative through the Montana State University in Bozeman. All these activities help the PWSS achieve its overall goal of facilitating SDWA compliance by public water supplies. Montana reserves the authority to utilize funds from the supplemental grant for this set-aside (see **Table 6**).

12.2.2 Source Water Protection

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." Montana utilizes this set-aside to help water systems prevent contamination of drinking water sources. In addition, these funds can support state personnel who manage source water protection programs. Set-aside funds in the amount of $200,000 from the FFY 2025 base grant will be used in SFY 2026 to administer Montana's Source Water Protection Program to support source water protection activities throughout the state. Funds are used in part to administer the program, verify and improve potential contaminant source (PCS) inventories, and provide community outreach in the form of workshops on the operation and maintenance of wells. In addition, staff will continue to work with the Engineering and Public Water Supply Bureaus to further refine understanding of the source water context and hazards posed by on-site wastewater discharges or other PCSs.

The specific goals are to:

- Promote source water protection and management practices preventing degradation of state waters.
- Continue providing technical assistance to the Engineering Bureau staff by reviewing source water assessment reports for new and existing public water supply sources.
- Provide technical assistance to PWS Bureau staff in evaluating public water supply eligibility for monitoring waivers.
- Provide 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 also include support to communities seeking to: update source water protection area PCS inventories, implement components of a source water protection plan, or better characterize a source water-related potential contaminant source.
- Evaluate the efficiency and effectiveness of Montana's Source Water Protection program in preventing contamination of public water supply sources and identify potential changes or improvements to the program's approach, including exploring changes to better focus the delineation process for certain classes of PWS sources.

- 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.
- Maintain and enhance public access to spatial data essential to the local development of source water protection plans.
- Continue to modernize DEQ's SWP program to more effectively leverage DEQ's GIS architecture.
- Provide source water protection workshops to citizens and others.
- Develop, publish, and distribute educational materials to provide outreach to communities on source water protection.

12.2.3 Capacity Development

DEQ has set aside $25,000 from the FFY 2025 base capitalization grant for capacity development under the state program set-aside. Uses for this set-aside include paying for up to 10% of the operating expenses for ten full-time staff positions in the Engineering Bureau, Public Water and Subdivision section to conduct on-site inspections and attend technical trainings.

12.2.4 Operator Certification

DEQ has set aside $200,000 from the FFY 2025 base 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. The Program operating expenses including things such as organizing and providing training for certified operators on water system operations, scheduling and proctoring certification exams, tracking operator continuing education credits (CECs), reviewing proposed training for CECs, notifying communities of the need to have a certified operator, public outreach, compliance monitoring, and enforcement activities.

This program maintains the information for Montana certified water and wastewater operators, including operators for approximately 779 community systems, 299 non-transient non-community systems and 347 wastewater systems. These water and wastewater operators hold approximately 3,066 certifications. There are 1,497 certified operators in Montana. The program has fully incorporated Water Professionals International Association of Boards Certification (ABC) exams as a part of the operator certification.

The Program is currently updating operator study materials; evaluating certification levels; and working on increasing electronic access including training, exams, and renewals. The program is also working towards a new database which should be implemented by July 2026. Montana reserves the authority to utilize funds from the FFY 2025 supplemental grant for this set-aside (see **Table 6**).

12.3 SMALL SYSTEM TECHNICAL ASSISTANCE

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 O&M procedures. These routine visits will be conducted with close coordination with and at the specific direction of the DEQ PWSB. 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 O&M technical assistance to many 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.

Since SFY 2020, the Small System Technical Assistance grant funds are also being used to fund Managerial and Financial Assistance (TMF) work that has historically been funded through capacity development set-aside funds. 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 visit, 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.

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 capacity to comply with all 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. If Montana did not develop and implement strategies to assist existing water systems with capacity development, EPA could withhold 20% of a state's capitalization grant. To meet the October 1, 2000 deadline and avoid the withholding provisions, Montana submitted its Capacity Development Strategy to EPA in August 2000 which EPA approved on October 10, 2000. To address subsequent requirements related to asset management introduced in America's Water Infrastructure Act of 2018 (AWIA), an updated Capacity Development Strategy was provided to EPA in September 2022.

The capacity development strategies are a methodology used to identify and prioritize public water systems in need of improving TMF. A part of these strategies includes aiding those systems by use of set-aside funding. Given the large number of PWSs in Montana (over 2,000) and a shortage of staff with the requisite technical, financial, and managerial experience, DEQ has chosen to provide this assistance through contracted services from 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 from June 1999 through June 2005. 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 with services provided through June 2012. 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 and RATES provided contract services through June 2019. In July 2019, a new RFP was issued to solicit for a technical assistance provider and in February 2020, MAP was awarded the contract to provide TFM assistance. As noted above, this new contract funds both O&M and Financial and Managerial Assistance (FMA). Through SFY 2023, MAP has provided over 4,300 hours of technical assistance to small public water systems. By June 30, 2026, MAP should complete an additional 1,350 hours of technical assistance (both O&M and FMA) for small water systems.

Contract activities for SFY 2026 will be funded with set-aside balances from previous capitalization grants for technical assistance under this contract. An additional $163,590 will be set aside from the FFY 2025 base capitalization grant to assist with the technical assistance (TA) contract and contract management.

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. Any significant changes would be discussed in future IUPs.

APPENDIX 1: RANKING CRITERIA FOR DWSRF PRIORITY LIST

1. **Documented health risks**

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

   A waterborne disease outbreak or other waterborne emergency such as an interruption in a key water treatment process or a natural or man-made disaster that disrupts the water supply or distribution system.

   E. coli 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. *E. coli* Maximum Contaminant Level (MCL) exceedance in the distribution system. A detection of *E. coli* or other pathogens in the source water where the system does not currently provide 4-log treatment of viruses.

   Surface Water Treatment Rule (SWTR) treatment technique violation such as a single exceedance of the maximum allowable turbidity limit or sources that have been under the direct influence of surface water and have not resolved that designation.

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

   Chlorine dioxide Maximum Residual Disinfectant Level (MRDL) violation where one or more samples taken in the distribution system the day following an exceedance of the MRDL at the entry point also exceed the MRDL.

   Guidance for ranking: For unfiltered surface water, use 70% of maximum points in this category unless there have also been documented problems with turbidity, fecal contamination or disease outbreaks. Award an additional 10% of maximum 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 *E. coli* 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 *E. coli* MCL violation. There have been no documented disease outbreaks. The system would get 70% + 10% + 10% = 90% of maximum points in this category.

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

   Groundwater Rule - significant deficiency(ies) identified in a sanitary survey. Montana Chlorination Rule violations.

   Lead and Copper Rule - lead and/or copper action level exceedance.

Inorganic chemicals and/or organic chemicals (including volatile organic chemicals (VOCs) and synthetic organic chemicals (SOCs)) maximum contaminant level (MCL) exceedance. MCL violations may or may not have occurred.

Radionuclide contaminants (radium, uranium, gross alpha emitters) maximum contaminant level (MCL) exceedance. MCL violations may or may not have occurred.

Disinfection byproducts maximum contaminant level (MCL) exceedances. MCL violations may or may not have occurred. Disinfectant residuals (not including chlorine dioxide) maximum disinfectant residual level (MRDL) exceedance. Disinfection byproduct precursors (total organic carbon (TOC)) treatment technique violation.

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 maximum**

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 maximum**

   Total coliform bacteria (non-acute) - two or more Level 1 assessments (under Revised Total Coliform Rule (RTCR)) in any 24-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. The problems must be the result of circumstances beyond the direct control of the water supplier.

   Documented water main leaks or main breaks.

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

   Nitrate or nitrite detections between 5 mg/L and 10 mg/L within the last 24-months.

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

Chemical contaminant detections are approaching the MCL.

Radionuclide contaminant detections are approaching the MCL.

Documented lead service lines.

<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, financial and/or managerial 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).**

Affordability is based on a community's rates (water and sewer combined or water only) as a percentage of their median household income (MHI). 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 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 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 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 emergency funding.

APPENDIX 2: DWSRF COMPREHENSIVE PROJECT LIST—SFY 2026

Numeric PPL Ranking Report

Rank No.	Total Points	Project Name	Description	Amount	Population
1	113	Anderson School	Proposing new treatment system for 4-log virus inactivation.	$53,000	255
2	80	Whitehall	Water system improvements (treatment, transmission and distribution)	$2,774,000	1007
3	70	Dry-Redwater Regional Water Authority	Distribution System Improvements	$247,500	100
4	70	Libby	Water System Improvements	$1,719,000	2764
5	65	Central Montana Regional Water Authority	Construct Regional Water System	$11,934,262	7000
6	65	North Central Montana Regional Water System	Regional Water System	$252,000	45743
7	63	Absarokee WSD	Cartridge filtration for Hawkins Park Infiltration Gallery	$821,000	1000
8	62	Harlem	Water Treatment Plant & Distribution System Improvements	$770,000	822
9	57.5	Alberton	Water System Improvements	$1,192,000	420
10	57.5	Philipsburg	Membrane filtration, newpumps at Silver Springs, SCADA and distribution replacement	$3,304,331	768
11	55	Whitehall	New 1-MG storage tank to replace old, deteriorated tank.	$2,687,000	1007
12	52.5	Boulder	Source and treatment system improvements.	$1,274,000	1400
13	52.5	Laurel- Water System Improvements	Storage, pump station, transmission and distribution	$20,800,000	7600
14	52	Deer Lodge	Transmission main for new well.	$2,000,000	3056
15	50	Cooke City	Water system improvements.	$919,205	78
16	50	White Sulphur Springs	Rehabilitate intake and slow sand filtration plant	$1,046,295	1012
17	50	Morning Star Community	Distribution & Consolidation with Kalispell	$467,595	103
18	47.5	Chester, Town of	Water system improvements.	$433,300	847
19	47.5	Seeley Lake WD	Distribution system improvements.	$143,000	2000
20	47.5	Fromberg	Water Distribution System Improvements.	$137,092	418
21	46	Fort Benton	Filtration and orthophosphate addition.	$3,251,000	1523
22	45	Thompson Falls	Water system improvements (source, storage and distribution).	$1,365,538	1432
23	45	Twin Bridges	Supply, Storage & Distribution system improvements.	$350,000	235
24	45	Power-Teton Co WSD	New wells & transmission mains	$1,384,300	167
25	45	Whitefish	New tank, transmission main, distribution mains, booster pump station.	$12,000,000	9163
26	45	Sun Prairie County WD	Pumphouse, electrical, and residential meter project.	$291,660	350
27	45	Loma CWD	Main extensions for rural customers with quality/quantity issues	$707,000	300
28	43.5	Shelby	Storage and distribution system improvements.	$1,321,200	3419
29	42.5	Miles City	Intake & Treatment Plant Improvements	$4,259,000	8487
30	40.2	Rossiter Elementary School	Project to replace premise plumbing and sercive lines to remove pipes with lead solder.	$500,000	490
31	40	Sun Prairie Village County WSD	Rehabilitate tank, replace booster pump station, fence wells	$800,000	1188
32	40	Forsyth	New tank	$4,615,600	1647
33	40	South Wind County WSD	New well.	$100,000	81625
34	40	Glendive	Distribution system improvements.	$1,885,000	5126
35	40	View Vista Village	Distribution system improvements.	$734,364	213
36	40	Red Lodge	Water System Improvements	$4,846,000	2212

Rank No.	Total Points	Project Name	Description	Amount	Population
37	36	Clearview Heights - Lake County WSD	Distribution replacement and storage study.	$850,000	30
38	35	Havre	Distribution system improvements.	$4,401,000	9786
39	35	Eastgate WUA	Distribution System Improvements.	$986,000	1739
40	35	Dutton	Distribution and disinfection system improvements.	$837,000	303
41	35	Plentywood	Distribution system improvements.	$1,883,269	1670
42	35	Bearcreek Water System	Distribution and transmission system improvements.	$388,000	101
43	35	Ten Mile/Pleasant Valley WSD	Water System Improvements	$341,000	740
44	35	Glendive	New watermain	$2,312,000	5126
45	35	Goodan-Keil County WD	Booster Station Improvements.	$420,000	238
46	35	Bigfork WSD	Water distribution improvements (West Trunk and Sunset Drive).	$1,627,000	4449
47	35	Fairfield	Distribution system and well improvements.	$2,754,700	775
48	35	Kalispell	Replace the second of two Lower Presure Zone (LPZ) water storage tanks.	$7,892,000	23241
49	35	Boulder	New storage tank and generators	$2,128,000	1400
50	35	Belgrade	Water Supply Well Construction, Replacement	$937,192	11165
51	32.5	Geraldine	Distrbution and source study	$1,268,000	179
52	32.5	Circle	Distribution System Improvements.	$650,000	481
53	32.5	Flaxville	Storage and distribution system improvements	$1,250,000	95
54	32.5	Townsend	Water system improvements (storage, source and distribution).	$9,325,551	1787
55	32.5	Clancy W&SD	New Central Water System	$1,560,000	287
56	32.5	Grass Range	Water storage tank replacement.	$640,000	110
57	32.5	Joliet	Water System Improvements	$2,200,000	600
58	30	Kalispell	Distribution and transmission main improvements (3rd Ave E Main).	$3,523,241	23421
59	30	White Sulphur Springs	Transmission system improvements.	$1,018,792	1012
60	30	Ennis	New wells and storage tank replacement	$2,933,000	849
61	30	Malta	Water storage tank and water main replacement.	$2,402,000	2090
62	30	Great Falls	Rehabilitate intake and water treatment plant upgrades	$8,434,300	60000
63	30	Pinesdale	Distribution system improvements	$147,883	0
64	30	Cut Bank	Distribution System Improvements	$1,000,000	3105
65	30	Billings Heights Water District	Distribution System Improvements- NW pressure zone supply main.	$9,207,000	61264
66	30	Basin WSD	Distribution system improvements and new water supply well.	$100,000	232
67	30	Missoula	Distribution system improvements (2026)	$9,697,964	75514
68	30	Big Sky WSD No 363	Water system improvements - disinfection, treatment, distribution	$3,125,000	3000
69	27.5	Hinsdale County WSD	New well & transmission	$520,000	217
70	27.5	Missoula	New Airport well, Harlequin transmission main and storage tank	$7,800,000	75514
71	27.5	Choteau Water System	Water System Improvements	$3,010,000	1713
72	27.5	Sunburst, Town of	Storage tank rehabilitation, meters and fill station	$1,025,000	355
73	27.5	Absarokee W&SD	Distribution System Improvements	$3,099,000	1100
74	27.5	Richey	Distribution system Improvements -2024	$625,000	186
75	27.5	Belt	Distribution system improvements	$745,000	625
76	25	Whitehall	Distribution system improvements.	$56,951	1007

Rank No.	Total Points	Project Name	Description	Amount	Population
77	25	Sheridan	Distribution system improvements.	$537,385	843
78	25	Helena	Distribution improvements (West Side Service and Cross Town Connector).	$4,271,000	32024
79	25	Lockwood WSD	Distribution system imrovements	$8,082,000	7463
80	25	Evergreen WSD	Source and transmission system improvements.	$1,532,314	8002
81	25	Lockwood WSD	Storage for mid zone - 2024	$2,223,000	7463
82	25	Polson	Water storage tank replacement (East Hillside tank)	$3,600,000	5613
83	22.5	Bozeman	Lyman reservoir and transmission main	$16,850,000	49831
84	22.5	Billings	Logan Storage Tank	$7,000,000	100000
85	22.5	Shakopee Heights WSD	New Storage Tank & Transmission main	$380,000	62
86	22.5	Fairview	Distribution replacement and new water storage tank.	$1,000,000	864
87	22.5	Harlowton	Water System Improvements	$714,000	899
88	20	Butte-Silverbow	Treatment Plant and Distribution Improvements	$7,414,000	33892
89	20	Sidney	Storage and Distribution Improvements (Phase 4)	$4,675,000	5191
90	17.5	Lewistown / Fergus Co. Fairgrounds	Distribution Improvements	$1,118,366	11586
91	15	Broadview	Water System Improvements	$1,523,000	150
92	15	Roberts WSD	Well & pumphouse rehabilitation	$275,000	299
			Total of All Amounts:	$255,701,150	

APPENDIX 3: GLOSSARY OF ACRONYMS AND INITIALIZATIONS

Acronym	Definition
ARRA	American Recovery and Reinvestment Act (2009)
AWIA	America's Water Infrastructure Act (2018)
AWOP	Area-Wide Optimization Program
BIL	Bipartisan Infrastructure Law
CEC	Continuing Education Credit
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)
FMA	Financial and Managerial Assistance
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
MRDL	Maximum Residual Disinfectant Level
NEPA	National Environmental Policy Act
NPDWR	National Primary Drinking Water Regulations
O&M	Operations and Maintenance
PCS	Potential Contaminant Source
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
RTCR	Revised Total Coliform Rule
SDWA	Safe Drinking Water Act
SDWIS	Safe Drinking Water Information System
SFY	State Fiscal Year (begins July 1 and ends June 30)
SOCs	Synthetic Organic Chemicals
SRF	State Revolving Fund
SWP	Source Water Protection
SWTR	Surface Water Treatment Rule
TFM	Technical, Financial, and Managerial Capacity
VOCs	Volatile Organic Chemicals
WPCSRF	Water Pollution Control State Revolving Fund