

State of Texas
Drinking Water State Revolving Fund
State Fiscal Year 2006
ANNUAL REPORT
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Amended July 9, 2007



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I. INTRODUCTION

The State of Texas through the Texas Water Development Board (TWDB) is submitting the Annual Report for the state Fiscal Year 2006 (FY) (September 1, 2005 - August 31, 2006). The Report describes how the State has met the goals and objectives of the Drinking Water State Revolving Fund (DWSRF) Program as identified in the grant agreements, the FY 2006 Intended Use Plan (IUP) and the actual use of the DWSRF Program funds. In accordance with Chapter 371 of the TWDB rules, the TWDB and Texas Commission of Environmental Quality (TCEQ) utilize the resources of DWSRF to collectively administer the state's DWSRF program. The TWDB administers the fund of the program and the TCEQ administers the use of the DWSRF Small Systems Technical Assistance and State Program Management set-aside funds in accordance with the 40 CFR Subpart L §35.3510(b)(1) of the federal regulations. As the state primacy agency, TCEQ is required by the Safe Drinking Water Act (SDWA) to carry out regulatory supervision of public water systems and to enforce SDWA violations. The authority to establish assistance priorities and to carry out oversight and related activities of the DWSRF program, other than financial administration of the Fund and project oversight, resides with the TCEQ, the primacy agency.

The TWDB and TCEQ provide this comprehensive report to the Environmental Protection Agency (EPA) Region 6 Office and the Public (upon request) to detail the activities undertaken to reach the goals and objectives set forth in the FY 2006 IUP and the activities and obligations under the DWSRF program. The report describes the progress made toward long-term and short-term program goals, the sources (e.g., federal grants) and uses of all funds (e.g., loans and set-aside activities), financial status of the DWSRF, and compliance with federal DWSRF requirements.

OVERVIEW OF TEXAS DWSRF FOR STATE FISCAL YEAR 2006	
Total Investment to Date:	\$541,782,235
Number of Projects (Closed Loans):	15
Project Funding (Closed Loans):	\$179,976,000
Total Population Served:	3,861,272
Average Interest Rate:	2.19%
Average Repayment Period:	20 years Mainstream 30 years Disadvantaged

II. EXECUTIVE SUMMARY

The purpose of the DWSRF is to provide below market rate loans to applicants to finance projects for public drinking water systems that facilitate compliance with primary drinking water regulations or otherwise significantly further the health protection objectives of the federal SDWA. The State of Texas' DWSRF program has received a total of \$550,143,800 in EPA Capitalization Grants through August 31, 2006, not including the pending FY 2006 Grant of \$67,799,550. The TWDB has contributed \$3,636,971 in FY 2006 bringing the total State match to \$111,154,496. The State of Texas has made a total of eighty-two (82) binding commitments for \$541,782,235 since the inception of the program in 1997 [Please see Table 1 attached].

For FY 2006, the TWDB received funding requests from sixty-four (64) potential applicants with projects totaling approximately \$272,071,000 million. Using project details outlined in the 64 funding requests, TCEQ staff ranked the projects in accordance to TWDB rules. TWDB staff then prepared the FY 2006 IUP based on the TCEQ's ranking. By August 2005, the TWDB approved the FY 2006 IUP and letters of invitation were sent in September 2005 to potential applicants (invitees) listed on the IUP based on available funding. As the invitees were processed by either the receipt of an application by the identified deadline or notification declining the available DWSRF funding, a new set of invitation letters were mailed to the next potential applicants on the list to ensure that the entire IUP list of applicants was offered the opportunity to access the DWSRF program funding. The disposition of each invitee can be found in Table 4. In FY 2006, the TWDB made four (4) binding commitments for \$27,905,000 from the FY 2005 IUP and ten (10) binding commitments for \$37,401,000 from the FY 2006 IUP, for a total of \$65,306,000. There were revisions involving six (6) binding commitments in FY 2006 representing a reduction of \$63,898,706 in the total amount of funds committed by the TWDB.

DWSRF Project Adjustments in FY 2006							
IUP Year	Project #	Project	Commitment Date	Closing Date	Commitment Amount	Difference	Explanation
04	61054	LNVA-Angelina	4/01/2004	NA	\$55,299,706	(\$55,299,706)	Cancelled all
04	61002	Bonham	2/17/2004	3/24/2006	\$7,715,000	(\$360,000)	Cancelled part
03	61008	MacBee	7/1/2004	NA	\$5,625,000	(\$5,625,000)	Cancelled all
03	60946	LCRA-Smithwick Mills	6/19/2003	6/10/2004	\$759,000	(\$710,000)	Cancelled part
03	60946	LCRA-Buena Vista	6/19/2003	6/10/2004	\$1,606,000	(\$1,544,000)	Cancelled part
99/00	60589	Orange Co WCID #1	5/17/2000	12/5/2001	\$2,960,000	(\$360,000)	Cancelled part
Grand Total of Adjustments in FY 2006					\$73,964,706	(\$63,898,706)	

In FY 2006, fifteen (15) projects totaling \$179,976,000 started construction bringing the total project costs to \$318,756,235. Four (4) projects, totaling \$25,330,000 completed construction in 2006 bringing the total completed projects to twenty-three (23) and total costs of all completed project costs to \$123,051,000. The four projects completed during FY 2006 are as follows:

Golden Water Supply Corporation #1	\$ 850,000
Big Foot Water Supply Corporation	\$ 145,000
City of Nacogdoches	\$18,835,000
City of Hamlin	\$ 5,500,000

(Please refer to Attachment C, Binding Commitments Chart for more detail.)

As mentioned above, the total dollar amount of commitments made from the FY 2006 IUP during FY 2006 was \$37,401,000. During this period, the total dollar amount of commitments made from the FY 2006 DWSRF IUP was 13.75% of the total dollar amount of project costs, \$272,071,000, on the FY 2006 DWSRF IUP.

DWSRF Summary 1997 - 2006								
IUP YR	Disadvantaged Appropriated	Total Disadvantaged Committed	Dollar Amount of Actual Commitments	IUP Totals	% \$ Committed / \$ IUP	Actual Comm. Made	Potential Applicants on IUP	% # Comm. / # Potential
1997	\$21,046,140	\$20,783,000	\$31,973,000	\$1,368,764,000	2.34%	6	281	2.14%
1998	\$16,204,320	\$8,375,000	\$68,365,000	\$316,020,620	21.63%	11	142	7.75%
1999	\$34,634,610	\$38,307,235	\$91,457,235	\$297,355,000	30.76%	17	102	16.67%
2000 / 2001	\$17,723,940	\$20,880,000	\$75,945,000	\$319,245,000	23.79%	7	75	9.33%
2002	\$18,607,110	\$19,430,000	\$33,335,000	\$606,065,000	5.50%	6	77	7.79%
2003	\$18,495,300	\$16,130,000	\$30,161,000	\$313,410,000	9.62%	6	69	8.70%
2004	\$15,988,475	\$11,585,000	\$35,255,000	\$478,520,000	7.37%	9	49	18.37%
2005	\$15,954,625	\$17,460,000	\$137,890,000	\$329,700,000	41.82%	10	58	17.24%
2006	\$20,339,865	\$17,111,000	\$37,401,000	\$272,071,000	13.75%	10	64	15.63%
	\$178,994,385	\$170,061,235	\$541,782,235	\$4,301,150,620	12.60%	82	917	8.94%

III. GOALS AND ACCOMPLISHMENTS CFR § 35.3555 (N)

As documented in Table 1, by its cumulative binding commitments of eighty-two (82) projects totaling \$541,782,235, Texas is progressing toward meeting its short-term and long-term goals as described in the FY 2006 IUP.

Of the eighty-two (82) active projects in the Texas DWSRF Program twelve (12) are in design and forty-seven (47) are in construction. Twenty-three (23) projects have been completed [Attachment C, Binding Commitment Chart]. Each of these projects should result in improved public health within the state.

A. Long-Term Goals of the DWSRF Program

1. *To restore and maintain the chemical, biological, and physical integrity of the State's drinking water by developing a financial and technical program capable of funding all projects annually which pose the most serious risk to public health and compliance with the Act. Progress toward meeting this goal will be documented by discussing the activities conducted during the year to ensure that the worst health problems are being addressed. This will include the incorporation of environmental benefits measures in conjunction with the EPA workgroup on measures.*

Progress towards this goal in FY 2006 was achieved through general DWSRF project successes and the Financial, Managerial, and Technical (FMT) program the state has in place to ensure projects are capable for funding through DWSRF.

The TCEQ, pursuant to the DWSRF Program Guidelines (February 1997), has implemented a program to evaluate the FMT capability of applicants to maintain SDWA compliance. This program ensures that loans are not made to systems that lack the FMT components to maintain SDWA compliance. A system lacking FMT capability may be funded if it agrees to undertake feasible and appropriate changes in operation or if the use of the financial assistance provided through the program will ensure compliance over the long-term.

There were several project successes during FY 2006 related to this long-term goal. The City of Nacogdoches completed a project designed to improve the City's water treatment facilities. The City utilized the \$18,835,000 in DWSRF assistance to rehabilitate and increase the capacity of the existing water treatment facilities. Big Foot Water Supply Corporation also completed a project in FY 2006. Utilizing \$145,000 in DWSRF assistance, the Corporation

constructed a new water supply well to reduce radium and gross alpha levels to meet state and federal drinking water standards.

Other examples were the Golden Water Supply Corporation for \$850,000 (to drill two new wells, construct a new ground storage tank and booster pump station and the replace distribution lines) and the City of Hamlin for \$5,500,000 (to make improvements to its water system including construction of a new water transmission line to the City of Abilene, a 1.5 mgd pump station and a surge tower).

2. *To maintain the fiscal integrity of the DWSRF and assure a continuous enhancement of the fund for future generations by complying with generally accepted accounting standards and the establishment of a lending rate policy that also provides for long-term inflation. Progress toward meeting this goal will be documented by discussion of changes to lending rate policy, loan monitoring activities and default information.*

The fiscal integrity of the fund is maintained through controls and procedures governing the application process and loan monitoring. Prior to an application being recommended to the TWDB for approval, a financial analyst reviews the applicant's ability to repay its DWSRF loan. The loan is evidenced by a bond or loan agreement that denotes the terms of payment and other special conditions. The loan agreement requires submittal of an annual independently prepared audit. The loans are reviewed at least annually for compliance with loan conditions. Special terms outlined in the loan agreement contain the requirements of maintaining a contingency account and a reserve account. These two accounts are anticipated to strengthen the integrity of the loan. The TWDB has had no loan defaults.

3. *To maintain the fund in perpetuity by establishing a lending rate policy that produces sufficient repayment amounts to allow for the growth of funds after payment of debt service on state bonds of which the proceeds will be deposited to the Fund. This would be balanced by a concern for the ability of applicants to afford the costs of their projects and with the provision of guidance, as necessary, in the planning and design of efficient and cost-effective projects. Progress toward meeting this goal will be documented by providing information regarding lending rates and status of leveraging.*

The maintenance of the fund in perpetuity is insured by the TWDB establishing a lending rate at a level that produces sufficient repayment amounts to allow for the growth of funds after payment of debt service on any state bonds. No leverage bonds have been issued to date.

B. Short-Term Goals of the DWSRF Program

- 1. Protect public health by providing funds for the supply of safe drinking water to the citizens of the State of Texas, and by expeditiously providing loans to water systems that are in non-compliance with State and Federal drinking water regulations. Progress toward achieving this measure will be documented by reporting the number of binding commitments and the total dollar volume of assistance for the fiscal year in comparison with previous years. For FY 2006, the TWDB intends to increase the number of commitments made in FY 2005 by 25%.***

The TWDB was able to meet part of its goal to increase the number of commitments made in FY 2006 by 25% over the commitments made in FY 2005. The number of binding commitments made in FY 2006 was 14, compared to 10 binding commitments made in FY 2005. However, the total dollar volume of the commitments made in FY 2006 was less than the total dollar volume of commitments made in FY 2005. Binding commitments made in FY 2006 totaled \$65,306,000, compared to \$116,745,000 in FY 2005.

- 2. Ensure compliance with the Act by working with TCEQ to ensure that possible technical and financial assistance. Progress toward meeting this measure will be documented by reporting the number of joint TWDB/TCEQ pre-application and follow-up meetings conducted for the fiscal year. For FY 2006, the TWDB intends to increase the number of pre-application meetings held in FY 2005 by 33%.***

A total of 16 joint TWDB/TCEQ pre-application meetings were held for potential DWSRF projects in FY 2006, compared to 17 in FY 2005. It should be noted that additional meetings and consultations occurred between the two agencies regarding these projects throughout the application process. Also, to ensure program success, the TWDB and TCEQ staff met on a regular basis (every two months when necessary) to review the progress of the program and discuss available marketing opportunities, possible changes and/or alternative financing structures to the program to effectively work with potential applicants (current

and future), and evaluate more efficient uses for the set-aside funds to focus the dollars on potential small system applicants. The TCEQ is scheduling specialized training on system evaluations and demonstrations, from a regulatory perspective, the recent trends that Texas small systems are experiencing. This type of exchange in ideas and training will cultivate new, innovative approaches to financing Texas systems' needs. The TWDB and the TCEQ continue to work towards bringing all systems into compliance with the primary drinking water standards through our partnership efforts.

3. *Assist systems to ensure affordable water by providing an efficient program that can respond to the financial and technical needs of water systems, and by providing financial assistance at affordable interest rates while maintaining the fiscal integrity of the Fund. Progress toward meeting this measure will be documented by reporting the estimated dollar amount of interest savings (over the life of the loan) resulting from binding commitments made during the fiscal year.*

Loans through this program are all made at below market rates with disadvantaged communities receiving additional subsidies including, in some cases, loan forgiveness. Actual rates are based upon market rates minus a subsidy set 45 days before closing. For example, the TWDB average rate maybe 2.55% when the market average is 4.05% for an insured loan.

4. *Support components of the state drinking water and ground water programs by directing the necessary resources toward the State's most pressing compliance and health needs. Progress toward meeting this goal will be documented by reporting the annual number and dollar amount of commitments made to applicants in the highest ranked portion of the annual priority list.*

As shown on Table 4, one applicant from the top ten ranked projects on the IUP received a commitment in FY 2006. The City of Groesbeck (ranked #6 on the IUP) received a commitment in the amount of \$1,025,000 to make treatment plant improvements to address disinfection by-product violations.

IV. OTHER DWSRF PROGRAM ACCOMPLISHMENTS AND IMPROVEMENTS

A. DWSRF Program Accomplishments

1. New TWDB SRF Marketing and Outreach Initiatives

A significant change that will assist in the process improvement efforts described in this annual report is a recent reorganization within the Office of Project Finance and Construction Assistance (OPFCA) resulting in the creation of the Policy, Projections and Marketing Division that reports directly to the Deputy Executive Director of OPFCA. This division is responsible for SRF coordination, policy analysis and development, marketing and customer relations, and data and infrastructure needs projections. Of note is the three-person Marketing Team in this division. This team, along with other staff from OPFCA, focus efforts on identifying new customers, working closely with repeat customers, improving marketing and informational materials, improving the IUP process, and implementing the goals and objectives of the newly developed FY 2007 – 2011 State Revolving Fund Marketing Plan (implemented FY 2007).

During FY 2006, the TWDB distributed marketing information and discussed its financial assistance programs with potential customers by participating in six conferences and tradeshows, and hosting an exhibit booth. These events ranged from participation at the Texas Water Conservation Association to the Texas American Water Works Association/Water Environment Association Texas conferences. TWDB staff also conducted two technical assistance workshops to assist entities with completing IUP project submittal forms. These workshops were held in Harlingen and Houston, Texas.

2. SRF Marketing and Outreach Collaboration with EPA Headquarters

As part of the continuing collaboration with EPA Headquarters on DWSRF program marketing and outreach improvements, the TWDB is participating with other states and EPA in developing and implementing a variety of marketing tools. The use of these tools, once fully developed, is based upon each state's goals for their marketing efforts. Examples of the tools the TWDB is developing with EPA and other states include:

- Customer Interest and Perception Surveys – These are surveys designed to allow the state to understand the potential and current borrowers' perceptions of the

DWSRF program, and which improvements or changes can help expand the borrower pool.

- SRF Program Message TWDB - This electronic message TWDB or discussion TWDB is in production and it used by State and EPA CWSRF program staff as a forum to share ideas, questions, and comments.
- State Revolving Fund “Up” Newsletter – EPA’s SRF’s Up newsletter is scheduled for publication in mid-2007. The first newsletter will focus on marketing strategies for the DWSRF program. Additionally, the newsletter itself is intended to serve as a marketing tool within states.

3. Strategic Planning/Stakeholder Session

In October 2005, a strategic planning/stakeholder session was held in San Antonio, Texas, to allow TWDB staff to explain funding opportunities provided by the TWDB and to obtain formal stakeholder comment on ways to enhance and improve the current programs.

Approximately 75 of the invitees participated in the daylong workshop. Attendees represented a wide cross-section of customers served by the TWDB and included the following groups:

- Regional Water Planning Group members
- Municipal organizations
- Irrigation District members
- Professional organizations
- Water and/or natural resources-related state and local government entities
- Engineering firms
- Higher education representatives
- Financial services providers
- Legal services providers
- Water providers
- Environmental groups
- National natural resources organizations
- Consultants
- Legislative representatives
- General public

The TWDB used this categorized stakeholder input to plan and coordinate the agency’s legislative process development and ensured that each stakeholder issue was addressed by the agency in

its planning cycle. The outcome of this session also provided a road map for future SRF outreach and program marketing opportunities.

The TWDB is endeavoring to implement as many stakeholder suggestions as possible in order to improve its products, programs, and services. The success of implementation of all of the recommendations will depend on various factors, including: legislative action, resource availability, rule and/or procedural change (state as well as federal depending on the recommendation), and budget structure change.

B. DWSRF Program Improvements

1. DWSRF Coordinator Position

During FY 2006, the TWDB created a DWSRF coordination position under the Office of Project Finance and Construction Assistance (OPFCA). This position focuses on policy analysis and development, strategic and long-term DWSRF activities, as well as program process improvements, program efficiency and effectiveness, overall program coordination, the day-to-day project-oriented operations, and other related activities of the DWSRF program.

SRF IUP Post-Mortem and Review

During FY 2006, TWDB staff conducted a “post-mortem” or post project review of the FY 2006 DWSRF IUP development process. The purpose of the review was to collect specific information from staff involved in the IUP process to answer the following questions:

- What went well and why?
- What went wrong, what was the effect, and why did it happen?
- What in the process was unproductive?
- Which problems can be avoided next time and how?
- Which good practices can be kept or improved and how?

A controlled questionnaire was sent to the TWDB staff involved in the IUP process as well as to EPA Region 6 staff that play a role in the overall IUP process. The results of this exercise were then used to identify various activities that would be used in improving future DWSRF IUP development processes. Several of these DWSRF process improvement activities are discussed in the following sections of this annual report.

2. Monthly SRF Coordination Staff and Management Meetings

Another DWSRF process improvement implemented during FY 2006 was the creation of monthly SRF staff and management coordination meetings. These meetings serve as forums to provide for interoffice discussion on SRF policies, procedures, and processes; IUPs (current program cycle, rules revisions, and potentials for streamlining); annual reports; National Information Management System (NIMS), etc. reporting; and other issues related to SRF activities and matters. These meetings, which are attended by staff at all levels of the agency from line-staff to upper management staff, have increased awareness of DWSRF program activities as well as program life-cycle components.

3. OPFCA Workgroups - In FY 2006, the TWDB organized OPFCA staff into three workgroups defined by funding source. The workgroups are responsible for identifying and developing solutions to problems that may cause a project to fall behind its schedule for design, planning and construction. Additionally, all DWSRF program financial applications, unclosed loans, and outlay reporting for requesting reimbursement of DWSRF program grant funds from EPA are tracked through the workgroups. The workgroups develop and implement action plans to ensure financial applications are processed efficiently and that entities with DWSRF program unclosed loans and outstanding outlay reports are contacted on a regular basis to ensure timely closing and EPA draw downs.

4. SRF Information Management System – In FY 2006, the TWDB began taking initial actions to develop improvements to tracking information on and the status of SRF and other state funded water related projects. As a spin-off from the creation of OPFCA workgroups, TWDB staff recognized the need to capture additional information on the status of projects as they moved through the agency’s funding process. As a short-term solution, a simple database was developed to collect information and track these projects. These initial efforts also enabled the agency to continue to identify additional project information and status needs and requirements that contributed to determining that a more comprehensive and sophisticated approach and solution was needed. As a long-term solution, the TWDB has initiated discussions with EPA Headquarters and Region 6 staff to explore opportunities to obtain qualified assistance in development of some type of SRF information management system.

5. Online Customer Survey

In September 2005, the TWDB launched an online customer satisfaction survey designed to provide customers with an ongoing, quick and easy-to-use way of providing customer satisfaction input. This survey collects information on the services and programs offered by the various offices of the TWDB, with a specific focus on OPFCA and the loan application and closing process and the ease of understanding and usability of the CWSRF and DWSRF IUP processes. OPFCA and other offices of the agency continue to evaluate internal processes associated the areas identified in the survey to determine options for improving these processes.

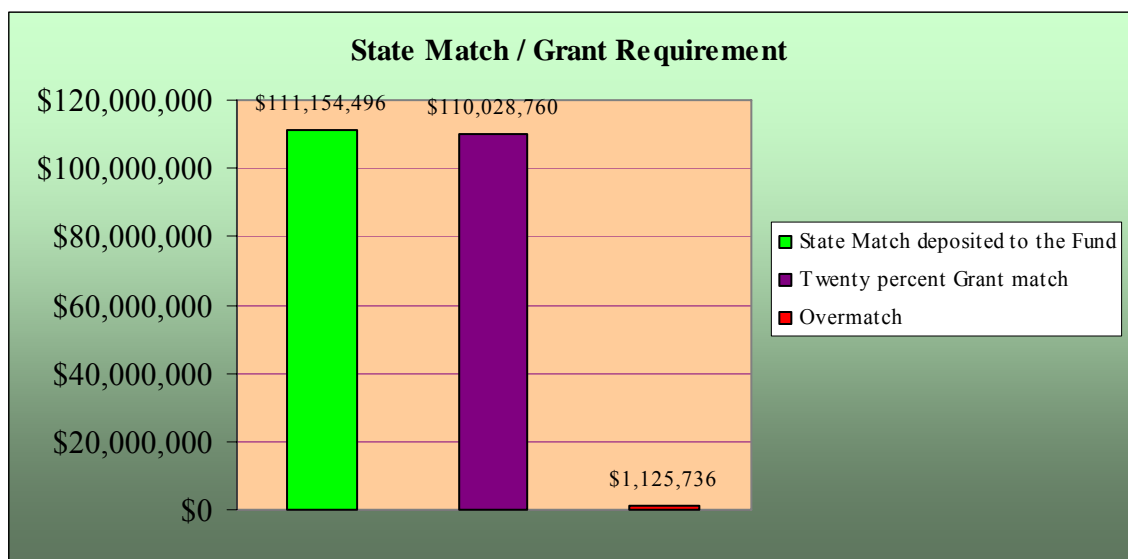
V. DWSRF LOAN AND SET-ASIDE ACTIVITIES

This section provides a detailed discussion of the DWSRF assistance activities during SFY 2006 as it relates to Sources of Funds; Use of Funds; and Uses of DWSRF and Set-Aside Funds.

A. Source of DWSRF and Set-Aside Funding § CFR 35.3570 (a)(2)

1. Capitalization Grants and State Match

Through the end of FY 2006, the TWDB received Capitalization Grants totaling \$550,143,800 from FY 1997 through FY 2005. The TWDB contributed \$16,436,971 in FY 2006 bringing the total State match to \$111,154,496. The State Match of \$111,154,496 is in excess of the match required for all capitalization grants awarded to the State through FY 2006. The twenty percent match for the \$550,143,800 of capitalization grant funds awarded is \$110,028,760 [as summarized below and in Table 1], leaving an overmatch of \$1,125,736.



2. Interest Earnings and Repayments

Principal and interest payments from outstanding loans totaled \$12,913,045 during FY 2006.

DWSRF Project Loan Repayment and Interest Activity			
Fiscal Year	Principal Paid	Interest Paid	Total Paid in Quarter Period
1998 - 2005	\$18,519,000	\$10,144,921	\$28,663,921
2006	\$8,469,999	\$4,443,046	\$12,913,045
GRAND TOTAL	\$26,988,999	\$14,587,967	\$41,576,966

B. Uses of DWSRF and Set-Aside Funds, § CFR 35.3570(a)(3)(i-ix):

1. Loan Assistance Status:

The FY 2006 Capitalization Grant was placed in the loan account in September of 2006 in the amount of \$57,429,348. FY 2005 funds that were not committed or otherwise obligated after TWDB adoption of the FY 2006 IUP and after the FY 2005 funding cycle has ended were rolled forward to the FY 2006 IUP.

a) Binding Commitments (§ CFR 35.3570(a)(3)(iii):

The TWDB made fourteen (14) binding commitments for \$65,306,000 in FY 2006.

Four (4) commitments from the FY 2005 IUP were made in FY 2006 totaling \$37,401,000:

- East Cedar Creek Freshwater Supply District (\$730,000) - The District's project will expand its existing Brookshire Water Treatment Plant from 2.0 mgd to 4.0 mgd. Improvements to the plant will include the addition of a new clarifier, rehabilitating the existing clarifier, and adding raw water pumps. The District lies on the eastern shore of Cedar Creek Reservoir, approximately 15 miles northwest of the City of Athens and 40 miles southeast of the City of Dallas.
- City of Nacogdoches (\$11,520,000) - The City will utilize the funds to complete additional projects identified in the City's 2000 Comprehensive Water System Plan. The project is for the expansion of an existing pump station and installation of lifework to improve supply and pressure in the City and to its wholesale customers. Improvements also include

the construction of storage tanks and improvements to other pump stations in the system. The City is the county seat of Nacogdoches County and is the oldest City in Texas.

- City of Pharr (\$14,000,000) - The City of Pharr will use the loan proceeds to expand their existing water treatment plants, make improvements to the plant's clearwell, remove accumulated mud and silt from the raw water reservoir, and install water line to improve water pressures. The water treatment plant expansion will add 5.0 mgd of capacity to the City's water treatment system bringing the total capacity to 15.0 mgd. The City is located in Hidalgo County, approximately four miles east of the City of McAllen.
- Village of Surfside Beach (\$1,655,000) - The Village will replace failed or failing distribution lines and equalize service pressure through the construction of an elevated water tank. The project will bring the system into compliance with current TCEQ requirements for distribution line size and provide for improved storage. The Village is located approximately 65 miles south of the City of Houston on State Highway 332.

Ten (10) commitments from the FY 2006 IUP were made in FY 2006 totaling \$27,905,000:

- City of Groesbeck (\$1,025,000) - The City's project will include the construction of water treatment system improvements, which will allow the City to comply with TCEQ disinfection by-products rules. The project is being jointly funded with the Office of Rural Community Affairs. The City is located in Limestone County, approximately 40 miles east of the City of Waco.
- Zapata County Waterworks (\$14,826,000) - The project will involve a 3.76 mgd expansion of the water treatment plant (from 3.24 mgd to 7.0 mgd) and the construction of: a pretreatment clarifier; a one million gallon ground storage tank; a new high service pump station; and the installation of 8,000 linear feet of water main. The County is located at

the intersection of State Highway 16 and U.S. Highway 83, along the Rio Grande, in southernmost Texas. The County's largest town and county seat is the unincorporated town of Zapata.

- City of Flatonia (\$660,000) - The project will bring the system into compliance with current TCEQ requirements for arsenic. The City will also construct a ground storage tank and install generators for continued water production during electrical outages. The City is located approximately 65 miles south of the City of Austin on U.S. Highway 90 near Interstate Highway 10.
- City of Cockrell Hill (\$1,875,000) - The City will use the loan proceeds to correct existing water distribution pressure problems and water storage issues. Improvements will include the replacement of existing 2-inch water lines with approximately 17,000 linear feet of 6 to 8-inch water lines and the construction of a 125,000 gallon elevated storage tank. The City is located in Dallas County, one mile southwest of the City of Dallas.
- City of East Tawakoni (\$1,250,000) - The City will utilize the loan proceeds to finance the construction of water system improvements for compliance with TCEQ regulations and to construct additional water storage capacity and distribution system improvements. The City is on State Highway 276 nine miles west of the City of Emory in western Rains County. It was founded in the 1960's as a residential community on newly-built on Lake Tawakoni.
- Possum Kingdom Water Supply Corporation (\$1,625,000) - The Corporation operates a 1.0 million gallon per day (mgd) water treatment plant that consists of two modular water treatment trains containing 0.5 mgd reverse osmosis units. The plant is near 90% capacity. With the proceeds of this loan, the Corporation will install a third 0.5 mgd treatment train and associated support equipment to the water treatment plant. The Corporation is located around Possum Kingdom Lake in North Central Texas, 60 miles west of the Dallas-Fort

Worth metroplex.

- Greater Texoma Utility Authority (GTUA) on behalf of the City of Van Alstyne (\$1,100,000) - The GTUA, on behalf of the City of Van Alstyne, will utilize proceeds to connect the City's groundwater supply to the Collin-Grayson Municipal Alliance (Alliance) pipeline and to do line work on the City's distribution system. Connection to the Alliance pipeline will allow the City to begin converting from a groundwater to a surface water supply and thereby correct problems of exceeding secondary drinking water standards. The City, located in Grayson County, provides water and sewer service to approximately 1,225 connections.
- City of Round Rock (\$12,000,000) - The City will utilize the loan proceeds to finance the installation of approximately 19,300 linear feet of 48 inch transmission lines and 3 new booster pumps to increase the amount of capacity to pump raw water from Lake Georgetown to the City's water treatment plant to address pressure deficiencies in the distribution system. The City is located approximately eight miles north of the City of Austin at the intersection of Interstate 35 and U.S. Highway 79.
- Town of Woodsboro (\$525,000) - The Town has three wells in the Gulf Coast aquifer. The project will address water quality issues in these wells. The two older wells have an average arsenic concentration of 15 parts per billion. The newest well, drilled in 2001, has no detectable arsenic but has elevated levels of hydrogen sulfide, iron, and manganese. The Town will utilize loan proceeds to finance the construction of a ground storage tank to blend the supplies from the three wells and thereby reduce arsenic levels. An aeration diffuser installed in the storage tank will strip the hydrogen sulfide. Media filtration is expected to further reduce arsenic and to lower iron and manganese levels. The Town is located in southwestern Refugio County five miles southwest of the City of Refugio at the intersection of U.S. Highway 77 and Farm Road

2441.

- Victoria County Water Control and Improvement District No. 1 (\$2,515,000) - The District will use the loan proceeds to install new water main, a new high service pumping facility, a new ground storage tank, and an emergency generator at the water treatment plant to address pressure deficiencies in the distribution system. The District was created in 1941, and is located in the unincorporated community of Bloomington, Texas, which is in the southwestern corner of Victoria County.

Disadvantaged Communities: The City of Groesbeck, the City of Flatonia, and Zapata County Water Works received commitments from the Disadvantaged Communities Program totaling \$16,511,000.

- City of Groesbeck (\$1,025,000)
- City of Flatonia (\$660,000)
- Zapata County Water Works (\$14,826,000)

Through FY 2006, twenty-two (22) communities have received \$170,061,235 in Disadvantaged Community funds, which is 28% of the total EPA Capitalization Grants for the DWSRF program.

DWSRF Disadvantaged Communities

FY Grant	Grant Amount				Maximum amt of subsidy	Actual amt of subsidy	Actual amt of subsidy	% of Grant Actually used for Disadvantaged	% of Availability Actually used for Disadvantaged
FY 97	\$70,153,800	X	30%	=	\$21,046,140	\$20,783,000	\$20,783,000	29.6%	98.7%
FY 98	\$54,014,400	X	30%	=	\$16,204,320	\$8,375,000	\$8,375,000	15.5%	51.7%
FY 99/00	\$115,448,700	X	30%	=	\$34,634,610	\$38,307,235	\$38,307,235	33.2%	110.6%
FY 2001	\$59,079,800	X	30%	=	\$17,723,940	\$21,240,000	\$21,240,000	36.0%	119.8%
FY 2002	\$62,023,700	X	30%	=	\$18,607,110	\$19,430,000	\$19,430,000	31.3%	104.4%
FY 2003	\$61,651,000	X	30%	=	\$18,495,300	\$16,130,000	\$16,130,000	26.2%	87.2%
FY 2004	\$63,953,900	X	25%	=	\$15,988,475	\$11,225,000	\$11,225,000	17.6%	70.2%
FY 2005	\$63,818,500	X	25%	=	\$15,954,625	\$17,460,000	\$17,460,000	27.4%	109.4%
FY 2006	\$67,799,550	X	30%	=	\$20,339,865	\$17,111,000	\$17,111,000	25.2%	84.1%
Totals	\$617,943,350				\$178,994,385	\$170,061,235	\$170,061,235		
Disadvantaged Communities Actually Committed								28%	

Small Communities: In FY 2006, 10 small communities received commitments for assistance for \$37,656,000. These communities were:

- Village of Surfside Beach -- FY 2005 IUP (1,655,000)
- City of Cockrell Hill--FY 2006 IUP (\$1,875,000)
- East Tawakoni -- FY 2006 IUP (\$1,250,000)
- City of Flatonia –FY 2006 IUP (\$600,000)
- Greater Texoma UA-City of Van Alstyne FY 2006 IUP (\$660,000)
- Possum Kingdom WSC FY 2006 IUP (\$1,625,000)
- City of Groesbeck FY 2006 IUP (\$1,025,000)
- Victoria County WCID #1 FY 2006 IUP (\$2,515,000)
- City of Woodsboro FY 2006 IUP (\$525,000)
- Zapata County Water Works FY 2006 IUP (\$14,826,000)

DWSRF Small Communities - FEWER than 10,000 persons

Grant Year	Grant Amount				Small Community Appropriation	Total Committed under Small Community	% of Grant Actually used for Small Communities
FY 97 Grant	\$70,153,800	X	15%	=	\$10,523,070	\$5,955,000	8%
FY 98 Grant	\$54,014,400	X	15%	=	\$8,102,160	\$14,560,000	27%
FY 99/00 Grants	\$115,448,700	X	15%	=	\$17,317,305	\$34,965,000	30%
FY 2001 Grant	\$59,079,800	X	15%	=	\$8,861,970	\$26,665,000	45%
FY 2002 Grant	\$62,023,700	X	15%	=	\$9,303,555	\$28,745,000	46%
FY 2003 Grant	\$61,651,000	X	15%	=	\$9,247,650	\$15,416,000	25%
FY 2004 Grant	\$63,953,900	X	15%	=	\$9,593,085	\$16,675,000	26%
FY 2005 Grant	\$63,818,500	X	15%	=	\$9,572,775	\$22,715,000	36%
FY 2006 Grant	\$67,799,550	X	15%	=	\$10,169,933	\$36,001,000	53%
Totals	\$617,943,350				\$92,691,503	\$201,697,000	
Small Communities Actually Committed							33%

Based on these commitments to small communities in FY 2006, the TWDB has achieved compliance with Section 1452(a)(2) of the SDWA, which requires that 15% of the funds credited to the loan fund be made available to provide assistance to public water systems which regularly serve fewer than 10,000 persons.

Forgiveness Communities: In FY 2006, no community received a commitment that included some loan

forgiveness. Through FY 2006, ten communities have received a total of \$105,987,941 consisting of \$78,610,000 in loans and \$24,040,941 in Forgiveness funds.

DWSRF Loan Forgiveness

FY Grant	Grant Amount			Forgiveness Appropriation	Total Committed Under Forgiveness	% of Grant Actually used for Forgiveness
FY 97 Grant	\$70,153,800	X	30 %	= \$21,046,140	\$1,253,000	6%
FY 98 Grant	\$54,014,400	X	30 %	= \$16,204,320	\$0	0%
FY 99/00 Grant	\$115,448,700	X	30 %	= \$34,634,610	\$6,027,235	17%
FY 01 Grant	\$59,079,800	X	30 %	= \$17,723,940	\$6,215,000	35%
FY 02 Grant	\$62,023,700	X	30 %	= \$18,607,110	\$2,791,000	15%
FY 03 Grant	\$61,651,000	X	30 %	= \$18,495,300	\$4,403,000	24%
FY 04 Grant	\$63,953,900	X	30 %	= \$19,186,170	\$0	0%
FY 05 Grant	\$63,818,500	X	30 %	= \$19,145,550	\$2,619,000	14%
FY 06 Grant	\$67,799,550	X	30 %	= \$20,339,865		0
Totals	\$617,943,350			\$185,383,005	\$23,518,235	
Forgiveness Communities Actually Committed						13%

b) Project Bypass (CFR 35.3570(a)(3)(iv):

Bypass Procedure: The TWDB and the TCEQ anticipate funding projects on the DWSRF Intended Use Plan (IUP) in priority order. However, TWDB rules outline a process for bypassing a project on the Intended Use Plan (IUP) for a lower ranked project. Because the total cost of the projects on the IUP is usually greater than the amount of funds available for loans, a funding line is established. The term “funding line” refers to the point on the IUP where all funds available for loans would be expended. Applicants with projects above the funding line are formally invited by letter to submit an application within three months of the date of the invitation letter. Projects above the funding line can be bypassed if an applicant provides written notification that it does not intend to submit an application or fails to submit an application before the application deadline. When either condition occurs, the funding line is adjusted downward in the amount of the cost of the bypassed project(s). Potential applicants with projects above the newly adjusted funding line are then invited to apply for a loan.

An additional bypass provision exists under TWDB rules to ensure that a certain percentage of the total funds available for loans are made available to systems serving small communities, those communities with populations equal to or less than 10,000. In the event that small community projects listed above the funding line do not equal 15% of the total funds available for assistance, the TWDB may bypass projects for systems serving populations greater than 10,000 to include additional small community projects above the funding line. Bypass of large community projects is used only to ensure that a minimum of 15% total dollars accredited to the fund is made available to small community systems.

2. Set-Aside Activity Status

Federal regulations allow States to 'set aside' up to 31% of the capitalization grant funds for purposes other than loans to water systems. For FY 2006, the TWDB set aside 4% for administering the program. In addition, the TWDB has set aside an amount equal to 10% of the FY 2006 grant for the TCEQ to carry out set-aside activities relating to State Program Management and an additional two per cent was aside for the TCEQ to provide technical assistance to small systems. The TCEQ's FY 2006 Report on its set-aside activities is included as an attachment to this Annual Report.

a) Administrative Set-Aside

Federal regulations governing the DWSRF Program permit a State to reserve its authority to take an amount equal to 4% of the current year's grant from a future grant to defray the cost of administering the program. The TWDB has reserved the authority to set aside funds equal to 4% of prior year's grants capitalization grant from future capitalization grants to defray costs of program administration. In addition, the TWDB assesses charges for the purpose of recovering administrative costs and places these funds in a separate account for future administrative expenses. Recipients of loan commitments will be assessed 2.25% of the DWSRF loan amount, excluding the amount of the origination charge. The loan origination charge is a one-time charge that is due and payable at the time of loan closing. The loan origination charge may be financed as a part of the DWSRF loan. Charges collected will be deposited into the Administrative Cost Recovery Fund. Monies deposited into the Administrative Cost Recovery Fund will be used only for administration of the DWSRF

program, unless the TWDB authorizes the transfer of these funds to the DWSRF Program Account. Administrative Cost Recovery monies transferred to the DWSRF Program Account may be used for any purpose for which other funds in the DWSRF Program Account can be used. Monies in the DWSRF Administrative Cost Recovery Fund will be invested in authorized investments as provided by TWDB order, resolution, or rule. Program activities to be supported by the Administration Account include:

- Reporting activities
- Payment Processing
- Pre-Application Activities
- Application Review
- Engineering Review
- Portfolio, Audit and Cash & Securities Management
- Financial Management.
- Technical Assistance

The TWDB Program Administration costs for supporting the DWSRF program were \$3,331,649 for FY 2006 bringing the total amount from the start of the program to \$16,587,981.

TWDB Administration Costs	
Draws during:	
FY 1997	\$192,000
FY 1998	\$759,000
FY 1999	\$1,207,086
FY 2000	\$1,457,857
FY 2001	\$2,482,311
FY 2002	\$2,009,547
FY 2003	\$1,133,625
FY 2004	\$1,356,259
FY 2005	\$2,658,648
FY 2006	\$2,974,512
FY 2006 Accrued as of 8/31/06	\$357,137
Total Admin	\$16,587,981

b) Small Systems Technical Assistance Set-Aside

The TWDB set aside an additional 2% for the TCEQ to provide technical assistance to small communities under 1452(g)(2) of the SDWA. Technical assistance activities include developing, issuing and managing contracts with professional service vendors to conduct engineering

feasibility studies, facility evaluations and reports, financial audits, environmental reviews, cost estimates, technical assistance and project coordination for small public water systems. The TCEQ received \$1,355,492 in 2% set aside funds in FY 2006 for this activity.

c) State Programs Management Set-Aside

An amount equal to 10% of the FY 2006 DWSRF grant was set-aside in FY 2006 for the TCEQ to carry out the following activities related to State Programs Management:

- Administration of the state PWSS program
- Administer and provide technical assistance through source water protection programs
- Develop and implement a capacity development strategy. This strategy focuses on prioritized public water systems, applicants for Drinking Water State Revolving Fund funding, referrals, candidates for consolidation, and other systems as directed by the TCEQ.

The TCEQ received \$9,269,403 in 10% set-aside funds in FY 2006. The \$9,269,403 in 10% State Program Management Funds received by TCEQ in FY 2006 represents \$152,390 provided from the FY 2001 grant, \$1,300,275 from the FY 2002 grant, \$1,667,729 from the FY 2003 grant and \$6,149,009 from the FY 2004 grant.

d) Local Assistance Set-Aside

Up to 10% of the 15% allowed for the Local Assistance set-aside can be used for one set-aside category. In FY 2006, there were no projects (for Source Water Protection) eligible for funding under this set-aside. However, the TWDB reserves the right to request up to 5% of the FY 2006 grant for capacity development activities.

TCEQ Draws during FY 2006

10% Set-Asides	97 Grant	98 Grant	99 Grant	00 Grant	01 Grant	02 Grant	03 Grant	04 Grant	Total
FY 2006	\$0	\$0	\$0	\$0	\$152,390	\$1,300,275	\$1,667,729	\$6,149,009	\$9,269,403
Prior Years	\$2,500,000	\$4,875,000	\$4,505,732	\$4,505,732	\$5,747,610	\$4,599,725	\$4,232,271	\$0	\$30,966,070
Total									\$40,235,473
2% Set-Asides	97 Grant	98 Grant	99 Grant	00 Grant	01 Grant	02 Grant	03 Grant	04 Grant	Total
						\$764,818	\$590,674	\$0	\$1,355,492
FY 2006						\$764,818	\$590,674	\$0	\$1,355,492
Prior Years						\$475,656		\$0	\$475,656
Total						\$1,240,474	\$590,674	\$0	\$1,831,148

VI. COMPLIANCE WITH DWSRF GRANT CONDITIONS

Texas has complied with the conditions set forth under 40 CFR 35.3570(a)(3). Specifically, the TWDB has met the following Administrative and Programmatic Conditions:

A. Administrative Conditions

1. The TWDB monitors all projects to insure they move as timely and expeditiously as possible to start construction.
2. The TWDB has complied with standard grant requirements and regulations regarding administration, property management, procurement and financial management, the purchase of items containing recovered materials, use of recycled paper, reporting, and use of equipment, and use of conference/convention/training space.
3. The TWDB has complied with 40 CFR, Part 31.41 regarding submission of the annual FSR.
4. The TWDB understands it must obtain prior clearance from OMB, through EPA, for obtaining information from 10 or more persons.

5. The TWDB has complied with OMB Circular A-87 as it relates to non-use of Federal and non-Federal funds to engage in lobbying the Federal Government or in litigation against the U.S.
6. The TWDB has disbursed all cash draws in a timely and expeditiously manner.
7. The TWDB has complied with the EPA Program for Utilization of Small, Minority, and Women's Business Enterprises in procurement under assistance agreements.

For FY 2006, the TWDB negotiated the following MBE/WBE goals with EPA, Region 6, as follows:

Total 2006 Procurements	MBE Goals	FY 2006 MBE Actual		WBE Goals	FY 2006 WBE Actual	
		Dollar Value	% of Procurement		Dollar Value	% of Procurement
\$89,650,293.44		\$13,044,831.39	14.55%		\$10,731,215.50	11.97%
Construction	34.0%	\$10,733,831.39	11.97%	8.0%	\$106,766.00	0.12%
Supplies	18.0%	\$2,116,500.00	2.36%	29.0%	\$10,611,549.50	11.84%
Equipment	13.0%	\$ -	0.00%	13.0%	\$ -	0.00%
Services	22.0%	\$194,500.00	0.22%	26.0%	\$12,900.00	0.01%

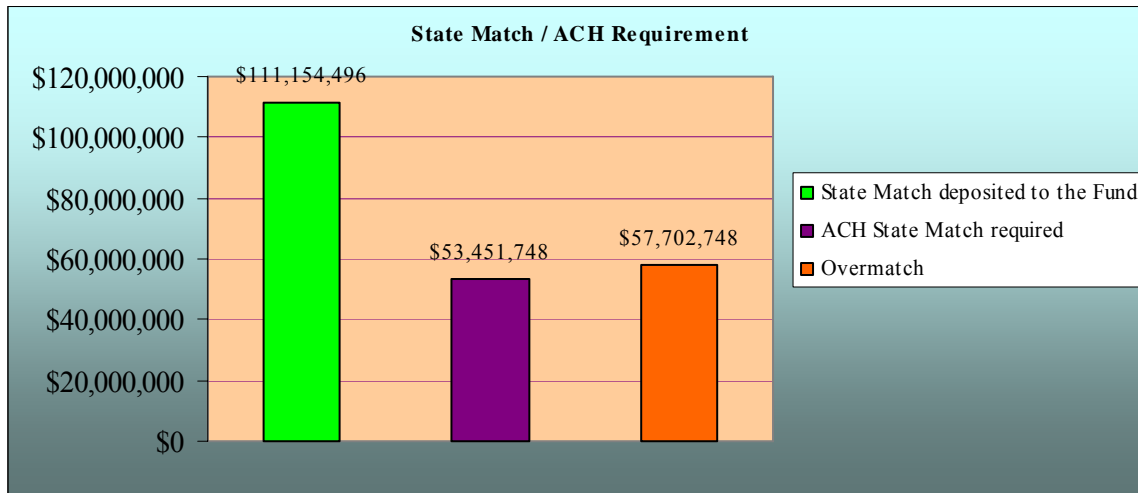
The TWDB has submitted a completed Standard Form 5700-52A within 30 days after each federal fiscal year quarter in which sub-agreements were awarded. Projects are assigned to a federal grant in chronological order by commitment date. In FY 2003, the EPA revised the Standard Form 5700-52A to report on the four procurement categories and not by grant IUP year. These figures may change as additional contracts are awarded in the future.

B. Programmatic Conditions

1. The TWDB has managed the DWSRF program in a fiscally prudent manner and adopted policies and processes that promote the long-term financial health of the Fund. [(Sec. 35.3570(3) (i)]

The TWDB established an accounting system and internal controls adequate to ensure the recording and safeguarding of all DWSRF activities in accordance with Generally Accepted Accounting Principles. The TWDB requires each SRF loan recipient to maintain project accounts in accordance with generally accepted accounting principles and standards. The TWDB has maintained separate account records for the DWSRF account and accounts related to set-asides pursuant to Section 1452 of the Safe Drinking Water Act as amended.

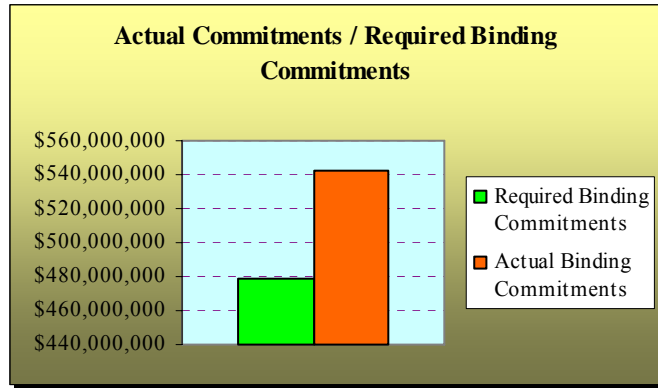
2. State Match: The TWDB has satisfied state match requirements through match and overmatch funds related to the FY 1993 PWS grant and to allowable State expenditures estimated for the current fiscal year and deposited its match (cash or State LOC) into the Fund in accordance with the requirements of Sec. 35.3550(g). [(Sec. 35.3570(3) (ii)]
3. The TWDB has accepted grant funds in accordance with the payment schedule.
 - Cash Draw/Proportionality: The capitalization grant requires the State to deposit matching funds to the SRF in an amount equal to at least 20% of each draw on the EPA/ACH Payment System on or before the date of the cash draw. The TWDB transfers state bond proceeds to the SRF in sufficient amount that the Fund remains overmatched. At the end of FY 2006, total State match that had been deposited to the Fund was \$111,154,496 [Table 1]. State match required for cash draws for projects through FY 2006 totaled \$53,451,748 [Table 5], providing an overmatch of \$57,702,748 as summarized in the following graph.



4. The TWDB has complied with all requirements in the DWSRF Interim Final Rule dated August 2000.
5. Outlay Management: The TWDB has provided an estimate of outlays to be incurred in the next fiscal year.
6. Annual and Biennial Reports: The TWDB prepared the initial Biennial Report for the DWSRF Program and submitted it to EPA Regional Office no later than 90 days after the end of the first fiscal year. This report meets the requirements of the 40 CRF Part 35.3570(a) (1).
7. The TWDB has complied with Federal cross-cutting authorities that apply to the State as a federal grantee and those that flow through to assistance recipients. [(Sec. 35.3570(3) (xii)]
8. The TWDB complied with data management and reporting requirements as described in “Interim Core Performance Measures & Associated Reporting Requirements for State and Core Output Measures for Regions for the Water Program for FY 1998.” The TWDB enters data into DWNIMS as required.
9. The TWDB reviewed all DWSRF program funded projects and activities in accordance with approved State environmental review procedures under Sec. 35.3580. [(Sec. 35.3570(3)(xiii)]

All DWSRF funded projects are reviewed in accordance with the State Environmental Review Procedures (SERP). An EPA-like environmental review or alternative State environmental review was conducted on all SRF funded projects. There were no Environmental Impact Statements required. Environmental Assessments were prepared and a Finding of No Significant Impact was issued for each project identified as an equivalency project and alternative environmental reviews were conducted and a State determination made for all projects.

10. Table 2 shows that the State has exceeded the requirement to enter into binding commitments in an amount equal to 120% of the amount of each grant payment within one year after the receipt of such grant payment. Binding Commitments required were \$478,700,231. By August 31, 2006, the State had made binding commitments equal to \$541,782,235 of grant payments through the fourth quarter of FY 2006.



11. The TWDB funded only the highest priority projects listed in the IUP which were ready-to-proceed and documented why priority projects were bypassed in accordance with Sec. 35.3555(c)(2) [Sec. 35.3570(3)(iv)]. (Please refer to Table 4 of this report.)

12. The TWDB provided assistance to:

- a. Eligible public water systems and for eligible projects and project-related costs under Sec. 35.3520. [Sec. 35.3570(3)(v)]
- b. Small systems consistent with the requirements of Sec. 35.3525(a)(5) and Sec. 35.3555(c)(2)(iv). [Sec.35.3570(3)(vii)]
- c. Disadvantaged communities consistent with the requirements of Sec. 35.3525(b) and Sec. 35.3555(c)(7). [Sec. 35.3570(3)(viii)]

Attachment C, Binding Commitments Chart, lists all projects that have received assistance through FY 2006.

13. The TWDB used fees for eligible purposes under Sec. 35.3530(b)(2) and (b)(3) and assessed fees included as principal in a loan in accordance with the limitations in Sec. 35.3530(b)(3)(I) through (b)(3)(iii). [Sec. 35.3570(3)(ix)]
14. The TWDB complied with general grant regulations at 40 CRF part 31 and specific conditions of the grant. [Sec. 35.3570(3)(xiv)]
15. Funds were not transferred between the DWSRF program and CWSRF program [Sec. 35.3570(3)(x)], nor were fund assets of the DWSRF program and CWSRF program cross-collateralized [Sec.35.3570(3)(xi)].

TABLE 1

Table 1									
Drinking Water SRF Fund Status September 1, 1998 - August 30, 2006									
SRF FUND TOTALS									
<u>IUP YR</u>	<u>SRF Grant</u>	<u>Required State Match</u>	<u>State Match Provided from Match Bonds</u>	<u>Match Provided From State Appropriations</u>	<u>Total Match Funds</u>	<u>State Overmatch</u>	<u>Net Bond Proceeds</u>	<u>Total Funds</u>	
1997	\$70,153,800	\$14,030,760	\$0	\$0	\$0		\$0	\$70,153,800	
1998	\$54,014,400	\$10,802,880	\$0	\$13,166,911	\$13,166,911		\$0	\$67,181,311	
1999	\$56,612,200	\$11,322,440	\$3,000,000	\$0	\$3,000,000		\$0	\$59,612,200	
2000	\$58,836,500	\$11,767,300	\$0	\$5,843,600	\$5,843,600		\$0	\$64,680,100	
2001	\$59,079,800	\$11,815,960	\$10,000,000	\$3,750,000	\$13,750,000		\$0	\$72,829,800	
2002	\$62,023,700	\$12,404,740	\$14,500,000	\$4,098,104	\$18,598,104		\$0	\$80,621,804	
2003	\$61,651,000	\$12,330,200	\$20,000,000	\$4,098,104	\$24,098,104		\$0	\$85,749,104	
2004	\$63,953,900	\$12,790,780	\$10,000,000	\$3,130,403	\$13,130,403		\$0	\$77,084,303	
2005	\$63,818,500	\$12,763,700	\$12,800,000	\$3,130,403	\$15,930,403		\$0	\$79,748,903	
2006	\$0	\$0	\$0	\$3,636,971	\$3,636,971		\$0	\$3,636,971	
	\$550,143,800	\$110,028,760	\$70,300,000	\$40,854,496	\$111,154,496	\$1,125,736	\$0	\$661,298,296	
Total DWSRF Commitments									
<u>IUP YR</u>	<u>Commitments</u>	<u>Committed Loan Portion</u>	<u>Forgiveness Portion</u>	<u>Total Funds Committed</u>					
1997	6	\$30,720,000	\$1,253,000	\$31,973,000					
1998	11	\$68,365,000		\$68,365,000					
1999/2000	17	\$85,430,000	\$6,027,235	\$91,457,235					
2001	7	\$69,730,000	\$6,215,000	\$75,945,000					
2002	6	\$30,544,000	\$2,791,000	\$33,335,000					
2003	6	\$25,758,000	\$4,403,000	\$30,161,000					
2004	9	\$35,255,000		\$35,255,000					
2005	10	\$135,271,000	\$2,619,000	\$137,890,000					
2006	10	\$37,401,000		\$37,401,000					
	82	\$518,474,000	\$23,308,235	\$541,782,235					
Total Funds Drawn by Category									
<u>IUP YR</u>	<u>Federal Loan Portion</u>	<u>State Loan Portion</u>	<u>Total Loan Portion</u>	<u>Federal Forgiveness portion</u>	<u>State Forgiveness Portion</u>	<u>Total Forgiveness Portion</u>	<u>Total Federal Drawn</u>	<u>Total State Drawn</u>	<u>Total Drawn</u>
1997	\$24,880,894	\$5,511,106	\$30,392,000	\$1,023,632	\$229,368	\$1,253,000	\$25,904,526	\$5,740,474	\$31,645,000
1998	\$49,751,741	\$11,168,259	\$60,920,000			\$0	\$49,751,741	\$11,168,259	\$60,920,000
1999/2000	\$60,625,654	\$14,470,348	\$75,096,002	\$4,636,972	\$1,294,202	\$5,931,174	\$65,262,626	\$15,764,550	\$81,027,176
SWP	\$2,145,000		\$2,145,000			\$0	\$2,145,000	\$0	\$2,145,000
2001	\$31,231,072	\$7,738,926	\$38,969,998	\$4,909,488	\$1,305,514	\$6,215,002	\$36,140,560	\$9,044,440	\$45,185,000
2002	\$2,883,956	\$720,045	\$3,604,001	\$235,472	\$60,364	\$295,836	\$3,119,428	\$780,409	\$3,899,837
2003	\$3,651,806	\$861,194	\$4,513,000	\$1,078,412	\$241,507	\$1,319,919	\$4,730,218	\$1,102,701	\$5,832,919
2004	\$1,557,678	\$437,322	\$1,995,000			\$0	\$1,557,678	\$437,322	\$1,995,000
2005	\$22,567,865	\$5,270,135	\$27,838,000	\$110,489	\$29,082	\$139,571	\$22,678,354	\$5,299,217	\$27,977,571
2006	\$43,011	\$11,989	\$55,000			\$0	\$43,011	\$11,989	\$55,000
	\$199,338,677	\$46,189,324	\$245,528,001	\$11,994,465	\$3,160,037	\$15,154,502	\$211,333,142	\$49,349,361	\$260,682,503

TABLE 2

Table 2
DWSRF GRANT PAYMENTS and BINDING COMMITMENTS by Quarter
FY 1997 - 2006 Projects

	FY 97 - FY 2004	FY 2005				FY 2006			
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
		GRANT PAYMENTS				GRANT PAYMENTS			
FY 2003		\$7,000,000	\$8,000,000	\$8,207,808					
Set-Asides		\$0	\$0	\$0					
Loan Fund		\$7,000,000	\$8,000,000	\$8,207,808					
State Match (20% of payment)		\$1,400,000	\$1,600,000	\$1,641,562					
FY 2004		\$9,105,627	\$6,620,237	\$8,620,237	\$10,000,000	\$7,000,000	\$8,000,000	\$9,897,562	
Set-Asides		\$4,105,627	\$620,237	\$620,237	\$0	\$0			
Loan Fund		\$5,000,000	\$6,000,000	\$8,000,000	\$10,000,000	\$7,000,000	\$8,000,000	\$9,897,562	
State Match (20% of payment)		\$1,821,125	\$1,324,047	\$1,724,047	\$2,000,000	\$1,400,000	\$1,600,000	\$1,979,512	\$0
FY 2005					\$4,754,695	\$9,136,545	\$6,616,510	\$8,616,510	\$10,000,000
Set-Asides					\$4,754,695	\$4,136,545	\$616,510	\$616,510	
Loan Fund					\$0	\$5,000,000	\$6,000,000	\$8,000,000	\$10,000,000
State Match (20% of payment)					\$950,939	\$1,827,309	\$1,323,302	\$1,723,302	\$2,000,000
FY 2006									\$4,826,199
Set-Asides									\$4,826,199
Loan Fund									\$0
State Match (20% of payment)									\$965,240
QUARTERLY REQUIRED		\$15,221,125	\$16,924,047	\$19,573,417	\$12,950,939	\$15,227,309	\$16,923,302	\$21,600,376	\$12,000,000
CUMULATIVE REQUIRED BINDING COMMITMENTS	\$414,030,702	\$429,251,827	\$446,175,875	\$465,749,292	\$478,700,231	\$493,927,540	\$510,850,842	\$532,451,218	\$544,451,218
	FY 97 - FY 05 Total		FY 2006 BINDING COMMITMENT						
FY 1997 - 2004				-\$63,178,706	-\$720,000				
FY 2005		\$26,250,000	\$1,655,000						
FY 2006			\$1,025,000	\$18,611,000	\$17,765,000				
QUARTERLY TOTAL		\$26,250,000	\$2,680,000	-\$44,567,706	\$17,045,000	\$0	\$0	\$0	\$0
CUMULATIVE BINDING COMMITMENTS	\$540,374,941	\$566,624,941	\$569,304,941	\$524,737,235	\$541,782,235	\$541,782,235	\$541,782,235	\$541,782,235	\$541,782,235
CUM. BINDING COMMITMENTS AS % OF REQUIRED AMOUNT	130.81%	132.00%	127.60%	112.67%	113.18%				

NOTE: According to the DWSRF Final Rule August 2000, Required Binding Commitments are calculated as the amount of the Loan Fund Payment plus the 20% State Match for the federal quarter. The cumulative binding commitments for each federal fiscal quarter are matched to the prior years quarter required binding commitments to determine the percentage achieved.

TABLE 3

Table 3						
Grant Balance Summary Sheet						
	Grant	Loan portion of grant	TCEQ Portion	SWP Portion	TCEQ 2% Small Systems	TWDB Administration Set Aside
97	\$70,153,800	\$64,847,648	\$2,500,000			\$2,806,152
98	\$54,014,400	\$49,139,400	\$4,875,000			
99	\$56,612,200	\$44,284,672	\$4,505,732	\$5,661,220		\$2,160,576
2000	\$58,836,500	\$53,856,988	\$4,505,732	\$473,780		
2001	\$59,079,800	\$50,915,312	\$5,900,000			\$2,264,488
2002	\$62,023,700	\$52,529,766	\$5,900,000		\$1,240,474	\$2,353,460
2003	\$61,651,000	\$52,207,808	\$5,900,000		\$1,180,000	\$2,363,192
2004	\$63,953,900	\$53,897,562	\$6,395,390		\$1,180,000	\$2,480,948
2005	\$63,818,500	\$53,694,240	\$6,381,850		\$1,276,370	\$2,466,040
2006	\$67,799,550	\$57,429,348	\$6,381,850		\$1,276,370	\$2,711,982
Total	\$617,943,350	\$532,802,744	\$53,245,554	\$6,135,000	\$6,153,214	\$19,606,838
	Total Grant \$ DRAWN	Loan Portion Drawn	TCEQ Drawn	SWP Drawn	SS Drawn	Set-Aside Drawn
97	-\$70,153,800	-\$64,847,648	-\$2,500,000			-\$2,806,152
98	-\$54,014,400	-\$49,139,400	-\$4,875,000			
99	-\$53,095,980	-\$44,284,672	-\$4,505,732	-\$2,145,000		-\$2,160,576
2000	-\$55,422,157	-\$50,916,425	-\$4,505,732			
2001	-\$8,164,488	\$0	-\$5,900,000			-\$2,264,488
2002	-\$9,493,934	\$0	-\$5,900,000		-\$1,240,474	-\$2,353,460
2003	-\$8,853,866	\$0	-\$5,900,000		-\$590,674	-\$2,363,192
2004	-\$8,060,113	\$0	-\$6,149,009		\$0	-\$1,911,104
2005	\$0	\$0	\$0		\$0	\$0
2006	\$0	\$0	\$0		\$0	\$0
Total	-\$267,258,738	-\$209,188,145	-\$40,235,473	-\$2,145,000	-\$1,831,148	-\$13,858,972
	Grant \$ Remaining	Loan Portion Remainder	TCEQ Remainder	SWP Remainder	SS Remainder	Set-Aside Remainder
97	\$0	\$0	\$0	\$0	\$0	\$0
98	\$0	\$0	\$0	\$0	\$0	\$0
99	\$3,516,220	\$0	\$0	\$3,516,220	\$0	\$0
2000	\$3,414,343	\$2,940,563	\$0	\$473,780	\$0	\$0
2001	\$50,915,312	\$50,915,312	\$0	\$0	\$0	\$0
2002	\$52,529,766	\$52,529,766	\$0	\$0	\$0	\$0
2003	\$52,797,134	\$52,207,808	\$0	\$0	\$589,326	\$0
2004	\$55,893,787	\$53,897,562	\$246,381	\$0	\$1,180,000	\$569,844
2005	\$63,818,500	\$53,694,240	\$6,381,850	\$0	\$1,276,370	\$2,466,040
2006	\$67,799,550	\$57,429,348	\$6,381,850	\$0	\$1,276,370	\$2,711,982
Total	\$350,684,612	\$323,614,599	\$13,010,081	\$3,990,000	\$4,322,066	\$5,747,866

TABLE 4

**Table 4
DWSRF Disposition of FY 2006 IUP**

Rank	Applicant	Disadvantaged	Consolidation	Small Community	Loan Amount	Comb. Fact.	Commitment Date	Commitment Amount	Disposition
1	Richland SUD	X		X	\$5,745,000	25.19			Invited - Formally declined invitation to apply for assistance
2	Emory		X	X	\$12,295,000	19.23			Invited - Did not submit an application
3	Cisco	X		X	\$2,770,000	12.88			Invited - Formally declined invitation to apply for assistance
4	Wolfe City	X		X	\$2,120,000	12.53			Invited - Formally declined invitation to apply for assistance
5	Duval Co CRD	X		X	\$1,805,000	11.52			Invited - Formally declined invitation to apply for assistance
6	Groesbeck	X		X	\$1,025,000	11.17	2/14/2006	1,025,000	Received Commitment
7	Midland				\$35,320,000	10.54			Invited - Did not submit an application
8	Loop WSC			X	\$425,000	9.82			Invited - Did not submit an application
9	Lyford	X		X	\$10,430,000	9.56			Invited - Did not submit an application
10	Lake Livingston WSSC		X	X	\$7,985,000	8.72			Invited - Did not submit an application
11	Zapata County Water Works	X		X	\$14,826,000	8.18	4/17/2006	14,826,000	Received Commitment
12	Flatonia	X		X	\$660,000	8.05	4/17/2006	660,000	Received Commitment
13	Marlin	X		X	\$12,600,000	8			Invited - Did not submit an application
14	Edgewood	X		X	\$585,000	7.47			Invited - Did not submit an application
15	Cockrell Hill			X	\$1,875,000	7.25	5/15/06	\$1,875,000	Received Commitment
16	El Paso Co Tornillo WID	X		X	\$455,000	6.41	9/19/06	\$600,000	Received Commitment
17	Jim Wells Co FWSD # 1	X		X	\$565,000	6.22			Invited - Formally declined invitation to apply for assistance
18	Woodsboro			X	\$525,000	5.97	8/16/06	\$525,000	Received Commitment
19	Ricardo WSC		X	X	\$2,295,000	5.95			Invited, applied, but declined Commitment
20	Caney Creek MUD		X	X	\$1,370,000	4.5			Invited - Did not submit an application
21	Suburban MHP 2			X	\$99,000	4.36			Invited - Did not submit an application
22	Point Comfort			X	\$2,010,000	4.35			Received Commitment
23	G&W WSC			X	\$195,000	4.16			Invited - Formally declined invitation to apply for assistance
24	Rio Grande City	X	X		\$29,125,000	4.13			Invited - Did not submit an application
25	Wortham	X		X	\$1,000,000	4.08			Invited - Did not submit an application
26	East Tawakoni			X	\$1,370,000	3.85	5/15/06	\$1,250,000	Received Commitment
27	Ackerly WSC			X	\$100,000	3.38			Invited - Did not submit an application
28	Cottonwood Shores			X	\$2,250,000	3.37			Invited - Did not submit an application
29	Danny Boy Mobile Home Park			X	\$95,000	2.93			Invited - Did not submit an application
30	Coleman	X	X	X	\$2,100,000	2.7			Invited - Did not submit an application
31	Avery	X		X	\$410,000	2.25			Invited - Did not submit an application
32	Kosse	X		X	\$1,020,000	2			Invited - Did not submit an application
33	Winnsboro	X		X	\$1,290,000	2			Invited - Formally declined invitation to apply for assistance
34	Donna	X			\$1,385,000	2			Invited - Did not submit an application

DWSRF Disposition of FY 2006 IUP

Rank	Applicant	Disadvantaged	Consolidation	Small Community	Loan Amount	Comb. Fact.	Commitment Date	Commitment Amount	Disposition
35	Los Fresnos	X		X	\$10,325,000	1.5	16-Aug	10,325,000	Received Commitment
36	Water Association of Northlake			X	\$100,000	1.25			Invited - Did not submit an application
37	King Creek WSC			X	\$535,000	1.25			Invited - Did not submit an application
38	Lee Co FWSD 1			X	\$1,050,000	1.25			Invited - Formally declined invitation to apply for assistance
39	Malakoff	X		X	\$525,000	1.25			Invited - Did not submit an application
40	Diboll	X		X	\$6,500,000	1.25			Invited - Did not submit an application
41	Farmersville		X	X	\$2,045,000	1.13			Invited - Did not submit an application
42	Lamar WSC			X	\$305,000	1			Invited - Did not submit an application
43	Point	X		X	\$1,095,000	1			Invited - Did not submit an application
44	Montgomery Co MUD # 15			X	\$1,315,000	1			Invited - Did not submit an application
45	Upper Leon River MWD	X		X	\$3,166,000	1			Invited - Did not submit an application
46	Victoria Co WCID # 1			X	\$2,515,000	1	8/16/06	2,515,000	Received Commitment
47	Stanton	X		X	\$935,000	1			Invited - Did not submit an application
48	Jonah Water SUD				\$8,000,000	1			Invited - Did not submit an application
49	Round Rock				\$11,235,000	1	8/16/06	12,000,000	Invited - Did not submit an application
50	Commerce	X	X	X	\$1,800,000	0.9			Invited - Did not submit an application
51	Golden WSC			X	\$820,000	0.38			Invited - Did not submit an application
52	Trenton			X	\$1,885,000	0.25			Invited - Did not submit an application
53	Greater Texoma UA - Van Alstyne			X	\$3,120,000	0.25	8/16/06	\$1,100,000	Received Commitment
54	Possium Kingdom WSC			X	\$1,625,000	0.25	7/18/06	\$1,625,000	Received Commitment
55	Brazoria			X	\$1,000,000	0.25			Invited - Did not submit an application
56	New Caney MUD			X	\$2,445,000	0.25			Invited - Did not submit an application
57	Weatherford		X	X	\$30,525,000	0.25			Invited - Verbally declined invitation to apply for assistance
58	Timberlane Water System Inc			X	\$70,000	0			Invited - Did not submit an application
59	Montgomery Co UD # 4			X	\$1,640,000	0			Invited - Did not submit an application
60	Hidalgo Co MUD # 1			X	\$5,870,000	0			Invited - Did not submit an application
61	Kaufman			X	\$615,000	0			Invited - Did not submit an application
62	Combined Consumers SUD			X	\$920,000	0			Invited - Did not submit an application
63	Nacogdoches		X		\$11,460,000	0			Invited - Did not submit an application
64	Reno			X	\$505,000	0			Invited - Did not submit an application
2	Emory		X	X	\$12,295,000	19.23			Invited - Did not submit an application
					\$272,071,000				

TABLE 5

Table 5
DWSRF Federal Draws During FY 2006

	Sept - Nov Qtr 1	Dec - Feb Qtr 2	March - May Qtr 3	June - Aug Qtr 4	Total
ACH Available (Beginning)	\$258,740,360	\$262,865,438	\$264,733,621	\$264,263,463	
Cumulative ACH Payments	\$16,136,545	\$14,616,510	\$18,514,072	\$10,000,000	\$59,267,127
Cash draws from ACH (10% Set-Asides/Admin)	\$898,800	\$850,344	\$749,228	\$797,590	\$3,295,962
Cash draws from ACH (2% TCEQ Set-Asides/Admin)		\$369,758	\$588,604	\$397,131	\$1,355,493
Cash draws from ACH (TCEQ)	\$3,087,316	\$1,734,122	\$3,133,366	\$1,314,599	\$9,269,403
Cash draws from SWP					
Cash Draws from ACH (Loans)	\$8,025,351	\$9,794,103	\$14,513,032	\$13,543,812	\$45,876,298
Total Cash Draws	\$12,011,467	\$12,748,327	\$18,984,230	\$16,053,132	
ACH Available (Ending)	\$262,865,438	\$264,733,621	\$264,263,463	\$258,210,331	

Table 5A
Total DWSRF Federal Draws from FY 1998 - FY 2006

FY	Federal	Actual State Match Drawn	Total Funds Drawn
1998 - 2005	\$165,456,848	\$38,055,660	\$203,512,508
2006	\$45,876,298	\$11,293,695	\$57,169,993
Totals	\$211,333,146	\$49,349,355	\$260,682,501

TABLE 6

Table 6

DWSRF Projects that have completed construction as of 08/31/2006:

Receiptent	Amount Entity has received as of 08/31/2006	Outstanding Balance at 8-31-2006	Repayments Due From	Repayments Due To	Interest Rate minimum	Interest Rate maximum
ALVORD, CITY OF	270,000.00	240,000.00	10/1/2004	10/1/2023	0.000000	0.034000
BALLINGER, CITY OF	5,250,000.00	4,665,000.00	6/1/2004	6/1/2023	0.025500	0.043000
BIG FOOT WSC	69,000.00	58,000.00	10/1/2001	10/1/2030	0.010000	0.010000
BROWNWOOD, CITY OF	1,010,000.00	765,000.00	3/15/2006	3/15/2025	0.031000	0.046500
BURLESON CO MUD #1	1,440,000.00	1,430,000.00	6/1/2005	6/1/2034	0.015000	0.041500
BURLESON CO MUD #1	70,000.00	67,000.00	6/1/2006	6/1/2035	0.016500	0.036500
CORSICANA, CITY OF	10,865,000.00	8,420,000.00	8/15/2001	8/15/2020	0.030000	0.046000
DEL RIO, CITY OF	5,400,000.00	4,050,000.00	6/1/2002	6/1/2021	0.000000	0.000000
DEPORT, CITY OF	350,000.00	280,000.00	9/1/2001	9/1/2020	0.031000	0.043500
EAGLE PASS, CITY OF	7,455,000.00	4,425,000.00	12/1/2003	12/1/2032	0.000000	0.037000
EAST MEDINA CO SUD	3,200,000.00	2,575,000.00	7/1/2002	7/1/2021	0.018500	0.037000
EL PASO, CITY OF	15,190,000.00	12,315,000.00	3/1/2002	3/1/2021	0.032000	0.047000
GOLDEN WSC	850,000.00	825,000.00	7/1/2002	7/1/2022	0.010100	0.045500
GREATER TEXOMA UA	325,000.00	255,000.00	10/1/2000	10/1/2019	0.027000	0.047000
HUDSON OAKS, CITY OF	1,320,000.00	990,000.00	8/1/2001	8/1/2019	0.031500	0.044000
KOUNTZE, CITY OF	930,000.00	895,000.00	3/15/2000	3/15/2024	0.000000	0.000000
MEXIA, CITY OF	560,000.00	480,000.00	8/15/2003	8/15/2022	0.019700	0.049700
MEXIA, CITY OF	595,000.00	550,000.00	8/15/2005	8/15/2024	0.011900	0.031500
MOUNT CALM, CITY OF	331,000.00	313,000.00	3/1/2005	3/1/2024	0.002500	0.038000
NORTHEAST TEXAS MWD	6,800,000.00	5,540,000.00	9/1/2001	9/1/2020	0.027500	0.046000
OLNEY, CITY OF	1,250,000.00	1,100,000.00	9/1/2003	9/1/2022	0.003000	0.036500
ORANGE CO WCID #1	2,565,000.00	2,120,000.00	2/15/2003	2/15/2021	0.012500	0.039000
PALMER, CITY OF	1,405,000.00	1,185,000.00	7/1/2003	7/1/2022	0.007000	0.040000
POSSUM KINGDOM WSC	4,700,000.00	4,360,000.00	12/15/2004	12/15/2023	0.010000	0.010000
RAYMONDVILLE, CITY OF	3,030,000.00	2,895,000.00	4/1/2003	4/1/2022	0.010500	0.043000
SWEETWATER, CITY OF	7,315,000.00	5,855,000.00	8/15/2000	8/15/2020	0.016000	0.034500
TIOGA, CITY OF	580,000.00	555,000.00	4/1/2002	4/1/2031	0.032000	0.044000
VERNON, CITY OF	4,985,000.00	4,005,000.00	3/15/2002	3/15/2021	0.035000	0.045500
WEST JEFFERSON CO MWD	4,195,000.00	3,730,000.00	4/1/2003	4/1/2022	0.034000	0.045000

TABLE 7

Table 7						
DWSRF Projects that have started (but not completed) construction as of 08/31/2006:						
Receipt	Amount Entity has received as of 08/31/2006	Outstanding Balance at 8-31-2006	Repayments Due From	Repayments Due To	Interest Rate minimum	Interest Rate maximum
BAYTOWN AREA WATER AUTHORITY	360,000.00	360,000.00	5/1/2007	5/1/2026	0.022500	0.031500
BRADY, CITY OF	5,960,000.00	5,085,000.00	5/1/2002	5/1/2031	0.000000	0.000000
BROOKELAND FWSD	1,880,000.00	1,695,000.00	9/1/2001	9/1/2020	0.030500	0.048000
BROWNWOOD, CITY OF	6,385,000.00	5,760,000.00	3/15/2002	3/15/2021	0.003000	0.033500
DEL RIO, CITY OF	5,845,000.00	4,105,000.00	6/1/2001	6/1/2020	0.000000	0.000000
DEL RIO, CITY OF	6,220,000.00	5,410,000.00	6/1/2004	6/1/2022	0.011500	0.039500
EAGLE PASS, CITY OF	11,545,000.00	11,160,000.00	12/1/2005	12/1/2034	0.000000	0.000000
EL JARDIN WSC	420,000.00	270,000.00	9/1/2004	9/1/2033	0.014500	0.052000
FORT WORTH, CITY OF	26,230,000.00	26,230,000.00	3/1/2007	3/1/2025	0.016500	0.029500
HAMLIN, CITY OF	5,500,000.00	4,750,000.00	3/1/2002	3/1/2031	0.000000	0.000000
HOUSTON, CITY OF	2,145,000.00	2,125,000.00	12/1/2004	12/1/2023	0.012500	0.037500
JUNCTION, CITY OF	240,000.00	20,000.00	3/1/2004	3/1/2033	0.001000	0.042000
LOWER NECHES VALLEY AUTHORITY	18,994,000.00	18,319,000.00	8/1/2006	8/1/2035	0.000000	0.000000
LUFKIN, CITY OF	9,230,000.00	6,840,000.00	11/1/2002	11/1/2021	0.029500	0.041000
MARLIN, CITY OF	704,000.00	704,000.00	7/1/2007	7/1/2036	0.000000	0.000000
MILLERSVIEW-DOOLE WSC	1,678,000.00	1,602,000.00	12/1/2005	12/1/2034	0.000000	0.000000
NACOGDOCHES, CITY OF	18,835,000.00	18,715,000.00	3/1/2003	3/1/2030	0.024000	0.036500
NACOGDOCHES, CITY OF	7,655,000.00	7,640,000.00	3/1/2004	3/1/2034	0.011500	0.038500
NORTHEAST TEXAS MWD	2,480,000.00	2,480,000.00	9/1/2007	9/1/2026	0.013800	0.040300
NORTHEAST TEXAS MWD	1,305,000.00	1,290,000.00	9/1/2005	9/1/2024	0.007400	0.041400
PECOS CITY, TOWN OF	8,315,000.00	6,825,000.00	6/15/2001	6/15/2020	0.010000	0.010000
RENO CITY OF	330,000.00	275,000.00	1/1/2005	1/1/2024	0.001000	0.036000
ROMA, CITY OF	2,327,000.00	1,847,000.00	11/1/2000	11/1/2029	0.000000	0.000000
SANTA ROSA, CITY OF	410,000.00	410,000.00	2/1/2007	2/1/2026	0.024500	0.035000
SUNBELT FWSD	2,475,000.00	2,210,000.00	12/1/2002	12/1/2026	0.010500	0.035500
WILLIS, CITY OF	765,000.00	510,000.00	8/1/2004	8/1/2023	0.001500	0.038000

ATTACHMENT A

**TEXAS WATER DEVELOPMENT BOARD
DRINKING WATER STATE REVOLVING FUND
PROJECTED ANNUAL CASH FLOW COVERAGE
AS OF AUGUST 31, 2006**

Minimum Coverage

0.38

Fiscal Year Ending 8/31	Funds On Hand Available to pay Debt Service	Projected Revenues To Pay Debt Service (2)	Total Projected Match Bond Debt Service (3)	Coverage on Total Debt Service	Net Balance After Debt Service (4)	Projected Fee Income (5)	Projected Operating Expenses
2007 (1)	\$8,959,658	\$5,614,687	\$5,081,979	2.87	\$9,492,366	\$1,318,500	\$3,250,000
2008	-	8,235,848	5,122,011	1.61	3,113,837	1,318,500	3,250,000
2009	-	7,979,775	5,168,563	1.54	2,811,212	1,318,500	3,347,500
2010	-	7,681,911	5,205,928	1.48	2,475,983	1,318,500	3,447,925
2011	-	7,355,264	5,254,263	1.40	2,101,002	1,318,500	3,551,363
2012	-	6,989,887	5,292,815	1.32	1,697,072	1,318,500	3,551,363
2013	-	6,607,090	5,321,778	1.24	1,285,311	1,318,500	3,551,363
2014	-	6,164,341	5,366,355	1.15	797,987	1,318,500	3,551,363
2015	-	5,691,850	5,405,278	1.05	286,571	1,318,500	3,551,363
2016	-	5,213,554	5,432,590	0.96	(219,037)	1,318,500	3,551,363
2017	-	4,821,830	5,468,185	0.88	(646,354)	1,318,500	3,551,363
2018	-	4,375,158	5,496,774	0.80	(1,121,616)	1,318,500	3,551,363
2019	-	3,910,577	5,532,514	0.71	(1,621,937)	1,318,500	3,551,363
2020	-	3,402,873	5,569,851	0.61	(2,166,978)	1,318,500	3,551,363
2021	-	2,882,739	5,348,435	0.54	(2,465,696)	1,318,500	3,551,363
2022	-	2,397,975	5,380,555	0.45	(2,982,580)	1,318,500	3,551,363
2023	-	2,047,334	5,413,065	0.38	(3,365,731)	1,318,500	3,551,363
2024	-	1,725,119	4,599,694	0.38	(2,874,575)	1,318,500	3,551,363
2025	-	1,425,881	3,437,666	0.41	(2,011,785)	1,318,500	3,551,363
2026	-	1,170,167	1,822,922	0.64	(652,755)	1,318,500	3,551,363
2027	-	910,894	995,657	0.91	(84,763)	1,318,500	3,551,363
2028	-	739,703	-	-	739,703	1,318,500	3,551,363
2029	-	582,022	-	-	582,022	1,318,500	3,551,363
2030	-	446,013	-	-	446,013	1,318,500	3,551,363
2031	-	349,378	-	-	349,378	1,318,500	3,551,363
2032	-	288,468	-	-	288,468	1,318,500	3,551,363
2033	-	228,418	-	-	228,418	1,318,500	3,551,363
2034	-	173,955	-	-	173,955	1,318,500	3,551,363
2035	-	123,520	-	-	-	1,318,500	3,551,363
		\$99,683,317	\$101,716,878				

- (1) I&S and Depository Fund Balances as of August 31, 2006.
- (2) Represents the total income available to pay debt service from the "Sources of Revenue" Table.
- (3) Represents the Match Debt Service requirements from the "Schedule of Debt Service Requirements" table.
- (4) These funds available after payment of operating expenses are assumed to be used for new loans.
- (5) The service charges are fees charged to borrowers to cover the administrative costs of the program. The fees in all years are based upon the assumption that \$58,600,000 in principal amount of loans are made per year with charges of 2.25% of the loan amount. Fees are collected outside of the State Revolving Fund based upon Federal requirements. Borrowers are being provided an additional reduction in loan rates to offset the charges. This is reflected in the cash flow loan rate assumptions.

**TEXAS WATER DEVELOPMENT BOARD
DRINKING WATER STATE REVOLVING FUND
PROJECTED SOURCES OF REVENUES
AS OF AUGUST 31, 2006**

Fiscal Year Ending 8/31	Scheduled Interest Income from Existing Political Subdivision Bonds (2)	Projected Interest Collections from Future Loan Commitments (3)	Investment Income (4)	Projected Revenue To Pay Debt Service
2007 (1)	\$4,825,248		\$789,439	\$5,614,687
2008	5,233,044	\$2,854,537	148,267	8,235,848
2009	4,990,005	2,843,385	146,386	7,979,775
2010	4,723,139	2,814,144	144,628	7,681,911
2011	4,441,462	2,769,236	144,567	7,355,264
2012	4,138,810	2,708,558	142,519	6,989,887
2013	3,817,256	2,642,401	147,432	6,607,090
2014	3,449,498	2,570,448	144,396	6,164,341
2015	3,064,423	2,489,969	137,458	5,691,850
2016	2,700,168	2,405,139	108,247	5,213,554
2017	2,408,380	2,307,382	106,069	4,821,830
2018	2,104,507	2,165,753	104,899	4,375,158
2019	1,784,412	2,018,583	107,582	3,910,577
2020	1,435,079	1,866,786	101,008	3,402,873
2021	1,083,079	1,709,419	90,241	2,882,739
2022	799,290	1,541,011	57,674	2,397,975
2023	634,267	1,362,990	50,078	2,047,334
2024	500,266	1,181,347	43,507	1,725,119
2025	383,782	1,009,974	32,125	1,425,881
2026	304,565	834,969	30,633	1,170,167
2027	228,170	655,932	26,792	910,894
2028	180,558	533,520	25,625	739,703
2029	132,546	424,928	24,548	582,022
2030	84,174	361,839	-	446,013
2031	35,401	313,977	-	349,378
2032	22,508	265,960	-	288,468
2033	10,937	217,481	-	228,418
2034	3,403	170,552	-	173,955
2035	-	123,520	-	123,520
	\$53,518,372	43,310,825	\$2,854,119	\$99,683,317

(1) Represents revenues projected for the fiscal year ending August 31, 2007.

(2) Represents scheduled interest only repayments from \$215,924,000 outstanding principal amount of Political Subdivision Bonds as of August 31, 2006.

(3) Represents projected Repayments from committed Political Subdivision Bonds that the Board has approved for funding and made a binding commitment to purchase, subject to availability of funds and compliance by Political Subdivisions with certain conditions. The actual interest rates are not determined until approximately 45 days prior to closing, and are based upon Board rules which consider market rate at the time and other characteristics of the loan (bonds). Political Subdivision Bonds have an assumed interest rate of 2.7% for purposes of illustration.

(4) Assumes investment income from float at 4.32% per annum, \$29,624,000 investment income from funds on hand but not committed at 4.57% per annum and from reserve funds.

**TEXAS WATER DEVELOPMENT BOARD
DRINKING WATER STATE REVOLVING FUND
DEBT SERVICE ON OUTSTANDING BONDS
AS OF AUGUST 31, 2006**

Fiscal Year Ending 8/31	Match Bonds (2)			Total Debt Service
	Principal	Interest	Total	
2007 (1)	\$2,005,000	\$3,076,979	\$5,081,979	\$5,081,979
2008	2,115,000	3,007,011	5,122,011	5,122,011
2009	2,240,000	2,928,563	5,168,563	5,168,563
2010	2,365,000	2,840,928	5,205,928	5,205,928
2011	2,510,000	2,744,263	5,254,263	5,254,263
2012	2,655,000	2,637,815	5,292,815	5,292,815
2013	2,800,000	2,521,778	5,321,778	5,321,778
2014	2,970,000	2,396,355	5,366,355	5,366,355
2015	3,145,000	2,260,278	5,405,278	5,405,278
2016	3,320,000	2,112,590	5,432,590	5,432,590
2017	3,515,000	1,953,185	5,468,185	5,468,185
2018	3,715,000	1,781,774	5,496,774	5,496,774
2019	3,935,000	1,597,514	5,532,514	5,532,514
2020	4,170,000	1,399,851	5,569,851	5,569,851
2021	4,160,000	1,188,435	5,348,435	5,348,435
2022	4,405,000	975,555	5,380,555	5,380,555
2023	4,665,000	748,065	5,413,065	5,413,065
2024	4,095,000	504,694	4,599,694	4,599,694
2025	3,145,000	292,666	3,437,666	3,437,666
2026	1,690,000	132,922	1,822,922	1,822,922
2027	950,000	45,657	995,657	995,657
2028	-	-	-	-
2029	-	-	-	-
2030	-	-	-	-
2031	-	-	-	-
2032	-	-	-	-
2033	-	-	-	-
2034	-	-	-	-
2035	-	-	-	-
	<u>\$64,570,000</u>	<u>\$37,146,878</u>	<u>\$101,716,878</u>	<u>\$101,716,878</u>

(1) Represents scheduled debt service for remaining 12 months of the fiscal year ending August 31, 2007.

(2) Reflects debt service on Match Bonds outstanding as of August 31, 2006.

ATTACHMENT B

Texas Water Development Board

**DRINKING WATER
STATE REVOLVING FUND**

Annual Financial Report

For the Year Ended
August 31, 2006

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General Purpose Financial Statements:

- Exhibit I – Combined Statement of Net Assets
- Exhibit II – Combined Statement of Revenues, Expenses, and Changes in Net Assets
- Exhibit III – Combined Statement of Cash Flows

Notes to the Financial Statements

Combining Statements:

- Exhibit F-1 – Combining Statement of Net Assets
- Exhibit F-2 – Combining Statement of Revenues, Expenses, and Changes in Net Assets
- Exhibit SA-2 – Combining Statement of Expenses – Set Aside Programs

Schedule 1 – Loans and Contracts

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Drinking Water State Revolving Fund

Exhibit I - Combined Statement of Net Assets - Proprietary Funds

August 31, 2006

	Total Enterprise Funds (Exhibit F-1)
ASSETS	
Current Assets:	
Short Term Investments	\$ 103,800,034.41
Receivables from:	
Federal	1,458,345.66
Interest and Dividends	1,717,222.51
Loans and Contracts	12,744,000.00
Total Current Assets	119,719,602.58
Non-Current Assets:	
Loans and Contracts	203,180,000.00
Total Non-Current Assets	203,180,000.00
Total Assets	322,899,602.58
LIABILITIES	
Current Liabilities:	
Payables from:	
Accounts Payable	29,433.62
Interfund Payables	2,005,000.00
Due to Other Funds	720,872.88
Due to Other Agencies	1,101,208.73
Deferred Revenue	6,780,822.38
Total Current Liabilities	10,637,337.61
Non-Current Liabilities:	
Interfund Payable	62,565,000.00
Total Non-Current Liabilities	62,565,000.00
Total Liabilities	73,202,337.61
NET ASSETS	
Unrestricted	249,697,264.97
Total Net Assets	\$ 249,697,264.97

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Drinking Water State Revolving Fund

**Exhibit II - Combined Statement of Revenues, Expenses, and
Changes in Fund Net Assets - Proprietary Funds**

For the Fiscal Year Ended August 31, 2006

	Total Enterprise Funds (Exhibit F-2)
OPERATING REVENUES:	
Interest and Investment Income	\$ 9,224,578.70
Other Operating Revenue	439,503.71
Total Operating Revenues	9,664,082.41
OPERATING EXPENSES:	
Salaries and Wages	5,920,563.91
Payroll Related Costs	1,023,343.53
Professional Fees and Services	3,625,632.26
Travel	91,470.01
Materials and Supplies	148,809.97
Communication and Utilities	19,649.85
Repairs and Maintenance	59,491.75
Rentals and Leases	18,505.71
Printing and Reproduction	2,250.95
Interest	3,076,170.07
Other Operating Expenses	254,644.81
Total Operating Expenses	14,240,532.82
Operating Income (Loss)	(4,576,450.41)
NONOPERATING REVENUES (EXPENSES):	
Federal Revenue	57,020,797.28
Federal Grant Pass-Through Revenue (Expense)	-
Other Benefit Payments	(94,744.02)
Other Nonoperating Revenue (Expenses)	(4,786,250.03)
Total Nonoperating Revenue (Expenses)	52,139,803.23
Income/(Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	47,563,352.82
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:	
Transfers In	3,636,971.00
Total Other Revenue, Expenses, Gain/Losses and Transfers	3,636,971.00
Change in Net Assets	51,200,323.82
Total Net Assets - Beginning	198,496,941.15
Total Net Assets, August 31, 2006	\$ 249,697,264.97

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Drinking Water State Revolving Fund

Exhibit III - Combined Statement of Cash Flows - Proprietary Funds

For the Fiscal Year Ended August 31, 2006

	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to Suppliers for Goods and Services	\$ (366,118.90)
Payments to Employees for Salaries	(2,320,292.15)
Payments to Employees for Benefits	(349,013.30)
Payments to Employees for Other	(24,983.48)
Net Cash Provided by Operating Activities	(3,060,407.83)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Federal Grants	59,678,356.10
Proceeds from State Appropriations	3,636,971.00
Proceeds from Advances from Other Funds	12,800,000.00
Payments of Interest	(3,014,962.02)
Payments for Grant Disbursements	(4,880,994.05)
Payment for Federal Grant Pass-Through	(10,624,895.73)
Repayments of Advances from Other Funds	(1,900,000.00)
Net Cash Provided by Noncapital Financing Activities	55,694,475.30
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	
Proceeds from Interest Income	4,584,530.18
Proceeds from Investment Income	4,443,046.42
Proceeds from Principal Payments on Non-Program Loans	8,469,000.00
Payments for Non-program Loans Provided	(49,664,786.00)
Payments to Acquire Investments	(20,465,858.07)
Net Cash Provided by Investing Activities	(52,634,067.47)
Net (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents--September 1, 2005	-
Cash and Cash Equivalents--August 31, 2006	\$ -

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Drinking Water State Revolving Fund

Exhibit III - Combined Statement of Cash Flows - Proprietary Funds (cont.)

For the Fiscal Year Ended August 31, 2006

	<u>Total Enterprise Funds</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (4,576,450.41)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Operating Income and Cash Flow Categories:	
Classification Differences	1,158,905.64
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	321,449.61
Increase (Decrease) in Payables	(36,598.50)
Increase (Decrease) in Due to Other Funds	72,285.83
Total Adjustments	<u>1,516,042.58</u>
Net Cash Provided by Operating Activities	<u>\$ (3,060,407.83)</u>
Non-Cash Transactions	
Net Increase (Decrease) in Fair Value of Investments	

Notes
to the
Financial
Statements

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Drinking Water State Revolving Fund

Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies

Entity

The Texas Water Development Board (the Board) is an agency of the state of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies.

The Board was created as an agency of the state in 1957, when the voters of the state approved an amendment adding Section 49-c to Article 3 of the Texas Constitution. The Board is primarily responsible for administering state and federally funded financing programs for water-related projects, water resource planning, data collection, and studies relative to the surface and ground water resources of Texas.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

Fund Structure

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

Proprietary Fund Types

Enterprise Funds

Enterprise funds are used to account for any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
2. Laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service), be recovered with fees and charges.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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Drinking Water State Revolving Fund

Proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Restricted Net Assets

When both restricted and unrestricted net assets are available for use, restricted resources are used first, then unrestricted resources are used as they are needed.

Assets, Liabilities, and Fund Balances / Net Assets

ASSETS

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents, with the exception of repurchase agreements which are classified as Short-Term Investments.

Investments

Investments of the Board in authorized securities are reported at fair value in accordance with GASB 31 requirements. Any short-term securities that are exchanged for other short-term securities are accounted for using the completed transaction method. This method treats the exchanges as separate sales, purchase transactions, and includes gains and losses on the sales in current revenue.

Interest and Dividends Receivable

Accrued interest receivable on loans and contracts as of the balance sheet date is included in the proprietary funds.

Notes / Loans and Contracts Receivable

Although collateralized by bonds of the receiving entity, loans made to political subdivisions are presented as Notes/Loans and Contracts Receivable at par. The portion due within the next year is shown separately as a current asset with the remainder as noncurrent.

LIABILITIES

Accounts Payable

Accounts Payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Current Payables - Other

Other payables are the accrual at year-end of expenditure transactions not included in any of the other payable descriptions. The only significant other payable is the accrued interest due as of the balance sheet date on bonds payable in the proprietary funds.

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Drinking Water State Revolving Fund

NET ASSETS

The difference between fund assets and liabilities is ‘Net Assets’ on the proprietary fund statements.

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

INTERFUND ACTIVITIES AND BALANCES

The agency has the following types of transactions among funds:

- (1) Transfers: Legally required transfers that are reported when incurred as ‘Transfers In’ by the recipient fund and as ‘Transfers Out’ by the disbursing fund.
- (2) Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.
- (3) Interfund receivables and payables: Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter it is classified as “Current”, repayment for two (or more) years is classified as “Non-Current”.

Statement of Cash Flows

Cash Flows from Investing Activities

Non-program Loans

The loans that the Board makes to entities such as cities, counties, and other political subdivisions do not meet the criteria established by GASB for inclusion as Cash Flows from Operating Activities on the Statement of Cash Flows. Only certain types of loans to individuals are includable as Cash Flows from Operating Activities. Since GASB refers to these loans generically as “program” loans, the loans made by the Board are referred to on the Statement of Cash Flows as “non-program” loans to distinguish them from loans made to individuals, and their cash flows are included as Cash Flows from Investing Activities.

Classification Differences

Although the primary operation of the Board’s enterprise funds is the borrowing and lending of money for water related projects, the major components of the Operating Income or Loss on the Statement of Revenues, Expenses, and Changes in Fund Net Assets are classified on the Statement of Cash Flows as either Cash Flows from Investing Activities (Interest and Investment Income) or Cash Flows from Noncapital Financing Activities (Interest Expense).

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Drinking Water State Revolving Fund

NOTE 2: Deposits, Investments & Repurchase Agreements

The agency is authorized by statute to make investments, and does so in accordance with Chapter 365 of the Texas Water Development Board rules. There were no violations of legal provisions during the period.

Investments

As of August 31, 2006, the fair value of investments is as presented below.

Business-Type Activities	Fair Value
Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	103,800,034.41
Total	\$103,800,034.41

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The agency will only make payment for and accept delivery of securities on a delivery versus payment basis, and securities are held in the name of the agency. As of August 31, 2006, investments were not exposed to custodial credit risk.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As required by the agency's investment policy, investments purchased must be rated as to investment quality by a nationally recognized investment rating firm with a minimum of an 'A' rating. Furthermore, our investment policy requires that our repurchase agreements be collateralized by obligations of the U.S. Government or U.S. Government Agencies. As of August 31, 2006, the agency's credit quality distribution of securities and repurchase agreements with credit risk exposure was as follows.

Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAA
05	3050	Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	\$103,800,034.41

NOTE 3: Summary of Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2006, the following changes occurred in liabilities:

Business-Type Activities	Balance 9-1-2005	Additions	Deductions	Balance 08-31-06	Amts Due within 1 year
Notes and Loans Payable (Interfund)	\$53,670,000.00	\$12,800,000.00	\$1,900,000.00	\$64,570,000.00	\$2,005,000.00
Total Business-Type Activities	\$53,670,000.00	\$12,800,000.00	\$1,900,000.00	\$64,570,000.00	\$2,005,000.00

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Drinking Water State Revolving Fund

Notes and Loans Payable (Interfund Payable)

Notes and Loans Payable represent advances to the Clean Water and Drinking Water State Revolving Funds for the State Match portion of these programs, as well as advances to the Rural Water Assistance Fund for loans to political subdivisions. The Debt Service requirements are as follows:

Notes Payable (Interfund Payable) Debt Service Requirements	Business-Type Activities	
	Principal	Interest
2007	\$2,005,000.00	\$3,076,979.16
2008	2,115,000.00	3,007,010.70
2009	2,240,000.00	2,928,563.18
2010	2,365,000.00	2,840,927.86
2011	2,510,000.00	2,744,262.52
2012-2016	14,890,000.00	11,928,816.94
2017-2021	19,495,000.00	7,920,758.48
2022-2026	18,000,000.00	2,653,901.88
2027-2031	950,000.00	45,657.00
Total Requirements	\$64,570,000.00	\$37,146,877.72

NOTE 4: Interfund Balances / Activities

As explained in Note 1 on Interfund Activities and Balances there are numerous transactions between funds and agencies. At year-end amounts to be received or paid are reported as:

- Interfund Receivables or Interfund Payables
- Due From Other Agencies or Due To Other Agencies
- Due From Other Funds or Due To Other Funds
- Transfers In or Transfers Out

The agency experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of current interfund balances will occur within one year from the date of the financial statement. Individual balances and activity at August 31, 2006, follows:

Interfund Receivables and Payables – Current			
Current Portion	Interfund Receivable	Interfund Payable	Purpose
ENTERPRISE (05)			
Appd Fund 0371, D23 Fund 0371			
Appd Fund 9999, D23 Fund 0951	2,005,000.00		Match Bonds
Appd Fund 9999, D23 Fund 0951			
Appd Fund 0371, D23 Fund 0371		2,005,000.00	Match Bonds
Total Interfund Receivable/Payable	\$2,005,000.00	\$2,005,000.00	

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Drinking Water State Revolving Fund

Interfund Receivables and Payables – Non-current			
Non-current Portion	Interfund Receivable	Interfund Payable	Purpose
ENTERPRISE (05)			
Appd Fund 0371, D23 Fund 0371			
Appd Fund 9999, D23 Fund 0951	62,565,000.00		Match Bonds
Appd Fund 9999, D23 Fund 0951			
Appd Fund 0371, D23 Fund 0371		62,565,000.00	Match Bonds
Total Interfund Receivable/Payable	\$62,565,000.00	\$62,565,000.00	

NOTE 5: Contingent Liabilities

Outstanding Loan and Grant Commitments

At August 31, 2006, the Board had made commitments to provide political subdivisions and not-for-profit entities financing from the proceeds remaining from current bond issues, and from the proceeds of future bond issues, from the federal draw downs, or from appropriations as follows:

	For Loans	For Grants	Total
Drinking Water State Revolving Fund (DWSRF)	269,643,000.00	7,853,597.73	277,496,597.73
Total Commitments	\$269,643,000.00	\$7,853,597.73	\$277,496,597.73

Federal Costs

As a prime contractor with a federal granting agency, the Board is contingently liable to refund any disallowed costs to the granting agency. The amount of disallowed cost, if any, was undeterminable at August 31, 2006.

NOTE 6: Loans and Contracts

The Board purchases bonds from political subdivisions (including private water supply corporations). As of August 31, 2006, the balance of these bonds owned by the Board was \$215,924,000. In general, the majority of these bonds pay interest semiannually and principal annually and allow for early redemption ten years after the original date of issuance. All bonds are secured by either pledged revenue or taxes. Interest rates on the bonds range from 0% to 5.7% maturing through the year 2036. It is the opinion of management that all bonds are fully collectible; therefore, no provision for uncollectible amounts is included in these financial statements.

NOTE 7: Available Federal Funds

As of August 31, 2006, the amount of Federal Funds available through the Automated Standard Application for Payments that remain undrawn for the Drinking Water State Revolving Fund is \$258,190,821.98.

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Drinking Water State Revolving Fund

NOTE 8: Status of Available Administrative Funding

The Texas Water Development Board has been awarded grants for this program totaling \$550,143,800. The remaining administrative funding at August 31, 2006, relative to the 4% cap is \$3,035,884.12. During FY 2006, \$3,040,544.53 was drawn against the administration portion of the grant to reimburse expenses incurred in General Revenue, while another \$357,136.93 was accrued as a receivable for General Revenue as of August 31, 2006.

Loans issued in Fiscal Year 2006 resulted in the collection of administrative cost recovery charges. The Texas Water Development Board has collected service charges totaling \$9,026,402 from DWSRF loan recipients. In Fiscal Year 2006, \$2,624,214 was collected, and \$19,863.30 was expended from fees to pay for bank service charges.

NOTE 9: State Match Requirements

Deferral of State match deposits was allowed by EPA for FY 97 grant payments until September 30, 1999. The Board deposited \$3,000,000 of match bond proceeds to the Fund on April 9, 1999. Subsequent deposits of match funds have been made bringing the total match for federal reporting purposes to \$111,154,496. During Fiscal Year 2006, state appropriations totaling \$3,636,971 were transferred.

Combining Statements

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Drinking Water State Revolving Fund

Exhibit F-1 - Combining Statement of Net Assets - Enterprise Funds

August 31, 2006

	Drinking Water Loan Program	Administration (Federal)	Administration (Fees)	Set Asides (Exhibit SA-2)	Totals (Exhibit I)
ASSETS					
Current Assets:					
Cash and Cash Equivalents:					
Short Term Investments	\$ 100,875,061.22	\$ -	\$ 2,924,973.19	\$ -	\$ 103,800,034.41
Receivables from:					
Federal	-	357,136.93		1,101,208.73	1,458,345.66
Interest and Dividends	1,717,222.51				1,717,222.51
Loans and Contracts	12,744,000.00				12,744,000.00
Total Current Assets	115,336,283.73	357,136.93	2,924,973.19	1,101,208.73	119,719,602.58
Non-Current Assets:					
Loans and Contracts	203,180,000.00				203,180,000.00
Total Non-Current Assets	203,180,000.00	-	-	-	203,180,000.00
Total Assets	318,516,283.73	357,136.93	2,924,973.19	1,101,208.73	322,899,602.58
LIABILITIES					
Current Liabilities:					
Payables from:					
Accounts Payable	-	29,433.62			29,433.62
Interfund Payables	2,005,000.00				2,005,000.00
Due to Other Funds	393,169.57	327,703.31			720,872.88
Due to Other Agencies	-			1,101,208.73	1,101,208.73
Deferred Revenue	-		6,780,822.38		6,780,822.38
Total Current Liabilities	2,398,169.57	357,136.93	6,780,822.38	1,101,208.73	10,637,337.61
Non-Current Liabilities:					
Interfund Payables	62,565,000.00				62,565,000.00
Total Non-Current Liabilities	62,565,000.00	-	-	-	62,565,000.00
Total Liabilities	64,963,169.57	357,136.93	6,780,822.38	1,101,208.73	73,202,337.61
NET ASSETS					
Unrestricted	253,553,114.16	-	(3,855,849.19)	-	249,697,264.97
Total Net Assets	\$ 253,553,114.16	\$ -	\$ (3,855,849.19)	\$ -	\$ 249,697,264.97

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Drinking Water State Revolving Fund

**Exhibit F-2 - Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets - Enterprise Funds**

For the Fiscal Year Ended August 31, 2006

	Drinking Water Loan Program	Administration (Federal)	Administration (Fees)	Set Asides (Exhibit SA-2)	Totals (Exhibit II)
OPERATING REVENUES:					
Interest and Investment Income	\$ 9,155,631.42	\$ -	\$ 68,947.28	\$ -	\$ 9,224,578.70
Other Operating Revenue	-	-	439,503.71	-	439,503.71
Total Operating Revenues	9,155,631.42	-	508,450.99	-	9,664,082.41
OPERATING EXPENSES:					
Salaries and Wages	-	2,570,370.80	-	3,350,193.11	5,920,563.91
Payroll Related Costs	-	386,629.59	-	636,713.94	1,023,343.53
Professional Fees and Services	-	139,367.54	-	3,486,264.72	3,625,632.26
Travel	-	29,619.44	-	61,850.57	91,470.01
Materials and Supplies	-	128,991.88	-	19,818.09	148,809.97
Communication and Utilities	-	19,649.85	-	-	19,649.85
Repairs and Maintenance	-	59,491.75	-	-	59,491.75
Rentals and Leases	-	18,505.71	-	-	18,505.71
Printing and Reproduction	-	2,250.95	-	-	2,250.95
Interest	3,076,170.07	-	-	-	3,076,170.07
Other Operating Expenses	-	42,803.96	19,863.30	191,977.55	254,644.81
Total Operating Expenses	3,076,170.07	3,397,681.47	19,863.30	7,746,817.98	14,240,532.82
Operating Income (Loss)	6,079,461.35	(3,397,681.47)	488,587.69	(7,746,817.98)	(4,576,450.41)
NONOPERATING REVENUE (EXPENSES):					
Federal Revenue	45,876,297.83	3,397,681.47	-	7,746,817.98	57,020,797.28
Other Benefit Payments	(94,744.02)				(94,744.02)
Other Nonoperating Revenue (Expenses)	(4,786,250.03)				(4,786,250.03)
Total Nonoperating Revenue (Expenses)	40,995,303.78	3,397,681.47	-	7,746,817.98	52,139,803.23
Income/(Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	47,074,765.13	-	488,587.69	-	47,563,352.82
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:					
Transfers In	3,636,971.00	-	-	-	3,636,971.00
Total Other Revenue, Expenses, Gain/Losses and Transfers	3,636,971.00	-	-	-	3,636,971.00
Change in Net Assets	50,711,736.13	-	488,587.69	-	51,200,323.82
Total Net Assets - Beginning	202,841,378.03	-	(4,344,436.88)	-	198,496,941.15
Total Net Assets, August 31, 2006	\$ 253,553,114.16	\$ -	\$ (3,855,849.19)	\$ -	\$ 249,697,264.97

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Drinking Water State Revolving Fund

Exhibit SA-2 - Combining Statement of Expenses - Set Aside Programs

For the Fiscal Year Ended August 31, 2006

	Administer State PWSS	Source Water Protection	Capacity Development	Technical Assistance	Totals (Exhibit F-2)
OPERATING EXPENSES:					
Salaries and Wages	1,954,727.60	137,266.67	431,062.18	0.00	2,523,056.45
Payroll Related Costs	492,484.54	34,428.23	109,801.17	0.00	636,713.94
Professional Fees and Services	740,249.54	529,378.00	728,990.50	1,487,646.68	3,486,264.72
Travel	20,466.78	0.00	41,383.79	0.00	61,850.57
Materials and Supplies	(242.90)	0.00	20,060.99	0.00	19,818.09
Other Operating Expenses	37,921.85	0.00	154,055.70	0.00	191,977.55
Indirect	639,772.92	44,718.31	142,645.43	0.00	827,136.66
Total Operating Expenses	3,885,380.33	745,791.21	1,627,999.76	1,487,646.68	7,746,817.98

Schedules

UNAUDITED

Drinking Water State Revolving Fund

Schedule 1 - Loans and Contracts

For the Fiscal Year Ended August 31, 2006

Recipient	Original Amount	Outstanding Balance	Due From	Due To
Drinking Water State Revolving Fund:				
ALPINE, CITY OF	414,000.00	414,000.00	3/1/2007	3/1/2036
ALVORD, CITY OF	270,000.00	240,000.00	10/1/2004	10/1/2023
ALVORD, CITY OF	45,000.00	45,000.00	10/1/2006	10/1/2025
ANAHUAC, CITY OF	210,000.00	170,000.00	8/1/2006	8/1/2025
BALLINGER, CITY OF	5,250,000.00	4,665,000.00	6/1/2004	6/1/2023
BAYTOWN AREA WATER AUTHORITY	360,000.00	360,000.00	5/1/2007	5/1/2026
BIG FOOT WSC	69,000.00	58,000.00	10/1/2001	10/1/2030
BOLIVAR PENINSULA SUD	210,000.00	210,000.00	2/15/2007	2/15/2036
BOLIVAR PENINSULA SUD	90,000.00	90,000.00	2/15/2008	2/15/2027
BONHAM, CITY OF	315,000.00	315,000.00	2/15/2007	2/15/2036
BRADY, CITY OF	5,960,000.00	5,085,000.00	5/1/2002	5/1/2031
BROOKELAND FWSD	1,880,000.00	1,695,000.00	9/1/2001	9/1/2020
BROWNWOOD, CITY OF	6,385,000.00	5,760,000.00	3/15/2002	3/15/2021
BROWNWOOD, CITY OF	1,010,000.00	765,000.00	3/15/2006	3/15/2025
BURLESON CO MUD #1	1,440,000.00	1,430,000.00	6/1/2005	6/1/2034
BURLESON CO MUD #1	70,000.00	67,000.00	6/1/2006	6/1/2035
CORSICANA, CITY OF	10,865,000.00	8,420,000.00	8/15/2001	8/15/2020
DEL RIO, CITY OF	5,845,000.00	4,105,000.00	6/1/2001	6/1/2020
DEL RIO, CITY OF	5,400,000.00	4,050,000.00	6/1/2002	6/1/2021
DEL RIO, CITY OF	6,220,000.00	5,410,000.00	6/1/2004	6/1/2022
DEPORT, CITY OF	350,000.00	280,000.00	9/1/2001	9/1/2020
DIBOLL, CITY OF	260,000.00	250,000.00	2/15/2006	2/15/2025
EAGLE PASS, CITY OF	11,545,000.00	11,160,000.00	12/1/2005	12/1/2034
EAGLE PASS, CITY OF	7,455,000.00	4,425,000.00	12/1/2003	12/1/2032
EAGLE PASS, CITY OF	2,335,000.00	2,185,000.00	12/1/2004	12/1/2033
EAST MEDINA CO SUD	3,200,000.00	2,575,000.00	7/1/2002	7/1/2021
EL JARDIN WSC	420,000.00	270,000.00	9/1/2004	9/1/2033
EL PASO, CITY OF	15,190,000.00	12,315,000.00	3/1/2002	3/1/2021
FLATONIA, CITY OF	55,000.00	55,000.00	9/1/2007	9/1/2026
FORT WORTH, CITY OF	26,230,000.00	26,230,000.00	3/1/2007	3/1/2025
GOLDEN WSC	850,000.00	825,000.00	7/1/2002	7/1/2022
GREATER TEXOMA UA	325,000.00	255,000.00	10/1/2000	10/1/2019
HAMLIN, CITY OF	5,500,000.00	4,750,000.00	3/1/2002	3/1/2031
HOUSTON, CITY OF	2,145,000.00	2,125,000.00	12/1/2004	12/1/2023
HUDSON OAKS, CITY OF	1,320,000.00	990,000.00	8/1/2001	8/1/2019
JUNCTION, CITY OF	240,000.00	20,000.00	3/1/2004	3/1/2033
KOUNTZE, CITY OF	930,000.00	895,000.00	3/15/2000	3/15/2024
LOWER COLORADO RA	247,000.00	90,000.00	5/15/2006	5/15/2034
LOWER NECHES VALLEY AUTHORITY	18,994,000.00	18,319,000.00	8/1/2006	8/1/2035
LUFKIN, CITY OF	9,230,000.00	6,840,000.00	11/1/2002	11/1/2021
MARLIN, CITY OF	704,000.00	704,000.00	7/1/2007	7/1/2036
MEXIA, CITY OF	560,000.00	480,000.00	8/15/2003	8/15/2022
MEXIA, CITY OF	595,000.00	550,000.00	8/15/2005	8/15/2024
MILLERSVIEW-DOOLE WSC	1,678,000.00	1,602,000.00	12/1/2005	12/1/2034
MOUNT CALM, CITY OF	331,000.00	313,000.00	3/1/2005	3/1/2024
NACOGDOCHES, CITY OF	18,835,000.00	18,715,000.00	3/1/2003	3/1/2030
NACOGDOCHES, CITY OF	7,655,000.00	7,640,000.00	3/1/2004	3/1/2034
NACOGDOCHES, CITY OF	375,000.00	375,000.00	3/1/2008	3/1/2027
NORTHEAST TEXAS MWD	6,800,000.00	5,540,000.00	9/1/2001	9/1/2020
NORTHEAST TEXAS MWD	2,480,000.00	2,480,000.00	9/1/2007	9/1/2026
NORTHEAST TEXAS MWD	1,305,000.00	1,290,000.00	9/1/2005	9/1/2024
OLNEY, CITY OF	1,250,000.00	1,100,000.00	9/1/2003	9/1/2022
ORANGE CO WCID #1	2,565,000.00	2,120,000.00	2/15/2003	2/15/2021
PALMER, CITY OF	1,405,000.00	1,185,000.00	7/1/2003	7/1/2022

UNAUDITED

Drinking Water State Revolving Fund

Schedule 1 - Loans and Contracts

For the Fiscal Year Ended August 31, 2006

Recipient	Original Amount	Outstanding Balance	Due From	Due To
PECOS CITY, TOWN OF	8,315,000.00	6,825,000.00	6/15/2001	6/15/2020
POSSUM KINGDOM WSC	4,700,000.00	4,360,000.00	12/15/2004	12/15/2023
RAYMONDVILLE, CITY OF	3,030,000.00	2,895,000.00	4/1/2003	4/1/2022
RENO CITY OF	330,000.00	275,000.00	1/1/2005	1/1/2024
RENO CITY OF	95,000.00	75,000.00	1/1/2006	1/1/2024
ROMA, CITY OF	2,327,000.00	1,847,000.00	11/1/2000	11/1/2029
SANTA ROSA, CITY OF	410,000.00	410,000.00	2/1/2007	2/1/2026
SUNBELT FWSD	2,475,000.00	2,210,000.00	12/1/2002	12/1/2026
SURFSIDE BEACH, VILLAGE OF	70,000.00	70,000.00	2/15/2009	2/15/2028
SWEETWATER, CITY OF	7,315,000.00	5,855,000.00	8/15/2000	8/15/2020
TIOGA, CITY OF	580,000.00	555,000.00	4/1/2002	4/1/2031
VERNON, CITY OF	4,985,000.00	4,005,000.00	3/15/2002	3/15/2021
WEST JEFFERSON CO MWD	4,195,000.00	3,730,000.00	4/1/2003	4/1/2022
WILLIS, CITY OF	765,000.00	510,000.00	8/1/2004	8/1/2023
Total, Drinking Water State Revolving Fund	\$ 245,259,000.00	\$ 215,924,000.00		

ATTACHMENT C

ENVIRONMENTAL BENEFITS
EPA Order 5700.7

Effective January 1, 2005, EPA Order 5700.7 was published. This Order requires States to report on environmental benefits within the Drinking Water State Revolving Fund (DWSRF). By this order, it is EPA policy (to the maximum extent practicable), to ensure that outputs and outcomes are appropriately addressed in assistance agreement competitive funding announcements, work plans and performance reports. With the annual report being defined as a performance report in the DWSRF program, Texas Water Development Board (TWDB) is providing the below responses to the outputs and outcomes reflective in the FY 2006 Intended Use Plan (IUP):

OUTPUTS:

1. For FY 2006, the TWDB intends to increase the number of commitments made in FY 2005 by 25%.

State Response: The TWDB was able to meet part of its goal to increase the number of commitments made in FY 2006 by 25% over the commitments made in FY 2005. The number of binding commitments made in FY 2006 was 14, compared to 10 binding commitments made in FY 2005. However, the total dollar volume of the commitments made in FY 2006 was less than the total dollar volume of commitments made in FY 2005. Binding commitments made in FY 2006 totaled \$65,306,000, compared to \$116,745,000 in FY 2005.

2. For FY 2006, the TWDB intends to increase the number of pre-application meetings held in FY 2005 by 33%.

State Response: A total of 16 joint TWDB/Texas Commission of Environmental Quality (TCEQ) pre-application meetings were held for potential DWSRF projects in FY 2006, compared to 17 in FY 2005. It should be noted that additional meetings and consultations occurred between the two agencies regarding these projects throughout the application process. Also, to ensure program success, the TWDB and TCEQ staff met on as regular basis (every two months when necessary) to review the progress of the program and discuss available marketing opportunities, possible changes and/or alternative financing structures to the program to effectively work with potential applicants (current and future), and evaluate more efficient uses for the set-aside funds to focus the dollars on potential small system applicants. The TCEQ is scheduling specialized training on system evaluations and demonstrations, from a regulatory perspective, the recent trends that Texas small systems are experiencing. This type of exchange in ideas and training will cultivate new, innovative approaches to financing Texas systems' needs. The TWDB and the TCEQ continue to work towards bringing all systems into compliance with the primary drinking water standards through our partnership efforts.

3. Develop a list of small public water systems with violations of MCLs.

State Response: TCEQ developed a list of public water systems with violations of MCLs. From this list, 21 systems were assigned.

4. Analyze, design, and build new functionality required to implement changes to the Lead-Copper Rule (LCR), Long Term 1 Surface Water Treatment Rule (LT1 SWTR), Arsenic Rule and Radionuclide Rules.

State Response: In FY 2006, TCEQ updated many of the computer data systems. The Lead-Copper Rule data tracking systems were moved out of Fox Pro software and moved into a new Access database in preparation for a move to the Safe Drinking Water Information System (SDWIS) in FY 2007. The Surface Water Treatment Rule data tracking system is currently being migrated to SDWIS. Most of the groundwork for the migration was completed during FY 2006 to allow an early FY 2007 implementation; groundwork included new data entry systems and facility analyte level (FANL) creation. Both the Arsenic Rule and Radionuclide Rule data systems were updated to comply with the new rules.

5. Evaluate the performance of surface water treatment plants through Comprehensive Performance Evaluations (CPEs), Special Performance Evaluations and identifying surface water treatment plants that are “at risk” of violating treatment technique requirements.

State Response: Two mandatory CPEs were projected for FY 2006, but six mandatory CPEs were triggered and performed. Three Special Performance Evaluations (SPEs) were performed with a new Date Verification element. To support the Data Verification elements and strengthen compliance, two date verification checklists were created and tested. One checklist is used on-site during an SPE, while the other is used in-house by TCEQ staff on a regular basis.

OUTCOMES:

1. To restore and maintain the chemical, biological, and physical integrity of the State’s drinking water by developing a financial and technical program capable of funding all projects annually which pose the most serious risk to public health and compliance with the Act. Progress toward meeting this goal will be documented by discussing the activities conducted during the year to ensure that the worst health problems are being addressed. This will include the incorporation of environmental benefits measures in conjunction with the EPA workgroup on measures.

State Response: Progress towards this goal in FY 2006 was achieved through general DWSRF project successes and the Financial, Managerial, and Technical (FMT) program the state has in place to ensure projects are capable for funding through DWSRF.

The TCEQ, pursuant to the DWSRF Program Guidelines (February 1997), has implemented a program to evaluate the FMT capability of applicants to maintain SDWA compliance. This program ensures that loans are not made to systems that lack the FMT components to maintain SDWA compliance. A system lacking FMT capability may be funded if it agrees to undertake feasible and appropriate changes in operation or if the use of the financial assistance provided through the program will ensure compliance over the long-term.

There were several project successes during FY 2006 related to this long-term goal. The City of Nacogdoches completed a project designed to improve the City's water treatment facilities. The City utilized the \$18,835,000 in DWSRF assistance to rehabilitate and increase the capacity of the existing water treatment facilities. Big Foot Water Supply Corporation also completed a project in FY 2006. Utilizing \$145,000 in DWSRF assistance, the Corporation constructed a new water supply well to reduce radium and gross alpha levels to meet state and federal drinking water standards.

Other examples were the Golden Water Supply Corporation for \$850,000 (to drill two new wells, construct a new ground storage tank and booster pump station and the replace distribution lines) and the City of Hamlin for \$5,500,000 (to make improvements to its water system including construction of a new water transmission line to the City of Abilene, a 1.5 mgd pump station and a surge tower).

2. [To maintain the fiscal integrity of the DWSRF and assure a continuous enhancement of the fund for future generations by complying with generally accepted accounting standards and the establishment of a lending rate policy that also provides for long-term inflation. Progress toward meeting this goal will be documented by discussion of changes to lending rate policy, loan monitoring activities and default information.](#)

State Response: The fiscal integrity of the fund is maintained through controls and procedures governing the application process and loan monitoring. Prior to an application being recommended to the TWDB for approval, a financial analyst reviews the applicant's ability to repay its DWSRF loan. The loan is evidenced by a bond or loan agreement that denotes the terms of payment and other special conditions. The loan agreement requires submittal of an annual independently prepared audit. The loans are reviewed at least annually for compliance with loan conditions. Special terms outlined in the loan agreement contain the requirements of maintaining a contingency account and a reserve account. These two accounts are anticipated to strengthen the integrity of the loan. The TWDB has had no loan defaults.

3. [To maintain the fund in perpetuity by establishing a lending rate policy that produces sufficient repayment amounts to allow for the growth of funds after](#)

payment of debt service on state bonds of which the proceeds will be deposited to the Fund. This would be balanced by a concern for the ability of applicants to afford the costs of their projects and with the provision of guidance, as necessary, in the planning and design of efficient and cost-effective projects. Progress toward meeting this goal will be documented by providing information regarding lending rates and status of leveraging.

State Response: The maintenance of the fund in perpetuity is insured by the TWDB establishing a lending rate at a level that produces sufficient repayment amounts to allow for the growth of funds after payment of debt service on any state bonds. No leverage bonds have been issued to date.

ATTACHMENT D

ANNUAL REPORT

FY 2006

DRINKING WATER STATE REVOLVING FUND
SMALL SYSTEM TECHNICAL ASSISTANCE
2% SET-ASIDE

Prepared For:
U. S. Environmental Protection Agency
Region VI Office
Dallas, Texas

Prepared By:
Texas Commission on Environmental Quality
Water Supply Division
Austin, Texas

WATER SUPPLY DIVISION

PROGRAM ELEMENT 1: Public Water Systems Study

This program element is designed to inventory small public water systems (servicing 3,300 population and less) with violations of maximum contaminant levels (MCLs) and bring them into compliance based on the research data collected from the feasibility study.

STRATEGIC PLAN LINKAGE:

EPA Goal: **2.1.1-Ensure drinking water is safe. Restore and maintain oceans, watersheds, and their aquatic ecosystems to protect human health, support economic and recreational activities, and provide healthy habitat for fish, plants, and wildlife. (Subjective 2.1.1 Water Safe to Drink.)**

TCEQ Strategy: **02-01-01-Ensure the delivery of safe drinking water to all citizens through monitoring and oversight of drinking water sources consistent with the requirements of the Safe Drinking Water Act (SDWA).**

OBJECTIVE: ***To study small public water systems with chemical violations of MCLs by August 31, 2006, and recommend options to bring these systems back into compliance at a cost not to exceed \$1,441,638.***

TASK 1.1: Engineering and Financial Feasibility Study Contract
The Texas Commission on Environmental Quality (TCEQ) Water Supply Division will contract with a professional services vendor to conduct high level and specialized engineering and financial feasibility studies on designated small public water systems.

- The studies will provide technical and financial options to help increase the number of small public water systems in Texas to meet the drinking water standards and the SDWA.

DELIVERABLES:

TCEQ will:

1. Develop a list of small public water systems with violations of MCLs.
TCEQ developed a list of public water systems with violations of MCLs. From this list 21 systems were assigned (see #5).
2. Develop an outline of engineering and financial feasibility report requirements.

With input from both TCEQ and the contractors, the outlines of the reports continue to evolve as new options are analyzed and some areas of discussion are streamlined.

3. Seek request for proposals (RFPs) from professional services vendors determining how many systems can be evaluated for a specific cost base on the outline requirements.

TCEQ has an umbrella contract with the University of Texas at Austin (UT). The Small System Technical Assistance project was conducted under this umbrella contract through a work order.

4. Evaluate the RFPs.

The work order is specifically with UT's Bureau of Economic Geology who in turn subcontract with Parson's Engineering and the New Mexico Environmental Finance Center to help conduct the feasibility studies.

5. Assign specific systems for evaluation studies based on contract.

TCEQ assigned a list of public water systems (PWSs) with MCLs to the contractors with exceedences of nitrate, arsenic and radionuclides. The contractors contacted PWSs to determine if they were interested in participating in the project and if they had already identified compliance options. From this list, 21 small PWSs in Webb, McCulloch, Kendall, Gillespie, Burnet, Kerr, Llano, Midland, Ector, Brazoria, Montgomery and Polk counties were assigned to the contractors.

6. Review and evaluate feasibility reports.

Staff from TCEQ in the Water Supply Division representing different disciplines including engineering, financial analysis, and water quality are reviewing and evaluating the feasibility reports. In addition, TCEQ staff from the Financial Administration Division participated in reviews and discussions of the reports, with emphasis of identifying parameters to develop a definition of affordability.

7. Develop compliance agreements.

TCEQ is working with the contractor to identify entities that have, or are planning to use, the feasibility studies as part of their existing compliance agreements. Coordination within the agency for developing new compliance agreements is ongoing.

8. Evaluate contractor's work.

TCEQ staff met with the contractors and subcontractors to evaluate the work and discuss projects and concepts that developed in the course of the studies. Some of the outcomes from the meetings were included as a refinement of the referral process for PWSs that needed additional assistance to the Financial, Managerial and Technical (FMT) Assistance contract. The FMT contract is funded by the Drinking Water State Revolving Fund 10% set-aside and provides free, on-site assistance to public water

systems in diverse areas including emergency preparedness, rate studies, funding sources, water loss, disinfection protocols, and consolidation assessment and assistance. Another outcome was a meeting with an entity that participated in the study who was interested in discussing with TCEQ and the contractor how to put one of the recommended treatment options in place. This meeting a pilot project operated as for a series of meetings that will be conducted under the FY 2007 work order.

9. Contractor meets deliverables in terms of timeliness and quality of product. **The contractor met the deliverables in timeliness and quality.**
10. Hold Monthly meetings with contractor to evaluate pace and content of assignments. **Meetings were held to discuss the pace and content of the assignments as well as other items (see #8).**
11. Evaluate annually, the number of assessed water systems that have returned to compliance. **The turnaround on getting into compliance will be analyzed this year, using all assessed systems from the beginning of the project.**

CONTRACTOR will:

1. Implement and refine protocol for evaluating technical and financial options for designated public water systems to bring them into compliance. **The contractors continue to implement and refine the protocols with input from TCEQ. In addition, the contractors authored a paper and conducted a presentation at the American Water Works Association's Texas Water Conference in April, 2006, in Austin, Texas. The paper was titled *The Challenge of Compliance Assisting Small Public Water Systems in Texas with Meeting Existing and Future SDWS Standards (attached)*.**
2. Develop engineering feasibility reports for each system assigned. **The contractor developed an engineering feasibility report for each system.**
3. Develop financial feasibility reports for each system assigned. **The contractor developed a financial feasibility report for each system.**
4. Prepare a final report including recommendations ranked by the best way to correct noted system deficiencies. **A final report was prepared for each system, see attached disk for a sample.**

The Challenge of Compliance
Assisting Small Public Water Systems in Texas with Meeting
Existing and Future SDWA Standards

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ABSTRACT

Under contract to the Texas Commission on Environmental Quality (TCEQ), Parsons and the University of Texas Bureau of Economic Geology (BEG) identified and analyzed compliance alternatives for use by small Public Water Systems (PWS) to meet and maintain Texas drinking water standards. The primary objective of this effort was to provide feasibility studies that evaluate water supply compliance options for both the PWSs and the TCEQ Water Supply Division. The goal was to promote compliance for various Texas PWSs that currently supply drinking water that exceeds maximum contaminant levels (MCL). During this study, 14 PWSs were evaluated in six different Texas counties (Brazoria, Concho, Ector, Kerr, Mason, and Midland). These PWSs had been identified as exceeding MCLs, including nitrate, total radium, and/or the revised MCL for arsenic that went into effect January 23, 2006.

Parsons evaluated each PWS using a decision tree approach developed in a previous Parsons/BEG pilot study. This approach involved evaluation of existing data sources as well as site visits and interviews to gather information to facilitate the financial, managerial, and technical assessment of each PWS. Additionally, a geologic and hydrogeologic assessment of each study area was performed to evaluate surface water and groundwater conditions endemic to each system. The purpose of this effort was to assess the potential availability of existing compliant water sources in the vicinity of the PWSs. Information was also gathered from personnel at several neighboring PWSs to explore options for shared solutions and alternative compliant water sources.

The result of this approach was development of a range of alternatives that might be implemented by the PWSs to achieve compliance. These involved both treatment and non-treatment options, including purchasing water from neighboring compliant PWSs, drilling new groundwater wells, installing central treatment systems, and installing point-of-use or point-of-entry treatment systems. Cost estimates were developed for each alternative, and several

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alternatives were considered with regard to their potential as regional solutions. Also, where it was considered appropriate, recommendations were made involving possible financial and managerial improvements, based on additional information collected during the site visits.

Once alternatives were developed for each PWS, the associated cost estimates were evaluated alongside the financial information gathered during the site visits. To this end, a model was developed to assess the financial impact of each alternative on the PWS using a range of funding options. The estimated cost of each alternative was compared to the existing rate structure for the PWS to illustrate its economic feasibility. Following review by TCEQ, results of each alternatives evaluation will be presented to the subject PWSs, and TCEQ and Parsons will discuss the various possible options for future compliance.

KEYWORDS

Small public water systems, nitrate, arsenic, radium, financial, assessment, feasibility study, compliance

INTRODUCTION

Background

In 2004, the Texas Commission on Environmental Quality (TCEQ) initiated a program to assist small municipalities in Texas with drinking water compliance issues. This program was designed by the Utilities & Districts and Public Drinking Water Sections of the TCEQ Water Supply Division, which is responsible for implementing requirements of the federal Safe Drinking Water Act (SDWA) that include oversight of PWSs and water utilities. The University of Texas Bureau of Economic Geology⁵ (BEG) and Parsons were contracted by TCEQ to assist with this program.

Through current water quality testing programs, TCEQ monitors approximately 6,300 currently registered Public Water Systems (PWS) in Texas. Based on exceedances of nitrates, radium, and/or arsenic above the Federal drinking water Maximum Contaminant Limits (MCL), TCEQ identified PWSs with compliance issues, several of which were considered candidates for the 2005 TCEQ program. Note that several PWSs were added as possible candidates for the program since the MCL for arsenic was reduced from 50 micrograms per liter ($\mu\text{g/L}$) to 10 $\mu\text{g/L}$, effective January 23, 2006.

Since the PWSs in the study are small systems, meeting compliance goals (*i.e.*, MCLs) can be both technically and financially challenging. The primary objective of the TCEQ program was to use sound engineering and financial methods that evaluate water supply compliance options to develop feasibility studies for the PWSs. The goal is to promote compliance by various Texas

⁵ The BEG was established in 1909 as a successor to the Texas Geological Survey and the Texas Mineral Survey. Today the BEG functions as a research unit of The University of Texas at Austin, the State Geological Survey, and the Regional Lead Organization for the Petroleum Technology Transfer Council. The BEG provides wide-ranging advisory, technical, informational, and research-based services to industries, nonprofit organizations, and federal, state, and local agencies.

PWSs that are currently supplying drinking water that exceeds MCLs. This effort currently only addresses those contaminants exceeding MCLs.

Evaluation of PWSs through this ongoing project began in 2004. The pilot study evaluated water supply alternatives for three PWSs that supply drinking water with nitrate concentrations above U.S. Environmental Protection Agency (USEPA) and Texas drinking water standards. The method (*i.e.*, decision tree approach) for analyzing the compliant drinking water options was developed in 2004 during evaluation of the first three PWSs studied under the program.

Study Systems

A total of 14 PWSs were reviewed during 2005. Those systems comprised small towns, residential subdivisions, and mobile home parks. A summary of the problem constituents along with the associated drinking water MCLs are presented in Table 1. In addition, Table 2 presents more specifics relative to the service populations and average daily water use for each of the systems reviewed during the 2005 TCEQ program.

Table 1 - Constituents Exceeded for the PWSs included in the 2005 TCEQ Program

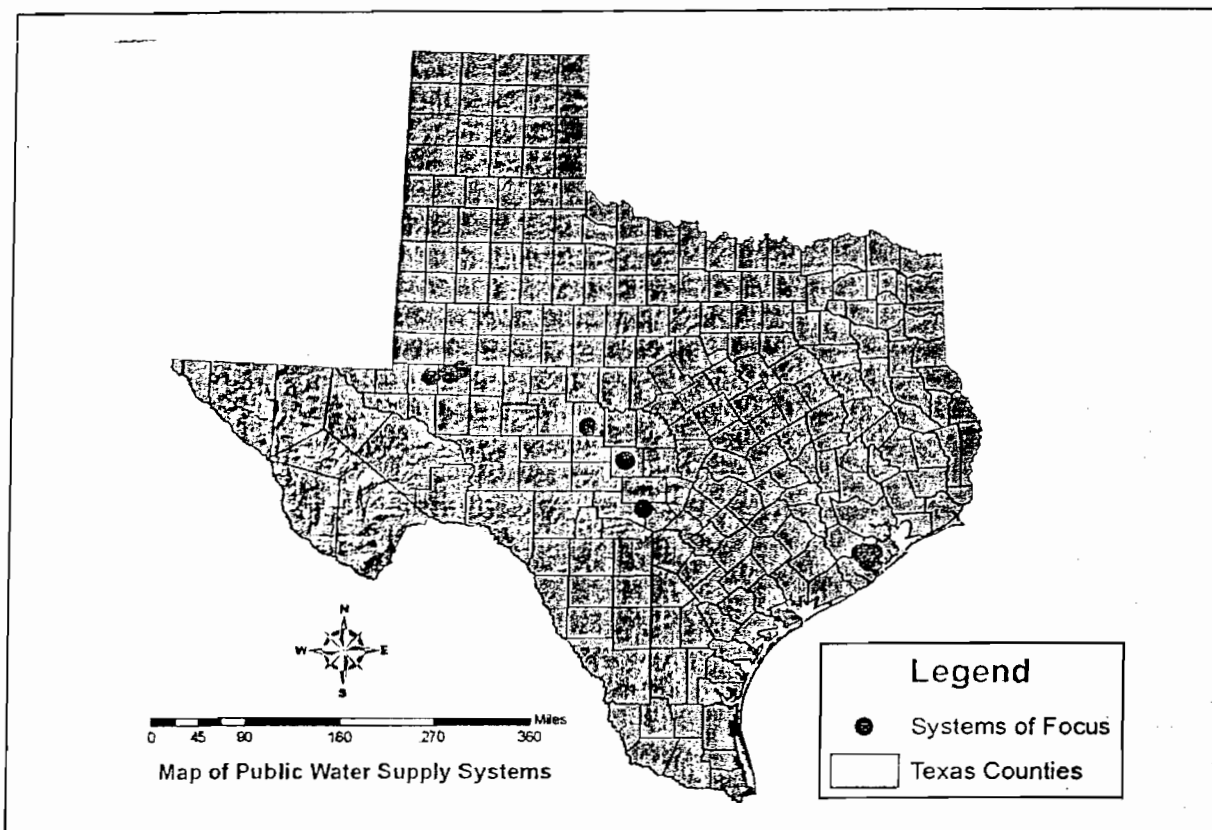
Region	Constituents of Interest	Federal Drinking Water MCL
Brazoria County	Arsenic	10 µg/L
Central Texas	Radium	5 picoCuries per liter (pCi/L)
West Texas	Arsenic and Nitrate	10 µg/L (As) and 10 mg/L (NO ₃)

Table 2 - General Characteristics of PWSs in the 2005 TCEQ Program

PWS Type	Population	Average Daily Water Use
Mobile Home Park	The 10 mobile home parks included in the study had service populations between 60 and 450 customers, with an average population of 215.	The average daily water use of the study systems ranged between 0.006 and 0.039 million gallons per day (MGD), with an average value of 0.019 MGD.
Residential Subdivision	The single subdivision included in the study had a service population of 770 customers.	The average daily water use of the study system was 0.118 MGD.
City	The three cities included in the study had service populations between 1,650 and 2,550 customers, with an average population of 2,120.	The average daily water use of the study systems ranged between 0.213 and 0.439 MGD, with an average value of 0.318 MGD.

The locations of the PWSs included in the 2005 study are shown in Figure 1.

Figure 1 – Locations of Systems Investigated for TCEQ Study in 2005



General Study Approach

The process for developing the feasibility study for each PWS used the following general steps:

- 1) Gather data from the TCEQ and Texas Water Development Board (TWDB) databases, from TCEQ files, and from information maintained by the PWS;
- 2) Conduct financial, managerial, and technical (FMT) evaluations of the PWS;
- 3) Perform a geologic and hydrogeologic assessment of the study area;
- 4) Develop treatment and non-treatment compliance alternatives which, in general, consist of the following possible options:
 - connection to neighboring PWSs via new pipeline or by pumping water from a newly installed well or an available surface water supply within the jurisdiction of the neighboring PWS;
 - installing new wells within the vicinity of the PWS into other aquifers associated with confirmed water quality data meeting the MCLs;

- installing a new intake system within the vicinity of the PWS to obtain water from a surface water supply with confirmed water quality data meeting the MCLs;
 - treatment of existing water supply by various methods depending on the type of contaminant; and
 - delivery of potable water via a bottled water program or via a treated water dispenser as an interim measure only;
- 5) Assess the potential alternatives with respect to economic and non-economic criteria;
 - 6) Prepare a feasibility report and present the results to the PWS.

This basic approach is summarized in Figure 2.

RESEARCH AND DATA GATHERING

Initial Research

Once the study sites were selected, a variety of data sources were researched to provide background data on each system. The first stage of data gathering involved public PWS files on maintained by TCEQ at its headquarters in Austin, Texas. These files contain technical and financial information and analytical data on every regulated PWS in Texas and, as such, provide an excellent resource. Additionally, the TCEQ and TWDB web sites were used to gather information on PWSs and associated groundwater wells, and the 2000 U.S. Census was used to provide demographic data for each study system.

The TCEQ PWS database was also queried and used in conjunction with a geographic information system to develop lists of PWSs surrounding the study systems that appeared to have compliant water and might have excess capacity. Personnel at these PWSs were contacted to confirm this information and to determine whether they might be interested in supplying compliant water.

Site Visits and Interviews

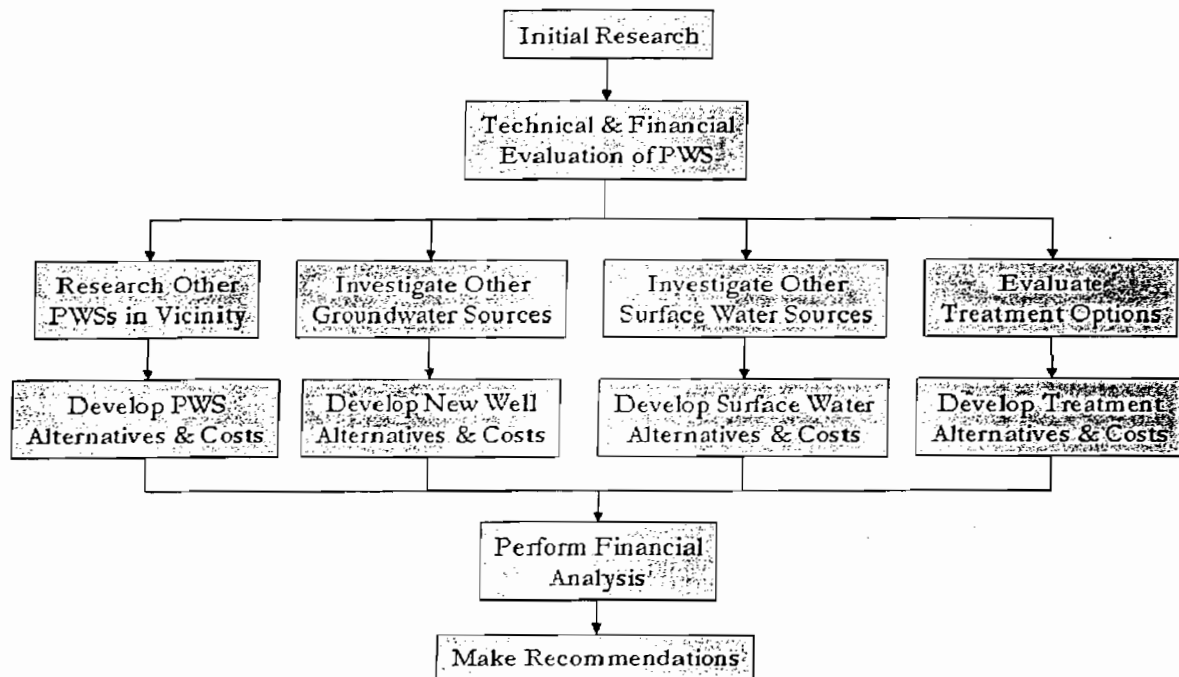
Following the initial data gathering step, members of the project team visited each study system to interview the owners/operators, tour the PWS, and gather additional information, including technical and financial data. These visits were important to improve the understanding of the problems faced by the owners/operators as well as to discuss any options they may have already explored.

The interviews were conducted using an approach created by the New Mexico Environmental Finance Center (NMEFC), who were also part of the project team. NMEFC developed a standard list of questions that could be asked of water system personnel. This list was adapted into two sets of questions – one for managerial and financial personnel, and one for operations personnel. In addition to the interview process, visual observations of the physical components of the system were made to complement the data gathered.

The intent of this process was to develop a list of FMT assets and/or deficiencies that might affect the overall effectiveness of the system. These would be presented to each study system,

and the deficiencies would be highlighted as critical items to address using follow-up technical assistance or by the PWS itself.

Figure 2 – Summary of General Approach for TCEQ Study



ALTERNATIVE DEVELOPMENT AND ANALYSIS

Once data had been gathered and the site visit was complete, a comprehensive range of possible options that could be evaluated was identified to determine which were the most promising for implementation. Once the possible alternatives were identified, each one was further developed and defined so a preliminary cost estimate could be developed. Cost estimates were used to compare the affordability of compliance alternatives. Other non-economic factors for the alternatives, such as reliability and ease of implementation, were also addressed.

In general, development of alternatives looked at four main categories:

- Neighboring public water systems;
- New groundwater sources;
- New surface water sources; and
- Treatment options (central treatment, point-of-use [POU], and point-of-entry [POE]).

Each of these categories is discussed further below.

Neighboring Public Water Systems

Neighboring PWSs were identified, and the extents of their existing water systems and available water quantity and quality were investigated. For neighboring PWSs with compliant water, options for water purchase and/or expansion of existing well fields were considered. The neighboring PWSs with non-compliant water were considered as possible partners in sharing the cost for obtaining compliant water, either through treatment or development of an alternate source.

Following this initial step, neighboring PWSs were contacted to identify key locations in their systems where a connection might be made to obtain water, and to explore their potential willingness to partner or sell water. Then, the major system components required to provide compliant water to the non-compliant PWS were identified, such as treatment units, new wells, storage tanks, pump stations, and pipelines.

New Groundwater Sources

The potential for developing new groundwater sources was investigated as the next potential alternative to achieve compliance. Initially, a literature review was conducted to develop an understanding of local hydrogeology and possible contaminant sources. In some cases, field investigations were conducted to determine whether the contaminant was naturally occurring or might result from human activities. TWDB, TCEQ, and other databases were analyzed to determine general trends in contaminant concentrations in the study region. In an attempt to identify nearby compliant groundwater, detailed assessments were also made for each PWS. The detailed assessments considered water quality of existing wells in the surrounding area, which was correlated to depth and formations when well log data was available.

This level of investigation was sufficient to suggest where compliant groundwater could be found and where further investigation should be focused, but was not sufficient to conclusively determine locations and depths for new wells. Since it was not possible to determine reliable locations and depths, feasibility was assessed for three nominal alternatives based on three different well location distances from the PWS intake point. The distances used were 1 mile, 5 miles, and 10 miles. Well depths were assumed to be similar to existing wells in the area. In this way, it was possible to assess the feasibility of installing a new well based on distance from the PWS. The major system components that would be required included items such as new wells, storage tanks, pump stations, and pipelines.

New Surface Water Sources

New surface water sources were also investigated. Availability of adequate quality water was investigated for the main rivers in the study area, as well as the major reservoirs. Because of the complexity of developing new surface water sources and the general lack of unappropriated water, alternatives involving new surface water sources were limited to obtaining water from large water providers that use surface water.

Treatment Options

Feasibility of treatment options was also considered as a possible compliance alternative. The considered treatment technologies varied depending on the contaminant to be removed. The selected technologies should provide a representative implementation cost, but there could be other treatment technologies equally suited, depending on each specific situation. A number of technologies for each contaminant were screened, and the two or three most promising representative technologies for implementation by a small water system were considered as alternatives for the study. The major system components that would be required were identified for each treatment alternative.

Treatment technologies considered promising for radium removal by a small PWS were, ion exchange (IX), potassium permanganate – greensand filtration, and a WRT Z-88™ filtration process. For arsenic removal, the promising treatment technologies were iron-based absorption and coagulation/filtration. For removal of nitrate and combined nitrate and arsenic, reverse osmosis (RO) and electro-dialysis reversal were considered the most promising treatment technologies.

Alternatives evaluated included central treatment, as well as POU and POE treatment options. The treatment units were sized based on flow rates, and capital and annual operation and maintenance (O&M) cost estimates were made based on the size of the treatment equipment required, and waste disposal costs.

Alternative Development

Once major components of each alternative were identified, a preliminary design was developed to identify sizing requirements and/or pipeline routings. A capital cost estimate was then developed based on the preliminary design of the required system components. An annual O&M cost was also estimated to reflect the change in O&M expenditures that would be needed to implement each alternative.

Non-economic factors were also taken into account for each identified alternative. Ease of implementation was considered, as well as the reliability of the source(s) for providing adequate quantities of compliant water. Additional factors included whether implementation of an alternative might require significant increase in the management or technical capability of the PWS and whether the alternative had potential as a regional solution for other nearby non-compliant PWSs.

FINANCIAL ANALYSIS

Background

The primary purpose of the financial analysis was to determine the economic impact of implementing the various compliance alternatives, primarily by examining the required rate increases, and also the proportion of household income the PWS water bill represented. The current financial situation of each PWS was also reviewed to determine whether current rates

were resulting in a surplus or deficit of income. Then the costs of implementing alternatives were added to the existing financial condition to determine the resulting impact on rates.

A key financial metric used in the analysis was comparison of the median household income (MHI) for the area, as determined from the 2000 U.S. Census, to the average annual household water bill for a PWS customer. The annual average household water bill was calculated for existing conditions and for projected future conditions incorporating the various possible compliance alternatives. Average residential consumption was estimated and applied to the existing rate structure to estimate the annual water bill. Estimates were generated from a long-term financial planning model that details annual revenue, expenditure, and cash reserve requirements over a 30-year period.

Financial Analysis Results

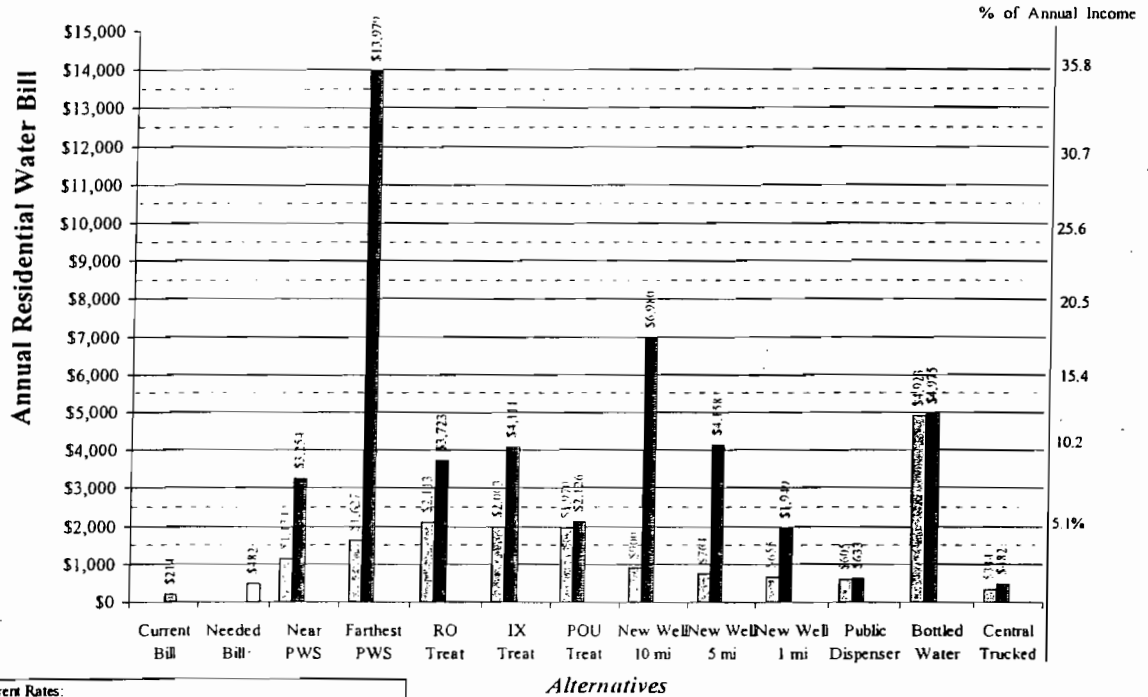
Results from the financial planning model were summarized in two areas: (a) percentage of household income and (b) total water rate increase necessary to implement the alternatives and maintain financial viability. The results for each PWS were summarized on bar graphs that showed the current average water bill, the projected average water bill with increases needed to maintain viability of the system (if any), and the projected average water bills that included implementation of compliance alternatives. The projected average water bills that included compliance alternatives were further broken down depending on the type of funding. A bar for implementing the alternatives with 100 percent grant funding for capital cost is shown on the graph, and another bar is shown assuming 100 percent loan or bond funding for capital cost. There are various other possible combinations of grants and loans/bonds, but grant funding and loans/bonds funding were considered to represent the two extremes of the range of possibility.

Representative summary graphs are shown in Figures 3 and 4 for a mobile home park and a small city, respectively. In these two cases, current billings for both PWSs shown were not sufficient to fully fund water provision through water rates, and a rate increase was thought to be required to break even. The two figures also illustrate that having a larger population to share the costs results in a lower cost per customer despite the implementation costs being greater for the larger population.

Funding Sources

A number of potential funding sources exist for rural utilities. Both state and federal agencies offer grant and loan programs to assist rural communities in meeting their infrastructure needs. Within Texas, the following state agencies offer financial assistance if needed: TWDB, the Office of Rural Community Affairs, and the Texas Department of Health - Texas Small Towns Environment Program. Small rural communities can also get assistance from the Federal Government with the primary agencies providing aid being the U.S. Department of Agriculture, Rural Utilities Service, and the U.S. Department of Housing and Urban Development.

Figure 3
Alternative Costs Summary: Mobile Home Park

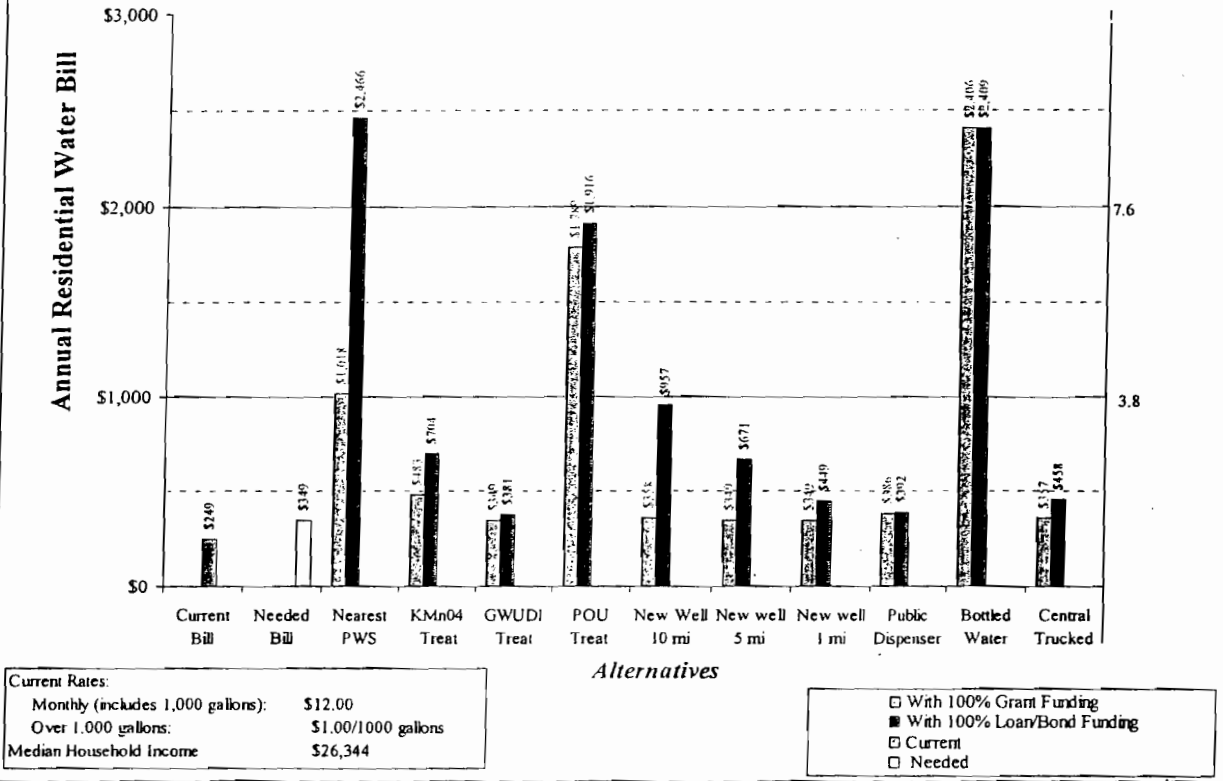


Current Rates:
 Monthly (includes 3,000 gallons) \$14.64
 Over 3,000 gallons: \$1.38/1000 gallons
 Median Household Income \$39,082
 Average Monthly Residential Usage 12,054 gallons

Alternatives

With 100% Grant Funding
 With 100% Loan/Bond Funding
 Current
 Needed

Figure 4
Alternative Costs Summary: Small City



FINDINGS

For the purposes of this paper, the findings from the 2005 study have been separated into four categories. The general findings describe observations made for the majority of the study systems, regardless of geographic location or water quality compliance issue. The other three categories deal with the regions addressed during the 2005 study: Brazoria County, Central Texas, and West Texas.

General

One of the major observations resulting from this study involved the importance of understanding the existing water sources in the vicinity of each study system. In several cases, the investigations performed by BEG indicated that groundwater quality can vary significantly over relatively small distances, so a PWS using more than one groundwater well might have one well that is in compliance and another that is not. In these situations, compliance with MCLs might be achieved easily and economically by simply switching the bulk of production to the compliant well. While the BEG investigations in these cases were not conclusive, TCEQ is willing to assist small PWSs with sampling their wells or other nearby wells to make these determinations more definitive. Additionally, BEG is working with TCEQ to acquire the capability to sample water from different strata in a well, which may help identify strata that are contaminant sources.

Since rate impacts are relatively less for larger systems owing to the larger number of clients/connections to share the costs, capital and O&M costs associated with implementing compliance options often translate to significant rate increases for the smaller PWSs. For this reason, it is advantageous for small PWSs to look for other similar systems in the vicinity that may have the same compliance issues. Sharing costs for implementing a compliance option may be possible between two or more small systems, assuming they are sufficiently close to one another, by providing a larger population base over which costs could be spread. For this reason, areas with higher density development can provide good opportunities for regional or shared solutions. Combining systems may also allow for savings in administration costs. Additionally, these areas also offer more likelihood of the existence of a regional water authority or other nearby large water provider. Obviously, regional solutions are less likely to be practical for sparsely populated areas.

Frequently financial evaluation of a small PWS indicated that the system lacked adequate budgeting and capital planning processes. In several situations, small PWSs did not maintain cash reserves, and the recommendation was made to institute a rate increase independent of any increases required to fund compliance options.

The proximity of compliant water sources was often a key factor because costs associated with constructing pipelines can rapidly become cost-prohibitive for small PWSs. Another feasible solution for a small PWS may be to obtain compliant water from a nearby large water provider. However, some of these suppliers might have special conditions to be met before they will consider supplying water. For example, some providers might require annexation of the PWS, while others might require that the PWS cover the cost of the connecting pipeline.

Central treatment may be the most economical alternative in the event that compliant sources are distant; however, small PWSs often lack the technical and managerial resources to implement a treatment option. Therefore, acquisition of these resources is a major component of implementing a treatment option. While a central treatment might be the most economical and feasible option for many small PWSs, the costs and resulting rate increases may still result in a major impact to the system. For the smallest systems (less than 200 connections), POU treatment was economically feasible, though this would not provide treated water at all taps. Generally, POE treatment was not an economically favorable alternative when compared to others.

Alternatives involving temporary solutions included providing a public dispenser for treated/compliant water or the provision of bottled water. Typically, if a temporary solution is desired, a public dispenser would be the most economically feasible option.

Brazoria County

Arsenic was the primary water quality issue for Brazoria County PWSs, although iron and manganese were also consistently found at higher levels in many of these systems. The source of the arsenic might be volcanic ash incorporated into the aquifer materials, and there appeared to be a high variability of arsenic concentrations between wells in the area. Both the TCEQ and TWDB databases indicate the existence of compliant groundwater in the area, although this would need to be confirmed owing to the age of the sample data and the possible effects on arsenic concentration as a result of prolonged well pumping. For this reason it can be extremely worthwhile for a PWS to characterize its water if it uses multiple wells. In general, it appears the larger PWSs in the area are moving away from groundwater to surface water sources.

For the Brazoria systems, there are several potential large water suppliers in the area, including Brazosport Water Authority, Gulf Coast Water Authority, and the City of Alvin. However, these suppliers are located at a sufficient distance from most of the study systems to make pipeline cost-sharing preferable for the smaller PWSs. Fortunately, most of the systems investigated in Brazoria County are close enough to each other that this would be a practical option, assuming the necessary agreements can be negotiated.

The treatment options for arsenic include iron-based adsorption and coagulation/filtration, and these options were found to be cost-competitive in many cases, although they require technical and management expertise not previously needed by the PWSs. POU treatment options were found to have relatively low costs, but these also have management and maintenance issues and do not provide compliant water to all taps.

Central Texas

The systems investigated in central Texas were located in Concho, Eden, and Mason Counties, and radium was the main groundwater contaminant of concern in all these locations. The primary aquifers involved were the Hickory and the Ellenburger Formations. Radium concentrations consistently exceeded the radium MCL in the Hickory aquifer and, to a lesser extent, the Ellenburger aquifer. The sources of radium in these Formations are most likely granite and volcanic ash. The well depths observed in the Hickory aquifer varied between 200

and 4,000 feet below ground surface, and it appeared that radium concentrations were generally higher in the deeper wells. There appeared to be sufficient variation between wells to make the investigation and sampling of individual wells worthwhile if they had not already been characterized.

The relatively large distances between PWSs in this region lead to high pipeline costs for options involving the transfer of water. However, there was a higher population density in the southeastern portion of the study area (close to San Antonio), which increases the feasibility of shared or regional solutions. There were few large water suppliers in this region, so obtaining treated water was not typically a viable option.

Treatment alternatives for this area included IX, a proprietary adsorption system, and potassium permanganate adsorption. Additionally, some of the systems had potential shallow groundwater sources that were under the direct influence of surface water (GWUDI). GWUDI can be treated using filtration and may provide a feasible alternative to radium treatment, though shallow aquifers may not be reliable water sources during drought conditions. POU treatment may be viable for the smallest systems (less than 200 connections) and has relatively low cost, but it has management and maintenance issues and also does not provide compliant water to all taps.

West Texas (Midland-Odessa)

The West Texas systems investigated were all located in the Midland-Odessa area and had arsenic and/or nitrate as the main contaminants of concern, though TDS levels were also often high in this region. Nitrate was generally associated with shallow groundwater. The primary sources of nitrate may be from human activity and correlated fairly well with cultivated areas. The sources of arsenic are most likely from aquifer materials, and the high levels of arsenic were mainly limited to the Ogallala aquifer.

There seemed to be a high variability of arsenic and nitrate concentrations between the wells in the region, and the TCEQ and TWDB databases indicated the existence of several sources of compliant groundwater. However, this would need to be confirmed owing to the age of the sample data and the possible effects on arsenic concentration as a result of prolonged well pumping. As discussed previously, this makes it worthwhile for a PWS to characterize its water if it uses multiple wells.

For the West Texas systems, the major large water suppliers are the Cities of Midland and Odessa, both of which obtain the majority of its water supply as untreated water from the Colorado River Municipal Water District. All the study systems were clustered around Midland-Odessa, which leads to several options for solution sharing and makes construction of pipelines for purchased water economically feasible, assuming that the necessary agreements can be negotiated. However, the City of Midland requires annexation of systems before it will be supplied with water, and the City of Odessa would require reimbursement for the cost of any connecting pipeline.

Treatment options for radium and nitrate included iron-based adsorption and coagulation/filtration for arsenic alone, and IX or RO for situations where both arsenic and nitrate exceed MCLs. These treatment options were cost competitive in some cases but would

require previously unneeded technical and management expertise. POU treatment has a relatively low cost for small systems (less than 200 connections) but has management and maintenance issues, and also does not provide compliant water to all taps.

ATTACHMENT E

ANNUAL REPORT

FY 2006

DRINKING WATER STATE REVOLVING FUND
SMALL SYSTEM TECHNICAL ASSISTANCE
10% SET-ASIDE

Prepared For:
U. S. Environmental Protection Agency
Region VI Office
Dallas, Texas

Prepared By:
Texas Commission on Environmental Quality
Water Supply Division
Austin, Texas

PROGRAM ELEMENT 1: PWSS PROGRAM ADMINISTRATION

This program element implements the Water Utilities Database (WUD) system designed to improve data reporting in order to meet the reporting requirements of the SDWA national primary drinking water regulations.

STRATEGIC PLAN LINKAGE:

EPA Goal: **2.1.1-Ensure drinking water is safe. Restore and maintain oceans, watersheds, and their aquatic ecosystems to protect human health, support economic and recreational activities, and provide healthy habitat for fish, plants, and wildlife.**

TCEQ Strategy: **02-01-01-Ensure the delivery of safe drinking water to all citizens through monitoring and oversight of drinking water sources consistent with the requirements of the Safe Drinking Water Act.**

OBJECTIVE: ***To reduce the risk of waterborne disease by increasing the number of surface water treatment plants to be compliant with current federal regulations through August 31, 2006, at a cost not to exceed \$1,333,743.***

TASK 1.1: Water Utilities Database (WUD) System
Provide maintenance functions and develop new applications for WUD (an integrated data applications package which replaces legacy systems.)

- Further develop data sharing among the functional areas of the division as well as with the rest of the agency.
- Develop new business systems needed to meet the requirements of legislative mandates.
- Analyze design and build improved methods for data reporting.
- Provide data tracking and reporting requirements of the Safe Drinking Water Act (SDWA) National Primary Drinking Water Regulations as agreed to in the State/EPA Primacy designation.

DELIVERABLES:

1. Analyze, design and build new functionality required to implement changes to the Lead-Copper Rule (LCR), Long Term 1 Surface Water Treatment Rule (LT1 SWTR), Arsenic Rule and Radionuclide Rules.

In fiscal year (FY) 2006 the Texas Commission on Environmental Quality (TCEQ) updated many of the computer data systems. The Lead-Copper Rule data tracking systems was moved out of Fox Pro software and moved into a new Access database in preparation for a move to the Safe Drinking Water Information System (SDWIS) in FY 2007. The Surface Water Treatment Rule data tracking system is currently being migrated to SDWIS. Most of the groundwork for the

migration was completed during FY 2006 to allow an early FY 2007 implementation; groundwork included new data entry systems and facility analyte level (FANL) creation. Both the Arsenic Rule and Radionuclide Rule data systems were updated to comply with the new rules.

2. Analyze, design and build applications to implement XML data transfers to improve both receipt and export of data.

TCEQ successfully reported all of the data required in XML format by the EPA deadline.

TASK 1.2: Evaluation and Optimization of Surface Treatment Plant Performance

- Reduce the risk of waterborne disease by increasing the number of surface water treatment plants that are in compliance with current federal regulations and the number of plants that are producing treated water with a turbidity levels of 0.1 Nephelometric Turbidity Units (NTU) or less.

DELIVERABLES:

1. Evaluate the performance of surface water treatment plants through Comprehensive Performance Evaluations (CPEs), Special Performance Evaluations and identifying surface water treatment plants that are "at risk" of violating treatment technique requirements.

Two mandatory CPEs were projected for FY 2006, but six mandatory CPE's were triggered and performed. Three Special Performance Evaluations (SPEs) were performed with a new Data Verification element. To support the Data Verification elements and strengthen compliance, two data verification checklists were created and tested. One checklist is used on-site during an SPE, while the other is used in-house by TCEQ staff on a regular basis.

2. Continue to implement the Texas Optimization Program (TOP). Through quarterly TOP Core Team meetings, Advisory Committee meetings and the TOP recognition program.

The TOP continued in FY 2006 with TOP quarterly core team meetings, advisory committee meetings and TOP recognition program activities.

3. Increase the knowledge and skill levels of surface water treatment plant operators through technical assistance, templates, instruction manuals and referrals to the Capacity Development Program for assistance.

Great progress was made on a new Directed Assistance Module (DAM). This module was created and field tested during FY 2006 and covers chloramination dosing and control, a topic for surface water plants, surface water purchasers and even ground water systems. Staff also performed the normal load of daily phone calls to provide plant operators assistance, sometimes taking calls on nights and weekends in emergency situations.

4. Enhance the ability of TCEQ staff to identify design, operational, maintenance, and administrative problems that could impair the performance of surface water treatment plants through, development of training modules,

updates of training materials and presentations and attendance at trainings. TOP staff has given presentations for the regulated public throughout the state including the TCEQ Trade Fair and TCEQ Annual Public Drinking Water Conference. TCEQ staff has also reviewed surface water class materials for operator licensing. Also training materials were developed and presented to internal staff to equip the staff with a better understanding of the science of surface water treatment and thus help the regulated community better understand these concepts.

5. Continue to implement the Surface Water Treatment Rule (SWTR), Interim Enhanced Surface Water Treatment Rule (IESWTR), Long Term Long Term 1 Enhanced Surface Treatment Rule (LT1ESWTR), and Finished Backwash Recycle Rule (FBRR) and increase and improve electronic reporting capability.

All of the surface water rules are implemented in Texas. During FY 2006 new data entry forms and data structures were created to allow the transition of compliance determination into SDWIS.

6. Completion of 90% of the assigned tasks will constitute successful completion of this task.

As described above, 90% if not more, of the planned activity was completed during FY 2006.

PROGRAM ELEMENT 2: ADMINISTER & PROVIDE TECHNICAL ASSISTANCE THROUGH SOURCE WATER PROTECTION PROGRAMS 1452(g)(2)(B)

This program element will establish Source Water Protection (SWP) Programs in one large geographical section of the State and will monitor these public drinking water sites through the source water assessment (SWA) software.

STRATEGIC PLAN LINKAGE:

EPA Goal: 2.1.1-Ensure drinking water is safe. Restore and maintain oceans, watersheds, and their aquatic ecosystems to protect human health, support economic and recreational activities, and provide healthy habitat for fish, plants, and wildlife.

TCEQ Strategy: 02-01-01-Ensure the delivery of safe drinking water to all citizens through monitoring and oversight of drinking water sources consistent with the requirements of the Safe Drinking Water Act.

OBJECTIVE: *To implement SWP at 13 PWSs in a large geographical section of the State through August 31, 2006, at a cost not to exceed \$714,438.*

TASK 2.1: Contract with professional services vendor to establish source water protection programs.

- Contact of PWSs in areas of the state for the purpose of establishing Source Water Protection (SWP) Programs.

DELIVERABLES:

1. TCEQ: Direct contractor to implement SWP in one large area that includes 13 PWSs including evaluating reports, best management practice (BMP) implementation, meetings, site visits, potential contamination inventories and electronic data management and outreach and education.

The contractor implemented Source Water Protection project affecting 13 public water systems using Lake Tawakoni as a source. Multiple meetings and site visits were conducted, individual protection strategy reports were developed, the TCEQ was provided the potential source of contamination data sets, and Best Management Practice (BMP) recommendations were made. Additionally, continued support from the Sabine River Authority helped make the project a success.

2. Contractor completes deliverables in time provided and according to specifications. Evaluate both on a continuing basis and provide feedback for improvement.

The contractor has been timely with their assigned deliverables and has completed work according to specifications. Ongoing evaluations and corrections required for continued data quality reviews were performed during FY 2006.

3. Population served by vulnerable water sources protected by a Source Water Protection program.

Surface water sources by their nature are vulnerable to various types of point and non-point source pollution. This is exemplified by the major gasoline pipeline break that affected Lake Tawakoni in 1998. This history helped the project as the contractor began soliciting support and project endorsement letters.

TASK 2.2: Augment, enhance, and maintain source water assessment (SWA) software used to assess statewide PWSs for contamination susceptibility.

- Ensure consistent and reliable operation of the SWA software used Statewide for contamination susceptibility.

DELIVERABLES:

1. TCEQ shall, as applicable: Enter into a source water assessment and protection (SWAP) cooperative agreement with USGS to include Source Water Susceptibility Assessment maintenance, software enhancements, upgrades, training, assistance, and documentation.

The United States Geological Survey (USGS) has successfully maintained software functionality through supporting geographic information system (GIS) software version upgrades. USGS staff made two site visits to train TCEQ staff and provide detailed technology transfers.

2. USGS shall, as directed and where applicable: Provide software technical support, maintenance and training to TCEQ. Support shall include code repair and revision as necessary to maintain function, write and install code for any methodology changes.

USGS has maintained the functionality of the Source Water Assessment and Protection Decision Support Software (SWAP-DSS) code and continued to participate in and respond quickly to the change control and error tracking process we have in place throughout FY 2006.

3. USGS shall improve delineation methodology to reflect influence of chemicals and attenuation.

The work to improve the delineation methodology will be completed in FY 2007. The work entails development of a new Edwards Aquifer model and code that will allow TCEQ staff to generate capture zones rapidly.

4. USGS shall improve non-point source methodology and improve SWA base map layers.

This was a major achievement during FY 2006. The USGS completed a new methodology for attenuating non-point source contaminants from each land use grid cell. With the completion of this new methodology, we will be able to begin assessing polygon potential contaminant sites as opposed to relying only on point locations. This work has also resulted in much improved assessment results for the non-point source component which was a major comment from public water systems after the original 2003 assessments.

5. USGS augmentation and maintenance assignments subject to TCEQ review, oversight, and approval. Resulting products augment, enhance, sustain, and otherwise improve the quality and accuracy of state source water assessment results for public water systems (PWSs).

TCEQ has reviewed and approved all elements of the SWAP-DSS software during FY 2006.

6. Project is considered successful when deliverables are provided to TCEQ according to specifications.

All deliverables have been provided according to TCEQ specifications and the completed work has provided the framework for the FY 2007 deliverables to proceed on schedule.

**PROGRAM ELEMENT 3: DEVELOP AND IMPLEMENT A CAPACITY
DEVELOPMENT STRATEGY 1452(g)(2)(8)**

This program element will provide technical assistance to public water systems to help assess and maintain their administrative and technical abilities in order to meet state capacity requirements.

STRATEGIC PLAN LINKAGE:

EPA Goal: 2.1.1-Ensure drinking water is safe. Restore and maintain oceans, watersheds, and their aquatic ecosystems to protect human health,

support economic and recreational activities, and provide healthy habitat for fish, plants, and wildlife.

TCEQ Strategy: **02-01-02-Provide regulatory oversight of water and sewer utilities to ensure that changes to customers are necessary and cost-based; and to promote and ensure adequate customer service.**

OBJECTIVE: *To assist public water systems on a statewide basis in developing and implementing the Capacity Development Strategy requirement of the SDWA Section 1452(g)(2)(8) through August 31, 2006, at a cost not to exceed \$1,805,717.*

TASK 3.1: Implement programs to increase the financial, managerial and technical abilities of public water systems.

- Identify public water systems that need assistance in developing, increasing and maintaining their financial, managerial and technical (FMT) abilities to meet state requirements.
- Identify public water systems that need assistance in consolidating.
- Conduct assessments of and provide assistance to these systems.
- Continue to develop innovative approaches to moving systems to compliance.
- Prohibit nonviable public water systems from coming into existence.
- Encourage and promote regionalization and partnerships where applicable to increase compliance and affordability.
- Evaluate and facilitate potential acquisition, merger, or lease of ownership of water systems to ensure FMT abilities.
- Identify and rank public water systems and their proposed projects for the DWSRF.
- Assess DWSRF applicants.

DELIVERABLES:

TCEQ:

1. Identify public water systems that need assistance & assessments.

TCEQ identified 416 public water systems that needed assistance or assessment in the areas of financial, managerial and technical assistance. This included systems participating in the DWSRF loan program, assessing and assisting systems with consolidations and regionalization projects, as well as day-to-day financial, managerial and technical operations.

2. Execute and manage a contract with contractor for assignments to conduct FMT assessments, consolidation assessments, consolidation facilitation assistance, financial, managerial and technical assistance and other special assistance and assessment projects as needed.

FY 2006 was the second year of a three-year, renewable FMT contract that was awarded to the Texas Rural Water Association (TRWA). There

were 14 consolidation assessments assigned and 7 consolidation assistance assignments made through the contractor.

3. Review and evaluate contractor reports.
The contractor submits monthly reports which are reviewed and evaluated by TCEQ.
4. Review and evaluate business plans and FMT capabilities. The agency reviewed and evaluated 146 business plans for FMT capabilities. Propose and evaluate new programs to continue improving financial, managerial and technical capacities of public water systems. Staff works within the agency and with the regulated community to identify areas and programs that can continue to improve the financial, managerial and technical abilities of public water systems. Of particular importance in FY 2006 was the continued emphasis on planning and preparing 33 water systems for security breeches and emergency response. Additionally, 33 water systems were assisted in regard to new rules regarding arsenic and 41 water systems were assisted in regard to disinfection by-products (DBP's).
5. Draft ranking of the DWSRF Intended Use Plan.
In FY 2006 there were 91 applications submitted for the DWSRF Intended Use Plan. Of those 82 were eligible for ranking. In addition, TCEQ ranked an additional 101 PWSs who the applicants submitted as part of consolidation projects.
6. Assessment reports on loan applicants.
There were 4 assessments completed in FY 2006.
7. Coordinate activities with the Texas Water Development Board.
TCEQ routinely coordinates with the Texas Water Development Board (TWDB) concerning the myriad of aspects of the DWSRF program; from grant management and reporting, IUP project ranking, specific projects, and promoting and managing the DWSRF program in general. Coordination includes regular meetings, ad hoc work groups, and joint training. During FY 2006 a special training session on the DWSRF IUP process with over 20 members from both the Texas Commission on Environmental Quality and TWDB.

For more information about the TCEQ's Capacity Development Program, please see the enclosed Annual Capacity Development Report FY 2006 submitted earlier this year to EPA Region 6.

Contractor:

1. Conduct assignments. The contractor conducted assignments that were referred to them.
2. Provide reports.
The contractor provided written reports on each assignment and made verbal reports in monthly meetings. These reports are available to the TCEQ staff, the entity, and through the TCEQ agency files.

TASK 3.2: Provide assistance to public water systems in the development of water conservation and/or drought contingency programs to maintain or increase abilities of public water systems to meet state requirements.

- Identify retail public water systems that need assistance in developing water conservation and/or drought contingency plans who may not have adequate capabilities to meet higher than normal peak water demands during periods of drought.

DELIVERABLES:

- Review and evaluate water conservation and/or drought contingency plans of retail public water systems to meet state requirements.

The TCEQ successfully implemented 262 reviews and evaluations of water conservation and drought contingency plans to meet state requirements. As drought continues to affect many parts of Texas, these plans can be very important in maintaining PWSs viability.

FIELD OPERATIONS DIVISION

PROGRAM ELEMENT 4: PWSS INSPECTIONS & INVESTIGATIONS

This program element will conduct field inspections, sanitary surveys, and complaint responses on existing public water supply systems to ensure that human health and the environment are protected.

STRATEGIC PLAN LINKAGE:

EPA Goal: **5.1.1-Improve environmental performance through compliance with environmental requirements, prevention pollution, and promoting environmental stewardship. Protect human health and the environment by encouraging innovation, and providing incentives for governments, business, and the public that promote environmental stewardship.**

TCEQ Strategy: **02-01-02-Promote compliance with environmental laws and regulations by conducting field inspections and responding to citizen complaints.**

OBJECTIVE: ***To conduct 2,535 comprehensive compliance investigations at public water supply systems, and respond to complaints where appropriate through August 31, 2006, at a cost not to exceed \$2,735,163.***

TASK 4.1: Field Inspection, Sanitary Surveys, and Complaint Response

- Increase the total number of inspections, Comprehensive Compliance Investigations (sanitary surveys), and complaint responses.

DELIVERABLES:

1. Conduct Comprehensive Compliance Investigations (sanitary surveys) of 2535 PWSs.

2529 Comprehensive Compliance Investigations (CCI) were conducted by the Field Operations Division. 79 additional investigations were also conducted (2608 total investigations).

2. Investigate complaints on PWSs.

The Field Operations Division investigated 465 PWS complaints.

COMPLIANCE SUPPORT DIVISION

PROGRAM ELEMENT 5: PWSS LABORATORY INSPECTIONS

This program element includes a state program to inspect public water supply system laboratories that analyze drink water samples to ensure compliance with state laws and federal regulations.

STRATEGIC PLAN LINKAGE:

EPA Goal: **2.1.1-Ensure drinking water is safe. Restore and maintain oceans, watersheds, and their aquatic ecosystems to protect human health, support economic and recreational activities, and provide healthy habitat for fish, plants, and wildlife.**

TCEQ Strategy: **02-01-01-Ensure the delivery of safe drinking water to all citizens through monitoring and oversight of drinking water sources consistent with the requirements of the Safe Drinking Water Act.**

OBJECTIVE: ***To inspect 30 PWSs laboratories statewide through August 31, 2006, at a cost not to exceed \$190,894.***

TASK 5.1: Certify Public Water Supply Laboratories

- Inspect laboratories analyzing samples for compliance with the Safe Drinking Water Act. Work is performed and controlled according to Manual for the Certification of Laboratories Analyzing Drinking Water, Fourth Edition, EPA 815-B-97-001, March 1997, and the Lab Cert Manual Errata, Labcert Bulletin, EPA-815-N-99-002a, April 1999, published by the U.S. Environmental Protection Agency and 25 Texas Administrative Code 73.25.

DELIVERABLES:

A. Laboratory Inspections – 30.

The TCEQ completed 37 laboratory inspections.

B. Completion of laboratory inspections.

The TCEQ completed and mailed 37 public drinking water laboratory certification audits in FY 2006. This includes 5 audits that were conducted in FY 2005, but reports were not mailed until FY 2006, and 32 audits that were conducted and completed in FY 2006. One audit was conducted in FY 2006, but the report was not mailed until FY 2007. Of

the 37 audits completed, 35 laboratories successfully completed the audit process. These numbers do not include any assessments conducted under the environmental laboratory accreditation program.

**Texas Commission on Environmental Quality
Annual Capacity Development Report
FY 2006**

Below in italics are the questions attached to the June 1, 2005, memorandum from Cynthia C. Dougherty of the EPA Office of Ground Water and Drinking Water to the EPA Drinking Water Program Managers regarding the reporting criteria for annual state capacity development program implementation reports.

The Texas Commission on Environmental Quality (TCEQ) is providing responses to these questions as part of our annual report on Capacity Development for FY2006. We hope you find this information helpful.

1) State Capacity Development Program Annual Reporting Criteria

a) New Systems Program Annual Reporting Criteria

i) Has the State's legal authority (statutes/regulations) to implement the New Systems Program changed within the previous reporting year?

No

ii) Have there been any modifications to the State's control points?

Based on some state legislation passed during the last session, there have been modifications to some of the requirements for entities applying for a new or amended Certificates of Convenience and Necessity (CCN). These changes increase the applicant's burden of proof and strengthen the New System control points. TCEQ continues to review new system applications for the opportunity of regionalization.

iii) List new systems (PWSID & Name) in the State within the past three years, and indicate whether those systems have been on any of the annual Significant Non-Compliers (SNC) lists. States may refer to other forms of violations data in addition to the SNC lists. For instance, compliance tracking has been identified by 41 states as an indicator, or a component of an indication, in implementing the new systems program. States may elect not to provide this new system data to EPA. In this case, EPA Regional Coordinators will utilize the SDWIS/FED database to gather the information. EPA Regional Coordinators will verify this information with the States for accuracy. An examination of any trends (e.g., sanitary survey results, capacity assessments, etc.) may also trigger States to revisit program.

SNC data

TCEQ submitted a report to EPA in August 2006 on Capacity Development and SNCs. We would be glad to review any other report our EPA Regional Coordinator generates with the SDWIS/FED database. Some "SNC success stories" are included in b(i).

New system data and capacity development

In addition to reviewing the data for new systems required by TCEQ for plan and specifications, business plans, financial and managerial review, creation and bond applications and CCNs, TCEQ provides assistance to new systems through the following venues:

- The TCEQ website has highlighted links to help entities evaluate whether they are a public water system and what regulations pertain to public water systems. These links can be found under the general heading http://www.tceq.state.tx.us/nav/util_water/. During the last year more information was put on the agency's website to provide information for prospective, new and existing public water systems. In addition, increased accessibility to the agency by email has provided new and existing water systems with another method of reaching the agency.
 - Both central office staff, regional drinking water inspectors and TCEQ financial, managerial and technical (FMT) assistance contractors provide technical assistance to new systems by means of on-site visits, telephone consultation, and educational materials.
 - Referrals are made for new systems to the FMT assistance contract. These referrals are being expanded, as described below:
 - New system data: TCEQ is compiling a list of entities that have submitted plans and/or applications to develop new community PWSs and/or new Certificate of Convenience and Necessity (CCN) service areas in the last three years. From this list assignments will be made to the TCEQ contractors to
 - Provide on-site assessment to determine if the system has been
 - Built,
 - Is operational, and
 - Is operating in compliance with rules and regulations.
 - Provide on-site assistance, as needed to:
 - Ensure the system understands the regulations and requirements to operate and manage a public water system.
 - Address any financial, managerial or technical issues the system might have including, but not limited to, funding sources, sampling and monitoring, hiring and retaining certified operators.
 - Further assignments
 - Once new community public water systems have been targeted, it is the intention to expand this project to provide capacity development assessment and assistance to non-community public water systems.
 - Failure for a new PWS and/or Certificate of Convenience and Necessity (CCN) to submit the proper paperwork and applications
 - In this cases, assistance is offered to the applicants to help them with the applications or, if more appropriate,
 - Assess the possibility and feasibility of the entity receiving service from another existing public water system or merging with another system.
- b) *Existing System Strategy – The following questions will ask States to demonstrate how they are implementing strategies to assist public water systems (PWS) in acquiring and maintaining TMF capacity.*
- i) *In referencing the State's approved existing systems strategy, which programs, tools, and/or activities were used, and how did each assist existing PWS's in acquiring and maintaining TMF capacity? Discuss the target audience these activities have been directed towards. Explanation: States should describe the broad range of programs and activities employed in their approved strategies, and discuss what role those programs and activities played in building or maintaining capacity of various types of*

systems. The response could include a brief explanation of how each activity is used in program implementation.

FMT contract – assess, assist and consolidate

In addition to the work the TCEQ staff does on a daily basis with public water systems, we use a contract, funded in part by the Drinking Water State Revolving Fund (DWSRF) 10% set-aside, to provide direct assistance to public water systems to maintain and increase their financial, managerial and technical capabilities. This contract is referred to as the FMT contract.

During FY 2006 there were 416 assignments for on-site visits to public water system through the TCEQ's FMT contract. The assignments included:

- financial assistance – developing and updating tariffs, rate analysis, funding sources;
- managerial assistance – restructuring, consolidations, applications, board training;
- technical assistance – disinfection byproducts, arsenic, sampling, water loss;
- FMT assessments –for Drinking Water State Revolving Fund applicants and others as needed;
- consolidation assessments and assistance – to encourage and assist in regionalization; and
- special assignments – rate training for Public Drinking Water conference

Attached is an information sheet on the contract and a list of tasks that are routinely assigned to the contractors. In addition to on-site visits, the contractors assist PWSs by participating in special assignments which include training.

SNC and consolidation success stories

TCEQ made a referral to the FMT contractors to facilitate a consolidation between Fort Stanley Area Water Utility (Fort Stanley) and Four Way Water Supply Corporation (Four Way). Fort Stanley provided service to approximately 70 connections and Four Way served approximately 1,760 connections. In addition to being on the SNC list, Fort Stanley had a long history of problems, including water outages and poor service. Fort Stanley was eventually abandoned by its owner. The FMT contractors provided assistance over a 12 month period, meeting monthly with Four Way. (Four Way started operating Fort Stanley before the formal consolidation was complete because of the abandonment.) Some of the tasks addressed during these meetings included:

- financial analysis of the impact of the consolidation which in turn resulted in the filing of a rate change application;
- holding a public meeting for the customers of Fort Stanley to discuss the advantages of consolidation,
- explaining the procedures and applications that needed to be followed to do the consolidation;
- answering questions and addressing concerns from the customers and utility,
- analysis of the management structure; and
- completing and submitting the Sale, Transfer or Merger (STM) application to TCEQ.

TCEQ made another referral to the FMT contractors to facilitate a consolidation between On Site Water Works (On Site) and Flat Fork Water Supply Corporation (Flat Fork). On Site served approximately 12 connections and Flat Fork served approximately 295 connections. Similar to Fort Stanley, On Site was not only on the SNC list, but had a history of customer problems due to inadequate water capacity, poor service and abandonment by its owner. The FMT contractors provided assistance over a 6 month period that began with approaching Flat Fork to see if they could provide wholesale water to the neighboring On Site to help increase pressure and capacity. The initial meeting resulted in Flat Fork agreeing to acquire the On Site customers and provide water. Over the next six months assistance included:

- monthly meetings to address any concerns or questions that needed addressing,
- financial analysis of the impact of the consolidation,
- holding a public meeting for the residents of On Site to discuss the advantages of consolidation;
- explaining the procedures and applications that needed to be followed to do the consolidation ;
- answering questions and concerns from the customers and utility,
- analysis of the management structure; and
- completing and submitting the Sale, Transfer or Merger application to TCEQ.

Drinking Water State Revolving Fund (DWSRF)

The Capacity Development Program works hand-in-hand with the DWSRF set-asides and loan program.

Set-asides

The DWSRF 10% set-aside used by TCEQ is divided into three program elements:

- PWSS Program Management;
- Source Water Protection; and
- Capacity Development

Projects and tasks funded under the 10% set-aside include:

- FMT assistance contract;
- maintenance and new applications for Water Utilities Database;
- evaluation and optimization of surface treatment plant performance;
- field inspections, sanitary surveys and complaint response;
- public water supply laboratory certification;
- source water protection contract;
- source water assessment software enhancement; and
- capacity development implementation through FMT assessment .

The DWSRF Small System Technical 2% Set-Aside is used to fund work under the agency's umbrella contract with the University of Texas at Austin (UT) for high level technical and financial feasibility studies for systems with MCL violations. Further discussion of this project is on page 8. The FY 2005 annual report on the DWSRF 2% and 10% set-asides are attached.

Loan program

In the last year TCEQ evaluated 91 PWSs who applied to the DWSRF Intended Use Plan (IUP) and another 101 PWSs as part of associated consolidation projects. From these

evaluations, TCEQ ranked the FY2007 IUP applicants for the IUP which in turn was printed by the Texas Water Development Board (TWDB). The FY2007 IUP is attached. TCEQ also contacted over 300 systems that had, or would soon have, MCL exceedences of the drinking water standards to encourage them to apply to the DWSRF loan program and to offer them assistance filling out the forms. TCEQ and TWDB also held four meetings around the state to explain the DWSRF program and to meet with entities interested in participating in the DWSRF loan program. This targeting and funding has resulted in projects that are moving non-compliant systems into compliance.

State-wide coordination of funding and regulatory agencies

For a number of years Texas has had a special work group that meets quarterly to discuss the coordination of funding and assistance for Texas-Mexico border water and wastewater projects. This year TCEQ helped develop a similar state-wide group to meet to discuss:

- assisting entities and areas that particularly need help due to compliance and other financial, technical and managerial issues;
- streamlining the funding process to assist entities in developing their capacities as quickly as possible;
- developing standardized forms and funding cycles to be used by the various agencies;
- coordinating marketing and outreach of funding and other assistance; and
- soliciting input from the regulated community on their needs.

PDW Conference

A key to a healthy capacity development program is outreach to PWSs to provide them information on operating and managing their systems. Public water systems are always in search of affordable training for their operators and managers. To address this need, and get important information out about new rules and regulations, the TCEQ's Water Supply Division hosted the third Public Drinking Water Conference August 15–16, 2006, in Austin. A total of 900 people attended the free conference, including TCEQ personnel and 70 exhibitors. Attendees included water operators, board presidents, managers and engineers who came from across the state to learn more about drinking water. TCEQ staff gave 39 of the 58 presentations on topics ranging from plan-review requirements, the FMT assistance contract, source water protection, and groundwater conservation districts, to nitrification, how to prepare for a TCEQ investigation, and emergency-response plans. There was a general session the first morning, followed by three parallel tracks of presentations that afternoon and all day the second day. A highlight of this conference was the "chat room", where TCEQ staff was available to discuss specific issues that particular water systems face. This chance for water systems to "chat with your regulator" was one of the most popular features of the conference according to attendees. Funding agencies were also included in the conference both as exhibitors and presenters. Water systems that are frequently looking for funding sources to make improvements appreciated this effort. Another popular feature was hands-on activities such as calibrating turbidimeters and filling out surface water monthly operating reports. Exhibitors came from a wide variety of areas relating to drinking water, including associations and vendors of water treatment technology.

- ii) *Based on the existing system strategy, how has the State continued to identify the systems in need of capacity development assistance? Explanation: This question*

refers to the method(s) prescribed within State strategies for identifying, selecting or prioritizing PWS's in need of assistance. States should describe the method(s) used and the frequency at which this process may have been performed (annually, semi-annually, continuously, or as otherwise identified with the strategies).

TCEQ is continuously identifying, selecting and prioritizing PWSs in need of capacity development assistance. Sometimes the needs present themselves in the form of new rules, compliance issues, or more dramatically, in the form of hurricanes or water shortages caused by drought. Below is an example of a capacity development project that targets a group of systems with water quality violations. This group is prioritized annually based on water quality data.

Small System Technical Assistance set-aside – compliance options

TCEQ has long recognized the need for detailed, objective information on compliance options for small public water systems. TCEQ decided to use the DWSRF Small System Technical 2% Set-Aside to develop this information in the form of high level technical and financial assistance and analyses of compliance options. Also contributing to the decision to proceed with this project, was the implementation of new drinking water rules, availability of new treatment technologies, opportunities for regionalization and the availability of DWSRF loans for systems with MCLs.

The project supports goals, objectives, strategies and output measures of the agency's Goal 2 – Drinking Water and Water Utilities and links to the EPA strategic plan and Safe Drinking Water Act provisions.

TCEQ/EPA STRATEGIC PLAN LINKAGE

Link to the EPA and TCEQ Strategic Plans	
<p>EPA: <u>Goal 2.1.1</u>-Ensure drinking water is safe. Restore and maintain oceans, watersheds, and their aquatic ecosystems to protect human health, support economic and recreational activities, and provide healthy habitat for fish, plants and wildlife.</p>	<p>TCEQ: <u>Strategy 02-01-02</u>-Provide regulatory oversight of water and sewer utilities to ensure that changes to customers are necessary and cost-based; and to promote and ensure adequate customer service.</p> <p><u>Strategy 02-01-01</u> – Percent of Texas population served by public water systems which meet drinking water standards.</p>

As a pilot project TCEQ developed an outline of engineering and financial requirements to be addressed in the design of the feasibility studies.

Under an existing umbrella contract with UT, TCEQ contracted with UT's Bureau of Economic Geology (BEG) to develop and conduct this project. BEG in turn contracted with Parsons Engineering and the New Mexico Environmental Finance Center to help conduct the technical, financial and managerial feasibility studies.

With input from the Water Supply Division, the contractors:

- develop protocols for evaluating options including flow charts, map, and decision trees;
- look at whether optimizing existing operations or treatment would correct violations;
- investigate new sources including groundwater, surface water or purchased water;
- analyze treatment alternatives; and
- analyze financial feasibility and affects on: budgets, rates, financial statements, funding sources and demographic data.

FY 2004

For the first year TCEQ assigned as a pilot project three small public water systems with nitrate violations in the Wichita Falls/Red River area.

FY 2005

In 2005, the studies focused on 15 public water systems in Concho, Brazoria, Mason, Kerr, Midland and Ector counties with exceedences of nitrate, arsenic and radionuclides.

FY 2006

In 2006, 21 public water systems were studied in Webb, McCulloch, Kendall, Gillespie, Burnet, Kerr, Llano, Midland, Ector, Brazoria, Montgomery and Polk counties. These systems had exceedences of nitrate, arsenic and radionuclides.

FY 2007

In 2007, public water systems in the Lubbock area will be evaluated. These public water systems have one of more exceedences of arsenic, fluoride, selenium, nitrate and radonuclides.

Deliverables

The contractors produce a detailed report on each water system. In addition the contractors update and improve the methodologies as needed. The contractors also make direct referrals to the FMT Assistance Contract for specific assistance for “hands on” help with bookkeeping, water loss, applications, etc., which they identify as they work with these small systems.

During the reporting period, if statewide PWS capacity concerns or capacity development needs (TMF) have been identified, what was the State’s approach in offering and/or providing assistance? Explanation: States should describe the method(s) that have been utilized to identify system capacity concerns, and how such situations have been addressed. For example: If statewide reviews of sanitary surveys yielded common trends, or if they have identified a need for a specific type of operator training, discuss what actions have been performed to address these issues. Discussion of this process from planning to execution should answer the following: What method was used to identify this need? How has the need been addressed?

Lessons from Rita – Common trends emerge

TCEQ was in contact with hundreds of public water systems affected by Hurricane Rita during the fall of 2005. It quickly became apparent that one of the stumbling blocks for small systems to restore water service was lack of power. Generators were hard to come by, and frustratingly, often the operators and owners of the water systems didn’t know what type and size of equipment they needed or how to hook it up. To address this issue, TCEQ identified some solutions for these situations, and using both the DWSRF funded FMT contract and a Homeland Security grant, have set out to provide some much needed FMT assistance to vulnerable systems. Vulnerability assessment

plans and emergency response plans are required only for systems over 3,300 populations. To encourage small systems to develop these tools, TCEQ has developed a three part approach – systems in areas of the state particularly vulnerable were surveyed to see if they had emergency plans or if they wanted assistance from TCEQ to develop them. If they had plans or successfully participated in assistance, and the Mutual Aid groups joined either TxWarn or Rural Water Emergency Assistance Cooperate (RWEAC) they would be eligible for having a contractor come out and build an electric harness to connect a generator when needed. This project is underway right now.

Mutual aid societies

Another lesson from Hurricane Rita was the realization that sometimes the best assistance a public water system can get is from another water system. To this end, TCEQ has worked with American Water Works Association (AWWA) to develop TxWARN. For more information, see the website <http://www.txwarn.org/>. In addition, Texas Rural Water Association has a similar organization RWEAC; information on this group can be found at <http://www.trwa.org/rweac/index.htm>. TCEQ has worked collaboratively with both Mutual Aid Programs to ensure communication and coordination between all during an emergency event.

iii) If the state performed a review of implementation of the existing systems strategy during the previous year, discuss the review and how findings have been or may be addressed. Explanation: This information is not intended to address program efficacy (effectiveness), but whether a review of the implementation has been performed. If no review was conducted, no further information on this question is necessary.

No review was conducted during the previous year.

iv) Did the State make any modifications to the existing system strategy? If so, describe. Explanation: A response to this question may include program modification, wording, or approach. States should identify the reasons for the modification (s), implementation and future goals of the program.

No modifications were made.