

ALASKA DRINKING WATER FUND

Intended Use Plan

State Fiscal Year 2026

July 1, 2025 – June 30, 2026

**For Federal Base Capitalization
funds appropriated in Federal Fiscal Year 2025 and
Bipartisan Infrastructure Law General Supplemental
funds appropriated in Federal Fiscal Year 2024**



**Submitted to the U.S. Environmental Protection Agency
By
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Division of Water – State Revolving Fund Program
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Acronyms

AAC	Alaska Administrative Code
ACWF	Alaska Clean Water Fund
ADEC	Alaska Department of Environmental Conservation
ADWF	Alaska Drinking Water Fund
AIS	American Iron and Steel
AWIA	America’s Water Infrastructure Act of 2018
AWWU	Anchorage Water and Wastewater Utility
BABA	Build America, Buy America Act
BIL	Bipartisan Infrastructure Law
CE	Categorical Exclusion
CWS	Community Water System
DBE	Disadvantaged Business Enterprise
DWP	Drinking Water Program
DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FFATA	Federal Funding Accountability Transparency Act

FFY	Federal Fiscal Year
FOCUS	Financial Operations and Cash Flow Utilization System
GPR	Green Project Reserve
IJA	Infrastructure Investment and Jobs Act
IUP	Intended Use Plan
LSL	Lead Service Line
MHI	Median Household Income
NTNC	Non-Transient Non-Community System
OASys	Online Application System
PBR	Project Benefits Reporting
PPL	Project Priority List
PWS	Public Water System
SDWA	Safe Drinking Water Act
SERP	State Environmental Review Process
SFY	State Fiscal Year
SRF	State Revolving Fund
TA	Technical Assistance
TAF	Technical Assistance and Financing
WIIN	Water Infrastructure Improvements for the Nation Act of 2016

EXECUTIVE SUMMARY

The Alaska State Revolving Fund (SRF) Program has been financing projects that help protect and improve water quality since 1989. This Intended Use Plan (IUP) describes the Alaska Department of Environmental Conservation (ADEC) plan for implementing the Drinking Water State Revolving Fund (DWSRF) during State Fiscal Year 2026 (SFY26). This Executive Summary provides a condensed overview of notable program changes and highlights for SFY26.

Notable Changes

The SFY26 DWSRF IUP is substantially similar to last year's DWSRF IUP. Impacts from the Infrastructure Investment and Jobs Act (IIJA), also known as the Bipartisan Infrastructure Law (BIL), remain similar, and SRF Program staff continue to coordinate with the US Environmental Protection Agency (EPA) on program and project requirements. Notable changes include:

- Disadvantaged Community Criteria revision to provide priority points to eligible projects related to a federal disaster declaration (see Appendix 3 for more information).
- Disadvantaged Community Criteria revision to increase the points assigned to rural communities from two to four points (see Appendix 3 for more information).
- Clarification of the Micro Loan opportunity for rural communities.

Recent Financing Activities

Recent financing for DWSRF projects is shown below:

	SFY21	SFY22	SFY23	SFY24	SFY25*
Number of agreements	8	13	8	19	5
New loan commitments (millions)	\$22.6	\$23.6	\$3.8	\$17.4	\$13.0

** The SRF Program is currently drafting a number of agreements that are expected to be issued before the end of the fiscal year; therefore, the SFY25 loan commitments will be updated in the annual report.*

Funding Program Outlook

Twenty-seven new project questionnaires were submitted by February 28, 2025. A total of 48 projects are included on the Project Priority List with a total funding request of \$176.3 million. The net amount available for DWSRF loans at this time is approximately \$124.5 million.

INTRODUCTION

The DWSRF was created by the 1996 amendments to the federal Safe Drinking Water Act (SDWA) to assist public water systems with financing the cost of infrastructure needed to achieve or maintain compliance with the SDWA. Section 1452 of the SDWA authorizes the EPA to award capitalization grants to states to provide seed money for the purpose of establishing a low-interest loan program (the DWSRF) and other types of assistance to eligible water systems. In Alaska, this loan program is administered through the Alaska Drinking Water Fund (ADWF) by the ADEC SRF Program.

In addition to the annual base DWSRF capitalization grant, the IIJA or BIL provided for new DWSRF appropriations over a 5-year period, one of which is referred to as the General Supplemental grant. There is a two-year window of opportunity to apply for the General Supplemental grants. Alaska applied for and received both the FFY22 and the FFY23 General Supplemental grants in the second year of opportunity.

This Intended Use Plan (IUP), required under the SDWA, describes how Alaska proposes to use available funds in State Fiscal Year 2026 (SFY26) from July 1, 2025 through June 30, 2026 provided by federal funds allocated to Alaska through the DWSRF Federal Fiscal Year 2025 (FFY25) base capitalization grant as well as the FFY24 General Supplemental grant.

The IUP 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. This IUP contains the following elements pertaining to both the base and supplemental grants:

- Short and long-term goals of the program.
- Project priority list, including project description and size of community.
- Criteria and method used for the distribution of funds.
- Description of the financial status of the DWSRF program.
- Description of the set-aside activities and percentage of funds that will be used from the DWSRF capitalization grant, including DWSRF administrative expenses allowance, program management support, technical assistance, etc.
- 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.

The notice of availability of the draft IUP was posted on the DEC Public Notice website on June 9, 2025. Subsequent to that notice of availability, the SRF Program presented an overview of the IUP at an infrastructure office hour hosted by the Alaska Municipal League and provided an opportunity to provide input and ask questions about the IUP.

The public comment period for the SFY26 IUP ran from June 10, 2025 through July 10, 2025. Appendix 5 includes the comments received.

PROGRAM GOALS

ADEC has identified long- and short-term goals intended to promote sustainable improvements to the state's infrastructure and help ensure maximum environmental and public health benefits.

Long-Term Goals

1. Foster coordination with other programs and agencies to improve assistance to water systems in their efforts to achieve compliance and improve capacity.
2. Maintain a working relationship with other infrastructure funding authorities, including but not limited to U.S. Department of Agriculture (USDA) Rural Development, Indian Health Service, and EPA to coordinate financial assistance for drinking water projects.
3. Develop program guidelines to improve the pace of loan projects.
4. Establish a marketing and outreach plan to expand program awareness, inform current and potential borrowers of the SRF's wide variety of funding options and benefits, and thereby, expand the borrower pool.
5. Pursue methods for encouraging borrowers to pursue innovative and non-traditional projects that enhance infrastructure resiliency and safeguard access to safe drinking water.
6. Fully implement the Financial Operations and Cash Flow Utilization System (FOCUS), a cash flow model for forecasting fund usage to allow for improved planning and funding allocation decisions and implementation of a long-term lending strategy.
7. Utilize a portion of the capitalization grant for set-aside activities that provide public water systems with guidance and technical assistance.
8. Pursue revisions to Alaska Statute at AS 46.03, to broaden ADWF eligibility for private water systems and tribally owned utilities.

Short-Term Goals

1. Enhance program marketing to reach new potential borrowers through various mechanisms including but not limited to:
 - a. Coordinating with EPA and EPA funded Technical Assistance (TA) providers;
 - b. Attending infrastructure office hours held monthly by the Alaska Municipal League (AML) to present information to attendees around the state;
 - c. Participating and presenting at conferences or symposiums hosted by AML and the Alaska Water Wastewater Management Association (AWWMA) on funding opportunities and advantages of borrowing from the SRF Program;
 - d. Collaborating with TA provider to develop an infrastructure assessment survey to assess a community's wastewater infrastructure needs;
 - e. Collaborating with TA provider to develop and refine an Alaska Drinking Water and Wastewater Funding Guide that provides comprehensive information on types of funding that are available to communities; and

- f. Revising the SRF Program website structure and format to manage the site information more efficiently and enhance the user experience.
2. Continue to monitor additional subsidy in terms of the allocation of loan forgiveness to new loan agreements and ongoing disbursements to active projects to ensure the SRF Program is meeting the General Supplemental capitalization grant requirements for the allocation of exactly 49% of the grant amount as additional subsidy.
3. Review current subsidy allocation methods by evaluating Disadvantaged Community Criteria to strategically use the DWSRF additional subsidy to achieve affordable compliance, especially for small, disadvantaged communities in accordance with a key priority of the IIJA or BIL implementation memorandum.
4. Pursue revisions to the regulations at 18 AAC 76 to increase the SRF Program's ability to address borrowers' needs, as well as federal grant conditions.
5. Review and update guidance materials developed for distribution to current and potential borrowers available on the SRF Program's website.
6. Develop topic-specific webinar content to provide SRF related training to existing and potential borrowers. The initial topic may provide a summary of the loan process from pre-application through project completion.

CRITERIA AND METHOD FOR FUND DISTRIBUTION

The following principles and procedures will be the basis for the administration, funding, allocation, and distribution of the DWSRF funding. The principles and procedures are designed to provide maximum flexibility for assistance and ensure the long-term viability of the revolving program.

Project Priority List of DWSRF Projects

For a project to be considered for funding from the ADWF, it must be included in the State's Project Priority List (PPL) of DWSRF eligible projects. The process is initiated when an eligible borrower completes a project questionnaire through the ADEC Online Application System (OASys).

Questionnaires are accepted year-round through OASys and are reviewed by a scoring committee on a triannual basis. The submittal deadlines for questionnaire reviews are February 29, June 30, and October 31. An email was sent to eligible borrowers in January 2025 providing information about the schedule and inviting submittal of project questionnaires to be considered for SFY26 funding assistance.

The project scoring committee, made up of representatives from the SRF Program, as well as the ADEC Drinking Water, Wastewater, Source Water Protection, and Nonpoint Source Programs, evaluates the project questionnaires based on the DWSRF criteria and assigns a numeric score to each project. Projects are added to the PPL in rank order. The rating criteria are provided in Appendix 1.

Appendix 2 includes the PPL, the list of public water systems in Alaska that have submitted a questionnaire to express interest in financing a capital improvement project through the SRF Program.

Amendments to the Project Priority List

ADEC amends the PPL to include additional projects after each triannual review and scoring of new project questionnaires. In updates to the PPL, any projects reviewed and scored is added to the PPL in ranked order. The amended funding list is publicly noticed for 10 days.

Project Readiness Bypass Procedure

When available funding exceeds demand, ADEC awards funding to ready-to-proceed projects without regard to project score or ranking because the SRF Program has sufficient funds to finance all projects. This ensures timely utilization of federal funds.

In the event the SRF Program does not have sufficient funds available to offer loans to all projects that are ready to proceed, ADEC works with water systems with the highest ranked projects on the PPL to ensure that those projects are given a chance to be funded first. However, the final funding selection of projects from the PPL is based primarily on the projects' readiness to proceed.

Projects are considered ready to proceed if the applicant is prepared to begin design and/or construction and is immediately ready, or poised to be ready, to execute a loan agreement with ADEC. If, for whatever reason, an applicant is not ready to proceed with completing a loan application and initiating a project, ADEC may select a lower ranking project for funding based on its ability to proceed in a timely manner. This bypass procedure is necessary to ensure that the available funds will be disbursed in a timely manner.

ADEC reserves the right to fund lower priority projects over higher priority projects if, in the opinion of ADEC, a higher priority project has not taken the steps necessary to expeditiously prepare for funding and project initiation (e.g., ADEC has not received the required documents to execute a loan agreement, the project is not ready to proceed with construction, or the applicant withdraws the project for consideration).

In addition, a project may be bypassed, as necessary, for the State to meet federal grant requirements for equivalency and additional subsidy. In the event that two or more projects have the same ranking, preference will be given to projects with the following criteria and in this order: ready to proceed; response to a compliance or legal order with a specific deadline; and inclusion of a green component.

SRF Program staff regularly evaluates the status of available principal forgiveness funds and the outstanding projects list on the PPL. The intent of this evaluation is to determine if the projects currently identified as receiving principal forgiveness actually are capable of applying for and entering into a loan agreement within the current program year. If during this evaluation, a project is determined to be incapable of meeting the requirements of the program, that project may be bypassed, and the corresponding principal forgiveness may be awarded to other eligible projects on the PPL. In addition to readiness-to-proceed, a project may be bypassed due to an applicant's inability to meet all other program requirements, failure to develop an approvable, implementable project, or for other reasons applicable under state or federal law. Any projects bypassed during the program year may be reconsidered for principal forgiveness funds in a future year.

Refinancing Existing Debt

Under the SDWA section 1452 (f)(2), and in accordance with the Code of Federal Regulations (CFR) §35.3525(c), DWSRF funds may be used by a publicly owned system to refinance existing local debt obligations for a project that would otherwise be eligible for SRF funding. Crosscutter requirements, including environmental review requirements, American Iron and Steel, and Davis-Bacon wage rate requirements apply to these projects. Documentation of an approved environmental determination at the time the project was initially financed must be provided. American Iron and Steel requirements apply to projects with construction after June 10, 2014. Davis-Bacon wage rate requirements apply to projects with construction after October 30, 2009. Refinancing requests will not be eligible to receive principal forgiveness.

Project Priority List Exception for Emergency Declarations

Upon issuance of an emergency declaration by a federal or state emergency response official, or upon a finding by ADEC, SRF funds may be made available for projects not currently included on the PPL if sufficient funds are available. For purposes of the SRF Program, an emergency refers to a natural disaster or manmade disaster that damages or disrupts normal public water system operations and requires immediate action to protect public health and safety. Bypass procedures may be waived under direct threat of severe public or environmental harm. Reasonable efforts to fund projects in priority order will still be followed under emergency situations.

In a federally declared disaster, a community may receive additional subsidy under the Disadvantaged Community Criteria's Project Priority Type described in Appendix 3. This allows impacted communities with a federal disaster declaration to apply for a low-interest loan and also qualify for loan forgiveness, if funding is available to provide that additional subsidy.

Phasing of a DWSRF Project

To make construction and/or funding more manageable, a project may be divided into separate funded phases or segments, at the option of the borrower. However, to be DWSRF-eligible, any such phase or segment must be of reasonable scope, and when constructed, must have the capability of being placed into immediate full operation, without its full operation being dependent on a subsequent project phase or segment or another outside operation yet to be completed. After a given project phase is funded, subsequent phases must stand separately in competing with other project for priority list ranking in later fiscal years.

Removing Projects from the Project Priority List

Projects on the PPL are monitored to ensure that applicants are proceeding with their projects in a timely fashion. A project may remain on the PPL for a maximum of two years. Projects retain the same score originally assigned unless a revised questionnaire is submitted and reviewed by the project scoring committee or the scoring criteria is modified. If an application has not been submitted for a project within two years, the project is removed from the list and a new questionnaire will be required to re-list the project.

Amendments to Existing Loans

A borrower may request an amendment to an existing loan agreement to modify the project scope, increase the loan amount, or both. Amendments that solely increase the loan amount by no more than 10% of the original loan amount, up to \$100,000, may be completed through an informal request for a loan amendment with the SRF Program Manager's approval. Similarly, minor scope changes that do not affect the location or purpose of the originally proposed project may also proceed with an informal request for a loan amendment with the SRF Program Manager's approval. Amendments that will increase the loan amount by more than 10% of the original loan, or more than \$100,000, and/or include scope modifications that affect the footprint

or purpose of the project, are required to be public noticed in an update to the PPL before the loan amendment is issued.

Project Scoring Criteria

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, and readiness to proceed were considered in developing Alaska's project scoring criteria. The scoring criteria is included in Appendix 1.

FUNDS AVAILABLE

Capitalization Grants

Alaska's allotment from the FFY25 federal appropriation for the DWSRF base capitalization grant is \$10,906,000. Alaska's allotment from the FFY24 federal appropriation for the DWSRF General Supplemental grant is \$22,985,000.

State Match

For each of the federal capitalization grants, Alaska must deposit an amount equal to at least 20% of the grant into the ADWF. The state match deposit for the base grant (\$2,181,200) will be provided through short-term bonding and is anticipated to be deposited by November 2025. The interest income of the ADWF is used as collateral to acquire bond receipts and avoids use of any general funds from the State budget. This process effectively substitutes bond receipts for interest income. ADEC is required to document that sufficient interest income exists in an amount equal to or greater than the proposed bonding amount, and that this process will still allow the ADWF to grow in perpetuity. ADEC's program audits have documented the availability of the required amount of interest.

The state match for the General Supplemental grant (\$4,597,000) will be provided through general funds appropriated by the Alaska Legislature in the SFY26 capital budget and will be available after July 1, 2025.

Cash Draw

Draws for loan funding from federal funding and the state match will follow grant-specific proportionality requirements. Set-aside funding will be drawn as 100% federal funds. Alaska's proposed payment schedule is presented below. To maximize flexibility, Alaska requests access to the full grant amount in the first quarter.

SFY26 Estimated Schedule of Payments

Grant Type	FFY	Grant Amount	Q1	Q2	Q3	Q4
Base	25	\$10,906,000	\$10,906,000	---	---	---
General Supplemental	24	\$22,985,000	\$22,985,000	---	---	---

Sources and Uses of Funds

In SFY26, the available funding for DWSRF-eligible projects is defined as the difference between the sources (past funds received and upcoming capitalization grants the State is applying to receive) and the fund uses (total program commitments).

The sources include past capitalization grants and state matches, the FFY25 base capitalization grant and state match, the FFY24 General Supplemental capitalization grant and state match, investment income for the ADWF, loan repayments received, and a past transfer of funds from the ACWF to the ADWF in SFY08. In addition, the SRF Program also includes projected loan repayments anticipated over the next two years as a source of funds. The projected loan repayments serve as a conservative means of predicting future cash flow.

The fund uses include total loan commitments, bonding and transaction costs associated with the state match, and set-asides to fund the following state activities: administration of the SRF Program, technical assistance for small systems, program management, and local assistance.

Estimated Available Funding- Base and General Supplemental Funding

Sources of DWSRF Funds	
Federal Grants Received (cumulative through FFY24)	\$302,668,836
FFY25 Base Capitalization Grant	10,906,000
FFY24 BIL General Supplemental Grant	22,985,000
State Match, Base and BIL General Supplemental Grants	6,778,200
State Match, prior years	48,792,915
Investment Income	24,809,273
Past Loan Repayments (principal + interest collected)	208,441,480
Projected Repayments through SFY27	31,526,306
Transfer from ACWF to ADWF (SFY08)	29,000,000
<i>Subtotal</i>	\$685,908,010
Uses of DWSRF Funds	
Existing Loan Commitments	\$434,588,511
Previous Bonding & Transaction Costs	39,339,908
SFY26 Bonding – State Match	2,186,700
Total Set-Asides	85,326,595
<i>Subtotal</i>	\$561,441,714
Net Resources Available to Provide Assistance	\$124,466,296

The SFY26 PPL includes funding requests of nearly \$176.3 million while the available funding at present is noted in the Sources table as \$124.5 million. The current demand is shown to be in excess of available funds; however, not all applicants may be prepared to move forward with loan agreements during SFY26.

In order to fully use available funds, the SRF Program will continue to accept questionnaires on a continuous basis throughout the year and will update the PPL three times during the year to provide flexibility to potential borrowers in adding projects to the funding list. The SRF Program will also continue marketing and outreach efforts to encourage new applicants to finance their projects through the SRF Program.

Past experience indicates that many of the applicants listed on the PPL will require technical assistance, and that not all of the planning and construction projects on the PPL will be ready for a funding agreement in SFY26. The SRF Program will execute loan agreements with as many applicants as possible and continue to assist the remaining applicants toward a financing agreement.

Fund Transfer

Under the SDWA and the IIJA or BIL, the State is allowed to transfer fund assets between the DWSRF base and the CWSRF base funds; DWSRF General Supplemental and CW General Supplemental funds; and DWSRF Emerging Contaminant and CWSRF Emerging Contaminant funds. ADEC may take advantage of this flexibility between the DWSRF and CWSRF programs in order to assure adequate capacity to meet all funding demands. In accordance with the SDWA Section 302 fund transfer provisions and the DWSRF and CWSRF IIJA or BIL implementation memo dated March 8, 2022, ADEC hereby reserves the authority to transfer an amount up to 33% of each DWSRF capitalization grant to the CWSRF or an equivalent amount from the CWSRF to the DWSRF. Appendix 4 includes a list of Alaska's DWSRF capitalization grant awards as a reference for potential transfers between the DWSRF and CWSRF.

The SRF Program has no current plans to transfer funds between the DWSRF and CWSRF but reserves the right to do so if needed to meet funding demands in either program during SFY26. If a transfer is required, the EPA will receive written notification.

Administrative Fee

Since December 29, 2000, assistance recipients have been assessed an administrative fee in the amount of 0.5% of the total dollars disbursed in accordance with Title 18, Chapter 76 of Alaska Administrative Code (18 AAC 76). Fee revenue is kept in the ADWF Fee Account, separate from the regular loan fund, and is used exclusively to pay program administrative costs. As of June 9, 2025, the balance of the ADWF fee account is \$7,026,319.

As noted in 18 AAC 76.258, ADEC will use administrative fees for direct costs including salaries, supplies, travel, and professional service contracts. In SFY26, the SRF Program intends

to charge ADWF administrative expenses to the ADWF fee account up to \$739,700. Expenses in excess of that amount will be charged to the Alaska Clean Water Fund (ACWF) fee account.

Finance Rate and Maximum Loan Terms

The finance rates, defined in 18 AAC 76, are calculated to reflect current market trends based on the Bond Buyer's Municipal Bond Index when the index exceeds 4%. The finance rate includes the interest rate and a 0.5% administrative fee. The state regulations also allow for a maximum loan repayment term of 30 years.

Finance Rates (effective September 10, 2017)

Loan Term	Finance Rate for any Bond Rate*Less than 4%	Finance Rate for Bond Rate* Greater than 4%
20-30 Years	2	$2 + (0.75 \times [\text{Bond Rate}^* - 4])$
5-20 Years	1.5	$1.5 + (0.625 \times [\text{Bond Rate}^* - 4])$
0-5 Years	1	$1 + (0.5 \times [\text{Bond Rate}^* - 4])$
<1 Year	0.5	0.5

*Bond Buyer's Municipal Bond Index Current Day – Yield to Maturity

SET-ASIDES

States are given flexibility to set aside specified amounts of the base and supplemental grants for specific activities. The table below list the types of set-asides and associated amounts that Alaska will fund using the base and supplemental grants.

Set-Aside Use for Base and General Supplemental Capitalization Grants

Set Aside Activity	Base Grant	General Supplemental	Total
Small Systems Technical Assistance (2%)	\$218,120	\$459,700	\$677,820
Administration & Technical Assistance (4%)	\$436,240	\$919,400	\$1,355,640
State Program Management (10%)	\$1,090,600	\$2,298,500	\$3,389,100
Local Assistance and Other State Programs (15%)			
DOW-Capacity Development-Operator Certification	\$1,090,600	\$2,298,500	\$3,389,100
EH-Drinking Water / Wellhead Protection Program	\$543,500	\$1,149,250	\$1,694,550
		TOTAL	\$10,504,410

DOW – Division of Water, EH – Environmental Health

The SDWA authorizes each state to set-aside a maximum of approximately 31% of the capitalization grant for set-aside activities including administration of the loan fund and assistance to water systems in meeting SDWA requirements. ADEC evaluated each of the four set-aside activities with the goal of protecting public health while maximizing loan fund dollars for infrastructure improvement projects. Set-Aside use for each of the four set-aside activities is

listed in Table 5. In support of the long- and short-term goals of the DWSRF, set-aside funds are used to fund a variety of technical assistance and capacity development activities as described in the following paragraphs. Detailed work plans for each set-aside will be submitted for EPA review within 90 days of award of the capitalization grant.

A state may also reserve the authority to access up to 16% of a year's capitalization grant from a subsequent grant, to be used for the activities allowed under the Administration and Technical Assistance set-aside (4%), the Small System Technical Assistance set-aside (2%), and the State Program Management set-aside (10%). When "banking" set-aside funds in this manner, the value of the banked funds from the current capitalization grant is placed in the loan fund. When banked funds are used in a new capitalization grant, the total set-aside use from that grant may exceed 31%, and the funding allocated to the loan fund in that year is reduced.

There is a federal limit on the amount of funds used for each set-aside category and the types of activities funded. In accordance with keeping unliquidated obligations at a minimum, ADEC will fully expend set-aside funds within a two-year period.

Small System Technical Assistance Set-Aside (2%)

In SFY26, the Division of Water Capacity Development Program will use 2% of the base grant (\$218,120) and 2% of the General Supplemental grant (\$459,700) for assistance activities focused on small systems that serve fewer than 10,000 people.

Administration and Technical Assistance Set-Aside (4%)

The 2016 WIIN Act provisions provide states with three options with regard to the amount used for this set-aside, whichever is greatest, as listed below:

- Four percent of all capitalization grants,
- Flat \$400,000, or
- 1/5 percent of the total valuation of the state revolving fund balance.

During SFY26, Alaska's DWSRF capitalization grant awards will total \$41,748,000 as itemized in the list below:

• FFY25 Base	\$10,906,000
• FFY24 General Supplemental grant	\$22,985,000
• FFY25 Emerging Contaminants grant	\$7,640,000
• FFY22 and FFY23 re-allotments	\$217,000

In total, Alaska may use \$1,669,920 for DWSRF administration or reserve (bank) that amount, or a portion thereof, for future use.

The Division of Environmental Health Drinking Water Program (DWP) will utilize 4% of the base grant (\$436,240) and 4% of the General Supplemental award (\$919,400) for technical assistance to support public water systems.

State Program Management Set-Aside (10%)

To supplement Public Water System Supervision (PWSS) program management activities, the DWP will utilize 10% of the base capitalization grant (\$1,090,600) and 10% of the General Supplemental grant (\$2,298,500) for SDWA compliance requirements.

Local Assistance and Other State Programs Set-Aside (15%)

Drinking Water and Source Water Protection Program

The Drinking Water Protection Program, within the DWP, will utilize 5% of the base capitalization award (\$545,300) and 5% of the General Supplemental award (\$1,149,250) for drinking water and source water protection-related activities.

Capacity Development and Operator Certification Programs

During SFY26, ADEC will continue to implement the recently revised Capacity Development Strategy that incorporates asset management as required under the America's Water Infrastructure Act of 2018 (AWIA). In addition, the Operator Certification Program will provide direct technical assistance to water system operator and owners. The Division of Water will use \$418,775 from the base grant and \$846,515 from the General Supplemental grant for implementation of the Capacity Development and Operator Certification Programs.

During SFY26, the SRF Program will continue implementation of a Small Utility Assistance Grant opportunity to provide funds to eligible recipients for sustainability and resiliency projects. This grant opportunity will use Local Assistance set-aside funds from the base and General Supplemental grants.

ADDITIONAL SUBSIDY

There are two distinct and additive additional subsidy authorities in the FFY25 base capitalization grant. Under the Congressional additional subsidy authority, Alaska must use 14% of the capitalization grant to provide additional subsidization to any DWSRF-eligible recipient. Under the second authority, the SDWA mandates that states use at least 12%, but no more than 35%, of the capitalization grant amount for additional subsidy for state-defined disadvantaged communities. In combination, the additive additional subsidy authorities require at least 26%, and no more than 49%, of the base grant must be offered in the form of additional subsidy.

Exactly 49% of the General Supplemental funding must be provided as forgivable loans or grants to communities that meet the state's disadvantaged community definition, consistent with the SDWA. In accordance with State regulations found at 18 AAC 76.230(c), additional subsidy is provided as principal forgiveness.

The amount of principal forgiveness ADEC allocates each year is dependent on the federal capitalization grant requirements and what ADEC forecasts the ADWF can afford while maintaining the ADWF's perpetuity.

All projects that are identified for subsidy allocation on the PPL must meet the following milestones in order to retain eligibility for subsidy:

- Submit a loan application within six months of the project being listed on the PPL; otherwise, subsidy funds may be made available to the next highest ranked eligible project.
- Initiate design and/or construction of the project within one year of completion of a loan agreement; otherwise, the loan agreement may be amended to remove principal forgiveness.

Any uncommitted subsidies that exist after one year of publication of the IUP will be distributed to projects with existing subsidies, or to those projects which are the furthest along in completion of construction. The SRF Program will aim to allocate required subsidy as quickly as reasonably possible; all required subsidy will be allocated within three years of the grant award to ensure compliance with the federal grant conditions. The total amount available for additional subsidy is approximately \$28 million as shown in table below.

Available Subsidy by Capitalization Grant

Base Grant		General Supplemental Grants		
FFY25	FFY22	FFY23	FFY24	Total Subsidy Available in SFY26
\$2,835,560	\$3,737,152	\$10,316,950	\$11,262,650	\$28,152,312

DISADVANTAGED COMMUNITY ASSISTANCE

The SRF Program has developed disadvantaged community criteria. Several factors are considered in identifying disadvantaged communities including those related to the household burden associated with income and the cost of water and wastewater service, as well as socioeconomic factors including the percentage of households utilizing assistance programs, the percentage of households below the federal poverty level, unemployment rates, and long-term population trends in the community. ADEC also includes several priority project types that impact the economic viability of a water system, including the presence of emerging contaminants. These factors, considered in total, are used to determine tiers of criticality for disadvantaged status with associated levels of principal forgiveness. Principal forgiveness is provided only to disadvantaged communities in tiers 2 through 5. More information about the disadvantaged community criteria is provided in Appendix 3.

Based on the points assigned in regard to household burden, socioeconomic factors and priority project types, each project on the PPL is assigned to a tier. To the extent that additional subsidy funds are available, disadvantaged communities may receive loan forgiveness associated with the base and supplemental capitalization grants as shown in the following table.

Disadvantaged Community Tiers

Tier	Point Range	Maximum Loan Forgiveness per Borrower
Tier1	0 to 3	n/a
Tier 2	4 to 6	\$1,500,000
Tier 3	7 to 9	\$2,500,000
Tier 4	10+	\$3,500,000
Tier 5*	N/A	Up to 50% of project costs depending on availability of loan forgiveness funds.

**Tier 5 is applicable only to projects related to federal disaster declarations.*

MICRO LOANS FOR RURAL COMMUNITIES

The Micro Loan category provides an additional financing option for eligible rural municipalities. In some cases, small rural communities may need financing for a project that does not have direct public health, compliance, or water quality implications and would therefore not score as highly compared to other capital improvement projects like replacing a treatment system. Examples of small Micro Loan projects may include funding for the purchase of heavy equipment or small pump replacements. While smaller projects like this may have a lower score on the PPL in comparison to larger infrastructure projects, these small projects may serve a critical purpose for a small rural wastewater utility.

In SFY26, the SRF Program budgeted to issue a maximum of \$1,000,000 for Micro Loans. Rural municipalities eligible for funding under the Village Safe Water (VSW) Act (Alaska Statutes Title 46, Chapter 7) may apply for a Micro Loan of up to \$500,000. In SFY26, Micro Loans will be offered with 100% loan forgiveness. By budgeting a specific amount for Micro Loans, the SRF Program commits to funding these smaller projects that may not be eligible for other financing options.

Loan applications from rural communities will be reviewed to determine the optimal financing option that the SRF Program can offer based on the project's ranking on the PPL and the amounts of loan forgiveness available to be assigned to projects. If a rural community's proposed project is planned to receive full forgiveness on the PPL, then it will be listed as such on the PPL and the additional Micro Loan eligibility requirements described below will not apply. If however, the project has a low score and would not be eligible because all available loan forgiveness was assigned to higher ranking projects, then the project may be included in the Micro Loan portion of the PPL. With a budgeted amount of \$1,000,000 maximum for Micro Loans in total, these projects are guaranteed funding within the budgeted amount.

To be eligible for Micro Loan funding, a community must also be eligible for VSW funding under the VSW Act. Projects that receive assistance from the tribal set-aside program for Indian

Tribes and Alaska Native Villages under the Safe Drinking Water Act §1452(i) are not eligible to receive a SRF loan.

Before a loan offer will be extended, a community must also demonstrate sufficient technical, financial, and managerial capacity by maintaining an Operations and Maintenance Best Practices score of at least 50 total points, including minimum scores in the following categories:

- Utility Management Training - 5 points
- Budget - 13 points
- Revenue - 15 points
- Payroll Tax Liability - 2 points
- Workers Compensation Insurance - 2 points

When originally developed and implemented in 2019, the subsidy allocations for Micro Loan projects were intended to range from 50% to 90% of the total project cost and were determined based on the community's capacity as demonstrated by the Operation and Maintenance Best Practices score and the affordability of the utility's current user rates. Based on the current availability of additional subsidy to allocate to new projects, Micro Loan projects will be fully subsidized up to \$500,000 in SFY26. The subsidy allocation may revert back to the 50% to 90% range in the future.

Micro Loan projects that are initially identified to receive principal forgiveness must meet the following milestones in order to retain eligibility of subsidy:

- Complete the loan application process within six months of the project being listed on the PPL; otherwise, subsidy funds may be made available to the next highest ranked eligible project.
- Initiate design and/or construction of the project within one year of completion of a loan agreement.

SUSTAINABLE INFRASTRUCTURE PLANNING PROJECTS

With funding provided through available loan funds, ADEC is continuing a program to assist disadvantaged public water systems to finance water system planning and related activities that promote sustainable infrastructure. For each Sustainable Infrastructure Planning Project (SIPP) on the PPL, a maximum of \$75,000 in loan principal may be forgiven for those borrowers that are considered disadvantaged communities. A maximum of \$75,000 in loan forgiveness for SIPP will be allotted per project and per borrower during SFY26. If one borrower submits multiple planning projects for consideration, the \$75,000 in potential loan forgiveness will be divided between the SIPPs.

Examples of eligible projects are described below:

- Feasibility Studies to evaluate infrastructure project feasibility. Studies may also include the evaluation of resiliency measures and continuity of operations, including identification of needed infrastructure improvements.
- Asset Management Plans for managing water system infrastructure assets.
- Consolidation Studies to evaluate potential for water system consolidation.
- Water Rate Analysis to evaluate water system rate charges, structure, and adequacy.
- Leak Detection Studies to detect water system leakage and identify potential solutions.
- Water System Master Plan to evaluate the needs of the water system in the long term and make recommendations for future improvements.

Any water system receiving a loan that includes principal forgiveness for a SIPP must enter into a loan agreement within six months of receiving notification that the project has been added to the PPL. The project must be completed within two years after signing the loan agreement. ADEC will allocate \$1,000,000 in subsidy funding for SIPP during SFY26.

SMALL UTILITY ASSISTANCE GRANTS

With funding provided through the Local Assistance Set-Aside funds, grant funds may be available for small public water systems that serve a population of 3,300 or less. Grant recipients must be municipally owned or privately owned not-for-profit community water systems or non-profit non-transient, non-community systems.

Backup power generator projects to maintain sustainability and resiliency are eligible for these grants. Due to the potential for widespread and prolonged power outages caused by severe weather, earthquakes, or other incidents which would impair a public water system's ability to provide safe and adequate drinking water, grant funds will be provided to allow for the purchase and installation of a generator to be used in the event of power outages caused by extreme events.

GREEN PROJECT RESERVE (GPR)

The FFY25 capitalization grant encourages, but does not require, the use of funds to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. To incentivize borrowers to include such aspects in their projects, ADEC awards 25 additional points in the project questionnaire scoring process for eligible GPR work. Green projects are identified in the funding list by green project category type.

At the time this IUP was drafted, nine projects had been initially identified with green components (see the PPL in Appendix 2). These projects will be further reviewed during the loan

application process to ensure that each project, in whole or in part, qualifies for GPR. Borrowers will be required to provide a Green Project Assessment form.

SMALL SYSTEM ASSISTANCE

Of the total amount available for assistance from the ADWF each year, ADEC must make at least 15% available solely for providing loan assistance to small systems, those serving populations less than 10,000, to the extent such funds can be obligated for eligible projects. With the exception of projects proposed for Anchorage and Juneau, all other projects on the PPL will serve communities with populations below 10,000.

FEDERAL REQUIREMENTS

Loan agreements will include all applicable federal requirements. All funding recipients must comply with the following:

American Iron and Steel

The American Iron and Steel (AIS) provision requires SRF assistance recipients to use iron and steel products that are produced in the United States. This requirement applies to projects for the construction, alteration, maintenance or repair of a public water system. Compliance with Build America, Buy America (BABA) iron and steel provisions will satisfy the AIS requirements.

Davis-Bacon Act Wage Requirements

ADEC requires the inclusion of specific Davis-Bacon contract language in bid specifications and/or contracts and confirms that the correct wage determinations are being utilized. In addition, ADEC collects certifications of Davis-Bacon compliance from online project quarterly report statements.

Environmental Review

All proposed construction activities funded by the SRF Program undergo an environmental review in conformance with the EPA-approved State Environmental Review Process.

Certain projects, identified as equivalency projects, will be identified to meet additional requirements in an amount equal to the current capitalization grants. Equivalency projects must comply with all of the following:

Federal Equivalency Requirements

Specific requirements referred to as federal equivalency requirements apply only to a subset of loans equal to the amount of the base and General Supplemental capitalization grants less any set-asides used rather than to all loans funded by the SRF Program. In SFY26, ADEC intends to take full advantage of the flexibility offered by equivalency to reduce the burden of the federal grant conditions for many applicants.

Based on total base and General Supplemental grant awards that total \$33,891,000 minus the planned use of \$10,506,210 for set-asides, the SRF Program will identify equivalency projects that total \$23,384,790.

The proposed equivalency projects are indicated on the PPL and include:

- | | |
|----------------------------------------------|--------------|
| • SFY25 Programmatic Financing (Pro Fi) Loan | \$11,500,000 |
| • SFY26 Pro Fi Loan | \$29,353,000 |
| • Girdwood Well 2 Upgrade | \$5,000,000 |
| • Whittier Well Replacement | \$3,500,000 |

The requested loan amount may differ when an application is submitted for any project; therefore, the SRF Program will continue to review all loan applications to identify those projects that can meet equivalency requirements without undue burden to the borrower.

The additional requirements applied to equivalency projects, in addition to the requirements applicable to all projects, are listed below:

[Build America, Buy America Act](#)

The BABA provision requires domestic preference procurement for iron and steel products, manufactured products, and construction materials.

[Disadvantaged Business Enterprise](#)

Loan recipients and their contractors must comply with the federal Disadvantaged Business Enterprise requirements.

[Signage to Enhance Public Awareness](#)

The SRF Program will post a notice on the SRF Program website to provide awareness of the benefits of equivalency projects, the source of funding, and the role of the SRF Program in providing financial assistance.

[Single Audit](#)

Borrowers who have received federal funds through ADEC's SRF Program may be subject to the requirements of the Single Audit Act and 2 CFR 200.

[Prohibition of Certain Telecommunication and Video Surveillance Services](#)

In compliance with Section 889 of Public Law 115-232, restrictions are placed on the use of some telecommunication and surveillance equipment.

ASSURANCES AND CERTIFICATIONS

The Operating Agreement, as well as each capitalization grant, contain conditions that must be met. ADEC is committed to complying with all conditions in both the Operating Agreement and each capitalization grant.

Timely and Expeditious Expenditure

The State will commit and spend the capitalization grant and state matching funds in a timely and expeditious manner. Within one year of the grant award, the State will enter binding commitments with the recipients equal to the amount of the grant award and proportional state match. Additionally, the State will strive to disburse available funds while maintaining enough cash on hand to meet disbursement obligations for two years.

To assure expeditious and timely expenditure of funds, ADEC continues to require that applicants initiate the project within one year of execution of the loan agreement and submit the first disbursement request within two years of execution of the loan agreement. If either condition is not met, ADEC may take action to recall the loan; however, an extension may be granted upon an applicant's request, if there is reasonable justification.

Fund Accounting Separation

The ADWF was established by statute as an enterprise fund of the State to serve as a revolving fund for financing drinking water system improvement projects. Funds allocated for set-aside activities authorized in Section 1452(k) of the SDWA are held in separate accounts; therefore, loan fund activities and set-aside activities are distinct and separate.

Financial Planning and Long-Term Financial Health

The SRF Program periodically evaluates the financial status and health of the ADWF by reviewing repayments, disbursements, and pending loan actions in order to assess the available funding for loans. This evaluation occurs when the PPL is updated three times per year. The SRF Program is also subject to an annual audit that in addition to providing the net position of the fund, also ensures that financial statements are presented accurately and in conformity with generally accepted accounting practices. The SRF Program has incorporated FOCUS, a cash flow modeling component into LGTS, and as indicated in Long-Term Goal 6 and Short-Term Goal 4 is working through the process to fully implement and integrate this tool into the existing financial planning process to support fiscal sustainability in accordance with 40 CFR 35.355(c)(3)(v).

Federal Reporting

EPA's SRF Data System (previously identified as the Project Benefits Reporting database) collects project-level information and anticipated environmental benefits associated with DWSRF projects. This system is also used to collect annual financial information which was formerly collected through the National Information Management System (NIMS). This annual information submittal is used to produce annual reports that provide a record of progress and accountability for the SRF Program. EPA uses the information provided to oversee the DWSRF state programs and develop reports to the US Congress concerning activities funded by the DWSRF Program. ADEC commits to entering benefits information on all projects into the SRF Data System by the end of the quarter in which the assistance agreement is signed. ADEC also commits to entering all program information into the SRF Data System on an annual basis as EPA requests.

Federal Funding Accountability Transparency Act

ADEC will report all SRF equivalency projects, i.e. projects identified to meet all the federal cross-cutting requirements whose sum is at least equal to or greater than the capitalization grant amount less any requested set-aside funds. Information will be reported no later than the end of the month following the date of an equivalency project finalized loan agreement.

Capacity Development

ADEC will comply with the requirements of capacity development authority, capacity development strategy, and operator certification program provisions in order to avoid withholdings of funds under § 35.3515(b)(1)(i) through (b)(1)(iii). Alaska's Capacity Development Strategy was updated in 2022 to comply with America's Water Infrastructure Act requirements and approved by EPA. The capacity development and technical assistance activities funded through DWSRF Set-Asides will align with these approved strategies. Specific set-aside activities related to capacity development will be described in the Set-Aside work plans submitted to EPA and summarized in annual operator certification and capacity development reports submitted to EPA for review and approval.

PUBLIC REVIEW AND COMMENTS

A notice of availability of the draft IUP was emailed directly to past, present and potential SRF borrowers and other stakeholders around the state. In addition, a notification about the availability of the draft IUP was distributed to 165 local governments through the Alaska Municipal League. The notice of public comment was also posted on the ADEC Public Notice website and on the SRF Program website throughout the 30-day comment period from June 10, 2025 through July 10, 2025.

Appendix 5 includes the comments received and the responses from the SRF Program.