



# The Tennessee State Revolving Fund: Program Policy Recommendations

## Preface

### The State of Water Infrastructure

Water infrastructure in the United States is aging and in need of replacement, and many systems are already failing. Estimates suggest \$1.25 trillion ([\\$625 billion](#) for Drinking Water infrastructure and [\\$630 billion](#) for Clean Water infrastructure) is needed over the next 20 years to invest in wastewater, stormwater, and drinking water systems. Inadequate investments in water infrastructure has a significant negative impact on the health and well-being of communities, and disproportionately impacts low-income communities and communities of color.

The Bipartisan Infrastructure Law (**BIL**), passed in November of 2021, was the single largest federal investment in water infrastructure to date. Of the \$55 billion to be administered by the Environmental Protection Agency (**EPA**), \$43 billion is being distributed through the Clean Water State Revolving Fund (**CWSRF**) and the Drinking Water State Revolving Fund (**DWSRF**) over Federal Fiscal Year (**FFY**) 2022-2026. Although 49% of these funds must be distributed to “disadvantaged communities” as grants or forgivable loans (rather than loans that need to be repaid), communities with the greatest need [still face several barriers](#) in accessing these funds. Interventions to address these barriers include reforms to State Revolving Fund (**SRF**) policies that determine how SRF funds are allocated to communities within each state.

## Why and How This Project Came to Be

In early 2023, PolicyLink started its three-year “Southern State Revolving Fund (SRF) Analysis and Advocacy Project” to help ensure equitable implementation of BIL SRF funds and base SRF programs in the South. In focusing on the South, we recognized that the racial and economic disparity in clean and affordable water is particularly pronounced there and that there was a need for strong community-based advocacy.

This project consists of two main phases:

### **Phase I: Analyses of DWSRF and CWSRF Across Seven Southern States**

In early 2023, PolicyLink partnered with the Environmental Policy Innovation Center (EPIC) to train and support policy analysts across seven southern states (Alabama, Arkansas, Louisiana, Mississippi, Oklahoma, Tennessee, and Texas) to conduct equity analyses of each state’s Clean Water and Drinking Water State Revolving Fund. These analyses are being used to inform advocacy in Years 2 (2024) and 3 (2025) of the project.

### **Phase II: Community-Based-Organization (CBO) Led Advocacy Across Four States**

Of the seven states, PolicyLink selected four states—Alabama, Louisiana, Tennessee, and Texas—for Phase II (supporting CBO-led SRF Advocacy). These represent two states from EPA Region 4 (Tennessee and Alabama) and two states from EPA Region 6 (Louisiana and Texas). PolicyLink selected a cohort of 16 CBOs (4 CBOs per state) to undergo SRF Advocacy training (administered by River Network) and supports them in their state and regional SRF advocacy efforts.

This document is part of the larger series of SRF program analyses (Phase I deliverables) developed by individual consultants, with guidance from PolicyLink and the Environmental Policy Innovation Center (EPIC).

To learn more about the project and/or to access other material related to the state analyses, please see the project [site](#).

## Acknowledgments

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- Alabama: Victoria Miller and Cindy Lowry, Alabama Rivers Alliance
- Arkansas: EPIC
- Louisiana: Rebecca Malpass, The Water Collaborative of Greater New Orleans
- Mississippi: Dr. Christine Curtis, Grow Where You’re Planted
- Oklahoma: EPIC
- Tennessee: Grace Stranch and Anne Passino, Harpeth Conservancy
- Texas: Danielle Goshen, National Wildlife Federation

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# Abbreviations Sheet

**ARP** - American Rescue Plan  
**ATPI** - Ability to Pay Index  
**BIL** - Bipartisan Infrastructure Law  
**CW** - Clean Water  
**CWA** - Clean Water Act  
**CWSRF** - Clean Water State Revolving Fund  
**DAC** - Disadvantaged Community  
**DW** - Drinking Water  
**DWSRF** - Drinking Water State Revolving Fund  
**EPA** - Environmental Protection Agency  
**GPR** - Green Project Reserve  
**IIJA** - Infrastructure Investment and Jobs Act  
**IUP** - Intended Use Plan  
**LSL** - Lead Service Line  
**NIMS** - National Information Management System  
**PFAS** - Per- and Polyfluorinated Substances  
**PRL** - Priority Ranking List  
**SDC** - Small and Disadvantaged Community  
**SDWA** - Safe Drinking Water Act  
**SRF** - State Revolving Fund  
**SWIG** - State Water Infrastructure Grants  
**TA** - Technical Assistance  
**TAUD** - Tennessee Association of Utility Districts  
**TDEC** - Tennessee Department of Environment and Conservation  
**TLDA** - Tennessee Local Development Authority  
**TPUC** - Tennessee Public Utilities Commission  
**UDL** - Utility Development Law  
**WRRDA** - Water Resources Reform and Development Act  
**WWTP** - Wastewater Treatment Plant

# Introduction

The State Revolving Fund (**SRF**) Program in Tennessee is comprised of the Clean Water State Revolving Fund (**CWSRF**) and the Drinking Water State Revolving Fund (**DWSRF**). These two funding programs are the primary way the federal government provides support for water infrastructure in Tennessee. Tennessee is required to match 20% of the federal funds. The Infrastructure Investment and Jobs Act (**IIJA**), also known as the Bipartisan Infrastructure Law (**BIL**), included an infusion of supplemental funds to the SRFs for a set period of years, providing additional funds specifically designated for lead service line replacement (**LSLR**) and to address emerging contaminants (**EC**).

Tennessee has taken significant positive steps to meet the growing challenges facing its aging water infrastructure and under-served communities: it has identified pilot projects for “emerging issues” including lead testing, disaster resilience, sustainable and resilient projects, urban waters, and water loss; it has actively worked to expand technical assistance opportunities; it has begun partnering with other state agencies to review opportunities for small and disadvantaged communities; and it offers small communities assistance with planning and design loans, which can help work towards later construction loans. Most recently, the SRF program repurposed the State Water Infrastructure Grants (**SWIG**) program to offer funding streams for lead service line inventory efforts (funding to investigate LSLs that can be used to develop a plan for replacement eligible for BIL LSL SRF grants) and asset management plan development, which includes streamlined application project and assistance with writing and developing a plan.

On top of these efforts, Tennessee can take additional steps to expand its equitable application of SRF funds and leverage the program to maximize its reach. After all, there is a large pipeline of projects in Tennessee’s SRF programs but significant carry-forward of funds, meaning that Tennessee has additional work to do to connect communities with available funds.

This summary memorandum provides a high-level analysis of key components of the policy framework for Tennessee’s water and wastewater infrastructure State Revolving Fund program, which is comprised of the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund. To help community groups identify opportunities to engage with policymakers, this memo offers recommendations

intended to make the state’s funding decisions and stakeholder engagement process more equitable and transparent. This memo distills a more in-depth analysis of the SRF program conducted by the Southern States SRF Policy Analysis in January 2024, which included citations to sources of information.

## Recommendation 1: Improve Allocation of SRF Funds

### Redefine “Disadvantaged Communities” and Explicitly Encourage Smaller-scale Eligible DACs to Apply.

The SRF program includes special provisions to help “disadvantaged communities” (**DACs**). Tennessee’s SRF program prioritizes projects that benefit economically disadvantaged and small communities. To identify such communities, Tennessee has developed a tool called the Ability to Pay Index (**ATPI**). The ATPI is comprised of nine factors calculated at the city-level and county-level: median household income, unemployment, food stamp dependence, families in poverty, community assets, revenues, debt, expenditures, and change in population. Several aspects of Tennessee’s SRF programs rely on the Ability to Pay Index:

- Whether a community is considered “disadvantaged” [ATPI score of 50 or less];
- What interest rate to charge [Tennessee offers a tiered interest rate structure ranging from 40-100% percent of 20-, 25-, and 30-year Bond Buyer Index and Municipal Market Data General Obligation Yields];
- Whether a community is eligible for principal forgiveness [for example: per the CWSRF, communities with ATPIs of 50 or less are eligible for 20% principal forgiveness (up to a maximum of \$2,500,000 in principal forgiveness per project); per the DWSRF, TDEC offers 50% principal forgiveness from BIL funds with a maximum of \$5 million per project]; and
- How to prioritize projects [projects with the same priority points are ranked in ascending order using the ATPI and population].

To implement the state’s policy preference to help small and disadvantaged communities (**SDCs**), Tennessee also makes small communities (population of 20,000 or fewer) eligible for priority principal forgiveness, capped at \$250,000.

**Currently, because Tennessee remains largely rural and has many economically distressed areas, the ATPI captures more than half of Tennessee communities.** In addition, in 2022, the Environmental Protection Agency (EPA) raised questions about the ATPI’s efficacy in capturing disadvantaged or water-rate burdened communities, noting that the ATPI’s indices are well-suited to objectively comparing communities but “can also create an appearance of objectivity that obscures the many value judgments embedded in them.” EPA’s guidance also identifies several factors not currently considered by Tennessee’s ATPI, but which could help identify disadvantaged communities such as whether a community is considered an Environmental Justice (EJ) community.

Opportunities to target needed funds include revising the “disadvantaged communities” definition to make it easier to review not only city/county level data but also census tract information, which would help identify subpopulations that may be obscured within urban or relatively affluent communities.

### **Include ATPI Factors From EPA’s Climate & Economic Justice Screening Tool**

TDEC could consider explicitly including in the ATPI factors like those identified in EPA’s Climate & Economic Justice Screening Tool, which identifies census tract communities as disadvantaged if they are at or above (1) the threshold for one or more environmental, climate, or other water burdens; (2) the threshold for an associated socioeconomic burden; or (3) the 50th percentile for low income, and completely surrounded by disadvantaged communities. EPA’s screening tool includes census-tract datasets for factors like race, age, projected flood risk, energy cost, lack of indoor plumbing, and wastewater discharge. 1B. Incorporate Environmental Justice Data

According to TDEC, the ATPI may be used at a neighborhood scale and is flexible enough to incorporate other Environmental Justice (EJ) data, but such information is not evident from the dashboard. Therefore, TDEC could ask its contractor to make that information available on the ATPI dashboard.

## **Recommendation 2: Maximize Assistance.**

**Use more set-aside funds and planning loans (including Principal Forgiveness) to support project development, along with outreach to non-traditional entities. Consider 100% PF for high-priority projects for DAC/EJ communities.**

In the latest Intended Use Plan (IUP) for the Drinking Water SRF program, TDEC significantly reduced its set-aside funds from those initially included in the draft Intended Use Plan, though the total amount increased (N.B. funds in certain set-aside categories have limitations on their use) (see **Table 1: Changes in Set-Aside Funding in the DWSRF Program**):

**Table 1:** Changes in Set-Aside Funding in the DWSRF Program

Category	Draft DWSRF IUP	Final DWSRF IUP
Administrative and Technical Assistance – Base (up to 4%)	\$332,480 (4%)	\$0
Administrative and Technical Assistance – BIL (up to 4%)	\$1,417,720 (4%)	\$969,466 (2.5%)
State Program Management (Water Supply) - Base	\$0	\$535,360 (5.4%)
State Program Management (Water Supply) - BIL	\$2,835,800	\$2,834,991 (7.3%)
State Program Management (Operator Certification) - Base	\$0	\$317,957 (3.2%)
State Program Management (Operator Certification) - BIL	\$708,860	\$626,447 (1.6%)
Small Systems Technical Assistance – Base	\$0	\$199,061 (2%)
Small Systems Technical Assistance – BIL	\$708,860	\$626,447 (1.6%)
Asset Management Plan (AMP) Grants * - BIL	\$0	\$3,886,620 (10%)
Local Assistance – BIL (focus: source water protection program for small communities & DACs)	\$602,531 (1.7%) / elsewhere \$447,884	\$447,884 (1.1%)
<b>TOTAL</b>	<b>4</b> <b>\$6,451,60</b>	<b>3</b> <b>\$10,444,23</b>

**Source:** [DWSRF IUP](#) (p. 25); [DWSRF DRAFT IUP](#) (p. 25)

Maximizing the amount of set-aside funds used by Tennessee’s SRF program and extending outreach to nontraditional entities may address two related issues facing the program, both of which suggest there are outstanding opportunities to connect communities with the funds.

First, Tennessee’s SRF program carries over a significant amount of funds each fiscal year from the program. This means that communities are not connecting with those funds. Tennessee’s Drinking Water SRF program has an unobligated balance of approximately \$97 million and a net position of over \$209 million; it has been estimated that, in recent years, less than 10% of the funds requested were granted and only 0.12% of the capitalization grant (\$20,000 compared to \$21 million requested) in FY2021 went to green infrastructure projects. Similarly, the Clean Water SRF has an unobligated balance of \$269 million. According to the Southern Environmental Law Center, “[I]n SFY 2022, the Federal Capitalization Grant provided \$23.082 million to the fund with a 20% state match of \$4.6164 million. However, of that \$27.7 million influx, the program granted only \$1.235 million in principal forgiveness, or a rate of just 4.45% forgiven. In addition, none of the projects received subsidization under the Green Project Reserve. This is despite there being \$12.15 million of green loans requested that year.”

**Table 2:** Percentage of SRF Funds Carried Over to the Following Fiscal Year

	DWSRF	CWSRF
FY2020	47%	27%
FY2021	54%	34%
FY2022	90%	47%
FY2023	62%	52%

**Source:** [DWSRF IUP](#); [CWSRF IUP](#)

One caveat, perhaps, is that even while the SRF program carried over funds (as shown in **Table 2**), Tennessee has been distributing a massive amount of federal funding for water-related infrastructure projects as a result of the American Rescue Plan. For example, Tennessee’s Financial Stimulus Accountability Group directed \$1.35 billion of the ARP Fiscal Recovery Funds to water, wastewater, and stormwater infrastructure. Since 2021, TDEC has awarded approximately \$1 billion as noncompetitive grants and approximately \$200 million for its competitive grant program focused on regionalization, water reuse, and resource protections. All funds must be obligated by December 31, 2024, so many projects that might have been appropriate for the SRF program were likely captured by the swift, massive influx of ARP funds.

*Second*, for now, there is an insufficient pipeline of SRF projects, especially for emerging contaminants and green infrastructure. As of December 2023, there are “no applications for emerging contaminants specific funds.”

TDEC is taking steps to address these challenges. For example, the state is planning to use almost \$4 million for Asset Management Plan (AMP) grants: “[State Water Infrastructure Grants] SWIG anticipates awarding up to twenty [Asset Management Plan] AMP grants in SFY 2024. Grant award maximums are \$250,000 per applicant.... Match is required for all AMP grants. Each recipient is anticipated to contribute a match ranging between 15% and 25% of the total project cost.” Also, one of the DWSRF short-term goals in the FY2024 Intended Use Plan is to “Expand and broaden outreach activities to ensure that public and private water systems are well-informed about DWSRF assistance options and the loan application process. This includes presenting at regional roundtables and an annual statewide workshop in collaboration with the Tennessee Department of Economic & Community Development and USDA-Rural Development to promote the DWSRF Loan Program.”

For the next IUP cycle, TDEC could expand its outreach efforts even more. That is, in addition to helping communities develop eligible projects and move them through readiness to construction, **TDEC could look for non-traditional partners and innovative projects.** Expanding the loan process to include non-traditional eligible entities, for example, could help connect communities with decentralized water and wastewater systems to centralized systems. See, e.g., Tenn. Code Ann. § 68-221-301 (“Eligible recipients of grants awarded pursuant to this part must be limited to the types of entities eligible for low-cost loans under parts 10 and 12 of this chapter or *otherwise eligible as provided by federal law for the capitalization grants authorized for the loan programs* established by parts 10 and 12 of this chapter. Eligible projects must be limited to those authorized by parts 10 and 12 of this chapter or otherwise eligible as provided by federal law for the capitalization grants authorized for the loan programs established by parts 10 and 12 of this chapter. The commissioner may administer the grant program in accordance with criteria set by the federal government.”) (emphasis added); Tenn. Code Ann. § 68-221-1005(l) (“(1) The department and the authority may use any federal funds allocated to the state to make loans and to subsidize loans made through the program authorized by this part, through such mechanisms as

forgiveness of principal, other loan forgiveness, and through refinancing or restructuring of debt; (2) *The department and the authority may administer the program using the funds in accordance with the criteria set by the federal government*; and (3) *The department may promulgate rules and develop forms that may be deemed necessary for the program.*) (emphasis added); Tenn. Comp. R. & Regs. 0400-46-01 (Priority Ranking System).

This recommendation is premised on the observation that, although smaller communities have been prioritized in the annual Intended Use Plans, Tennessee has struggled to fund projects for small systems. For example, in fiscal year 2021, the state provided principal forgiveness totaling approximately 2.6% of the capitalization grant to systems serving fewer than 10,000 persons.

**Therefore, stakeholders can encourage TDEC to:**

1. Build upon outreach efforts to affected communities and non-industrial stakeholders to identify more innovative and shovel-worthy projects and connect communities with available funds;
2. Support strategies to protect source waters, including TDEC’s short-term goal to review the statute governing the DWSRF program for updates, “including improved clarity or language regarding source water protection eligibilities”; and
3. Fully use set-aside funds for technical assistance to build capacity, sourced from the allowance for administration (4%), small systems technical assistance (2%), and local assistance (15%) — helping applicants become ready to proceed and able to receive construction loans.

### **Recommendation 3: Change How Tennessee Prioritizes the Distribution of Funding**

As referenced earlier, Tennessee’s DAC definition already captures a significant percentage of Tennessee’s counties and communities. Therefore, one approach to finding the most critical projects would be for TDEC to balance the factors and score communities against each other, creating a relative ranking system to determine the most deserving communities and the most imperative needs.

In addition to restructuring the CWSRF prioritization process to include a sliding-scape or multi-variant point system, TDEC could also award specific points to projects that advance climate resilience, source water protections, and regionalization.

For the DWSRF program, TDEC could work toward more granular prioritization metrics by IUP or regulation.

### **Recommendation 4: Condition and Incentivize Regionalization**

The state has identified regionalization as a goal, but additional steps could be taken, including incentivizing integrated planning and otherwise conditioning SRF loans on appropriate changes by a utility to encourage regional water planning. Regionalization has the co-benefits of:

1. Reducing land impacts from new developments and thereby creating opportunities to protect recharge zones, wellhead protection areas, and source waters, more generally; and
2. Improving the safety and reliability of water and wastewater for decentralized users by connecting them with regional systems.

For rural Tennesseans facing pollution caused by failing septic systems, the SRF program provides ways to complement the move toward regionalization by improving current conditions. TDEC can accelerate its source water protection program and investigate the source water petition program whereby EPA has the authority to provide grants to connect households to public water systems (same standard to receive assistance to improve septic or connect to centralized wastewater systems). Strategic use of principal forgiveness and technical assistance can help address challenges that may emerge in relation to regionalization.

For example, some set-aside funds could be considered for use in supporting governance concerns to ensure smaller systems have a voice in the process of consolidation. For larger systems, PF could be offered for issues with the legacy system or for projects required by the smaller system.

## **Recommendation 5: Enhance Transparency**

TDEC's SRF website contains many pages with substantial resources to help stakeholders and the public understand the resources available and the policy choices driving funding distribution.

### **Additional steps to change how SRF administrators share information and respond to public input include:**

1. Providing more public information, like inserting a "funding line" on the Project Ranking Lists (PRLs) to indicate projects that will receive awards or publishing a "funding list" in addition to the PRL;
2. Ensuring that all public hearings are recorded and posted online in time to be helpful to public commenters; and
3. Developing a DWSRF priority ranking system metrics by notice-and-comment rulemaking; and maintaining notices, drafts, and historic records on TDEC's SRF website.



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