

STATE OF TEXAS

Intended Use Plan

Drinking Water State Revolving Fund

www.twdb.texas.gov/financial/programs/DWSRF



SFY 2021

TEXAS WATER DEVELOPMENT BOARD
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**Drinking Water State Revolving Fund
Amended SFY 2021 Intended Use Plan**

Effective Date: December 21, 2020

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Texas Water Development Board rules governing the Drinking Water State Revolving Fund program (Texas Administrative Code, Title 31, Part 10, Chapter 371) may be accessed online at [http://texreg.sos.state.tx.us/public/readtac\\$ext.ViewTAC?tac_view=4&ti=31&pt=10&ch=371](http://texreg.sos.state.tx.us/public/readtac$ext.ViewTAC?tac_view=4&ti=31&pt=10&ch=371)

Drinking Water State Revolving Fund Acronyms

ACS	American Community Survey
AIS	American Iron & Steel
AMHI	Annual Median Household Income
CWSRF	Clean Water State Revolving Fund
DWSRF	Drinking Water State Revolving Fund
EPA	Environmental Protection Agency
FFY	Federal Fiscal Year
FMT	Financial, Managerial, and Technical
GPR	Green Project Reserve
HCF	Household Cost Factor
IUP	Intended Use Plan
IIPL	Initial Invited Projects List
MCL	Maximum Contaminant Level
NEPA	National Environmental Policy Act
PIF	Project Information Form
PPL	Project Priority List
PWS	Public Water System
SDWA	Safe Drinking Water Act
SFY	State Fiscal Year
SRF	State Revolving Fund
TCEQ	Texas Commission on Environmental Quality
TWDB	Texas Water Development Board

I. Overview

The Drinking Water State Revolving Fund (DWSRF) assists communities by providing below market-rate financing and various levels of principal forgiveness for a wide range of projects that facilitate compliance with primary drinking water standards or otherwise significantly further the health protection objectives of the Safe Drinking Water Act (SDWA). The program provides year-round funding of water projects after they have been included in the Intended Use Plan.

For State Fiscal Year (SFY) 2021, at least \$150 million is available under the DWSRF for all financing options including \$30 million in principal forgiveness. Of the total amount available, at least \$120 million will be offered at subsidized interest rates or at zero percent for special funding categories. These savings directly lower the overall cost of providing safe, affordable water to every customer.

The \$150,000,000 level for SFY 2021 will be allocated to the following funding options:

Funding Option	Allocation
Disadvantaged Community – as Principal Forgiveness	\$16,000,000
Disadvantaged Community – for Small / Rural only – as Principal Forgiveness	\$2,000,000
Subsidized Green (incl. Water Conservation) – as Principal Forgiveness	\$2,000,000
Very Small Systems – as Principal Forgiveness	\$2,000,000
Very Small Systems – “Securing Safe Water Initiative – as Principal Forgiveness	\$1,000,000
Urgent Need – Contaminants (Lead, Radionuclides, Arsenic) – as Principal Forgiveness	\$2,000,000
Urgent Need – “Securing Safe Water” Initiative – as Principal Forgiveness	\$2,000,000
Urgent Need – Other than Contaminants (Disasters, etc.) – as Principal Forgiveness	\$3,000,000
Bonds/Loans	\$120,000,000
Total	\$150,000,000

II. Purpose

In 1996 Congress passed federal amendments to the SDWA that established the DWSRF program. The Texas Water Development Board (TWDB) is authorized by state law to administer this program for Texas.

The TWDB is the financing agency for the DWSRF and has a contractual relationship with the state’s primacy agency, the Texas Commission on Environmental Quality (TCEQ), to perform DWSRF activities. TCEQ performs DWSRF activities that include rating proposed projects, state program management, small systems technical assistance, assessments for ground water sources, source water technical assistance, sanitary surveys, complaint

investigations, enforcement activities, disaster assistance, and implementation of the State of Texas approved Capacity Development Strategy.

Annually, the State must prepare an Intended Use Plan (IUP) that describes how it intends to use DWSRF program funds to support the overall goals of the program. The IUP must contain a number of elements required by the Environmental Protection Agency (EPA) covering the operation of the DWSRF and is a central component of the TWDB's application to EPA for the capitalization grant.

The IUP contains the state's priority list of projects to receive funding under the DWSRF. This list is subdivided further into an Initial Invited Projects List (Appendix K), which represents the projects that will be invited to submit applications after Board approval of the IUP. Applications for funding under this SFY 2021 IUP will be accepted based on invitation only until the program reaches funding capacity or the SFY 2022 IUP is approved.

III. Projects to Fund

A. Eligible Applicants

Applicants eligible to apply for assistance are:

- Existing community Public Water Systems (PWSs) including political subdivisions, nonprofit water supply corporations and privately-owned community water systems
- Non-profit, non-community public water systems
- State agencies

B. Eligible and Ineligible Use of Funds

1. Examples of eligible project costs include planning, acquisition, design, and construction of projects to:

- Correct water system deficiencies including water quality, capacity, pressure, and water loss
- Upgrade or replace water systems
- Provide new or existing water service to other water systems through consolidation projects
- Purchase capacity in water systems
- Purchase water systems
- Implement green projects (pursuant to EPA guidance)
- Implement source water protection projects
- Pay for other costs necessary to secure or issue debt

All projects funded through the DWSRF must be consistent with the most recently adopted TWDB State Water Plan.

2. Examples of ineligible project costs include:
 - Projects primarily intended to facilitate growth
 - Water rights, unless owned by a system being purchased through consolidation
 - Construction of reservoirs
 - Dams or rehabilitation of dams
 - Projects for systems in significant noncompliance, unless funding will ensure compliance
 - Projects for systems that lack adequate financial, managerial, and/or technical (FMT) capability, unless assistance will ensure compliance
 - Routine laboratory fees or ongoing operational expenses
 - Fire protection projects (unless incidental to the main project scope)

IV. Significant Program Changes

Significant program changes from the previous year's IUP are highlighted below.

1. Revised the capacity to a total of \$150 million (Section 1 and Section V). An amount equal to the principal forgiveness and zero interest loan funding from any category that was not allocated may be used for regular bond/loan funding (Section VI).
2. The maximum loan/bond commitment amount a project may receive under the SFY 2021 IUP is \$24 million; however, after all projects on the Project Priority List (PPL) as of March 31, 2021 have received an invitation and the last application deadline has occurred, if funds remain available then the TWDB may increase the maximum as the Executive Administrator determines is appropriate to fully allocate funds. Allocation of remaining funds will consider first those projects on the initial IUP PPL in rank order and then any projects that were subsequently added based on the date incorporated into the PPL. The maximum amount of equivalency funds made available is \$100 million, with no more than \$24 million of equivalency funds being available to one entity or project in a single year, unless it is a Disadvantaged Community, with an exception for projects receiving a loan/bond commitment in excess of \$24 million as described under "Proportionate Share/Capacity." (Section VIII).
3. Reduced the amount of zero interest loan funds available from \$43 million to \$15 million. Specifically, reduced the amount of zero interest loan funds available for Urgent Need from \$25 million to \$4 million, Disadvantaged Community – Small / Rural from \$15 million to \$9 million, and Asset Management from \$3 million to \$2 million (Sections V and VI).
4. Suspended offering new multi-year commitments under the SFY 2021 IUP. The TWDB will consider when it may resume offering new multi-year commitments. Existing multi-year commitments made under prior IUPs may still close.

5. The TWDB will establish a deadline for receipt of the complete application. If the application is not received and administratively complete by the established deadlines, the project will be bypassed. After the initial invitation period, if any funds remain unallocated, then other projects on the PPL will be invited in rank order (Section VIII and Appendix F).
6. Establishes a minimum interest rate (per maturity for bonds or for each interest payment for loans) for the Thomson Reuters Municipal Market Data (MMD) rating scale and for non-rated securities (Section V).
7. In preparation for the SFY 2022 IUP, the TWDB will review programmatic goals and objectives including but not limited to subsidy and fee methodologies.
8. As announced in the SFY 2020 IUP, to be eligible to receive Very Small Systems funding the AMHI for the system's service area must not exceed 150 percent of the state's AMHI. An optional method of determining the project's AMHI may be considered (Section VI).
9. As announced in the SFY 2020 IUP, small systems that have implemented an asset management plan similar to the AMPSS initiative would be eligible to receive a subsidy of up to \$500,000 at 0% for their proposed DWSRF project (Section VI).
10. Establishes a maximum initial amount of equivalency funds made available and a maximum amount of equivalency funds made available to an entity or project in a single year (Section IX).
11. Establishes two reserves of \$1,000,000 each from accumulated fees for the AMPSS asset management plan initiative and the CFO to Go technical assistance initiative (Section XII).

V. Amount Available

1. Allocations

Texas is eligible for a federal capitalization grant from funds appropriated by Congress for Federal Fiscal Year (FFY) 2020. The TWDB will use the grant, along with other available sources of funds, to offer up to \$150,000,000 for projects in this SFY 2021 IUP. The sources of funds include the FFY 2020 capitalization grant, state match, principal and interest repayments from financial assistance, investment earnings, additional cash resources, and if demand warrants, the net proceeds from bond issues.

The DWSRF program offers subsidized interest rates and additional subsidization in the form of principal forgiveness. The principal forgiveness is offered to eligible disadvantaged communities, very small systems, urgent need projects, and green projects. Throughout the IUP, this principal forgiveness may be referred to as Additional Subsidization, Disadvantaged Community funding, including Disadvantaged Community

funding for Small / Rural only, Subsidized Green funding, Very Small Systems funding, or Urgent Need funding.

2. Allocations and Terms Available Under Each Funding Option:

Funding Option	Amount ****	Principal Forgiveness	Interest Rates		Origination Fee
			Equivalency	Non-Equivalency	
Disadvantaged Community	\$16,000,000	30%, 50%, or 70%*	155 basis points below market with a floor (minimum interest rate)**	N/A	2.0%***
Disadvantaged Community – Small / Rural only - Principal Forgiveness	\$2,000,000	Maximum amount per project/entity varies from \$300,000 to \$500,000	N/A	N/A	N/A
Subsidized Green Principal Forgiveness	\$2,000,000	Up to 15% of DWSRF-funded Green Costs – Maximum of \$1,000,000	N/A	N/A	N/A
Very Small Systems Principal Forgiveness	\$3,000,000	Up to \$300,000 per project	N/A	N/A	N/A
Urgent Need – Contaminants Principal Forgiveness	\$3,000,000	Maximum amount per project/entity varies from \$500,000 to \$800,000	N/A	N/A	N/A
Urgent Need – Other than Contaminants Principal Forgiveness	\$4,000,000	Maximum amount per project/entity varies from \$500,000 to \$800,000	N/A	N/A	N/A
Urgent Need – Bond/Loan	\$4,000,000		N/A	0%	2.0%
Disadvantaged Community – Small / Rural only – Bond/Loan	\$9,000,000		0%	N/A	2.0%
Asset Management Bonds/Loans (AMPSS) – for preparation of asset management plans and implementation of plans	\$2,000,000		0%	0%	2.0%
Bond/Loan - Regular	\$105,000,000	N/A	155 basis points below market with a floor (minimum interest rate)**	125 basis points below market with a floor (minimum interest rate)**	2.0%
	<p>* Percentage of DWSRF-funded project costs remaining after subtracting other DWSRF principal forgiveness ** Based on a level debt service schedule *** Not assessed on the principal forgiveness portion of project funding **** An amount equal to principal forgiveness and zero interest loan funds from any funding category not allocated may be used for regular bond/loan funding.</p>				

Minimum interest rates or floor – The minimum annual interest rate (per maturity for bonds or for each interest payment for loans) for the Thomson Reuters Municipal Market Data (MMD) rating scale and for non-rated securities for regular Equivalency and Non-Equivalency funding adjusted for yield to maturity is:

AAA		AA		A		Baa and Non-Rated	
Equivalency	Non-Equival	Equivalency	Non-Equival	Equivalency	Non-Equival	Equivalency	Non-Equival
0.95%	1.10%	1.10%	1.25%	1.30%	1.45%	1.60%	1.75%

This minimum rate and methodology for commitments made under the amended SFY 2021 IUP apply regardless of the date of closing.

Bonds - basis point reduction applies to the MMD rating category that most closely correlates with the program participant’s rating for the security pledged or if non-rated.

Exclusions from minimum interest rates - the minimum interest rates do not apply to any portion of financing that is offered at zero percent in the chart above. The full benefit of the zero percent financing under the respective special funding option will be incorporated into the total of the maturities for bonds or the total loan payments for loans.

3. Allocation of Principal Forgiveness:

DWSRF SFY 2021 - Grant of \$86,280,000		% of Grant
Maximum & Minimum - Principal Forgiveness		
Minimum (Disadvan. Comm. - 6%)	\$5,176,800	6%
Minimum (Any DWSRF-eligible recipient - 14%)	\$12,079,200	14%
Minimum (Total - 20%)	\$17,256,000	20%
Optional Additional Amount for Disadvan. Comm.	\$25,021,200	29%
Maximum	\$42,277,200	49%
Current Allocation of Principal Forgiveness		
Disadvantaged Community (Minimum of \$5,176,800)	\$16,000,000	19%
Disadvantaged Community - for Small / Rural only	\$2,000,000	2%
Subsidized Green (incl. Water Conservation)	\$2,000,000	2%
Very Small Systems	\$2,000,000	2%
Very Small Systems - "Securing Safe Water" Initiative	\$1,000,000	1%
Urgent Need - Contaminants (Lead, Radionuclides, Arsenic)	\$2,000,000	2%
Urgent Need - "Securing Safe Water" Initiative	\$2,000,000	2%
Urgent Need - Other (Disaster Recovery, etc.)	\$3,000,000	3%
Total Currently Allocated	\$30,000,000	35%
<i>Additional amount that could be allocated to principal forgiveness</i>	<i>\$12,277,200</i>	<i>14%</i>
Total Breakdown		
Total Principal Forgiveness Allocated to Projects	\$30,000,000	35%
TWDB Administration & Technical Assistance	\$3,451,200	4%
TCEQ	\$12,153,600	14%
Loans/Bonds	\$40,675,200	47%
Total	\$86,280,000	100%

VI. Funding Options and Terms

The DWSRF has two tiers of funding: Equivalency projects and Non-Equivalency projects.

Equivalency projects (Federal Requirements) - A portion of the DWSRF funded projects must follow all federal requirements commonly known as “cross-cutters”. This type of financial assistance is referred to broadly as “Equivalency” and offers an interest rate of 155 basis points below the market rate based on a level debt service schedule, subject to a minimum interest rate. A portion of the available Equivalency funds may be reserved for projects receiving Additional Subsidization. More information on the federal cross-cutters may be found in Appendix E.

Non-Equivalency projects (State Requirements) - Non-Equivalency projects are not subject to federal cross-cutter requirements, with the exception of the federal anti-

discrimination laws, also known as the “super cross-cutters”. This type of assistance offers an interest rate of 125 basis points below the market rate based on a level debt service schedule, subject to a minimum interest rate.

1. Funding Options Available:

Entities listed on the Initial Invited Projects List (IIPL) and subsequent Project Priority Lists (PPLs) may be invited to apply for one or more of the funding options.

a. Disadvantaged Community Funding (Equivalency only)

For an entity to qualify as a disadvantaged community, the community must meet the DWSRF’s affordability criteria based on income, unemployment rates, and population trends. In summary, the Annual Median Household Income (AMHI) of the entity’s area to be served must be less than or equal to 75 percent of the State’s AMHI and the Household Cost Factor that considers income, unemployment rates, and population trends must be greater than or equal to 1 percent if only water or sewer service is provided or greater than or equal to 2 percent if both water and sewer service are provided. The percent of principal forgiveness is based on the difference between the calculated and minimum required household cost factors. The maximum principal forgiveness as a percentage of DWSRF-funded project costs remaining after subtracting other DWSRF principal forgiveness is provided in the following table:

Household Cost Factor Difference	Principal Forgiveness as a % of DWSRF-funded project costs remaining after subtracting other DWSRF principal forgiveness
≥ 0% and < 1.5%	30%
≥ 1.5% and < 3%	50%
≥ 3%	70%

This funding option offers a financial assistance component with the interest rate subsidy and 30 percent, 50 percent, or 70 percent of the DWSRF-funded project cost in principal forgiveness. TWDB will calculate the Disadvantaged Communities principal forgiveness amount based on the amount of State Revolving Fund (SRF)-funded project costs remaining after subtracting all other DWSRF principal forgiveness funding being provided in SFY 2021 to the proposed project. (As an option at TWDB’s discretion, if the DWSRF loan portion would be less than \$100,000, the entity may reduce the amount of DWSRF funds requested by the amount of the loan portion and the Disadvantaged Communities percentage calculation will be based on the amount of DWSRF-funded costs before other DWSRF program principal forgiveness amounts are subtracted from the total requested.) The maximum repayment period is 30 years. The origination fee will not

be applied to project costs that are funded with principal forgiveness. Additional information may be found in Appendix D.

Maximum Allocation to Any Entity in SFY 2021

Not more than 25 percent of the total regular Disadvantaged Community allocation, or \$4,000,000, may be provided to any particular entity for their projects in the SFY 2021 IUP, with one exception. If the Household Cost Factor in excess of the base (i.e., the HCF difference) for an entity's project is greater than 5 percent, the maximum amount provided would be not more than 33 percent of the total regular Disadvantaged Community allocation, or \$5,280,000.

The Household Cost Factor will be established based on the PIF, and associated Disadvantaged Community worksheets and income information, submitted by the PIF deadline for inclusion in the IUP.

b. Disadvantaged Community Funding – Small / Rural only (Equivalency only)

An entity qualified as a disadvantaged community and that additionally meets the definition of either a small community or a rural project may receive funding under this option. The entity must submit to TWDB acceptable evidence that it meets the qualification criteria to be eligible for this funding option.

Small Community – an entity serving a population of not more than 10,000.

Rural project – a project that fits any of the following:

- i. An entity that provides services predominately in a rural area. Using the U.S. Bureau of the Census definitions of a rural area, not more than 20 percent of the residential service connections are in urbanized areas and not more than 50 percent are in urban clusters according to the most recent data available to TWDB. The calculation will be based on the utility service(s) associated with the proposed project;
- ii. A project from a political subdivision with a population of 10,000 or less and located outside the extraterritorial jurisdiction of a city with a population of 500,000 or greater; or
- iii. A project in a county in which no urban political subdivision exceeds 50,000 in population based upon the most current data available from the U.S. Bureau of the Census or TWDB-approved projections.

Amount of Funding available as Principal Forgiveness and a 0% Loan

Entities may be eligible to receive 100 percent of the total project cost in principal forgiveness up to the amount specified in the chart below. The maximum amount of principal forgiveness that an entity may receive per project is based on eligibility for Disadvantaged Community funding as described in Appendix D.

If eligible project costs that would have qualified for this option exceed the maximum principal forgiveness allowable or available for the project, the entity may receive funding with an interest rate of zero percent up to the limits established in the chart below.

Disadvantaged Community - Principal Forgiveness Eligibility Percentage Level	Maximum Amount of Principal Forgiveness per Project/ Entity	Maximum Amount of 0% Loan per Project/ Entity (excluding additional funds for rounded bond increment and the associated fee financed at 0%)
30%	\$300,000	\$1,000,000
50%	\$400,000	\$2,000,000
70%	\$500,000	\$3,000,000

The definition of a “project” includes the planning, acquisition, design and construction phases. In addition, a particular recipient may only receive the maximum eligible amounts in principal forgiveness or 0% loans under this funding option in a program year for all of its projects.

Amount of funding available in SFY 2021 with an Interest Rate of Zero Percent

To ensure the long-term viability of the program, the amount of funding with an interest rate of zero percent made available during SFY 2021 is \$9 million. The TWDB Executive Administrator may establish a higher amount consistent with maintaining the DWSRF in perpetuity and any other appropriate factors. Any unallocated zero interest rate funding may be allocated to another funding option offering zero percent funding.

An entity may receive funds that are a combination of rates. For example, a portion of the funding may be available at an interest rate of zero percent and the remainder required for the project may be available at the standard reduced interest rate.

An entity allocated program funding in SFY 2021 under the regular Disadvantaged Community Funding option that is less than the eligible project costs specified in the IUP and meets either the small community or rural definition is eligible to receive principal forgiveness and a 0% loan under this option up to the maximum amounts established in the chart above. The maximum principal forgiveness amount is based

on the sum of the amount received under the regular Disadvantaged Community Funding option and the remaining allowable amount received this option.

This means that an entity/project that qualifies as a small or rural disadvantaged community and is allocated the maximum of principal forgiveness under the regular Disadvantaged Community funding option (i.e., \$4,000,000 or \$5,280,000 as applicable) may not receive an additional allocation of principal forgiveness under this funding option. Similarly, an entity/project that is allocated from the regular Disadvantaged Community funds an amount greater than the amount in the chart above, such as \$1,000,000, may not receive an additional allocation of principal forgiveness under this funding option. However, an entity/project that received less than \$300,000 to \$500,000 in regular Disadvantaged Community funding, as applicable based on their disadvantaged level in the chart above, may receive the shortfall under this funding option. For example, if the small or rural disadvantaged community was allocated only \$125,000 of principal forgiveness under the regular Disadvantaged Community option yet is eligible to receive \$500,000 based on the chart above, it would be eligible to receive the remainder of \$375,000 in principal forgiveness from this funding option.

Funds not allocated by March 1, 2021 for entities and projects that qualify for this option may be re-allocated to other funding options.

c. Subsidized Green Funding (Equivalency or Non-Equivalency)

Entities may be eligible to receive Subsidized Green principal forgiveness if their project has elements that are considered green and the cost of the green portion of their project is 30 percent or greater than the total project cost. This funding option offers principal forgiveness for up to 15 percent of the total DWSRF-funded eligible green component costs.

Maximum allocation – A maximum of \$1,000,000 of subsidized green funding may be provided to any project. The definition of a “project” for SFY 2021 includes the planning, acquisition, design and construction phases. Subsidized green funding received by the project prior to SFY 2019 IUP funding will not count against this limit. Additional information may be found in Appendix E.

d. Very Small Systems Funding (Equivalency or Non-Equivalency)

The TWDB recognizes the difficulty for very small systems to secure financial assistance. In an effort to extend resources to address critical issues with these public water systems, the TWDB will allocate up to \$3,000,000 in Additional Subsidization to target systems with populations of 1,000 or fewer for projects addressing public health, compliance, or water quantity issues, of which \$1,000,000 will be allocated to the Securing Safe Water initiative through the first round of funding.

To be eligible to receive Very Small Systems funding the AMHI for the project must not exceed 150 percent of the state's AMHI. To lessen the need for the applicant to conduct income surveys, the TWDB will consider on a case by case basis making the presumption that the average (mean) of the AMHI of all U.S. Census Bureau Block Groups containing any portion of the project service area is the AMHI for the project. The applicant has the option of proving otherwise by submitting more information on the number of customers in each Block Group or conducting an income survey. Applicants must provide a detailed map of the proposed service area to be considered for this option and the TWDB will determine the associated Block Groups. The Executive Administrator will then determine whether this option would result in a reasonable estimate of the AMHI for the project service area and may be used for the AMHI threshold calculation. (The income data used in the calculation will be the same data source as described in "Affordability Criteria to Determine Disadvantaged Community Eligibility, found in Appendix D.)

Entities may be eligible to receive 100 percent of the total project cost in principal forgiveness up to a total of \$300,000 per project. A particular public water system may only receive a total of \$300,000 in principal forgiveness of Very Small Systems funds in a program year. The definition of a "project" for SFY 2021 includes the planning, acquisition, design and construction phases. In the event funding does not fully cover total project costs, the entity will need to secure additional financial assistance to complete the proposed project.

e. Urgent Need (Non-Equivalency)

Urgent Need projects must address situations that require immediate attention to protect public health and safety. They may result from (1) an unanticipated reduction in the adequate supply of water due to prolonged drought that will result in the loss of water service to customers within the next 180 days; (2) a catastrophic natural event or accident resulting in the loss of over 20 percent of the water service connections or 20 percent of the total water provided to customers; (3) situations that require immediate attention to address a substantial, imminent public health issue affecting at least 20 percent of the water provided to customers, such as contamination in excess of water quality standards; (4) situations that require immediate attention to address a substantial, imminent public health issue affecting at least 20 percent of the water provided to customers from severe flood damage that occurred during a Governor-designated natural disaster; and (5) other situations as established by TWDB guidelines.

Urgent Need projects submitted after the March 3, 2020 project information form submission deadline may be invited in the first round of invitations for SFY 2021 funding. To recover from a disaster, an entity may change the scope of an existing project in the IUP by simply providing the proposed new scope and budget to the TWDB without the need to submit a new Project Information Form. The Executive Administrator may bypass projects to provide funding to Urgent Need projects. An Urgent Need project may qualify and receive funding concurrently as a

Disadvantaged Community, Very Small System, and Subsidized Green project, provided funding is available. The proposed project must not be for replacement of facilities that have failed because they exceeded their useful life or failed due to lack of adequate maintenance. The TWDB may request the applicant provide a sealed response from a licensed professional engineer to assist the TWDB in making its determination. For projects addressing contamination levels in excess of water quality standards, the system must currently be in noncompliance with TCEQ requirements and the proposed project must be designed to bring the system into compliance to the extent financially practical. Funds will not be provided for acquisition or construction in a Special Flood Hazard Area in a community that the Federal Emergency Management Agency (FEMA) considers a sanctioned jurisdiction or area.

Amount of Urgent Need Funding available as Principal Forgiveness

Entities may be eligible to receive 100 percent of the total project cost in principal forgiveness up to the amount specified in the chart below. The maximum amount of principal forgiveness that an entity may receive per project is based on eligibility for Disadvantaged Community funding as described in Appendix D.

Maximum Amount of Principal Forgiveness per Project / Entity	Disadvantaged Community - Principal Forgiveness Eligibility Percentage Level
\$500,000	0% - Project Not Eligible Under Disadvantaged Community Criteria.
\$600,000	30%
\$700,000	50%
\$800,000	70%

In addition, a particular recipient may only receive the maximum eligible amount in principal forgiveness under Urgent Need in a program year for all of its projects. Entities that previously received principal forgiveness under the Urgent Need funding option for a particular project may not receive additional principal forgiveness for that project if the total amount of principal forgiveness provided under the Urgent Need funding option would exceed the amount specified in the chart above. The definition of a “project” includes the planning, acquisition, design and construction phases.

If eligible project costs that would have qualified for Urgent Need exceed the maximum principal forgiveness allowable or available for the project, the entity may receive funding for the remainder with an interest rate of zero percent for the term of the financing. For disaster recovery, special terms and conditions on loan/bond

financing, including the repayment terms, may be available that are not offered under other funding options.

Any commitment receiving Urgent Need funds will be considered non-equivalency funds, even if the project concurrently receives Disadvantaged Community funds.

Amount of Urgent Need funding available with an Interest Rate of Zero Percent

To ensure the long-term viability of the program, the amount of funding made available for Urgent Need projects with an interest rate of zero percent for SFY 2021 is \$4 million, or such other higher amount as the TWDB Executive Administrator may establish consistent with maintaining the DWSRF in perpetuity and any other appropriate factors. The funds will be obligated only as the TWDB Board makes commitments. Any unallocated zero interest rate funding may be allocated to another funding option offering zero percent funding.

Urgent Need Principal Forgiveness Set-asides

The TWDB will set aside \$2,000,000 of principal forgiveness to address contaminants such as lead, radionuclides and arsenic. It will set aside another \$2,000,000 of principal forgiveness for its new Securing Safe Water initiative as described in Section XII. The TWDB will set aside \$3,000,000 out of the \$7,000,000 of Urgent Need of principal forgiveness allocation for SFY 2021 for addressing purposes other than addressing contamination in excess of water quality standards, such as addressing drought or disaster recovery. Reserved funds not allocated by March 1, 2021 for entities and projects that qualify for this set-aside may be re-allocated to projects that address contamination or the Securing Safe Water initiative.

Disadvantaged / Small / Rural Set-aside

A portion of the total amount available under the Urgent Need funding will be reserved for entities and projects that qualify for the Disadvantaged/Small/Rural set-aside. Entities that qualify for two out of the three criteria will be eligible for this set-aside funding. A total of 50 percent of the principal forgiveness and 20 percent of the funds with an interest rate of zero percent made available for Urgent Need funding will be reserved for this set-aside.

Set-aside criteria:

- a. Disadvantaged Community – a entity/project eligible as described in Appendix D.
- b. Small Community – an entity serving a population of not more than 10,000.
- c. Rural project – a project that fits any of the following:
 - i. An entity that provides services predominately in a rural area. Using the U.S. Bureau of the Census definitions of a rural area, not more than 20 percent of the

residential service connections are in urbanized areas and not more than 50 percent are in urban clusters according to the most recent data available to TWDB. The calculation will be based on the utility service(s) associated with the proposed project;

- ii. A project from a political subdivision with a population of 10,000 or less and located outside the extraterritorial jurisdiction of a city with a population of 500,000 or greater; or
- iii. A project in a county in which no urban political subdivision exceeds 50,000 in population based upon the most current data available from the U.S. Bureau of the Census or TWDB-approved projections.

Reserved funds not allocated by July 1, 2021 for entities and projects that qualify for this set-aside may be re-allocated to other projects that met the Emergency Relief funding criteria.

Mitigation

Facilities being replaced or repaired for an Urgent Need disaster recovery project must be built to mitigate future damage and destruction, to the extent it is practical based on the nature of the project activities.

Co-funding

DWSRF funds may only be used for project costs that are reasonable and necessary and must not result in the entity receiving a duplication of benefits from other sources, including the U.S. Housing and Urban Development Community Development Block Grant (CDBG) Disaster Recovery or FEMA grant funds. A duplication of benefits occurs when an entity receives and permanently retains funding to cover the same cost from more than one entity or source. Reimbursement of interim financing is not a duplication of benefits. Entities that anticipate being reimbursed for a portion of their project with a federal source such as the Federal Emergency Management Agency's Public Assistance funding must follow the federal procurement rules found in 2 CFR Part 200 and other federal requirements.

f. Asset Management (Preparation of Asset Management tools) – Bonds/Loans (Equivalency or Non-Equivalency)

An eligible entity, not just small system, may be eligible for up to \$75,000 with an interest rate of zero percent to prepare all of the Asset Management / Financial Planning tools required in the current Asset Management Program for Small Systems (AMPSS) initiative's Scope of Work and deliverables as described in Section XII. The entity's asset management program may include enhancements or tools that extend beyond the minimum requirements of the AMPSS program's Scope of Work. Any zero percent funding would be blended with any other repayable SRF financial assistance to create one interest rate on the bond or loan. The maximum amount available for this option and the zero percent funds for implementing AMPSS-like tools in SFY 2021 is \$2,000,000 (excluding the additional funds for the

rounded bond increment and associated fee that may also be financed at zero percent). Allocation of any available funding at an interest rate of zero percent for this option would occur concurrently with the allocation of any other funding for the project. Any unallocated zero interest rate funding may be allocated to another funding option offering zero percent funding.

g. Asset Management – (Implementation of Asset Management Plans) – Bonds/Loans (Equivalency or Non-Equivalency)

A small system eligible under AMPSS may receive up to \$500,000 at zero percent (0%) for a portion of the total TWDB funding for a project if it has implemented substantially all of the Asset Management / Financial Planning tools required in the current AMPSS initiative's Scope of Work and deliverables as described in Section XII and the proposed project is included in its current plan. The small system's asset management program may include enhancements or tools that extend beyond the minimum requirements of the AMPSS initiative's Scope of Work. The total amount of funding available in SFY 2021 at zero percent for implementation of asset management tools is included in the total of \$2,000,000 for asset management incentives. Any unallocated zero interest rate funding may be allocated to another funding option offering zero percent funding.

h. Bond/Loan Funding (Equivalency or Non-Equivalency)

All entities listed on a PPL that are invited to submit applications are eligible to receive funding through the TWDB's purchase of the entity's bonds or through a loan agreement as allowed under the entity's governing law.

An origination fee of 2.0 percent is assessed at closing on the portion of a commitment that requires repayment. The origination fee does not apply to any principal forgiveness amounts. The financial assistance recipient has the option of financing the origination fee or paying this fee up front at closing.

An entity may receive Disadvantaged Community, Disadvantaged Community – Small/Rural only, Green, Very Small System, and Urgent Need principal forgiveness, concurrently with a bond or loan. The entity may also be eligible for a maximum repayment period of 30 years provided the extended term reserve has not been met.

An amount equal to the principal forgiveness and zero interest loan funding from any category that was not allocated may be used for regular bond/loan funding.

2. Terms of Financial Assistance

Loans may be offered for a term of up to 30 years for the planning, acquisition, design, and/or construction phases. For the purchase of bonds, up to 75 percent of available funds according to TWDB determined guidelines and in accordance with the SDWA may be offered with a term of up to 30 years. The remainder of available bonds purchased may be offered for a term up to 20 years. The term of financial assistance

offered may not exceed the expected design life of an eligible project. The TWDB may allow principal and interest payments on a bond or loan to commence not later than 18 months after completion of the project, if considered appropriate as determined by the Executive Administrator.

3. Federal Requirements on Available Funds

Funds are subject to federal requirements such as Davis-Bacon Act prevailing wages and American Iron and Steel provisions. DWSRF-funded projects must follow all federal “cross-cutter” requirements and EPA’s signage requirements. These requirements are outlined in Appendix E.

A portion of the DWSRF funds, in an amount at least equal to the federal capitalization grant, must follow all federal cross-cutters. These DWSRF-funded projects are referred to as Equivalency projects. The federal cross cutters that apply to Equivalency projects include compliance with EPA’s Disadvantaged Business Enterprise program administered by TWDB. Equivalency projects receive an additional interest rate reduction of 30 basis points over the 125-basis point reduction for non-equivalency projects, subject to a minimum interest rate. (see Appendix E for details of Federal Requirements)

VII. Goals

The primary goal of the Texas DWSRF program is to improve public health protection. In addition, the overall goals of the Texas DWSRF program are to identify and provide funding for maintaining and/or bringing Texas’ PWSs into compliance with the SDWA; to support affordable drinking water and sustainability; and to maintain the long-term financial health of the DWSRF program fund. Specific goals to achieve those ends are listed below.

A. Short-Term Goals

1. Encourage the use of green infrastructure and technologies by offering principal forgiveness for green infrastructure, energy efficiency, water efficiency, or environmentally innovative portions of projects and allocating an equivalent of 10 percent of the capitalization grant to approved green project costs.
2. Offer terms of up to 30 years for the planning, acquisition, design, and/or construction for up to 75 percent of available funds in accordance with TWDB determined guidelines and the SDWA.
3. Increase the amount of DWSRF program funding available by leveraging the program as necessary to meet the demand for funding additional drinking water projects.
4. Continue to enhance the DWSRF by cross-collateralizing the program with the Clean Water State Revolving Fund (CWSRF) program in accordance with state and federal law.

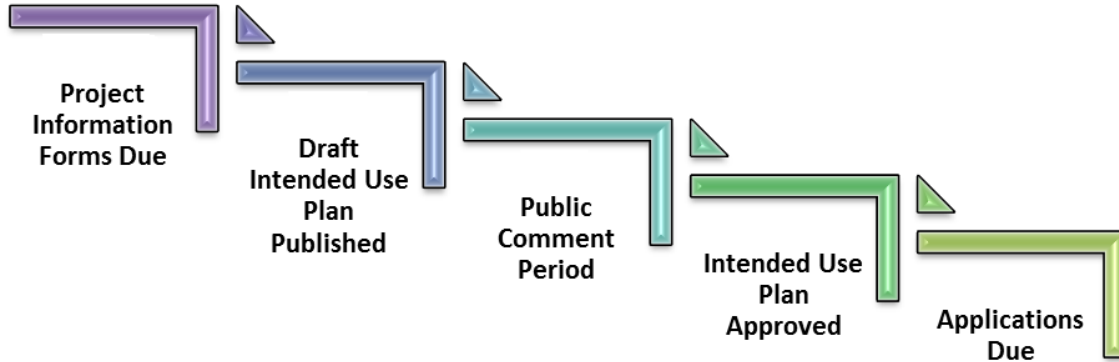
5. Enhance our current level of outreach on the SRF programs by hosting virtual or in person regional financial assistance workshops in conjunction with the continued use of social media.
6. Assist water systems with urgent needs through financial assistance in the form of principal forgiveness and loans with an additional interest rate subsidy from the Urgent Need reserve.
7. Provide outreach, technical assistance and special allocations of funding to reduce the number of public water systems with unresolved health issues as part of the Securing Safe Water initiative.
8. Continue to implement the TWDB's AMPSS and CFO to Go initiatives.

B. Long-Term Goals

1. Maintain the fiscal integrity of the DWSRF in perpetuity.
2. Employ the resources in the DWSRF in the most effective and efficient manner to protect public health and assist communities in maintaining compliance with SDWA requirements and maintain a strong financial assistance program that is responsive to changes in the state's priorities and needs.
3. Assist borrowers in complying with the requirements of the SDWA by meeting the demands for funding eligible water projects by providing financial assistance with interest rates below current market levels and with Additional Subsidization in the form of principal forgiveness.
4. Support the development of drinking water systems that employ effective utility management practices to build and maintain the level of financial, managerial and technical (FMT) capacity necessary to ensure long-term sustainability.

VIII. Participating in the DWSRF Program

Below are the major steps in the production of the initial IUP for SFY 2021.



A. Solicitation of Project information

Project information was solicited from eligible entities across the state using direct emails, notices posted on the TWDB website, and financial assistance workshops held throughout the State. Potential applicants submitted PIFs by the response deadline of March 3, 2020.

The required information submitted on a PIF consisted of:

- A detailed description of the proposed project.
- A map(s) showing the location of the service area.
- An estimated total project cost that is certified by a registered professional engineer if project costs are greater than \$100,000.
- A checklist and schedule of milestones to determine a project's readiness to proceed to construction.
- The population currently served by the applicant.
- Green project information, if applicable.
- Signature of the applicant's authorized representative.
- Additional information detailed within the solicitation for projects as needed to establish the priority rating.

Any survey being used for income determination must be completed within five years of the date the TWDB receives the PIF.

B. Updating Projects from the Prior Intended Use Plan

For SFY 2021, a potential applicant must update, at a minimum, the readiness to proceed information, and if seeking disadvantaged community eligibility, the socioeconomic economic census data and utility rate information. The requirement to update the readiness to proceed information will apply to an entity that previously received a commitment for Planning, Acquisition and/or Design only and desires to be considered for the construction portion of the project.

C. Evaluation of the Project Information Received and Priority Rating System

All PIFs received an initial review by TWDB staff. The TWDB evaluated submissions requesting eligibility for disadvantaged community status using the affordability criteria, which is described in detail in Appendix D. The TWDB rated projects based on effective management criteria presented in Appendix C. The scores are based on information received by any established PIF deadline. Throughout the evaluation process, entities were contacted by staff if additional information was needed for clarifying their eligibility for disadvantaged status or effective management points.

Concurrent with TWDB's rating process for disadvantaged community status, effective management, and Planning, Acquisition, and Design (PAD) projects, TCEQ performed the priority rating for water system projects. The general rating criteria for projects are briefly described below, with details provided in Appendices C and D. For information on scoring for specific projects, a report detailing the scoring for each project will be posted on the TWDB's website.

1. Rating Criteria for Water System Projects

- Health and Compliance – factors regarding public health concerns/issues or violations of Maximum Contaminant Levels (MCLs) pursuant to 40 Code of Federal Regulations Part 141 (see Appendix C)
- Secondary Compliance – factors regarding secondary chemicals and/or physical deficiencies (see Appendix C)
- Effective Management – factors relating to the implementation of effective management practices (see Appendix C)
- Affordability / PAD – factor applied to an entity that qualifies as a disadvantaged community or had TWDB PAD financing for the project (see Appendix D)

2. Rating Criteria for Source Water Protection Projects

- Groundwater System Vulnerability – factor relating to vulnerability of groundwater systems (see Appendix C)

- Surface Water System Vulnerability – factor relating to vulnerability of surface water systems (see Appendix C)
- Effective Management – factors relating to the implementation of effective management practices (see Appendix C)
- Affordability / PAD – factor applied to an entity that qualifies as a disadvantaged community or had TWDB PAD financing for the project (see Appendix D)

D. Ranking and Creation of the Project Priority List and Initial Invited Projects List

Each project submitted by the initial deadline and determined to be eligible is ranked from highest to lowest by the combined rating factors and included on the PPL. In the event of ties in the rating, priority is given to the project serving the smaller total population. Project information submitted after the March 3rd deadline was not considered for rating purposes prior to adoption of the initial PPL. Following approval of the IUP, changes to a ranked project that result in a project no longer addressing the issues for which it was rated will require the project to be re-rated and re-ranked. Changes in the project that do not trigger re-rating and re-raking are:

1. The applicant for a proposed project changes but the project does not change;
2. The number of participants in a consolidation project changes and the change does not result in a change to the combined rating factor; and
3. The fundable amount of a proposed project does not increase by more than 10 percent of the amount listed in the approved IUP. The Executive Administrator may waive the 10 percent limit to incorporate additional elements to the project; however, any Additional Subsidization awarded may not exceed the original IUP amount's allocation.

The IIPL presented in the IUP (Appendix K) refers to a subset of projects from the PPL and includes only the projects to be invited to apply for funding during the initial invitation round following the Board's approval of the IUP. The IIPL includes the type and amount of funding necessary to meet requirements and goals of the DWSRF, such as Additional Subsidization and Reserve requirements. Based on a review of readiness to proceed to construction, the TWDB determined which phases would be eligible to receive funding during SFY 2021. The phases indicated on the IIPL represent the phases deemed eligible based on that review.

An entity that previously received a commitment for Planning, Acquisition and/or Design only and desires to be considered for the construction portion of the project must update, at a minimum, the readiness to proceed information. It will then be added to the PPL for construction phase funding based on the same number of points, or higher, they received in the year they were rated. Any invitation for construction phase funding is contingent upon the project having met the required ready to proceed milestones.

A project submitted for the SFY 2021 IUP that received a commitment for all requested phases from TWDB prior to creation of the initial PPL has not been included on the initial PPL. Those projects that already received the commitment are shown as being ineligible for funding in SFY 2021. A project that previously received a commitment from TWDB for only the initial phase of the project, such as planning, acquisition, and/or design, and also provided an update of the project's readiness to proceed to the construction phase, has been listed on the initial PPL.

For SFY 2021, the IIPPL represents projects with costs exceeding the available amount of funds allocated for Equivalency projects. Once the amount of funds allocated to Equivalency projects has been reached, funds will be allocated to Non-Equivalency projects.

E. Bypassing Projects

The TWDB's Executive Administrator may decide to bypass, or skip, higher ranked projects in favor of lower ranked projects to ensure that funds available are utilized in a timely manner and that statutory and capitalization grant requirements are met. In addition, if an entity is offered funding for any project that has an interrelated project ranked lower on the list, the Executive Administrator has discretion to also offer funding for the interrelated project. Reasons for bypassing projects are discussed in Appendix F.

F. Phases for Invited Projects

1. Pre-Design Funding Option (or Planning, Acquisition, Design and Construction Funding)

The pre-design funding option allows an applicant to receive a single commitment for all phases of a project. The construction portion of the project must be deemed ready to proceed before funds for the construction phase will be released.

2. Construction Funding Only

All projects that were determined to be ready to proceed to construction based on the current status of their planning, acquisition, and design activities were included on the IIPPL and will receive an invitation to fund the construction portion of the project.

3. Planning, Acquisition, and Design

A project that was not deemed ready to proceed to construction may receive an invitation to fund only the Planning, Acquisition, and/or Design portion of the project.

4. Viability and Feasibility of Projects

A project must demonstrate to the TWDB that it is viable, feasible, and sustainable prior to being invited to submit an application and prior to receiving a commitment for any funding option, including principal forgiveness, for the acquisition, design or

construction phases of the project. A project may receive funds for the planning phase to assess the viability and feasibility of a project, including funds to prepare an asset management plan.

G. Invitations and Application Submissions

Entities with projects on the IIPPL will be informed of the opportunity to submit an application for the project phases shown on the list using the available funding options. An entity on the list may not submit an application until it receives an invitation from TWDB.

Intent to Apply

As part of the invitation process the TWDB may require the applicant to submit an intent to apply form or information by a specified deadline showing the applicant's intent to request up to the eligible amount of funding in the IUP. Failure to submit the requested intent to apply information by the established deadline will result in TWDB bypassing the project on the IUP list.

Prior to submitting an application, entities are required to participate in a pre-application meeting to discuss the application process and project requirements. Invited applications from projects on the IIPPL that are received during the initial invitation round after Board approval of the IUP will be allotted available Additional Subsidization (principal forgiveness) based on rank order. All projects must be determined administratively complete as submitted or within 14 days from the date the applicant receives a notice to correct deficiencies or any Additional Subsidization may be re-allotted on a first-come, first-served basis.

Each application received by the TWDB will be reviewed to ensure that the required milestones have been met to allow funding of the phase(s) being requested. If the application review determines that a project is not ready to proceed for funding for the phase(s) being requested, the project may be bypassed for any additional subsidy amounts or receive limited phases of funding.

Projects may be bypassed if an applicant fails to timely submit a complete application or additional requested information.

Deadline for Receipt of Invitation

The TWDB will establish a deadline for receipt of the application. If the application is not received by the established deadline, the project will be bypassed.

Subsequent Invitations

After the initial invitation period, if any funds remain unallocated then other projects on the PPL will be invited in rank order. Applicants may submit a PIF at any time for a project to be considered for inclusion on the amended PPL. The new projects will be considered after those on the original PPL list have been invited. Amendments to the

project lists will undergo a 14-day public review period that will be advertised on the agency website. Projects requesting Urgent Need funding may undergo a 7-day public review period if the TWDB determines it is necessary to protect public health and safety.

H. Addressing Any Water Loss Mitigation within the Application

If an applicant that is a retail public utility providing potable water has a water loss that meets or exceeds the threshold for that utility in accordance with §358.6 of Title 31, Part 10, Texas Administrative Code, the retail public utility must use a portion of any financial assistance received from the DWSRF, or any additional financial assistance provided by the TWDB, to mitigate the utility's water loss. However, at the request of a retail public utility, the TWDB may waive this requirement if the TWDB finds that the utility is satisfactorily addressing the utility's system water loss. Mitigation, if necessary, will be in a manner determined by the retail public utility and the TWDB's Executive Administrator in conjunction with the project proposed by the utility and funded by TWDB.

I. Self-Certification for Certain Systems Serving 500 or Fewer Persons

The Water Infrastructure Improvements for the Nation Act (Public Law 114-322) requires DWSRF assistance recipients serving 500 or fewer persons to consider publicly-owned wells (individual, shared or community) as an option for their drinking water supply. Any applicable project involving the construction, replacement or rehabilitation of a drinking water system which is not already using a publicly-owned well for the source are required to self-certify. If the community already uses a publicly-owned well (including a privately-owned well for a public water system) and the project does not involve a new water source, then the self-certification is not needed. The self-certification is only for projects which do not involve a publicly-owned well source to ensure that this was one of the water supply options considered but not selected as the best alternative.

J. Commitment Timeframes for Projects with Principal Forgiveness Component(s)

Due to the high demand and limited availability of subsidized funding, it is imperative that applicants offered these funds proceed in a timely manner. Therefore, the TWDB has established commitment timeframes for projects that qualify and have been designated to receive Additional Subsidization in the form of principal forgiveness. If an applicant does not submit an application by the established deadline and then proceed through the application process and obtain a funding commitment within the timeframes listed below, the Additional Subsidization may be re-allocated to another eligible project. In extenuating circumstances, if the application was received by the established deadline then TWDB may grant an extension of time for obtaining a commitment if an applicant demonstrates sufficient reason for a delay.

Principal Forgiveness Type	Commitment Deadline
Disadvantaged Community/ Disadvantaged Community – Small / Rural only	4 months
Very Small Systems	4 months
Green Subsidy	4 months
Urgent Need	3 months

K. Closing Deadlines

The deadline to close a commitment is dependent on whether the commitment includes Additional Subsidization in the form of principal forgiveness. Commitments that include only principal forgiveness must close within four months from the date of commitment. All commitments that include principal forgiveness funding concurrently with bonds/loan funding must close within six months from the date of the commitment. All commitments for bonds/loan funding without any principal forgiveness funding must close within one year from the date of commitment. In extenuating circumstances, the Board may grant extensions of time to close if an applicant demonstrates sufficient reason for a delay. The TWDB may extend these closing deadlines if necessary to conform to the closing schedule for concurrent financing for the project from another TWDB financing program.

Type of Financial Assistance	Closing Deadline
Commitments that include only principal forgiveness	4 months
All commitments that include principal forgiveness and bonds/loan	6 months
All commitments for bonds/loan without any principal forgiveness	12 months

L. Limits

1. Proportionate Share/Capacity

The TWDB may limit the amount of funding available to an individual entity or project based on a proportionate share of total funds available. Initially, the maximum loan/bond commitment amount a project may receive under the SFY 2021 IUP is \$24 million; however, after all projects on the PPL as of March 31, 2021 have received an invitation and the last application deadline has occurred, if funds remain available then the TWDB may increase the maximum as the Executive Administrator determines is appropriate to fully allocate funds. Allocation of remaining funds will consider first those projects on the initial IUP PPL in rank order and then any projects that were subsequently added in order of receipt of a fully completed PIF. The TWDB may elect to provide financing in excess of the capacity level if the Board approves the increase consistent with maintaining the DWSRF in perpetuity and after consideration of other relevant factors.

2. Equivalency funding limits

For SFY 2021, the maximum initial amount of equivalency funds made available is \$100 million , with no more than \$24 million of equivalency funds being available to one entity or project in a single year, unless it is a Disadvantaged Community. There may be an exception for those projects receiving a loan/bond commitment in excess of \$24 million as described under “Proportionate Share/Capacity.” The TWDB may elect to provide financing in excess of these initial capacity levels if the Board approves the increase consistent with maintaining the DWSRF in perpetuity and after consideration of other relevant factors.

3. Additional Project Funding Before Closing

The total project costs may be increased if the entity shows that additional funds are necessary to implement the project. If the project includes Additional Subsidization, the total amount of Additional Subsidization in the form of principal forgiveness allocated to the project may not increase from the amount listed in the IUP unless Additional Subsidization funding is available.

4. Cost Overruns After Closing

In the event of cost overruns on projects funded from a previous commitment, additional funding may be considered on a case by case basis.

5. Reduction in Closing Amount

For commitments that consist of both principal forgiveness and loans/bonds, if the closing amount is reduced from the commitment amount, then the principal forgiveness amount for the closing will be reduced on a pro rata basis. Any remaining principal forgiveness may be applied to subsequent closings of the remaining commitment amount, subject to the closing requirements of paragraph K of this section.

M. Leveraging to Provide Additional Funding

The TWDB may leverage the DWSRF program as necessary to meet the demand for funding additional drinking water projects.

N. Funds from Prior Years

Additional funds that may become available through unobligated previous grant funds, or deobligation or closure of previous commitments will be available for eligible projects.

O. Transfer of Funds

1. Reserving Transfer Authority for Future Use

Section 302 of the SDWA Amendments of 1996 provides states the authority to reserve and transfer funds between the DWSRF and the CWSRF programs. In accordance with Section 302, the TWDB hereby reserves the authority to transfer an amount up to thirty-three percent (33 percent) of the DWSRF program capitalization grant(s) to the CWSRF program or an equivalent amount from the CWSRF program to the DWSRF program.

2. Ongoing cash flow transfer mechanism

The TWDB may transfer in accordance with the authority in Section 302 of the SDWA up to \$150,000,000 of funds derived from repayments between the CWSRF and DWSRF. No grant funds would be transferred under this standing transfer mechanism. Funds derived from repayments from each SRF may flow from one SRF to the other SRF in both directions throughout the year. This mechanism will use surplus funds in one SRF to temporarily meet loan demand in the other SRF. It will achieve savings by eliminating issuance costs from bond sales that would otherwise be necessary to meet cash flow demands in a particular SRF. The actual amount TWDB transfers at any time throughout the year will be based on the cash flows needs of the each SRF program. TWDB will track the transfers on an absolute basis for reporting purposes and also a net basis to ensure the net amount of transfer does not exceed the limit under law of thirty-three percent of the respective program's capitalization grants. This will result in a positive impact on funds being available to finance projects in both SRFs. The SRF that receives the funds will be able to fund projects more efficiently and rapidly. The transferred funds will be returned to the originating SRF so it will be able to meet its project funding needs. In addition, because both SRFs are leveraged they may borrow funds to finance projects if necessary. The long-term impact on both SRFs is positive because of the improved operational efficiencies and ability to achieve program savings. The TWDB will include any amount that was transferred in SFY 2021 in the DWSRF program's SFY 2021 Annual Report. (See Appendix E for the calculation demonstrating that \$150,000,000 may be transferred in accordance with Section 302 of the SDWA Amendments of 1996.)

P. Updates to the Intended Use Plan

Substantive changes to the IUP may be made through an amendment after a 14-day public review and comment period. Non-substantive changes may be made by the TWDB without public notification.

IX. Set-Asides

Federal regulations allow states to set aside up to 31 percent of the capitalization grant funds for purposes other than financing construction projects for water systems. The set asides for SFY 2021 will be allocated as follows: 4 percent for the TWDB for

administration/technical assistance, 10 percent for TCEQ for State Program Management, 2 percent for TCEQ for Small Systems Technical Assistance, and \$1,800,000 (approximately 2 percent) for TCEQ for Local Assistance and Other State Programs.

A. Texas Water Development Board Administration and Technical Assistance Activities

The SDWA allows a state to set aside funds to cover the reasonable costs of administering the DWSRF and to provide technical assistance to public water systems. The amount that may be taken for these purposes is the amount of any fees collected by the State, regardless of the source; and the greatest of (1) \$400,000, (2) one-fifth of one percent of the current valuation of the DWSRF (both loan and set-asides), and (3) an amount equal to four percent of all grant awards to the DWSRF for the particular fiscal year.

The TWDB will draw administrative and technical assistance set-asides from the FFY 2020 Capitalization Grant in the amount of \$3,451,200. This amount is based on the option of using four percent of the FFY 2020 capitalization grant. These funds will be used for allowable expenses such as reporting activities, payment processing, application assistance, project development and monitoring, and technical assistance to public water systems. In addition, the TWDB assesses fees for the purpose of recovering administrative costs. These fees are placed in a separate account for future administrative expenses. The fees are generated by an assessment of 2.0 percent of the portion of the DWSRF financial assistance that is repaid and is assessed at closing. Fees collected will be deposited into the Administrative Cost Recovery Fund.

Federal regulations governing the DWSRF program permit a state to reserve its authority to take an amount equal to 4 percent of the current year's grant from a future grant to defray the cost of administering the program. The TWDB, as it has done since SFY 1998, is reserving that authority.

B. Texas Commission on Environmental Quality Activities

Funds for TCEQ Set-Aside activities from the FFY 2020 capitalization grant totaling \$12,153,600 may be used in SFY 2021. Remaining funds from the previous DWSRF grant, except for funds for Local Assistance and Other State Programs (not including \$0.72 to eliminate an existing balance), may also be used in SFY 2021.

State Program Management Set Aside from FFY 2020 grant	\$8,628,000
Small Systems Technical Assistance Set Aside from FFY 2020 grant	\$1,725,600
Local Assistance and Other State Programs Set Aside from FFY 2020 grant	\$1,800,000
Total TCEQ Set-Aside amount from FFY 2020 grant	\$12,153,600

A detailed description of SFY 2021 activities may be found in TCEQ's DWSRF Set-Aside Work Plans. Activities are expected to be completed by August 31, 2021.

C. Coordination of Activities with the Texas Commission on Environmental Quality

The TWDB and TCEQ regularly communicate to discuss projects in need of financial assistance through the DWSRF program. The two agencies hold periodic DWSRF coordination meeting and TCEQ staff attend many of TWDB's pre-application meetings and financial assistance workshops.

X. Financial Status

The total base amount of funding available for SFY 2021 is set at \$150,000,000. The amount of the FFY 2020 capitalization grant allotment for the DWSRF program is \$86,280,000, with a match of \$17,256,000 to be provided by the state. As demand warrants, the TWDB will leverage the DWSRF to provide additional financial assistance to projects. The TWDB will comply with the requirements associated with the FFY 2020 allotment in SFY 2021.

A. Sources of State Match

The deposit of required state match will occur in advance or at the time of the scheduled grant payment and the source of funding for the match, which may include the proceeds of bonds sales or state appropriations, varies based upon availability.

B. Binding Commitment Requirement

The TWDB will enter into binding commitments with entities during SFY 2021 that total 120 percent of the amount of a FFY 2020 grant payment allocated to projects within one year after the receipt of the grant payment. A binding commitment occurs when the TWDB's Board adopts a resolution to commit funds to a project.

C. Leveraging

The DWSRF program will be leveraged as necessary to provide funds to meet the needs of public water systems in the state. The TWDB will leverage funds through the issuance of debt obligations in accordance with a Master Resolution and supplemental resolutions covering the issuance of each bond series.

D. Cross-collateralization

On March 1, 2018, the TWDB has cross-collateralized the CWSRF and the DWSRF as a source of revenue and security for the payment of the principal and interest on bonds for the DWSRF and CWSRF programs. State authority is provided under Section 15.6042 of the Texas Water Code. The TWDB has received a certification from the state Attorney General that state law permits the TWDB to cross-collateralize the assets of the CWSRF and the DWSRF. Cross-collateralization of the CWSRF and DWSRF will enhance the ability of the DWSRF to leverage its funds and increase its lending capacity without detriment to either of the SRF programs.

1. Summary of the cross-collateralization structure:
 - a. The type of moneys which will be used as security – Pledged Political Subdivision Bonds and certain other funds included in the Master Resolution (program account, portfolio account, and revenue account) will secure the bonds.
 - b. How moneys will be used in the event of a default - In the cross-collateralized scenario, Political Subdivision Bonds from the non-defaulting program will be used to cover the debt service delinquency on the defaulting program. If, for any reason, insufficient Political Subdivision Bonds exist in both programs, then program equity will be utilized.
 - c. Whether or not moneys used for a default in the other program will be repaid; and, if it will not be repaid, what will be the cumulative impact on the funds - While a decision to repay or not repay would be made at the time of default, the TWDB would either require repayment when funds are available or transfer repayment funds.
2. Proportionality – The proceeds generated by the issuance of bonds will be allocated to the purposes of the CWSRF and the DWSRF in the same proportion as the assets from the two funds that are used as security for the bonds.
3. State Match – In accordance with Texas Water Code §§ 17.853(c)(1) and 17.859, the TWDB intends to provide state match through the issuance of one or more revenue bonds in a program series that will fund the two SRF programs. Supplemental bond resolutions for the issuance of each series will provide detail on what specific money is pledged as security for each program (CWSRF or DWSRF) within the series. As required, the CWSRF and DWSRF will continue to be operated separately. The cash flows for the DWSRF program and the CWSRF program will be accounted for separately. Repayments on loans in the CWSRF program will be paid to the CWSRF and repayments on loans made in the DWSRF program will be paid to the DWSRF.

Similar to other states' financing methods where state match is not provided by appropriation and is instead generated through debt issuance, the TWDB cross-collateralization structure allows the TWDB to retire bonds for the State Match with interest earnings payments only, not principal, earned from each SRF in accordance with 40 CFR § 35.3550(g)(3).

E. Inter-fund Loan / Investment

During SFY 2021, the TWDB may invest funds from the CWSRF in the DWSRF in an amount not to exceed \$150 million. If the TWDB elects this option, it will execute an inter-fund loan agreement between the CWSRF and the DWSRF with a term that will not exceed three years. Any CWSRF recycled funds deposited in accordance with the inter-fund loan agreement would be used exclusively for DWSRF eligible purposes. The TWDB would also issue a reimbursement resolution providing for repayment of funds to the CWSRF using the proceeds of a DWSRF bond issuance once the DWSRF program is leveraged. The TWDB received EPA approval for this option on March 8, 2017.

F. Method of Cash Draw

The method of cash draw for the FFY 2020 capitalization grant is to expend the required state match first, and then federal funds will be drawn at a rate of 100 percent.

G. Long-Term Financial Health of the Fund

The long-term financial health of the DWSRF is monitored through ongoing cash flow and capacity modeling. The TWDB lending rate policy has been established to preserve the corpus of the capitalization grants and state match funds, excluding the amount of principal forgiveness, set-aside amounts from each grant, and net transfers. For SFY 2021, the TWDB has established a minimum interest rate for both Equivalency and Non-Equivalency regular loans based on the MMD ratings. The TWDB will continue to manage the DWSRF to ensure funds will be available in perpetuity for activities under the SDWA.

H. Interest Rate Policy

The TWDB has established an interest rate policy that provides for fixed rates. For SFY 2021, Equivalency financial assistance will be offered at 155 basis points below the market rate and Non-Equivalency financial assistance will be offered at 125 basis points below the market rate based on a level debt service payment schedule, subject to a minimum interest rate or floor.

The minimum annual interest rate (per maturity for bonds or for each interest payment for loans) for the Thomson Reuters Municipal Market Data (MMD) rating scale and for non-rated is:

AAA		AA		A		Baa and Non-Rated	
Equivalency	Non-Equival	Equivalency	Non-Equival	Equivalency	Non-Equival	Equivalency	Non-Equival
0.95%	1.10%	1.10%	1.25%	1.30%	1.45%	1.60%	1.75%

This minimum rate and methodology for commitments made under the amended SFY 2021 IUP apply regardless of the date of closing.

Bonds - basis point reduction applies to the MMD rating category that most closely correlates with the program participant’s rating for the security pledged or if non-rated.

Exclusions from minimum interest rates - the minimum interest rates do not apply to any portion of financing that is offered at zero percent (0%) in the chart above. The full benefit of the 0% financing under the respective special funding option will be incorporated into the total of the maturities for bonds or the total loan payments for loans.

Rates are set five business days prior to the adoption of the political subdivision’s bond ordinance or resolution or the execution of the financial assistance agreement, but may be based on interest rate levels determined as of an earlier date, and are in effect for forty-five days.

I. Fees

The only fee is an origination fee of 2.0 percent that is assessed at closing. Fees are not deposited into the DWSRF. The accumulated fees may be used for administrative costs, including, but not limited to, project oversight, long-term financial monitoring, and Special Program Initiatives described in Section XII.

J. EPA Program Evaluation Report and Audit

EPA has conducted an annual program review of the DWSRF program for SFY 2019 and will send their final report to TWDB upon completion.

The Texas State Auditor's Office published the results of the SFY 2019 Single Audit of the DWSRF on February 25, 2020 (Report 20-317). There were no findings as a result of the review.

XI. TWDB Special Program Initiatives

Asset Management Program for Small Systems (AMPSS) Initiative

Purpose and Overview:

Smaller water and wastewater utilities often operate reactively rather than proactively, usually due to a lack of resources and planning tools. For some of the smaller utilities, system components are replaced only after failure, while system expansion occurs only as requested by users or mandated by regulatory agencies. The TWDB has developed and implemented an initiative to assist these water and wastewater utilities in creating a plan for managing their systems in a financially and technically sustainable manner by delivering management tools developed by the Texas Commission on Environmental Quality (TCEQ). TWDB will contract with qualified entities to evaluate the existing system and create an asset management plan in accordance with the guidelines created by TCEQ's Small Business and Governmental Assistance Section. This plan will become the basis for planning for system sustainability by identifying replacement dates and estimated costs, developing best practices for operation and maintenance, and developing financial plans for obtaining funding for future needs.

The system will receive the following tangible assistance:

- a. Asset Management Plan.
- b. Sustainability Plan.
- c. System Operations and Maintenance Manual.
- d. Training for system management and staff.
- e. A Compliance Manual.
- f. Installation of all tools that were developed on the system's computer system.

Funding – Administrative Costs

The funds to cover the contracted services for these smaller systems come from origination fees from the CWSRF and DWSRF. The TWDB considers the planned activities to be administrative activities under the CWSRF program and administration / technical assistance under the DWSRF program. The benefit to wastewater systems would be covered through CWSRF origination fees while projects that benefit water systems would be covered through DWSRF origination fees.

- a. The TWDB will pay not more than \$75,000 per project.
- b. Match - There is no match requirement for the system; however, the system will be required to contribute 80 hours of staff participation to the development of the plan. (TWDB may waive the required contribution requirement if the TWDB determines it would constitute a serious hardship on the operations of a system with only a few or no full-time staff.)

Systems to be Assisted

The target systems are defined as (a) having 5,000 service connections or less or (b) an entity that has a population of less than 10,000 and one that is not located within the borders of any municipality with a population over 10,000, including its extra-territorial jurisdiction.

Selection of Contractors

The TWDB may select multiple contractors according to qualifications that are specified in a RFQ. The procurement process will follow all state procurement laws and requirements, including use of Historically Underutilized Businesses.

Scope of Work to be Performed by Contractors for Selected Systems

The work must meet the following requirements:

- a. Asset Management – (1) Conduct a system evaluation (asset identification, location, and date of service or approximate age), as needed, resulting in an inventory of the system and prioritization of assets, (2) develop a comprehensive plan for managing system assets, (3) develop a budget for managing system assets, (4) develop an implementation plan, including a time schedule, for implementing and updating the asset management plan, and (5) determine whether a rate study is necessary.

The resulting asset management plan must fulfill the general requirements of a Fiscal Sustainability Plan as outlined in the Federal Water Pollution Control Act.

Further, in the section of the asset management plan that discusses funding sources, it must identify current TWDB financial assistance programs, including the CWSRF and DWSRF programs as applicable, that may be utilized to meet the system's needs. The asset management plan must include an analysis of whether current utility rates would provide adequate revenue to meet future system needs but it does not have to include a full rate study that establishes a new rate structure.

b. For Water Systems: Source Assessment and Planning - Identify the utility's drinking water source, develop any appropriate best management practices for sustaining the source (at a minimum develop or update the system's conservation and drought contingency plans), and, if needed, identify options for alternative sources. It will discuss plans for water conservation and detecting and minimizing water loss.

For Wastewater Systems: Sustainable Systems - Create a plan to manage the system more efficiently by conducting an energy assessment of the system and including recommendations for energy-efficiency improvements, and potential public-participation programs.

c. Operations and Maintenance - Create an operations and maintenance manual for the utility that includes a plan for scheduling and performing preventative and general maintenance. The plan may identify other resources available to the system such as TCEQ's financial, managerial, and technical assistance.

d. Compliance - Train the utility's management and staff on monitoring, reporting, and record-keeping requirements, the TCEQ's investigation and enforcement process (including an enforcement scenario), and develop a compliance manual that includes copies of all required reports, compliance checklists and tables for keeping track of State and/or Federal requirements. The compliance manual may be incorporated into the Operations and Maintenance manual.

e. Other Requirements - As part of the project, all tools that are developed, such as spreadsheets and manuals, shall be nonproprietary and will be installed on the system's computer system and key staff members will be trained sufficiently to implement the plan. The TWDB-procured contractor must coordinate development activities, including the training of key system staff members, with the utility's management. The utility's management and the TWDB must be kept informed quarterly of the status of the project while it is under development and be provided an opportunity to provide ample input on the development of plans.

The project activities conducted by the TWDB-procured contractor must include at least one presentation to the system's governing body or owner that provides an overview of the developed plans, the benefits to the system of implementing the plans, and any recommendations.

The TWDB-procured contractor must return to the system between 12 months and 18 months after delivery of the final plans to assess the system's implementation progress and provide TWDB and the system's governing body or owner a written analysis of the system's implementation of the plans.

The TWDB-procured contractor and the smaller system will negotiate and execute a contract in a form acceptable to TWDB covering the development of the project prior to the contractor initiating any work. The contractor must complete the project within 9 months after the date of the contract between the contractor and the system.

Initial Round:

In the Fall of 2018, a total of \$225,000 was made available from the SRF for three small systems in the initial round to address their water system. The work was completed in 2020.

Reserve of Accumulated Fees:

The TWDB is reserving \$500,000 of accumulated DWSRF fees for the AMPSS initiative, along with another \$500,000 of CWSRF program accumulated fees, for a total of \$1,000,000. Funds will be used to contract for services to assist small systems develop asset management tools. In addition, the reserved funds may be used by TWDB to manage the program, oversee implementation, and promote the benefits of the asset management tools being provided through AMPSS.

Subsequent Rounds:

The TWDB anticipates awarding additional contracts under this initiative in a total amount to be determined during the year.

Reporting:

The TWDB will report on the amount of fees allocated, recipients assisted, and outcomes under this initiative in its Annual Report.

CFO to Go Initiative

Similar in concept to the AMPSS program, the TWDB has developed and implemented a pilot program called "CFO to Go" using origination fees collected under the Clean and Drinking Water State Revolving Fund programs. Under this program, the TWDB will contract with Certified Public Accountants (CPAs) to provide technical assistance services to designated recipients of TWDB funding under the State Revolving Fund (SRF) programs. The TWDB will select recipients determined to be in need of special assistance from a CPA to maintain adequate compliance with the requirements of the SRF programs.

The contracted CPA's anticipated work activities would fall into two broad categories of services for the designated recipients.

First, the contracted CPA would evaluate regulatory and financial assistance covenant compliance procedures in the following areas for designated recipients:

- Activities allowed/unallowed, including compliance with financial instrument covenants,
- Allowable costs/cost principles,
- Federal funding eligibility, and/or
- Financial Reporting.

Second, the CPAs will provide professional services in areas such as the following:

- Advising recipients on the design and implementation of internal control procedures, particularly those addressing Internal Controls Over Financial Reporting in response to

control weaknesses identified in audits of Comprehensive Annual Financial Reports and/or in Single Audit Reports and Management Letters (or the equivalent),

- Assisting recipients in the design of procedures for preparing financial statements required by the covenants of loan and other financial commitment documents that require compliance with Generally Accepted Accounting Principles and Generally Accepted Government Accounting Standards. This assistance will not include actually performing the independent audit of the entity's financial statement, or
- Assisting recipients in the identification and interpretation of funding commitment provisions and covenants and best practices related to compliance disclosure.

While these provide examples of the contracted CPA services contemplated at this time, the TWDB may alter the scope of services under this program to reflect the needs of the agency and the recipients.

The expenditures under the CPA contracts will be allocated to the respective SRF programs based on the initial amount provided under existing SRF loans with the designated recipient. The TWDB considers the planned activities to be administrative activities under the CWSRF program and administration / technical assistance under the DWSRF program.

Reserve of Accumulated Fees - The TWDB is reserving \$500,000 of accumulated DWSRF program fees for the CFO to Go initiative, along with another \$500,000 of CWSRF program accumulated fees, for a total of \$1,000,000. Funds will be used to contract for services to provide technical assistance services to designated recipients of TWDB funding under the SRF programs. In addition, the reserved funds may be used by TWDB to manage the program, oversee implementation, and promote the benefits of the technical assistance being provided through CFO to Go.

The TWDB will report on the amount of fees allocated and the recipients assisted under this initiative in its Annual Report.

Securing Safe Water – Outreach, Technical Assistance and Funding Initiative

TWDB is in the process of developing and implementing an initiative to reduce the number of public water systems in Texas with unresolved health violations. This initiative will support EPA's Strategic Plan's goal of significantly reducing the number of systems with health violations. As of July 16, 2020, TCEQ reported 241 public water systems had unresolved health violations in Texas. Below is an outline of TWDB's overall strategy.

1. Funding

In the SFY 2021 IUP, the TWDB has specifically allocated a portion of the available principal forgiveness in the Very Small Systems and Urgent Need funding options for this initiative. In addition to these special allocations, the TWDB will use principal forgiveness, zero-interest loans, and regular low-cost loans from the Disadvantaged Communities, Disadvantaged Communities – Small/ Rural and Urgent Need funding options to support this initiative.

2. Outreach & Determining Need

- a. Contacting systems – letters, telephone calls, and notifications of workshops
 - b. Site visits
 - c. Special workshops
 - d. Developing outreach documents or videos
3. Technical Assistance
 - a. Determining the appropriate first steps for the public water system.
 - b. Application assistance
 - c. Income survey assistance
 - d. Developing technical guidance such as pamphlets and videos
 - e. Partnering with others such as TCEQ
 - f. Facilitating the appropriate involvement of professional entities such as engineering firms to prepare and seal the Project Information Forms and assist with project implementation
 4. Based on feedback received, assessing viable long-term options that may be deployed in subsequent years in support of this initiative, including
 - a. Consider using the AMPSS and CFO to Go initiatives
 - b. Determine whether a fee-supported program would be beneficial to provide engineering or other assistance
 5. Tracking outcomes
 - a. Develop special reports to track: Outreach Contacts, Technical Assistance provided, Type of violation, TWDB funding provided, and date removed from TCEQ's list.
 - b. Report outcomes in the Annual Report.

XII. Navigating the Lists

Appendices G – K are a series of lists that detail the proposed project information of each project based upon the PIFs received.

- **Appendix G** - The alphabetical list is the PPL sorted alphabetically. It contains the project information; the name of the applying entity, their total number of points and associated priority order rank, the type of system, the system's PWS ID number, the total population based on TCEQ data, a detailed description of the proposed project, all project phases requested by the entity, the estimated construction start date, total project cost, the percentage of principal forgiveness if the project is eligible to receive disadvantaged funding, information regarding included green components, and a reference to any other related PIFs from the current or previous IUPs. A grand total for all of the projects is listed on the last page of the appendix.

- **Appendix H** – Lists projects that were deemed ineligible to receive DWSRF funding with a brief description as to why they were deemed ineligible.
- **Appendix I** – Lists projects that were deemed ineligible to receive disadvantaged funding with a brief description as to why they were deemed ineligible. The project may still be eligible to receive other funding options.
- **Appendix J** – Lists projects in order of highest priority to receive funding. The content is the same as the alphabetical list in Appendix G.
- **Appendix K** – Is the list of projects that will be invited in the initial invitation round. The information provided in this list is similar to the alphabetical and priority order lists. The TWDB has determined which project phases are eligible to receive funding during this SFY, which is depicted in the Phase(s) column. Projects on this list will receive an invitation letter from the TWDB upon Board approval of the IUP. Pertinent notes and the definitions of acronyms and footnotes are listed on the last page of the appendix along with a grand total for the projects.
- **Appendix L** - The Initial Invited Green Projects List is a subset of the IIPL of only projects with green components. The information detailed includes a description of the green components, the categories of those green components, the eligible phases of the project, the total project cost, the total of the green component costs, the type of green project, and whether the proposed project is eligible to receive subsidized green funding. A grand total for the projects is listed on the last page of the appendix along with any pertinent notes and the definitions of acronyms and footnotes.

Appendix A. Public Review and Comment

Public Participation in the Development of the Intended Use Plan

Public participation is an important and required component of the IUP development process. The TWDB takes seriously its responsibility in administering these funds and considers public input necessary and beneficial.

A. Notice

To seek public comment on the proposed uses of funds, the draft amended IUP, including the associated lists, was made available for a 14-day public comment period. The draft amended SFY 2021 DWSRF IUP was announced as follows:

- Public notification of the draft amended IUP, the public comment period, and public hearing notice was posted on the TWDB website at www.twdb.texas.gov.
- The notice was sent via email to all entities that submitted projects for the SFY 2021 IUP and everyone who had signed up to receive TWDB email notifications.
- A copy of the draft amended IUP was sent to EPA.

B. Comment

Comments were accepted via the following three options from December 2, 2020, until 5:00 P.M. on December 16, 2020.

1. Attending a virtual public hearing that was held on December 15, 2020.
2. Emailing comments to the following electronic mail address and specifying in the subject line "*DWSRF comments*".

iupcomments@twdb.texas.gov.

3. Mailing comments to the following postal mail address:
Mr. Mark Wyatt
Director, Program Administration and Reporting
Texas Water Development Board
P.O. Box 13231
Austin, TX 78711-3231

In accordance with federal requirements, all comments on the proposed amended IUP were responded to on an individual basis.

C. Effective Date

The amended SFY 2021 DWSRF IUP is considered final on the effective date.

D. Documentation

The final amended approved IUP will be formally submitted to the EPA and posted on the TWDB website.

Appendix B. Projected Sources and Uses of Funds
 9/1/2020 to 8/31/2021
 (As of May 31, 2020)

SOURCES:

FFY 2020 Federal Capitalization Grant	\$86,280,000
State Match - for FFY 2020 Federal Capitalization Grant	\$17,256,000
Undrawn previous grants	\$10,935,497
Principal Repayments	\$68,807,628
Interest Repayments	\$19,233,131
Investment Earnings on Funds	\$4,025,341
Cash available	\$208,340,868
Additional net leveraging bond proceeds (based on "Projects to be Funded")	\$231,951,397

TOTAL SOURCES:

\$646,829,862

USES:

Set-Asides from FFY 2020 Grant:

TWDB Administrative Set-Aside	\$3,451,200
Total TWDB Set-Aside:	\$3,451,200

TCEQ Small Systems Technical Assistance Program Set-Aside	\$1,725,600
TCEQ Texas State Management Program Set-Aside	\$8,628,000
TCEQ Local Assistance and Other State Programs Set-Aside	\$1,800,000
Total TCEQ Set-Asides	\$12,153,600

Set-Asides from prior grant \$10,935,497

Projects to be Funded:

SFY 2021 IUP Commitments – Additional Subsidization	\$30,000,000
SFY 2021 IUP Commitments – Bonds/Loans (Available Amount less Addit. Subsidy)	\$120,000,000
Total Projects To Be Funded - SFY 2021:	\$150,000,000

Projects with Commitments/Apps Being Processed

Commitments ¹	\$356,082,739
Applications	\$70,261,328
Installment closings	\$8,422,000
Total Projects with Commitments or being processed:	\$434,766,067

Debt Service:

Principal Payments	\$20,143,536
Interest Payments	\$15,379,962
Total Debt Service:	\$35,523,498

TOTAL USES:

\$646,829,862

NET SOURCES (USES):

\$0

Fees are not deposited into the Fund; therefore, based on EPA guidance they are not included in the Sources and Uses for the Fund.

1. Excludes multi-year commitments closing after SFY 2021

Appendix C. Rating Criteria

TCEQ Ratings

All TCEQ ratings will be summed then multiplied by 10 before adding effective management and affordability points.

Combined Rating, Health and Compliance, and Primary Compliance Factors

Microbiological Factors

The sum of the total coliform MCL violations, total acute coliform MCL violations, and the treatment technique violations (including all exceedances of the 0.5 Nephelometric Turbidity Units standard), disregarding one violation.

Points
(TCV=s)+(ACV=s)+(TT)-1

Chronic Chemical

The compliance result above the MCL for any chronic exposure chemical, divided by the MCL level.

Result/MCL

Acute Chemical

Three times the compliance result above the MCL for Nitrate or Nitrite, divided by the MCL level.

(Result/MCL) X 3

Carcinogen

Two times the compliance result above the MCL for any carcinogenic chemical, divided by the MCL level.

(Result/MCL) X 2

Lead/Copper

Two times the greater of the 90th percentile lead level divided by the lead action level or the 90th percentile copper level divided by the copper action level.

[Greater of (Pb90/0.015) or (Cu90/1.3)] X 2

Filtration

Awarded to any system with one or more sources identified as surface water or groundwater under the direct influence of surface water for which no filtration is provided.

12.00

Groundwater Rule Factor

Awarded to any system with one or more sources of water identified as groundwater requiring 4-log viral inactivation for which 4-log inactivation is not provided.

12.00

Population Factor

Added to the sum of the other Primary compliance factors to determine the overall compliance rating.

Population Range

0-100	0.00
101-1,000	1.00
1,001-10,000	2.00
10,001-100,000	3.00
100,001+	4.00

Secondary Compliance Factors

Secondary Chemical

One half the compliance result above the MCL for any secondary chemical violation for sulfate, chloride, and total dissolved solids, divided by the MCL level. (Maximum of 1 pt.)

(Result/MCL) X 0.5

Physical Deficiency Factor

A rating based on the confirmed existence of physical deficiencies within the water system. This rating will be used to prioritize systems with no other Health and Compliance Factors or Affordability Factors.

Deficiency:

Pressure <20 psi	1.00	Water Loss >25%	0.25
No disinfection	1.00	Pressure ≥ 20 & ≤ 35 psi	0.25
Production $\geq 85\%$ total capacity	0.25	Other Secondary MCLs	0.25
Storage >85% total capacity	0.25		

Consolidation Factor

The sum of all factors for each system which will be consolidated. One half the sums of all factors for each system which will be provided wholesale water.

TWDB Ratings

Effective Management

An adopted asset management plan that contains an inventory of assets, an assessment of the criticality and condition of assets, a prioritization of capital projects, and a budget. 2.50

Entity has adopted an Asset Management / Financial Planning tools within the past 5 years that contains the product deliverables under the AMPSS initiative as described in Section XII. 5

Entity plans to prepare an asset management plan with completion of proposed project 0.50

Providing asset management training for the entities governing body and employees 0.50

Project addresses a specific goal in a water conservation plan 1.00

Project involves the use of reclaimed water 1.00

Project addresses a specific goal in an energy assessment, audit, or optimization study conducted within the past three years 1.00

Project is consistent with a municipal and/or state watershed protection plan, water efficiency plan, integrated water resource management plan, a regional facility plan, regionalization or consolidation plan, or an approved Total Maximum Daily Load implementation plan 2.00

Disadvantaged Eligibility

Awarded to any entity that qualifies as a disadvantaged community (see Appendix D for eligibility criteria) 10.00

Previously Received TWDB Planning, Acquisition or Design Funds

The project is requesting construction financing and previously received a TWDB commitment for Planning, Acquisition, and/or Design (PAD) financing within the prior five years (60 months) of the PIF due date under the DWSRF program or the TWDB's 10.00

Economically Distressed Areas Program, the entity has completed and received TWDB completion approval for all of the PAD activities and is ready to proceed to the construction phase, TWDB has released from escrow at least eighty percent of the PAD funds, and the project has not received any TWDB funding for construction.

Tie Breaker

Equal combined rating factors will be ranked in descending order with priority given to the least population first.

Source Water Protection Rating Criteria and Process

This program provides financial assistance to assist communities in implementing source water protection Best Management Practices recommended by TCEQ. The TWDB will determine annually the amount of capitalization grant funds to be reserved for source water protection projects and will include this information in the intended use plan, provided however that no more than 10 percent of any DWSRF capitalization grant can be so reserved. All projects classified as source water protection projects are subject to the requirements established in 31 Texas Administrative Code §371.4 (relating to Other Authorized Activities: Source Water Protection and Technical Assistance) and those set forth in this intended use plan. If funds which have been reserved for source water protection projects are unused after all applicants have been provided an opportunity to submit an application, such funds may be made available for other projects in the DWSRF program.

Rating Process – To be eligible for consideration, PWS must be willing to participate in TCEQ’s Source Water Assessment and Protection program. Eligible entities that seek consideration for source water protection funding will be rated according to the following criteria:

- a. Groundwater System Vulnerability Factor
 - (1) Groundwater systems without the necessary water well geologic protection will receive 4 points.
 - (2) Groundwater systems with documented Nitrate concentrations of greater than two milligrams/liter will receive 1 point.
 - (3) Groundwater systems obtaining water from selected vulnerable aquifers will receive 1 point.
 - (4) Groundwater systems with confirmed detections of organic chemical contamination identified in Table 1 will receive 2 points.
 - (5) No groundwater system may receive more than 6 system vulnerability points. Groundwater systems that receive no system vulnerability points will not be considered for source water protection funding.
- b. Surface Water System Vulnerability Factor
 - (1) Surface water systems with contributing watersheds of 20 square miles or less as determined by TCEQ will receive 3 points.
 - (2) Surface water systems with confirmed detections of organic chemical

Table 1.	
Organic Chemical Contaminants	
2,4,5-TP	Endrin
2,4-D	Epichlorohydrin
Acrylamide	Ethylbenzene
Alachlor	Glyphosate
Aldicarb	Heptachlor
Aldicarb sulfone	Heptachlor epoxide
Aldicarb sulfoxide	Hexachlorobenzene
Atrazine	Hexachlorocyclopentadiene
Benzene	Lindane
Carbofuran	Methoxychlor
Carbon tetrachloride	Monochlorobenzene
Chlordane	Oxamyl (vydate)
Cyanide	PAHs[Benzo(a)pyrene]
DBCP	PCBs
Dalapon	Pentachlorophenol
Di(ethylhexyl)adipate	Picloram
Di(ethylhexyl)phthalate	Simazine
Dichlorobenzene ortho-	Styrene
Dichlorobenzene para-	TCDD-2,3,7,8 (Dioxin)
Dichloroethane 1,2-	Tetrachloroethylene
Dichloroethylene 1,1-	Toluene
Dichloroethylene cis-1,2-	Toxaphene
Dichloroethylene tran-1,2	Trichlorobenzene 1,2,4-
Dichloromethane	Trichloroethane 1,1,1-
Dichloropropane 1,2-	Trichloroethane 1,1,2-
Dinoseb	Trichloroethylene
Diquat	Vinyl chloride
EDB	Xylene
Endothall	

- contamination identified in Table 1 will receive 3 points.
- (3) No surface water system may receive more than 6 system vulnerability points. Surface water systems that receive no system vulnerability points will not be considered for source water protection funding.
- c. No combination ground and surface water system may receive more than 6 system vulnerability points.
- d. Ability to Implement Best Management Practices Factor
- (1) Systems that receive system vulnerability points and that possess the ability and authority to implement land use controls including but not limited to zoning or ordinances, will receive 2 points.
- (2) Systems that receive system vulnerability points and that possess the ability to implement other non-land use controls such as public education, contingency planning, or conducting toxic/hazardous waste collection events will receive 1 point.
- (3) Systems that receive system vulnerability points and that propose to plug abandoned wells within the delineated source water protection area will receive 1 point.
- (4) Systems that receive system vulnerability points and that have confirmed siting or well construction problems listed on the most recent TCEQ sanitary survey will receive 1 point for proposals which will correct these problems.
- (5) Systems that receive no Ability to Implement Best Management Practices points will not be considered for source water protection funding.
- e. The total points for Groundwater or Surface Water System Vulnerability and the Ability to Implement Best Management Practices will be summed and multiplied by 10 before adding Affordability Factor points.
- f. Disadvantaged Community Eligibility Factor – Ten points awarded to any entity that qualifies as a disadvantaged community (see Appendix D for eligibility criteria)
- g. The total source water protection rating score will be the sum of points generated from ground and surface water system vulnerability, ability to implement Best Management Practices and affordability factors.

Appendix D. Affordability Criteria to Determine Disadvantaged Community Eligibility

A disadvantaged community is a community that meets the DWSRF's affordability criteria based on income, unemployment rates, and population trends. For the initial allocation round, the determination will be based on information received by the applicable PIF deadline. An eligible disadvantaged community consists of all of the following:

1. The service area of an eligible applicant, the service area of a community that is located outside the entity's service area, or a portion within the entity's service area if the proposed project is providing new service to existing residents in unserved areas; and
2. meets the following affordability criteria:
 - (a) Has an Annual Median Household Income (AMHI) that is no more than 75 percent of the state median household income using an acceptable source of socioeconomic data, and
 - (b) the Household Cost Factor (HCF) that considers income, unemployment rates, and population trends must be greater than or equal to 1 percent if only water or sewer service is provided or greater than or equal to 2 percent if both water and sewer service are provided.

Acceptable Source of Socioeconomic Data for SFY 2021

For SFY 2021, the TWDB will utilize:

- (1) U.S. Census 2014-2018 American Community Survey (ACS) 5-year estimates, along with the 2010-2014 ACS 5-year estimates for determining whether there was a decline in population, or
- (2) Data from a survey approved by the Executive Administrator of a statistically acceptable sampling of customers in the service area completed in accordance with the most current Socioeconomic Surveys Guidelines (WRD-285) posted on the TWDB website. Any survey being used for income determination must be conducted within five years of the date the TWDB receives the PIF. An entity must submit documentation that substantiates the inadequate or absent Census data that led to the need to conduct a survey. All entities must obtain prior approval to use survey data instead of the most recently available American Community Survey data.

Affordability Calculation and Disadvantaged Community Eligibility

Step 1. Comparison to State annual median household income.

The AMHI for the project service area (either entire or portion) must be 75 percent or less than the state's AMHI using an acceptable source of socioeconomic data for SFY 2021.

Step 2. Determining the Household Cost Factor

The total HCF is comprised of a household cost factor based on the AMHI, plus an additional household cost factor based on unemployment rates (if the unemployment rate for the service area is greater than the state average) plus an additional household cost factor based on

population decline (if there has been a decline in the population of the service area over a period of time). The HCF used in the affordability criteria takes into consideration the potential burden that the cost of a proposed project will place on a household. The entity’s total HCF, which consists of the Income HCF (the percentage of annual household income that goes toward water, sewer, fees/surcharges, and project financing costs) combined with the Unemployment Rate HCF (not to exceed 0.75 percent) and the Population Decline HCF (not to exceed 0.5 percent), must be:

- 1.0 percent or greater if the entity currently offers either water or sewer service, or
- 2.0 percent or greater if the entity currently offers both water and sewer service.

The 1.0 and 2.0 percentage levels are known as the “base” levels in determining the maximum allocation amount.

The Unemployment Rate HCF and Population Decline HCF can only increase the total HCF, not decrease it.

Step 3. Principal Forgiveness Eligibility and Levels

The eligible level of principal forgiveness for a project is based on the difference between the calculated total HCF under Step 2 and the minimum HCF of 1 percent (if only water or sewer service is provided) and 2 percent (if both water and sewer services are provided) as shown in the chart below:

Household Cost Factor Difference	Principal Forgiveness as a % of DWSRF-funded project costs remaining after subtracting other DWSRF principal forgiveness
≥ 0% and < 1.5%	30%
≥ 1.5% and < 3%	50%
≥ 3%	70%

Individual projects will be reviewed for disadvantaged community eligibility as stand-alone projects. However, if an entity submits an application covering multiple PIFs or multiple applications for multiple PIFs within the SFY prior to any receiving a funding commitment, the disadvantaged community eligibility may be re-evaluated based on the combined costs of all the projects.

In instances where the ACS data does not adequately reflect an entity’s service area (e.g. an entity serves a community outside of its Certificate of Convenience and Necessity, an entity serves another system, the entity is a system without a Census Bureau defined boundary, etc.), a prorated analysis of ACS block group data will be performed to calculate the AMHI. An example of this method follows:

County	Census Tract	Block Group	From Entity	Calculation	ACS 2014-2018	Calculation	ACS 2014-2018	Calculation	Calculation
			Total Number of Household Connections	% of TTL Connections	AMHI	Prorated AMHI	Average HH Size	Prorated Average HH Size	Entity's Population Served
Jefferson	69	1	848	62.26%	\$33,125	\$20,624	2.38	1.48	1,956
Jefferson	69	2	309	22.69%	\$34,549	\$7,838	2.31	0.52	713
Jefferson	69	3	205	15.05%	\$30,909	\$4,652	2.00	0.30	473
			1,362	100.00%		\$33,115		2.31	3,142

County	Census Tract	Block Group	ACS 2014-2018	Calculation	ACS 2014-2018	ACS 2010-2014	Calculation
			Unemployment Rate	Prorated Unemployment Rate	Population 2018	Population 2014	Prorated Pop. Change
Jefferson	69	1	5.23%	3.26%	2,019	1,384	395
Jefferson	69	2	5.70%	1.29%	713	1,074	-82
Jefferson	69	3	12.94%	1.95%	409	462	-8
				6.50%	3,141	2,920	305

For entities that serve retail customers with differing rate structures, prorated rates are used, in some instances, to calculate each entity's household cost factor in SFY 2021. The following tables are an example of the method used. The TWDB will require use of prorated rates to determine an entity's water and/or sewer bills when applicable.

Prorated Average Monthly Water Bill

	A	B	C	D	E	F	G	H	I	J	K	L
	Number of Household Connections (HH)	Percentage of Total HH	Average Monthly Water Flow	Average Household Size	Average Mo. Water Flow / HH (Cx D)	First Tier	Initial Rate	Additional Use	Additional Rate	Other Changes	Average Mo. Water Bill $\frac{((E-F)/H) \times I + G}{x}$	Prorated Mo. Water Bill (BxK)
Entity A	1,823	33.95%	2,325	2.56	5,952	2,000	\$ 14.45	1,000	\$ 6.70	\$ 2.00	\$ 42.93	\$ 14.58
Entity B	1,135	21.14%	2,325	2.47	5,743	3,000	\$ 23.41	100	\$ 0.57	\$ -	\$ 39.04	\$ 8.25
Entity C	1,836	34.20%	2,325	2.78	6,464	3,000	\$ 29.85	1,000	\$ 6.81	\$ -	\$ 53.44	\$ 18.27
Entity D	575	10.71%	2,325	2.53	5,882	1,500	\$ 16.00	1,000	\$ 4.00	\$ -	\$ 33.53	\$ 3.59
Totals	5,369	100.00%									Average Monthly Water Bill	\$ 44.69

Prorated Average Monthly Sewer Bill

	A	B	C	D	E	F	G	H	I	J	K	L
	Number of Household Connections (HH)	Percentage of Total HH	Average Monthly Water Flow	Average Household Size	Average Mo. Water Flow / HH (Cx D)	First Tier	Initial Rate	Additional Use	Additional Rate	Other Changes	Average Mo. Water Bill $\frac{((E-F)/H) \times I + G}{x}$	Prorated Mo. Water Bill (BxK)
Entity A	1,823	33.95%	1,279	2.56	3,274	3,000	\$ 10.95	1,000	\$ 2.25	\$ 2.00	\$ 13.57	\$ 4.61
Entity B	1,135	21.14%	1,279	2.47	3,159	3,000	\$ 17.00	100	\$ 0.83	\$ -	\$ 18.32	\$ 3.87
Entity C	1,836	34.20%	1,279	2.78	3,556	-	\$ 20.79	1	\$ -	\$ -	\$ 20.79	\$ 7.11
Entity D	575	10.71%	1,279	2.53	3,236	1,500	\$ 10.00	1,000	\$ 2.00	\$ -	\$ 13.47	\$ 1.44
Totals	5,369	100.00%									Average Monthly Sewer Bill	\$ 17.03

If an entity is requesting disadvantaged community status for a portion of its service area, the combined household cost factor is calculated in the same manner as described above with the exception that the annual project financing cost per customer is calculated using the total household service connections in the full service area (not the portion).

If taxes, surcharges, or other fees are used to subsidize the water and/or sewer system, the average annual amount per household may be included in calculating the household cost factor or the combined household cost factor.

Systems owned and operated by a public school or school district will be evaluated for their annual median household income for their school district boundary. Since school districts typically do not have individual user costs, a household cost factor calculation cannot be performed. Therefore, districts with an AMHI less than or equal to 75 percent of the state's AMHI will automatically receive Disadvantaged Community status with the lowest available level of principal forgiveness.

If recent reliable data is unavailable for the school district to determine the AMHI, the TWDB will use information from the Texas Education Agency's Title I, Part A program to determine income eligibility. If more than 50 percent of the school districts campuses are eligible for the program, the district's AMHI will be assumed to be less than or equal to 75 percent of the State's AMHI.

Appendix E. Federal Requirements and Assurances

A. Federal Requirements

1. Davis-Bacon Wage Rate Requirements

A subrecipient must comply with the requirements of section 1452(a)(5) of the Safe Drinking Water Act (42 U.S.C. 300j-12(a)(5)) in all procurement contracts and must require contractors to include compliance with section 1452(a)(5) of the Safe Drinking Water Act in all subcontracts and other lower tiered transactions. All contracts and subcontracts for the construction project must contain in full in any contract in excess of \$2,000 the wage rate requirements contract clauses prescribed by TWDB. Section 1452(a)(5) requires compliance with 40 U.S. Code Sections 3141 to 3144, 3146, and 3147 covering wage rate requirements. TWDB guidance is available at <http://www.twdb.texas.gov/financial/instructions/doc/DB-0156.pdf>.

2. American Iron and Steel (AIS)

The TWDB and all DWSRF financial assistance recipients will comply with the American Iron and Steel (AIS) requirement in applicable federal law, including federal appropriation acts. Federal law requires DWSRF assistance recipients to use iron and steel products that are produced in the United States for projects for the construction, alteration, maintenance, or repair of a public water system or treatment works.

The term “iron and steel products” means the following products made primarily of iron or steel:

- lined or unlined pipes and fittings
- manhole covers and other municipal castings
- hydrants
- tanks
- flanges, pipe clamps and restraints
- valves
- structural steel
- reinforced precast concrete
- construction materials

EPA may waive the AIS requirement under certain circumstances.

Furthermore, if the original financial assistance agreement for the planning and/or design of a project closed prior to January 17, 2014, then the AIS provision would not apply to the construction phase of the same project. TWDB guidance is available at <http://www.twdb.texas.gov/financial/instructions/doc/TWDB-1106.docx>.

3. Environmental Reviews

Environmental review requirements are specified in Texas Administrative Code, Title 31, Part 10, Chapter 371.

4. Generally Accepted Accounting Principles

Assistance recipients must maintain project accounts according to Generally Accepted Accounting Principles as issued by the Governmental Accounting Standards Board, including standards relating to the reporting of infrastructure assets.

5. Compliance with Cross-cutting Authorities

There are a number of federal laws, executive orders, and federal policies that apply to projects and activities receiving federal financial assistance, regardless of whether the federal laws authorizing the assistance make them applicable. These federal authorities are referred to as cross-cutting authorities or cross-cutters. All cross-cutters apply to Equivalency projects and only federal anti-discrimination laws, also known as the super cross-cutters, apply to Non-Equivalency projects.

The cross-cutters can be divided into three groups: environmental; social policies; and, economic and miscellaneous authorities.

- Environmental cross-cutters include federal laws and executive orders that relate to preservation of historical and archaeological sites, endangered species, wetlands, agricultural land, etc. This cross-cutter requirement includes a National Environmental Policy Act (NEPA) compliant environmental review. When conducting the NEPA-like review the TWDB will inform EPA when consultation or coordination by EPA with other federal agencies is necessary to resolve issues regarding compliance with applicable federal authorities.
- Social policy cross-cutters include requirements such as minority and women's business enterprise participation goals, equal opportunity employment goals, and nondiscrimination laws. This cross-cutter requirement includes compliance with the EPA's Disadvantaged Business Enterprise program administered by TWDB.
- Economic cross-cutters directly regulate the expenditure of federal funds such as the prohibition against entering into contracts with debarred or suspended firms.

The Equivalency projects that are considered federal are those entered into the Federal Funding Accountability and Transparency Act Subaward Reporting System.

6. Financial, Managerial, and Technical (FMT) Capacity

Prior to receiving or closing a commitment, the TCEQ will conduct a review of each applicant's FMT capacity. All applicants must receive FMT approval before closing on financial assistance funding.

7. Additional Subsidization

In accordance with the Further Consolidated Appropriations Act, 2020 (Public Law 116-94), and 42 U.S.C. 300j-12(d)(2) the TWDB is required to provide 20 percent of the capitalization grant of \$86,280,000, or \$17,256,000, in Additional Subsidization. The TWDB has allocated Additional Subsidization for SFY 2021 as follows:

Funding Option	Additional Subsidy Allocation
Disadvantaged Community	\$16,000,000
Disadvantaged Community-Small/Rural only	\$2,000,000
Subsidized Green (incl. Water Conservation)	\$2,000,000
Very Small Systems	\$2,000,000
Very Small Systems - "Securing Safe Water" Initiative	\$1,000,000
Urgent Need – Contaminants	\$2,000,000
Urgent Need - "Securing Safe Water" Initiative	\$2,000,000
Urgent Need – Other (Disaster Recovery, etc.)	\$3,000,000
Total	\$30,000,000

Of the total Additional Subsidization being made available for SFY 2021, an amount equal to \$12,079,200 may only be used where such funds would be for initial financing for an eligible recipient or to buy, refinance, or restructure the debt obligations of eligible recipients where such debt was incurred on or after December 20, 2019. The TWDB may increase the allocations to provide the full eligible amount to a project. The TWDB may allocate up to the maximum of \$42,277,200 as principal forgiveness in accordance with the SDWA and the FFY 2020 capitalization grant appropriations. TWDB may consider projects receiving principal forgiveness under the Urgent Need, Very Small Systems, and Green that qualify as Disadvantaged Communities as part of the additional subsidization authorized for Disadvantaged Communities under the SDWA.

8. Green Project Reserve

The capitalization grant for FFY 2020 states that at the discretion of each State, the capitalization grant may be used for projects to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. The TWDB is establishing a goal to allocate an equivalent of 10 percent of the capitalization grant to approved green project costs. The discretionary allocation is known as the Green Project Reserve (GPR).

To encourage green infrastructure projects, a portion of the additional subsidy will be made available for projects that include green infrastructure. In order to be eligible to receive green subsidy, projects must have approved green project elements with costs that exceed 30 percent of the total project costs.

Green components include green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. Eligibility for all green projects will be determined by the TWDB.

Appendix L, "Initial Invited Green Projects", lists invited green projects with project descriptions that detail the green category associated with the project and how much of the project's total cost is applicable to the GPR.

TWDB information on green project eligibility may be found online at <http://www.twdb.texas.gov/financial/instructions/doc/TWDB-0163.docm>.

9. Competency Statements

The following competency statements are provided to satisfy the EPA's policy entitled "Policy to Assure Competency of Organizations Generating Environmental Measurement Data under Agency Funded Assistance Agreements."

A. TWDB Competency Statement

TWDB ascertains that competency can be demonstrated by the following:

1. The "TWDB Quality Management Plan," was approved by EPA Region 6 on September 17, 2019. The plan demonstrates competency by providing a description of the quality policies including all requirements described in EPA QA/R-2.

B. TCEQ Competency Statement

TCEQ ascertains that competency can be demonstrated by the following:

1. EPA approval of the "Quality Assurance Project Plan for the Public Water Supply Supervision Program Relating to the Safe Drinking Water Act of the Texas Commission on Environmental Quality", Revision 13 (QTRAK #20-054), approved by EPA on November 4, 2019, which is approved through November 4, 2022
2. The "TCEQ Quality Management Plan, Revision 25 (2020)" (QTRAK# 20-063) approved on December 19, 2019 by EPA Region 6 which demonstrates competency by providing a description of the quality policies including all requirements described in EPA QA/R-2.

10. Compliance with Capacity Development Authority, Capacity Development Strategy and Operator Certification Program

- A. Capacity development authority. The State of Texas, through the TCEQ, has the legal authority to ensure that all new community water systems, and new nontransient, noncommunity water systems that commence operations have demonstrated FMT capacity with respect to national primary drinking water regulations. If DWSRF financial assistance is being provided to the new system, TCEQ conducts and provides to TWDB the results of its FMT assessment prior to closing on the financial assistance.
- B. Capacity development strategy. The State of Texas, through the use of DWSRF set-asides provided to TCEQ, implements a strategy to assist public water systems in acquiring and maintaining financial, managerial, and technical capacity. The TWDB has set aside funds from the FFY 2020 grant for TCEQ to implement a capacity development strategy. TCEQ will use funds from the State Program Management, Small Systems Technical Assistance, and Local Assistance and Other State Programs set-asides to conduct the capacity development activities. The TCEQ demonstrates compliance with the Capacity Development Strategy requirement of the SDWA by annually submitting the Capacity Development Report to EPA. The most recent report was provided to EPA on November 14, 2019. The TCEQ submitted the TCEQ Triennial Progress Report to the

Governor on the Public Water Supply Capacity Development Program on December 29, 2017 as required by SDWA Section 1420(c)(3).

- C. Operator certification program. The State of Texas, through the TCEQ, has a program for certifying operators of community and nontransient, noncommunity public water systems. The TCEQ demonstrates compliance with the Operator Certification Program Provisions by annually submitting an Operator Certifications Program Report to EPA. The most recent report was provided to EPA on September 6, 2019.

11. Signage

DWSRF projects must comply with the EPA signage requirements implemented to enhance public awareness of the program. The entity may select from the following options to meet EPA's signage requirement:

- Standard signage
- Posters or wall signage in a public building or location
- Newspaper or periodical advertisement for project construction, groundbreaking ceremony, or operation of the new or improved facility
- Online signage placed on community website or social media outlet
- Press release

According to EPA's policy, to increase public awareness of projects serving communities where English is not the predominant language, entities are encouraged to translate the language used (excluding the EPA logo or seal) into the appropriate non-English language. TWDB guidance is available at <http://www.twdb.texas.gov/financial/instructions/doc/TWDB-1109.pdf>.

12. Reserves Established from Available Funds

The following reserved amounts may be applied to the funding options.

Funding Reserves	
Reserve	Amount
Green Projects (10% of capitalization grant)	\$8,628,000
Small Communities (15% of available funds)	\$22,500,000
Extended Terms (75% of available funds)	\$112,500,000
Urgent Need Disadvantaged/Small/Rural (50% of principal forgiveness and 20% of loans with an interest rate of zero percent)	\$3,500,000 (principal forgiveness) and \$800,000 (0% loans)

13. Transfers – Amount Available

Calculation of amounts available to transfer between the DWSRF and CWSRF based on FFY 2008 through FFY 2020:

Federal Fiscal Year	Grant Award Number	Grant Amount	33% of Grant
FFY 2008	FS-99679512	\$67,112,000	\$22,146,960
FFY 2009	FS-99679513	\$67,112,000	\$22,146,960

FFY 2010	FS-99679514	\$86,254,000	\$28,463,820
FFY 2011	FS-99679515	\$59,854,000	\$19,751,820
FFY 2012	FS-99679516	\$57,041,000	\$18,823,530
FFY 2013	FS-99679517	\$53,517,000	\$17,660,610
FFY 2014	FS-99679518	\$63,953,000	\$21,104,490
FFY 2015	FS-99679519	\$63,532,000	\$20,965,560
FFY 2016	FS-99679520	\$60,104,000	\$19,834,320
FFY 2017	FS-99679521	\$59,590,000	\$19,664,700
FFY 2018	FS-99679522	\$87,040,000	\$28,723,200
FFY 2019	FS-99679523	\$86,225,000	\$28,454,250
FFY 2020	FS-99679524	\$86,280,000	\$28,472,400
TOTAL		\$897,614,000	\$296,212,620
Less grant amount already transferred to CWSRF			<u>\$100,000,000</u>
DWSRF - Available from FFY 2008 to FFY 2020 grants			\$196,212,620
Ongoing cash flow transfer			<u>\$150,000,000</u>
Remaining Transfer Authority			\$46,212,620

B. Assurances

Entry into the Federal Reporting Systems

The TWDB will enter information into EPA's DWSRF Reporting System, the DWSRF National Information Management System, and the Federal Funding Accountability and Transparency Act Sub-Award Reporting System as required.

Appendix F. Bypass Procedures

The Executive Administrator may decide to bypass, or skip, higher ranked projects in favor of lower ranked projects to ensure that funds available are utilized in a timely manner and that statutory and capitalization grant requirements are met. If an entity is offered funding for any project that has an interrelated project ranked lower on the list, the TWDB Executive Administrator will have discretion to also offer funding for the interrelated project.

Reasons for bypassing projects are listed below, but are not limited to:

1. Intent to Apply and Application Submission Deadlines

A project may be bypassed if the applicant did not submit any intent to apply form or information by a specified deadline or the application is not received by the TWDB-established submission deadline and it is not administratively complete by the established deadline.

2. Projects Previously Funded

To fund the construction phase of a project that previously received funding for planning, acquisition and/or design.

3. Disadvantaged Community/Disadvantaged Community-Small / Rural only

In the event that there are not enough projects with completed applications eligible to receive Disadvantaged Community funding, the Executive Administrator may bypass other projects to invite additional projects that are eligible for additional subsidization.

4. Green Project Reserve

In the event that there are not enough projects with completed applications eligible to meet the Green Project Reserve goal, the Executive Administrator may bypass other projects to invite additional projects that are eligible for review of their green components and possible funding.

5. Very Small Systems

In the event that there are not enough projects with completed applications eligible to receive Very Small Systems funding, the Executive Administrator may bypass other projects to invite additional projects that are eligible for Additional Subsidization.

6. Urgent Need

The Executive Administrator may bypass projects to provide Urgent Need funding to replace or rehabilitate essential public water facilities that pose an imminent peril to the public health, safety, environment, or welfare with a threat of failure in response to an urgent condition. Projects will be rated by the TCEQ and added to the PPL as an Urgent Need project.

7. Small Communities

A minimum of 15 percent of the capitalization grant will be made available to systems serving populations not more than 10,000. In the event that small community projects with completed applications do not equal 15 percent of the capitalization grant, the Executive Administrator may bypass other projects to include additional small community projects.

8. Readiness to Proceed

The Executive Administrator may bypass projects to include those deemed ready to proceed to construction.

9. Past Project Performance

If the applicant has failed to close a commitment or complete a project in a timely manner under a prior IUP, and it is determined that such failure to perform could jeopardize the timely use of funds for a project under this IUP, the Executive Administrator may bypass the project.

10. Financial Capacity

A project may be bypassed if the Executive Administrator determines that the applicant will be unable to repay the SRF financial assistance for the project.