

**Commonwealth of Virginia  
Drinking Water State Revolving Fund Program  
Intended Use Plan  
For the DWSRF FY2014 Capitalization Grant**

**December 2, 2013**

***DRAFT***



**Commonwealth of Virginia**  
**Drinking Water State Revolving Fund Program**  
**Intended Use Plan for FY 2014 Capitalization Grant**

**Table of Contents**

I. Introduction .....	1
II. DWSRF Program Goals .....	1
A. <i>Long Term and Short Term Goals</i> .....	2
B. <i>Coordination with Enforcement</i> .....	3
C. <i>Demonstration Project for the Commonwealth of Virginia</i> .....	3
D. <i>Transfer of Funds</i> .....	3
E. <i>Financial Health</i> .....	3
III. Sources and Uses of Funds .....	4
A. <i>Sources of Funds</i> .....	4
B. <i>Construction Projects</i> .....	4
1. <i>Loan Terms and Fees</i> .....	5
2. <i>Additional Subsidization</i> .....	5
3. <i>Green Infrastructure</i> .....	5
4. <i>Assistance to Small Communities</i> .....	5
C. <i>SET-ASIDES:</i> .....	6
1. <i>Administration and Technical Assistance:</i> .....	6
2. <i>Small System Technical Assistance:</i> .....	6
3. <i>State Program Management:</i> .....	7
4. <i>Local Assistance and other State Programs:</i> .....	8
IV. Public Review and Comment .....	11

**ATTACHMENTS**

2014 Project Priority List (Projects 1 through 32)/Comprehensive Project List	Attachment 1
FY 2014 DWSRF Set-Aside Suggested Use Schedule	Attachment 2

## **I. Introduction**

In accordance with the federal Safe Drinking Water Act Amendments (SDWA) of 1996 (P.L.104 - 182), which establish a Drinking Water State Revolving Fund (DWSRF) Program to eligible states through a capitalization grant, the Virginia Department of Health (VDH) Office of Drinking Water (ODW) is making application for federal funding under the FY 2014 DWSRF grant funds. The Commonwealth of Virginia expects to have \$13,200,000 available for utilization under this program.

The VDH has primary enforcement responsibility (primacy) for the Virginia's drinking water programs, and as such, is the designated agency to apply for and administer the capitalization grant for the DWSRF Program and related state funds.

This Intended Use Plan (IUP) includes the 2014 Project Priority List (Projects 1 through 32)/2014 Comprehensive Project List (Attachment 1) and the Additional Subsidization, Assistance to Small Systems, and GPR (Attachment 2). The *Virginia Drinking Water State Revolving Fund Program - Program Design Manual*, dated January 1, 2013, (available upon request) is part of the IUP and outlines the Program's overall goals, the set-aside and construction aspects of the Program, entities eligible for funding, interest rates and terms, and criteria used to establish a Project Priority List. In compliance with the requirement in SDWA sec. 1452(b)(1), the IUP undergoes public review and comment through a combination of mailings, internet postings, and a public meeting that will be held in Richmond on January 15<sup>th</sup>, 2014. The IUP cover letter and announcement is also placed in the General Notices section of the Virginia Register. This IUP has been made available for public comment for a 60 day period beginning on December 2, 2013.

## **II. DWSRF Program Goals**

VDH is committed to using the capitalization grant for which it is applying to provide assistance to water systems through set-asides and for capital improvement projects that will further the public health protection objectives of the Safe Drinking Water Act. VDH's goal is to enter into binding commitments for projects which will proceed to construction or award of construction contracts within twelve months of initial offers of assistance. VDH intends to award all assistance available under this capitalization grant in full conformance with the DWSRF program and the terms and conditions of the capitalization grant award.

The Virginia DWSRF Program activity incorporates the federal, state match, program revenue and repayments, and miscellaneous additional funds to implement the statewide programs to ensure adequate and safe drinking water to citizens. The construction loan and grant funds, in conjunction with the set-aside funds, provide funding sources for infrastructure projects, planning projects, sample testing, capacity development initiatives, state administrative costs, training, technical assistance, wellhead and source water protection, and other activities designed to enhance the state's water programs.

The Project Priority List (PPL) (Attachment 1) details the construction projects to be funded, in priority order, and other relevant project information (VDH has offered funding to Projects 1 through 32). The Comprehensive Project List (Attachment 1-Projects 1 through 35) details all eligible projects submitted during this state application process, and provides additional projects to be funded in priority order, should funding become available.

The set-aside funds will be used to maintain and advance waterworks support initiatives that contribute to the sustainability of safe drinking water. The set-asides funds are made available to assist waterworks owners in preparing for future waterworks challenges. Although the waterworks and their consumers will be the direct benefactors of these funding efforts, the initiatives may originate with any number of concerned parties and may be used in cooperative efforts with other entities to maximize the outcome.

In addition to funding the technical support activities for waterworks, the current year set-asides will provide funding for critical activities such as additional training and development for staff and waterworks operators, procuring new office and technical equipment for field offices, obtaining critically needed database upgrades, and program operation support costs.

#### **A. Long Term and Short Term Goals**

VDH is committed to promoting and protecting the health of Virginians. That mission is supported by a number of critical functions including activities implemented by the ODW. ODW supports the mission through regulatory, technical, and financial programs designed to enhance the quality of water provided to the citizens of the Commonwealth. The DWSRF program provides VDH with the means to achieve these goals.

VDH has a goal to utilize the DWSRF resources to implement a long-term, sustainable program focused on providing technical, financial, and managerial resources to waterworks owners. VDH will accomplish this through an integrated assistance program to provide technical and financial resources targeted to waterworks that exhibit a specific need for assistance. VDH has established the following priorities for the DWSRF program:

##### **Long Term**

- Ensure the sustainability of the DWSRF program and related funding to benefit Virginians over the greatest number of years.
- Protect the public health and welfare by supporting activities that ensure adequate water quantity and quality are provided to users of waterworks.
- Assist waterworks owners in complying with federal and state mandated drinking water regulations through programmatic, technical, and construction assistance.
- Assist waterworks owners to develop long term strategies for sustainable infrastructure (managerial, technical, and financial capability) to provide safe drinking water.
- Assist waterworks owners in the protection of their source waters by supporting source water protection programs.
- Make technical and financial assistance available to waterworks owners and consumers through effective outreach programs.

## Short Term

- Allocate DWSRF Program funds efficiently so Virginians may realize a prompt benefit.
- Assist waterworks owners through innovative technical assistance programs.
- Promote consolidation and regionalization of water supplies and waterworks through both programmatic and construction assistance.
- Provide a source of low cost financing for drinking water needs.
- Require that all new Community and Nontransient Noncommunity water systems beginning operation after October 1, 1999, demonstrate the technical, financial, and managerial capacity required to operate a waterworks.
- Ensure that state operator certification regulations meeting EPA national requirements are applied. Ensure that training courses are provided that meet the needs of the lower classifications of licensed operators at the smaller waterworks.

### **B. Coordination with Enforcement**

VDH coordinates efforts between Capacity Development Program; Financial and Construction Assistance Program (FCAP); and the Enforcement section of the Office of Drinking Water utilizing EPA's Enforcement Targeting Tool (ETT) to identify noncompliant waterworks with health-based violations. These waterworks are directly notified by letter of available Drinking Water State Revolving Fund (DWSRF) opportunities approximately one month before the application deadline.

### **C. Demonstration Project for the Commonwealth of Virginia**

The SDWA authorizes Virginia to establish a special demonstration project to loan funds to a regional endowment for "...financing new drinking water facilities..." in an area of Southwest Virginia encompassing Planning Districts 1 and 2. This endowment was established to assist in meeting the special needs of Southwest Virginia. In prior years, VDH elected to provide a total of \$10 million from its capitalization grants as loans to the endowment. That goal has been reached and no additional funding is provided.

### **D. Transfer of Funds**

Subject to the maximums allowed under the SDWA, set-aside funds may be transferred between another set-aside or between the State Loan Fund, but no grant payments (per the DWSRF Program Rule) for the State Loan Fund may be transferred to a set-aside. No transfers are expected.

No Department of Environmental Quality (DEQ), Clean Water State Revolving Fund (CWSRF) repayment revenue is planned for transfer into the DWSRF Program under Section 302 of the Safe Drinking Water Act Amendments of 1996. Such transfer funds can only be used as loan funds not grants. VDH has not requested funds from DEQ.

### **E. Financial Health**

The DWSRF Program will be managed to maximize benefits available to waterworks owners and Virginians. The financial health of the program is reflected in both the active non-construction activities and in funding opportunities. Both areas are integrated and affect the other's success, i.e.

activities promoting or enhancing delivery of a safe drinking water reduce the demand on the loan area by ensuring the long-term well being of the waterworks. The DWSRF (the Fund) will be maintained in perpetuity for providing financial assistance as authorized and limited by the SDWA. The Fund will be maintained in accordance with the SDWA and will be credited with all payments, repayments of principal and interest on loans, interest on loan accounts and any other source of income accruing to the Fund. By coordinating the two areas of non-construction and project loans, the overall long-term financial health of the program will be maintained for the maximum benefit of Virginians. This coordination will be done by the strategic coupling of programmatic considerations with the results of a planning model that examines the aggregate effects of altering financial parameters of the program. Procedures will be revised or implemented, as needed, based on the results of the annual assessment.

In the Disadvantaged Program as described in VDH's *Program Design Manual*, loan subsidies (in the form of principal forgiveness) will decrease the loan funds available; however, principal forgiveness coupled with a waterworks business operations plan will reduce the demand on the loan fund by ensuring the long term well-being of the waterworks. The waterworks business operations plan is used to ensure a new (or struggling) owner has the managerial, technical, and financial capacity to provide for the long-term operation of the waterworks. These initiatives allow waterworks to undertake projects they could not otherwise construct and, therefore, protect the public health. This strategy is one of the strong themes encouraged by Congress.

A unique feature of the Virginia DWSRF Program is the federal statutory language allowing a pilot demonstration project in Southwest Virginia. The Commonwealth has made loans to a regional endowment, and such loans will be repaid with terms and conditions in the same manner as all other project loans. These loan funds will be invested; investment proceeds can be for uses other than normally specified by Congress to assist communities in Southwest Virginia in correcting water problems.

### **III. Sources and Uses of Funds**

VDH is applying for a capitalization grant in the amount of \$13,200,000. This is the amount that VDH expects that Virginia will be eligible to receive under the DWSRF FY2014 appropriation.

#### **A. Sources of Funds**

Virginia expects to have approximately \$13.2 million available for utilization under this program. In addition approximately \$5.5 million in repayment funds and \$2.86 million in the required 20% state match are expected.

Virginia's required 20% state match for the capitalization grant is deposited into a dedicated state loan fund, the *Virginia Water Supply Revolving Fund* (§62.1-233 et seq.), established under the *Code of Virginia*. Also specified in the *Code of Virginia*, and in conjunction a VDH Memorandum of Understanding, are roles and responsibilities for the Virginia Resources Authority (VRA) pertaining to individual construction loans and processes.

#### **B. Construction Projects**

VDH intends to provide approximately \$20 million in DWSRF construction funds (from the 2014 cap grant, state match, and repaid interest and principal). The PPL (Attachment 1) identifies the VDH construction projects to receive dollars for funding in priority order, with funding breakdowns and other relevant project information. The PPL represents approximately \$31 million in requested assistance and \$28 million in offered funding; however, this total will be adjusted by VDH based on EPA funding, applicant responses, project readiness in accordance with DWSRF criteria, changes in

project scope, and/or actual construction bid results. VDH will utilize available SRF funds from prior year grant awards should any additional funds be required. The Comprehensive Project List (Attachment 1) details all projects submitted during this state application process and the current status of the project. If additional funds become available, VDH will continue down the list to fund eligible projects in priority order.

The EPA established certain requirements and goals for use of the DWSRF funds for water infrastructure construction. These include a requirement that not less than 20% nor more than 30% of the funds are to be used for additional subsidization in the form of principal forgiveness, negative interest loan, grants or combination. In order to meet the established goals and requirements of the DWSRF capitalization grant, VDH reserves the right to bypass higher ranked projects if necessary, to achieve the 20% floor and 30% ceiling additional subsidization requirement or the 20% GPR goal.

EPA requests that states set a pace target in each IUP. VDH's pace for FY 12 and FY13 was 85%. VDH will use 85% for a pace target for FY2014.

#### 1. Loan Terms and Fees

Under the DWSRF Program, the repayment period for loans is 20 years at an interest rate equal to one percent below the prevailing "AA" market rate at loan closing. Recent loan closings have been between 1.6% and 3.0% interest.

Principal forgiveness, lower interest rates, and 30-year term loans may also be provided for those recipients whose projects qualify as "disadvantaged". See the DWSRF Program Design Manual for details.

#### 2. Additional Subsidization

The DWSRF requires that no less than 20% and no more than 30% of assistance provided be in the form of additional subsidies. These may be negative interest rates, principal forgiveness, grants, or any combination of these. The VDH does not intend to provide any funding as negative interest rates or grants; however, principal forgiveness will be provided for eligible projects. The fundable range of the PPL demonstrates the percent of the capitalization grant that will be provided via principal forgiveness. Any subsequent revision to this PPL will likewise demonstrate that between 20% and 30% of the capitalization grant will be provided via principal forgiveness.

#### 3. Green Infrastructure

According to the DWSRF procedures, funds provided for projects to be used for water efficiency, energy efficiency, green infrastructure, or other environmentally innovative activities are optional.

#### 4. Assistance to Small Communities

All states are required to provide, to the extent possible, a minimum of fifteen percent (15%) of funds available annually for loans to small systems. Small systems are those that serve fewer than 10,000 persons. Based on the projects in the fundable range of the PPL, VDH expects to be able to provide approximately 50% of the funds available to small systems.

#### 5. Waivers for Federally Designated Natural Disaster Areas

As needed for DWSRF projects in federally designated natural disaster areas, Virginia will coordinate with EPA Region III and the EPA Office of Small Business Programs to obtain a waiver from the disadvantaged business enterprise requirements of 40 CFR Part 33. As needed

for DWSRF projects in federally designated natural disaster areas, Virginia will coordinate with EPA Region III and the U.S. Department of Labor to determine the extent that the Davis Bacon Act provisions apply to emergency projects.

#### 6. Emergency Projects

One or more projects identified in this IUP may be bypassed to provide funding for an emergency project where an imminent and severe public health or water quality problem exists, that requires the immediate construction of facilities to eliminate an existing potentially hazardous condition. Emergency projects are described in the DWSRF Program Design Manual. A project not on the current PPL may be funded only if it meets the emergency criteria. Any project previously identified on an IUP that is bypassed because of the “emergency project” will be given priority for future SRF loan funding. Emergency projects are expected meet requirements for technical, financial, and managerial capacity, environmental review, and other cross-cutting Federal authorities as applicable prior to funds being disbursed. To expedite the emergency project VDH will review all program requirements to determine if any may be waived.

### C. SET-ASIDES:

The set-asides are four categories of non-project funds that will be used for specified purposes up to a maximum amount allowable by federal statute and available through the current year grant award. An attachment to this IUP lists the suggested uses of set-aside funds proposed during the solicitation or public input phase of IUP development. An overview of major funding initiatives for the set-aside funds is given below.

#### 1. Administration and Technical Assistance:

The entire 4% available and allowed for the current year is being requested.

a. Administration – These funds will support the administrative functions of the Program, including one (1) Project Engineer, the DWSRF Project Officer, the Financial and Construction Assistance Program (FCAP) Division Director, DWSRF Fiscal Technician position, and applicable hours submitted by other staff. The latter positions are charged to other funding sources, but actual time applied to DWSRF administrative activities will be charged to these funds. Other administrative costs pertain to the review of applications and selected projects, application workshops, environmental reviews, analysis of applicants’ ability to repay loans, and VDH travel to meetings sponsored by EPA, CIFA, and others.

From this grant set aside, VDH funds a portion of the Virginia Resources Authority (VRA) for credit analysis summaries for each project, project loan closings, funding disbursements, accounting tasks, compliance review of closed loans, and annual audit of the construction loan fund.

Funds are also provided for legal assistance in contract renewals/commitments, proportional lease payments, insurance costs, and audit services.

b. Technical Assistance – No activity.

#### 2. Small System Technical Assistance:

Virginia is requesting the full 2% available and allowed of the Small System Technical Assistance funding. VDH will reserve any the remaining funds for use in future grants.

- a. Funding is provided to support six (6) part-time inspector positions to cover transient non-community waterworks.

### 3. State Program Management:

Virginia is requesting the entire 10% available and allowed of set-aside funding for the current year. VDH will reserve any the remaining funds for use in future grants.

#### a. Public Water System Supervision

- Continue the consolidation of regulatory oversight of the transient noncommunity waterworks within the Office of Drinking Water by supporting six (6) full-time positions, and one (1) part-time regulation developer.
- Improve the process to implement new federal rules and enforcement actions. Funds will pay for one (1) full-time paralegal position to assist in developing and processing the adoption of any necessary regulations, and strengthening enforcement actions.
- Continue funding for the Personnel Analyst to address ODW hiring, retention, continuity planning, and supervisory development.
- Additionally, staff hours for time applied to PWSS support will be charged to this grant based on actual hours reported.
- Fund the Employee Training and Development Coordinator to facilitate technical and administrative training, and address continuity development.
- Fund the (Central Office) technical services engineer as a liaison with field offices, waterworks, labs, and other state agencies, and EPA.
- Continue funds to support a courier system to deliver required samples to Division of Consolidated Laboratory Services (DCLS).
- Continue funding for technical training, web casts, travel, conferences, on-line training, and meetings for staff.
- Continue vehicle maintenance for field work.
- Continue funding for replacement copy machines, fax machines, printers, GPS systems, cell phones, pressure recorders, test gauges, and colorimeters.
- Continue lease payments for central and field offices.
- Continue funding for digitizing archived files and implementation of enterprise content management (ECM).
- Continue funding for database administrator and database development/maintenance.

#### b. Source Water

- Funding for a part-time wage position to assist in Source Water Protection activities.
- Travel and training for water protection activities.

c. Capacity Development

- No activity under the 10% capacity development; funded under 15% set-aside.

d. Operator Programs

- Activities now funded under 15% set-aside.

4. Local Assistance and other State Programs:

Virginia is limited to 15% of the available and allowed, with no more than 10% in a category.

Initiatives funded upon prior year grants, as well as newly-established initiatives, will continue in this grant performance period.

a. Loan and Protection Measures – No new money is added this year.

b. Capacity Development

Funding for one (1) full-time and one (1) part-time position to develop and oversee all capacity development programs, data collection, and reporting. Expenditures also include travel related to program development and data collection.

- Technical Assistance - continue funds for capacity development/project planning technical assistance grants.
- Technical Assistance - a portion of the Virginia Resources Authority (VRA) costs associated with direct technical assistance to waterworks for financial capacity building activities.
- Receivership Program - The Virginia Department of Health has statutory authority to petition a circuit court to place a waterworks into receivership. Receivership is a stop-gap measure to fund a receiver to provide technical assistance for operating and maintaining a waterworks for a limited time (generally no more than one year) until a long-term solution can be achieved. Receivership, however, is a limited tool in VDH's enforcement arsenal and there has not been a situation where it could be used effectively since it was enacted in 2003. It is extremely difficult to project potential funding needs for possible receivership cases in the future. VDH cannot anticipate when a waterworks may be referred from a field office that will fit the criteria for receivership, nor the size of such waterworks--both factors having a direct correlation to the amount of money needed to hire a receiver to operate and maintain the waterworks for approximately one year while the waterworks is in receivership.
- DWSRF database upgrades and integration funding.

- Short course entitled “Establishing a Successful and Sustainable Waterworks: Revenues, Rates, and Funding Short Course” will assist waterworks owners in full-cost pricing, staffing, and business plan development.
- Short course entitled “Hands-on Training at a Full Scale Water Plant” - a hands-on training will be offered in Salem at a full-scale water plant. The goal of the short course is to provide hands-on activities related to the full-scale, conventional water treatment plant and operator water quality control. The participants will backwash filters, perform filter drop and rise tests, feed chemicals, disassemble and reassemble equipment such as pumps and meters, measure the concentration of contaminants in the wastewater, etc.
- Outreach training for Drinking Water Fluoridation will also be offered and conducted by VDH staff.
- Distance learning website funding to support the Mountain Empire Community College program.
- Training programs include *Small System Applied Math*, *Fundamental Principles of Asset Management*, and *The Capacity Development Course* that addresses planning, going green, asset management, and hands-on operations.
- Training - VDH is partnering with Virginia Tech and the City of Virginia Beach to offer a week-long course devoted to all aspects of effective operation and maintenance of the distribution system. Topics include water quality parameters, including odors, tastes, corrosion by-products, pathogens, and turbidity; leakage and flushing. Course enrollment will be limited to 15 people, so that the various hands-on exercises can be conducted.
- Training - Provide specialty seminars and training events for waterworks owners/operators on various topics. Virginia Tech was awarded contracts to conduct training and to provide scholarships to training courses for disadvantaged operators/owners.

- Outreach materials, training supplies, and digital cameras continued funding.
- Funding for software and database upgrades.
- Asset management and GIS upgrades.
- Funds are also provided for legal assistance in contract renewals/commitments, proportional lease payments, insurance costs, and audit services.
- Technical Assistance - Engineering Services Contract(s). VDH will solicit for engineering services through consulting engineering firm(s) to provide small scope (less than \$25,000 each) project engineering directly to small water systems that do not have the financial, technical and or managerial capacity to retain an engineer. These projects shall address compliance and/or capacity issues of small public community systems serving less than 3,300 persons.
- Energy Efficiency Audits/Grants – VDH will work with the Virginia Department of Mines and Minerals under their existing Energy Efficiency Audit Program to provide contracted energy audits for all interested waterworks to ensure energy usage is conserved as fully as possible.

c. Source Water

- Funding (1) environmental engineer/geologist position to assist with source water protection efforts and environmental reviews.

d. Wellhead Protection

- Funding for additional staff time directed toward wellhead protection activities by positions funded by other grants/set-asides.
- Funds are proposed for use in supplementing existing state efforts to further protect source water. Collaboration has been established between Virginia Department of Environmental Quality (DEQ) and ODW to further initiatives begun in 2005. While DEQ assumes the lead in funding and coordination with waterworks, ODW provides funding and project approval input. Over the past year, increased funding coordination and collaboration has occurred between DEQ and ODW in an effort to optimize the state's program and resources.
- Implement and fund a new well abandonment pilot program based on a VDH set aside suggestion.
- Contractual – contracts have been issued to CHA, Golder Associates and TetraTech to continue the Source Water Protection Program services that were provided under a single previous contract.

e. Cyber-security initiative funding - “In kind” funds to remain with EPA based on a VDH set aside suggestion.

## **IV. Public Review and Comment**

In compliance with the requirement in SDWA sec. 1452(b)(1) to provide for public review and comment, the IUP undergoes public comment via mailings, internet, and a public meeting.

The IUP cover letter is also placed in the General Notices section of the Virginia Register. VDH will consider all meaningful public input and comments and make revisions to the IUP and project priority lists if necessary.

The VDH posted this Intended Use Plan at

<http://www.vdh.virginia.gov/drinkingwater/financial/IntendedUsePlan14.htm> for a 60 day public comment period beginning December 2, 2014. The VDH also provided notice by email of the availability of the IUP to all organizations and individuals on its distribution list.

The VDH will hold a public meeting to solicit comments and recommendations regarding the 2014 IUP on Wednesday, January 15, 2014 at the ODW's East Central Field Office, 300 Turner Road, Richmond, VA 23225. Any written comments from the public must be submitted by January 31, 2014; the close of the public comment period.

All comments received will be evaluated and consideration be given to amending this IUP and/or PPLs based on the merits of the comments.