



VIA EMAIL

July 24, 2026

**Paul W. Montgomery, Mayor
City of Kingsport
225 West Center Street
Kingsport, TN37660
PaulMontgomery@Kingsporttn.gov**

**RE: Encumbrance Letter – Clean Water State Revolving Fund Loan
CW21 2026-503; City of Kingsport**

Dear Mayor Montgomery:

The Tennessee Department of Environment and Conservation (TDEC), through its Clean Water State Revolving Fund (CWSRF) Program, is pleased to issue this Encumbrance Letter to City of Kingsport in support of the City's long-term clean water system improvements.

TDEC recognizes the critical importance of these projects to the health, safety, and economic vitality of the community. In support of this critical infrastructure investment, the CWSRF hereby encumbers six million dollars (\$6,000,000) for the Collection System Replacement (Replacing approximately 2,400 LF of 18-inch and 24-inch diameter PVC/DIP interceptor; and rehabilitating approximately 2,100 LF of 12-inch diameter sewer line in the Reedy Creek Sewer Basin.) subject to compliance with all applicable federal and state regulations.

1. Conditions of Encumbrance

The CWSRF hereby encumbers the funds identified above for City of Kingsport contingent upon satisfaction of the following:

1. Timely submission of annual financial audits to the State of TN Comptroller's office;
2. Demonstrated ability to manage debt service via an SRF financial sufficiency review;
3. TDEC approval of engineering design plans and environmental reviews, if applicable;
4. Continued availability of funds within the CWSRF at the time of loan closing.

2. Encumbrance Package

City of Kingsport is now authorized to move forward with the loan process. Using the attached Public Meeting Guidance, conduct the required public meeting(s) and pass an Authorizing Resolution. A resolution template is provided for reference but is not required. Then, return all required documentation to SRF by uploading it to https://forms.tdec.tn.gov/?FormTag=SRF_DOCUMENTS.

3. Loan Terms

If all conditions are met, the borrower can expect an agreement with the following loan terms. The loan agreement **is not considered to be executed** until it is presented to the Tennessee Local Development Authority (TLDA) board, approved and signed by all parties. **No funds can be spent prior to loan execution.**

The proposed loan terms:

- **Interest Rate:** 1.98%

- **Repayment Period:** 20 years
- **Principal Forgiveness:** one million eight hundred thousand dollars (\$1,800,000)
- **Security:**
 - o **Towns, Cities, and Counties**
Security is provided through user fees and ad valorem taxes in the form of pledged State-Shared Taxes equal to maximum annual debt service.
 - o **Utility Districts and Commissions**
Security is provided through user fees and a required security deposit equal to maximum annual debt service.
 - o **Estimated Annual Debt Service:** \$254,692 (*subject to change upon loan execution*)

CWSRF loans are subject to, but not limited to, the following general contract terms and conditions:

- Compliance with all applicable federal and state requirements, including:
 - o Davis-Bacon Act labor standards,
 - o American Iron and Steel provisions, and
 - o Build America, Buy America Act
- Disbursement Method: Cost-reimbursement basis upon approval of eligible expenses by CWSRF
- Timely and expeditious use of funds, including:
 - o Loan borrowers will be required to draw on an issued SRF loan within the first six months of award,
 - o Loans may be subject to closure if disbursements aren't submitted in a timely manner, at least quarterly,
 - o Borrowers with more than one loan must work to complete and move into repayment for the initial loan prior to SRF executing a companion loan.

4. Term of Encumbrance

This Encumbrance Letter shall remain valid for **sixty (60) days** from the date of issuance. TDEC reserves the right to amend, withdraw, or adjust this commitment based on project progress, compliance status, or funding availability. Extensions may be granted upon written request and TDEC approval.

TDEC values its ongoing partnership with City of Kingsport and acknowledges your commitment in advancing a sustainable, resilient, and high-quality clean water system for the residents and businesses of Tennessee. We look forward to working closely with your team to deliver this vital investment.

Sincerely,



Vena Jones, P.G., Manager
 State Revolving Fund & Water Infrastructure Grants
 Tennessee Department of Environment and Conservation
 Division of Water Resources
 Drinking Water State Revolving Fund Program