

-BIL ANNEX A-
to the Clean Water State Revolving Fund (CWSRF)
Intended Use Plan (IUP)
FFY 2022 Bipartisan Infrastructure Law (BIL)
General Supplemental Fund

Introduction

The Infrastructure Investment and Jobs Act (IIJA) was signed into law on November 15, 2021 and has since been referred to as the Bipartisan Infrastructure Law (BIL). Under this law, additional funding is appropriated and awarded to State Revolving Fund (SRF) Programs annually between Federal Fiscal Year 2022-2026 to finance loans for water and wastewater infrastructure projects. Each BIL appropriation has specific provisions and implementation requirements. This annex to the base CWSRF Intended Use Plan (Annex) includes the implementation plan for the first year’s allocation of the BIL CWSRF General Supplemental Fund.

Iowa’s Federal Fiscal Year 2022 allocation is as follows:

2022	IA Allocation	Loan Forgiveness Available
CWSRF General Supplemental Fund	\$24,088,000	\$11,803,120

Annex and the CWSRF Intended Use Plan (IUP)

This Annex will address programmatic and financial variations from the base CWSRF Program IUP that are specific to the implementation and distribution of funds from the BIL CWSRF General Supplemental Fund. The SRF Program will issue Annexes related to the BIL annually, and update them quarterly, in conjunction with the annual and quarterly updates to the base CWSRF Program IUP. In the event of discrepancies between this Annex and the base CWSRF Program’s IUP, the terms of this Annex shall govern.

Project Priority List (PPL)

The BIL CWSRF General Supplemental Fund Project Priority List (PPL) and the base CWSRF Program PPL will be combined into one list. The methods of managing the PPL are described in Section 1 of the base CWSRF Program IUP.

Due to BIL funding requirements, projects being funded through the BIL General Supplemental Fund must enter into a loan assistance agreement within one year of becoming eligible for the funds. The CWSRF staff may bypass projects that have not signed a loan obligation within one year. If an eligible project is bypassed, the applicant may be reconsidered when the project is ready to move ahead.

Method of Amendment

The method of amending this Annex will follow the same process described in Section V of the base CWSRF Program IUP.

Application Process

The initial PPL submitted with the state’s FY 2022 BIL CAP Grant application will consist of eligible projects that are currently listed on the base CWSRF Program’s PPL but have not signed a loan obligation as of **June 30, 2022**.

Project applications eligible for SRF funding under the BIL will follow the same quarterly IUP application cycle as the base CWSRF Program IUP. Additional application information may be required for projects applying for BIL General Supplemental Funds. The SRF Program will provide additional application materials through the DNR¹ and SRF websites², as applicable.

¹ <https://www.iowadnr.gov/Environmental-Protection/Water-Quality/Wastewater-Construction/Construction-Permits>

² https://www.iowasrf.com/program/clean_water_loan_program/clean-water-srf-intended-use-plan-information/

The base CWSRF PPL is attached to the base CWSRF IUP as a separate document. See *CWSRF IUP Attachment 1 – CWSRF PPL*.

I. BIL General Supplemental Fund Program Overview

All CWSRF-eligible activities may be funded from the General Supplemental Fund appropriation under BIL. U.S. EPA granted states the flexibility to determine BIL priorities and select projects to receive this funding. The Iowa SRF Program will consider all eligible projects for funding under BIL General Supplemental Fund.

The SRF Program has selected Section 212 priority projects that are eligible to receive additional subsidization in the form of principal forgiveness. The BIL mandates that 49% of the BIL funds provided to the state through the CWSRF General Supplemental Fund must be provided as additional subsidization to the following recipients or project types:

1. Municipalities that meet the state’s affordability criteria.
2. Municipalities that do not meet the state’s affordability criteria but seek additional subsidization to benefit individual ratepayers in the residential user rate class.
3. Entities that implement a process, material, technique, or technology that addresses water or energy efficiency goals; mitigates stormwater runoff; or encourages sustainable project planning, design, and construction.

For FFY 2022, the Iowa SRF Program will prioritize additional subsidization to eligible projects from ***municipalities that meet the state’s affordability criteria***. The Iowa SRF Program will consider prioritizing additional subsidization to other eligible recipients and project types in future appropriation years.

Affordability Criteria

A key priority of BIL is to ensure that disadvantaged communities benefit equitably from this investment in water infrastructure. The CWSRF Program has historically focused on metrics such as income, population, unemployment and project costs to identify borrowers that would experience a significant hardship raising the revenue necessary to finance a project. In an effort to develop a more comprehensive definition of what it means to be a disadvantaged community, the Iowa SRF Program is broadening the range of metrics by which each community is evaluated to include other social, economic, and demographic information that may indicate a lack of access to affordable clean water and safe drinking water. These metrics are discussed in the “Socioeconomic Assessment Score” section, below, and they define the affordability criteria that will be used to evaluate the disadvantaged status of a borrower.

Loan Forgiveness

Iowa applies additional subsidization in the form of principal forgiveness of a loan. Loan forgiveness will be awarded for up to 90% of the loan amount, or \$1 million, whichever is less. Individual projects will be capped at \$1 million dollars to allow more eligible borrowers to receive subsidization. The CWSRF Program may withdraw the individual project cap if additional funding becomes available.

The total amount of loan forgiveness available for a project will be determined by adding together the loan forgiveness percentages for the priority project, the socioeconomic assessment score and the household burden indicator. The priority project and socioeconomic assessment score information will be available at the time of application. The percent of loan forgiveness for the household burden indicator can be projected using the engineers estimate. The final household burden indicator will be determined after the project has gone to bid, the actual project costs are known, and all other funding sources have been accounted for. *Projects will be funded from the top socioeconomic score down and in priority project ranking order with consideration given to readiness to proceed.*



Loan forgiveness will be applied to the portions of the project that meet priority project criteria. The final amount of loan forgiveness offered will be based on the eligible costs related to the final amount drawn on the loan. Loan forgiveness is applied as principal forgiveness on the date of the final loan disbursement.

Priority Project Percentage

Eligibility for loan forgiveness will first be assessed based on the type of project seeking funding. If the project is one of the priority projects listed in this Annex, the borrower will then be evaluated for disadvantaged status based on the Socioeconomic Assessment Score criteria, described below.

Socioeconomic Assessment Score

The second element of the loan forgiveness equation is an assessment of the community or service area's underlying socioeconomic and demographic condition that can determine the affordability of wastewater infrastructure projects. A Socioeconomic Assessment provides a comprehensive analysis of factors that typically determine whether a community is disadvantaged.

The disadvantaged status of a borrower *for the purpose of SRF loan forgiveness eligibility* will be determined by assessing 15 datapoints from publicly available sources produced by the U.S. Department of Commerce, Centers for Disease Control and Prevention (CDC), U.S. Department of Housing and Urban Development (HUD), Iowa Workforce Development, Iowa Department of Management, and the State Treasurer of Iowa. Data will be updated annually for each community and made available at IowaSRF.com.

The CWSRF program will use this data to determine if a borrower meets the affordability criteria for the purpose of SRF loan forgiveness eligibility.

Category/Metric	Source
Income and Poverty	
• Median Household Income (MHI)	American Community Survey
• % below poverty level	American Community Survey
• % Public Assistance/SNAP	American Community Survey
• % Supplemental Security Income	American Community Survey
Labor Force	
• Unemployment rate of primary county	Iowa Workforce Development ³
• % not in labor force	American Community Survey
Demographics	
• Population Trend	Decennial Census
• % Over age 65	American Community Survey
• % non-white, not Hispanic (% minority)	American Community Survey
• Social Vulnerability Index	Centers for Disease Control
Housing	
• % Vacant Homes	American Community Survey
• % Housing Cost Burdened	HUD Comprehensive Housing Affordability Strategy (CHAS)
Education	
• % with high school diploma or less	American Community Survey
Property Value and Debt	
• Valuation per Capita	Iowa Department of Management ⁴
• Debt per Capita	State Treasurer of Iowa ⁵

³ [Local Area Unemployment Statistics](#), rolling 12-month average unemployment rate of the primary county

⁴ [Local Government Valuation & Finance](#), 100% Valuations as of 1/1/2020 for SFY 2021-22

⁵ [Outstanding Obligations Report](#)

For each of the 15 metrics, applicants will be given a score indicating the relative disadvantage to the other communities in the state (see table below)⁶. Scores for each metric are totaled to produce an overall assessment of the applicant’s underlying social, economic, and demographic profile.

Percentile Rank	Relative Disadvantage	Points
Top 1/3	Low	0
Middle 1/3	Moderate	1
Bottom 1/3	High	2

Example: An applicant with a poverty rate falling in the 73rd percentile (a high rate) would be one of the bottom 1/3 of communities and receive 2 points for that metric.

With 15 total metrics, equally weighted, the maximum number of points will be 30. Communities or service areas with a cumulative score of 11 and up (e.g., falling in the top 2/3 of the total possible cumulative score) indicates that the community or service area is socially, economically, and/or demographically disadvantaged relative to the other communities in the state. Conversely, applicants who score in the bottom 1/3 of total cumulative points (e.g., 10 total points or less), will not be eligible to receive principal forgiveness. The amount of principal forgiveness available to a community will be established on a point scale as detailed below and may be adjusted annually in the IUP.

Applicants with a socioeconomic score between 11-30 points will be eligible for consideration of SRF loan forgiveness and may qualify to receive loan forgiveness from the FFY 2022 BIL General CWSRF Supplemental Fund (when combined with the other elements of the loan forgiveness equation).

	Point Range	Principal Forgiveness
Low	0-10	0%
Moderate-Low	11-15	15%
Moderate	16-20	20%
Moderate-High	21-25	25%
High	26-30	30%

One of the primary benefits of the Socioeconomic Assessment is that it provides a baseline view of the amount of loan forgiveness a community or service area will be eligible to receive at the time an IUP application is submitted. Then, when the project type is taken into consideration and construction bids are received and approved, the full extent of eligible loan forgiveness can be realized.

Upon approval of this Annex by the Department’s Environmental Protection Commission following a public review and comment period, the Socioeconomic Assessment Tool will be available to the public through the SRF website homepage at www.iowaSRF.com.

Household Burden Indicator

The third element of the loan forgiveness equation is an assessment of a community or service area’s household’s ability to afford the proposed project. The Household Affordability Assessment is made up of two components⁷:

- **Household Burden Indicator:** Total water costs for combined water and sewer service, including the project being financed by SRF, as a percent of the 20th percentile of community household income (lowest quintile income, or LQI)

⁶ The only exception is Population Trend. No points for positive or 0% growth, 1 point for negative growth up to -10%, 2 points for more than -10% population growth.

⁷ Credit to R Raucher, E Rothstein, and J Mastracchio’s [Developing a New Framework for Household Affordability and Financial Capability Assessment in the Water Sector](#), 2019

- Poverty Prevalence Indicator:** The percentage of community households at or below 200% of the Federal Poverty Level

Using this combination of factors will further indicate both the water cost burden borne by lower-income households as well as the overall affordability challenges facing the community.

The Household Burden Indicator may be computed with assistance from the Municipal Advisor after the construction bid has been awarded and other funding sources have been deducted. The borrower begins by determining the monthly water and sewer bill for residential users, assuming 5,000 gallons of usage per month (note that it may be normal for the service area or drinking water utility to differ from that of a sewer utility). The monthly total is then annualized and divided by the upper bound of the lowest quintile income from Table B19080 of the American Community Survey. The Poverty Prevalence Indicator for the community or service area is provided in the Socioeconomic Assessment analysis.

Assuming 5,000 gal/month

Monthly Water/Sewer Bill	\$145
Annual Water/Sewer Bill	\$1740
Lowest Quintile Income (LQI)	\$25,214
Total Water Costs as Percent of LQI	6.90%

The resulting benchmarks for the Household Burden and Poverty Prevalence Indicators are as follows. The amount of loan forgiveness attributed to the Household Affordability Assessment will correspond to the resulting category of unaffordability.

Percent of Households Below 200% of Poverty Level

Water Costs as a Percent of Income at Lowest Quintile	<= 20%	> 20% and <= 35%	> 35%
> 10%	Moderate-High Burden	Moderate-High Burden	High Burden
7% to 10%	Moderate-Low Burden	Moderate Burden	Moderate-High Burden
< 7%	Low Burden	Moderate-Low Burden	Moderate-High Burden

Burden	Principal Forgiveness
Low	0%
Moderate-Low	15%
Moderate	20%
Moderate-High	25%
High	30%

In the example above, a community with a Household Burden Indicator of 6.90% and Poverty Prevalence Indicator of 22%, would fall in the “Moderate-Low Burden” classification. This would correspond to an additional 15% of loan forgiveness toward their project.

Water Costs as a Percent of Income at Lowest Quintile	<= 20%	> 20% and <= 35%	> 35%
> 10%	Moderate-High Burden	Moderate-High Burden	High Burden
7% to 10%	Moderate-Low Burden	Moderate Burden	Moderate-High Burden
< 7%	Low Burden	Moderate-Low Burden	Moderate-High Burden

Priority Projects for Loan Forgiveness

In this first year of BIL funding, the Iowa SRF Program will prioritize loan forgiveness for eligible projects that address unmet needs of our communities, that will assist communities in meeting compliance requirements and that will address health and safety issues. The following list of priority projects was developed in coordination with the regulatory authorities of the DNR and the most recent Clean Watersheds Needs Survey (CWNS) results (2012). These projects are equally weighted to receive the maximum percent of loan forgiveness available to assign to priority projects.

Priority Projects for BIL CWSRF General Supplemental Loan Forgiveness:	% Loan Forgiveness
• Sewer Collection System Rehabilitation includes gravity sewers, relief sewers, pumping stations, force mains, SSO correction and CSO correction	30%
• Lagoons Advanced Treatment (Ammonia, E. coli) includes CDL optimization, sludge removal and equipment replacement	30%
• Advanced Treatment WWTPs (Ammonia, E. coli, Nutrients)	30%
• Aging Infrastructure WWTPs includes expansion of existing secondary treatment	30%
• Consolidation/Regionalization includes unsewered communities	30%

If a single SRF project includes more than one priority project type, the loan forgiveness award will be based on the primary purpose of the project. Loan forgiveness will be applied to the portions of the project that meet priority project criteria.

Types of Financing and Interest Rates

Construction Loans are offered with 20-year terms. An extended term loan is available up to 30 years, based on the average life of the project components. The interest rates for construction loans made from the CWSRF BIL General Supplemental Fund are as follows:

Loan Term	Applicant Type	Interest Rate	Servicing Fee	Total
Standard Tax-Exempt (up to 20 years)	All	1.75%	0.25%	2.00%
Extended (21 to 30 years based on useful life)	All	2.75%	0.25%	3.00%
Taxable Loans (up to 20 years)	All	2.75%	0.25%	3.00%

The SRF program continually monitors the market to ensure that our loan interest rates are appropriate while taking the program's cost of funds into account. Any necessary changes to loan interest rates will be communicated via future IUPs.

Fees

Loan initiation fees.

A 0.50% loan origination fee will be charged on new CWSRF loans up to a maximum fee of \$100,000. Under U.S. EPA rules, because Iowa's origination fees are financed through the loans, the proceeds are considered program income. Program income can only be used for the purposes of administering the CWSRF program or for making new loans. **Loan initiation fees will not be assessed on loans to borrowers that meet the affordability criteria and receive loan forgiveness due to their score on the Socioeconomic Tool.**

Loan servicing fees.

A servicing fee of 0.25% on the outstanding principal is charged on CWSRF loans. Payment of the loan servicing fee is made semi-annually along with scheduled interest payments. Loan servicing fees are calculated based on the outstanding principal balance. Under U.S. EPA rules, only servicing fees received from loans made above and beyond the amount of the Capitalization Grant and after the Capitalization Grant under which the loan was made has been closed

are considered Non-Program Income. Non-Program Income can be used to administer the program or for other water quality purposes. The uses of Non-Program Income are discussed in Section I of the base CWSRF Program IUP.

Co-Funding

The BIL General Supplemental Fund can be combined with base CWSRF loan dollars and loans and grants from other agencies. A single SRF assistance agreement will be used for projects that co-fund projects using both base CWSRF and BIL General Supplemental Funds.

See Special Conditions below for **Build America, Buy American Act (BABA)** rules as they apply to co-funded projects.

Special Conditions

Projects identified as “equivalency projects” are those projects that receive loan disbursements directly from Iowa’s federal allocation for the BIL General Supplement Fund. Equivalency projects are required to comply with all federal law regulating the BIL General Supplemental Fund, including but not limited to BABA. The CWSRF Program will work directly with projects identified as equivalency projects to ensure a full understanding of compliance requirements.

SRF Projects that are not equivalency projects may still be subject to BABA compliance if the infrastructure project is being co-funded by another federal agency. If this occurs, the entire project will be required to comply with BABA requirements. In these cases, the SRF Program will only need to document compliance with AIS domestic provisions. The SRF Program will coordinate with the applicant and the co-funding agency to avoid duplicating efforts to document and demonstrate AIS compliance.

II. Criteria and Method for Distribution of Funds

Project Ranking

The project ranking criteria for BIL General Supplemental Fund will be the same as described in Appendix B of the base CWSRF Program IUP.

Description of contingency procedures

Eligible projects on the base CWSRF PPL will be funded by BIL General CWSRF Supplemental Fund until the total amount of needs exceeds the year’s BIL General CWSRF Supplemental loan funding. Projects will be funded from the top down in the ranking order of the PPL with consideration given to readiness to proceed. A contingency status will be placed on the remaining eligible projects and they will remain on the funding PPL for the base CWSRF Program IUP. Projects on contingency status can be moved from the base CWSRF Program to the BIL General CWSRF Supplemental Fund PPL when funds are available or when the project is ready to proceed, whichever is applicable.

III. BIL Supplemental Program Goals

The FFY 2022 BIL General Supplemental Fund short-term and long-term goals and objectives are the same as the base CWSRF Program IUP goals and objectives identified in Section I of the SFY 2023 CWSRF Program IUP, with the following additions:

- Goal: Commit FFY 2022 BIL General Supplemental loan funds to as many recipients as possible in accordance with the state priority rating system, the IUP, staff resources, and available funding.

Objective: Identify projects on the current CWSRF PPL eligible to be funded with FFY 2022 BIL General Supplemental Funds. Accept applications quarterly and add additional projects to the PPL, as applicable, until all funding is obligated.

- Goal: Identify eligible applicants for loan forgiveness.

Objective: Using the new affordability criteria (described in this Annex) and priority projects, identify projects on the current CWSRF PPL eligible to receive loan forgiveness from the FFY 2022 BIL General Supplemental Fund. Accept applications quarterly and add additional projects to the PPL, as applicable, until all loan forgiveness funding is obligated.

IV. Assurances and Special Proposals

Iowa will provide the necessary assurances and certifications according to the Operating Agreement and between the State of Iowa and the U.S. EPA grant terms and conditions.

V. Financial

Summary of State's Financial Plan

See "Financial Management Strategies" located in Section 1 of the base CWSRF Program IUP.

Sources and Uses

See "Sources and Uses of Available CWSRF Funds" located in Section II and Appendix A of the base CWSRF Program IUP.

Planned Use of Fee Revenue

CWSRF expenses for administering the SRF include the work of wastewater engineering section project managers, administrative staff, specialists in environmental review, financial officers, loan coordinators, and program managers. It also covers expenses for financial and legal advisors. These program expenses will first be paid out of the base CWSRF Program Income and then BIL General Supplemental Program Income. They will then be paid from Non-Program Income once Program Income has been fully expended.

DNR intends to use a portion of Non-Program Income funds during SFY 2023 to support staffing to the Field Services Bureau for wastewater compliance activities including inspections, investigations and technical assistance and to support staffing in the Water Quality Bureau for construction permitting, National Pollution Discharge Elimination System permitting, AIS/BABA Site Inspections, and other programmatic staffing needs.

Estimates of Program and Non-Program Income resulting from BIL General CWSRF Supplemental Funds cannot be made at this time but will be provided in future updates to this Annex.

Loan Policies

Project Scope

The scope of the project must be outlined on the IUP application and in the Facility Plan. Additional project information may be required at the time of application for BIL General Supplemental Funds. Changes to the scope are allowed prior to loan closing. Significant changes in scope that cause delays and/or additional work required by the project manager or environmental review specialist, may result in loss of financing through the BIL General Supplemental Fund. Once a loan is signed, only minor changes to the scope will be allowed and only if they do not require additional technical or environmental review.

Project Readiness

Applicants cannot be offered SRF financial assistance until they meet program requirements. More information can be found in the [Wastewater Engineering Construction Permitting Process Manual](#)⁸

Compliance with Public Bidding Law

To the extent applicable, applicants must provide certification evidencing compliance with public bidding law, pursuant to Iowa Code Chapter 26, prior to closing a construction loan.

Compliance with Civil Rights Law

All programs, projects, and activities undertaken in the SRF programs are subject to federal anti-discrimination laws, including the Civil Rights Act of 1964, section 504 of the Rehabilitation Act of 1973, and section 13 of the Federal Water Pollution Control Amendments of 1972. These laws prohibit discrimination in any federally assisted program on the basis of race, color, national origin, sex, disability, or age. These laws apply by their own terms to the entire organization receiving federal financial assistance, not just to the project itself. Iowa is in the process of reviewing program activities to ensure compliance with federal civil rights laws.

⁸ Wastewater Engineering Construction Permitting Process Manual

https://www.iowadnr.gov/Portals/idnr/uploads/water/wastewater/wwmanual_full.pdf

Utility Rate Recommendations

Prior to closing a construction loan, applicants must demonstrate that appropriate action has been taken to implement the utility rate recommendations of their Municipal Advisor set forth in the 5-year pro-forma cash flow analysis.

Municipal Advisor

Borrowers will be asked to identify their Municipal Advisor for the project as part of the IUP application.

State Match

See Appendix F -State Match of the base CWSRF Program IUP.

VI. Technical Assistance

States have the flexibility to use up to 2% of their annual BIL General CWSRF Supplemental capitalization grant for the purpose of providing technical assistance to rural, small, and tribal publicly owned treatment works. The eligibilities for this funding are very broad. Iowa does not intend to duplicate the technical assistance efforts being provided by the U.S. EPA and other organizations receiving U.S. EPA Technical Assistance grants; so additional planning and coordination is needed before activities are identified for this funding. The Iowa SRF Program reserves the right to utilize 2% of the FY 2022 BIL General CWSRF Supplemental allocation at a later date.

VII. Public Review and Comment

Stakeholder engagement webinars were hosted on June 26, 2022 to present the preliminary implementation plans for BIL General CWSRF Supplemental funds. Comments were accepted through July 8, 2022. Questions and comments from stakeholders were taken into consideration and some changes were incorporated into this Annex as described above. A new dedicated web page was developed on the Iowa SRF website titled “Bipartisan Infrastructure Law (BIL) Funding Opportunities”⁹ to inform stakeholders of the latest BIL updates in a timely manner. A new dedicated email “water-infrastructure@dnr.iowa.gov” was created for stakeholders to easily submit questions and comments pertaining to BIL.

A public meeting to allow input into this Annex and PPL was held August 11, 2022, 10:00am via virtual conference call. This meeting was announced in a notice provided to the public, stakeholder organizations representing city officials, consulting engineers, county governments, councils of government, area planning agencies, and other groups which might have an interest. Written comments were accepted until August 18, 2022.

VIII. Project Priority List (PPL)

See *Attachment 1- CWSRF PPL*, to the base CWSRF Program IUP. This PPL includes projects that will be funded by the BIL General Supplemental Fund as well as the base CWSRF program. The PPL is included as a separate, sortable Excel file.

⁹ <https://www.iowasrf.com/infrastructure-bill-funding-opportunities/>