STATE OF TEXAS

SFY 2008
Drinking Water State Revolving Fund
Annual Report

Texas Water Development Board • P.O. Box 13231 • Austin, TX 78711
www.twdb.state.tx.us/assistance/financial/fin_infrastructure/dwsrf.asp

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I. INTRODUCTION

The State of Texas (State) through the Texas Water Development Board (TWDB) is submitting the Annual Report for the State Fiscal Year 2008 (SFY 2008), September 1, 2007 - August 31, 2008. 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 SFY 2008 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 the Texas Commission of Environmental Quality (TCEQ) utilize the resources of the DWSRF to collectively administer the State's DWSRF program. The TWDB administers the loan funds and the TCEQ administers the use of the 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 (Act) to carry out regulatory supervision of public water systems and to enforce violations of the Act. The authority to establish assistance priorities and to carry out oversight and related activities of the DWSRF program, other than financial administration of the program and project oversight, resides with the TCEQ, the primacy agency.

The TWDB and TCEQ provide this comprehensive annual 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 SFY 2008 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 and uses of all funds, financial status of the DWSRF, and compliance with federal DWSRF requirements.

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 Act. Since the inception of the program in 1997, and continuing through August 31, 2008, the State's DWSRF program has received a total of $685,744,350 in EPA Capitalization Grants, not including the pending grant of $67,112,000. The TWDB has contributed $13,357,403 in SFY 2008 bringing the total state match over 11 years to $137,148,870. The State has made a total of 123 binding commitments to DWSRF projects for $885,498,098. A summary of this data can be found in Tables 1, 1A, 1B, 1C and 1D.

For the SFY 2008 IUP, the TWDB received information from 85 potential applicants. Two entities were deemed ineligible; resulting in 83 eligible projects totaling $426,855,000. Using project details outlined in the 83 funding requests, TCEQ staff ranked the projects in accordance to TWDB rules. TWDB staff then prepared the SFY 2008 IUP based on the ranking by TCEQ. In August 2008, the TWDB approved the SFY 2008 IUP and letters of invitation were sent in September 2007 to potential applicants (invitees) listed in the IUP. As the invitees were processed by either the receipt of an application by the identified deadline or a notification declining funding, a new set of invitation letters were mailed to the next potential applicants on the list to ensure that the entire list of potential applicants, within funding limits, was offered the opportunity to access DWSRF funding. The disposition of each invitee can be found in Table 4.

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In SFY 2008 the TWDB made 10 binding commitments for a total of $150,655,000. The total dollar amount of commitments made from the SFY 2008 DWSRF IUP was 35.29% of the total dollar amount of project costs listed on the IUP.

Exhibit 1 – SFY 2008 Commitments

IUP YR	Total Commitments	IUP Total Demand	% $ Comm. / $ IUP	# Comm.	Potential Applicants on IUP	% # Comm. / # Potential
2008	$150,655,000	$426,855,000	35.29%	10	83	12.05%

Comm. = Committed

The initial amount of funds available to commit for projects on the SFY 2008 IUP was $146,689,405. Subsequent to the initial determination a previously committed loan was deobligated thereby increasing the funds available for SFY 2008 to $153,092,744. So, although the TWDB funded 35% of the IUP total demand dollars, the amount of available funds committed to projects represents 98.5% of the funds available [Exhibit 2].

Exhibit 2 – SFY 2008 Funds Available Committed

IUP YR	SFY 2008 Funds Available	Total Commitments	% $ Committed / $ Available
2008	$153,092,744	$150,655,000	98.5%

III. GOALS AND ACCOMPLISHMENTS

The primary goal of the DWSRF program is the same as the Act's – "to improve public health protection." The overall goals of the DWSRF program are:

- Ensure public health protection;
- Identify and provide funding for maintaining and/or bringing Texas' Public Water System (PWS) into compliance with the Act;
- Support affordable drinking water and system sustainability; and
- Maintain the long-term financial health of the DWSRF program fund.

The TWDB provides effective and efficient administration of the DWSRF program, combined with below-market interest rates and long-term financing to assist public water systems (PWS) to provide sufficient quality and quantity of affordable potable water throughout Texas. In addition, the DWSRF program sets aside funds that are used to improve environmental programs that support the goals of the Act.

A. Short-Term Goals

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 goal 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.*

   In SFY 2007, the TWDB made record number of dollar and number (31) of commitments. This was due to the accumulation of deobligations over several years. In SFY 2008, the funds available were $153,092,744 and TWDB committed 98.5% of available funds [Exhibit 2].

2. ***Ensure compliance with the Act by working with the TCEQ to ensure that water systems are in compliance with established standards and to provide all possible technical and financial assistance.*** *Progress toward meeting this goal will be documented by reporting the number of joint TWDB/TCEQ pre-application and follow-up meetings conducted for the fiscal year.*

   In SFY 2008, 17 pre-application meetings were held for potential applicants. These meetings were conducted with TCEQ in attendance. In addition, follow-up meetings were conducted by TCEQ to perform Financial Managerial and Technical (FMT) evaluations.

3. ***Support components of the state drinking water and source 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.*

   Loan commitments were made for the highest ranked projects except for those entities that chose not to apply or declined in writing. Ten entities were given binding commitments for a total of $150,655,000 in SFY 2008.

4. Develop a comprehensive, agency-wide automated loan and grant information management system, known as TxWISE (Texas Water Information System Expansion), that will be easily accessed by internal TWDB offices; generate accurate and timely data; offer information collection and comparative analysis of financial and accounting data and all program resources to effectively increase loan volume and program pace; improve reporting capabilities with our Environmental Protection Agency (EPA) partners and other agencies; allow for timely decision-making on financial, Treasury, and budgetary matters; and streamline the overall construction project financing process. The proposed system is also anticipated to be used by the TWDB's external customers to apply for and review the status of their financial assistance projects. The TWDB is working with the EPA Headquarters, EPA Region 6, and the Northbridge Environmental Management Consultants on this project and anticipates having the comprehensive system operating within two years.

The TWDB continued to work with EPA and EPA's national contractor, Northbridge Environmental Management Consultants (Northbridge), on the development and deployment of a comprehensive, cradle-to-grave, financial assistance program management information system, now recognized by its official name, Texas Water Infrastructure System Expansion, or TxWISE. This management information system is being designed not only to capture information from the TWDB's State Revolving Fund (SRF) programs, but also from other state water/wastewater infrastructure financing programs, and various agency grants and contract related programs and activities. Based on research, collection of information on system needs, and discussions with other state agencies administering similar financial assistance programs, staff determined that working with Northbridge was the most cost-effective approach to system development. Subsequently, in June 2007, EPA authorized Northbridge to begin working with TWDB on the TxWISE project.

The goal of the TxWISE project is to develop and deploy a comprehensive financial assistance program management information system designed to accomplish the following objectives:

a. To provide accurate and timely data and information collection, analysis, and accessibility;
b. To maximize demand for the financial assistance programs; thereby increasing loan volume and related origination fee revenue;
c. To improve financial and budgetary information and related decisions;
d. To improve reporting capabilities (both internal, and external with EPA and others); and
e. To streamline the overall loan, grant, and contract project financing business processes.

The project is divided into three phases, with Phase 1 and 2 funded. Phase 3 is currently unfunded:

a. Phase 1 includes the development of a comprehensive TxWISE data model, conversion of data from selected data systems into the TxWISE structure, and providing staff training and support. The duration for this phase is approximately 21 months;
b. Phase 2 includes expansion of the TxWISE data model to encompass all non-

construction project/contract data and activity and providing staff training and support. The duration for this phase is approximately 15 months; and

c. Phase 3 involves making TxWISE accessible from the Internet and integrating the agency's Financial Information System directly into TxWISE. The duration for this phase has not been determined, although it is expected to begin toward the end of Phase 2.

5. Apply to EPA Region 6 for a FFY 2008 DWSRF Capitalization Grant for the approximate amount of $67,112,000 as stated in the final allotments memo from Steve Heare, Director of the EPA Drinking Water Protection Division.

The TWDB applied to EPA Region 6 for a Federal Fiscal Year (FFY) 2008 DWSRF Capitalization Grant for the amount of $67,112,000.00 on June 27, 2008. The DWSRF Assistance Award was received in October of SFY 2008.

6. *Develop a capacity model for the DWSRF program and update it quarterly.*

The TWDB has completed the development of a capacity model for the DWSRF program and updates it quarterly.

7. *Assess the demand for program funds in an effort to determine whether leveraging is a viable option.*

The demand for DWSRF loans in SFY 2008 was $426,855,000. The TWDB will continue to evaluate potential leveraging of the DWSRF program.

B. Long-Term Goals

1. 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.

During SFY 2008 14 entities attended pre-application meetings, 10 applied for assistance and ten loans were committed. One of the best ways to ensure that the projects with the worst health problems are being prioritized for DWSRF funds comes with the prioritization process that is in place for the projects that are submitted for inclusion in the Annual IUP. TCEQ is our partner Texas state agency delegated as responsibility and authority for regulating public water systems. TCEQ issues permits and regulates the Water Quality Standards. It is the agency that reviews the projects on the IUP and ranks highest the projects that are in non-compliance rank highest. The projects listed in the IUP are then invited in priority order. As those entities accept or decline the invitations, others may be invited until funds available are depleted or the funding cycle ends on August 31, whichever comes first.

2. ***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 TWDB has had no loan defaults in the program. 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 a loan agreement that denotes the terms of payment and other special conditions. The loan requires submittal of an annual independently prepared audit. The loans are reviewed at frequent intervals for on-going compliance with loan conditions. Special terms outlined in the agreements contain the requirements of maintaining a contingency account and a reserve account. The implementation requiring these two accounts strengthens the integrity of the loan.

3. ***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 during this SFY.

IV. OTHER PROGAM ACCOMPLISHMENTS AND IMPROVEMENTS

A. Program Accomplishments

1. Marketing and Outreach Efforts

During SFY 2008, the TWDB distributed marketing information and discussed its financial assistance programs, including its SRF programs, with potential customers by participating in 10 conferences and tradeshows where the TWDB either made presentations or hosted exhibit booths. These events consisted of the Lower Colorado River Authority (LCRA) Leadership Institute Seminar "Financing Water and Wastewater Infrastructure" (Bastrop), CIFA (Denver, Co.), TML (Dallas), North Central Texas Association of Environmental Professionals (Dallas), Texas Water Conservation Association Annual Convention (The Woodlands), Texas Rural Water Association (San Antonio), Texas American Water Works Association (San Antonio), Association of Water Board Directors (San Antonio), the Rural Economic Development Conference (Eagle Pass), EPA Annual CMOM Conference (Austin), and the TCEQ Public Drinking Water Conference (Austin). Individual financial assistance marketing was requested by 12 entities. The TWDB staff responded by traveling to those locations and making personalized marketing presentations. These entities were Region O Regional Water Planning Group (Lubbock), Region M Regional Water Planning Group (Mission), EPA Annual CMOM Conference (Austin), City of Del Rio, City of Lubbock, North Central Texas COG Round-up (Arlington), the Upper Guadalupe River Authority (Kerrville), and meetings with State Representatives from around the state.

2. Technical Assistance Workshops

TWDB marketing staff also conducted six SRF workshops throughout the state. These workshops were designed reach out to different geographic parts of the state and partner with a local regional water and wastewater provider to inform water and wastewater systems about the SRF programs and how to pursue funding under these programs. As a result of these marketing efforts, interest in the SRF programs has increased significantly.

B. Program Improvements

1. Monthly Coordination Meetings

During SFY 2008 the TWDB continued to implement monthly SRF staff and management coordination meetings. These meetings were coordinated with the Finance office and serve as a monthly forum providing 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) reporting; and other issues related to SRF activities and matters. These meetings, which are continued by staff at all levels of the agency from line-staff to upper management, and includes multiple disciplines such as legal, financial, planners, scientists and engineers have increased awareness of CWSRF and DWSRF program activities as well as program life-cycle components. Additionally, all other financial programs and related activities are discussed.

2. Information Management System

In SFY 2008, the TWDB continued to develop improvements to tracking information on the status of SRF and other state funded water related projects. The TWDB is in the initial phase of developing a comprehensive, agency-wide automated loan and grant information management system, known as Texas Water Information System Expansion (TxWISE), that will be easily accessed by internal TWDB offices; generate accurate and timely data; offer information collection and comparative analysis of financial and accounting data and all program resources to effectively increase loan volume and program pace; improve reporting capabilities with our EPA partners and other agencies; allow for timely decision-making on financial, treasury, and budgetary matters; and streamline the overall construction project financing process. The proposed system will also to be used by the TWDB's external customers to apply for and review the status of their financial assistance projects.

3. Loan and Marketing Initiative

The focus group session held in 2007 which asked the engineering community and the applicants for feedback on how to improve our loan process have been analyzed. The results are being used to assist the TWDB in fine-tuning its SRF programs and marketing these programs to Texas communities. The TWDB's outreach program could serve as a model or template for SRF managers in other states.

To address these findings, in June 2008, the TWDB requested assistance from EPA and Northbridge in implementing specific recommendations from the focus group related to improving the SRF loan process and enhancing the marketing of the program. The timing of this effort was ideal due to two on-going TWDB activities: 1) the timing of the SRF focus group findings and 2) the current efforts at developing and deploying the TxWISE management information system development project, which, in part, involves an analysis of internal business processes. This SRF loan and marketing process review project will complement and enhance the TxWISE process, and can result in additional recommendations for streamlining, which may be included in TxWISE.

Purpose, Goals and Objectives - The objectives of this initiative are to improve the loan process through coordinated efforts to:

a. Review and streamline the loan process;
b. Establish new outreach and marketing approaches to reach core customers; and
c. Coordinate loan process improvements with the development and deployment of the TxWISE project, where appropriate.

The project activity structure is designed to complement the TxWISE implementation process. Additionally, the structure has been designed so that if any findings from the project affect TxWISE there will be sufficient time to integrate those changes into that new management information system. The structure includes: fact finding and preliminary analysis, comprehensive on-site analysis, loan management recommendations, enhancing marketing materials, and implementation of recommendations.

Approach and Products/Deliverables - This initiative is being carried out by Northbridge SRF specialists who have worked with other states to accomplish similar goals. These specialists conducted interviews of key SRF TWDB and TCEQ staff to brainstorm on ideas for improvements. In addition, they conducted significant research on the program in the time leading up to the interviews.
As a result of the research and interviews, Northbridge will draft a report outlining:

a. Summary of findings from interviews and research;
b. Recommendations for process improvements;
c. Suggested enhancements to outreach materials;
d. A proposed implementation plan; and
e. Metrics for measuring success.

Benefits to TWDB - Reviewing and updating loan management processes and procedures to increase the appeal of the program to both communities and staff can help bring additional borrowers into the SRF programs. Furthermore, improved outreach can help more communities learn about the SRF and TWDB's other financing programs. This will help increase pace and ensure that funds are allocated to where they are most needed. Increasing pace through these tools is not the only goal of this initiative, however. An important outcome of a successful communications strategy will be the ability to forecast future demand. Northbridge will provide tools and techniques to help TWDB anticipate demand well in advance. This will help the state ensure that it meets its water quality and financial goals, and continually adjust the program according to future needs. This strategy of project development and tracking involves obtaining a strong understanding of what projects are likely to require financing in the near- and long-term, and then targeting outreach to bring these communities to the SRF. Northbridge will work with TWDB to create a strategy for increasing the appeal of the SRF by adjusting loan processes, improving outreach, and developing the tools to maintain a high level of demand in the long term.

4. Coordination with the U.S. Army Corps of Engineers (USACE)

The United States Supreme Court took up two important cases with respect to wetlands when it heard the Rapanos and Carabell cases in 2006. In response to the Court's comments, the USACE has implemented additional procedures in its determination for jurisdictional wetlands. Since all projects funded by the TWDB require coordination with the USACE prior to the start of construction, the delays due to these additional procedures threaten to become a significant barrier to the construction of infrastructure, funded by the TWDB, throughout Texas. The USACE has a review backlog which has grown in the past two years.

In order to avoid project delays, the TWDB has been coordinating with the USACE, EPA, other states, and other Texas water agencies to determine ways to streamline the review process within the USACE and between the various environmental agencies. TWDB staff participated in a streamlining committee made up of state agencies and USACE staff that first met in April 2008 to identify ways to address agency coordination with the objective of improving overall coordination and addressing the review backlog. In addition, the TWDB has met with the USACE and EPA in Dallas in December 2007 and January 2008 to understand the issue and to convey to these agencies the enormity of the potential impact on infrastructure development in Texas.

The streamlining committee results are still being evaluated. Also, significantly, TWDB received a letter from EPA, Region 6 on February 14, 2008 which clarifies that a determination by the States that a nationwide permit applies, with notification provided to the USACE, and should be sufficient for most projects to meet the federal cross-cutter requirement which mandates coordination with the USACE. This provision, according to the letter, is subject to State professional judgment on a case-by-case basis. TWDB believes that this procedure will directly aid the pace of the SRF programs.

5. Increased Staff in Project Engineering and Review Division

Project Engineering and Review Division staff includes 27 individuals assigned to SRF projects. The total number of staff in the division includes 17 engineers, three environmental professionals, three team leads, four administrative professionals, and one division director. Currently the Division has five vacancies. Over the past two years approximately 52% of the staff members are new hires. In addition, approximately 19% of the staff has been promoted into new positions of leadership. At one point, in the spring of 2006, engineering reviewers for SRF projects were reduced to four. This staff has been rebuilt to nine as of August 2008. Due to attrition and other changes, the division has been rebuilt and stabilized over the last year. This significant change has positively affected the TWDB's ability to administer SRF projects.

6. Project Management Initiative

The Project Development Division recently put into place project lead positions in four distinct funding areas of the TWDB: CWSRF, DWSRF, Economically Distressed Areas Program, and State Programs. These positions function as the point of contact for all project-related issues in their respective areas. They provide coordination and guidance to external and internal staff for the funding process from pre-application conferences, applications, and funding. This provides a one stop shop for the applicants. These project leads also are responsible for coordination and assistance to the respective program coordinators for CWSRF and DWSRF to insure that program guidance and policies are being followed in all financial assistance provided by the agency. The project leads bring a deep level of experience in all aspects of project development including engineering, financial, and project management.

C. Program Initiatives

1. Climate Change and Conservation

TWDB is looking at climate change and impacts to the SRF program and our applicants. The TWDB is one of seven state agencies on the Texas Coastal Coordination Council, chaired by the Commissioner of the General Land Office which has the Texas Coastal Management Program. The Office of Ocean and Coastal Resource Management, part of the National Oceanic and Atmospheric Administration, provides national leadership, strategic direction and guidance to state and territory coastal programs and estuarine research reserves. Texas has approximately 360 miles of coastline. The Texas coastal zone is generally the area seaward of the Texas coastal facility designation line which roughly follows roads that are parallel to coastal waters and wetlands generally within one mile of tidal rivers. The boundary encompasses all or portions of 18 coastal counties. Texas' seaward boundary is three marine leagues or nine nautical miles.

The increase in intensity and occurrence of tropical storms and hurricanes along the Gulf coast is evident. Texas has large and growing communities within the coastal zone.

Twenty-five percent of the population and thirty-three percent of the economic resources of the state are located along the approximately 360 miles of the Texas coast. The sea level is expected to rise twice as fast globally this century than last according to the Intergovernmental Panel on Climate Change. The rate of sea level rise is accelerating. Even without climate change, much of our coastline has been sinking for years. Subsidence of sediments and coastal features is natural, but aggravated by pumping of groundwater and hydrocarbons. TWDB has customers all along the Texas coast. TWDB has approximately 60 active loans in the coastal zone. TWDB is bringing focus to this issue in response to the increasing risk and the need for contingency planning.

2. Efficient Water Use

The TWDB Board Members have emphasized efficient water use in their deliberations for the past fiscal year regarding potential funding actions for SRF and other program projects. Efficient water use is critical, particularly in those parts of the country that are undergoing water shortages. A Texas law passed in 1985 that requires applicants for loans greater than $500,000 adopt a water conservation and drought contingency plan.

In addition to water conservation plans, water loss audits and water use surveys are required, as appropriate, by state law. Water conservation plans generally address public education, restrictions on use during a time of drought or supply interruption, goals for reducing water use, and review of records for waste/loss of water. As a result of emphasis placed on efficient water use, the TWDB staff is making sure that these state mandated plans adequately address water losses where communities have had substantial water loss in their past records. The TWDB staff is also available to these communities to assist in completing water loss audits and detailed analysis to better understand such water losses.

3. Green Infrastructure

Green Infrastructure (green) is defined by the EPA as a term that refers to “systems and practices that use or mimic natural processes to infiltrate, expotranspire, or reuse storm water.” The TWDB is learning of many green projects in other states that are currently being supported by the SRF programs. As water reuse is becoming more important with more frequent Texas’ droughts and increased population demand, natural systems such as wetland treatment systems are being constructed as a form of treatment and water quality enhancement. TWDB is promoting green approaches to non-point source runoff in order to reduce contaminants into our watersheds and to keep runoff out of our sewer systems, which would contribute to sewer overflows. SRF funding can be used for land conservation, tree plantings, equipment purchases, planning and design, environmental cleanup, delivery and delivery of environmental education programs. Grey storm water infrastructure and the use of green infrastructure are eligible for SRF assistance, and under current regulations.

TWDB has been a leader in rain water harvesting and published a manual in 2005 on capturing rainwater into cisterns for domestic and for landscaping uses. In the last year, The Texas Rain Catcher Award program was started by the TWDB. The competition is open to all individuals, companies, organizations, municipalities, and other local and state governmental entities in Texas. The Texas Rain Catcher Award, a rain water harvesting competition, and recognition program to promote the technology, educate the public, and to recognize excellence in the application of rainwater harvesting systems in Texas.

4. Sustainable Infrastructure

The TWDB is incorporating the priority issues that lead to more sustainable approaches to infrastructure in Texas. The TWDB emphasizes to its applicants the importance of better management, full cost pricing, water efficiency, and taking a watershed approach. These fundamentals help to guide its staff in its evaluation and guidance given to SRF applicants who are seeking to meet Clean Water Act or Safe Drinking Water Act standards. Often entities are encouraged to seek regional solutions to water and wastewater as the consolidation of facilities and management can lead to consolidation efficiencies.

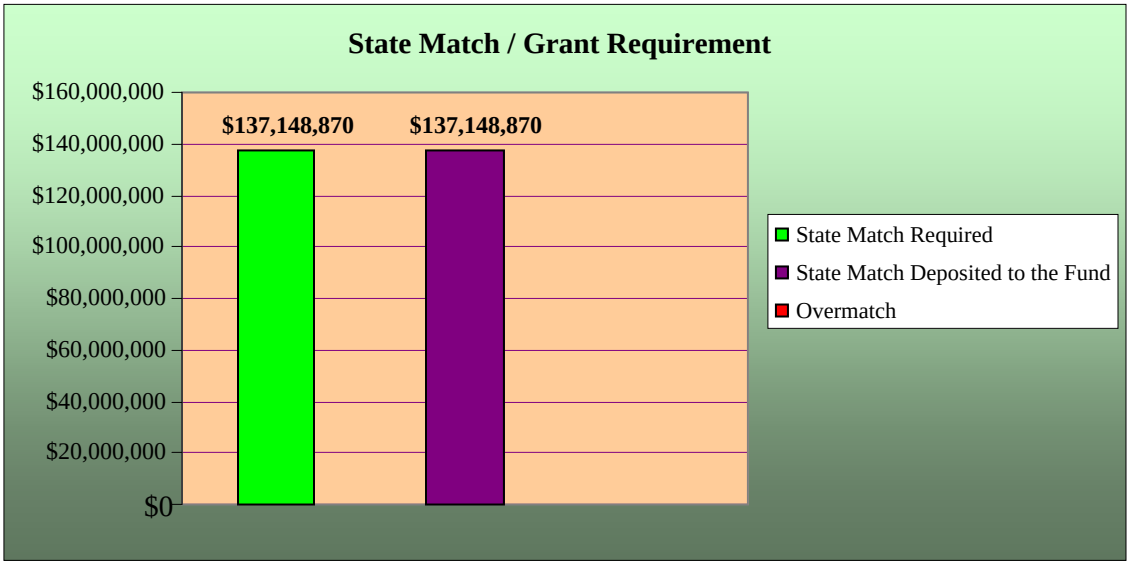
V. LOAN AND SET-ASIDE ACTIVITIES

A. Sources and Set-aside Funding

1. Capitalization Grants and State Match

Through the end of SFY 2008, the TWDB received Capitalization Grants totaling $685,744,350, from SFY 1997 through SFY 2008 (See Table 1). The TWDB contributed $13,357,403 in SFY 2008 bringing the total State match to $137,148,870 during the same period.

Exhibit 3 - State Match / Grant Requirement



2. Interest Earnings and Repayments

Principal and interest payments (including prepayments) from outstanding loans totaled $82,845,384.85 during SFY 2008 [Exhibit 4].

Exhibit 4 - Project Loan Repayment and Interest Activity

SFY	Principal Paid	Interest Paid	Total Paid in Quarter Period
1998 - 2007	$42,383,000	$19,767,184	$62,150,184
2008	$14,021,000	$6,674,200	$20,695,200
Totals	**$56,404,000**	**$26,441,385**	**$82,845,385**

B. Uses of DWSRF and Set-Aside Funds

1. Loan Assistance Status

The SFY 2007 Capitalization Grant was placed in the loan account in January of 2008 in the amount of $55,953,268. SFY 2007 funds that were not committed or otherwise obligated after TWDB adoption of the SFY 2008 IUP and after the SFY 2007 funding cycle has ended were rolled forward to the SFY 2008 IUP. The SFY 2008 Capitalization Grant has not been received, but is estimated to be $67,112,000.

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

The TWDB made 10 binding commitments for a total of $150,655,000 in SFY 2008. (See Table 1A). Descriptions of all of the commitments are as follows:

1) City of Arlington – John Kubala Water Treatment Plant Expansion ($38,000,000 Loan Commitment 1/28/08). The City of Arlington (City) currently serves approximately 97,394 water connections within its city limits. In order to address physical deficiency due to low pressures, the City proposes the expansion of the John Kubala Water Treatment Plant (WTP) from 65.0 MGD to 97.5 MGD (million gallons per day). The expansion will provide potable water treatment capacity until 2016. The City is located at the geographical center of the Dallas-Fort Worth metroplex in the eastern part of Tarrant County on Interstate 30. The City has an approximate population of 364,300.

2) Beechwood Water Supply Corporation – New Water Treatment Plant ($1,369,000 Loan Commitment 03/25/08). Beechwood Water Supply Corporation (Corporation) proposes to build a new water treatment plant, intake and storage tanks to address production problems. The Corporation has received numerous enforcement letters from the TCEQ since 1998. The Corporation proposes to build a new 0.5 MGD WTP, to replace their existing 0.5 MGD WTP. As a disadvantaged community, the Corporation is eligible for 0% interest and an extended loan term of 30 years. The Corporation is located approximately 50 miles east of the City of Lufkin on State Highway 87. With an estimated service area population of 1,041, the Corporation provides service to approximately 484 water connections and 106 wastewater connections.

Beechwood Water Supply Corporation – New Water Treatment Plant ($241,000 Loan Forgiveness Commitment 03/25/08). The Corporation's service area meets the eligibility criteria for a disadvantaged community under TWDB rules due to:

the adjusted median household income being no more than 75% of the median state house hold income; and the combined household cost factor for water and sewer is greater than 2%. The adjusted median household income ($27,452) for the service area is between 50% and 60% of the adjusted median state household income ($46,793); therefore, the City is eligible for 0% interest rate and 15% principal forgiveness.

3) City of Coleman – New Water Supply Line ($5,025,000 Loan Commitment 02/25/08). In order to address physical deficiencies pertaining to low pressure and water loss, the City proposes to construct a new 44,500 linear foot 16-inch diameter water supply line to replace the existing 60 year old line which is highly deteriorated. This supply line will also require the construction of a new pump station and surge tower. In addition, 23,100 linear feet of 8 and 12-inch line will be constructed within the distribution system to replace the existing deteriorated lines that produce additional water losses and frequent pressure losses below 20 psi. The City is located in Coleman County, at the intersection of U.S. Highway 84 and U.S. Highway 283. The City of Coleman (City) currently serves more than 4,600 water connections, including the 2,015 connections for the Coleman County Special Utility District with a 2000 Census population of 5,127.

City of Coleman – New Water Supply Line ($885,000 Loan Forgiveness Commitment 02/25/08). This project will replace the 60 year old concrete water line from Hords Creek Reservoir with 8.4 miles of 14-inch PVC line in public right of ways, with a pump station and surge tower. The existing line crosses remote terrain, is difficult to access, leaks excessively, and has diminished capacity as stated above. The City's service area meets the eligibility criteria for a disadvantaged community under TWDB rules due to: the adjusted median household income being no more than 75% of the median state house hold income; and the combined household cost factor for water and sewer is greater than 2%. The adjusted median household income ($26,685) for the service area is between 50% and 60% of the adjusted median state household income ($46,793); therefore the City is eligible for 0% interest rate and 15% principal forgiveness.

4) City of Fort Worth - Holly Water Treatment Plant and Eastside Pump Station ($64,930,000 Loan Commitment 02/25/08). This project to address capacity, pressure, and water quality concerns. In order to address physical deficiencies pertaining to low capacity and pressure, and water quality, the City of Ft. Worth (City) proposes a 20 MGD expansion of the North and South Holly Water Treatment Plant. In addition, the project includes installing ozone production and distribution equipment, expanding the Eastside Pump Station and constructing a 36-inch transmission main to replace the inadequate existing 50 year old pumping system that supplies water to a major segment of the distribution system, and other system improvements. The City is located at the intersection of Interstate Highways 20 and 35W. The City has an estimated population of 661,850. The City currently serves approximately 191,757 water customers and 183,093 wastewater customers within its city limits as well as thirty wholesale customer cities.

5) City of Groesbeck – Water Meters and Elevated Storage ($2,150,000 Loan Commitment 07/29/08). The City of Groesbeck (City) is losing water from its

water distribution network. The applicant proposes a water replacement project to improve water accountability. The water system improvements also include the construction of a new elevated storage tank to replace an old inadequately-sized storage tank. The City is located 40 miles east of Waco. With an estimated population of 5,101, the City provides service to approximately 1,612 water and sewer customers. The adjusted median household income ($29,159) for the service area is between 60% and 70% of the adjusted median state household income ($46,793); therefore the City is eligible for a 0% interest rate.

6) Hildalgo County Municipal Utility District No. 1 – New Water Treatment Plant ($5,645,000 Loan Commitment 04/29/08). Hidalgo County Municipal Utility District No. 1 (District) is lacking pressure tank capacity and has aluminum and sulfate problems. The District intends to build a new 2 MGD water treatment plant (WTP) to replace the existing WTP. The existing WTP is at the end of its useful life and near capacity limits. The District is located near Mission, Texas, along Expressway 83 in the western part of Hidalgo County. With an estimated population of 8,000, the District provides service to approximately 2,592 water and 2,225 sewer customers. The adjusted median household income ($29,139) for the service area is between 60% and 70% of the adjusted median state household income ($46,793); therefore the City is eligible for a 0% interest rate.

7) City of Mexia – Distribution Line Replacement ($3,825,000 Loan Commitment 06/23/08). The City of Mexia (City) has been experiencing substantial water loss from its water distribution system. The applicant proposes over 100,000 linear feet of line improvement to replace old pipes and add new lines to loop the system.

City of Mexia – Distribution Line Replacement ($675,000 Loan Forgiveness Commitment 06/23/08). This project will replace or add approximately 110,000 feet of distribution line to replace old pipe and loop dead end mains. The City experiences substantial losses from its system, and has recorded months where unaccounted for water loss exceeded 40%. The City's service area meets the eligibility criteria for a disadvantaged community under TWDB rules due to: the adjusted median household income being no more than 75% of the median state house hold income; and the combined household cost factor for water and sewer is greater than 2%. The adjusted median household income ($26,703) for the service area is between 50% and 60% of the adjusted median state household income ($46,793); therefore, the City is eligible for 0% interest rate and 15% principal forgiveness.

8) City of Mount Pleasant – New Water Treatment Plant ($24,785,000 Loan Commitment 2/25/08). In order to maintain capacity and pressure in the system, the City of Mount Pleasant (City), intends to build a new 5.0 MGD water treatment plant to serve residents on the south side of town, make improvements to the raw water pump station, modifications to the raw water pipelines, and install approximately 24,000 linear feet of water transmission and distribution lines. The City is located in northeastern Texas at the intersection of US Highway 271 and State Highway 49. The City's has an estimated 2007 population of 14,174 and services 4,980 water customers and 4,789 sewer customers. The adjusted median household income ($33,758) for the service area is less than or equal to the 75% of the adjusted median state household

income ($46,793). The adjusted median household income for the service area is between 70% and 75% of the adjusted median state household income ($46,793); therefore, the City is eligible for 1% interest rate.

9) City of Rollingwood – Distribution System Upgrade ($2,350,000 Loan Commitment 02/25/08). The City of Rollingwood proposes to construct improvements to its water distribution system. This will improve static pressures under peak demand conditions to meet the minimum pressure requirements of TCEQ. It will also establish a second pressure plane in lower elevations where pressures often exceed 100 psi. Work will also be performed to relocate lines away from private property locations to allow access by city crews. Approximately 6,200 linear feet of six and eight inch pipe and appurtenances will be used for the project. The City is located on the west bank of Lake Austin and surrounded on the other three sides by the City of Austin. The City has an approximate population of 1,460 and serves approximately 587 water customers and 533 wastewater customers.

10) Tyler County Water Supply Corporation – New Wells and Storage Tanks ($775,000 Loan Commitment 06/23/08). Tyler County Water Supply Corporation (Corporation) has received notice of several violations with regard to pressure deficiencies from on-site inspection visits conducted by TCEQ. The Corporation has reported substantial unaccounted for water losses. The project improvements will bring the systems into compliance and allow for future growth. These improvements are for approximately 45,000 feet of new water line. This will meet a TCEQ regulation that systems over 250 connections must have two water sources. Adjacent pressure planes will be interconnected to meet this requirement and improve pressure in the system. New meters will also be installed to lessen unaccounted for water losses. The Corporation's service area meets the eligibility criteria for a disadvantaged community under TWDB rules due to: the adjusted median household income being no more than 75% of the median state house hold income; and the combined household cost factor for water and sewer is greater than 2%. The adjusted median household income ($32,171) for the service area is between 60% and 70% the median state household income ($46,793), therefore, the City is eligible for 0% interest rate.

b) Disadvantaged Communities

Based on the $45,375,000 commitments made to disadvantaged communities in SFY 2008, the TWDB exceeded the agency goal to provide 30% of the EPA capitalization grants to designated disadvantaged communities as defined by Texas Administrative Code Title 31, Part 10, Chapter 371, Subchapter B, and Rule 371.24.

Exhibit 5 - Disadvantaged Communities Summary

FY Grant	EPA Grant Amount	Amount Disadvantaged Communities Funding Committed	% of Grant used Disadvantaged Communities Funding
1997	$70,153,800	$20,783,000	29.62%
1998	$54,014,400	$8,375,000	15.51%
99-00	$115,448,700	$38,307,235	33.18%
2001	$59,079,800	$21,240,000	35.95%
2002	$62,023,700	$19,430,000	31.33%
2003	$61,651,000	$16,130,000	26.16%
2004	$63,953,900	$11,225,000	17.55%
2005	$63,818,500	$17,460,000	27.36%
2006	$67,799,550	$17,111,000	25.24%
2007	$67,801,000	$21,380,000	31.53%
2008	$67,112,000	$45,375,000	67.61%
Totals	**$752,856,350**	**$236,816,235**	**31.46%**

c) Small Communities

Based on $25,235,000 in commitments to small communities in SFY 2008, 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.

Exhibit 6 – Small Communities Summary

FY Grant	EPA Grant Amount	Amount Small Communities Funding Committed	% of Grant used Small Communities Funding
1997	$70,153,800	$5,955,000	8.49%
1998	$54,014,400	$14,560,000	26.96%
99-00	$115,448,700	$34,965,000	30.29%
2001	$59,079,800	$26,665,000	45.13%
2002	$62,023,700	$28,745,000	46.35%
2003	$61,651,000	$7,840,000	12.72%
2004	$63,953,900	$9,320,000	14.57%
2005	$63,818,500	$22,715,000	35.59%
2006	$67,799,550	$36,001,000	53.10%
2007	$67,801,000	$50,894,000	75.06%
2008	$67,112,000	$25,235,000	37.60%
Totals	**$752,856,350**	**$262,895,000**	**34.92%**

d) Loan Forgiveness Communities

The TWDB provided Loan Forgiveness funding to three disadvantaged communities in the 25 ranked communities above the funding line on the SFY 2008 Project Priority List.

Exhibit 7 - Loan Forgiveness Communities Summary

FY Grant	EPA Grant Amount	Amount Loan Forgiveness Communities Funding Committed	% of Grant used Loan Forgiveness Communities Funding
1997	$70,153,800	$1,253,000	1.79%
1998	$54,014,400	$0	0.00%
99-00	$115,448,700	$6,027,235	5.22%
2001	$59,079,800	$6,215,000	10.52%
2002	$62,023,700	$2,791,000	4.50%
2003	$61,651,000	$4,403,000	7.14%
2004	$63,953,900	$0	0.00%
2005	$63,818,500	$2,619,000	4.10%
2006	$67,799,550	$210,000	0.31%
2007	$67,801,000	$0	0.00%
2008	$67,112,000	$1,801,000	2.68%
Totals	**$752,856,350**	**$25,319,235**	**3.36%**

e) Project Bypass (CFR 35.3570(a) (3) (IV)

Bypass Procedure: The TWDB and the TCEQ anticipate funding projects on the DWSRF IUP in priority order. However, TWDB rules outline a process for bypassing a project on the 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 SFY 2008, the TWDB set aside 4% for administering the program. In addition, the TWDB has set aside an amount equal to 10% of the SFY 2008 grant for the TCEQ to carry out set-aside activities relating to State Program Management and an additional 2% was set aside for the TCEQ to provide technical assistance to small systems. The TCEQ SFY 2008 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 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; and
- Technical Assistance.

The TWDB Program Administration costs for supporting the DWSRF program was $3,909,161 for SFY 2008 bringing the total amount from the start of the program to $21,619,331 [Exhibit 8].

Exhibit 8 - TWDB Administration Costs (4% Set-Aside) Drawn

SFY	Amount	SFY	Amount
1997	$0	2003	$1,853,449
1998	$951,001	2004	$1,259,843
1999	$1,222,382	2005	$2,487,202
2000	$830,921	2006	$3,295,962
2001	$1,525,991	2007	$3,851,198
2002	$432,220	2008	$3,909,161
		Totals	**$21,619,331**

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 a total of $1,106,318 in 2% set-aside funds in SFY 2008 for this activity.

c) State Program Management Set-Aside

An amount equal to 10% of the SFY 2007 DWSRF grant was set-aside in SFY 2008 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; and
- 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 a total of $6,787,200 in 10% set-aside funds in SFY 2008.

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 SFY 2008, 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 SFY 2008 grant for capacity development activities.

VI. COMPLIANCE WITH GRANT CONDITIONS

Texas has an operating agreement for its DWSRF program. The TWDB has agreed to the follow the administrative and programmatic conditions in each of the DWSRF Capitalization Grant Agreements. In partnership with EPA, TWDB adheres to all grant conditions that are finalized and attached to the individual grants. Each condition is met in the most appropriate and expeditious way that is suitable to EPA and the governing statues under Texas' jurisdiction. Each Assistance Agreement is reviewed by staff to make sure that we can comply when we sign the Agreement. Any changes or corrections are given to EPA in a cover letter so that adjustments may be made and the Assistance Agreement may be amended.

Texas has complied with the conditions set forth under 40 CFR 35.3570(a) (3). Specifically, the TWDB has met the following Administrative and Program 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 Financial Status Report.

4. The TWDB understands it must obtain prior clearance from Office of Management and Budget (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 United States.

6. The TWDB has disbursed all cash draws in a timely and expeditious 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. Exhibit 9 represents the MBE/WBE activity in SFY 2008. 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 SFY 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.

Exhibit 9 - MBE/WBE Procurement Activity
September 1, 2007 - August 31, 2008

		MBE Actual			WBE Actual	
Procurements	**MBE Goals**	**Dollar Value**	**% of Procurement**	**WBE Goals**	**Dollar Value**	**% of Procurement**
$30,127,440.00		**$2,176,229.00**	7.22%		**$2,465,616.00**	8.18%
Construction	34.00%	$1,930,229.00	6.41%	8.00%	$2,407,616.00	7.99%
Supplies	18.00%	$39,000.00	0.13%	29.00%	$2,000.00	0.01%
Equipment	13.00%	$0.00	0.00%	13.00%	$0.00	0.00%
Services	22.00%	$207,000.00	0.69%	26.00%	$56,000.00	0.19%
Overall DBE Procurements						**15.41%**

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 SFY 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 SFY 2008, total State match that had been deposited to the Fund was $137,148,870 (See Table 1). State match required for cash draws for projects through SFY 2008 totaled $84,829,992 (See Table 5) providing an overmatch of $52,273,173.

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 Parts 35.3570(a)(1).

7. The TWDB has complied with Federal crosscutting 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 SFY 1998." The TWDB enters data into the Drinking Water National Information Management System (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 represents that the State 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 for SFY 2008 were $664,088,277. By August 31, 2008, the State had made binding commitments equal to $885,498,098 of grant payments through the fourth quarter of SFY 2008 which represents 133% of the required amount of binding commitments.

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)] [Table 4].

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, lists all projects that have received assistance through SFY 2008.

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)].

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VII. TABLES

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Table 1 - Fund Totals
September 1, 1998 - August 31, 2008

IUP YR	SFY	SRF Grant	Required State Match	Match provided from State Appropriations	State Match Provided from Match Bonds	Total Match Funds	State Overmatch	Total Funds
1997	1998	70,153,800	14,030,760	0	0	0	0	70,153,800
1998	1999	54,014,400	10,802,880	13,166,911	0	13,166,911	0	67,181,311
1999	2000	56,612,200	11,322,440	5,843,600	3,000,000	3,000,000	0	59,612,200
2000	2001	58,836,500	11,767,300	3,750,000	0	5,843,600	0	64,680,100
2001	2002	59,079,800	11,815,960	4,098,104	10,000,000	13,750,000	0	72,829,800
2002	2003	62,023,700	12,404,740	4,098,104	14,500,000	18,598,104	0	80,621,804
2003	2004	61,651,000	12,330,200	3,130,403	20,000,000	24,098,104	0	85,749,104
2004	2005	63,953,900	12,790,780	3,130,403	10,000,000	13,130,403	0	77,084,303
2005	2006	63,818,500	12,763,700	3,636,971	0	3,130,403	0	66,948,903
2006	2007	67,799,550	13,559,910	3,636,971	12,800,000	16,436,971	0	84,236,521
2007*	2008	67,801,000	13,560,200	3,735,026	9,000,000	12,636,971	0	80,405,971
Totals		**$685,744,350**	**$137,148,870**	**$48,226,493**	**$88,922,377**	**$137,148,870**	**$0**	**$822,861,220**

* Includes $32,000 of In-kind.

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Table 1A – Commitments SFY 2008

September 1, 2007 - August 31, 2008

Project ID #	Project	Commitment Date	SFY IUP	IUP Amount	Commitment Amount
61442	Arlington	1/28/08	2008	48,500,000	38,000,000
61428	Beechwood WSC	3/25/08	2008	1,610,000	1,610,000
61406	Coleman	2/25/08	2008	5,910,000	5,910,000
61426	Fort Worth	2/25/08	2008	64,930,000	64,930,000
61425	Groesbeck	7/29/08	2008	2,150,000	2,150,000
61424	Hidalgo Co. MUD 1	4/29/08	2008	7,670,000	5,645,000
61435	Mexia	6/23/08	2008	4,500,000	4,500,000
61405	Mount Pleasant	2/25/08	2008	24,785,000	24,785,000
61482	Rollingwood	2/25/08	2008	2,350,000	2,350,000
61408	Tyler Co. WSC	6/23/08	2008	775,000	775,000
Totals	**10**			**$163,180,000**	**$150,655,000**

Table 1B - Commitments Statistics

September 1, 1998 - August 31, 2008

IUP YR	Total Commitments	IUP Total Demand	% Comm. / IUP	# Comm.	Potential Applicants on IUP	% # Comm. / # Potential
1997	31,973,000	1,368,764,000	2.34%	6	281	2.14%
1998	68,365,000	316,020,620	21.63%	11	142	7.75%
99-00	86,076,235	297,355,000	28.95%	18	102	17.65%
2001	75,945,000	319,245,000	23.79%	7	75	9.33%
2002	26,385,863	606,065,000	4.35%	6	77	7.79%
2003	30,161,000	313,410,000	9.62%	6	69	8.70%
2004	35,255,000	478,520,000	7.37%	9	49	18.37%
2005	137,890,000	329,700,000	41.82%	10	58	17.24%
2006	68,901,000	272,071,000	25.32%	12	64	18.75%
2007	173,891,000	368,084,000	47.24%	28	82	34.15%
2008	150,655,000	426,855,000	35.29%	10	83	12.05%
Total	**$885,498,098**	**$5,096,089,620**	**17.38%**	**123**	**1082**	**11.37%**

Comm. = Commitments

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Table 1C – Commitments Summary

September 1, 1998 - August 31, 2008

IUP YR	Commitments	Loan Commitments	L.F Commitments	Total Commitments
1997	6	30,720,000	1,253,000	31,973,000
1998	11	68,365,000	0	68,365,000
99/00	18	80,049,000	6,027,235	86,076,235
2001	7	69,730,000	6,215,000	75,945,000
2002	6	24,932,000	1,453,863	26,385,863
2003	6	25,758,000	4,403,000	30,161,000
2004	9	35,255,000	0	35,255,000
2005	10	135,271,000	2,619,000	137,890,000
2006	12	68,691,000	210,000	68,901,000
2007	28	173,891,000	0	173,891,000
2008	10	148,854,000	1,801,000	150,655,000
Totals	**123**	**$861,516,000**	**$23,982,098**	**$885,498,098**

L.F. = Loan Forgiveness. All numbers adjusted for deobligations.

Table 1D - Construction Funds Drawn

September 1, 1998 - August 31, 2008

SFY	Federal Loan Portion Drawn	State Loan Portion Actual Match	Total Loan Portion	Federal Forgiveness portion Drawn	State Forgiveness Portion Actual Match	Total Forgiveness Portion	Total Federal Drawn	Total State Actual Match	Total Drawn
97-07	247,259,986	59,185,161	306,614,002	14,196,002	3,730,943	17,926,645	261,455,988	62,916,104	324,372,092
2008	76,174,850	16,167,150	92,342,000	2,575,961	400,705	2,976,666	78,750,811	16,567,855	95,318,666
Totals	**$323,434,836**	**$75,352,311**	**$398,956,002**	**$16,771,963**	**$4,131,648**	**$20,903,311**	**$340,206,799**	**$79,483,959**	**$419,690,758**

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Table 2 - Grant Payments & Binding Commitments by Quarter

	SFY 97 - SFY 2006	SFY 2007				SFY 2008			
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
		GRANT PAYMENTS				GRANT PAYMENTS			
SFY 2004									
Set-Asides									
Loan Fund									
State Match (20% of payment)									
SFY 2005		7,000,000	8,000,000	11,154,917					
Set-Asides		0							
Loan Fund		7,000,000	8,000,000	11,154,917					
State Match (20% of payment)		1,400,000	1,600,000	2,230,983	0	0	0	0	0
SFY 2006		9,136,545	6,616,510	8,616,510	10,000,000	9,136,545	6,616,510	8,247,582	9,429,348
Set-Asides		4,136,545	616,510	616,510		4,136,545	616,510	247,582	
Loan Fund		5,000,000	6,000,000	8,000,000	10,000,000	5,000,000	6,000,000	8,000,000	9,429,348
State Match (20% of payment)		1,827,309	1,323,302	1,723,302	2,000,000	1,827,309	1,323,302	1,649,516	1,885,870
SFY 2007					4,826,199		6,994,158	6,994,158	9,373,768
Set-Asides					4,826,199				2,379,610
Loan Fund					0	0	6,994,158	6,994,158	6,994,158
State Match (20% of payment)					0	0	1,398,832	1,398,832	1,874,754
QUARTERLY REQUIRED		**$15,227,309**	**$16,923,302**	**$23,109,202**	**$12,000,000**	**$6,827,309**	**$7,323,302**	**$18,042,506**	**$20,184,129**
CUMULATIVE (CUM.) REQUIRED BINDING COMMITMENTS	**$544,451,218**	**$559,678,527**	**$576,601,829**	**$599,711,031**	**$611,711,031**	**$618,538,340**	**$625,861,642**	**$643,904,148**	**$664,088,277**

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Table 2 - Grant Payments & Binding Commitments by Quarter (contd.)

	SFY 97 - SFY 2006	SFY 2007				SFY 2008			
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
	SFY 97 - SFY06 Total	SFY 2007 BINDING COMMITMENT				SFY 2008 BINDING COMMITMENTS			
SFY 1997 - 2004			-1,087,000	-390,000		-7,539,137			
SFY 2005			-3,915,000						
SFY 2006		21,500,000	10,000,000						
SFY 2007			99,909,000	73,322,000		-160,000		820,000	
SFY 2008						0	135,975,000	**7,255,000**	7,425,000
QUARTERLY TOTAL		**21,500,000**	**104,907,000**	**73,533,000**	**0**	**-7,699,137**	**135,975,000**	**8,075,000**	**7,425,000**
CUMULATIVE									
BINDING	**$541,782,235**	**$563,282,235**	**$668,189,235**	**$741,722,235**	**$741,722,235**	**$734,023,098**	**$869,998,098**	**$878,073,098**	**$885,498,098**
COMMITMENTS									
CUM. BINDING									
COMMITMENTS	**99.51%**	**100.64%**	**115.88%**	**123.68%**	**121.25%**	**118.67%**	**139.01%**	**136.37%**	**133.34%**
AS % OF REQUIRED									
AMOUNT									

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.

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Table 3 - Grants Summaries
September 1, 1998 - August 31, 2008

SFY	Grant	Loan portion of grant	TCEQ Portion	SWP Portion	TCEQ 2% Small Systems (SS)	TWDB Administration Set-Aside	In-kind
97	70,153,800	64,847,648	2,500,000	0	0	2,806,152	0
98	54,014,400	49,139,400	4,875,000	0	0	0	0
99	56,612,200	44,284,672	4,505,732	5,661,220	0	2,160,576	0
2000	58,836,500	54,246,988	4,505,732	83,780	0	0	0
2001	59,079,800	50,915,312	5,900,000	0	0	2,264,488	0
2002	62,023,700	52,529,766	5,900,000	0	1,240,474	2,353,460	0
2003	61,651,000	52,207,808	5,900,000	0	1,180,000	2,363,192	0
2004	63,953,900	53,897,562	6,395,390	0	1,180,000	2,480,948	0
2005	63,818,500	53,694,240	6,381,850	0	1,276,370	2,466,040	0
2006	67,799,550	57,429,348	6,381,850	0	1,276,370	2,711,982	0
2007*	67,801,000	55,953,268	6,779,955	0	1,200,000	3,835,777	32,000
Totals	**$685,744,350**	**$589,146,012**	**$60,025,509**	**$5,745,000**	**$7,353,214**	**$23,442,615**	**$32,000**

SWP = Source Water Protection
SS = Small Systems

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Table 3A - Grants Drawn
September 1, 1998 - August 31, 2008

SFY	Grant Drawn	Loan Portion Drawn	TCEQ Drawn	SWP Drawn	SS Drawn	Set-Aside Drawn	In-kind
97	-70,153,800	-64,847,648	-2,500,000	0	0	-2,806,152	0
98	-54,014,400	-49,139,400	-4,875,000	0	0	0	0
99	-56,612,200	-44,284,672	-4,505,732	-5,661,220	0	-2,160,576	0
2000	-58,836,500	-54,246,988	-4,505,732	-83,780	0	0	0
2001	-59,079,800	-50,915,312	-5,900,000	0	0	-2,264,488	0
2002	-62,023,700	-52,529,766	-5,900,000	0	-1,240,474	-2,353,460	0
2003	-33,686,205	-24,243,013	-5,900,000	0	-1,180,000	-2,363,192	0
2004	-9,610,849	0	-6,395,390	0	-734,511	-2,480,948	0
2005	-9,768,114	0	-6,381,850	0	-920,224	-2,466,040	0
2006	-8,905,388	0	-6,193,406	0	0	-2,711,982	0
2007	-2,012,493	0	0	0	0	-2,012,493	32,000
Totals	**-$424,703,449**	**-$340,206,799**	**-$53,057,110**	**-$5,745,000**	**-$4,075,209**	**-$21,619,331**	**$32,000**

SWP = Source Water Protection
SS = Small Systems

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Table 3B - Grants Balances
September 1, 1998 - August 31, 2008

SFY	Grant Remaining	Loan Portion Remainder	TCEQ Remainder	SWP Remainder	SS Remainder	Set-Aside Remainder	Set-Aside Remainder
97	0	0	0	0	0	0	0
98	0	0	0	0	0	0	0
99	0	0	0	0	0	0	0
2000	0	0	0	0	0	0	0
2001	0	0	0	0	0	0	0
2002	0	0	0	0	0	0	0
2003	27,964,795	27,964,795	0	0	0	0	0
2004	54,343,051	53,897,562	0	0	445,489	0	0
2005	54,050,386	53,694,240	0	0	356,146	0	0
2006	58,894,162	57,429,348	188,444	0	1,276,370	0	0
2007	65,756,507	55,953,268	6,779,955	0	1,200,000	1,823,284	32,000
Totals	**$261,008,901**	**$248,939,213**	**$6,968,399**	**$0**	**$3,278,005**	**$1,823,284**	**$32,000**

SWP = Source Water Protection
SS = Small Systems

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Table 4 - Projects Disposition, SFY 2008 IUP
September 1, 2007 - August 31, 2008

Rank	Project	Disadvantaged	Loan Forgiveness	Consolidation	Small Community	IUP Loan Demand	Total Points	Commitment Date / Declined Date	Total Commitment Amount / Declined
1	Millersview-Doole WSC			x	x	$10,000,000	33.18		
2	Duval County Conservation & Reclamation District	0%			x	$4,295,000	9.94	10/11/07	Declined
3	Buena Vista Water System				x	$845,000	8.40		
4	Jim Wells Co. FWSD # 1				x	$3,050,000	6.25		
5	Rio Grande City	0%	35%	x		$11,150,000	4.50		
6	Fort Worth			x		$64,930,000	3.75	2/25/08	$64,930,000
7	Winfield	0%			x	$465,000	3.25		
8	Perry WSC	0%			x	$270,000	3.01		
9	Coleman	0%	15%	x	x	$5,910,000	3.00	2/25/08	$5,910,000
10	Clarksville	0%	15%		x	$8,910,000	2.79		
11	Tyler County WSC	0%			x	$775,000	2.50	6/23/08	$775,000
12	Roxton	0%			x	$1,110,000	2.25	10/16/07	Declined
13	Hidalgo County MUD # 1	0%			x	$7,670,000	2.02	4/29/08	$5,645,000
14	Manor				x	$1,770,000	2.00	12/18/07	Declined
15	Jarrell	0%			x	$1,545,000	2.00	01/07/08	Declined
16	East Tawakoni			x	x	$2,610,000	1.75	10/05/07	Declined
17	Beechwood WSC	0%	15%		x	$1,610,000	1.75	3/25/08	$1,610,000
18	Upper Leon River MWD			x		$3,195,000	1.63		
19	Nacogdoches			x		$3,555,000	1.63		
20	South Garza WSC				x	$1,100,000	1.50		
21	Los Fresnos	0%			x	$4,165,000	1.50		
22	Valley WSC	0%			x	$2,935,000	1.25		
23	Fairfield	1%			x	$11,500,000	1.25		
24	Groesbeck	0%			x	$2,150,000	1.25	7/29/08	$2,150,000

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Table 4 - Projects Disposition, SFY 2008 IUP (contd.)
September 1, 2007 - August 31, 2008

Rank	Project	Disadvantaged	Loan Forgiveness	Consolidation	Small Community	IUP Loan Demand	Total Points	Commitment Date	Total Commitment Amount
25	Mexia	0%	15%		x	$4,500,000	1.25	6/23/08	$4,500,000
26	Mount Pleasant	1%		x		$24,785,000	1.13	2/25/08	$24,785,000
27	Consumers Water Inc./Highland Mobile				x	$170,000	1.00		
28	Montgomery County MUD # 16				x	$600,000	1.00		
29	Rollingwood				x	$2,350,000	1.00	2/25/08	$2,350,000
30	Montgomery County MUD # 15				x	$2,145,000	1.00		
31	Eastland	1%		x	x	$2,385,000	1.00		
32	La Grulla	0%	35%		x	$4,705,000	1.00		
33	Commerce	0%			x	$2,740,000	1.00	11/19/07	Declined
34	Harris County WCID # 36	1%				$12,150,000	1.00		
35	San Angelo			x		$40,295,000	1.00	09/28/07	Declined
36	Arlington					$48,500,000	1.00	1/28/08	$38,000,000
37	Riverside WSC				x	$1,885,000	0.75		
38	Sharon WSC				x	$3,400,000	0.75		
39	Lamar County WSD			x		$5,965,000	0.54		
40	Community Utility Co./Forest Manor				x	$790,000	0.50		
41	Consumers Water Inc./Pioneer Trails				x	$290,000	0.50		
42	Community Utility Co./Heathergate Estates				x	$530,000	0.50		
43	Consumers Water Inc./Springmont				x	$300,000	0.50		
44	Suburban Utility Co. Inc./Reservoir Acres				x	$295,000	0.50		
45	Suburban Utility Co. Inc./Cypress Bend				x	$290,000	0.50		
46	Suburban Utility Co. Inc./Castlewood				x	$680,000	0.50		
47	Cottonwood Shores				x	$4,575,000	0.50		
48	Suburban Utility Co. Inc./Beaumont Place				x	$1,215,000	0.50		

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Table 4 - Projects Disposition, SFY 2008 IUP (contd.)
September 1, 2007 - August 31, 2008

Rank	Project	Disadvantaged	Loan Forgiveness	Consolidation	Small Community	IUP Loan Demand	Total Points	Commitment Date	Total Commitment Amount
49	RPM WSC				x	$995,000	0.50		
50	Stone Hedge Utility Co. Inc./Stonehedge Estates				x	$255,000	0.25		
51	Consumers Water Inc./Lakewood Colony				x	$180,000	0.25		
52	Cross Roads Community WSC				x	$810,000	0.25		
53	Consumers Water Inc./Huffman Heights				x	$440,000	0.25		
54	Patton Village Water Co. Inc./Patton Village - West				x	$475,000	0.25		
55	Patton Village Water Co. Inc./Patton Village - East				x	$485,000	0.25		
56	Consumers Water Inc./Meadowlake Estates				x	$370,000	0.25		
57	Trenton				x	$4,135,000	0.25		
58	Consumers Water Inc./Spring Forest				x	$315,000	0.25		
59	Axtell WSC				x	$545,000	0.25		
60	Emory			x	x	$7,250,000	0.25		
61	Kemp				x	$555,000	0.25		
62	Junction				x	$1,055,000	0.25		
63	Northeast Texas MWD					$6,645,000	0.25		
64	Patton Village Water Co. Inc./Peach Creek Colony				x	$205,000	0.00		
65	Consumers Water Inc./Joy Village				x	$195,000	0.00		
66	Consumers Water Inc./Tall Cedars				x	$250,000	0.00		
67	Consumers Water Inc./Peach Creek Oaks				x	$170,000	0.00		
68	Valley Mobile Home Properties				x	$90,000	0.00		
69	Consumers Water Inc./Porter Terrace				x	$195,000	0.00		
70	Consumers Water Inc./Greengate Acres				x	$230,000	0.00		
71	Texas National MUD				x	$555,000	0.00		
72	Consumers Water Inc./Urban Acres				x	$290,000	0.00		

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Table 4 - Projects Disposition, SFY 2008 IUP (contd.)
September 1, 2007 - August 31, 2008

Rank	Project	Disadvantaged	Loan Forgiveness	Consolidation	Small Community	IUP Loan Demand	Total Points	Commitment Date	Total Commitment Amount
73	Consumers Water Inc./Highland Ridge				x	$270,000	0.00		
74	Shenandoah				x	$5,525,000	0.00		
75	Anthony				x	$1,870,000	0.00		
76	Harris County MUD # 46				x	$915,000	0.00		
77	Friona Municipal Water System				x	$1,985,000	0.00		
78	Fort Bend County FWSD # 1			x	x	$4,535,000	0.00		
79	Harris County FWSD # 47				x	$3,215,000	0.00		
80	McGregor				x	$910,000	0.00		
81	Acton MUD			x		$1,055,000	0.00		
82	Greater Texas Utility Authority/Gainesville					$2,505,000	0.00		
83	Houston					$56,325,000	0.00		
	Totals	**21**	**6**	**14**	**70**	**$426,855,000**			

Funding Line = _____

Declination letters received = e.g. (Date) | Declined

For entities above the funding line, if Commitment Date & Total Commitment columns blank then entity did not submit a financial application.

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Table 5 - Federal Draws

September 1, 2007 - August 31 2008

Items	Sept - Nov Qtr 1	Dec - Feb Qtr 2	March - May Qtr 3	June - Aug Qtr 4	Totals
ACH Available (Beginning) **$257,931,967**	$10,000,000	$17,000,000	$18,000,000	$9,049,707	$311,981,674
Cumulative ACH Payments					
Cash draws from ACH (4% Set-Asides/Admin)	-998,412	-898,256	-1,055,664	-956,829	-3,909,161
Cash draws from ACH (2% TCEQ Set-Asides)		-186,094		-920,224	-1,106,318
Cash draws from ACH (10% TCEQ Set-Asides)		-1,760,927		-5,026,273	-6,787,200
Cash draws from SWP					
Cash Draws from ACH (Construction)	-18,162,079	-17,888,354	-23,306,669	-19,393,709	-78,750,811
Total Cash Draws					**-90,553,490**
ACH Available (Ending)					**$221,428,184**

Table 5A - Total Federal Draws

September 1, 1998 - August 31 2008

SFY	Federal	Actual State Match Drawn*	Total Funds Drawn
1998 - 2007	334,149,959	62,916,104	397,066,063
2008	90,553,490	16,567,855	107,121,345
Totals	**$424,703,449**	**$79,483,959**	**$504,187,408**

Total all federal draws including set-asides.

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Table 6 - Projects Construction Complete

September 1, 2007 - August 31 2008

Date of Loan	Recipient	Project No.	Loan Amount	Minimum Interest Rate	Maximum Interest Rate	First Date	Last Date	Date of Project Completion
12-Apr-07	East Cedar Creek FWSD	61125	$730,000.00	2.55%	3.15%	30-Jul-07	1-Jul-27	27-May-08
25-Jul-05	Alvord	61118	$360,000.00	1.60%	3.20%	1-Oct-06	1-Oct-25	13-May-08
25-Feb-04	Reno	60906	$1,145,000.00	1.60%	3.15%	1-Jan-06	1-Jan-24	19-Dec-07
18-Feb-00	Roma	10043	$1,253,000.00	*	*	*	*	4-Dec-07
18-Feb-00	Roma	10043	$2,327,000.00	0.00%	0.00%	1-Nov-00	1-Nov-29	4-Dec-07
14-Jan-05	Port Lavaca	61045	$1,535,000.00	0.60%	3.55%	15-Feb-05	15-Feb-25	15-Jul-08
5-Oct-00	Pecos City	60481	$8,315,000.00	1.00%	1.00%	15-Jun-01	15-Jun-20	12-Feb-08
20-Jan-00	Brookeland FWSD	10337	$1,945,000.00	3.05%	4.80%	1-Sep-01	1-Sep-20	26-Aug-08
1-Jun-06	Santa Rosa	10016	$2,180,000.00	2.45%	3.50%	1-Feb-07	1-Feb-26	17-Oct-07
Totals	**9**		**$19,790,000.00**					

* = Loan Forgiveness

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Table 7 - Projects in Construction

September 1, 2007 - August 31 2008

Date of Loan	Recipient & (TWDB Project No.)	Loan Amount	Amt Received	Minimum Interest Rate	Maximum Interest Rate	First Date	Last Date
9-Sep-03	Willis (60934)	3,245,000	2,265,000	0.15%	3.80%	1-Aug-04	1-Aug-23
1-Jul-04	Brownwood (60943)	6,335,000	4,835,000	0.30%	3.50%	15-Mar-06	15-Mar-25
26-Jan-07	Ballinger (61114)	3,870,000	775,000	0.00%	0.00%	1-Jun-09	1-Jun-38
20-Sep-05	Bolivar Pen SUD (60910)	900,000	760,000	1.75%	3.55%	15-Feb-07	15-Feb-36
29-Mar-06	Bonham (61022)	7,355,000	2,270,000	0.00%	0.00%	15-Feb-07	15-Feb-36
1-Jun-07	Bolivar Pen SUD (61039)	2,455,000	225,000	2.55%	3.20%	1-Jul-08	1-Jul-27
1-Jun-07	Bolivar Pen SUD (61910)	5,180,000	3,350,000	2.55%	3.45%	15-Feb-09	15-Feb-38
24-May-06	Nacogdoches (61250)	11,520,000	375,000	1.97%	3.13%	1-Mar-08	1-Mar-27
22-Jun-07	Wellborn SUD (61335)	3,500,000	1,700,000	2.25%	2.85%	15-Jul-08	15-Jul-27
27-Jul-06	Baytown Area WA (61020)	13,290,000	9,065,000	2.25%	3.15%	1-May-07	1-May-26
15-Jul-98	Alpine (61162)	729,000	448,873	*	*	*	*
20-Nov-06	Brown County WID 1 (21543)	20,490,000	12,120,000	2.15%	2.95%	1-Feb-09	1-Feb-28
22-Apr-03	NE Texas MWD (60850)	12,400,000	12,130,000	1.38%	4.03%	1-Sep-07	1-Sep-26
17-Mar-06	Marlin (61142)	10,710,000	4,591,000	0.00%	0.00%	1-Jul-07	1-Jul-36
17-Mar-06	Marlin (61142)	1,890,000	916,241	*	*	*	*
24-Apr-03	Eagle Pass (60813)	7,455,000	7,455,000	0.00%	3.70%	1-Dec-03	1-Dec-32
30-Dec-03	El Jardin WSC (60916)	3,550,000	2,915,000	1.45%	5.20%	1-Sep-04	1-Sep-33
13-Feb-04	Millersview-Doole WSC (60748)	15,816,000	13,489,000	0.00%	0.00%	1-Dec-05	1-Dec-34
14-Nov-05	Reno (61014)	900,000	610,000	1.60%	3.15%	1-Jan-06	1-Jan-24
20-Sep-05	Bolivar Pen SUD (61039)	1,300,000	1,120,000	1.80%	3.40%	15-Feb-09	15-Feb-28
28-Mar-05	Anahuac (61010)	1,385,000	210,000	1.20%	3.60%	1-Aug-06	1-Aug-25
1-Feb-02	Eagle Pass (60813)	6,215,000	6,215,000	*	*	*	*
13-Oct-04	Eagle Pass (60813)	5,400,000	5,145,000	0.00%	3.70%	1-Dec-03	1-Dec-32
22-Sep-06	Groesbeck (61233)	1,025,000	1,015,000	0.00%	0.00%		
28-Jul-06	Flatonia (61229)	660,000	225,000	0.00%	0.00%	1-Sep-07	1-Sep-26
27-Dec-06	E Tawakoni (61223)	1,250,000	165,000	2.45%	3.25%	1-Jan-08	1-Jan-27
26-Oct-06	Round Rock (61262)	12,000,000	8,415,000	2.20%	2.95%	1-Aug-08	1-Aug-26
17-Sep-08	Millersview-Doole WSC (60748)	15,816,000	13,486,000	0.00%	0.00%	1-Dec-08	1-Dec-37

Texas Water Development Board
SFY 2008 Drinking Water State Revolving Fund
Annual Report

Table 7 - Projects in Construction (contd.)
September 1, 2007 - August 31 2008

Date of Loan	Recipient & (TWDB Project No.)	Loan Amount	Amt Received	Minimum Interest Rate	Maximum Interest Rate	First Date	Last Date
13-Oct-05	Alpine (61162)	4,131,000	2,242,000	0.00%	0.00%	1-Mar-07	1-Mar-32
28-Jun-07	Nacogdoches (60585)	18,835,000	18,835,000	2.40%	3.65%	1-Mar-03	1-Mar-30
24-Apr-03	Eagle Pass (60813)	11,545,000	11,545,000	0.00%	0.00%	1-Dec-05	1-Dec-35
13-Oct-04	Eagle Pass (60813)	2,905,000	2,809,635	*	*	*	*
1-Aug-07	Harris Co WCID36 (61483)	5,000,000	1,705,000	2.45%	3.20%	15-Sep-09	15-Sep-28
17-Oct-03	Junction (60736)	3,480,000	1,085,000	0.10%	4.20%	1-Mar-04	1-Mar-33
31-Jul-08	Arlington (61442)	38,000,000	865,000	0.85%	3.25%	1-Jun-09	1-Jun-28
11-Jun-02	Nacogdoches (60749)	17,630,000	15,730,000	1.15%	3.85%	1-Mar-04	1-Mar-33
13-Feb-04	Millersview-Doole WSC (60748)	2,791,000	2,380,222	*	*	*	*
14-Dec-00	Lufkin (60452)	16,000,000	14,030,000	2.95%	4.10%	1-Nov-02	1-Nov-21
22-Apr-03	NE Texas MWD (60850)	8,650,000	8,650,000	0.74%	4.14%	1-Sep-05	1-Sep-24
28-Sep-01	Sunbelt FWSD (60630)	2,630,000	2,475,000	1.05%	3.55%	1-Dec-02	1-Dec-26
7-Dec-06	Hamlin (60568)	5,500,000	5,500,000	0.00%	0.00%	31-Mar-02	31-Mar-31
Totals	**41**	**$ 313,738,000**	**$ 204,142,971**				

* = Loan Forgiveness

Table 8 - Administrative Costs Drawn Summary
September 1, 2007 - August 31 2008

SFY	Amount		SFY	Amount
1997	$0		2003	$1,853,449
1998	$951,001		2004	$1,259,843
1999	$1,222,382		2005	$2,487,202
2000	$830,921		2006	$3,295,962
2001	$1,525,991		2007	$3,851,198
2002	$432,220		2008	$3,909,161
			Total	**$21,619,331**

VIII. ATTACHMENTS

ATTACHMENT A

Cash Flow Model

TEXAS WATER DEVELOPMENT BOARD
DRINKING WATER STATE REVOLVING FUND
PROJECTED ANNUAL CASH FLOW COVERAGE
AS OF AUGUST 31, 2008

Operational Minimum DSC: 1.10
Lowest Total DSC: 4.55

Fiscal Year	Funds On Hand Restricted To Debt Service & Year End Balance	Loan Receipts 9/1 - 5/31 (2) Interest	Projected Loan Receipts (3) Interest	Projected Investment Income (4)	Total Existing Match Bond Debt Service (5)	Total Debt Service Coverage (6)	Balance	Loan Receipts 6/1 - 8/31 Interest	Balance	Total Loan Receipts From Current and Projected Loans Principal	Projected Fee Income (7)	Projected Operating Expenses
2009 **(1)**	$20,193,160	$6,982,733	-	$2,418,684	$6,499,192	4.55	$23,095,385	$1,321,108	$24,416,492	$18,743,000	$1,441,320	$4,562,135
2010	24,416,492	6,812,257	$1,950,156	-	6,540,865	5.07	26,638,040	1,249,848	27,887,888	20,702,709	1,441,320	4,562,135
2011	27,887,888	6,524,811	3,830,776	-	6,597,562	5.80	31,645,914	1,172,545	32,818,459	23,935,954	1,441,320	4,562,135
2012	32,818,459	6,214,437	5,639,902	-	6,638,403	6.73	38,034,396	1,094,216	39,128,612	27,107,694	1,441,320	4,562,135
2013	39,128,612	5,885,366	7,375,521	-	6,673,783	7.85	45,715,716	1,016,319	46,732,035	31,863,940	1,441,320	4,562,135
2014	46,732,035	5,503,745	7,653,278	-	6,723,646	8.91	53,165,411	934,205	54,099,616	32,934,210	1,441,320	4,562,135
2015	54,099,616	5,095,806	7,334,741	-	6,766,323	9.83	59,763,840	849,043	60,612,883	33,524,747	1,441,320	4,562,135
2016	60,612,883	4,666,284	7,007,227	-	6,796,298	10.64	65,490,095	757,897	66,247,992	33,994,261	1,441,320	4,562,135
2017	66,247,992	4,214,870	6,670,478	-	6,838,082	11.28	70,295,257	662,766	70,958,023	34,793,010	1,441,320	4,562,135
2018	70,958,023	3,742,529	6,324,228	-	6,866,438	11.80	74,158,343	560,233	74,718,576	35,362,260	1,441,320	4,562,135
2019	74,718,576	3,246,780	5,968,205	-	6,905,530	12.15	77,028,031	450,848	77,478,879	36,993,283	1,441,320	4,562,135
2020	77,478,879	2,710,569	5,602,127	-	6,944,497	12.35	78,847,078	337,670	79,184,748	37,302,361	1,441,320	4,562,135
2021	79,184,748	2,176,367	5,225,704	-	6,723,138	12.88	79,863,681	222,690	80,086,372	34,483,783	1,441,320	4,562,135
2022	80,086,372	1,707,599	4,838,640	-	6,753,466	12.83	79,879,145	158,715	80,037,860	29,589,848	1,441,320	4,562,135
2023	80,037,860	1,370,814	4,440,626	-	6,787,959	12.65	79,061,340	111,496	79,172,836	28,791,861	1,441,320	4,562,135
2024	79,172,836	1,058,990	4,031,348	-	5,974,346	14.10	78,288,828	84,503	78,373,331	27,812,140	1,441,320	4,562,135
2025	78,373,331	766,579	3,610,480	-	4,810,274	17.20	77,940,115	71,598	78,011,713	23,683,008	1,441,320	4,562,135
2026	78,011,713	613,980	3,177,687	-	3,191,641	25.63	78,611,739	60,281	78,672,020	23,347,800	1,441,320	4,562,135
2027	78,672,020	488,237	2,732,626	-	2,363,870	34.64	79,529,012	51,261	79,580,273	23,369,862	1,441,320	4,562,135
2028	79,580,273	382,694	2,274,942	-	1,360,516	60.45	80,877,392	41,862	80,919,255	23,165,546	1,441,320	4,562,135
2029	80,919,255	289,990	1,804,269	-	1,356,130	61.21	81,657,383	32,959	81,690,341	23,654,219	1,441,320	4,562,135
2030	81,690,341	196,737	1,320,232	-	674,144	123.43	82,533,166	23,592	82,556,758	20,153,631	1,441,320	4,562,135
2031	82,556,758	105,619	933,819	-	-		83,596,196	16,450	83,612,646	15,341,419	1,441,320	4,562,135
2032	83,612,646	57,196	647,808	-	-		84,317,649	9,983	84,327,633	10,722,805	1,441,320	4,562,135
2033	84,327,633	12,148	465,057	-	-		84,804,838	3,431	84,808,269	5,824,930	1,441,320	4,562,135
2034	84,808,269	1,702	388,507	-	-		85,198,478	1,702	85,200,179	4,234,375	1,441,320	4,562,135
2035	85,200,179	-	342,240	-	-		85,542,419	-	85,542,419	4,003,642	1,441,320	4,562,135
2036	85,542,419	-	294,685	-	-		85,837,103	-	85,837,103	2,966,197	1,441,320	4,562,135
2037	85,837,103	-	245,803	-	-		86,082,906	-	86,082,906	2,995,079	-	-
2038	86,082,906	-	195,555	-	-		86,278,462	-	86,278,462	3,045,327	-	-
2039	86,278,462	-	143,900	-	-		86,422,362	-	86,422,362	3,096,982	-	-
2040	86,422,362	-	90,795	-	-		86,513,157	-	86,513,157	2,394,847	-	-
2041	86,513,157	-	49,516	-	-		86,562,673	-	86,562,673	1,680,885	-	-
2042	86,562,673	-	20,395	-	-		86,583,068	-	86,583,068	954,767	-	-
2043	86,583,068	-	3,772	-	-		86,586,840	-	86,586,840	216,149	-	-
		$70,828,837	$102,635,044		$120,786,103			$11,297,219		$682,786,529		

(1) The Texas Water Development Board's fiscal year runs from 9/1 to 8/31.
(2) Represents Interest repayments received from September 1st through May 31st to be used for debt service.
(3) Represents the projected Interest repayments based on current commitments and excess funds available.
(4) Represents projected investment income based on current fund balances.
(5) Represents current debt service requirements.
(6) Total revenue to debt ratio. Total revenue includes beginning fund balances, actual interest loan receipts received from September 1st thru May 31st, and projected interest loan receipt and investment projections.
(7) Projected fee income is derived from fees charged to borrowers to cover the administrative costs of the program. The fees in all years are based upon the assumption that $65,500,000 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 state law. Borrowers are 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, 2008

Income to be Used Within the Same Fiscal Year

Fiscal Year	Loan Receipts 9/1 - 5/31 Principal	Loan Receipts 9/1 - 5/31 Interest	Projected Loan Receipts (2) Principal	Projected Loan Receipts (2) Interest	Projected Investment Income (3)	Total Projected Income to Pay Debt Service	Loan Receipts 6/1 - 8/31 Principal	Loan Receipts 6/1 - 8/31 Interest
2009 **(1)**	$12,977,000	$6,982,733	-	-	$2,418,684	$9,401,417	$5,766,000	$1,321,108
2010	12,712,000	6,812,257	$2,754,709	$1,950,156	-	8,762,413	5,236,000	1,249,848
2011	13,008,000	6,524,811	5,578,954	3,830,776	-	10,355,587	5,349,000	1,172,545
2012	13,298,000	6,214,437	8,474,694	5,639,902	-	11,854,339	5,335,000	1,094,216
2013	15,079,000	5,885,366	11,443,940	7,375,521	-	13,260,887	5,341,000	1,016,319
2014	15,029,000	5,503,745	12,536,210	7,653,278	-	13,157,023	5,369,000	934,205
2015	15,145,000	5,095,806	12,854,747	7,334,741	-	12,430,547	5,525,000	849,043
2016	15,145,000	4,666,284	13,182,261	7,007,227	-	11,673,510	5,667,000	757,897
2017	15,331,000	4,214,870	13,519,010	6,670,478	-	10,885,348	5,943,000	662,766
2018	15,417,000	3,742,529	13,865,260	6,324,228	-	10,066,757	6,080,000	560,233
2019	16,622,000	3,246,780	14,221,283	5,968,205	-	9,214,985	6,150,000	450,848
2020	16,828,000	2,710,569	14,587,361	5,602,127	-	8,312,696	5,887,000	337,670
2021	15,751,000	2,176,367	14,963,783	5,225,704	-	7,402,071	3,769,000	222,690
2022	11,902,000	1,707,599	15,350,848	4,838,640	-	6,546,239	2,337,000	158,715
2023	11,489,000	1,370,814	15,748,861	4,440,626	-	5,811,440	1,554,000	111,496
2024	10,677,000	1,058,990	16,158,140	4,031,348	-	5,090,338	977,000	84,503
2025	6,271,000	766,579	16,579,008	3,610,480	-	4,377,058	833,000	71,598
2026	5,496,000	613,980	17,011,800	3,177,687	-	3,791,667	840,000	60,281
2027	5,071,000	488,237	17,456,862	2,732,626	-	3,220,863	842,000	51,261
2028	4,456,000	382,694	17,914,546	2,274,942	-	2,657,635	795,000	41,862
2029	4,471,000	289,990	18,385,219	1,804,269	-	2,094,258	798,000	32,959
2030	4,433,000	196,737	14,919,631	1,320,232	-	1,516,969	801,000	23,592
2031	3,181,000	105,619	11,356,419	933,819	-	1,039,438	804,000	16,450
2032	2,228,000	57,196	7,692,805	647,808	-	705,004	802,000	9,983
2033	1,095,000	12,148	3,925,930	465,057	-	477,205	804,000	3,431
2034	580,000	1,702	2,852,375	388,507	-	390,209	802,000	1,702
2035	385,000	-	2,898,642	342,240	-	342,240	720,000	-
2036	-	-	2,946,197	294,685	-	294,685	20,000	-
2037	-	-	2,995,079	245,803	-	245,803	-	-
2038	-	-	3,045,327	195,555	-	195,555	-	-
2039	-	-	3,096,982	143,900	-	143,900	-	-
2040	-	-	2,394,847	90,795	-	90,795	-	-
2041	-	-	1,680,885	49,516	-	49,516	-	-
2042	-	-	954,767	20,395	-	20,395	-	-
2043	-	-	216,149	3,772	-	3,772	-	-
	$264,077,000	$70,828,837	$333,563,529	$102,635,044	$2,418,684	$175,882,565	$85,146,000	$11,297,219

(1) The Texas Water Development Board's fiscal year runs from 9/1 to 8/31.
(2) Represents projected repayments from (a) $333,563,529 in Board commitments which include $256,542,460 in Mainstream and $77,021,068 in Disadvantaged loan commitments, and (b) $0 in excess funds available.
(3) Assumes investment income on fund balances at 2.73% for 8 months.

TEXAS WATER DEVELOPMENT BOARD
DRINKING WATER STATE REVOLVING FUND
DEBT SERVICE ON OUTSTANDING BONDS
AS OF AUGUST 31, 2008

Fiscal Year	State Match Fixed Rate Bonds		Total Debt Service
	Principal	Interest	
2009 **(1)**	$2,768,366	$3,730,826	$6,499,192
2010	2,914,723	3,626,142	6,540,865
2011	3,086,544	3,511,018	6,597,562
2012	3,253,846	3,384,557	6,638,403
2013	3,426,651	3,247,132	6,673,783
2014	3,624,979	3,098,667	6,723,646
2015	3,828,850	2,937,473	6,766,323
2016	4,033,287	2,763,011	6,796,298
2017	4,263,313	2,574,769	6,838,082
2018	4,493,952	2,372,486	6,866,438
2019	4,750,230	2,155,300	6,905,530
2020	5,022,171	1,922,326	6,944,497
2021	5,049,803	1,673,335	6,723,138
2022	5,333,155	1,420,311	6,753,466
2023	5,637,256	1,150,703	6,787,959
2024	5,112,136	862,210	5,974,346
2025	4,207,827	602,447	4,810,274
2026	2,799,363	392,278	3,191,641
2027	2,111,777	252,093	2,363,870
2028	1,210,105	150,411	1,360,516
2029	1,264,386	91,744	1,356,130
2030	644,657	29,487	674,144
2031	-	-	-
2032	-	-	-
2033	-	-	-
2034	-	-	-
2035	-	-	-
2036	-	-	-
2037	-	-	-
2038	-	-	-
2039	-	-	-
2040	-	-	-
2041	-	-	-
2042	-	-	-
2043	-	-	-
	$78,837,377	$41,948,726	$120,786,103

(1) The Texas Water Development Board's fiscal year runs from 9/1 to 8/31.

ATTACHMENT B

Financial Statements

Texas Water Development Board

DRINKING WATER STATE REVOLVING FUND

Annual Financial Report

For the Year Ended
August 31, 2008

Table of Contents

General Purpose Financial Statements

UNAUDITED

Drinking Water State Revolving Fund

Exhibit I - Combined Statement of Net Assets - Proprietary Funds

August 31, 2008

		Total Enterprise Funds (Exhibit F-1)
ASSETS		
Current Assets:		
Cash and Cash Equivalents		
Cash Equivalents	$	16,263,971.72
Short Term Investments		127,922,363.59
Receivables from:		
Federal		2,636,440.53
Interest and Dividends		3,332,827.99
Loans and Contracts		18,743,000.00
Total Current Assets		**168,898,603.83**
Non-Current Assets:		
Loans and Contracts		330,480,000.00
Total Non-Current Assets		**330,480,000.00**
Total Assets		**499,378,603.83**
LIABILITIES		
Current Liabilities:		
Payables from:		
Accounts Payable		124,631.24
Interfund Payables		2,768,366.00
Due to Other Funds		809,427.43
Due to Other Agencies		2,174,333.30
Deferred Revenue		11,714,387.74
Total Current Liabilities		**17,591,145.71**
Non-Current Liabilities:		
Interfund Payable		76,069,011.00
Total Non-Current Liabilities		**76,069,011.00**
Total Liabilities		**93,660,156.71**
NET ASSETS		
Unrestricted		405,718,447.12
Total Net Assets	**$**	**405,718,447.12**

The accompanying notes to the financial statements are an integral part of this statement.

UNAUDITED

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, 2008

	Total Enterprise Funds (Exhibit F-2)
OPERATING REVENUES:	
Interest and Investment Income	$ 12,173,090.09
Net Increase (Decrease) Fair Market Value	(28,716.70)
Other Operating Revenue	1,132,245.27
Total Operating Revenues	**13,276,618.66**
OPERATING EXPENSES:	
Salaries and Wages	7,002,404.22
Payroll Related Costs	1,237,363.19
Professional Fees and Services	3,541,630.44
Travel	139,600.47
Materials and Supplies	165,850.54
Communication and Utilities	19,623.39
Repairs and Maintenance	5,010.67
Rentals and Leases	18,048.38
Interest	3,564,962.87
Other Operating Expenses	287,564.76
Total Operating Expenses	**15,982,058.93**
Operating Income (Loss)	**(2,705,440.27)**
NONOPERATING REVENUES (EXPENSES):	
Federal Revenue	91,172,672.69
Other Benefit Payments	(472,419.98)
Other Nonoperating Revenue (Expenses)	(1,675,097.55)
Total Nonoperating Revenue (Expenses)	**89,025,155.16**
Income/(Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	**86,319,714.89**
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:	
Transfers In	3,735,026.00
Total Other Revenue, Expenses, Gain/Losses and Transfers	**3,735,026.00**
Change in Net Assets	**90,054,740.89**
Total Net Assets - Beginning	315,663,706.23
Total Net Assets, August 31, 2008	**$ 405,718,447.12**

The accompanying notes to the financial statements are an integral part of this statement.

UNAUDITED

Drinking Water State Revolving Fund

Exhibit III - Combined Statement of Cash Flows - Proprietary Funds

For the Fiscal Year Ended August 31, 2008

	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to Suppliers for Goods and Services	$ (369,773.96)
Payments to Employees for Salaries	(3,062,180.47)
Payments to Employees for Benefits	(438,417.08)
Payments to Employees for Other (Travel)	(38,789.55)
Net Cash Provided by Operating Activities	**(3,909,161.06)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Federal Grants	90,553,490.23
Proceeds from State Appropriations	3,735,026.00
Proceeds of Transfers from Other Funds	9,622,377.00
Payments of Interest	(3,529,271.93)
Payments for Grant Disbursements	(2,147,517.53)
Payment for Federal Grant Pass-Through	(7,893,517.76)
Repayments of Advances from Other Funds	(2,350,000.00)
Net Cash Provided by Noncapital Financing Activities	**87,990,586.01**
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Interest Income	4,841,777.64
Proceeds from Investment Income	6,674,200.45
Proceeds from Principal Payments on Non-Program Loans	14,021,000.00
Payments for Non-program Loans Provided	(89,097,139.00)
Payments to Acquire Investments	(22,482,185.78)
Net Cash Provided by Investing Activities	**(86,042,346.69)**
Net (Decrease) in Cash and Cash Equivalents	(1,960,921.74)
Cash and Cash Equivalents--September 1, 2007	18,224,893.46
Cash and Cash Equivalents--August 31, 2008	**$ 16,263,971.72**

The accompanying notes to the financial statements are an integral part of this statement.

UNAUDITED

Drinking Water State Revolving Fund

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

For the Fiscal Year Ended August 31, 2008

	Total Enterprise Funds
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	$ (2,705,440.27)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Operating Income and Cash Flow Categories:	
Classification Differences	(1,199,168.55)
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	
Increase (Decrease) in Payables	(5,870.02)
Increase (Decrease) in Due to Other Funds	1,317.78
Total Adjustments	**(1,203,720.79)**
Net Cash Provided by Operating Activities	**$ (3,909,161.06)**
Non-Cash Transactions	
Net Increase (Decrease) in Fair Value of Investments	(26,000.63)

The accompanying notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

Texas Water Development Board (580)

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.

Texas Water Development Board (580)

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.

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. Other payables may be included in either the governmental or proprietary fund types. The only significant other payable is the accrued interest due as of the balance sheet date on bonds payable in the proprietary funds.

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).

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, 2008, the fair value of investments is as presented below.

Governmental and Business-Type Activities	Fair Value
Commercial Paper (Texas Treasury Safekeeping Trust Co)	$ 16,263,971.72
Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	62,648,448.21
U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co)	65,273,915.38
Total	$ 144,186,335.31

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, 2008, 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, 2008, the agency's credit quality distribution of securities and repurchase agreements with credit risk exposure was as follows.

Texas Water Development Board (580)

Standard and Poor's

Fund Type	GAAP Fund	Investment Type	Amount	Rating
05	3050	Commercial Paper (Texas Treasury Safekeeping Trust Co)	$16,263,971.72	A-1
05	3050	U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co)	$65,273,915.38	AAA

NOTE 3: Summary of Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2008, the following changes occurred in liabilities:

Business-Type Activities	Balance 09-01-07	Additions	Deductions	Balance 08-31-08	Amts Due within 1 year	Amounts due Thereafter
Notes and Loans Payable (Interfund)	$71,565,000.00	$9,622,377.00	$2,350,000.00	$78,837,377.00	$2,768,366.00	$76,069,011.00
Total Business-Type Activities	**$71,565,000.00**	**$9,622,377.00**	**$2,350,000.00**	**$78,837,377.00**	**$2,768,366.00**	**$76,069,011.00**

Texas Water Development Board (580)

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
2009	$2,768,366.00	$3,730,826.02
2010	2,914,723.00	3,626,142.38
2011	3,086,544.00	3,511,017.88
2012	3,253,846.00	3,384,556.88
2013	3,426,651.00	3,247,131.98
2014-2018	20,244,381.00	13,746,406.10
2019-2023	25,792,615.00	8,321,974.70
2024-2028	15,441,208.00	2,259,439.46
2029-2033	1,909,043.00	121,230.94
Total Requirements	**$78,837,377.00**	**$41,948,726.34**

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
- Legislative Transfers In or Legislative 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, 2008 follows:

Texas Water Development Board (580)

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	$2,768,366.00		Match Bonds
Appd Fund 9999, D23 Fund 0951			
Appd Fund 0371, D23 Fund 0371		$2,768,366.00	Match Bonds
Total Interfund Receivable/Payable	**$2,768,366.00**	**$2,768,366.00**	

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	$76,069,011.00		Match Bonds
Appd Fund 9999, D23 Fund 0951			
Appd Fund 0371, D23 Fund 0371		$76,069,011.00	Match Bonds
Total Interfund Receivable/Payable	**$76,069,011.00**	**$76,069,011.00**	

NOTE 5: Contingent Liabilities

Outstanding Loan and Grant Commitments

At August 31, 2008, 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)	$448,624,000.00	$3,946,851.00	$452,570,851.00
Total Commitments	**$448,624,000.00**	**$3,946,851.00**	**$452,570,851.00**

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, 2008.

Texas Water Development Board (580)

NOTE 6: Loans and Contracts

The Board purchases bonds from political subdivisions (including private water supply corporations). As of August 31, 2008 the balance of these bonds owned by the Board was $349,223,000.00 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 2040. 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, 2008, the amount of Federal Funds available through the Automated Standard Application for Payments that remain undrawn for the Drinking Water State Revolving Fund is $235,179,477.11.

NOTE 8: Status of Available Administrative Funding

The Texas Water Development Board has been awarded grants for this program totaling $685,744,350.00. The remaining administrative funding at August 31, 2008, relative to the 4% cap is $1,823,284.08. During FY2008, $3,909,161.06 was drawn against the administration portion of the grant to reimburse expenses incurred in General Revenue, while another $462,107.23 was accrued as a receivable for General Revenue as of August 31, 2008.

Loans issued in Fiscal Year 2008 resulted in the collection of administrative cost recovery charges. The Texas Water Development Board has collected service charges totaling $15,728,015 from DWSRF loan recipients. In Fiscal Year 2008, $4,536,861, was collected. There were no expenditures to pay for bank service fees.

NOTE 9: State Match Requirements

Deferral of State match deposits was allowed by EPA for FY97 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 $137,148,870. During Fiscal Year 2008, state appropriations totaling $3,735,026 were transferred; while, $9,622,377 of state match bond proceeds were also transferred.

Combining Statements

UNAUDITED

Drinking Water State Revolving Fund

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

August 31, 2008

	Drinking Water Loan Program	Administration (Federal)	Administration (Fees)	Set Asides (Exhibit SA-2)	Totals (Exhibit I)
ASSETS					
Current Assets:					
Cash and Cash Equivalents:					
Cash Equivalents	$ 6,201,504.78		$ 10,062,466.94		$ 16,263,971.72
Short Term Investments	127,922,363.59				127,922,363.59
Receivables from:					
Federal	-	462,107.23		2,174,333.30	2,636,440.53
Interest and Dividends	3,308,628.62		24,199.37		3,332,827.99
Loans and Contracts	18,743,000.00				18,743,000.00
Total Current Assets	**156,175,496.99**	**462,107.23**	**10,086,666.31**	**2,174,333.30**	**168,898,603.83**
Non-Current Assets:					
Loans and Contracts	330,480,000.00				330,480,000.00
Total Non-Current Assets	**330,480,000.00**	**-**	**-**	**-**	**330,480,000.00**
Total Assets	**486,655,496.99**	**462,107.23**	**10,086,666.31**	**2,174,333.30**	**499,378,603.83**
LIABILITIES					
Current Liabilities:					
Payables from:					
Accounts Payable	-	124,631.24			124,631.24
Interfund Payables	2,768,366.00				2,768,366.00
Due to Other Funds	471,951.44	337,475.99			809,427.43
Due to Other Agencies	-			2,174,333.30	2,174,333.30
Deferred Revenue	-		11,714,387.74		11,714,387.74
Total Current Liabilities	**3,240,317.44**	**462,107.23**	**11,714,387.74**	**2,174,333.30**	**17,591,145.71**
Non-Current Liabilities:					
Interfund Payables	76,069,011.00				76,069,011.00
Total Non-Current Liabilities	**76,069,011.00**	**-**	**-**	**-**	**76,069,011.00**
Total Liabilities	**79,309,328.44**	**462,107.23**	**11,714,387.74**	**2,174,333.30**	**93,660,156.71**
NET ASSETS					
Unrestricted	407,346,168.55	-	(1,627,721.43)	-	405,718,447.12
Total Net Assets	**$ 407,346,168.55**	**$ -**	**$ (1,627,721.43)**	**$ -**	**$ 405,718,447.12**

The accompanying notes to the financial statements are an integral part of this statement.

UNAUDITED

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, 2008

	Drinking Water Loan Program	Administration (Federal)	Administration (Fees)	Set Asides (Exhibit SA-2)	Totals (Exhibit II)
OPERATING REVENUES:					
Interest and Investment Income	$ 11,910,240.75		$ 262,849.34		$ 12,173,090.09
Net Increase (Decrease) Fair Market Value	(30,720.03)		2,003.33		(28,716.70)
Other Operating Revenue	-		1,132,245.27		1,132,245.27
Total Operating Revenues	**11,879,520.72**	**-**	**1,397,097.94**	**-**	**13,276,618.66**
OPERATING EXPENSES:					
Salaries and Wages	-	3,075,020.54	-	3,927,383.68	7,002,404.22
Payroll Related Costs	-	447,379.74	-	789,983.45	1,237,363.19
Professional Fees and Services	-	218,184.94	-	3,323,445.50	3,541,630.44
Travel	-	37,182.20	-	102,418.27	139,600.47
Materials and Supplies	-	55,294.68	-	110,555.86	165,850.54
Communication and Utilities	-	19,623.39	-	-	19,623.39
Repairs and Maintenance	-	5,010.67	-	-	5,010.67
Rentals and Leases	-	18,048.38	-	-	18,048.38
Interest	3,564,962.87	-	-	-	3,564,962.87
Other Operating Expenses	-	28,864.28		258,700.48	287,564.76
Total Operating Expenses	**3,564,962.87**	**3,904,608.82**	**-**	**8,512,487.24**	**15,982,058.93**
Operating Income (Loss)	**8,314,557.85**	**(3,904,608.82)**	**1,397,097.94**	**(8,512,487.24)**	**(2,705,440.27)**
NONOPERATING REVENUE (EXPENSES):					
Federal Revenue	78,755,576.63	3,904,608.82	-	8,512,487.24	91,172,672.69
Other Benefit Payments	(472,419.98)				(472,419.98)
Other Nonoperating Revenue (Expenses)	(1,675,097.55)				(1,675,097.55)
Total Nonoperating Revenue (Expenses)	**76,608,059.10**	**3,904,608.82**	**-**	**8,512,487.24**	**89,025,155.16**
Income/(Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	**84,922,616.95**	**-**	**1,397,097.94**	**-**	**86,319,714.89**
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:					
Transfers In	3,735,026.00	-	-	-	3,735,026.00
Total Other Revenue, Expenses, Gain/Losses and Transfers	**3,735,026.00**	**-**	**-**	**-**	**3,735,026.00**
Change in Net Assets	**88,657,642.95**	**-**	**1,397,097.94**	**-**	**90,054,740.89**
Total Net Assets - Beginning	318,688,525.60	-	(3,024,819.37)	-	315,663,706.23
Total Net Assets, August 31, 2008	**$ 407,346,168.55**	**$ -**	**$ (1,627,721.43)**	**$ -**	**$ 405,718,447.12**

The accompanying notes to the financial statements are an integral part of this statement.

UNAUDITED

Drinking Water State Revolving Fund

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

For the Fiscal Year Ended August 31, 2008

	Administer State PWSS	Source Water Protection	Capacity Development	Technical Assistance	Inspection and Investigation	Totals (Exhibit F-2)
OPERATING EXPENSES:						
Salaries and Wages	$ 361,613.06	$ 149,415.38	$ 599,248.14	$ 1,888,594.45	$ -	$ 2,998,871.03
Payroll Related Costs	109,244.65	38,766.80	156,207.92	485,764.08	-	789,983.45
Professional Fees and Services	677,447.76	399,954.25	1,146,074.25	11,054.00	1,088,915.24	3,323,445.50
Travel	44,694.64	-	43,471.11	342.49	13,910.03	102,418.27
Materials and Supplies	16,953.87	-	31,912.32	61,689.67	-	110,555.86
Other Operating Expenses	(739.84)	672.00	160,051.92	98,716.40	-	258,700.48
Indirect	111,720.54	46,433.38	187,740.61	582,618.12	-	928,512.65
Total Operating Expenses	$ 1,320,934.68	$ 635,241.81	$ 2,324,706.27	$ 3,128,779.21	$ 1,102,825.27	$ 8,512,487.24

Schedules

Texas Water Development Board (580)
Schedule 1 - Loans and Contracts
For the Fiscal Year Ended August 31, 2008

Recipient	Original Amount	Outstanding Balance	Due From	Due To
Drinking Water State Revolving Fund				
ALEDO, CITY OF	3,355,000.00	3,355,000.00	8/15/2009	8/15/2028
ALPINE, CITY OF	2,242,000.00	1,966,000.00	3/1/2007	3/1/2036
ALVORD, CITY OF	360,000.00	300,000.00	10/1/2004	10/1/2023
ALVORD, CITY OF	360,000.00	330,000.00	10/1/2006	10/1/2025
ANAHUAC, CITY OF	210,000.00	85,000.00	8/1/2006	8/1/2025
ARLINGTON, CITY OF	865,000.00	865,000.00	6/1/2009	6/1/2028
BALLINGER, CITY OF	5,250,000.00	4,240,000.00	6/1/2004	6/1/2023
BALLINGER, CITY OF	775,000.00	775,000.00	6/1/2009	6/1/2038
BAYTOWN AREA WATER AUTHORITY	9,065,000.00	7,940,000.00	5/1/2007	5/1/2026
BENTON CITY WSC	145,000.00	126,000.00	10/1/2001	10/1/2030
BOLIVAR PENINSULA SUD	760,000.00	720,000.00	2/15/2007	2/15/2036
BOLIVAR PENINSULA SUD	1,120,000.00	1,070,000.00	2/15/2008	2/15/2027
BOLIVAR PENINSULA SUD	3,350,000.00	3,350,000.00	2/15/2009	2/15/2038
BOLIVAR PENINSULA SUD	225,000.00	225,000.00	2/15/2009	2/15/2028
BONHAM, CITY OF	2,270,000.00	1,775,000.00	2/15/2007	2/15/2036
BRADY, CITY OF	6,115,000.00	4,830,000.00	5/1/2002	5/1/2031
BROOKELAND FWSD	1,945,000.00	1,615,000.00	9/1/2001	9/1/2020
BROWN CO WID #1	12,120,000.00	12,120,000.00	2/1/2009	2/1/2028
BROWNWOOD, CITY OF	6,695,000.00	5,435,000.00	3/15/2002	3/15/2021
BROWNWOOD, CITY OF	4,835,000.00	4,095,000.00	3/15/2006	3/15/2025
BURLESON CO MUD #1	1,440,000.00	1,371,000.00	6/1/2005	6/1/2034
BURLESON CO MUD #1	120,000.00	111,000.00	6/1/2006	6/1/2035
CISCO, CITY OF	105,000.00	105,000.00	2/15/2010	2/15/2038
CISCO, CITY OF	125,000.00	125,000.00	2/15/2010	2/15/2038
COLEMAN, CITY OF	140,000.00	140,000.00	4/1/2010	4/1/2039
CORSICANA, CITY OF	10,865,000.00	7,485,000.00	8/15/2001	8/15/2020
DEL RIO, CITY OF	5,845,000.00	3,473,000.00	6/1/2001	6/1/2020
DEL RIO, CITY OF	5,400,000.00	3,510,000.00	6/1/2002	6/1/2021
DEL RIO, CITY OF	6,220,000.00	4,845,000.00	6/1/2004	6/1/2022
DEPORT, CITY OF	350,000.00	250,000.00	9/1/2001	9/1/2020
DIBOLL, CITY OF	260,000.00	230,000.00	2/15/2006	2/15/2025
EAGLE PASS, CITY OF	11,545,000.00	10,395,000.00	12/1/2005	12/1/2034
EAGLE PASS, CITY OF	7,455,000.00	3,410,000.00	12/1/2003	12/1/2032
EAGLE PASS, CITY OF	5,145,000.00	4,495,000.00	12/1/2004	12/1/2033
EAST CEDAR CREEK FWSD	730,000.00	705,000.00	7/1/2008	7/1/2027
EAST MEDINA CO SUD	3,200,000.00	2,295,000.00	7/1/2002	7/1/2021
EAST TAWAKONI, CITY OF	165,000.00	160,000.00	1/1/2008	1/1/2027
EL JARDIN WSC	2,915,000.00	2,610,000.00	9/1/2004	9/1/2033
EL PASO, CITY OF	15,190,000.00	11,015,000.00	3/1/2002	3/1/2021
FLATONIA, CITY OF	225,000.00	190,000.00	9/1/2007	9/1/2026
FORT WORTH, CITY OF	59,875,000.00	54,310,000.00	3/1/2007	3/1/2025
FORT WORTH, CITY OF	1,800,000.00	1,800,000.00	3/1/2009	3/1/2027
GOLDEN WSC	850,000.00	785,000.00	7/1/2002	7/1/2022
GOLDEN WSC	110,000.00	95,000.00	7/1/2008	7/1/2027
GREATER TEXOMA UA	325,000.00	225,000.00	10/1/2000	10/1/2019
GREATER TEXOMA UA	305,000.00	240,000.00	6/1/2008	6/1/2027
GROESBECK, CITY OF	1,015,000.00	945,000.00	8/15/2007	8/15/2036
HAMLIN, CITY OF	5,500,000.00	4,370,000.00	3/1/2002	3/1/2031
HARRIS CO WCID #36	1,705,000.00	1,705,000.00	9/15/2009	9/15/2027
HOUSTON CO WCID #1	455,000.00	455,000.00	8/1/2009	8/1/2038
HOUSTON, CITY OF	5,745,000.00	5,245,000.00	12/1/2004	12/1/2023
HUDSON OAKS, CITY OF	1,320,000.00	860,000.00	8/1/2001	8/1/2019
JUNCTION, CITY OF	1,085,000.00	845,000.00	3/1/2004	3/1/2033
KARNES CITY, CITY OF	250,000.00	250,000.00	6/1/2011	6/1/2037
KOUNTZE, CITY OF	930,000.00	795,000.00	3/15/2000	3/15/2024
LAKE LIVINGSTON WATER SUPPLY & SEWER SERVICE CORP	1,085,000.00	1,085,000.00	12/1/2010	12/1/2039
LAMAR CO WSD	225,000.00	220,000.00	7/10/2008	7/10/2027
LOWER COLORADO RA	613,000.00	-	5/15/2006	5/15/2010
LOWER NECHES VALLEY AUTHORITY	20,520,000.00	18,495,000.00	8/1/2006	8/1/2035
LUFKIN, CITY OF	14,030,000.00	10,330,000.00	11/1/2002	11/1/2021
MARLIN, CITY OF	4,591,000.00	4,466,000.00	7/1/2007	7/1/2036

Texas Water Development Board (580)
Schedule 1 - Loans and Contracts
For the Fiscal Year Ended August 31, 2008

Recipient	Original Amount	Outstanding Balance	Due From	Due To
MEXIA, CITY OF	560,000.00	440,000.00	8/15/2003	8/15/2022
MEXIA, CITY OF	605,000.00	510,000.00	8/15/2005	8/15/2024
MIDLOTHIAN, CITY OF	665,000.00	665,000.00	9/1/2009	9/1/2028
MILLERSVIEW-DOOLE WSC	13,489,000.00	13,103,000.00	12/1/2005	12/1/2034
MOUNT CALM, CITY OF	331,000.00	285,000.00	3/1/2005	3/1/2024
MOUNT PLEASANT, CITY OF	1,575,000.00	1,575,000.00	3/15/2009	3/15/2033
NACOGDOCHES, CITY OF	18,835,000.00	18,645,000.00	3/1/2003	3/1/2030
NACOGDOCHES, CITY OF	15,730,000.00	15,705,000.00	3/1/2004	3/1/2034
NACOGDOCHES, CITY OF	375,000.00	325,000.00	3/1/2008	3/1/2027
NORTHEAST TEXAS MWD	6,800,000.00	4,970,000.00	9/1/2001	9/1/2020
NORTHEAST TEXAS MWD	12,130,000.00	12,120,000.00	9/1/2007	9/1/2026
NORTHEAST TEXAS MWD	8,650,000.00	8,480,000.00	9/1/2005	9/1/2024
OLNEY, CITY OF	1,250,000.00	1,000,000.00	9/1/2003	9/1/2022
ORANGE CO WCID #1	2,565,000.00	1,885,000.00	2/15/2003	2/15/2021
PALMER, CITY OF	1,405,000.00	1,065,000.00	7/1/2003	7/1/2022
PECOS CITY, TOWN OF	8,315,000.00	6,130,000.00	6/15/2001	6/15/2020
PHARR, CITY OF	430,000.00	430,000.00	9/1/2008	9/1/2027
PORT LAVACA, CITY OF	1,535,000.00	1,410,000.00	2/15/2005	2/15/2024
PORTER SUD	150,000.00	150,000.00	6/1/2009	6/1/2028
POSSUM KINGDOM WSC	4,700,000.00	4,015,000.00	12/15/2004	12/15/2023
POSSUM KINGDOM WSC	105,000.00	105,000.00	12/15/2010	12/15/2029
RAYMONDVILLE, CITY OF	3,030,000.00	2,670,000.00	4/1/2003	4/1/2022
RENO CITY OF	1,145,000.00	1,030,000.00	1/1/2005	1/1/2024
RENO CITY OF	610,000.00	540,000.00	1/1/2006	1/1/2024
RIO GRANDE CITY, CITY OF	520,000.00	520,000.00	2/15/2011	2/15/2040
RIO GRANDE CITY, CITY OF	390,000.00	390,000.00	2/15/2011	2/15/2040
ROMA, CITY OF	2,327,000.00	1,687,000.00	11/1/2000	11/1/2029
ROUND ROCK, CITY OF	8,415,000.00	8,290,000.00	8/1/2008	8/1/2026
SANTA ROSA, CITY OF	1,375,000.00	1,210,000.00	2/1/2007	2/1/2026
SEIS LAGOS UTILITY DISTRICT	120,000.00	115,000.00	3/1/2008	3/1/2027
SONORA, CITY OF	175,000.00	175,000.00	12/1/2010	12/1/2029
SUNBELT FWSD	2,475,000.00	2,040,000.00	12/1/2002	12/1/2026
SURFSIDE BEACH, VILLAGE OF	110,000.00	110,000.00	2/15/2009	2/15/2028
SWEETWATER, CITY OF	7,315,000.00	5,200,000.00	8/15/2000	8/15/2020
THUNDERBIRD BAY WATER SERVICES, INC.	63,000.00	-	12/20/2003	11/20/2022
TIOGA, CITY OF	580,000.00	545,000.00	4/1/2002	4/1/2031
TRINIDAD, CITY OF	30,000.00	30,000.00	1/1/2009	1/1/2037
VERNON, CITY OF	4,985,000.00	3,545,000.00	3/15/2002	3/15/2021
VICTORIA CO WCID #1	160,000.00	160,000.00	3/1/2010	3/1/2029
WELLBORN SUD	1,700,000.00	1,610,000.00	7/15/2008	7/15/2027
WEST JEFFERSON CO MWD	4,195,000.00	3,390,000.00	4/1/2003	4/1/2022
WILLIS, CITY OF	2,265,000.00	1,825,000.00	8/1/2004	8/1/2023
WINTERS, CITY OF	175,000.00	175,000.00	10/1/2009	10/1/2038
WOODSBORO, TOWN OF	65,000.00	65,000.00	3/1/2009	3/1/2028
ZAPATA COUNTY	1,230,000.00	1,230,000.00	2/15/2011	2/15/2040
Total, Drinking Water State Revolving Fund	**$ 405,491,000.00**	**$ 349,223,000.00**		

ATTACHMENT C

Environmental Benefits

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 2008 Intended Use Plan (IUP):

OUTPUTS:

1. **For FY 2008, the TWDB intends to increase the number of commitments made in FY 2007 by 25%.**

   State Response: The TWDB made 10 binding commitments for a total of $150,655,000 in SFY 2008. Loan commitments were made for the highest ranked projects except for those entities that chose not to apply or declined in writing This did not represent the increase by 25%, however, TWDB expects to increase the DWSRF binding commitments as the demand was $426,855,000 in the 2008 IUP and increased to $450.530,230 in the 2009 IUP. .

2. **For FY 2007, the TWDB intends to increase the number of pre-application meetings held in FY 2006 by 33%.**

   State Response: In SFY 2008, 17 pre-application meetings were held for potential applicants. These meetings were conducted with TCEQ in attendance. In addition, follow-up meetings were conducted by TCEQ to perform Financial Managerial and Technical (FMT) evaluations.

3. **Develop a list of small public water systems with violations of MCLs.**
   State Response: During FY 2008, TCEQ developed a list of public water systems with violations of MCLs. From this list 18 systems agreed to participate in the Small System Technical Assistance DWSRF Two Percent Set-Aside project for high level financial and engineering compliance feasibility studies. Copies of the feasibility studies are available at:
   http://www.beg.utexas.edu/environqlty/TCEQ_ss2004-2007.htm**.**

4. **Analyze, design, and build new functionality required to implement changes to the Lead-Copper Rule (LCR), Long Term 1 Surface Water Treatment Rule (LT1SWTR), Arsenic Rule and Radionuclide Rules.**

   State Response: The chemical sample contractors collected 15,330 required Stage 1 DBP1 samples in FY 2008. A total of 213 Disinfection byproducts 1 (DBP1) notices of violation (NOVs) were sent to systems, and 38 systems were referred to the Enforcement Division for enforcement action. For DBP2, initial distribution system evaluation (initial distribution system evaluation (IDSE)

sampling for 45 Group 2 and 186 Group 3 water systems were collected for a total of 13,448 samples. For Long Term Enhanced Surface Water Treatment Rule 2 (LT2), EPA handled the sampling for schedules 1-3. TCEQ sent out packets and begin receiving samples for Schedule 4 water systems. For lead and copper, 15 water systems were identified as exceeding the maximum contaminant level (MCL) for Lead/Copper (12Pb/3Cu).

TCEQ issued exception requests to approximately 65 water systems to change their treatment to chloramines, which has a potential positive impact on systems addressing DBP compliance issues.

Training addressing DBP2/LT2/Ground Water rule (GWR) and Lead Copper Revisions was provided to the regulated community at the annual TCEQ Environmental Trade Fair and Conference; American Water Works Association - Texas Section (TAWWA) Texas H20 Conference; TCEQ Annual Water/Wastewater Instructors' Seminar; and the TCEQ Public Drinking Water Conference. Technical assistance was also provided to systems on all schedules for IDSE sampling. A special technical directed assistance module on "Process Control for Systems Using Chloramines" was implemented and delivered to water systems, which benefits Disinfection by products rule and surface water treatment rule compliance. TCEQ staff participated in EPA Region 6 Ground Water Rule Training which will help staff to implement this new rule.

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: During FY 2008 TCEQ conducted 4 projected mandatory Comprehensive Performance Evaluations (mCPEs) and 4 Special Performance Evaluations (SPEs.) The mCPEs were conducted at the City of Wolfe City, City of Breckenridge, City of Malakoff and the International ALERT Academy. The City of Breckenridge and the International ALERT Academy are implementing the resulting Corrective Action Plan (CAP) requirements and the City of Wolfe City has corrected the mandatory items on its CAP. The CAP for the City of Malakoff is under development and will be issued shortly.

   The SPES were conducted at the cities of Alice, Ballinger, Early and Malakoff. Eight field investigators begin their SPE training in FY 2008.

ENVIRONMENTAL BENEFITS
(EPA Order 5700.7)

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: There were several project successes during FY 2008 related to this long-term goal. The City of Fort Worth - Holly Water Treatment Plant and Eastside Pump Station ($64,930,000 Loan Commitment 02/25/08) was ranked number six on the 2008 IUP. This project to address capacity, pressure, and water quality concerns. In order to address physical deficiencies pertaining to low capacity and pressure, and water quality, the City of Ft. Worth (City) proposes a 20 MGD expansion of the North and South Holly Water Treatment Plant. In addition, the project includes installing ozone production and distribution equipment, expanding the Eastside Pump Station and constructing a 36-inch transmission main to replace the inadequate existing 50 year old pumping system that supplies water to a major segment of the distribution system, and other system improvements. The City is located at the intersection of Interstate Highways 20 and 35W. The City has an estimated population of 661,850. The City currently serves approximately 191,757 water customers and 183,093 wastewater customers within its city limits as well as thirty wholesale customer cities.

   City of Coleman – New Water Supply Line ($5,025,000 Loan Commitment and $885,000 Loan Forgiveness Commitment 02/25/08) was ranked number nine on the 2008 IUP. In order to address physical deficiencies pertaining to low pressure and water loss, the City proposes to construct a new 44,500 linear foot 16-inch diameter water supply line to replace the existing 60 year old line which is highly deteriorated. This supply line will also require the construction of a new pump station and surge tower. In addition, 23,100 linear feet of 8 and 12-inch line will be constructed within the distribution system to replace the existing deteriorated lines that produce additional water losses and frequent pressure losses below 20 psi. The City is located in Coleman County, at the intersection of U.S. Highway 84 and U.S. Highway 283. The City of Coleman (City) currently serves more than 4,600 water connections, including the 2,015 connections for the Coleman County Special Utility District with a 2000 Census population of 5,127This project will replace the 60 year old concrete water line from Hords Creek Reservoir with 8.4 miles of 14-inch PVC line in public right of ways, with a pump station and surge tower. The existing line crosses remote terrain, is difficult to access, leaks excessively, and has diminished capacity as stated above. The City's service area meets the eligibility criteria for a disadvantaged community under

TWDB rules due to: the adjusted median household income being no more than 75% of the median state house hold income; and the combined household cost factor for water and sewer is greater than 2%. The adjusted median household income ($26,685) for the service area is between 50% and 60% of the adjusted median state household income ($46,793); therefore the City is eligible for 0% interest rate and 15% principal forgiveness.

Tyler County Water Supply Corporation – New Wells and Storage Tanks ($775,000 Loan Commitment 06/23/08) was ranked number eleven on the 2008 IUP. Tyler County Water Supply Corporation (Corporation) has received notice of several violations with regard to pressure deficiencies from on-site inspection visits conducted by TCEQ. The Corporation has reported substantial unaccounted for water losses. The project improvements will bring the systems into compliance and allow for future growth. These improvements are for approximately 45,000 feet of new water line. This will meet a TCEQ regulation that systems over 250 connections must have two water sources. Adjacent pressure planes will be interconnected to meet this requirement and improve pressure in the system. New meters will also be installed to lessen unaccounted for water losses. The Corporation's service area meets the eligibility criteria for a disadvantaged community under TWDB rules due to: the adjusted median household income being no more than 75% of the median state house hold income; and the combined household cost factor for water and sewer is greater than 2%. The adjusted median household income ($32,171) for the service area is between 60% and 70% the median state household income ($46,793), therefore, the City is eligible for 0% interest rate.

During FY 2008, eight DWSRF projects were completed. The City of Alford completed their project to eliminate deficiencies in the City's water system, cited and not cited. Work includes a new 100 GPM well, a new 0.065 MG ground storage tank, and a high service pump station on the site of the City's new elevated storage tank (project 60983), and replace 3,467 LF of 2-inch cast iron pipe with 6-inch PVC pipe. The City's three water plants were constructed in the early 1940s, 1955, and 1983. Storage at the first plant was very old and in need of replacement. More than 70% of the distribution system was more than 50 years old and had several areas with small diameter cast iron and galvanized iron pipe.

Brookeland Fresh Water Supply District used DWSRF funding for the purchase of existing water supply systems and to make improvements to the Lakeland, Brookeland, Forest Hills, Toledo Village, and Shawnee Shores water plants.

East Cedar Creek Fresh Water Supply District's SWSRF project included funding for the addition of a 2.0 MGD clarifier to the Brookshire WTP. The Brookshire WTP plant serves the District's northern (Gun Barrel City) service area, and the system's 2.0 MGD production capacity did not meet state requirements. The owner's overall project for expansion of the plant from 2.0 to 4.0 MGD included (a) expanding raw water pumping capacity, (b) rehabilitating the existing filters,

and (c) this DWSRF funded 2.0 MGD clarifier. In addition to this DWSRF funding, the District will contribute more than $660,000 and use $156,000 from WSA loan 1419 (project 21241, funded in 1997) for the raw water pumping and filter improvements.

The Town of Pecos City's existing well fields, the Worsham and Ward County fields, had limited and inferior water resources. Construction of a new South Worsham water well field, included: 18 new wells, the equipment of 2 existing wells, 47,300 feet of transmission line, a 2.0 MG ground storage tank, 100,540 feet of distribution line, and a telemetry system. Other water system improvements included the replacement of Ward County water tank replacement with a 0.15 MG ground storage tank, refurbishment of two existing 3.0 MG ground storage tanks, and refurbishment of an existing 0.5 MG elevated storage tank.

The City of Port Lavaca used DWSRF funding to replace selected sections of line with larger diameter line, install new lines to loop segments of the distribution system, and replace deteriorated cast iron and asbestos cement lines with PVC pipe. The City has water distribution losses over 25% due to the age and condition of the system - installed 30 to 70 years ago and consisting primarily of cast iron and asbestos cement pipe. In addition the system was designed around a central ground water source. The City now purchases all of its water from the Guadalupe-Blanco River Authority's plant seven miles southwest of the City, and pipes on the periphery are not capable of handling the flow and pressure, causing frequent breaks.

The City of Roma used the DWSRF funding to increase the Water Treatment Plant capacity from 1.5 to 5.15 MGD. This was a portion of the funding received to implement both water and wastewater improvements in areas of the City. Other funding used were EDAP, CWSRF, and CTAP.

The City of Reno used the DWSRF to complete the construction of a 350,000 gallon elevated storage tank, disinfection facilities built near the tank site north of Pine Mill Road, a 10-inch water main to connect the tank to the distribution system, and a series (17,000 feet) of 6 to 12-inch water mains in the City to improve water pressure and provide fire protection and looping within the system.

The City of Santa Rosa completed a multiple funding source project last year. This project was originally funded with DWSRF, CWSRF and CWTAP money, but the project was downsized and the CWSRF & CWTAP commitments expired and were not extended. Only the DWSRF funding was used to expand the Water Treatment Plant.

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 towards 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

TCEQ Small System Technical Assistance Annual Report

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

November 24, 2008

Mr. Greg Kuchy, P.E.
Deputy Executive Administrator
Office of Finance and Construction Assistance
Texas Water Development Board
P.O. Box 13231
Austin, Texas 78711-3231

Subject: FY 2008 Annual Report
Drinking Water State Revolving Fund
State Management Program Two Percent Set-Aside

Dear Mr. Kuchy:

Enclosed is the annual report on the Texas Commission on Environmental Quality (TCEQ) use of the Drinking Water State Revolving Fund State Management Program Two Percent Set-Aside.

Please contact me at (512) 239-6947 if you have any questions or need any more information.

Sincerely,

Doug Holcomb

Doug Holcomb, P.E., Manager
Utilities and Districts Section
Water Supply Division

DH/DAY/

Enclosure

cc: George Jones, Texas Water Development Board
Lana Lutringer, Texas Water Development Board
Dianne Sales, EPA Region 6

ANNUAL REPORT

FY 2008

DRINKING WATER
STATE REVOLVING FUND

SMALL SYSTEM TECHNICAL ASSISTANCE
TWO PERCENT 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

NOVEMBER 2008

WATER SUPPLY DIVISION

PROGRAM ELEMENT 1: Public Drinking Water Study

This program is designed to inventory small public water systems (serving a population of 3,300 and less) with violations of maximum contaminant levels (MCLs) and financial, managerial and other technical capacity issues and bring them into compliance based on the research data collected from the feasibility study.

STRATEGIC PLAN LINKAGE:

EPA Goal: Sub-objective 2.1.1: - Water Safe to Drink
By 2011, 91 percent of the population served by community water systems will receive drinking water that meets all applicable health-based drinking water standards through approaches including effective treatment and source water protection.

TCEQ Strategy: Goal 2 – Drinking Water and Water Utilities
To protect public health and the environment by assuring the delivery of safe drinking water to the citizens of Texas consistent with requirements in the Safe Drinking Water Act; by providing regulatory oversight of water and sewer utilities; and by promoting regional water strategies.

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 study small public water systems with chemical violations of MCLs and others with financial, managerial and technical issues by August 31, 2008 and recommend options to bring these systems back into compliance at a cost not to exceed $1,491,220.

TASK 1.1: Engineering and Financial Feasibility Study Contract
TCEQ's 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 AND OUTPUTS:

TCEQ will:

1. Develop a list of small public water systems with violations of MCLs and others with financial, managerial and technical issues.
2. Develop and modify as need, an outline of engineering and financial feasibility report requirements.
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.
4. Evaluate the RFPs.
5. Assign specific systems for evaluation studies.
6. Review and evaluate feasibility reports.
7. Develop compliance agreements.
8. Evaluate contractor's work including on-site visits.
9. Contractor meets deliverables in terms of timeliness and quality of product.
10. Hold monthly meetings with contractor to evaluate pace and content of assignments.
11. Evaluate annually, the numbers of assessed water systems that have returned to compliance.
12. Attend training, conferences and meetings related to programs that support financial, managerial and technical capacity development.

CONTRACTOR will:

1. Implement and refine protocol for evaluating technical and financial options for designated public water systems to bring them into compliance.
2. Develop engineering feasibility reports for each system assigned.
3. Develop financial feasibility reports for each system assigned.
4. Prepare a final report including recommendations ranked by the best way to correct noted system deficiencies.

TCEQ provided the contractors with a list of PWSs with MCLs and from that list the contractors contacted possible participants. The eighteen systems that agreed to participate are listed in Attachment A. Attachment B contains a map of all systems studied FY 2004 -2008.

Contractors and subcontractors for this project included the following: University of Texas Bureau of Economic Geology, Parsons, Steven Walden Consulting, Susan K

Roth Consulting, and the New Mexico Environmental Finance Center.

Changes to the methodology and reports during FY 2008 included expanding the financial assessment text to give greater detail about the potential funding sources available to the public water systems (PWSs).

In addition to successes documented in previous years, this year there have been several systems that are using the report as part of their grant applications to fund compliance. Several reports have been used by PWS officials in as part of their feasibility study requirements in responding to enforcement actions. In FY 2009, all previously studied PWSs will be contacted to document progress made towards compliance.

Hydrogeologic work conducted along with the development of the studies is described in Attachment C.

The contractors made referrals to the TCEQ Financial, Managerial and Technical Assistance contract for additional on-site assistance.

The contractors made three presentations during FY 2008. A presentation was made at Texas Section (TAWWA) Texas H20 Conference in San Antonio in March 2008, and two professional development presentations were made to TCEQ staff regarding the project methods and findings. TCEQ staff attending came from enforcement, public drinking water, water utilities and districts and field operations.

During FY 2008 the contractors developed a website where the feasibility studies can be accessed by the systems, TCEQ, other agencies and the public. Copies of the feasibility studies are available at http://www.beg.utexas.edu/environqlty/TCEQ_ss2004-2007.htm.

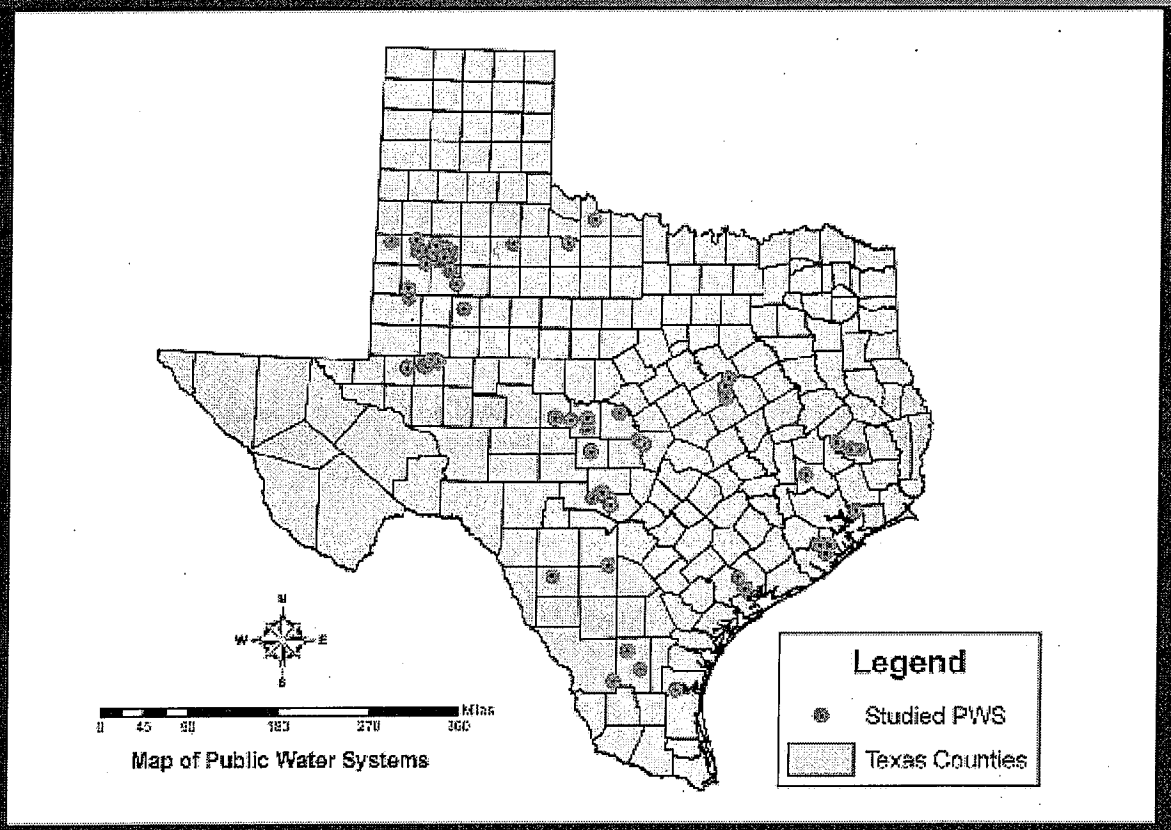
ATTACHMENT A

PWSs in the FY 2008 Small System Technical Assistance Project

Number	PWS Name	PWS ID #	County
1.	Live Oak Hills Subdivision	1540012	McCulloch
2.	Richland SUD Brady	1540008	McCulloch
3.	Gusville Mobile Home Park	1630031	Medina
4.	Zavala County WCID	2540003	Zavala
5.	La Salle Landing Water System	1200008	Jackson
6.	Arenosa Creek Estates	2350042	Victoria
7.	Benavides-Duval County Conservation District	0660001	Duval
8.	Freer WCID	0660002	Duval
9.	Borden County Water System	0170010	Borden
10.	City of Morton	0400001	Cochran
11.	Loop WSC	0830011	Gaines
12.	Valley Estates	1520198	Lubbock
13.	City of Wilson	1530003	Lynn
14.	City of Wellman	2230003	Terry
15.	Whorton Mobile Home Park	1520149	Lubbock
16.	Greenwood Water System	1650078	Midland
17.	Twin Oaks Mobile Home Park	1650057	Midland
18.	Greenwood Terrace Mobile Home Subdivision	1650048	Midland

ATTACHMENT B

Systems Studied 2004 to 2008



ATTACHMENT C

University of Texas Bureau of Economic Geology
Public Water System Results

Much of the nitrate contamination in the Southern High Plains results from oxidation of organic matter during initial cultivation in this region. These results are described in
Scanlon, B. R., R. C. Reedy, et al. (2008). "Impacts of land use change on nitrogen cycling archived in semiarid unsaturated zone nitrate profiles, southern High Plains, Texas." Environmental Science & Technology **42**(20): 7566-7572.
Nitrate (NO_3) profiles in semiarid unsaturated zones archive land use change (LUC) impacts on nitrogen (N) cycling with implications for agricultural N management and groundwater quality. This study quantified LUC impacts on NO_3 inventories and fluxes by measuring NO_3 profiles beneath natural and rainfed (nonirrigated) agricultural ecosystems in the southern High Plains (SHP). Inventories of NO_3-N under natural ecosystems in the SHP normalized by profile depth are extremely low (2-10 kg NO3-N/ha/m), in contrast to those in many semiarid regions in the southwestern U.S. Many profiles beneath cropland (9 of 19 profiles) have inventories at depth that range from 28-580 kg NO_3-N/ha/m (median 135 kg/ha/m) that correspond to initial cultivation, dated using soil water Cl. These inventories represent 74% (median) of the total inventories in these profiles. This NO_3 most likely originated from cultivation causing mineralization and nitrification of soil organic nitrogen (SON) in old soil water (precultivation) and is attributed to enhanced microbial activity caused by increased soil wetness beneath cropland (median matric potential -42 m) relative to that beneath natural ecosystems (median -211 m). The SON source is supported by isotopes of NO_3 (delta M-15. +5.3 to +11.6; delta O-18: +3.6 to +12.1). Limited data in South Australia suggest similar processes beneath cropland. Mobilization of the total inventories in these profiles caused by increased drainage/recharge related to cultivation in the SHP could increase current NO_3-N levels in the underlying Ogallala aquifer by an additional 2-26 mg/L (median 17 mg/L).

This publication is available on BEG website
http://www.beg.utexas.edu/staffinfo/Scanlon_pdf/Scanlon%20et%20al.%20ES&T%2008.pdf

Groundwater arsenic contamination in the Southern High Plains was previously attributed to arsenic acid application to defoliate cotton because of co-location of groundwater arsenic contamination and cotton production. Our work in the Southern High Plains indicates that any arsenic pesticides applied to cotton are sorbed in the upper meter of the soil zone and the groundwater arsenic contamination is from a natural source. These results are described in
Reedy, R. C., B. R. Scanlon, et al. (2007). "Unsaturated zone arsenic distribution and implications for groundwater contamination." Env. Sci. & Technol. **41**(20): 6914-6919.

Arsenic compounds have been applied at the land surface as pesticides in agricultural areas globally. The purpose of this study was to evaluate the fate of anthropogenic arsenic applications related to agriculture, using arsenic applications on cotton in the southern High Plains (SHP), Texas, as a case study and examining possible linkages with contamination of the underlying Ogallala aquifer in this region, where 36% of wells exceed the now EPA 10 mu g/L standard. Unsaturated zone soil samples were collected from boreholes beneath natural ecosystems (grassland/ shrubland) to provide a control (no arsenic application) (5 profiles) and cotton cropland (20 profiles) for analyses of water-extractable arsenic, vanadium, phosphate, chloride, and nitrate. Natural ecosystem profiles have high arsenic concentrations at depth (maximum of 7.2-69.6 μg As/kg dry soil at 5.9-21.4 m depth) that are attributed to a geologic source. Most profiles beneath cotton cropland have high arsenic concentrations within the upper meter (profile means 1.7 to 31.6 μg/kg) that correlate with phosphate ($r = 0.70$, $p < 0.01$) and are attributed to anthropogenic arsenic application associated with phosphate fertilizer application. High arsenic concentrations at >1 m depth (profile means <= 36.3 μg/kg) found in cropland profiles are attributed to a geologic source because of similarity with profiles beneath natural ecosystems,

lack of correlation with phosphate, and pore-water ages that predate anthropogenic arsenic application in many profiles. GIS analyses showed poor correlations between groundwater arsenic and percent cultivated land ($r = -0.15$, $p < 0.01$), groundwater nitrate ($r = 0.30$, $p < 0.01$), and water table depth ($r = -0.31$, $p < 0.01$), further supporting the idea that anthropogenic-derived arsenic in the shallow subsurface is not linked to groundwater arsenic contamination in this region.

This publication is available at the BEG website
http://www.beg.utexas.edu/staffinfo/Scanlon_pdf/es070281b.pdf

Our work on groundwater arsenic contamination in the southern High Plains indicates that the source of arsenic is natural, adsorbed onto iron oxides. The location of the high arsenic zones can be explained by a change in groundwater chemistry from CaHCO3 to NaCl type water. These results are described in a paper that is in preparation.

Scanlon, B. R., J. P. Nicot, et al. (in prep.). "Naturally occurring arsenic contamination in a semiarid oxidizing system, Southern High Plains Aquifer, USA." Env. Sci. & Tech.

Groundwater arsenic contamination greatly increased in the US with reduction in the maximum contaminant level (MCL) from 50 to 10 μg/L, effective in 2006. The objective of this study was to evaluate the distribution, sources, and mobilization mechanisms of arsenic in a semiarid, oxidizing system in the southern Ogallala aquifer, USA. The proportion of wells with groundwater arsenic contamination increased with the MCL reduction from 3% to 51% in the southern half of the southern Ogallala aquifer (SOA) (median As 10 μg/L; range <1 to 561 μg/L). In contrast, the proportion of wells exceeding the current MCL is much lower in the northern half of the SOA (8%; median 4 μg/L; range < 1 to 43 mg/L). The sharp contrast in arsenic levels between the northern and southern parts of the SOA coincides with a change in median values of aquifer saturated thickness from 21 m (north) to 14 m (south), water table depth from 63 m (north) to 25 m (south), and TDS from 388 mg/L (north) to 905 mg/L (south). The most likely source of arsenic is adsorption onto Fe-Mn (oxyhydr)oxides, similar to arsenic sources in most semiarid, oxidizing systems. However, in contrast to known arsenic contamination in other semiarid, oxidizing systems (Arizona, Nevada, Argentina), (1) TDS variations in the SHP aquifer are not related to evaporation but to mixing with water from subjacent aquifers and (2) arsenic is not mobilized by increased pH (pH near neutral, Kendalls $tau_b \tau_b = -0.03$) but by the counterion effect caused by a change from Ca to Na type water ($\tau_b = 0.34$, Na/Ca versus As) that is related to increased TDS. This counterion effect also likely mobilizes other oxyanions that are correlated with arsenic (V, $\tau_b = 0.69$; Se, $\tau_b = 0.38$ B, $\tau_b = 0.35$; Mo, $\tau_b = 0.34$). The counterion effect has previously only been documented in laboratory experiments. The southern High Plains case study demonstrates the lack of importance of evaporation and importance of counterion mobilization, which contrasts with previously studied arsenic contamination in semiarid, oxidizing systems.

ATTACHMENT E

TCEQ State Program Management Annual Report

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

November 24, 2008

Mr. Greg Kuchy, P.E.
Deputy Executive Administrator
Office of Finance and Construction Assistance
Texas Water Development Board
P.O. Box 13231
Austin, Texas 78711-3231

Subject: FY 2008 Annual Report
Drinking Water State Revolving Fund
State Management Program Ten Percent Set-Aside

Dear Mr. Kuchy:

Enclosed is the annual report on the Texas Commission on Environmental Quality (TCEQ) use of the Drinking Water State Revolving Fund State Management Program Ten Percent Set-Aside.

Please contact me at 512-239-6947 if you have any questions or need any more information.

Sincerely,

Doug Holcomb

Doug Holcomb, P.E., Manager
Utilities and Districts Section
Water Supply Division

DH/DAY/

Enclosures

cc: George Jones, Texas Water Development Board
Lana Lutringer, Texas Water Development Board
Dianne Sales, EPA Region 6

ANNUAL REPORT

FY 2008

DRINKING WATER
STATE REVOLVING FUND

STATE MANAGEMENT PROGRAM
TEN PERCENT 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

NOVEMBER 2008

WATER SUPPLY DIVISION

PROGRAM ELEMENT 1: PWSS PROGRAM ADIMINSTRATION

This program element implements portions of the Public Water System Supervision program in Texas. Specifically the Surface Water Treatment Rule and associated Texas Optimization Program, portions of the engineering exceptions program, inventory data, and some technical assistance to public water systems.

STRATEGIC PLAN LINKAGE:

EPA Goal: 2.11 – 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 both long term and short term health effects by implementing EPA rules, evaluating exception requests and providing technical assistance through August 31, 2008, at a cost not to exceed $988,721 for FY 2008 funds and $517,989 in ULO funds.

TASK 1.1: Evaluation of Disinfection By-Product Compliance

Coordinate stakeholder meeting for input on the Long Term Enhanced Surface Water Treatment Rule (LT2) and DBPW package.

DELIVERABLES AND OUTPUTS:

- Conduct stakeholder meeting throughout the year for input on LT2 and DBP2 rule package.
-

There were no formal stakeholder meetings during FY2008; these meetings were held in the previous fiscal year. General rule discussions, updates and presentations were incorporated into the quarterly Drinking Advisory Work Group stakeholder meetings.

TASK 1.2: Implementation of the Surface Water Treatment Rule and Optimization of Surface Treatment Plant Performance

- Reduce the risk of waterborne disease by evaluating disinfection process for surface water treatment plants and performing Comprehensive Performance Evaluations and Special Performance Evaluations at surface water treatment plants in need.

DELIVERABLES AND OUTPUTS:
1. Review disinfection profiles for surface water treatment plants and groundwater under the influence plants.
2. Provide necessary equipment, rental space, and supplies to perform mandatory Comprehensive Performance Evaluations (mCPE) and Special Performance Evaluations (SPE)..

During FY 2008 TCEQ conducted 4 of 2 projected mCPEs and 4 of 11 projected SPEs. The mCPEs were conducted at the City of Wolfe City, City of Breckenridge, City of Malakoff and the International ALERT Academy. The City of Breckenridge and the International ALERT Academy are implementing the resulting Corrective Action Plan (CAP) requirements and the City of Wolfe City has corrected the mandatory items on its CAP. The CAP for the City of Malakoff is under development and will be issued shortly.

The SPES were conducted at the cities of Alice, Ballinger, Early and Malakoff. Eight field investigators begin their SPE training in FY 2008. The number of actual SPEs was less than projected because resources were reallocated so that the TOP Core Team could participate in the Louisiana/Texas microbial performance-based training project and assist one regional office who lost staff by conducting 3 comprehensive compliance investigations.

3. Continue reprogramming the Surface Water Monthly Operating Reports (SWMOR) to support the LT2 Enhanced Surface Water Treatment Rule.

We began making the LT2-induced changes to the SWMOR and incorporated some additional statistical information to address requests from the EPA Region 6 Area-Wide Optimization Program.

TASK 1.3 Review of Exception Requests

- Allow for the use of innovative technologies by reviewing engineering requests for exceptions to the Texas public water system design rules.

DELIVERABLES AND OUTPUTS:
1. Review engineering exception requests to assure these exceptions will protect public health and do not degrade the quality or quantity of water the public water system customers receive.

During FY 2008 the Technical Review and Oversight Team in the Water Supply Division evaluated 692 exception requests. Out of these requests, 370 were granted and 322 were denied. The average processing time for these requests was 78 days.

2. Provide engineering contractor to work on-site and assist in the performance of exception requests.

TCEQ continued to contract with the Texas Engineering Experiment Station (TEES) for engineering services. In FY 2008 TEES provided one engineer to assist with the processing of exception requests. Additionally, the Agency negotiated a new contract to include one additional engineer and one scientist to assist with exception requests and LT2 implementation during FY 2009.

TASK 1.4 Annual Public Drinking Water Conference

- Provide an extensive learning experience for public water system operators, owners, engineers and board members.

DELIVERABLES AND OUTPUTS:
1. Contract to provide a free two day public drinking water conference for public water system operators, owners, board members, and engineers as well as funding and regulatory agencies and other members of the drinking water community.
2. The contractor is responsible for the logistical portion of the conference including arranging the conference location, registration, distribution of promotional materials and on-site conference organization.

The FY 2008 TCEQ's Public Drinking Water Conference titled "Information and Tools for Public Water Systems and Utilities" was another great success. The contractor, the University of Texas LBJ School's Governor's Center for Management Development, met all deliverables. Operators received up to 14 continuing education units for retention of their water licenses. In addition to the three presentation tracks, a hands-on analytical training track was added. TCEQ met with the regulated community in the popular 'chat room'.

Funding agencies had booths to explain their programs to attendees as did the TCEQ FMT assistance contract coordinator. The 823 attendees included water operators, managers, engineers and TCEQ and EPA staff.

TASK 1.5: Inventory Data Quality Assurance and Quality Control

Ensure that inventory data delivered to EPA meets quality standards by maintaining a quality assurance program with defined quality control activities.

DELIVERABLES AND OUTPUTS:

1. Maintain a quality assurance program for all PWS inventory data.
2. Review PWS affiliation inventory data received from various sources including sanitary surveys, compliance investigations, monitoring plans, and requests from stakeholders, to ensure that it meets TCEQ Central Registry, EPA Safe Drinking Water Information System, and grant withholding data quality objectives.
3. Review PWS site inventory data to ensure that national primary drinking water standards are implemented correctly.

During this fiscal year, the TCEQ added a contract with the TEES to provide PWS inventory data quality review and acquisition, thus maintaining and improving the completeness and accuracy of this critical data. The TEES employees performed 1,689 updates. The contractors met all deliverables.

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 regional areas of the State and will monitor these public drinking water sites through the source water assessment (SWA) software..

STRATEGIC PLAN LINKAGE:

EPA Goal: 2.11 – 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 SPQ for multiple PWSs in a large region of the state through August 31, 2008, at a cost not to exceed $737,898 for FY 2008 funds and $265,000 in ULO funds.

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

- Contact PWSs in areas of the state for the purpose of establishing SWP Programs.

DELIVERABLES AND OUTPUTS:

1. TCEQ: Direct contractor to implement SWP in large region or area that serves multiple PWSs (10 -20). Typical project activities include:
    - Coordination meetings,
    - BMP assistance,
    - Site investigations,
    - Electronic data management,
    - Report generation, and
    - Public education and outreach.
2. Contractor completes deliverables and outputs in time provided and according to specifications. Evaluate both on a continuing basis and provide feedback for improvement.
3. Population served by vulnerable water sources protected by a SWP program.

The contractor implemented two source water protection projects affecting 8 public water systems that use shallow alluvial aquifers as their sources. Alluvial aquifers are utilized by numerous smaller community water systems throughout Texas. These aquifers are often hydraulically connected to surface water bodies, and are highly vulnerable to contamination.

Multiple meetings and site visits were conducted and 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. The contractor developed educational materials to be distributed at outreach events and conferences.

The contractor was timely with their assigned deliverables and completed work according to specifications. Ongoing evaluations

and corrections required for continued data quality reviews were performed during FY 2008.

TASK 2.2: Augment, enhance, and maintain SWA software used to assess statewide PWSs for contamination susceptibility.

- Ensure consistent and reliable operation of the SWA software used for statewide source water susceptibility assessment.

DELIVERABLES AND OUTPUTS:

1. TCEQ shall enter into a source water assessment and protection (SWAP) cooperative maintenance agreement with the United States Geological Survey (USGS) to include:
    - Source water susceptibility assessment maintenance,
    - Software enhancements,
    - Upgrades,
    - Training,
    - Assistance, and
    - Documentation.
2. USGS shall, as 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.
    - Improve delineation methodology to reflect influence of chemicals and attenuation.
    - Improve non-point source methodology and improve SWA base map layers.
    - Make modifications as may be necessary to ensure that SWA software is compatible with associated software and technologies in order to remain operational.
3. USGS augmentation and maintenance assignments are subject to TCEQ review, oversight, and approval.
4. Resulting products augment, enhance, sustain, and otherwise improve the quality and accuracy of state source water assessment results for PWSs and are supposed to drive source water protection.

The United States Geographical Survey (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 TCEQ has in place. Deliverables included upgrading the software to Visual Basic NET, improving alluvial well methodology, enabling the

use of polygon sources of contamination in addition to point sources for susceptibility assessment, two onsite trainings of TCEQ staff on code improvements, documentation on methodology improvements, and upgrading the software to handle the latest ESRI code changes. The improved assessment software results in more accurate assessments which lead to focused source water protection plans.

TASK 2.3 Contract with a university to assess the current Texas Brush Control Program as a best management practice (BMP) for source water protections

- The assessment will include an evaluation of the current monitoring program at the treated sites; identification of proper monitoring approaches where upgrades are needed, estimation of water enchancement in areas of the state that are characterized by salt cedar, juniper, and mesquite, and identification of areas where this type of BMP could enhance water quality and quantity of local groundwater and surface water supplies.

To manage all administrative functions required to support the Texas Brush Control Program Assessment contract.

DELIVERABLES AND OUTPUTS:

1. TCEQ shall enter into a contract with a state university for the purpose of implementing the Brush Control study. Activities include the following:
   - Identification of proper monitoring approaches where upgrades are needed.
   - Estimation of water enhancement in areas of the state that are characterized by salt cedar, juniper, and mesquite, and
   - Identification of areas where this type of BMP could enhance water quality and quantity of local groundwater and surface water supplies.
2. Progress Reports
   - Contractor completes informative and timely quarterly progress reports a level of detail sufficient to document the activities which occurred during the appropriate quarter.
   - Progress reports will contain a general description of activities and a detailed tracking of deliverables.
3. Reimbursement requests
   - A purchase voucher, Financial Status Report and related forms and the HUB PAR form will be submitted along with appropriate additional documentation.
   - Submitted on a timely basis.

4. Contractor and subcontractor evaluations – An annual self-evaluation as well as evaluations of subcontractors will be submitted at the end of each fiscal year.

   TCEQ contracted with Texas Tech University Water Resource Center to assess the current Texas Brush Control Program. The program's monitoring strategies were evaluated and recommendations were noted, including adding continuous monitoring equipment and increased funding for pre-treatment and post-treatment monitoring. Based on current and past research the potential for increased water yield by the removal of saltcedar, mesquite and juniper has good potential. This potential increase in streamflow is believed to have a beneficial effect on the quantity and quality of the sources of drinking water in Texas. Regular progress reports were received and the final report was delivered detailing the findings of this assessment.

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:	2.11 – 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 charges 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, 2008, at a cost not to exceed $2,093,088 for FY 2008 funds and $329,515 in ULO funds.

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.
- Assist water utilities to meet the new mapping requirements.

DELIVERABLES AND OUTPUTS:

TCEQ will:

1. Identify public water systems that need assistance and assessments.
2. Execute and manage a contract 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.
3. Review and evaluate contractor reports.
4. Review and evaluate business plans and FMT capabilities.
5. Propose and evaluate new programs to continue
6. Draft ranking of the DWSRF Intended Use Plan.
7. Assessment reports on loan applicants.
8. Coordinate activities with the Texas Water Development Board.
9. Increase the numbers of viable systems.
10. Convert water utility maps to an electronic format that can be made available on the agency website.
11. Provide better public access to electronic maps by improving website links.
12. Upgrade iWUD application from Cold Fusion 5 to Cold Fusion 7.
13. Contact audit of a water district to identify financial, managerial and technical issues.

Contractor will:

1. Conduct assignments.
2. Provide reports.
3. Provide maps.
4. Contractor meets deliverables.
5. Provide presentations as requested.

During FY 2008, a contract was executed to conduct FMT activities. The contract was awarded to the Texas Rural Water Association. Different

programs at TCEQ continued to identify public water systems that need assistance or an assessment. In addition to the Water Supply Division, divisions identifying and make referrals to the FMT assistance contract included: Enforcement, Field Operations, Litigation, and Small Business and Local Government Assistance. During this period the following types of assignments were completed: 10 FMT assessments, 13 consolidation assessments, 1 consolidation facilitation assistance, 460 FMT assistance visits, and 14 special assignments.

One success story was a consolidation assignment that assisted the City of Hearne in acquiring Humble Addition Water Supply Corporation (Humble Addition WSC). Humble Addition WSC was a small public water system serving approximately 175 connections. Humble Addition WSC purchased treated water from the City of Hearne on a wholesale basis. Like many small systems, Humble Addition WSC had difficulty maintaining the system and finding individuals in the small community interested in being board members and managing the system. Humble Addition WSC had been cited by TCEQ for several violations including inadequate distribution system pressures. The consolidation assistance helped illustrate to the City of Hearne the benefits of taking over Humble Addition WSC. The community was also assisted by public meetings conducted to present information

Two notable special assignments involved training. The first was for rate training and the contractors both coordinated and and provided rate training. Another special assignment was the coordination and facilitation of a two- day *Asset Management Train-the-Trainer* workshop. This workshop was provided free to state agency, EPA and technical provider staff. The training included visits to two water systems to do "hands on" inventories. The inventories were followed up with classroom activities. The instructors were from the New Mexico Environmental Finance Center. Participants included staff from EPA, United States Department of Agriculture Rural Development, Office of Community Affairs, Texas Water Development Board, TCEQ, Community Resource Group and Texas Rural Water Association.

TCEQ conducted 190 business plan reviews and FMT capability reviews during FY 2008. The complexity of the reviews increased over the past review period. This is primarily due to the consolidation of water and sewer utilities. Such consolidations have also increased the complexity of related business plan/financial reviews for water and/or sewer companies involving affiliated interests. Also, the current state of the economy has driven the need to conduct more in-depth and through risk assessment of the ability to provide continuous and adequate service to consumers in the area.

TCEQ has converted 89% of its CCN maps from hard copy to electronic GIS format. During FY 2008, TCEQ also began working on a fast-paced

schedule to enhance the CCN Map Viewer with the goal of making it available to the public before the beginning of the next state legislative session. The project is on schedule and the maps will be available for viewing by the public on November 17, 2008.

The Cold Fusion upgrade was completed successfully.

More information about the TCEQ capacity development program is in the *Report to the Governor: Public Water System Capacity Development Program* which is enclosed. It is also available on the website at http://www.tceq.state.tx.us/assets/public/comm_exec/pubs/sfr/07408.pdf.

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 AND OUTPUTS:
1. Provide technical assistance to retail public water supply systems in the development of water conservation and/or drought contingency plans.
2. Review and evaluate water conservation and/or drought contingency plans of retail public water systems to meet state requirements.
3. Successful implementation of water conservation and/or drought contingency plans.
4. Increase the number of viable systems.

The TCEQ successfully implemented 186 reviews and evaluations of water conservation and drought contingency plans to meet state requirements.

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: 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, 2008 at a cost not to exceed $2,759,148 for FY 2008 funds and $253,666 in ULO funds.

TASK 4.1 Field Inspection, Sanitary Surveys, and Complaint Response

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

DELIVERABLES AND OUTPUTS:
1. Conduct Comprehensive Compliance Investigations (sanitary surveys) of 2,535 PWSs.
2. Investigate complaints on PWSs.
3. Actual increase the number of inspections, Comprehensive Compliance Investigations (sanitary surveys), focused investigations, and complaint responses.
4. Using a contractor, conduct Comprehensive Compliance Investigations at 100 small non-community water systems in the Houston area. This is a pilot program and pending a successful outcome, the contract can be renewed and expanded to other parts of the state for an additional four years.

During FY 2008, TCEQ conducted a total of 1,085 comprehensive compliance investigations (CCIs), 141 complaint investigations, 111 focused investigations, 8 field citations, 15 follow-up investigations, 417 record reviews, and 10 recon investigations. Note: Historically, Field Operations Division reported all investigations regardless of the funding source. Due to better accounting processes, we are now able to get a more accurate count of work done by investigators funded by the DWSRF. During FY 2008, TCEQ conducted a total of 2,515 PWS CCIs and 450 PWS complaints.

A pilot project to conduct PWS investigations was initiated during FY 2008. A contract between TCEQ and the University of Texas at Arlington (UTA) was executed on February 1, 2008. The conditions of the contract required UTA to conduct 130 CCIs at non-community public water systems, located in the Houston area. TCEQ evaluated proposed work and determined the contractors were not meeting TCEQ requirements. On July 28, 2008, TCEQ suspended the project indefinitely. The cost of the project was $18,639.54, which primarily covered salaries and travel expenses.

Additionally, Field Operations Division purchased 40 HACH Free Ammonia and Monochloramine test kits. Investigators will use the kits to provide technical assistance to water systems as well as determine compliance with drinking water standards. The total cost for the HACH test kits was $14,910.

Field Operations Division also utilized $4,551 to purchase Dickson Pr-125 Data loggers and Dickson fire hydrant adapters. This equipment will allow investigators to monitor distribution pressure over extended periods of time, including after normal business hours, holidays, and weekends.

COMPLIANCE SUPPORT DIVISION

PROGRAM ELEMENT 5: PWWS LABORATORY INSPECTIONS

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

EPA Goal:	2.11 – 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, 2008 at a cost not to exceed $218,979.

TASK 5.1: Certify Public Water Supply Laboratories

- Inspect laboratories analyzing samples for compliance with the SDWA. Work is performed and controlled according to the *Manual for 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 Title 25 Texas Administrative Code Section 73.25.

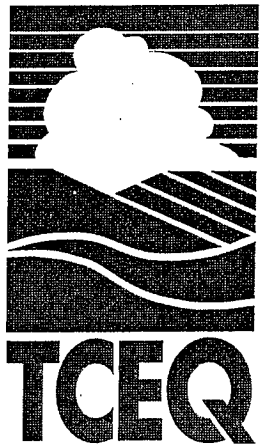
DELIVERABLES AND OUTPUTS:

1. Laboratory Inspections – 30
2. Completion of laboratory inspections.

During FY 2008 22 drinking water labs were inspected.

Report to the Governor: Public Water System Capacity Development Program

Water Supply Division
Texas Commission on Environmental Quality
SFR-074/08
September 2008



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Executive Summary

The Texas Commission on Environmental Quality (TCEQ) is the primary state agency authorized to enforce the federal 1996 Amendments to the Safe Drinking Water Act and state and federal rules and regulations for public water systems[1]. The TCEQ is also the agency responsible for the general supervision and oversight of water utilities.

The 1996 reauthorization of and Amendments to the federal Safe Drinking Water Act 1420 (c) (3) states:

> Not later than 2 years after the date on which a state first adopts a capacity development strategy under this subsection, and every 3 years thereafter, the head of the state agency that has primary responsibility to carry out this title in the state shall submit to the Governor a report that shall also be available to the public on the efficacy of the strategy and progress made toward improving the technical, managerial and financial capacity of public water systems in the state.

This third report to the Governor accounts for the TCEQ's implementation and enforcement authority for the drinking water program. This report will be made available to the public on the TCEQ's Web site.

At the close of the 2008 fiscal year (FY08) there were 6,832 known active public water systems in Texas. Of the 6,832 active public water systems, there are 4,682 active community water systems; 874 active nontransient noncommunity systems; and 1,276 active transient noncommunity systems. The 4,682 active community water systems are comprised of 3,136 retail water public utilities[2] of which 626 are private investor-owned utilities; 779 are water districts; 939 are municipalities; 784 are non-profit water supply corporations[3], seven are county water systems and one is a Federal Government water system.

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1. A *public water system* is defined as a system for the provision to the public of water for human consumption through pipes or other constructed conveyances, which includes all uses described under the definition for drinking water. Such a system must have at least 15 service connections or serve at least 25 individuals at least 60 days out of the year.

2. A *retail public utility* is defined as any person, corporation, public utility, water supply or sewer service corporation, municipality, political subdivision or agency operating, maintaining, or controlling in this state facilities for providing potable water service or sewer service, or both, for compensation.

3. A *water supply corporation* is defined as any nonprofit corporation organized and operating under Texas Water Code, Chapter 67, that provides potable water service for compensation and that has adopted and is operating in accordance with bylaws or articles of incorporation which ensure that it is member-owned and member-controlled. The term does not include a corporation that provides retail water to a person who is not a member, except that the corporation may provide retail water service to a person who is not a member if the person only builds on or develops property to sell to another and the service is provided on an interim basis before the property is sold.

Many divisions in the TCEQ deal with public water systems, including Water Supply, Field Operations, Compliance Support, Enforcement, Environmental Law, Litigation, Border Affairs, Operator Certification, and Small Business & Environmental Assistance.

One of the TCEQ's benchmarks for meeting its objectives is the percentage of Texans that get their drinking water from a public water system meeting or exceeding safe drinking water standards. To achieve this benchmark, the TCEQ recognizes that the future of water systems depends on their ability to plan for and achieve long-term compliance. The TCEQ has embarked on a program to ensure the financial, managerial, and technical capacities of public drinking water systems. Currently, 94 percent of people in Texas who get their water from a public water system are getting water that meets or exceeds the safe drinking water standards, an increase of 11.3 percent since October 2005. Furthermore, 95 percent of Texas Public Water Systems are currently protected by a source water protection program; and 95 percent of the Texas population is currently served by a Public Water System protected by a program which prevents connection between potable and non-potable water sources.

Although the public drinking water and the utilities programs had begun interacting informally long before their merger under the Texas Natural Resource Conservation Commission (predecessor agency to the TCEQ) in 1992, a formal initiative to address the viability of drinking water systems began in Texas in 1994.

After the 1996 Amendments to the Safe Drinking Water Act (SDWA) were adopted, the TCEQ renewed its commitment to this initiative under the Capacity Development Program through funding from a portion of the available set-asides from the SDWA's Drinking Water State Revolving Fund (DWSRF) which allows the state to set aside a portion of the capitalization grant to develop, implement, and maintain the program. The SDWA, along with provisions in Senate Bill 1 from the 1997 Texas legislative session and Senate Bill 2 from the 2001 Texas Legislative Session, provides the federal and state statutory framework to advance the viability of public water systems. From on-site financial, managerial, and technical assistance (FMT) to training and direct financial support available through the DWSRF, Texas is conducting a wide range of activities to promote the ability of public water systems to comply with drinking water standards.

The four main objectives of the TCEQ's Capacity Development Program are:

- Ensure that new systems are viable.
- Assess the viability of existing systems.
- Improve the viability of existing systems through assistance.
- Assist in restructuring nonviable systems.

Within these four objectives, the TCEQ promotes developing and maintaining financial, managerial, and technical capacity of individual and regional public water systems.

As the TCEQ continues to implement its existing system capacity development strategies, it is evident that to remain dynamic and effective, implementation

must include the flexibility to respond to the changing financial, managerial, and technical needs of Texas public water systems.

New Rules and Regulations

The 79th (2005) and 80th (2007) legislative sessions passed major revisions affecting TCEQ Certificate of Convenience and Necessity (CCN) map filing requirements, environmental review for water permitting, water conservation and rainwater harvesting, regulation of irrigation systems, CCN changes, designation of unique reservoir sites, and increased permitted groundwater withdrawals from the Edwards Aquifer (HB 2876, 2005; HB 3, 2007; HB 4, 2008 and SB 3, 2007).

Compliance and implementation with new rules and regulations can be enormous challenges for all water systems to overcome. For this reason, new federal drinking water requirements affecting water quality monitoring and treatment have also shifted focus to developing effective methods to help water systems achieve and maintain compliance with drinking water standards.

Security and Emergency Response

After September 11, 2001, homeland security provisions were added to assistance and training programs to strengthen existing emergency response plans for both natural and human-made disasters. The TCEQ has provided on-site assistance for water systems to develop federally required vulnerability assessments, provided security and emergency response checklists, and trained water system operators and managers to be better focused on emergency response. In addition, the TCEQ has been active in participating with the Governor's Task Force on Homeland Security, the Association of State Drinking Water Administrators (ASDWA) Security Committee, and the Texas Department of Emergency Management for staffing the State Operations Center.

Hurricane Rita—Collaborations in Capacity Development

Since the last TCEQ Public Water Supply Public Water System Report to the Governor was submitted in 2005, the TCEQ was in contact with hundreds of public water systems affected by Hurricane Rita. The lack of electrical power proved to be an immediate challenge for small systems to restore water service to the people of Texas. Generators were hard to come by and often the operators and owners of the water systems did not know what type and size of equipment they needed or how to hook it up.

To address this issue, the TCEQ identified some solutions for these situations utilizing both the DWSRF-funded FMT contract and a Homeland Security grant to provide necessary FMT assistance to vulnerable systems. Vulnerability assessment plans and emergency response plans are required for systems serving populations of over 3,300 people. Systems in particularly vulnerable areas of the state, such as the border and the coast, were surveyed to see if they had

emergency plans or if they wanted assistance from the TCEQ to develop them. If they had plans or successfully participated in assistance and joined either the Texas Water/Wastewater Agency Response Network (TxWARN) or Rural Water Emergency Assistance Cooperative (RWEAC), they would be eligible to have a contractor come out to build an electric harness that would be available to connect a generator during power outages.

Future Disaster Preparedness

The TCEQ is currently facilitating the Critical Facilities Infrastructure Mapping (CFIM) Project as a means of determining accurate locations of any component of critical infrastructure that is swept away or buried beneath debris after an emergency event. CFIM uses recognized coordinate systems (Universal Transverse Mercator (UTM), state plane, etc.,) enabling personnel conducting air reconnaissance the increased ability to go directly to the specified impact zones and to support ground crews. The creation and maintenance of such a database will enable the particular needs of specific communities to be more readily addressed.

The TCEQ is directing the implementation of the Hach brand Eclox chemiluminescence toxicity and water quality test kits through a contract with Texas Engineering Extension Service (TEEX). The Eclox method targets the recommendations of the EPA in its emergency response protocols. Eclox water test kits have been provided to the cities of Austin, Corpus Christi, Dallas, Fort Worth, and San Antonio by the TCEQ to initiate acquisition of baseline data and a chemical study at specific water systems. Eclox water test kits may be used as a first line water testing tool to provide a broad indication of water quality. TEEX collects and analyzes water samples from all major metropolitan areas within the state, then enters the data into an Eclox-compatible data file system for use by the Water Supply Division and the participating regional offices. The information gained from the sampling is valuable to use in conjunction with the TCEQ's existing routine chemical sampling. This initial Eclox chemical project will evaluate the efficacy of Eclox units for future data collection.

Supply and Demand

The TCEQ is interested in any reasonable and affordable way public water systems can increase water availability and keep public drinking water systems compliant with Agency regulations and state or federal laws. New technologies, such as rainwater harvesting, desalination, conservation, reuse, regionalization, reclamation, and other approaches to match supply with demand continue to be noteworthy options to managing Texas' diminishing water supplies—whether because of drought or increased use and further compounded by population growth. The reduction of water supplies continually presents new challenges to public water systems.

BACKGROUND

The EPA required that states submit their strategies to address financial, managerial, and technical issues for new and existing public water systems for its approval. The TCEQ received the EPA's approval of its strategy for new public water systems on July 16, 1999. On July 6, 2000, the TCEQ received EPA approval of its strategy for existing public water systems. The EPA's approval of these strategies made Texas eligible to continue to receive yearly DWSRF grants of between $50 and $70 million to provide for low-interest loans to public water systems through the joint efforts of the TCEQ's public drinking water program and the TWDB's loan program. The joint DWSRF loan program helps ensure that Texas' drinking water supplies remain safe, adequate, and affordable and that those public water systems have access to the assistance needed to ensure that the system will be properly operated and maintained.

The objectives of the DWSRF loan program are:

- to address public health priorities;
- to achieve compliance with the Safe Drinking Water Act;
- to assist systems in providing affordable drinking water; and
- to maintain the long-term viability of the fund.

ENSURE VIABILITY OF NEW SYSTEMS

It is difficult to assess exactly how many new nonviable systems were prevented from being created as a result of the TCEQ's capacity development efforts. The realization that the TCEQ screens applicants for overall capability to operate might have stopped some of the applicants from creating or developing a new system. Now, groups or individuals considering the formation of a stand-alone water system must consider whether a stronger system might be formed by receiving service from an existing nearby water provider.

The activities listed below ensure a steady decrease in the number of Texans who are served by systems unable to sustain the overall capability necessary to provide continuous and adequate service. The objective is that fewer new systems will encounter the same financial, managerial, and technical problems being faced by existing problematic systems. Some of the areas examined during the business plan review and financial and managerial assessments process are revenue sufficiency; access to financial capital; fiscal management and controls; ownership accountability and staffing; and organization.

- The TCEQ adopted rules in February 1999 to begin implementing the mandates of legislation passed in 1997 that expanded the authority of the TCEQ to screen new public water systems (Senate Bill 1, 75th Texas Legislature, 1997). This legislation requires each new public water system to demonstrate that it is financially stable and technically sound. The new rules set forth the requirements for business plans and the demonstration of an overall operating capability for new retail public utilities. In the three years since the last Governor's Report, the TCEQ has performed 501 financial and managerial (FM) capability reviews of public water systems. Approximately 20 percent of 501 FM reviews consist of sale, transfer or merger actions which do not involve a new water system. TCEQ staff was able to identify useful modifications in approximately 1/3 of the remaining FM reviews. These modifications could be applied to the new system's business plan to ensure successful operation.

- The TCEQ adopted a regulatory guidance document, *The Feasibility of Regionalization,* which provides guidance in interpreting the rules adopted to implement Senate Bill , 75th Texas Legislature, 1997. This publication assists persons interested in establishing new water systems and those seeking to expand current water systems by guiding them through an analysis of the feasibility of regionalization. The following items address some regionalization issues.

- New proposed stand-alone public water systems are required first to attempt to obtain water service from all neighboring public water providers within one-half mile of the area to be served. The

proposed public water system must request service in writing and pay all application fees to the neighboring systems to demonstrate that it has attempted to obtain service. Before engineering plans and specifications for the new system can be approved, the neighboring systems must indicate they do not want to serve the proposed system or the proposed system must show that it is not feasible to obtain service from a neighboring system.

- Applicants for new CCNs must also demonstrate either that they have attempted to obtain water service from neighboring water systems (cities or water utilities) or that it would not be economically feasible to partner with those systems. To comply with this requirement, the applicant must investigate any system that is located within two miles of the intended service area of the proposed new stand-alone water utility.

- CCN applicants also are required to provide written public notice to all neighboring cities and water utilities within two miles of a proposed amended water service area and within five miles of a proposed new service area. In addition, the CCN applicant must publish notice in a local newspaper once a week for two consecutive weeks. This public notice requirement allows public water systems in the area an opportunity to contact the CCN applicant to explore system partnership opportunities.

- Proposed new water districts that apply to the TCEQ for creation must also provide public notice and must demonstrate that they are feasible and will be viable. Water districts that finance water system improvement through the use of bonds must have the TCEQ's approval of the proposed project and funding.

ASSESS VIABILITY OF EXISTING SYSTEMS

Assessing the overall viability of a public water system provides valuable information to the system owner and operators, the customers, funding agencies, the EPA, and the TCEQ about the strengths and weaknesses of public water systems. Often these assessments provide a type of assistance themselves.

- Each year the TCEQ's regional office staff conduct thousands of comprehensive compliance investigations (including sanitary surveys) of public water systems, as well as consumer complaint investigations. These investigations are followed up by letters informing the systems of their compliance status and what violations of the TCEQ rules and regulations, if any, were observed by the regional inspector. This information helps these systems and the TCEQ assess technical and managerial capabilities.

- If enforcement action is deemed necessary to ensure a public drinking water system is brought into compliance that action is pursued through the administrative process, and if that is not successful, through civil court. These actions typically culminate in administrative orders or judgments outlining appropriate corrective action.

- The TCEQ's sampling and monitoring program assesses the water quality of public water systems around the state. Water quality monitoring includes analyzing and reporting both microbiological and chemical water quality samples.

- The DWSRF includes a requirement that all public water systems interested in being considered as applicants be assessed and ranked by the state primacy agency for an *intended use plan*. Each year the TCEQ assesses the health and compliance factors as well as certain physical deficiencies of intended-use-plan applicants. This assessment results in a ranked list of public water systems that the TWDB uses to determine eligibility for funding under the DWSRF loan program. As required by the federal SDWA, systems proposing to solve the most serious water quality and quantity problems are given highest priority to use the fund.

- Once a public water system has been invited to participate in the DWSRF loan program, the SDWA requires an assessment of the system's overall capability to operate. The assessment is conducted by the TCEQ and includes a field evaluation and a review of the system's compliance history and current status. For a system to receive funding, the assessment report must show that the applicant already has the overall capability to operate or that the project proposed for funding will provide the applicant with the overall capability to operate.

- State legislation enacted in 1999 allows the TWDB to require entities interested in obtaining funding for water or wastewater projects from the Economically Distressed Area Program (EDAP) to first get the TCEQ to assess their overall capability to operate a system. Similar to the DWSRF assessments, these include a field assessment and a review of the system's compliance history and current status.

- Utilities applying for an amendment of their CCN service area are assessed to see whether they have the capability to provide adequate service to the proposed area. Final orders amending CCNs can require certain improvements to make sure the system remains viable and in compliance.

- Investor-owned utilities must get approval for rate changes from the TCEQ. During the rate-approval process, TCEQ staff assesses the utility's overall capability to operate. As with CCN orders, in rate orders, the TCEQ can require the utility to make any improvements needed to bring the system into compliance.

- Districts are required to file an annual audit report, which must certify that water district personnel received the required training and state whether there is any indication of financial weakness. In addition, the TCEQ staff reviews notable district creations and bond applications to determine whether a project is feasible, practicable, and a benefit to the district.

- The TCEQ Drinking Water Protection Team generates source water susceptibility assessment reports as a component of the Source Water Assessment and Protection program. These source water assessments help public drinking water systems protect their sources by generating information regarding each system's susceptibility to source water contamination. The assessments completed by June 2003 were provided to water system management for inclusion in Consumer Confidence Reports and subsequent implementation of local source water protection programs.

- For systems selected on the basis of health and compliance factors, the TCEQ will assess the system's overall capability to operate. Health and compliance factors are components of the DWSRF ranking process. The combined final factor is composed of weighted points for primary violations of maximum contaminant

levels, treatment technique violations, certain secondary violations, and population. The health and compliance factors allow for a ranking related to the risk of the population exposed. In addition to systems that are ranked for the intended use plan, in-depth assessments are being conducted for feasibility studies on groups of systems that are currently noncompliant and that may violate new drinking water standards.

IMPROVE VIABILITY OF EXISTING SYSTEMS

The TCEQ communicates with thousands of water system operators, managers, and customers each year. Regional and central office staff, as well as the TCEQ contractors, provide a wide variety of assistance over the phone, through written correspondence, the TCEQ web site and opportunities for personal interaction facilitated by training workshops and the popular "chat room" featured at the Water Supply Division's Annual Public Drinking Water Conferences.

- The Water Supply Division hosted the Fifth Public Drinking Water Conference on August 19-20, 2008. The recurring theme was "Information and Tools for Public Water Systems and Utilities." A total of 823 people attended the conference, including 111 TCEQ staff and 113 exhibitors, outside speakers, with the remaining 599 attendees consisting of water operators, board presidents, managers, and engineers from across the state coming to learn more about drinking water. TCEQ staff gave 24 presentations on topics ranging from utility rate design, plan review requirements, emerging issues for both groundwater and surface water, chemical controls/monitoring and Stage Two Disinfection Byproducts rules.

- The Water Supply Division hosted the Fourth Public Drinking Water Conference on August 14-15, 2007. The recurring theme was "Information and Tools for Public Water Systems and Utilities. A total of 757 people attended the conference, including 103 TCEQ staff and 87 exhibitors outside speakers, with the remaining 567 attendees consisting of water operators, board presidents, managers, and engineers from across the state coming to learn more about drinking water. TCEQ staff gave 37 presentations on topics ranging from utility rate design, plan review requirements, emerging issues for both groundwater, and surface water, how to prepare for a TCEQ investigation, and stage two disinfection byproducts rules.

- The Water Supply Division hosted the Third Public Drinking Water Conference on August 15-16, 2006. The recurring theme was "Information and Tools for Public Water Systems and Utilities." A total of 749 people attended the conference, including 126 TCEQ staff and 90 exhibitors and outside speakers, with the remaining 533 attendees consisting of water system operators, board presidents, managers, and engineers from across the state coming to learn more about drinking water. TCEQ staff gave 34 presentations on topics ranging from utility financing, plan review requirements, emerging issues for both groundwater, and surface water, reducing unaccounted for water and Stage Two Disinfection Byproducts rules.

- One of the highlights of the Water Supply Division's Public Drinking Water conferences is the "chat room" where staff is available in an informal setting to answer specific questions from the water system operators and managers. Both the TCEQ and the attendees learn from the

exchanges, forging a stronger partnership and understanding of the challenges faced by all involved in drinking water and utility regulation.

- In addition to having rules, regulations and forms available on the TCEQ Web site, public water systems and their customers have access to information about public water systems, utilities, and districts in Texas through the Water Utilities Database.

- The TCEQ learned from assistance providers and the public water system recipients that direct, on-site assistance is one of the most effective ways of improving the capability of existing public water systems. Based on this information, the FMT Assistance Contract, currently with the TRWA, has a detailed list of 84 tasks that can be assigned to a contractor. In 2007, over 400 assignments were made. The assignments included:

- Financial assistance – developing and updating tariffs, rate analysis, funding sources;

- Managerial assistance – a joint project of the FMT contract and Homeland Security Counter Terrorism focused on using FMT contractors and security funding to help systems too small for required Vulnerability Assessments and Emergency Response Plans, but with an interest in developing them;

- Applications preparation and 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;

- EPA Needs Assessments; and

- Special assignments – a major project was to assist the 2,133 water and 781 wastewater utilities in Texas with CCN mapping in meeting the filing requests of HB 2876, 79th Regular Session, 2005.

Consolidation Success Story:

The TCEQ made a referral to the FMT contractors to facilitate a consolidation between Glen Haven Utility Company (Glen Haven) and Glendale Water Supply Corporation (Glendale). Glen Haven provided service to approximately 90 connections and Glendale served approximately 340 connections. The major strategy used by the contractor for this consolidation was the promotion of economics of scale and improved customer service for those citizens served by Glen Haven. There were no objections to the consolidation raised by customers of either entity and the service provider transfer is progressing.

As of July 2008, the FMT contract includes an additional project to help small community water systems with populations of less than 501 people save in the costs of sampling for lead and copper. Currently, over 150 systems have benefited from this free regulatory assistance programs.

Other TCEQ Highlights

- Participation in a state, federal, and international work group to help public water systems along the border improve their financial, managerial, and technical capabilities and promote regionalization, where feasible.

- Working closely with training providers to encourage the availability and delivery of more training courses for operator certification.

- Sustaining an expedited bond review process to speed up the acquisition of funding for water districts.

Operator Certification Program

The TCEQ continues to provide licensing examinations, approve quality training, and issue occupational licenses. As of August 2008, there were 14,542 licensed water operators in Texas, reflecting an 8% increase since the 2005 Report. During FY08, the TCEQ has administered 4,619 water operator license exams and issued 5,180 new or renewed licenses.

- The Texas Small Public Water System Training Program, funded by an EPA Expense Reimbursement Grant, is in its second contract year. The TCEQ has contracted with Engitech, Inc., to administer the program. The grant pays for training and licensing fees for small public water systems that are community or nontransient, noncommunity systems serving a population of 3,300 or fewer. There are approximately 4,500 eligible small water system operators in Texas. The following benefits are offered by this grant program.

  - *Coupon Training Program*: Eligible small water system operators may use any one of over seventy TCEQ approved training providers' courses to obtain, renew or upgrade a water license at no cost to the operator.

  - *Cluster Training Program*: Eligible small water system operators may receive hands-on skills training at their water system at no cost to the operator.

- *Licensing Fees*: Eligible small water system operators do not have to pay exam and licensing fees. These are paid from the grant funds. During FY08, $ 5,328 in licensing fees was paid with grant funds.

Information about the Texas Small Public Water System Training Program is available at: www.txsmallwater.org.

Other Activities

- Plans and specifications for new public water systems or system expansion and alterations are required to be submitted for review and approval. This review assists systems in making sure they meet applicable rules and regulations. During FY07 and FY08, the TCEQ staff has been received and reviewed 4,013 plans.

- The TCEQ manages the Texas Optimization Program, which is a voluntary program designed to enhance the overall operating ability of any existing utility and the performance of that utility's surface water treatment plants without major capital improvements. The goal of the program is to reduce the risk of waterborne disease by reducing the number of pathogenic organisms that pass through a treatment plant. The program provides in-depth assistance, training, and recognition to participating entities. The TCEQ is also working to enhance optimization of groundwater systems through the Area-Wide Optimization Program.

- Each year, the TCEQ provides managerial and technical support to public water systems by contracting with a vendor to collect nearly 12,000 water samples for chemical analysis from public water system entry points designated by the TCEQ.

- The TCEQ provides public water systems with notices of violations and information on notification; sampling; and other requirements based on the water sample results.

- Information from source water assessments is used to assist existing public water systems by helping to identify systems that need additional or reduced monitoring based on potential sources of contamination.

- The TCEQ developed model drought contingency plans for small systems and makes them available on the TCEQ website to assist public water systems in meeting the drought contingency plan submittal requirements. The TCEQ provides assistance across the state in drought plan preparation and enforcement and reviews drought and water conservation plans for compliance.

- The TCEQ assists public water systems in meeting the requirement to provide customers with Consumer Confidence Reports (CCRs) by providing training and generating the reports and a template. This report allows systems to make their customers aware of the quality of their drinking water. The TCEQ provides over 4,500 CCR templates to water systems annually.

- The TCEQ encourages and provides assistance to public water systems to help them come into compliance. If enforcement action is necessary, it may result in a compliance schedule. Failure to comply may result in penalties or receivership to ensure compliance.

ASSIST NONVIABLE SYSTEMS IN RESTRUCTURING

As the capacity development program continues, there is an increased focus on restructuring noncompliant, nonviable systems through regionalization and consolidation to bring them into compliance. Using current industry terminology and field practices, the TCEQ has defined regionalization to mean a combining of the operations and/or physical plants of two or more existing or proposed water and wastewater systems. The goal of regionalization is to achieve the best service at reasonable rates that will ensure that the system is maintained for the long term.

Regionalization can take the following different forms, depending on the individual circumstances:

- one owner and one large system serving several different communities or subdivisions;
- one owner and several isolated systems, each providing service to several communities or subdivisions;
- several owners, each with individual systems operated through a centrally coordinated operating system;
- several owners, each with an isolated system, all served by a central wholesale provider; and/or
- the existence of permanent emergency interconnections.

Regionalization is not a universal solution to capacity development. Significant challenges and barriers sometimes limit the effectiveness of the capacity development strategies. Sometimes community resistance to forming a larger regional system is strong, as citizens fear the prospect of losing local control and identity. In other cases, technical or financial barriers hinder capacity development—for example:

- In some areas, no new sources of water may be available.
- In other areas, alternative sources of water may be of poor quality. In certain areas of the state nitrate, arsenic, fluoride, radionuclides, and other naturally occurring contaminants are present in the only available new sources of water. The costs of treating this water and disposing of the associated wastes can be expensive.
- Many small water systems simply do not have access to sources of adequate and affordable funding.
- Finally, some public water systems are in such remote locations that neither interconnecting to another water system nor developing a new source are feasible.

The TCEQ encourages the restructuring of nonviable water systems as required by Senate Bill 1, 75th Texas Legislature, 1997, in the following ways:

- When ranking proposed DWSRF projects, the TCEQ promotes consolidation by offering additional points to entities proposing to provide water service to systems with violations.

- The TCEQ conducts a voluntary consolidation assessment and assistance program for interested entities. At the request of a public water system or on the agency's own initiative, the TCEQ can conduct a consolidation assessment to determine whether neighboring water systems should consider a partnership. To conduct a consolidation assessment, the TCEQ staff or its contractor contacts the public water systems to determine if a partnership is feasible and if the systems can reach an agreement on how to structure the partnership. First, it is determined if the entities are interested in participating in examining regionalization or restructuring options. If there is interest, the TCEQ or the contractors will facilitate community meetings to identify funding issues and possible solutions, as well as assist with any permits or other approvals necessary.

- In some instances, nonviable water systems are encouraged to restructure or regionalize through enforcement actions. This action facilitated the use of receiverships; authorized the requirement that public water systems and utilities have business plans; and enhanced TCEQ authority to order system interconnects, place a utility or public water system under supervision, or appoint a temporary manager to operate troubled or failing water systems and utilities. The system that is sold ends up with access to better financial, managerial, and technical resources.

- One of the TCEQ capacity development strategies is to restructure nonviable public water systems. In conjunction with the Office of the Attorney General of Texas, the TCEQ currently supervises 27 utilities that have been put into court-ordered receivership as part of a TCEQ enforcement action for drinking water or wastewater violations. Two public water systems in receivership, Lamar Water Supply Corporation (Lamar) and Oak Forest Water System (Oak Forest), both successfully transferred ownership from owners under enforcement to new entities that meet the TCEQ's financial, managerial, and technical requirements. The TCEQ staff, as well as the FMT contractors, provided assistance to help facilitate the Lamar and Oak Forest transfers..

- In FY2007, TCEQ established a receivership workgroup to meet with all programs involved in public drinking water enforcement as well as with the Office of the Attorney General. This work group provides a very useful forum to discuss problem systems, FMT assistance opportunities, and specific cases involving temporary managers and receivers.

- The TCEQ continues coordinated efforts with other governmental entities as well as utility assistance providers in Texas to determine whether regional projects are the best for customers of water systems. These entities include the United States Department of Agriculture's Rural Development Program, Texas Water Development Board (TWDB), Frank M. Tejeda Center, Community Resource Group, Border Environment Cooperation Commission, Office of Rural Community Affairs, Office of the Secretary of State, and the Texas Rural Water Association. The coordination efforts include the following:

  - 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;
  - matching compliance needs and funding sources; and
  - soliciting input from the regulated community on their needs.

- The TCEQ provides outreach through numerous presentations at trade organization conferences and training programs. The groups receiving this service include the American Water Works Association, Texas Water Utility Association, Texas Rural Water Association, National Association of Regulatory Utility Commissioners, Independent Water and Sewer Companies of Texas, Texas Water Conservation Association, TCEQ's Drinking Water Advisory Work Group, Association of State Drinking Water Administrators, and the Association of Water Board Directors.

The 1996 reauthorization/Amendments of the federal Safe Water Drinking Act 1420 (c)(3) require this report on the achievements of the Capacity Development Program every three years. The ultimate goal of the Capacity Development Program is to ensure that our current capacity to deliver safe, reliable water is not only maintained, but is expanded to meet our future needs. The Capacity Development Program focuses support on public water systems, as they strive to maintain and expand their financial, managerial, and technical capacity, recognizing that all three types of capacity are vital. This report will be made available to the public in print and on the TCEQ's web site.