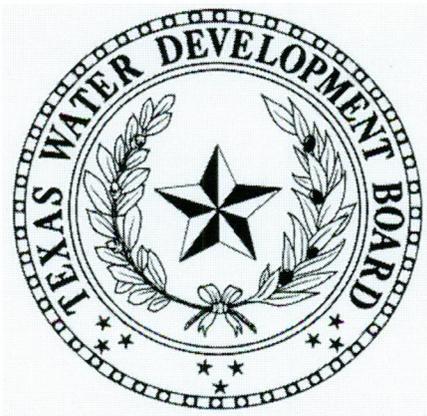


STATE OF TEXAS
Drinking Water State Revolving Fund
State Fiscal Year 2007
ANNUAL REPORT

September 1, 2006 through August 31, 2007



11/30/07

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FY 2007
Drinking Water State Revolving Fund
Annual Report

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I. INTRODUCTION

The State of Texas through the Texas Water Development Board (TWDB) is submitting the Annual Report for the State Fiscal Year 2007 (FY2007) (September 1, 2006 - August 31, 2007). The Report describes how the State has met the goals and objectives of the Drinking Water State Revolving Fund (DWSRF) Program as identified in the grant agreements, the FY 2007 Intended Use Plan (IUP) and the actual use of the DWSRF Program funds. In accordance with Chapter 371 of the TWDB rules, the TWDB and the Texas Commission of Environmental Quality (TCEQ) utilize the resources of DWSRF to collectively administer the State's DWSRF program. The TWDB administers the fund of the program and the TCEQ administers the use of the DWSRF Small Systems Technical Assistance and State Program Management set-aside funds in accordance with the 40 CFR Subpart L §35.3510(b)(1) of the federal regulations. As the state primacy agency, TCEQ is required by the Safe Drinking Water Act (SDWA) to carry out regulatory supervision of public water systems and to enforce SDWA violations. The authority to establish assistance priorities and to carry out oversight and related activities of the DWSRF program, other than financial administration of the program and project oversight, resides with the TCEQ, the primacy agency.

The TWDB and TCEQ provide this comprehensive report to the Environmental Protection Agency (EPA) Region 6 Office and the public (upon request) to detail the activities undertaken to reach the goals and objectives set forth in the FY 2007 IUP and the activities and obligations under the DWSRF program. The report describes the progress made toward long-term and short-term program goals, the sources (e.g., federal grants) and uses of all funds (e.g., loans and set-aside activities), financial status of the DWSRF, and compliance with federal DWSRF requirements.

II. EXECUTIVE SUMMARY

The purpose of the DWSRF is to provide below market rate loans to applicants to finance projects for public drinking water systems that facilitate compliance with primary drinking water regulations or otherwise significantly further the health protection objectives of the federal SDWA. The State of Texas' DWSRF program has received a total of \$617,943,350 in EPA Capitalization Grants through August 31, 2007, not including the pending FY 2007 Grant of \$67,801,000. The TWDB has contributed \$12,636,971 in FY 2007 bringing the total State match to \$123,588,670. The State of Texas has made a total of one hundred thirteen (113) binding commitments for \$734,023,098 since the inception of the program in 1997 (Table 1, attached).

For FY 2007, the TWDB received funding requests from eighty-two (82) potential applicants with projects totaling approximately \$368,084,000 million. Using project details outlined in the 82 funding requests, TCEQ staff ranked the projects in accordance to TWDB rules. TWDB staff then prepared the FY 2007 IUP based on the TCEQ's ranking. By August 2006, the TWDB approved the FY 2007 IUP and letters of invitation were sent in September 2006 to potential applicants (invitees) listed on the IUP based on

available funding. As the invitees were processed by either the receipt of an application by the identified deadline or notification declining the available DWSRF funding, a new set of invitation letters were mailed to the next potential applicants on the list to ensure that the entire IUP list of applicants was offered the opportunity to access the DWSRF program funding. The disposition of each invitee can be found in Table 4, attached.

In FY 2007, the TWDB made thirty-one (31) binding commitments for a total of \$204,731,000. Twenty-eight (28) binding commitments totaling \$173,071,000 represented projects from the FY 2007 IUP. Three (3) commitments, with total project costs of \$31,500,000, represented projects from the FY 2006 IUP. During this period, the total dollar amount of commitments made from the FY 2007 DWSRF IUP was 47.7% of the total dollar amount of project costs, \$368,084,000, on the FY 2007 DWSRF IUP (Exhibit 1).

Exhibit 1- DWSRF Summary 1997 - 2007

IUP YR	Disadvantaged Appropriated	Total Disadvantaged Committed	Dollar Amount of Actual Commitments	IUP Totals	% \$ Committed / \$ IUP	Actual Comm. Made	Potential Applicants on IUP	% # Comm. / # Potential
1997	\$21,046,140	\$20,783,000	\$31,973,000	\$1,368,764,000	2.33%	6	281	2.14%
1998	\$16,204,320	\$8,375,000	\$68,365,000	\$316,020,620	21.7%	11	142	7.75%
1999/2000	\$34,634,610	\$38,307,235	\$91,202,235	\$297,355,000	30.67%	18	102	17.65%
2001	\$17,723,940	\$21,240,000	\$75,945,000	\$319,245,000	23.79%	7	75	9.33%
2002	\$18,607,110	\$18,607,110	\$33,326,000	\$606,065,000	5.50%	6	77	7.79%
2003	\$18,495,300	\$9,072,914	\$23,109,863	\$313,410,000	9.62%	6	69	8.70%
2004	\$15,988,475	\$11,225,000	\$35,255,000	\$478,520,000	7.37%	9	49	18.37%
2005	\$15,954,625	\$17,460,000	\$133,975,000	\$329,700,000	40.6%	10	58	17.24%
2006	\$20,339,865	\$29,311,000	\$67,801,000	\$272,071,000	24.92%	12	64	18.75%
2007	\$20,340,300	\$34,180,000	\$173,071,000	\$368,084,000	47%	28	82	34.1%
Totals	\$199,334,685	\$195,767,098	\$734,023,098	\$4,669,234,620	15.7%	113	917	12.3%

Project adjustments during FY 2006 involved five (5) binding commitments in FY 2007, representing a reduction of \$5,002,000 in the total amount of funds committed by the TWDB (Exhibit 2.)

Exhibit 2 - FY 2007 DWSRF Project Adjustments

IUP			Commitment	Closing	Commitment		
Year	Project #	Project	Date	Date	Amount	Difference	Explanation
05	21543	Brown WID	1/19/05	11/29/06	\$24,405,000	(\$3,915,000)	Cancelled remainder of commitment
99	60573	Hudson Oaks	5/17/00	3/5/9/01	\$1,540,000	(\$220,000)	Completed construction less than commitment
02	60748	Millersview-Doole WSC	2/20/02	2/13/04	\$19,430,000	(\$823,000)	Cancelled remainder of commitment
02	60904	Mount Calm	3/19/03	10/20/2003	\$340,000	(\$9,000)	Completed construction less than commitment
00	60589	Orange Co	5/17/00	12/5/2001	\$2,960,000	(\$35,000)	Completed construction less than commitment
Grand Total of Adjustments in FY 2007					\$48,675,000	(\$5,002,000)	

In FY 2007, seven (7) projects totaling \$38,645,000 started construction bringing the total number of DWSRF projects under construction to twenty-eight (28) and the total costs of all projects in construction to \$307,250,000. Three (3) projects, totaling \$38,797,235 completed construction in 2007 bringing the total number of completed projects to thirty-one (31) and the total costs of all completed project costs to \$143,351,235 (Table 7, attached). The three projects completed during FY 2007 are as follows:

- City of Brady \$ 9,405,000
- City of Houston \$ 6,135,000
- LNVA/Bolivar \$ 23,257,235

III. GOALS AND ACCOMPLISHMENTS CFR § 35.3555 (N)

As documented in Table 1, attached, by its cumulative binding commitments of one hundred thirteen (113) projects totaling \$734,023,098, Texas is progressing toward meeting its short-term and long-term goals as described in the FY 2007 IUP. Of the one hundred thirteen (113) projects in the Texas DWSRF Program, twenty-eight (28) are in construction (Table 6, attached) and thirty-one (31) projects have been completed (Table 7, attached). Each of these projects should result in improved public health within the state.

A. Long-Term Goals of the DWSRF Program

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

There were several project successes during FY 2007 related to this long-term goal. Lake Livingston WSSSC (ranked #1 on the FY 2007 IUP) received a commitment in the amount of \$17,500,000, for a consolidation project to construct two surface water treatment plants, a 150,000-gallon storage tank and transmission mains to supply treated surface water to customers of 12 existing water systems. The treated surface water will replace ground water obtained from wells that exceed drinking water standards for arsenic or radionuclides. New water wells, pump station expansions, and pipelines are planned for 18 additional systems. The project also involves the installation of over fifty (50) miles of water lines.

The City of Winters (ranked #2 on the FY 2007 IUP) received a commitment in the amount of \$1,680,000 to make improvements to the water treatment system by upgrading the filter, chemical feed, and clarifier systems. The project also involves the installation of a new Supervisory Control and Data Acquisition System. The TCEQ has cited the City for problems in filtration and disinfection. These improvements will address these deficiencies.

The City of Cisco (ranked #4 on the FY 2007 IUP) received a commitment in the amount of \$2,905,000 to rehabilitate its existing water treatment plant, rehabilitate two storage tanks, replace transmission lines, and upgrade a booster pump station. These improvements are in response to THM violations cited by the TCEQ and address low pressure and water loss.

During FY 2007, three DWSRF projects were completed. The City of Brady completed a \$9,405,000 project that included the construction of a new 3.0 million gallon per day (MGD) surface water treatment plant with a raw water intake at Brady Lake, a 1.0 MG storage facility between the lake and the City, and the installation of 11.5 miles of 8 to 18-inch water line. The project provides the City with a surface water supply to blend with its Hickory Aquifer groundwater supply to bring radium levels within acceptable levels.

The City of Houston completed a \$6,135,000 project that will provide source water protection for Lake Houston. The project included the installation of approximately 56,000 linear feet (LF) of 8 to 15-inch gravity sewers, 4,330 LF of 4 to 8-inch force mains, and four lift stations to serve unsewered areas surrounding Lake Houston. Pollution from failing onsite wastewater systems has been a long-standing concern of the City and TCEQ.

The Lower Neches Valley Authority, on behalf of the City of Bolivar, completed a \$23,257,235 project that involved the construction of a new 5.18 MGD water treatment plant and new transmission lines.

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

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

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

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

B. Short-Term Goals of the DWSRF Program

1. *Protect public health by providing funds for the supply of safe drinking water to the citizens of the State of Texas, and by expeditiously providing loans to water systems that are in non-compliance with State and Federal drinking water regulations. Progress toward achieving this measure will be documented by reporting the number of binding commitments and the total dollar volume of assistance for the fiscal year in comparison with previous years. For FY 2007, the TWDB intends to increase the number of commitments made in FY 2006 by 25%.*

The TWDB was able to significantly exceed its goal to increase the number of commitments made in FY 2007 by 25% over the commitments made in FY 2006. The goal For FY 2007 was to increase the number of binding commitments from ten (10) to at least thirteen (13). The number of binding commitments made in FY 2007 was 31, which represents an increase of 310% over the ten (10) commitments made

in 2006. The total dollar volume of the commitments made in FY 2007 also significantly exceeded the total dollar volume of commitments made in FY 2006. Binding commitments made in FY 2007 totaled \$204,731,000, compared to \$65,306,000 in FY 2006.

- 2. Ensure compliance with the Act by working with TCEQ to ensure that possible technical and financial assistance. Progress toward meeting this measure will be documented by reporting the number of joint TWDB/TCEQ pre-application and follow-up meetings conducted for the fiscal year. For FY 2007, the TWDB intends to increase the number of pre-application meetings held in FY 2006 by 33%.*

A total of forty-five (45) joint TWDB/TCEQ pre-application meetings were held for potential DWSRF projects in FY 2007, an increase of approximately 265% when compared to seventeen (17) pre-application meetings held in FY 2006. It should be noted that additional meetings and consultations occurred between the two agencies regarding these projects throughout the application process.

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

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

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

As shown on Table 4, attached, three applicants from the top ten ranked projects on the IUP received a commitment in FY 2007. Lake Livingston WSSSC (ranked #1 on the FY 2007 IUP) received a commitment in the amount of \$17,500,000 for a consolidation project that involved the construction of two surface water treatment plants, a 150,000-gallon storage tank and transmission mains to supply treated surface water to customers of 12 existing water systems. The treated surface water will replace ground water obtained from wells that exceed drinking water standards for arsenic or radionuclides. New water wells, pump station expansions, and pipelines are planned for 18 additional systems. The project also involves the installation of over fifty (50) miles of water lines.

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The City of Cisco (ranked #4 on the FY 2007 IUP) received a commitment in the amount of \$2,905,000 to rehabilitate its existing water treatment plant, rehabilitate two storage tanks, replace transmission lines, and upgrade a booster pump station. These improvements are in response to THM violations cited by the TCEQ and address low pressure and water loss.

IV. OTHER DWSRF PROGRAM ACCOMPLISHMENTS AND IMPROVEMENTS

A. DWSRF Program Accomplishments

1. TWDB SRF Marketing and Outreach Initiatives

During FY 2007, the TWDB distributed marketing information and discussed its financial assistance programs, including its SRF programs, with potential customers by participating in seven (7) conferences and tradeshows where the TWDB either made presentations or hosted exhibit booths. These events consisted of the Starr Co. Industrial Foundation (South Padre Island), the Economic Development Conference (Robstown), the Texas Water Conservation Association Conference (Galveston), Economic Development Conference (Devine), and the TCEQ Public Drinking Water Conference (Austin). Individual financial assistance marketing was requested by twelve (12) entities. TWDB staff responded by traveling to those locations and making personalized marketing presentations. These entities were Kermit, Pecos, Corpus Christi, Victoria Co. WCID #1, Portland, Riviera WCID, San Antonio Water System, Brookshire WCID, Mathis and Panola County. TWDB staff also conducted ten (10) SRF workshops throughout the state. These workshops were designed to inform water and wastewater systems about Clean and Drinking Water State Revolving Funds and how to pursue funding under these programs.

As a result of these marketing efforts, interest in the SRF programs has increased significantly. Thirty-one (31) binding commitments were made by the TWDB during FY 2007, which was the largest number of commitments the TWDB has made during a particular fiscal year. The dollar amount of these twenty-eight applications, \$173,226,000, is also the largest amount committed during a fiscal year in the history of the TWDB.

2. State Revolving Fund (SRF) Marketing Initiative: SRF Focus Group Session

On February 28, 2007, the TWDB, working with EPA contractor Northbridge Environmental Management Consultants (Northbridge) and their subcontractor, Atwater Communications, sponsored a focus group session that gathered qualitative

feedback from local government leaders and utility managers from Texas entities that had not applied for SRF funding for at least 10 years. The project was funded by EPA under a work assignment to Northbridge. The goals of the focus group sessions were to:

- Understand potential borrowers' attitudes and opinions about the TWDB and its Clean and Drinking Water State Revolving Fund programs,
- Gain a better understanding of how water and wastewater infrastructure financing decisions are made in Texas communities,
- Determine real and perceived barriers to using SRF financing,
- Gain insights into ways the TWDB might improve the SRF programs to attract new borrowers,
- Determine how the TWDB can better market the SRF programs to Texas communities, and
- Assess potential borrowers' views on EPA's new financial comparison calculator tool.

Focus Group Session Report Recommendations – A number of recommendations were identified during the Focus Group Session. These recommendations were compiled into a final report and are as follows:

- **Improve Coordination between the TWDB and the TCEQ:**
The TWDB and the TCEQ should explore ways to better coordinate reporting requirements and project approvals. Duplicative and redundant requirements are a major source of frustration for Texas communities. Specific attention should be paid to providing support and funding to communities that have received unfounded mandates from state and federal government agencies.
- **Provide additional planning assistance:** The TWDB should explore how it might better assist communities during the planning stages of their projects. The TWDB could play an important role during the planning phase by helping communities evaluate financing options (using the new Financing Alternatives Comparison Tool) and assess early on if a project has a good chance of qualifying for SRF funding. Communities appear to appreciate the assistance they receive from other agencies and if TWDB resources are available, the additional assistance from SRF managers will create a strong incentive to consider SRF funding
- **Revitalize branding:** The TWDB could benefit from a revitalized branding. It will be important to reverse perceptions that SRF engineering staff are young and inexperienced, and that the TWDB is an impenetrable bureaucracy. Instead, the TWDB must present itself in all outreach and marketing materials as experienced knowledgeable, and customer-focused.
- **Reach out to professional organizations:** The TWDB should increase the number of regional workshops it holds and make an effort to send SRF staff to as many professional conferences as possible. The Government Finance Officers Association Texas (GFOAT) should be a priority, along

with the Texas Municipal League, Texas County Managers Association, and Texas Public Works Association. Other groups include the Texas chapter of the American Water Works Association, Texas Rural Water Association and the Texas Water Conservation Association. Staff should present papers/case studies about successful programs and attempt to communicate with potential borrowers through exhibits.

- **Streamline the application process:** The TWDB should explore where possible, streamlining the application process and instituting rolling applications. Accurate, realistic timelines need to be communicated to communities in all marketing materials and personal outreach.
- **Provide an annual TWDB calendar:** The TWDB should print and distribute an annual calendar with SRF program deadlines, and other information that will be useful to decision makers (e.g., workshop dates, professional conferences where TWDB will be present, etc).
- **Use past loans as case studies:** In addition to describing total loan amounts, SRF marketing materials need to include information about average loans amounts and the size of projects that qualify for SRF financing. This information will help reverse the perception that SRF financing is for smaller projects only. Including several case studies, with descriptive information about the project, loan amount, cost savings, time frame for application and funding and project contact information would be important. In these case studies, TWDB technical assistance – with profiles of the SRF managers and engineers who assisted – would also be provided.
- **Submit case studies to Texas publications:** The TWDB should discuss with the editor of *Texas Town and City* about the possibility of submitting an article that highlights a successful SRF project in Texas. The article should include a side bar with SRF deadlines and other program information, including TWDB contact information. If this project is too time consuming for TWDB staff, the agency should consider arranging for a graduate journalism student at the University of Texas to prepare the case study.

An action plan has been developed to effectively address the recommendations suggested in the SRF Focus Group Session Final Report. The PFCA Marketing Team will take the lead in coordinating and implementing the report's recommendations.

3. Five State SRF Conference

The Texas Water Development Board hosted the third Five State SRF Conference on July 9-11, 2007, in Austin Texas. As with the two previous meetings, the conference was attended by the five states from EPA Region 6; Arkansas, Louisiana, New Mexico, Oklahoma, and Texas, and focused on issues affecting the management of the SRF programs. One difference from the previous meeting is that representatives from EPA Region 6 were in attendance at the afternoon session of the second day to provide the states with updates and to address any questions regarding impending federal legislative, funding or policy issues that could affect the SRF programs. Topics covered during the conference included additional documentation requirements for SRF projects, managing outlays and the issue of unliquidated obligations, strategies for marketing the DWSRF program and coordination efforts with other state and federal funding sources involved in financing water and wastewater projects.

B. DWSRF Program Improvements

1. Monthly SRF Coordination Staff and Management Meetings

During FY 2006 the Board implemented monthly SRF staff and management coordination meetings that continued in FY 2007. These meetings are currently coordinated with the Finance office and serve as a monthly forum providing for interoffice discussion on SRF policies, procedures, and processes; intended use plans (current program cycle, rules revisions, and potentials for streamlining); annual reports; National Information Management System (NIMS) reporting; and other issues related to SRF activities and matters. These meetings, which are attended by staff at all levels of the agency from line-staff to upper management, have increased awareness of CWSRF and DWSRF program activities as well as program life-cycle components. Additionally, all other financial programs and related activities are discussed.

2. SRF Information Management System

In FY 2007, the TWDB began taking initial actions to develop improvements to tracking information on the status of SRF and other state funded water related projects. As a spin-off from the creation of PFCA workgroups, TWDB staff recognized the need to capture additional information on the status of projects as they moved through the agency's funding process. As a short-term solution, a simple database was developed to collect information and track these projects. These initial efforts also enabled the agency to continue to identify additional project information and status needs and requirements that contributed to determining that a more comprehensive and sophisticated approach and solution was needed. As a long-term solution, the TWDB has initiated discussions with EPA Headquarters and Region 6 staff to explore opportunities to obtain qualified assistance in development of a SRF information management system. The TWDB is in the initial phase of developing a comprehensive, agency-wide

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

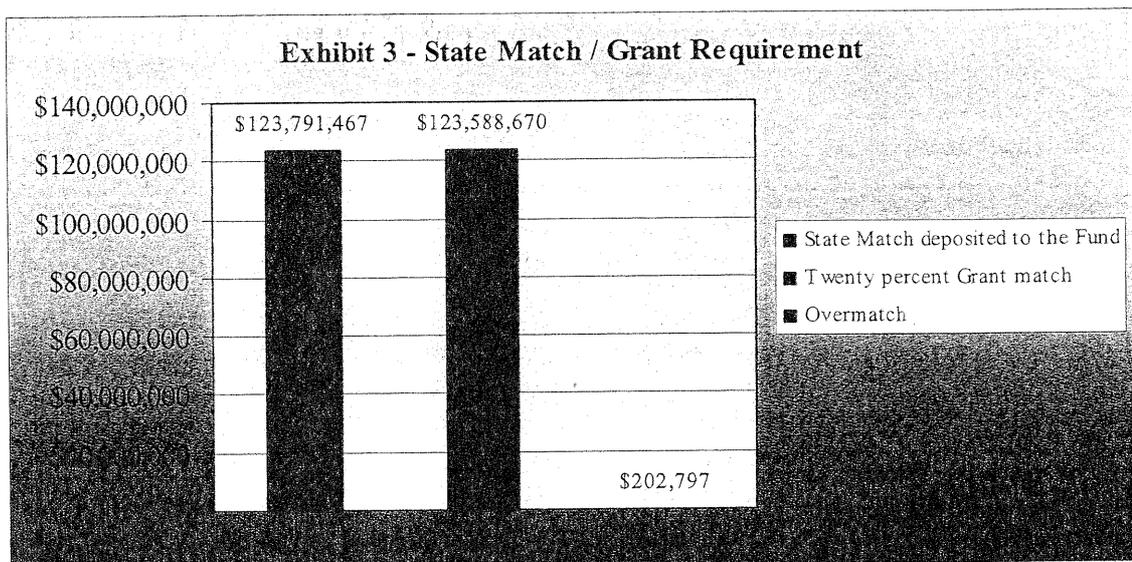
V. DWSRF LOAN AND SET-ASIDE ACTIVITIES

This section provides a detailed discussion of the DWSRF assistance activities during FY 2007 as it relates to Sources of Funds; Use of Funds; and Uses of DWSRF and Set-Aside Funds.

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

1. Capitalization Grants and State Match

Through the end of FY 2007, the TWDB received Capitalization Grants totaling \$617,943,350 from FY 1997 through FY 2007 (Table 1, attached). The TWDB contributed \$12,636,971 in FY 2007 bringing the total State match to \$123,791,467. The State Match of \$123,791,467 is in excess of the match required for all capitalization grants awarded to the State through FY 2007. The twenty percent match for the \$617,943,350 of capitalization grant funds awarded is \$123,588,670 leaving an overmatch of \$202,797 (Exhibit 3).



2. Interest Earnings and Repayments

Principal and interest payments from outstanding loans totaled \$17,960,000 during FY 2007. (See Exhibit 4)

Exhibit 4 - DWSRF Project Loan Repayment and Interest Activity			
Fiscal Year	Principal Paid	Interest Paid	Total Paid in Quarter Period
1998 - 2006	\$26,988,000	\$14,587,967	\$41,575,967
2007	\$12,779,000	\$5,181,940	\$17,960,940
GRAND TOTAL	\$39,767,000	\$19,769,907	\$59,536,907

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

1. Loan Assistance Status:

The FY 2006 Capitalization Grant was placed in the loan account in September of 2006 in the amount of \$57,429,348. FY 2006 funds that were not committed or otherwise obligated after TWDB adoption of the FY 2007 IUP and after the FY 2006 funding cycle has ended were rolled forward to the FY 2007 IUP. The FY 2007 Capitalization Grant has not been received, but is estimated to be \$67,801,000.

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

The TWDB made thirty-one (31) binding commitments for a total of \$204,731,000 in FY 2007.

Twenty-eight (28) commitments were made from the FY 2007 IUP totaling \$173,071,000. Descriptions of all of the commitments are as follows:

- City of Alba (\$1,130,000) The City will use the loan funds to install a new well, replace old 2-inch lines, transfer services from existing 2-inch lines to existing 6-inch lines and install new valves to allow isolation of lines. The project will provide improved water distribution and production capacity. The City is located in northeast Texas at the intersections of US Highway 69 and State Highways 17 and 182, near Mineola.
- City of Aledo (\$5,765,000) The City will make improvements to the water system to address deficiencies identified by the TCEQ, including the presence of elevated levels of radionuclides in the City's groundwater wells. The improvements include the construction of a water transmission line from the City of Fort Worth to provide the City with an alternative water supply source, a booster and metering station, a ground-level storage tank, and an elevated storage tank. These improvements will allow the City to purchase water from Fort Worth. Project funds will also be used to pay for the City's share of certain common facilities to be constructed by Fort Worth. The City is located on FM 1187, approximately 10 miles from the City of Weatherford.

- Bolivar Peninsula Special Utility District (\$5,785,000) The District will use bond proceeds to install 22,000 linear feet of distribution lines and install a new elevated storage tank to address pressure deficiencies within parts of their system. The District is located in the Bolivar Peninsula in Galveston County, across from Galveston Island.
- Bright Star-Salem Water Supply Corporation (\$5,930,000) The Corporation will use the loan proceeds to construct a new raw water intake structure, a new surface water treatment plant, additional distribution lines, and water storage facilities. The project components will correct pressure deficiencies as well as alleviate problems concerning excessive manganese concentrations in one of their main production wells. The Corporation is located 80 miles east of the City of Dallas.
- City of Cisco (\$2,905,000) The City will utilize the loan proceeds to rehabilitate its existing water treatment plant, rehabilitate two storage tanks, replace transmission lines, and upgrade a booster pump station. The City is located in Eastland County, approximately 46 miles east of the City of Abilene.
- City of Commerce – (\$1,909,000) The City will utilize the loan proceeds to carry out water distribution system improvements and replace water meters within the City. The project will include the construction of 17,080 linear feet of water transmission lines and citywide water meter replacement program. The transmission line project is intended to loop dead-end mains and improve water pressure within the water system. The water meter replacement program is intended to improve water measurement, thereby reducing unaccounted for water. The City is located on State Highway 224 approximately 50 miles northeast of Dallas. The City is a wholesale potable water supplier to four water supply corporations: Maloy, West Delta, Gafford Chapel and North Hunt.
- Delta County Municipal Utility District (\$1,475,000) - The District will utilize the loan proceeds to make improvements to the water system including constructing an elevated storage tank, replacing water meters, increasing service pump capacity, constructing a new disinfection facility, making distribution system improvements, SCADA modifications, and constructing a laboratory operations building with secure yard space. The District is located in northeast Texas with an official address in Cooper, Texas.
- City of Fairfield (\$1,500,000) - The City will use the loan proceeds to construct 27,720 feet of water transmission line to interconnect the City's system to the Boyd Prison's ground storage tank. The prison is currently served by a well that is not adequate for the prison's needs. The City is located on Interstate Highway 45 approximately 85 miles southeast of Dallas.
- Golden Water Supply Corporation (\$1,070,000) - The project will increase the capacity of existing water distribution mains, interconnect portions of the service area separated by the Sabine River, and provide service for all residents of the recently expanded certificate of convenience and necessity area. The Corporation is 80 miles east of Dallas.

- Greater Texoma Utility Authority on behalf of the City of Pottsboro (\$1,745,000) - The Authority on behalf of the City of Pottsboro will utilize the loan funds to provide greater transmission capacity to the north end of the system in advance of construction of elevated storage, which will be part of a future project. The Authority is a political subdivision legislatively created to assist with the development of water, sewer and solid waste facilities on a regional basis. The Authority, located in northeast Texas, serves entities in Collin, Cook, Fannin and Grayson counties. The City is located west of Denison on State Highway 120.
- City of Hamilton (\$1,474,000) - The City currently does not have sufficient production/supply capacity. The City has entered into an agreement with the Upper Leon Municipal Utility District to buy treated water. With this project, the City will abandon their existing water treatment plant. The City also plans to rehabilitate some of the existing components of the system, including storage facilities. These improvements will alleviate the City's production and pressure problems. The City is located approximately 60 miles west of Waco on U.S. Highway 281.
- Houston County Water Control and Improvement District No. 1 (\$6,000,000) - The District will use the loan proceeds to finance rehabilitation and improvements to the existing water treatment plant and replacement of raw water lines to address water quality and quantity issues. The District has been in operation since 1966 and is authorized to provide fresh water to the inhabitants of Houston County, Texas.
- City of Fort Worth (\$49,865,000) - The City will utilize loan proceeds to construct water system improvements. The City anticipates construction of a new 25 million gallons per day (mgd) water treatment plant and approximately 25,000 linear feet of 36-inch water transmission lines to assist in meeting demands for quality water for itself and its customer communities. The City is located at the intersection of Interstate Highways 20 and 35W.
- City of Karnes (\$3,600,000) - The City will utilize loan proceeds to construct new water distribution lines to replace original steel, cast iron, and asbestos cement pipe distribution lines constructed in the 1940's. This project addresses problems with water loss and iron. In addition, a portion of the proposed project includes the construction of a water transmission line to convey water from secondary water well being acquired by the City.
- La Joya Water Supply Corporation (\$2,116,000) - The Corporation's existing system has been under TCEQ enforcement actions due to lack of sufficient water treatment capacity, treated water storage capacity, water supply pressure and other maintenance and operation problems. The project will include the construction of 27,051 linear feet of water transmission lines and the construction of two new water wells with a total production capacity of 695 gallons per minute. The Corporation is located in Hidalgo County approximately 15 miles west of the City of McAllen.
- Lake Livingston Water Supply and Sewer Service Corporation (\$17,500,000) - The Corporation operates approximately 56 water systems serving some 115 rural subdivisions in Hardin, Liberty, Polk, San Jacinto, Trinity, Tyler, and Walker

Counties. The project includes the construction of two surface water treatment plants, one at the north edge and the other at the east edge of Lake Livingston. In addition a 150,000-gallon elevated storage tank and transmission mains to supply treated surface water to customers of 12 water systems will be constructed. The treated surface water will replace groundwater obtained from wells that exceed drinking water standards for arsenic or radionuclides. New water wells, pump station expansions, and pipelines are planned for 18 additional systems. The project involves the installation of over 50 miles of water lines. The Corporation is located in seven counties, northwest of the City of Houston.

- Lamar County Water Supply District (\$3,180,000) - The District will use the loan funds to make improvements in water transmission, storage, and distribution to alleviate limitations in delivering water in sufficient quantity throughout the service area. The District is located 100 miles northeast of Dallas, Texas.
- Lower Valley Water District (\$10,245,000) - The District will use the loan proceeds to construct 78,720 feet of water lines and rehabilitate a 225,000 gallon elevated storage tank to provide service and improved pressure to the town of Clint and surrounding areas. The district is located in southeastern El Paso County, with offices in the City of Clint.
- City of Midlothian (\$25,010,000) - The City will utilize the loan proceeds to construct an 8.0 million gallon per day water treatment plant expansion, a raw water pump station, a raw water pipeline, and treated water transmission pipelines. The project components will solve current pressure and production deficiencies. The City is located 25 miles southwest of Dallas and 25 miles southeast of Fort Worth at the intersection of U.S. Highways 67 and 287.
- Porter Special Utility District (\$1,625,000) - The District will use the loan proceeds to replace old, smaller lines with either 6-inch or 12-inch lines to improve distribution and resolve pressure problems. The project will also correct a water quality problem by piping the water from one well having high radionuclides to blend with another source of water. The District is located north of Kingwood on U.S. Highway 59.
- Red River County Water Supply Corporation (\$4,860,000) - The Corporation will utilize the loan proceeds to construct additional water wells, new transmission and distribution lines, and water storage facilities to correct production and pressure deficiencies in the system. The Corporation located in the City of Clarksville.
- Seis Lagos Utility District (\$1,360,000) - The District plans to construct approximately 20,000 linear feet of water distribution lines in order to replace existing deteriorated pipe and to correct pressure deficiencies in the system. The District is located approximately nine miles east of the City of Plano.
- City of Sonora (\$3,000,000) - The City will make improvements to the water distribution system through the replacement of inadequately sized and deteriorated water lines, and by looping portions of the distribution system to address pressure

deficiencies. The City of Sonora (City) is 65 miles south of San Angelo and 90 miles north of Del Rio in the north central portion of Sutton County.

- City of Trinidad (\$410,000) - The City plans to construct a new raw water pump station to replace the existing pump station, rehabilitate an elevated water storage tank, and install new water lines to address water loss and pressure deficiencies. The City is located approximately 15 miles east of Athens.
- Tyler County Water Supply Corporation (\$1,350,000) - The Corporation has received notice of several violations with regard to pressure and storage deficiencies from on-site inspection visits conducted by the TCEQ. The project will bring the system into compliance. Improvements include new wells, new transmission lines, additional storage, and high service pumps. The Corporation is located in Tyler County, approximately 55 miles north of the City of Beaumont.
- Wellborn Special Utility District (\$3,500,000) - The District will utilize the loan proceeds to construct a new surface water treatment plant, raw water intake, pumping station, storage and pressure facilities, and a transmission line from the new plant into the District's distribution system. The new plant will allow the District to augment increasingly unreliable groundwater sources with surface water for a more reliable water supply. The District serves the areas outside the city limits of College Station, in and around the community of Wellborn.
- City of Winters (\$1,680,000) - The City will make improvements to the water treatment system by upgrading the filter, chemical feed, and clarifier systems. Loan proceeds will also be used to install a new Supervisory Control and Data Acquisition System. The TCEQ has cited the City for problems in filtration and disinfection. The improvements will address these deficiencies. The City is located

Three (3) commitments were made from the FY 2006 in FY 2007 totaling \$31,500,000:

- El Paso County Tornillo Water Improvement District (\$600,000) - The District has two active production wells and one elevated storage tank. The District will utilize the loan proceeds to construct a 480 gallon per minute arsenic treatment facility at the site of the elevated storage tank in order to meet the new Federal arsenic standards requirements. The District is an unincorporated community in southeast El Paso County located on U.S. Highway 80/State Highway 20 and is approximately 30 miles from the City of El Paso.
- City of Rio Grande City (\$20,900,000) - The City will construct a 6.0 million gallon per day water treatment plant and raw water intake system. The City is located adjacent to the Rio Grande River approximately 25 miles northwest of McAllen on U.S. Highway 83.
- City of Los Fresnos (\$10,000,000) - The City will utilize the loan proceeds to expand its existing water treatment plant from 1.0 to 2.5 million gallons per day to meet projected 20-year capacity needs. The City is located approximately 10 miles north of Brownsville, Texas.

Disadvantaged Communities: The City of Cisco, Lake Livingston WSSSC, the City of Winters, El Paso Tornillo WID, and the City of Rio Grande City received commitments from the Disadvantaged Communities Program totaling \$34,180,000

- City of Cisco – FY 2007 IUP (\$2,200,000)
- Lake Livingston WSSSC - FY 2007 IUP (\$17,500,000)
- City of Winters – FY 2007 IUP (\$1,680,000)
- El Paso Tornillo - FY 2006 IUP (\$600,000)
- City of Rio Grande City – FY 2006 IUP (\$20,900,000 total commitment; \$12,200,000 Disadvantaged funding)

Through FY 2007, twenty-seven (27) communities have received \$195,767,098 in Disadvantaged Communities funds, which represents 26.67% of the total EPA Capitalization Grants for the DWSRF program (Exhibit 5).

Exhibit 5 - DWSRF Disadvantaged Communities

FY Grant	Grant Amount			Maximum amt of subsidy	Actual amt of subsidy	Actual amt of subsidy	% of Grant Actually used for Disadvantaged	% of Availability Actually used for Disadvantaged
FY 97	\$70,153,800	X	30% =	\$21,046,140	\$20,783,000	\$20,783,000	29.6%	98.7%
FY 98	\$54,014,400	X	30% =	\$16,204,320	\$8,375,000	\$8,375,000	15.5%	51.7%
FY 99/00	\$115,448,700	X	30% =	\$34,634,610	\$38,307,235	\$38,307,235	33.2%	110.6%
FY 2001	\$59,079,800	X	30% =	\$17,723,940	\$21,240,000	\$21,240,000	36.0%	119.8%
FY 2002	\$62,023,700	X	30% =	\$18,607,110	\$19,430,000	\$19,430,000	31.3%	1004%
FY 2003	\$61,651,000	X	30% =	\$18,495,300	\$16,130,000	\$16,130,000	26.2%	49.2%
FY 2004	\$63,953,900	X	25% =	\$15,988,475	\$11,225,000	\$11,225,000	17.6%	70.2%
FY 2005	\$63,818,500	X	25% =	\$15,954,625	\$17,460,000	\$17,460,000	27.4%	109.4%
FY 2006	\$67,799,550	X	30% =	\$20,339,865	\$17,111,000	\$17,111,000	25.2%	144%
FY 2006	\$67,801,000*	X	30% =	\$20,340,300	\$21,380,000	\$21,380,000	31.54%	105%
Totals	\$617,943,350			\$199,334,685	\$195,767,098	\$170,061,235	26.67%	98.2%

*Estimated

Small Communities: In FY 2007, twenty-one (21) small communities received commitments for assistance for \$50,894,000. These communities were:

- City of Alba – FY 2007 IUP (\$1,130,000)
- City of Aledo – FY 2007 IUP (\$5,765,000)
- Bolivar Peninsula SUD FY 2007 - IUP (\$5,785,000)
- Bright Star – Salem WSC - FY 2007 IUP (5,930,000)

- City of Cisco – FY 2007 IUP (\$2,905,000)
- City of Commerce – FY 2007 IUP (\$2,300,000)
- Delta County MUD - FY 2007 IUP (\$1,475,000)
- City of Fairfield TDCJ Boyd Unit – FY 2007 IUP (\$1,500,000)
- Golden WSC – FY 2006 IUP (\$1,070,000)
- Greater Texoma UA/City of Pottsboro – FY 2007 IUP (\$1,745,000)
- City of Hamilton – FY 2007 IUP (\$1,474,000)
- City of Karnes – FY 2007 IUP (\$3,600,000)
- Red River WSC – FY 2007 IUP (\$4,860,000)
- Seis Lagos UD – FY 2007 IUP (\$1,360,000)
- City of Sonora – FY 2007 IUP (\$3,000,000)
- City of Trinidad – FY 2007 IUP (\$250,000)
- Tyler County WSC – FY 2007 IUP (\$1,350,000)
- Wellborn SUD – FY 2007 IUP (\$3,500,000)
- City of Winters – FY 2007 IUP (\$1,680,000)
- City of Tornillo - FY 2006 IUP (\$600,000)
- City of Los Fresnos – FY 2006 IUP (\$10,000,000)

Based on these commitments to small communities in FY 2007, the TWDB has achieved compliance with Section 1452(a) (2) of the SDWA, which requires that 15% of the funds credited to the loan fund be made available to provide assistance to public water systems which regularly serve fewer than 10,000 persons (Exhibit 6).

Exhibit 6 - DWSRF Small Communities (Fewer Than 10,000 Persons)

Grant Year	Grant Amount				Small Community Appropriation	Total Committed under Small Community	% of Grant Actually used for Small Communities
FY 97 Grant	\$70,153,800	X	15%	=	\$10,523,070	\$5,955,000	8%
FY 98 Grant	\$54,014,400	X	15%	=	\$8,102,160	\$14,560,000	27%
FY 99/00 Grants	\$115,448,700	X	15%	=	\$17,317,305	\$34,965,000	30%
FY 2001 Grant	\$59,079,800	X	15%	=	\$8,861,970	\$26,665,000	45%
FY 2002 Grant	\$62,023,700	X	15%	=	\$9,303,555	\$28,745,000	46%
FY 2003 Grant	\$61,651,000	X	15%	=	\$9,247,650	\$7,840,000	13%
FY 2004 Grant	\$63,953,900	X	15%	=	\$9,593,085	\$9,320,000	15%
FY 2005 Grant	\$63,818,500	X	15%	=	\$9,572,775	\$22,715,000	36%
FY 2006 Grant	\$67,799,550	X	15%	=	\$10,169,933	\$36,001,000	53%
FY 2007 Grant*	\$67,801,000	X	15%	=	\$10,170,150	\$50,894,000	75%
Totals	\$685,774,350				\$102,861,653	\$ 237,660,000	
Small Communities Actually Committed							35%

Forgiveness Communities: In FY 2007, one community from the FY 2006 IUP, EL Paso Tornillo Water Improvement District, received a \$600,000 commitment that included \$210,000 in loan forgiveness. Through FY 2007, ten (10) communities have received a total of \$115,077,235 consisting of \$91,559,000 in loans and \$23,518,235 in forgiveness funds (Exhibit 7).

Exhibit 7 - DWSRF Loan Forgiveness							
FY Grant	Grant Amount				Forgiveness Appropriation	Total Committed Under Forgiveness	% of Grant Actually used for Forgiveness
FY 97 Grant	\$70,153,800	X	30%	=	\$21,046,140	\$1,253,000	6%
FY 98 Grant	\$54,014,400	X	30%	=	\$16,204,320	\$0	0%
FY 99/00 Grant	\$115,448,700	X	30%	=	\$34,634,610	\$6,027,235	17%
FY 01 Grant	\$59,079,800	X	30%	=	\$17,723,940	\$6,215,000	35%
FY 02 Grant	\$62,023,700	X	30%	=	\$18,607,110	\$2,791,000	15%
FY 03 Grant	\$61,651,000	X	30%	=	\$18,495,300	\$4,403,000	24%
FY 04 Grant	\$63,953,900	X	30%	=	\$19,186,170	\$0	0%
FY 05 Grant	\$63,818,500	X	30%	=	\$19,145,550	\$2,619,000	14%
FY 06 Grant	67,799,550	X	30%	=	\$20,339,865	\$210,000	0%
FY 07 Grant*	\$67,801,000	X	30%		\$20,340,300	\$0	0
Totals	\$685,744,350				\$205,723,305	\$23,518,235	
Forgiveness Communities Actually Committed							11%

* Estimated

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

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

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

greater than 10,000 to include additional small community projects above the funding line. Bypass of large community projects is used only to ensure that a minimum of 15% total dollars accredited to the fund is made available to small community systems.

2. Set-Aside Activity Status

Federal regulations allow States to 'set aside' up to 31% of the capitalization grant funds for purposes other than loans to water systems. For FY 2007, the TWDB set aside 4% for administering the program. In addition, the TWDB has set aside an amount equal to 10% of the FY 2007 grant for the TCEQ to carry out set-aside activities relating to State Program Management and an additional 2% was set aside for the TCEQ to provide technical assistance to small systems. The TCEQ's FY 2007 Report on its set-aside activities is included as an attachment to this Annual Report.

a) Administrative Set-Aside

Federal regulations governing the DWSRF Program permit a State to reserve its authority to take an amount equal to 4% of the current year's grant from a future grant to defray the cost of administering the program. The TWDB has reserved the authority to set aside funds equal to 4% of prior year's capitalization grant from future capitalization grants to defray costs of program administration. In addition, the TWDB assesses charges for the purpose of recovering administrative costs and places these funds in a separate account for future administrative expenses. Recipients of loan commitments will be assessed 2.25% of the DWSRF loan amount, excluding the amount of the origination charge. The loan origination charge is a one-time charge that is due and payable at the time of loan closing. The loan origination charge may be financed as a part of the DWSRF loan. Charges collected will be deposited into the Administrative Cost Recovery Fund. Monies deposited into the Administrative Cost Recovery Fund will be used only for administration of the DWSRF program, unless the TWDB authorizes the transfer of these funds to the DWSRF Program Account. Administrative Cost Recovery monies transferred to the DWSRF Program Account may be used for any purpose for which other funds in the DWSRF Program Account can be used. Monies in the DWSRF Administrative Cost Recovery Fund will be invested in authorized investments as provided by TWDB order, resolution, or rule. Program activities to be supported by the Administration Account include:

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

The TWDB Program Administration costs for supporting the DWSRF program was \$3,955,955 for FY 2007 bringing the total amount from the start of the program to \$20,543,936 (Exhibit 8).

Exhibit 8 - TWDB Administration Costs	
Draws during:	
FY 1997	\$192,000
FY 1998	\$759,000
FY 1999	\$1,207,086
FY 2000	\$1,457,857
FY 2001	\$2,482,311
FY 2002	\$2,009,547
FY 2003	\$1,133,625
FY 2004	\$1,356,259
FY 2005	\$2,658,648
FY 2006	\$2,974,512
FY 2007	\$3,494,061
FY 2007 Accrued as of 8/31/07	\$461,894
Total Admin	\$20,543,936

b) Small Systems Technical Assistance Set-Aside

The TWDB set aside an additional 2% for the TCEQ to provide technical assistance to small communities under 1452(g) (2) of the SDWA. Technical assistance activities include developing, issuing and managing contracts with professional service vendors to conduct engineering feasibility studies, facility evaluations and reports, financial audits, environmental reviews, cost estimates, technical assistance and project coordination for small public water systems. The TCEQ received a total of \$1,137,743 in 2% set-aside funds in FY 2007 for this activity. Of this amount, \$589,326 was provided from the FY 2003 grant and \$548,417 was provided from the 2004 grant.

c) State Programs Management Set-Aside

An amount equal to 10% of the FY 2007 DWSRF grant was set-aside in FY 2007 for the TCEQ to carry out the following activities related to State Programs Management:

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

The TCEQ received a total of \$6,034,437 in 10% set-aside funds in FY 2007. Of this amount, \$246,381 was provided from the FY 2004 grant and \$5,788,056 was provided from the FY 2005 grant.

d) Local Assistance Set-Aside

Up to 10% of the 15% allowed for the Local Assistance set-aside can be used for one set-aside category. In FY 2007, there were no projects (for Source Water Protection) eligible for funding under this set-aside. However, the TWDB reserves the right to request up to 5% of the FY 2007 grant for capacity development activities.

VI. COMPLIANCE WITH DWSRF GRANT CONDITIONS

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

A. Administrative Conditions

1. The TWDB monitors all projects to insure they move as timely and expeditiously as possible to start construction.
2. The TWDB has complied with standard grant requirements and regulations regarding administration, property management, procurement and financial management, the purchase of items containing recovered materials, use of recycled paper, reporting, and use of equipment, and use of conference/convention/training space.
3. The TWDB has complied with 40 CFR, Part 31.41 regarding submission of the annual FSR.
4. The TWDB understands it must obtain prior clearance from Office of Management and Budget (OMB), through EPA, for obtaining information from 10 or more persons.
5. The TWDB has complied with OMB Circular A-87 as it relates to non-use of Federal and non-Federal funds to engage in lobbying the Federal Government or in litigation against the U.S.
6. The TWDB has disbursed all cash draws in a timely and expeditious manner.
7. The TWDB has complied with the EPA Program for Utilization of Small, Minority, and Women's Business Enterprises in procurement under assistance agreements.

For FY 2007, the TWDB negotiated the following MBE/WBE goals with EPA, Region 6, as follows (Exhibit 9):

Exhibit 9 - DWSRF FY 2007 MBE/WBE Procurement Activity

Total 2006 Procurements	MBE Goals	FY 2007 MBE Actual		WBE Goals	FY 2007 WBE Actual	
		Dollar Value	% of Procurement		Dollar Value	% of Procurement
\$ 58,980,979.93		\$ 1,263,552.33	2.14%		\$ 2,953,974.60	5.01%
Construction	34.0%	\$ 406,262.25	0.69%	8.0%	\$ 1,824,380.00	3.09%
Supplies	18.0%	\$ 467,940.08	0.79%	29.0%	\$ 1,088,694.60	1.85%
Equipment	13.0%	\$ -	0.00%	13.0%	\$ 1,250.00	0.00%
Services	22.0%	\$ 389,350.00	0.66%	26.0%	\$ 39,650.00	0.07%
Overall MBE & WBE Procurements					7.15%	

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

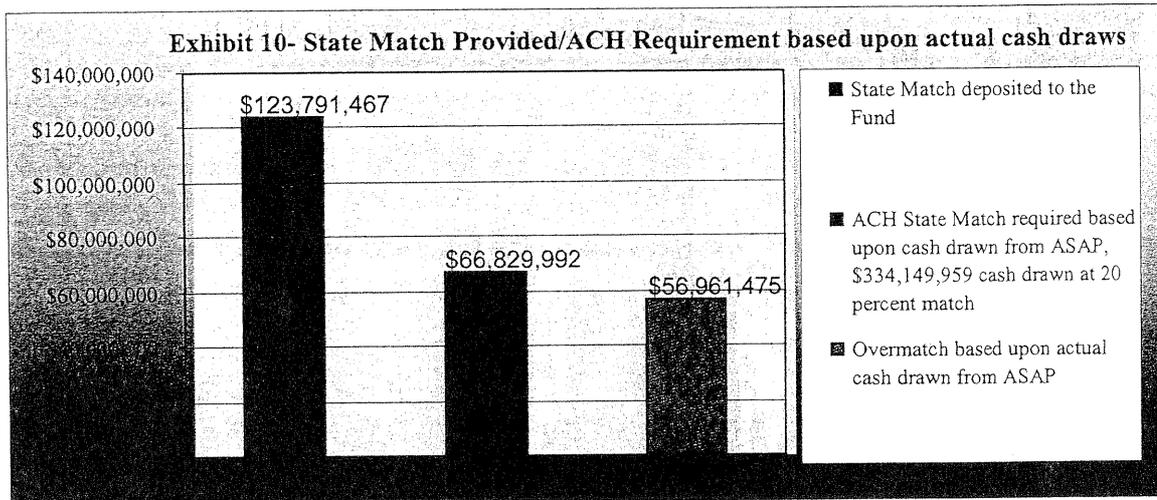
B. Programmatic Conditions

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

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

2. State Match: The TWDB has satisfied state match requirements through match and overmatch funds related to the FY 1993 PWS grant and to allowable State expenditures estimated for the current fiscal year and deposited its match (cash or State LOC) into the Fund in accordance with the requirements of Sec. 35.3550(g). [(Sec. 35.3570(3) (ii)]
3. The TWDB has accepted grant funds in accordance with the payment schedule.

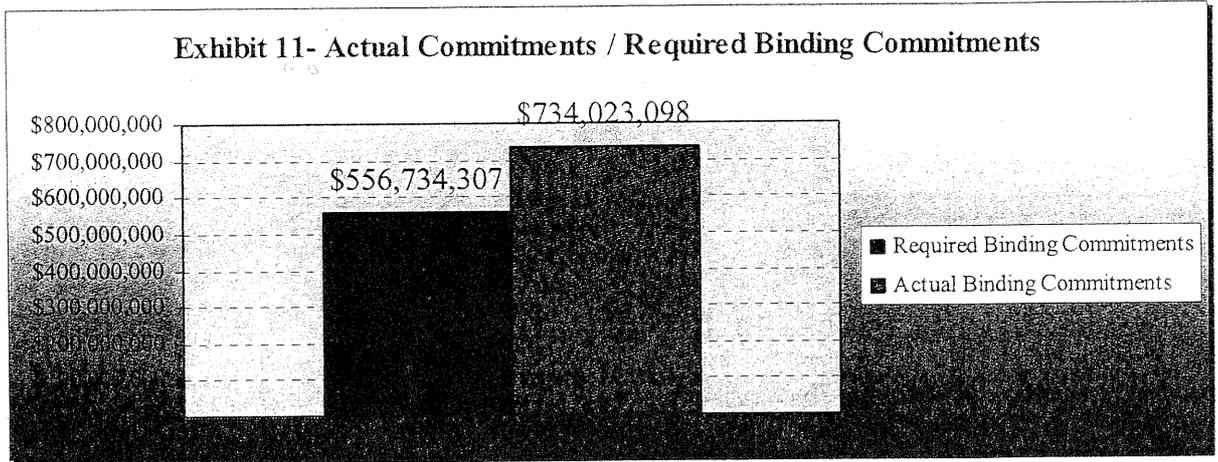
- Cash Draw/Proportionality: The capitalization grant requires the State to deposit matching funds to the SRF in an amount equal to at least 20% of each draw on the EPA/ACH Payment System on or before the date of the cash draw. The TWDB transfers state bond proceeds to the SRF in sufficient amount that the Fund remains overmatched. At the end of FY 2007, total State match that had been deposited to the Fund was \$123,791,467 (Table 1, attached). State match required for cash draws for projects through FY 2007 totaled \$66,829,992 (Table 5, attached) providing an overmatch of \$56,961,475 as summarized in the following graph (Exhibit 10).



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

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

10. Table 2, attached, shows that the State exceeded the requirement to enter into binding commitments in an amount equal to 120% of the amount of each grant payment within one year after the receipt of such grant payment. Binding Commitments required for FY 2007 were \$556,734,307. By August 31, 2007, the State had made binding commitments equal to \$734,023,098 of grant payments through the fourth quarter of FY 2007 which represents 132% of the required amount of binding commitments. Exhibit 11 summarizes the relationship between required and actual commitments for FY 2007.



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

12. The TWDB provided assistance to:

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

Attachment C, Binding Commitments Exhibit, lists all projects that have received assistance through FY 2007.

13. The TWDB used fees for eligible purposes under Sec. 35.3530(b)(2) and (b)(3) and assessed fees included as principal in a loan in accordance with the limitations in Sec. 35.3530(b)(3)(I) through (b)(3)(iii). [Sec. 35.3570(3) (ix)]

14. The TWDB complied with general grant regulations at 40 CRF part 31 and specific conditions of the grant. [Sec. 35.3570(3) (xiv).
15. Funds were not transferred between the DWSRF program and CWSRF program [Sec. 35.3570(3) (x)], nor were fund assets of the DWSRF program and CWSRF program cross- collateralized [Sec.35.3570 (3) (xi)].

TABLE 1

Table 1
Drinking Water SRF Fund Status September 1, 1998 - August 30, 2007

SRF FUND TOTALS

IUP YR	SRF Grant	Required State Match	State Match Provided from Match Bonds	Match Provided From State Appropriations	Total Match Funds	State Overmatch	Net Bond Proceeds	Total Funds
1997	70,153,800	14,030,760	0	0	0	0	0	70,153,800
1998	54,014,400	10,802,880	0	13,166,911	13,166,911	0	0	67,181,311
1999	56,612,200	11,322,440	3,000,000	0	3,000,000	0	0	59,612,200
2000	58,836,500	11,767,300	0	5,843,600	5,843,600	0	0	64,680,100
2001	59,079,800	11,815,960	10,000,000	3,750,000	13,750,000	0	0	72,829,800
2002	62,023,700	12,404,740	14,500,000	4,098,104	18,598,104	0	0	80,621,804
2003	61,651,000	12,330,200	20,000,000	4,098,104	24,098,104	0	0	85,749,104
2004	63,953,900	12,790,780	10,000,000	3,130,403	13,130,403	0	0	77,084,303
2005	63,818,500	12,763,700	0	3,130,403	3,130,403	0	0	66,948,903
2006	67,799,550	13,559,910	12,800,000	3,636,971	16,436,971	0	0	84,236,521
2007			9,000,000	3,636,971	12,636,971		0	12,636,971
	\$617,943,350	\$123,588,670	\$79,300,000	\$44,491,467	\$123,791,467	\$202,797	\$0	\$741,734,817

Total DWSRF Commitments

IUP YR	Commitments	Committed Loan Portion	Forgiveness Portion	Total Funds Committed
1997	6	30,720,000	1,253,000	31,973,000
1998	11	68,365,000		68,365,000
1999/2000	17	80,639,000	6,027,235	86,666,235
2001	7	69,730,000	6,215,000	75,945,000
2002	6	30,544,000	2,791,000	33,335,000
2003	6	25,758,000	4,403,000	30,161,000
2004	9	35,255,000		35,255,000
2005	10	135,271,000	2,619,000	137,890,000
2006	13	68,691,000	210,000	68,901,000
2007	28	173,231,000		173,231,000
	113	\$718,204,000	\$23,518,235	\$741,722,235

LOAN FUNDS ONLY Drawn

IUP YR	Federal Loan Portion	State Loan Portion	Total Loan Portion	Federal		State		Total Federal Drawn	Total State Drawn	Total Drawn
				Forgiveness portion	Forgiveness portion	Forgiveness Portion	Forgiveness Portion			
1997-2006	193,593,680	46,189,322	239,783,002	11,994,465	3,160,038	15,154,503	205,588,145	49,349,360	254,937,505	
2007	53,666,306	13,164,694	66,831,000	2,201,537	570,605	2,772,142	55,867,843	13,735,299	69,603,142	
	\$247,259,986	\$59,354,016	\$306,614,002	\$14,196,002	\$3,730,643	\$17,926,645	\$261,455,988	\$63,084,659	\$324,540,647	

TABLE 2

Table 2
DWSRF GRANT PAYMENTS and BINDING COMMITMENTS by Quarter
FY 1997 - 2007 Projects

	FY 2005				FY 2006				FY 2007			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
	GRANT PAYMENTS											
FY 2004	\$7,000,000	\$8,000,000	\$9,897,562									
Set-Asides	\$0	\$0	\$0									
Loan Fund	\$7,000,000	\$8,000,000	\$9,897,562									
State Match (20% of payment)	\$1,400,000	\$1,600,000	\$1,979,512									
FY 2005	\$13,680,464	\$6,620,237	\$8,620,237	\$10,000,000	\$7,000,000	\$8,000,000	\$9,897,562					
Set-Asides	\$4,105,627	\$620,237	\$620,237	\$0	\$0	\$8,000,000	\$9,897,562					
Loan Fund	\$9,574,837	\$6,000,000	\$8,000,000	\$10,000,000	\$7,000,000	\$8,000,000	\$9,897,562					
State Match (20% of payment)	\$2,736,093	\$1,324,047	\$1,724,047	\$2,000,000	\$1,400,000	\$1,600,000	\$1,979,512	\$0				
FY 2006				\$4,754,695	\$9,136,545	\$6,616,510	\$8,616,510	\$10,000,000				
Set-Asides				\$4,754,695	\$4,136,545	\$616,510	\$616,510					
Loan Fund				\$0	\$5,000,000	\$6,000,000	\$8,000,000	\$10,000,000				
State Match (20% of payment)				\$950,939	\$1,827,309	\$1,323,302	\$1,723,302	\$2,000,000				
FY 2007								\$4,826,199				
Set-Asides								\$4,826,199				
Loan Fund								\$0				
State Match (20% of payment)								\$965,240				
QUARTERLY REQUIRED	\$20,710,930	\$16,924,047	\$21,601,122	\$12,950,939	\$15,227,309	\$16,923,302	\$21,600,376	\$12,965,240				
CUMULATIVE REQUIRED BINDING COMMITMENTS	\$417,831,042*	\$455,466,019	\$477,067,141	\$490,018,080	\$505,245,389	\$522,168,691	\$543,769,068	\$556,734,307				
	FY 2006 BINDING COMMITMENT											
FY 1997 - 2004												
FY 2005	\$26,250,000	\$1,655,000										
FY 2006		\$1,025,000	\$18,611,000	\$17,765,000	\$21,500,000	\$10,000,000						
FY 2007												
QUARTERLY TOTAL	\$26,250,000	\$2,680,000	\$44,567,706	\$17,045,000	\$21,500,000	\$104,907,000	\$73,322,000	\$0				
CUMULATIVE BINDING COMMITMENTS	\$532,675,804	\$561,605,804	\$517,038,098	\$534,083,098	\$555,583,098	\$660,490,098	\$734,023,098	\$734,023,098				
CUM. BINDING COMMITMENTS AS % OF REQUIRED AMOUNT	130.81%	127.45%	108.38%	108.99%	109.96%	126.49%	134.99%	131.84%				
	FY 2007 BINDING COMMITMENTS											
FY 1997 - 2004												
FY 2005												
FY 2006												
FY 2007												
QUARTERLY TOTAL												
CUMULATIVE BINDING COMMITMENTS												
CUM. BINDING COMMITMENTS AS % OF REQUIRED AMOUNT												

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

TABLE 3

Table 3 2007
Grant Balance Summary Sheet as of 08/31/2007

	Grant	Loan portion of grant	TCEQ Portion	SWP Portion	TCEQ 2% Small Systems	TWDB Administration Set Aside
97	\$70,153,800	\$64,847,648	\$2,500,000			\$2,806,152
98	\$54,014,400	\$49,139,400	\$4,875,000			
99	\$56,612,200	\$44,284,672	\$4,505,732	\$5,661,220		\$2,160,576
2000	\$58,836,500	\$53,856,988	\$4,505,732	\$473,780		
2001	\$59,079,800	\$50,915,312	\$5,900,000		\$1,240,474	\$2,264,488
2002	\$62,023,700	\$52,529,766	\$5,900,000		\$1,180,000	\$2,353,460
2003	\$61,651,000	\$52,207,808	\$5,900,000		\$1,180,000	\$2,363,192
2004	\$63,953,900	\$53,897,562	\$6,395,390		\$1,180,000	\$2,480,948
2005	\$63,818,500	\$53,694,240	\$6,381,850		\$1,276,370	\$2,466,040
2006	\$67,799,550	\$57,429,348	\$6,381,850		\$1,276,370	\$2,711,982
Total	\$617,943,350	\$532,802,744	\$53,245,554	\$6,135,000	\$6,153,214	\$19,606,838
	Total Grant \$ DRAWN	Loan Portion Drawn	TCEQ Drawn	SWP Drawn	SS Drawn	Set-Aside Drawn
97	-\$70,153,800	-\$64,847,648	-\$2,500,000			-\$2,806,152
98	-\$54,014,400	-\$49,139,400	-\$4,875,000			
99	-\$56,612,200	-\$44,284,672	-\$4,505,732	-\$5,661,220		-\$2,160,576
2000	-\$58,446,500	-\$53,856,988	-\$4,505,732	-\$83,780		
2001	-\$57,491,768	-\$49,327,280	-\$5,900,000			-\$2,264,488
2002	-\$9,493,934	\$0	-\$5,900,000		-\$1,240,474	-\$2,353,460
2003	-\$9,443,192	\$0	-\$5,900,000		-\$1,180,000	-\$2,363,192
2004	-\$9,424,755	\$0	-\$6,149,009		-\$794,798	-\$2,480,948
2005	-\$8,254,096	\$0	-\$5,788,056		\$0	-\$2,466,040
2006	-\$815,314	\$0	\$0		\$0	-\$815,314
Total	-\$334,149,958	-\$261,455,988	-\$46,023,529	-\$5,745,000	-\$3,215,272	-\$17,710,170
	Grant \$ Remaining	Loan Portion Remainder	TCEQ Remainder	SWP Remainder	SS Remainder	Set-Aside Remainder
97	\$0	\$0	\$0	\$0	\$0	\$0
98	\$0	\$0	\$0	\$0	\$0	\$0
99	\$0	\$0	\$0	\$0	\$0	\$0
2000	\$390,000	\$0	\$0	\$390,000	\$0	\$0
2001	\$1,588,032	\$1,588,032	\$0	\$0	\$0	\$0
2002	\$52,529,766	\$52,529,766	\$0	\$0	\$0	\$0
2003	\$52,207,808	\$52,207,808	\$0	\$0	\$0	\$0
2004	\$54,529,145	\$53,897,562	\$246,381	\$0	\$385,202	\$0
2005	\$55,564,404	\$53,694,240	\$593,794	\$0	\$1,276,370	\$0
2006	\$66,984,236	\$57,429,348	\$6,381,850	\$0	\$1,276,370	\$1,896,668
Total	\$283,793,392	\$271,346,756	\$7,222,025	\$390,000	\$2,937,942	\$1,896,668

TABLE 4

DISPOSITION FY 2007 DWSRF IUP

Rank	Entity	Disadvantaged	Consolidation	Small Community	Loan Amount	Comb. Fact.	Commitment Date	Commitment Amount	Disposition
1	Lake Livingston WSSSC	x	x		\$17,500,000.00	49.23	2/27/2007	\$17,500,000.00	Invited Received Commitment
2	Winters	x	x	x	\$1,680,000.00	13.14	2/27/2007	\$1,680,000.00	Invited Received Commitment
3	Town North Estates			x	\$120,000.00	12.63			Invited Formally declined invitation
4	Cisco	x	x	x	\$2,905,000.00	10.15	2/27/2007	\$2,905,000.00	Invited Received Commitment
5	Quintana			x	\$3,510,000.00	9.38			Invited Did not submit an application
6	Brazoria Co. DC #2			x	\$105,000.00	9.00			Invited Did not submit an application
7	Zapata Co. Water Works	x			\$24,740,000.00	8.50			Invited Did not submit an application
8	Riviera WCID			x	\$1,615,000.00	7.13			Invited Did not submit an application
9	Olsen Estates Water System			x	\$55,000.00	7.04			Invited Did not submit an application
10	Emory		x	x	\$12,295,000.00	6.72			Invited Did not submit an application
11	Prairie Hill WSC			x	\$640,000.00	6.64			Invited Did not submit an application
12	Greenwood WC			x	\$100,000.00	6.22			Invited Did not submit an application
13	Axtell WSC			x	\$760,000.00	5.25			Invited Did not submit an application
14	East Tawakoni			x	\$1,470,000.00	4.97			Invited Did not submit an application
15	Hudson WSC			x	\$530,000.00	4.68			Invited Did not submit an application
16	Aledo			x	\$5,765,000.00	4.40	4/24/2007	\$5,765,000.00	Invited Received Commitment
17	Annona	x	x	x	\$400,000.00	4.35			Invited Did not submit an application
18	Houston Co. WCID No. 1	x	x		\$6,000,000.00	4.00	2/27/2007	\$6,000,000.00	Invited Received Commitment
19	Cottonwood Shores			x	\$2,020,000.00	3.65			Invited Formally declined invitation
20	Cyndie Park II WSC			x	\$25,000.00	3.32			Invited Did not submit an application
21	Lamar WSC			x	\$925,000.00	3.25			Invited Did not submit an application
22	Marfa	x		x	\$3,875,000.00	3.25			Invited Did not submit an application
23	Kenedy Manor			x	\$60,000.00	3.22			Invited Did not submit an application
24	Fort Worth		x		\$49,870,000.00	3.05	3/27/2007	\$49,865,000.00	Invited Received Commitment
25	Upper Trinity Regional Water District		x		\$3,095,000.00	3.00			Invited Formally declined invitation
26	Clarksville	x		x	\$9,105,000.00	2.52			Invited Formally declined invitation
27	Opdyke West			x	\$1,125,000.00	2.50			Invited Did not submit an application
28	Oglesby	x		x	\$615,000.00	2.50			Invited Did not submit an application
29	Wolfe City	x		x	\$2,290,000.00	2.50			Invited Formally declined invitation
30	Delta Co. MUD	x	x	x	\$1,480,000.00	2.50	3/27/2007	\$1,475,000.00	Invited Received Commitment
31	Groveton	x		x	\$5,255,000.00	2.25			Invited Did not submit an application
32	Trinidad	x		x	\$410,000.00	2.25	2/27/2007	\$410,000.00	Invited Received Commitment
33	Red River Co. WSC	x			\$4,860,000.00	2.25	2/27/2007	\$4,860,000.00	Invited Received Commitment
34	Donna	x			\$3,210,000.00	2.25			Invited Did not submit an application
35	La Joya WSC	x			\$2,120,000.00	2.25	3/27/2007	\$3,967,000.00	Invited Received Commitment
36	Commerce	x	x		\$2,300,000.00	2.13	5/22/2007	\$2,300,000.00	Invited Received Commitment
37	Menard	x		x	\$2,055,000.00	2.00			Invited Formally declined invitation
38	Winnaboro	x		x	\$1,685,000.00	2.00			Invited Formally declined invitation
39	Dublin	x	x	x	\$220,000.00	2.00			Invited Did not submit an application
40	Tyler Co. WSC	x			\$1,350,000.00	2.00	4/24/2007	\$1,350,000.00	Invited Received Commitment
41	Karnes	x		x	\$6,845,000.00	1.50	3/27/2007	\$3,600,000.00	Invited Received Commitment
42	Los Fresnos	x		x	\$14,415,000.00	1.50			Invited Did not submit an application
43	Hamilton	x	x	x	\$1,474,000.00	1.38	2/27/2007	\$1,474,000.00	Invited Received Commitment
44	Roxton	x		x	\$1,330,000.00	1.25			Invited Formally declined invitation
45	Point	x		x	\$2,675,000.00	1.25			Invited Did not submit an application
46	410 WSC	x		x	\$3,090,000.00	1.25			Invited Formally declined invitation
47	Harris Co. WCID No. 36	x			\$12,150,000.00	1.25	5/22/2007	\$5,000,000.00	Invited Received Commitment
48	Ralston Acres WSC			x	\$25,000.00	1.00			Invited Did not submit an application
49	Canyon Ridge Investment Co.			x	\$200,000.00	1.00			Invited Formally declined invitation
50	Alba	x		x	\$1,130,000.00	1.00	2/27/2007	\$1,130,000.00	Invited Received Commitment
51	Angelina Co. FWSD No. 1			x	\$1,000,000.00	1.00			Invited Formally declined invitation
52	Detroit	x		x	\$1,020,000.00	1.00			Invited Formally declined invitation
53	Maud			x	\$575,000.00	1.00			Invited Formally declined invitation
54	Seis Lagos UD			x	\$1,360,000.00	1.00	2/27/2007	\$1,360,000.00	Invited Received Commitment
55	Greater Texoma UA/Pottsboro			x	\$1,780,000.00	1.00	2/27/2007	\$1,745,000.00	Invited Received Commitment
56	Victoria Co. WCID No. 1			x	\$2,795,000.00	1.00			Invited Did not submit an application
57	Sonora			x	\$7,230,000.00	1.00	2/27/2007	\$3,000,000.00	Invited Received Commitment
58	La Joya	x		x	\$3,650,000.00	1.00			Invited Did not submit an application
59	Fairfield	x	x	x	\$11,500,000.00	1.00			Invited Did not submit an application
60	Coleman	x	x		\$2,540,000.00	1.00			Invited Formally declined invitation
61	Wellborn SUD				\$3,500,000.00	1.00	2/27/2007	\$3,500,000.00	Invited Received Commitment
62	Lamar Co. WSD	x			\$3,180,000.00	1.00	2/27/2007	\$3,180,000.00	Invited Received Commitment
63	Midlothian			x	\$25,010,000.00	1.00	2/27/2007	\$25,010,000.00	Invited Received Commitment
64	Lower Valley Water District	x			\$10,245,000.00	1.00	2/27/2007	\$10,245,000.00	Invited Received Commitment
65	Friendswood				\$13,740,000.00	0.75			Invited Did not submit an application
66	Trenton			x	\$3,115,000.00	0.50			Invited Did not submit an application
67	Bright Star - Salem WSC			x	\$5,930,000.00	0.50	2/27/2007	\$5,930,000.00	Invited Received Commitment

DISPOSITION FY 2007 DWSRF IUP

Line	Entity	Disposal app	Completions	Local Community	Loan Amount	Comb. Fact.	Commitment Date	Commitment Amount	Disposition
68	Bolivar Peninsula SUD				\$5,785,000.00	0.50	2/27/2007	\$5,785,000.00	Invited Received Commitment
69	Golden WSC			x	\$1,070,000.00	0.38	2/27/2007	\$1,070,000.00	Invited Received Commitment
70	New Caney MUD				\$2,445,000.00	0.25			Invited Did not submit an application
71	Levelland				\$310,000.00	0.25			Invited Formally declined invitation
72	Porter SUD		x		\$1,625,000.00	0.25	2/27/2007	\$1,625,000.00	Invited Received Commitment
73	Nacogdoches				\$11,700,000.00	0.25			Invited Did not submit an application
74	San Antonio Water Systems				\$11,525,000.00	0.25			Invited Formally declined invitation
75	Farmersville		x	x	\$2,210,000.00	0.13			Invited Formally declined invitation
76	Hancock Oak Hills			x	\$85,000.00	-			Invited Did not submit an application
77	Flying L. PUD			x	\$380,000.00	-			Invited Did not submit an application
78	Winfield			x	\$455,000.00	-			Invited Did not submit an application
79	Fairfield - TDCJ Boyd Unit			x	\$1,500,000.00	-	2/27/2007	\$1,500,000.00	Invited Received Commitment
80	Possum Kingdom WSC			x	\$1,715,000.00	-			Invited Did not submit an application
81	La Grulla		x		\$5,120,000.00	-			Invited Did not submit an application
82	Tomball				\$2,515,000.00	-			Invited Formally declined invitation

TABLE 5

Table 5
DWSRF Federal Draws During FY 2007

	Sept - Nov Qtr 1	Dec - Feb Qtr 2	March - May Qtr 3	June - Aug Qtr 4	Total
ACH Available (Beginning)*	\$263,017,021	\$287,957,747	\$271,845,347	\$262,867,393	\$263,017,021
Cumulative ACH Payments	31,945,474	12,926,756	13,706,879	3,227,058	61,806,167
Cash draws from ACH (10% Set-Asides/Admin)	-1,037,496	-952,344	-881,358	-980,000	-3,851,198
Cash draws from ACH (2% TCEQ Set-Asides/Admin)	-16,523	-280,119	-765,103	-75,998	-1,121,220
Cash draws from ACH (10% TCEQ Set-Asides/Admin)		-1,480,803	-2,938,578	-1,615,056	-6,050,960
Cash draws from SWP		-3,600,000			-3,600,000
Cash Draws from ACH (Construction)	-5,950,729	-22,725,890	-18,099,795	-5,491,429	-52,267,843
Total Cash Draws	-7,004,748	-29,039,156	-22,684,834	-8,162,483	-66,891,221
ACH Available**(Ending)	\$287,957,747	\$271,845,347	\$262,867,393	\$257,931,967	\$257,931,967

Table 5A
Total all DWSRF Federal Draws from FY 1998 - FY 2007

FY	Federal	Actual State Match Drawn	Total Funds Drawn
1998 - 2006	267,258,738	49,349,355	316,608,093
2007	66,891,221	13,649,828	80,541,049
Totals	\$334,149,959	\$62,999,183	\$397,149,142

TABLE 6

Table 6 - Completed DWSRF Projects as of 08/31/2007

Date of Loan:	Recipient Name (Project Number):	Loan Amount:	Minimum Interest Rate	Maximum Interest Rate	1st Date	Last Date	Date of project completion:
08-Apr-04	ALVORD, CITY OF (60983)	\$360,000.00	0.00%	3.40%	10/1/2004	10/1/2023	1/26/2006
07-Aug-01	BALLINGER, CITY OF (60532)	\$5,250,000.00	2.55%	4.30%	6/1/2004	6/1/2023	10/24/2005
13-Jul-00	BENTON CITY WSC (60535)	\$145,000.00	1.00%	1.00%	10/1/2001	10/1/2030	8/15/2006
06-Nov-00	BRADY, CITY OF (60537)	\$6,115,000.00	0.00%	0.00%	5/1/2002	5/1/2031	5/11/2007
					Loan Forgiveness	Loan Forgiveness	
06-Nov-00	BRADY, CITY OF (60537)	\$3,290,000.00	0.00%	0.00%	Loan Forgiveness	Loan Forgiveness	5/11/2007
06-Apr-00	BROWNWOOD, CITY OF (60539)	\$6,925,000.00	3.10%	4.65%	3/15/2002	3/15/2021	5/8/2006
08-Aug-02	BURLESON CO MUD #1 (60541)	\$1,440,000.00	1.50%	4.15%	6/1/2005	6/1/2034	1/13/2006
13-Sep-05	BURLESON CO MUD #1 (60541)	\$135,000.00	1.65%	3.65%	6/1/2006	6/1/2035	1/13/2006
23-Nov-99	CORSICANA, CITY OF (60135)	\$10,865,000.00	3.00%	4.60%	8/15/2001	8/15/2020	3/3/2005
26-Jul-02	DEL RIO, CITY OF (60811)	\$6,435,000.00	1.15%	3.95%	6/1/2004	6/1/2022	6/28/2006
20-Nov-00	DEL RIO, CITY OF (60632)	\$6,173,000.00	0.00%	0.00%	6/1/2001	6/1/2020	6/28/2006
03-Apr-01	DEL RIO, CITY OF (60632)	\$5,400,000.00	0.00%	0.00%	6/1/2002	6/1/2021	1/29/2003
15-Sep-00	DEPORT, CITY OF (60550)	\$350,000.00	3.10%	4.35%	9/1/2001	9/1/2020	4/2/2003
24-May-01	EAST MEDINA CO SUD (60429)	\$3,200,000.00	1.85%	3.70%	7/1/2002	7/1/2021	3/28/2003
20-Dec-99	EL PASO, CITY OF (60431)	\$15,190,000.00	3.20%	4.70%	3/1/2002	3/1/2021	2/24/2003
27-Feb-02	GOLDEN WSC (60567)	\$850,000.00	1.01%	4.55%	7/1/2002	7/1/2022	12/1/2005
21-Dec-99	GREATER TEXOMA UA (60126)	\$325,000.00	2.70%	4.70%	10/1/2000	10/1/2019	9/20/2000
06-Jun-02	HOUSTON, CITY OF (60572)	\$6,135,000.00	1.25%	3.75%	12/1/2004	12/1/2023	1/24/2007
15-May-01	HUDSON OAKS, CITY OF (60573)	\$1,320,000.00	3.15%	4.40%	8/1/2001	8/1/2020	9/11/2003
09-Jul-99	KOUNTZE, CITY OF (60321)	\$930,000.00	0.00%	0.00%	3/15/2000	3/15/2024	9/28/2004
14-Dec-00	LNVA (60582)	\$20,520,000.00	0.00%	0.00%	8/1/2006	8/1/2035	2/15/2007
					Loan Forgiveness	Loan Forgiveness	
14-Dec-00	LNVA (60582)	\$2,737,235.00	0.00%	0.00%	Loan Forgiveness	Loan Forgiveness	2/15/2007
29-May-02	MEXIA, CITY OF (60584)	\$560,000.00	1.97%	4.97%	8/15/2003	8/15/2022	11/9/2004
11-May-05	MEXIA, CITY OF (61159)	\$605,000.00	1.19%	4.69%	8/15/2005	8/15/2024	6/26/2006
22-Oct-03	MOUNT CALM, CITY OF (60904)	\$331,000.00	0.25%	3.80%	3/1/2005	3/1/2024	9/22/2004
07-Mar-00	NORTHEAST TEXAS MWD (60465)	\$6,800,000.00	2.75%	4.60%	9/1/2001	9/1/2020	8/2/2002
16-Oct-02	OLNEY, CITY OF (60825)	\$1,250,000.00	0.30%	3.65%	9/1/2003	9/1/2022	4/28/2005
14-Dec-01	ORANGE CO WCID #1 (60589)	\$2,600,000.00	1.25%	3.90%	2/15/2003	2/15/2022	8/18/2005
15-Jul-02	PALMER, CITY OF (60468)	\$1,415,000.00	0.70%	4.00%	7/1/2003	7/1/2022	12/15/2004
18-Nov-02	POSSUM KINGDOM WSC (60175)	\$4,700,000.00	1.00%	1.00%	12/15/2004	12/15/2023	3/18/2004
24-Jul-02	RAYMONDVILLE, CITY OF (60596)	\$3,245,000.00	1.05%	4.30%	4/1/2003	4/1/2022	3/16/2006
08-Jul-99	SWEETWATER, CITY OF (60503)	\$7,315,000.00	1.60%	3.45%	8/15/2000	8/15/2020	8/18/2004
24-Jan-01	TIOGA, CITY OF (60608)	\$580,000.00	3.20%	4.40%	4/1/2002	4/1/2031	6/29/2005
06-Jul-00	VERNON, CITY OF (60612)	\$5,665,000.00	3.50%	4.55%	3/15/2002	3/15/2021	1/21/2004
30-Aug-00	WEST JEFFERSON CO MWD (60614)	\$4,195,000.00	3.40%	4.50%	4/1/2003	4/1/2022	7/26/2004
	Total:	\$143,351,235.00					

TABLE 7

Table 7 - DWSRF Projects in Construction as of 08/31/2007

Date of the loan:	Entity name (Project Number):	Amt of Loan:	Amount Entity Received to 8-31-2007:	Minimum Interest Rate	Maximum Interest Rate	Loan Term, 1st Date	Loan Term, Last Date
27-Jul-06	BAYTOWN AREA WA (61020)	\$13,290,000.00	6,990,000.00	2.25%	3.15%	5/1/2007	5/1/2026
29-Mar-06	BONHAM, CITY OF (61022)	\$7,355,000.00	560,000.00	0.00%	0.00%	2/15/2007	2/15/2036
20-Jan-00	BROOKELAND F.W.S.D (10337)	\$1,945,000.00	1,945,000.00	3.05%	4.80%	9/1/2001	9/1/2020
20-Nov-06	BROWN CO WID #1 (21543)	\$20,490,000.00	2,040,000.00	2.15%	2.95%	2/1/2009	2/1/2028
01-Jul-04	BROWNWOOD, CITY OF (60943)	\$6,335,000.00	3,540,000.00	0.30%	3.35%	3/15/2006	3/15/2025
24-Apr-03	EAGLE PASS, CITY OF (60813)	\$11,545,000.00	11,545,000.00	0.00%	0.00%	12/1/2005	12/1/2034
24-Apr-03	EAGLE PASS, CITY OF (60813)	\$6,215,000.00	\$6,215,000.00	0.00%	0.00%	Forgiveness	Loan
24-Apr-03	EAGLE PASS, CITY OF (60813)	\$7,455,000.00	7,455,000.00	0.00%	3.70%	12/1/2003	12/1/2032
13-Oct-04	EAGLE PASS, CITY OF (60813)	\$5,400,000.00	3,775,000.00	0.00%	0.00%	12/1/2005	12/1/2004
17-Apr-02	EAGLE PASS, CITY OF (60813)	\$4,590,000.00	0.00	terms not set	terms not set	Loan	Loan
13-Oct-04	EAGLE PASS, CITY OF (60813)	\$2,905,000.00	2,031,297.94	0.00%	0.00%	Forgiveness	Forgiveness
12-Apr-07	EAST CEDAR CREEK F.W.S.D (61125)	\$730,000.00	50,000.00	2.55%	3.15%	7/1/2008	7/1/2027
30-Dec-03	EL JARDIN WSC (60916)	\$3,550,000.00	1,055,000.00	1.45%	5.20%	9/1/2004	9/1/2033
28-Jul-06	FLATONIA, CITY OF (61229)	\$660,000.00	70,000.00	0.00%	0.00%	9/1/2007	9/1/2026
15-Dec-05	FORT WORTH, CITY OF (61152)	\$64,520,000.00	53,415,000.00	1.65%	2.95%	3/1/2007	3/1/2025
22-Sep-06	GROESBECK, CITY OF (61233)	\$1,025,000.00	175,000.00	0.00%	0.00%	8/15/2007	8/15/2036
15-Dec-00	HAMLIN, CITY OF (60568)	\$5,500,000.00	5,500,000.00	0.00%	0.00%	3/1/2002	3/1/2031
17-Oct-03	JUNCTION, CITY OF (60736)	\$3,480,000.00	240,000.00	0.10%	4.20%	3/1/2004	3/1/2033
14-Dec-00	LUFKIN, CITY OF (60452)	\$16,000,000.00	11,890,000.00	2.95%	4.10%	11/1/2002	11/1/2021
17-Mar-06	MARLIN, CITY OF (61442)	\$10,710,000.00	1,141,000.00	0.00%	0.00%	7/1/2007	7/1/2036
17-Mar-06	MARLIN, CITY OF (61442)	\$1,890,000.00	159,567.47	0.00%	0.00%	Forgiveness	Loan
13-Feb-04	MILLERSVIEW-DOOLE WSC (60748)	\$15,816,000.00	10,812,000.00	0.00%	0.00%	12/1/2005	12/1/2034
13-Feb-04	MILLERSVIEW-DOOLE WSC (60748)	\$2,791,000.00	1,907,802.03	0.00%	0.00%	Forgiveness	Loan
	MILLERSVIEW-DOOLE WSC (60748)	\$823,000.00	0.00	terms not set	terms not set	Forgiveness	Forgiveness
22-Mar-01	NACOGDOCHES, CITY OF (60585)	\$18,835,000.00	18,835,000.00	2.40%	3.65%	3/1/2003	3/1/2030
11-Jun-02	NACOGDOCHES, CITY OF (60749)	\$17,630,000.00	7,655,000.00	1.15%	3.85%	3/1/2004	3/1/2034
22-Apr-03	NORTHEAST TEXAS MWD (60850)	\$12,400,000.00	3,180,000.00	1.38%	4.03%	9/1/2007	9/1/2026
22-Apr-03	NORTHEAST TEXAS MWD (60850)	\$8,650,000.00	1,350,000.00	0.74%	4.14%	9/1/2005	9/1/2024
05-Oct-00	PECOS CITY, TOWN OF (60481)	\$8,375,000.00	8,315,000.00	1.00%	1.00%	6/15/2001	6/15/2020
14-Jan-05	PORT LAVACA, CITY OF (61045)	\$1,535,000.00	510,000.00	0.60%	3.55%	2/15/2006	2/15/2005
25-Feb-04	RENO CITY OF (60906)	\$1,145,000.00	1,145,000.00	0.10%	3.60%	1/1/2005	1/1/2024
18-Feb-00	ROMA, CITY OF (10043)	\$2,327,000.00	2,327,000.00	0.00%	0.00%	11/1/2000	11/1/2029
18-Feb-00	ROMA, CITY OF (10043)	\$1,253,000.00	1,253,000.00	0.00%	0.00%	Loan	Loan
26-Oct-06	ROUND ROCK, CITY OF (61262)	\$12,000,000.00	355,000.00	2.20%	2.95%	8/1/2008	8/1/2026
01-Jun-06	SANTA ROSA, CITY OF (10016)	\$2,180,000.00	1,125,000.00	2.45%	3.50%	2/1/2007	2/1/2026
28-Sep-01	SUNBELT F.W.S.D (60630)	\$2,630,000.00	2,475,000.00	1.05%	3.55%	12/1/2002	12/1/2026
05-Oct-00	WALNUT GROVE WSC (60613)	\$25,000.00	25,000.00	5.68%	6.28%	9/1/2002	9/1/2021
09-Sep-03	WILLIS, CITY OF (60934)	\$3,245,000.00	790,000.00	0.15%	3.80%	8/1/2004	8/1/2023
Totals:		\$307,250,000.00	\$181,851,667.44				

ATTACHMENT A

**TEXAS WATER DEVELOPMENT BOARD
DRINKING WATER STATE REVOLVING FUND
PROJECTED ANNUAL CASH FLOW COVERAGE
AS OF AUGUST 31, 2007**

Minimum Coverage 1.58

Fiscal Year Ending 8/31	I&S Fund	Projected Revenues To Pay Debt Service (2)	Total Projected Match Bond Debt Service (3)	Coverage on Total Debt Service	Net Balance After Debt Service	Cash Balances Not Used For Debt Service (4)	Projected Fee Income (5)	Projected Operating Expenses
2008 (1)	\$3,048,138	\$6,248,028	\$5,801,506	1.60	\$3,494,660	\$101,922,328	\$1,231,324	\$3,886,675
2009		11,358,883	5,852,460	1.94	\$5,506,423		\$1,231,324	3,886,675
2010		13,281,353	5,888,549	2.26	\$7,392,803		\$1,231,324	4,003,276
2011		15,110,272	5,940,158	2.54	\$9,170,114		\$1,231,324	4,123,374
2012		16,857,006	5,976,308	2.82	\$10,880,698		\$1,231,324	4,247,075
2013		18,301,485	6,007,275	3.05	\$12,294,210		\$1,231,324	4,247,075
2014		17,544,437	6,052,872	2.90	\$11,491,565		\$1,231,324	4,247,075
2015		16,744,270	6,091,959	2.75	\$10,652,311		\$1,231,324	4,247,075
2016		15,901,674	6,118,728	2.60	\$9,782,946		\$1,231,324	4,247,075
2017		15,030,111	6,157,728	2.44	\$8,872,383		\$1,231,324	4,247,075
2018		14,133,033	6,183,760	2.29	\$7,949,272		\$1,231,324	4,247,075
2019		13,221,909	6,221,033	2.13	\$7,000,876		\$1,231,324	4,247,075
2020		12,301,829	6,258,730	1.97	\$6,043,100		\$1,231,324	4,247,075
2021		11,357,160	6,036,481	1.88	\$5,320,679		\$1,231,324	4,247,075
2022		10,440,948	6,066,557	1.72	\$4,374,391		\$1,231,324	4,247,075
2023		9,631,707	6,101,022	1.58	\$3,530,685		\$1,231,324	4,247,075
2024		8,915,011	5,287,867	1.69	\$3,627,144		\$1,231,324	4,247,075
2025		8,246,583	4,125,033	2.00	\$4,121,551		\$1,231,324	4,247,075
2026		7,601,411	2,507,951	3.03	\$5,093,460		\$1,231,324	4,247,075
2027		6,938,890	1,682,070	4.13	\$5,256,821		\$1,231,324	4,247,075
2028		6,129,206	680,969	9.00	\$5,448,237		\$1,231,324	4,247,075
2029		5,422,988	678,927		\$4,744,061		\$1,231,324	4,247,075
2030		4,825,035	-		\$4,825,035		\$1,231,324	4,247,075
2031		4,338,358			\$4,338,358		\$1,231,324	4,247,075
2032		4,015,019			\$4,015,019		\$1,231,324	4,247,075
2033		3,915,819			\$3,915,819		\$1,231,324	4,247,075
2034		3,817,342			\$3,817,342		\$1,231,324	4,247,075
2035		3,719,693			\$3,719,693		\$1,231,324	4,247,075
2036		3,621,828					\$1,231,324	4,247,075
2037		3,520,202					\$1,231,324	4,247,075
2038		3,390,639					\$1,231,324	4,247,075
2039		3,281,038					\$1,231,324	4,247,075
2040		3,192,167					\$1,231,324	4,247,075
2041		3,124,821					\$1,231,324	4,247,075
2042		-					\$1,231,324	4,247,075
2043		-					\$1,231,324	4,247,075
		\$305,480,155	\$111,717,941					

- (1) I&S and Depository Fund Balances as of August 31, 2007
- (2) Represents the total income available to pay debt service.
- (3) Represents the Match Debt Service requirements.
- (4) These funds are available and used for new loans.
- (5) The service charges are fees charged to borrowers to cover the administrative costs of the program. The fees in all years are based upon the assumption that \$55,956,833 in principal amount of loans are made per year based on installments with charges of 2.25% of the loan amount. Fees are collected outside of the State Revolving Fund based upon Federal requirements. Borrowers are being provided an additional reduction in loan rates to offset the charges. This is reflected in the cash flow loan rate assumptions.

**TEXAS WATER DEVELOPMENT BOARD
DRINKING WATER STATE REVOLVING FUND
PROJECTED SOURCES OF REVENUES
AS OF AUGUST 31, 2007**

Fiscal Year Ending 8/31	Scheduled Income from Outstanding Loans: INTEREST (2)	Projected Income from Committed Political Subdivisions INTEREST only (3)	Investment Income (5)	Projected Revenue To Pay Debt Service
2008 (1)	\$5,647,392		\$600,636	\$6,248,028
2009	\$5,984,948	\$2,291,849	\$3,082,086	\$11,358,883
2010	\$5,688,533	\$4,510,734	\$3,082,086	\$13,281,353
2011	\$5,374,160	\$6,654,026	\$3,082,086	\$15,110,272
2012	\$5,055,920	\$8,719,000	\$3,082,086	\$16,857,006
2013	\$4,731,612	\$10,487,788	\$3,082,086	\$18,301,485
2014	\$4,359,803	\$10,102,547	\$3,082,086	\$17,544,437
2015	\$3,958,771	\$9,703,412	\$3,082,086	\$16,744,270
2016	\$3,529,713	\$9,289,874	\$3,082,086	\$15,901,674
2017	\$3,086,619	\$8,861,405	\$3,082,086	\$15,030,111
2018	\$2,633,488	\$8,417,458	\$3,082,086	\$14,133,033
2019	\$2,182,356	\$7,957,466	\$3,082,086	\$13,221,909
2020	\$1,738,904	\$7,480,839	\$3,082,086	\$12,301,829
2021	\$1,288,107	\$6,986,967	\$3,082,086	\$11,357,160
2022	\$883,645	\$6,475,217	\$3,082,086	\$10,440,948
2023	\$604,691	\$5,944,930	\$3,082,086	\$9,631,707
2024	\$437,500	\$5,395,425	\$3,082,086	\$8,915,011
2025	\$338,503	\$4,825,994	\$3,082,086	\$8,246,583
2026	\$283,422	\$4,235,903	\$3,082,086	\$7,601,411
2027	\$232,414	\$3,624,390	\$3,082,086	\$6,938,890
2028	\$183,375	\$2,863,745	\$3,082,086	\$6,129,206
2029	\$133,915	\$2,206,987	\$3,082,086	\$5,422,988
2030	\$85,092	\$1,657,857	\$3,082,086	\$4,825,035
2031	\$36,043	\$1,220,228	\$3,082,086	\$4,338,358
2032	\$22,904	\$910,029	\$3,082,086	\$4,015,019
2033	\$11,117	\$822,616	\$3,082,086	\$3,915,819
2034	\$3,403	\$731,852	\$3,082,086	\$3,817,342
2035		\$637,607	\$3,082,086	\$3,719,693
2036		\$539,742	\$3,082,086	\$3,621,828
2037		\$438,116	\$3,082,086	\$3,520,202
2038		\$308,553	\$3,082,086	\$3,390,639
2039		\$198,952	\$3,082,086	\$3,281,038
2040		\$110,080	\$3,082,086	\$3,192,167
2041		\$42,735	\$3,082,086	\$3,124,821
2042				
2043				
	<u>\$58,516,346</u>	<u>144,654,323</u>	<u>\$102,309,486</u>	<u>\$305,480,155</u>

(1) Represents revenues projected for the fiscal year ending August 31, 2008.

(2) Represents scheduled interest repayments on \$268,975,000 in outstanding principal amount of Political Subdivision Bonds as of August 31, 2007.

(3) Represents projected Repayments on 20% over 5 years from committed Political Subdivision Bonds that the Board has approved for funding and made a binding commitment to purchase, subject to availability of funds and compliance by Political Subdivisions with certain conditions. The actual interest rates are not determined until approximately 45 days prior to closing, and are based upon Board rules which consider market rate at the time and other characteristics of the loan (bonds). Political Subdivision Bonds have an assumed interest rate of 4.83% for Taxable Loans under Mainstream and Disadvantage 30 year Loans, 3.45% for Tax Exempt Loans under Mainstream and Disadvantage 30 year Loans ".

(4) Assumes investment income from the investment of the Interest and Sinking Fund at 4.94% per annum for the first year.

Starting with the year 2009 : Using the average Cash Balance for the past 5 years \$77,988,015.79 and calculate only 80% of this amount earning a yearly cash management rate of 4.94%.

**TEXAS WATER DEVELOPMENT BOARD
DRINKING WATER STATE REVOLVING FUND
DEBT SERVICE ON OUTSTANDING BONDS
AS OF AUGUST 31, 2007**

Fiscal Year Ending	Match Bonds (2)		
	8/31	Principal	Interest
2008 (1)	\$2,350,000	\$3,451,506	\$5,801,506
2009	\$2,490,000	\$3,362,460	\$5,852,460
2010	\$2,625,000	\$3,263,549	\$5,888,549
2011	\$2,785,000	\$3,155,158	\$5,940,158
2012	\$2,940,000	\$3,036,308	\$5,976,308
2013	\$3,100,000	\$2,907,275	\$6,007,275
2014	\$3,285,000	\$2,767,872	\$6,052,872
2015	\$3,475,000	\$2,616,959	\$6,091,959
2016	\$3,665,000	\$2,453,728	\$6,118,728
2017	\$3,880,000	\$2,277,728	\$6,157,728
2018	\$4,095,000	\$2,088,760	\$6,183,760
2019	\$4,335,000	\$1,886,033	\$6,221,033
2020	\$4,590,000	\$1,668,730	\$6,258,730
2021	\$4,600,000	\$1,436,481	\$6,036,481
2022	\$4,865,000	\$1,201,557	\$6,066,557
2023	\$5,150,000	\$951,022	\$6,101,022
2024	\$4,605,000	\$682,867	\$5,287,867
2025	\$3,680,000	\$445,033	\$4,125,033
2026	\$2,250,000	\$257,951	\$2,507,951
2027	\$1,540,000	\$142,070	\$1,682,070
2028	\$615,000	\$65,969	\$680,969
2029	\$645,000	\$33,927	\$678,927
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
	\$71,565,000	\$40,152,941	\$111,717,941

- (1) Represents scheduled debt service for remaining 12 months of the fiscal year ending August 31, 2008.
(2) Reflects debt service on Match Bonds outstanding as of August 31, 2007.

ATTACHMENT B

Texas Water Development Board

**DRINKING WATER
STATE REVOLVING FUND**

Annual Financial Report

For the Year Ended
August 31, 2007

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Schedule 1 – Loans and Contracts

General
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UNAUDITED

Drinking Water State Revolving Fund

Exhibit I - Combined Statement of Net Assets - Proprietary Funds

August 31, 2007

	Total Enterprise Funds (Exhibit F-1)
ASSETS	
Current Assets:	
Short Term Investments	\$ 123,961,083.39
Receivables from:	
Federal	2,017,258.07
Interest and Dividends	2,408,420.57
Loans and Contracts	13,795,000.00
Total Current Assets	142,181,762.03
Non-Current Assets:	
Loans and Contracts	255,815,000.00
Total Non-Current Assets	255,815,000.00
Total Assets	397,996,762.03
LIABILITIES	
Current Liabilities:	
Payables from:	
Accounts Payable	130,501.26
Interfund Payables	2,350,000.00
Due to Other Funds	772,418.71
Due to Other Agencies	1,555,363.82
Deferred Revenue	8,309,772.01
Total Current Liabilities	13,118,055.80
Non-Current Liabilities:	
Interfund Payable	69,215,000.00
Total Non-Current Liabilities	69,215,000.00
Total Liabilities	82,333,055.80
NET ASSETS	
Unrestricted	315,663,706.23
Total Net Assets	\$ 315,663,706.23

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

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Drinking Water State Revolving Fund

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

For the Fiscal Year Ended August 31, 2007

	Total Enterprise Funds (Exhibit F-2)
OPERATING REVENUES:	
Interest and Investment Income	\$ 11,906,189.80
Net Increase (Decrease) Fair Market Value	2,716.07
Other Operating Revenue	635,802.37
Total Operating Revenues	12,544,708.24
OPERATING EXPENSES:	
Salaries and Wages	6,634,820.30
Payroll Related Costs	1,007,157.25
Professional Fees and Services	3,353,966.13
Travel	105,315.59
Materials and Supplies	148,612.71
Communication and Utilities	23,906.67
Repairs and Maintenance	74,632.62
Rentals and Leases	12,171.63
Interest	3,387,828.20
Other Operating Expenses	241,668.63
Total Operating Expenses	14,990,079.73
Operating Income (Loss)	(2,445,371.49)
NONOPERATING REVENUES (EXPENSES):	
Federal Revenue	67,450,133.05
Other Benefit Payments	(1,544,649.21)
Other Nonoperating Revenue (Expenses)	(1,130,642.09)
Total Nonoperating Revenue (Expenses)	64,774,841.75
Income/(Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	62,329,470.26
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:	
Transfers In	3,636,971.00
Total Other Revenue, Expenses, Gain/Losses and Transfers	3,636,971.00
Change in Net Assets	65,966,441.26
Total Net Assets - Beginning	249,697,264.97
Total Net Assets, August 31, 2007	\$ 315,663,706.23

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

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Drinking Water State Revolving Fund

Exhibit III - Combined Statement of Cash Flows - Proprietary Funds

For the Fiscal Year Ended August 31, 2007

	<u>Total Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to Suppliers for Goods and Services	\$ (513,323.49)
Payments to Employees for Salaries	(2,969,541.85)
Payments to Employees for Benefits	(357,424.69)
Payments to Employees for Other	(30,869.38)
Net Cash Provided by Operating Activities	<u>(3,871,159.41)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Federal Grants	66,891,220.64
Proceeds from State Appropriations	3,636,971.00
Proceeds of Transfers from Other Funds	9,000,000.00
Payments of Interest	(3,339,972.04)
Payments for Grant Disbursements	(2,675,291.30)
Payment for Federal Grant Pass-Through	(7,172,179.72)
Repayments of Advances from Other Funds	(2,005,000.00)
Net Cash Provided by Noncapital Financing Activities	<u>64,335,748.58</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Interest Income	6,033,051.90
Proceeds from Investment Income	5,181,939.84
Proceeds from Principal Payments on Non-Program Loans	12,779,000.00
Payments for Non-program Loans Provided	(64,300,248.00)
Payments to Acquire Investments	(20,158,332.91)
Net Cash Provided by Investing Activities	<u>(60,464,589.17)</u>
Net (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents--September 1, 2006	-
Cash and Cash Equivalents--August 31, 2007	<u>\$ -</u>

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

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Drinking Water State Revolving Fund

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

For the Fiscal Year Ended August 31, 2007

	<u>Total Enterprise Funds</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (2,445,371.49)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Operating Income and Cash Flow Categories:	
Classification Differences	(1,530,545.23)
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(47,856.16)
Increase (Decrease) in Payables	101,067.64
Increase (Decrease) in Due to Other Funds	51,545.83
Total Adjustments	<u>(1,425,787.92)</u>
Net Cash Provided by Operating Activities	<u>\$ (3,871,159.41)</u>
Non-Cash Transactions	
Net Increase (Decrease) in Fair Value of Investments	2,716.07

Notes
to the
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Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies

Entity

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

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

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

Fund Structure

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

Proprietary Fund Types

Enterprise Funds

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

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

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Texas Water Development Board (580)

Basis of Accounting

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

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

Restricted Net Assets

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

Assets, Liabilities, and Fund Balances / Net Assets

Assets

Cash and Cash Equivalents

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

Investments

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

Interest and Dividends Receivable

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

Notes / Loans and Contracts Receivable

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

Liabilities

Accounts Payable

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

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Texas Water Development Board (580)

Current Payables - Other

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

Net Assets

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

Restricted Net Assets

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

Unrestricted Net Assets

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

Interfund Activities and Balances

The agency has the following types of transactions among funds:

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

Statement of Cash Flows

Cash Flows from Investing Activities

Non-program Loans

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

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Texas Water Development Board (580)

Classification Differences

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

NOTE 2: Deposits, Investments & Repurchase Agreements

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

Investments

As of August 31, 2007, the fair value of investments is as presented below.

Governmental and Business-Type Activities	Fair Value
Commercial Paper (Texas Treasury Safekeeping Trust Co)	\$18,224,893.46
Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	93,531,985.42
U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co)	12,204,204.50
Total	\$123,961,083.38

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The agency will only make payment for and accept delivery of securities on a delivery versus payment basis, and securities are held in the name of the agency. As of August 31, 2007, investments were not exposed to custodial credit risk.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As required by the agency's investment policy, investments purchased must be rated as to investment quality by a nationally recognized investment rating firm with a minimum of an 'A' rating. Furthermore, our investment policy requires that our repurchase agreements be collateralized by obligations of the U.S. Government or U.S. Government Agencies. As of August 31, 2007, the agency's credit quality distribution of securities and repurchase agreements with credit risk exposure was as follows.

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Texas Water Development Board (580)

Standard and Poor's

Fund Type	GAAP Fund	Investment Type	Amount	Rating
05	3050	Commercial Paper (Texas Treasury Safekeeping Trust Co)	\$18,224,893.46	A-1
05	3050	U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co)	\$12,204,204.50	AAA

NOTE 3: Summary of Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2007, the following changes occurred in liabilities:

Business-Type Activities	Balance 09-01-06	Additions	Deductions	Balance 08-31-07	Amts Due within 1 year	Amounts due Thereafter
Notes and Loans Payable (Interfund)	\$64,570,000.00	\$9,000,000.00	\$2,005,000.00	\$71,565,000.00	\$2,350,000.00	\$69,215,000.00
Total Business-Type Activities	\$64,570,000.00	\$9,000,000.00	\$2,005,000.00	\$71,565,000.00	\$2,350,000.00	\$69,215,000.00

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Texas Water Development Board (580)

Notes and Loans Payable (Interfund Payable)

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

Notes Payable (Interfund Payable) Debt Service Requirements	Business-Type Activities	
	Principal	Interest
2008	\$2,350,000.00	\$3,451,505.70
2009	2,490,000.00	3,362,459.68
2010	2,625,000.00	3,263,549.36
2011	2,785,000.00	3,155,158.02
2012	2,940,000.00	3,036,307.98
2013-2017	17,405,000.00	13,023,561.62
2018-2022	22,485,000.00	8,281,561.12
2023-2027	17,225,000.00	2,478,941.58
2028-2032	1,260,000.00	99,895.50
Total Requirements	\$71,565,000.00	\$40,152,940.56

NOTE 4: Interfund Balances / Activities

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

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

The agency experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of current interfund balances will occur within one year from the date of the financial statement. Individual balances and activity at August 31, 2007, follows:

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Texas Water Development Board (580)

Interfund Receivables and Payables – Current			
Current Portion	Interfund Receivable	Interfund Payable	Purpose
ENTERPRISE (05)			
Appd Fund 0371, D23 Fund 0371			
Appd Fund 9999, D23 Fund 0951	\$2,350,000.00		Match Bonds
Appd Fund 9999, D23 Fund 0951			
Appd Fund 0371, D23 Fund 0371		\$2,350,000.00	Match Bonds
Total Interfund Receivable/Payable	\$2,350,000.00	\$2,350,000.00	

Interfund Receivables and Payables – Non-current			
Non-current Portion	Interfund Receivable	Interfund Payable	Purpose
ENTERPRISE (05)			
Appd Fund 0371, D23 Fund 0371			
Appd Fund 9999, D23 Fund 0951	\$69,215,000.00		Match Bonds
Appd Fund 9999, D23 Fund 0951			
Appd Fund 0371, D23 Fund 0371		69,215,000.00	Match Bonds
Total Interfund Receivable/Payable	\$69,215,000.00	\$69,215,000.00	

NOTE 5: Contingent Liabilities

Outstanding Loan and Grant Commitments

At August 31, 2007, the Board had made commitments to provide political subdivisions and not-for-profit entities financing from the proceeds remaining from current bond issues, and from the proceeds of future bond issues, from the federal draw downs, or from appropriations as follows:

	For Loans	For Grants	Total
Drinking Water State Revolving Fund (DWSRF)	\$393,474,000.00	\$3,886,707.00	\$397,360,707.00
Total Commitments	\$393,474,000.00	\$3,886,707.00	\$397,360,707.00

Federal Costs

As a prime contractor with a federal granting agency, the Board is contingently liable to refund any disallowed costs to the granting agency. The amount of disallowed cost, if any, was undeterminable at August 31, 2007.

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Texas Water Development Board (580)

NOTE 6: Loans and Contracts

The Board purchases bonds from political subdivisions (including private water supply corporations). As of August 31, 2007, the balance of these bonds owned by the Board was \$269,610,000.00. In general, the majority of these bonds pay interest semiannually and principal annually and allow for early redemption ten years after the original date of issuance. All bonds are secured by either pledged revenue or taxes. Interest rates on the bonds range from 0% to 6.28% maturing through the year 2040. It is the opinion of management that all bonds are fully collectible; therefore, no provision for uncollectible amounts is included in these financial statements.

NOTE 7: Available Federal Funds

As of August 31, 2007, the amount of Federal Funds available through the Automated Standard Application for Payments that remain undrawn for the Drinking Water State Revolving Fund is \$257,931,967.34. In addition, there is an additional \$25,861,424 awarded but not yet available.

NOTE 8: Status of Available Administrative Funding

The Texas Water Development Board has been awarded grants for this program totaling \$617,943,350.00. The remaining administrative funding at August 31, 2007, relative to the 4% cap is \$1,896,668.14. During FY2007, \$3,851,197.98 was drawn against the administration portion of the grant to reimburse expenses incurred in General Revenue, while another \$461,894.25 was accrued as a receivable for General Revenue as of August 31, 2007.

Loans issued in Fiscal Year 2007 resulted in the collection of administrative cost recovery charges. The Texas Water Development Board has collected service charges totaling \$11,191,154 from DWSRF loan recipients. In Fiscal Year 2007, \$2,164,752, was collected and \$19,961.43 was expended from fees to pay for bank service fees.

NOTE 9: State Match Requirements

Deferral of State match deposits was allowed by EPA for FY97 grant payments until September 30, 1999. The Board deposited \$3,000,000 of match bond proceeds to the fund on April 9, 1999. Subsequent deposits of match funds have been made bringing the total match for federal reporting purposes to \$123,791,467. During Fiscal Year 2007, state appropriations totaling \$3,636,971 were transferred; while, \$9,000,000 of state match bond proceeds were also transferred.

Combining Statements

UNAUDITED

Drinking Water State Revolving Fund

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

August 31, 2007

	Drinking Water Loan Program	Administration (Federal)	Administration (Fees)	Set Asides (Exhibit SA-2)	Totals (Exhibit I)
ASSETS					
Current Assets:					
Cash and Cash Equivalents:					
Cash in Bank					
Short Term Investments	\$ 118,679,380.87		\$ 5,281,702.52		\$ 123,961,083.39
Receivables from:					
Federal	-	461,894.25		1,555,363.82	2,017,258.07
Interest and Dividends	2,405,054.67		3,365.90		2,408,420.57
Loans and Contracts	13,795,000.00				13,795,000.00
Total Current Assets	134,879,435.53	461,894.25	5,285,068.43	1,555,363.82	142,181,762.03
Non-Current Assets:					
Loans and Contracts	255,815,000.00				255,815,000.00
Total Non-Current Assets	255,815,000.00	-	-	-	255,815,000.00
Total Assets	390,694,435.53	461,894.25	5,285,068.43	1,555,363.82	397,996,762.03
LIABILITIES					
Current Liabilities:					
Payables from:					
Accounts Payable	-	130,501.26			130,501.26
Interfund Payables	2,350,000.00				2,350,000.00
Due to Other Funds	441,025.72	331,392.99			772,418.71
Due to Other Agencies	-			1,555,363.82	1,555,363.82
Deferred Revenue	-		8,309,772.01		8,309,772.01
Total Current Liabilities	2,791,025.72	461,894.25	8,309,772.01	1,555,363.82	13,118,055.80
Non-Current Liabilities:					
Interfund Payables	69,215,000.00				69,215,000.00
Total Non-Current Liabilities	69,215,000.00	-	-	-	69,215,000.00
Total Liabilities	72,006,025.72	461,894.25	8,309,772.01	1,555,363.82	82,333,055.80
NET ASSETS					
Unrestricted	318,688,409.81	-	(3,024,703.58)	-	315,663,706.23
Total Net Assets	\$ 318,688,409.81	\$ -	\$ (3,024,703.58)	\$ -	\$ 315,663,706.23

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Drinking Water State Revolving Fund

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

For the Fiscal Year Ended August 31, 2007

	Drinking Water Loan Program	Administration (Federal)	Administration (Fees)	Set Asides (Exhibit SA-2)	Totals (Exhibit II)
OPERATING REVENUES:					
Interest and Investment Income	\$ 11,591,000.92		\$ 215,188.88		\$ 11,906,189.80
Net Increase (Decrease) Fair Market Value	2,600.28		115.79		2,716.07
Other Operating Revenue	-		635,802.37		635,802.37
Total Operating Revenues	11,693,601.20	-	851,107.04	-	12,544,708.24
OPERATING EXPENSES:					
Salaries and Wages	-	3,056,590.37	-	3,578,229.93	6,634,820.30
Payroll Related Costs	-	320,482.73	-	686,674.52	1,007,157.25
Professional Fees and Services	-	311,356.86	-	3,042,609.27	3,353,966.13
Travel	-	29,089.03	-	76,226.56	105,315.59
Materials and Supplies	-	111,795.83	-	36,816.88	148,612.71
Communication and Utilities	-	23,906.67	-	-	23,906.67
Repairs and Maintenance	-	74,632.62	-	-	74,632.62
Rentals and Leases	-	12,171.63	-	-	12,171.63
Interest	3,387,828.20	-	-	-	3,387,828.20
Other Operating Expenses	-	15,929.55	19,961.43	205,777.65	241,668.63
Total Operating Expenses	3,387,828.20	3,955,955.29	19,961.43	7,626,334.81	14,990,079.73
Operating Income (Loss)	8,305,773.00	(3,955,955.29)	831,145.61	(7,626,334.81)	(2,445,371.49)
NONOPERATING REVENUE (EXPENSES):					
Federal Revenue	55,867,842.95	3,955,955.29	-	7,626,334.81	67,450,133.05
Other Benefit Payments	(1,544,649.21)				(1,544,649.21)
Other Nonoperating Revenue (Expenses)	(1,130,642.09)				(1,130,642.09)
Total Nonoperating Revenue (Expenses)	53,182,551.65	3,955,955.29	-	7,626,334.81	64,774,841.75
Income/(Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	61,498,324.65	-	831,145.61	-	62,329,470.26
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:					
Transfers In	3,636,971.00	-	-	-	3,636,971.00
Total Other Revenue, Expenses, Gain/Losses and Transfers	3,636,971.00	-	-	-	3,636,971.00
Change in Net Assets	65,135,295.65	-	831,145.61	-	65,966,441.26
Total Net Assets - Beginning	253,553,114.16	-	(3,855,849.19)	-	249,697,264.97
Total Net Assets, August 31, 2007	\$ 318,688,409.81	\$ -	\$ (3,024,703.58)	\$ -	\$ 315,663,706.23

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

UNAUDITED

Drinking Water State Revolving Fund

Exhibit SA-2 - Combining Statement of Expenses - Set Aside Programs
For the Fiscal Year Ended August 31, 2007

	Administer State PWSS	Source Water Protection	Capacity Development	Operator Certification	Technical Assistance	Inspection and Investigation	Totals (Exhibit F-2)
OPERATING EXPENSES:							
Salaries and Wages	\$ 1,342,766.41	\$ 146,651.75	\$ 548,547.15	\$ 309,208.00	\$ -	\$ 308,805.39	\$ 2,655,978.70
Payroll Related Costs	348,072.21	37,614.21	141,475.78	78,830.00	-	80,682.32	686,674.52
Professional Fees and Services	376,516.18	488,918.00	985,493.01	-	1,191,682.08	-	3,042,609.27
Travel	16,506.42	-	42,232.63	16,042.00	-	1,445.51	76,226.56
Materials and Supplies	12,421.18	-	17,340.78	3,712.00	-	3,342.92	36,816.88
Other Operating Expenses	44,502.20	-	111,770.82	16,760.00	-	32,744.63	205,777.65
Indirect	467,418.90	50,559.55	190,008.82	105,889.00	-	108,375.56	922,251.23
Total Operating Expenses	\$ 2,608,202.90	\$ 723,743.51	\$ 2,036,868.99	\$ 530,441.00	\$ 1,191,682.08	\$ 535,396.33	\$ 7,626,334.81

Schedules

UNAUDITED

Drinking Water State Revolving Fund

Texas Water Development Board (580)

Schedule 1 - Loans and Contracts

For the Fiscal Year Ended August 31, 2007

Recipient	Original Amount	Outstanding Balance	Due From	Due To
Drinking Water State Revolving Fund:				
ALPINE, CITY OF	517,000.00	379,000.00	3/1/2007	3/1/2036
ALVORD, CITY OF	270,000.00	225,000.00	10/1/2004	10/1/2023
ALVORD, CITY OF	65,000.00	50,000.00	10/1/2006	10/1/2025
ANAHUAC, CITY OF	210,000.00	130,000.00	8/1/2006	8/1/2025
BALLINGER, CITY OF	5,250,000.00	4,455,000.00	6/1/2004	6/1/2023
BALLINGER, CITY OF	410,000.00	410,000.00	6/1/2009	6/1/2038
BAYTOWN AREA WATER AUTHORITY	6,990,000.00	6,395,000.00	5/1/2007	5/1/2026
BENTON CITY WSC	145,000.00	130,000.00	10/1/2001	10/1/2030
BOLIVAR PENINSULA SUD	575,000.00	555,000.00	2/15/2007	2/15/2036
BOLIVAR PENINSULA SUD	310,000.00	310,000.00	2/15/2008	2/15/2027
BOLIVAR PENINSULA SUD	140,000.00	140,000.00	2/15/2009	2/15/2038
BOLIVAR PENINSULA SUD	70,000.00	70,000.00	2/15/2009	2/15/2028
BONHAM, CITY OF	560,000.00	310,000.00	2/15/2007	2/15/2036
BRADY, CITY OF	6,115,000.00	5,035,000.00	5/1/2002	5/1/2031
BROOKELAND FWSD	1,945,000.00	1,695,000.00	9/1/2001	9/1/2020
BROWN CO WID #1	2,040,000.00	2,040,000.00	2/1/2009	2/1/2028
BROWNWOOD, CITY OF	6,695,000.00	5,760,000.00	3/15/2002	3/15/2021
BROWNWOOD, CITY OF	3,540,000.00	3,050,000.00	3/15/2006	3/15/2025
BURLESON CO MUD #1	1,440,000.00	1,401,000.00	6/1/2005	6/1/2034
BURLESON CO MUD #1	120,000.00	114,000.00	6/1/2006	6/1/2035
CORSICANA, CITY OF	10,865,000.00	7,960,000.00	8/15/2001	8/15/2020
DEL RIO, CITY OF	5,845,000.00	3,789,000.00	6/1/2001	6/1/2020
DEL RIO, CITY OF	5,400,000.00	3,780,000.00	6/1/2002	6/1/2021
DEL RIO, CITY OF	6,220,000.00	5,130,000.00	6/1/2004	6/1/2022
DEPORT, CITY OF	350,000.00	265,000.00	9/1/2001	9/1/2020
DIBOLL, CITY OF	260,000.00	240,000.00	2/15/2006	2/15/2025
EAGLE PASS, CITY OF	11,545,000.00	10,775,000.00	12/1/2005	12/1/2034
EAGLE PASS, CITY OF	7,455,000.00	3,915,000.00	12/1/2003	12/1/2032
EAGLE PASS, CITY OF	3,775,000.00	3,380,000.00	12/1/2004	12/1/2033
EAST CEDAR CREEK FWSD	50,000.00	50,000.00	7/1/2008	7/1/2027
EAST MEDINA CO SUD	3,200,000.00	2,435,000.00	7/1/2002	7/1/2021
EAST TAWAKONI, CITY OF	80,000.00	80,000.00	1/1/2008	1/1/2027
EL JARDIN WSC	1,055,000.00	830,000.00	9/1/2004	9/1/2033
EL PASO, CITY OF	15,190,000.00	11,675,000.00	3/1/2002	3/1/2021
FLATONIA, CITY OF	70,000.00	70,000.00	9/1/2007	9/1/2026
FORT WORTH, CITY OF	53,415,000.00	50,655,000.00	3/1/2007	3/1/2025
GOLDEN WSC	850,000.00	820,000.00	7/1/2002	7/1/2022
GREATER TEXOMA UA	325,000.00	240,000.00	10/1/2000	10/1/2019
GREATER TEXOMA UA	70,000.00	70,000.00	6/1/2008	6/1/2027
GROESBECK, CITY OF	175,000.00	140,000.00	8/15/2007	8/15/2036
HAMLIN, CITY OF	5,500,000.00	4,560,000.00	3/1/2002	3/1/2031
HARRIS CO WCID #36	445,000.00	445,000.00	9/15/2009	9/15/2027
HOUSTON CO WCID #1	265,000.00	265,000.00	8/1/2009	8/1/2038
HOUSTON, CITY OF	5,745,000.00	5,505,000.00	12/1/2004	12/1/2023
HUDSON OAKS, CITY OF	1,320,000.00	925,000.00	8/1/2001	8/1/2019
KOUNTZE, CITY OF	930,000.00	845,000.00	3/15/2000	3/15/2024
LOWER COLORADO RA	613,000.00	366,000.00	5/15/2006	5/15/2010

ATTACHMENT C

ENVIRONMENTAL BENEFITS
(EPA Order 5700.7)

Effective January 1, 2005, EPA Order 5700.7 was published. This Order requires States to report on environmental benefits within the Drinking Water State Revolving Fund (DWSRF). By this order, it is EPA policy (to the maximum extent practicable), to ensure that outputs and outcomes are appropriately addressed in assistance agreement competitive funding announcements, work plans and performance reports. With the annual report being defined as a performance report in the DWSRF program, Texas Water Development Board (TWDB) is providing the below responses to the outputs and outcomes reflective in the FY 2007 Intended Use Plan (IUP):

OUTPUTS:

- 1. For FY 2007, the TWDB intends to increase the number of commitments made in FY 2006 by 25%.**

State Response: State Response: The TWDB was able to significantly exceed its goal to increase the number of commitments made in FY 2007 by 25% over the commitments made in FY 2006. The goal For FY 2007 was to increase the number of binding commitments from ten (10) to at least thirteen (13). The number of binding commitments made in FY 2007 was 31, which represents an increase of 310% over the ten (10) commitments made in 2006. The total dollar volume of the commitments made in FY 2007 also significantly exceeded the total dollar volume of commitments made in FY 2006. Binding commitments made in FY 2007 totaled \$204,731,000, compared to \$65,306,000 in FY 2006.

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

State Response: A total of forty-five (45) joint TWDB/TCEQ pre-application meetings were held for potential DWSRF projects in FY 2007, an increase of approximately 265% when compared to seventeen (17) pre-application meetings held in FY 2006. It should be noted that additional meetings and consultations occurred between the two agencies regarding these projects throughout the application process.

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

State Response: During FY 2007, TCEQ developed a list of public water systems with violations of MCLs. From this list 26 systems were contacted, agreed to participate and were assigned.

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

State Response: The chemical sample contractors collected 15,020 required Stage 1 Disinfectants and Disinfection Byproducts Rule (DBP1) samples in FY 2007. A total of 539 DBP1 notices of violation were sent to systems, and 46 systems were referred to the Enforcement Division. Sampling for all DBP2 Schedule 1 systems was initiated. Training presentations were provided at the TCEQ Environmental Trade Fair, American Water Works Association - Texas Section Annual Conference, TCEQ Water/Wastewater Instructors' School, and TCEQ Public Drinking Water Conference. In addition, training was provided at three Texas Water Utilities Association chapter meetings. Technical assistance was provided to systems on all Schedules for Initial Distribution System Evaluation sampling. Four stakeholders meetings on LT2, DBP2 and GWR were held in FY 2007.

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

State Response: Sixty (60) disinfection profiles were reviewed by the TCEQ in FY 2007 and one (1) optional CPE (oCPE) (City of Kilgore). The TCEQ continued or completed mandatory CPE (mCPE) follow up on five systems: (City of Lawn, City of Winters, City of Cherokee Shores, Loop 360 WSC and Choke Canyon State Park. A proposed Agreed order was issued by the TCEQ on one of the mCPE systems, the City of Lawn, that included a penalty for violating the corrective action plan.CAP. Six SPE's were conducted for the City Nome, City of Three Rivers, City of Laredo, City of Olney; Webb County; and Beachwood Estates. The TCEQ also replaced outdated reagents and purchase additional supplies (beakers, volumetric flasks, graduated cylinders, etc). The contract to convert the training modules was completed and a contract to begin updating the SWMOR for LT2 was started and a first round of revisions was completed. This contract will continue on into FY 2008 and possibly FY 2009.

OUTCOMES:

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

State Response: There were several project successes during FY 2007 related to this long-term goal. Lake Livingston WSSSC (ranked #1 on the FY 2007 IUP) received a commitment in the amount of \$17,500,000, for a consolidation project to construct two surface water treatment plants, a 150,000-gallon storage tank and transmission mains to supply treated surface water to customers of 12 existing water systems. The treated surface water will replace ground water obtained from wells that exceed drinking water standards for arsenic or radionuclides. New water wells, pump station expansions, and pipelines are planned for 18 additional systems. The project also involves the installation of over fifty (50) miles of water lines.

The City of Winters (ranked #2 on the FY 2007 IUP) received a commitment in the amount of \$1,680,000 to make improvements to the water treatment system by upgrading the filter, chemical feed, and clarifier systems. The project also involves the installation of a new Supervisory Control and Data Acquisition System. The TCEQ has cited the City for problems in filtration and disinfection. These improvements will address these deficiencies.

The City of Cisco (ranked #4 on the FY 2007 IUP) received a commitment in the amount of \$2,905,000 to rehabilitate its existing water treatment plant, rehabilitate two storage tanks, replace transmission lines, and upgrade a booster pump station. These improvements are in response to THM violations cited by the TCEQ and address low pressure and water loss.

During FY 2007, three DWSRF projects were completed. The City of Brady completed a \$9,405,000 project that included the construction of a new 3.0 million gallon per day (MGD) surface water treatment plant with a raw water intake at Brady Lake, a 1.0 MG storage facility between the lake and the City, and the installation of 11.5 miles of 8 to 18-inch water line. The project provides the City with a surface water supply to blend with its Hickory Aquifer groundwater supply to bring radium levels within acceptable levels.

The City of Houston completed a \$6,135,000 project that will provide source water protection for Lake Houston. The project included the installation of approximately 56,000 linear feet (LF) of 8 to 15-inch gravity sewers, 4,330 LF of 4 to 8-inch force mains, and four lift stations to serve unsewered areas surrounding Lake Houston. Pollution from failing onsite wastewater systems has been a long-standing concern of the City and TCEQ.

The Lower Neches Valley Authority, on behalf of the City of Bolivar, completed a \$23,257,235 project that involved the construction of a new 5.18 MGD water treatment plant and new transmission lines.

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

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

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

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

ATTACHMENT D

ANNUAL REPORT

FY 2007

DRINKING WATER STATE REVOLVING FUND
SMALL SYSTEM TECHNICAL ASSISTANCE
TWO PERCENT SET-ASIDE

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

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

WATER SUPPLY DIVISION

PROGRAM ELEMENT 1: Public Water Systems Study

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

STRATEGIC PLAN LINKAGE:

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

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

OBJECTIVE: ***To study small public water systems with chemical violations of MCLs by August 31, 2007, and recommend options to bring these systems back into compliance at a cost not to exceed \$1,441,638.***

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

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

DELIVERABLES:

TCEQ will:

1. Develop a list of small public water systems with violations of MCLs.
TCEQ developed a list of public water systems with violations of MCLs. From this list 26 systems were contacted, agreed to participate and were assigned.
2. Develop an outline of engineering and financial feasibility report requirements.

With input from both TCEQ and the contractors, the outlines of the reports continue to evolve as new options are analyzed and some areas of discussion are streamlined. In FY 2007, as in FY 2006, the analyses were modified to include estimates of potential savings in situations where PWSs could share the cost for a pipeline. In FY 2007 potential savings for shared treatment alternatives were also considered.

In addition, in FY 2007 each report included an evaluation of a regional solution for providing compliant water to all of the PWSs with documented water quality problems in the counties surrounding Lubbock County.

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

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

4. Evaluate the RFPs.

The work order is specifically with UT's Bureau of Economic Geology who in turn subcontract with Parson's Engineering, Steve Walden Consulting, C2HM Hill and the New Mexico Environmental Finance Center to help conduct the feasibility studies and provide feedback on the methodologies .

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

TCEQ assigned a list of public water systems (PWSs) with MCLs to the contractors with exceedences of nitrate, arsenic and radionuclides in the Lubbock County region of the state. The contractors contacted PWSs to determine if they were interested in participating in the project and if they had already identified compliance options. In FY 2007, 26 PWSs agreed to participate. A list of the 26 PWSs is included in Attachment A.

6. Review and evaluate feasibility reports.

Staff from TCEQ in the Water Supply Division (representing different disciplines including engineering, financial analysis, and water quality) review and evaluate the reports.

7. Develop compliance agreements.

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

8. Evaluate contractor's work.

TCEQ staff met with the contractors and subcontractors to observe and evaluate the work and discuss projects and concepts that developed in the course of the studies. On May 17, 2007 TCEQ staff from the Water Supply Division and the Field

Operations Division joined the contractors at a meeting with the systems participating in the studies. The meeting was held at one of the City of Lubbock's treatment plants. TCEQ and the contractors made presentations on the reason for the studies, water quality issues, and some regional compliance options. Unfortunately, the City of Lubbock management staff was unable to attend. A separate meeting was held with them in Lubbock on June 6, 2007 with TCEQ and the contractors.

The contractor continued to make referrals to the Financial, Managerial and Technical (FMT) assistance contract for additional assistance for the entities. The FMT contract is funded by the Drinking Water State Revolving Fund 10% set-aside and provides free, on-site assistance to public water systems in diverse areas including emergency preparedness, rate studies, funding sources, water loss, disinfection protocols, and consolidation assessment and assistance.

More information on this, and other capacity development work is available in Attachment B – the TCEQ's Capacity Development Annual Report.

9. Contractor meets deliverables in terms of timeliness and quality of product. **The contractor met the deliverables in timeliness and quality.**

10. Hold Monthly meetings with contractor to evaluate pace and content of assignments. **Meetings were held to discuss the pace and content of the assignments as well as other items (see #8).**

11. Evaluate annually, the number of assessed water systems that have returned to compliance. **The contractor reported on PWSs that participated in this project and have returned to compliance or are in the process of returning to compliance. A list of these systems is in Attachment C. TCEQ is in the process of verifying this data with our most recent monitoring data.**

CONTRACTOR will:

1. Implement and refine protocol for evaluating technical and financial options for designated public water systems to bring them into compliance. **The contractors continue to implement and refine the protocols with input from TCEQ.**
2. Develop engineering feasibility reports for each system assigned. **The contractor developed an engineering feasibility report for each system.**
3. Develop financial feasibility reports for each system assigned. **The contractor developed a financial feasibility report for each system and during the fiscal year provided copies of previous year studies to all participants.**
4. Prepare a final report including recommendations ranked by the best way to correct noted system deficiencies.

A final report was prepared for each system, as well as the Water Supply Division and the regional offices. These reports were produced both electronically and in paper copies.

Attachment A

Final List of PWSs in 2007 Program

Number	PWS Name	PWS ID #	County
1.	City of Ropesville	1100004	Hockley
2.	City of Smyer	1100010	Hockley
3.	Whitharral WSC	1100011	Hockley
4.	Opdyke West Water Supply	1100030	Hockley
5.	City of Wolfforth	1520005	Lubbock
6.	Big Q Mobile Home Estates	1520009	Lubbock
7.	Busters Mobile Home Park	1520025	Lubbock
8.	Family Community Center MHP	1520026	Lubbock
9.	Green Mobile Home Park	1520036	Lubbock
10.	Pecan Grove Mobile Home Park	1520039	Lubbock
11.	Plott Acres	1520062	Lubbock
12.	114 th Street Mobile Home Park	1520067	Lubbock
13	Kelso Water System, Inc 3 (New system name is Franklin Water System)	1520080	Lubbock
14.	Town North Village Water System	1520094	Lubbock
15.	Cox Addition Water System	1520106	Lubbock
16	Roosevelt ISD	1520123	Lubbock
17	Town North Estates	1520152	Lubbock
18	Elm Grove Mobile Home Park	1520156	Lubbock
19	Lubbock RV Park	1520185	Lubbock
20	Casey Homes Estates Water	1520188	Lubbock
21	Wolfforth Place	1520199	Lubbock
22	Texin Enterprises Water System	1520211	Lubbock
23	Southwest Garden Water	1520217	Lubbock
24	Fay Ben Mobile Home Park	1520225	Lubbock
25	Managed Care Center	1520241	Lubbock
26	Grassland WSC	1530005	Lynn

Attachment B

**Texas Commission on Environmental Quality
Annual Capacity Development Report
FY 2007 ¹**

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

The Texas Commission on Environmental Quality (TCEQ) is providing responses to these questions as our annual report on Capacity Development for FY 2007.

1) State Capacity Development Program Annual Reporting Criteria

a) New Systems Program Annual Reporting Criteria

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

No

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

There was a minor change to the control points to obtain more complete data and improve tracking of new public water systems. Plan submittals for new water systems now have to include a TCEQ Core Data Form before plans are reviewed and new public water system (PWS) identification numbers are assigned.

There were no new modifications last year to the requirements for entities applying for new or amended Certificates of Convenience and Necessity (CCN). However, legislation passed during the last state legislative session will require rule making and some changes to these processes in the future.

TCEQ continues to review new system applications for the opportunity of regionalization. Attachment 1 lists the plans and applications received by the Utilities & Districts Section of the Water Supply Division for FY 2007.

¹ Attachments to this report are not included.

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

SNC data

TCEQ elects to have EPA compile the new system data and will work with EPA to verify the information from SDWIS/FED.

Identifying new water systems

TCEQ identifies new public water systems and evaluates financial, managerial and technical information by using the following items:

- plans and specifications;
- business plans;
- district creation applications;
- CCNs applications;
- reports from regional inspectors; and
- complaints and inquiries from customers and neighboring utilities.

Assistance for new water systems

TCEQ provides assistance to new public water systems in a number of ways including:

- **Website information:**
Many new public water systems are also utilities. The TCEQ website provides information about utility regulation at http://www.tceq.state.tx.us/permitting/water_supply/utilities/new_utility.html
- **Staff and contract assistance:**
New systems receive assistance from program staff, regional drinking water inspectors, small business section staff and TCEQ's financial, managerial and technical (FMT) assistance contractors through on-site visits, telephone consultation, training, conference presentations and educational materials. For example, when a new public water system is identified and it fails to submit the required paperwork and applications, staff will offer assistance. This assistance can be a referral to the FMT contractors to help them with the applications or, if more appropriate, to assess the possibility and feasibility of the entity receiving service from another existing public water system or merging with another

system.

- b) *Existing System Strategy – The following questions will ask States to demonstrate how they are implementing strategies to assist public water systems (PWS) in acquiring and maintaining TMF capacity.*
- i) *In referencing the State’s approved existing systems strategy, which programs, tools, and/or activities were used, and how did each assist existing PWS’s in acquiring and maintaining TMF capacity? Discuss the target audience these activities have been directed towards. Explanation: States should describe the broad range of programs and activities employed in their approved strategies, and discuss what role those programs and activities played in building or maintaining capacity of various types of systems. The response could include a brief explanation of how each activity is used in program implementation.*

Assessing public water systems

EPA Needs Assessments

During the last year the states and the U.S. EPA participated in the fourth national assessment of public water system infrastructure needs. TCEQ and their contractors are in the process of completing 100 of the 121 needs assessments assigned to Texas by EPA. The Texas Water Development Board (TWDB) is doing the remaining 21 assessments. This work is extremely time consuming but critical in establishing the base infrastructure need for the next 20 years that Congress and EPA use to make the annual appropriation of Drinking Water State Revolving Fund (DWSRF) monies to the states. TCEQ staff participated in needs assessment training as well as many conference calls and meetings with EPA and their contractors to develop and implement this process.

DWSRF FMT Reports

TCEQ provides a report to TWDB for each DWSRF program applicant. This report analyzes the applicant’s FMT capabilities to use the funds to make improvements to their water system. Generally, the steps in the process include an indication from an applicant to TWDB that they are going to pursue a loan application and then a request from TWDB to TCEQ for an FMT report. TCEQ in turn assigns the FMT contractor to meet on-site with the applicant to conduct an FMT assessment. Once that is prepared, TCEQ staff analyzes the field assessment along with the entity’s compliance history and the proposed project on the Intended Use Plan (IUP) and writes a report determining whether or not the applicant has FMT capability. During the last year, TCEQ completed 17 DWSRF FMT reports.

Assistance to public water systems

FMT Assistance Contract

In addition to the work the TCEQ staff does on a daily basis with public

water systems and utilities, TCEQ uses a contract, funded in part by the DWSRF 10% set-aside, to provide direct assistance to public water systems to maintain and increase their FMT capabilities.

During FY 2007, there were 414 assignments for on-site visits to public water system through the TCEQ's FMT contract. The assignments included:

- financial assistance – developing and updating tariffs, rate analysis, funding sources;
- managerial assistance – a joint project of the FMT contract and Homeland Security (Counter Terrorism) focused on using FMT contractors and security funding to help systems too small for required Vulnerability Assessments and Emergency Response Plans, but with an interest in developing them;
- applications, board training;
- technical assistance – disinfection byproducts, arsenic, sampling, water loss;
- FMT assessments –for Drinking Water State Revolving Fund applicants and others as needed;
- consolidation assessments and assistance – to encourage and assist in regionalization;
- DBP2 training – TCEQ's Public Drinking Water section provided in-depth training to the contractors who in turn are teaching system managers, operators and other staff the new rules and how to reach and maintain compliance with them;
- EPA Needs Assessments; and
- special assignments – a major special project was to assist the 2,133 water and 781 wastewater utilities in Texas with CCNs in meeting a new legislative mandate.

Attachment 2 is an information sheet on the contract and a list of tasks that are routinely assigned to the contractors. In addition to on-site visits, the contractors assist PWSs by participating in other special assignments including training.

Consolidation success stories

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

TCEQ made another referral to the FMT contractors to assess whether a consolidation between Sutton Hills Property Owners Association (Sutton Hills) and another water system was possible and favorable. The small system consisting of 18 connections was losing its volunteer operator, and the customers had no interest in managing and maintaining a utility. The contractor contacted five systems and facilitated several meetings between Sutton Hills and representatives of the other systems. Four of the systems determined the distance to Sutton Hills was too far and the system was too small to consider consolidation. The fifth, Sam Rayburn Water, Inc., agreed to accept the system, and the 18 residents have agreed to the transfer of service.

Drinking Water State Revolving Fund (DWSRF)

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

Set-asides

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

- Public Water Supply Supervisory (PWSS) program management;
- source water protection; and
- capacity development.

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

- evaluating disinfection by-product compliance;
- implementing the surface water treatment rule and optimization of surface treatment plant performance;
- reviewing exception requests;
- conducting the annual public drinking water conference;
- implementing source water protection programs including Best Management Practice (BMP) assistance and site investigations;
- enhancing and maintains source water assessment software;
- implementing water conservation and drought contingency programs ;
- conducting field inspections, sanitary surveys and complaint investigations;
- certifying public water supply laboratories; and
- administering programs to increase the financial, managerial and technical abilities of public water systems, including
 - FMT assistance contract;
 - Assessments of DWSRF applicants and other entities; and
 - Consolidation assessment and assistance.

The DWSRF Small System Technical 2% Set-Aside is used to fund work under the agency=s umbrella contract with the University of Texas at Austin (UT) for high level technical and financial feasibility studies for systems with MCL violations.

Loan program

Last year TCEQ evaluated a total of 150 DWSRF Intended Use Plan (IUP) applications, physical deficiencies, health and compliance factors, and consolidation projects. Staff then determined if the proposed projects solved the deficiencies ranked. Of this figure, 83 were PWSs who applied to the IUP and another 67 were PWSs associated with consolidation projects. From these evaluations, TCEQ ranked the FY 2008 IUP applicants. The IUP was printed and distributed by TWDB. The total amount of project costs on the FY 2008 IUP was \$426,855,000. Attachment 3 is the FY 2008 IUP.

Part of the loan process includes pre application meetings at TWDB with the applicants. TCEQ staff attends these meetings to explain how projects are ranked, compliance issues and how the FMT report process works.

Restructuring non viable water systems – Success stories

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

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

State-wide coordination of funding and regulatory agencies

TCEQ continues to work with a group of state and federal funding agencies to coordinate water and wastewater projects. The goals of this group are to:

- streamline the funding process to assist entities in developing their capacities as quickly as possible;
- develop standardized forms and funding cycles to be used by the various agencies;
- match compliance needs and funding sources; and
- solicit input from the regulated community on their needs.

Outreach to the regulated community PDW Conference

TCEQ held its fourth annual Public Drinking Water (PDW) Conference August 14 -15, 2007, in Austin. Once again this conference was very popular. By underwriting it using a combination of DWSRF set-aside funds and exhibitor fees, TCEQ was able to offer free registration. Another popular feature was that operators were able to earn credit towards their water operator licenses. Over 800 people attended the conference, including TCEQ and EPA personnel, exhibitors, water operators, board presidents, managers and engineers. A favorite of this conference continues to be the “chat room” where staff from various program areas answered questions ranging from bacteriological monitoring to how to implement rate increases. There were a total of 53 presentations and 35 exhibitors, including representatives from state and federal funding agencies.

Recognition program

During the annual PDW conference, TCEQ recognized over 1,400 public water systems for the effort, dedication, and contribution they make to the state and to protecting public health in Texas. The purpose is to recognize water systems that show initiative to exceed the minimum acceptable standards; focus public attention on the importance of water system enhancement activities; serve as an example to other water systems; and recognize those water systems that have voluntarily taken the extra steps to protect their public drinking water. TCEQ set up a display booth that recognized public water systems in six (6) individual categories: Innovative or Proactive System, Small Water Systems Security Program, Substantial Source Water Protection Program Implementation, Optimization Program, Total Coliform Rule Program and Outstanding Public Drinking Water System. In addition, a certificate and letter was mailed to each water system. This program has been effective in encouraging water systems to take on more challenging projects that protect public health.

Presentations to trade organizations and other groups

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

Stakeholder meetings

TCEQ has a vigorous stakeholder process to promote involvement of the regulated community and other interested parties in rulemaking and regulatory development. This year there have been stakeholder meetings on public drinking water, utility and district regulations.

ii) *Based on the existing system strategy, how has the State continued to identify the systems in need of capacity development assistance? Explanation: This question refers to the method(s) prescribed within State strategies for identifying, selecting or prioritizing PWS's in need of assistance. States should describe the method(s) used and the frequency at which this process may have been performed (annually, semi-annually, continuously, or as otherwise identified with the strategies).*

TCEQ is continuously identifying, selecting and prioritizing PWSs in need of capacity development assistance. Input comes from staff in enforcement, litigation, field operations, utilities and drinking water, as well as the regulated entities themselves.

Small System Technical Assistance set-aside – compliance options

Each year TCEQ identifies and selects public water systems that have MCLs for the Small System Technical Assistance project.

TCEQ has long recognized the need for detailed, objective information on compliance options for small public water systems. TCEQ uses the DWSRF Small System Technical 2% Set-Aside to develop this information in the form of high level technical and financial assistance and analyses of compliance options.

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

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

Under an existing umbrella contract with UT, TCEQ contracted with UT's Bureau of Economic Geology (BEG) to develop and conduct this project. BEG in turn sub-contracted with Steve Walden Consulting, Parsons Engineering and the New Mexico Environmental Finance Center to help coordinate and conduct the FMT feasibility studies.

With input from the Water Supply Division, the contractor:

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

Deliverables

The contractor produces a detailed report on each water system. In addition the contractor updates and improves the methodologies as needed. The contractor also makes direct referrals to the FMT assistance contract for specific assistance with “hands on” help with bookkeeping, water loss, applications, etc., which they identify as they work with these small systems.

FY 2007

The focus of this year’s work for the Small System Technical Assistance contract was the Lubbock area. The contractor and subcontractors met with TCEQ designated systems that agreed to participate in the study. They conducted engineering and financial feasibility studies to determine the options for compliance. Deliverables included in-depth reports on compliance options for each entity and monthly reports on the overall contract progress. This year some additional steps/deliverables were added to the project, including:

- Meetings - one meeting with the systems in the study and one with the City of Lubbock to discuss:
 - the purpose of the project;
 - the methodology of analyzing compliance options and affordability; and
 - the opportunities for regional projects.
- Follow-up on compliance activities by water systems studied in previous years.

Attachment 4a is copy of the Feasibility Analysis of Water Supply for Small Public Water Systems, Monthly Progress Report No. 15. It lists the systems in this year’s study, as well as a list of success stories.

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

What method was used to identify this need? How has the need been addressed?

Identifying trends and providing assistance

TCEQ endeavors to identify trends and “get ahead of the curve” with drinking water rules and regulations to assist public water systems before compliance becomes an issue. Examples of this include:

CCN map project: Legislation from the 79th legislative session required all CCN holders to record a copy of their CCN map certified by TCEQ in the real property records of each county covered by the map. It became apparent to TCEQ that many utilities were unaware of the mandate and would be non-complaint at the deadline for filing. The FMT contractors managed a project lasting over six months to assist the utilities.

Surface water treatment rules: TCEQ finalized and issued “Directed Assistance Module #5: Process Control at Systems Using Chloramines”, and conducted the train-the-trainer sessions for the FMT contractors. This training benefits public water systems by preventing ammonia overfeeds and thereby minimizing biofilm development in the distribution system.

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

No review was conducted during the previous year.

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

No modifications were made.

Attachment C

Summary of Compliance Feedback

System Name	PWS #	Number of Connections	Comment
City of Danbury	0200011	638	Was able to become immediately compliant by not using one well that had high levels of arsenic.
City of Mason	1600001	1245	Was able to improve water quality immediately by shifting production away from wells with the highest radium concentrations.
Rosharon Road Estates	0200346	76	Was able to become compliant by following recommendation of drilling shallower wells.
Mark V Estates	0200432	94	Was able to become compliant by following recommendation of drilling shallower wells.
Rosharon Township	0200036	85	Will likely be able to become compliant by following recommendation of drilling shallower wells. Looking for place to drill new well.
Sandy Meadows	0200335	56	Will likely be able to become compliant by following recommendation of drilling shallower wells. First well had iron too high, may drill deeper.
Grasslands	0200360	150	Was able to become compliant by following recommendation of drilling shallower wells.
Oak Meadows Estates Subdivision	0200566	30	Was able to become compliant by following recommendation of drilling shallower wells.
Stoneridge Lakes	0200624	22	Was able to become compliant by following recommendation of drilling shallower wells.
Tow Village	1500011	34	Feasibility analyses identified lower cost compliance alternatives that had not been previously considered.
Bonanza Beach	0270018	56	Feasibility analyses identified lower cost compliance alternatives that had not been previously considered.
City of Melvin	1540003	155	Used feasibility report to apply for a community block grant to upgrade the water system. They anticipate receiving a \$200,000 grant as they are ranked 3 rd out of the grant applications received.

System Name	PWS #	Number of Connections	Comment
Devilla MHP	0680069	50	Will be connected to the City of Odessa as a result of being close to a Superfund site.

ATTACHMENT E

ANNUAL REPORT

FY 2007

**DRINKING WATER
STATE REVOLVING FUND**

**STATE MANAGEMENT PROGRAM
TEN PERCENT SET-ASIDE**

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

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

NOVEMBER 2007

WATER SUPPLY DIVISION

PROGRAM ELEMENT 1: PWSS PROGRAM ADMINISTRATION

This program element implements portions of the Public Water System Supervision program in Texas. Specifically the DBP2 compliance program, portions of the Surface Water Treatment Rule and associated Texas Optimization Program, portions of the engineering exceptions program, and some technical assistance to public water systems.

STRATEGIC PLAN LINKAGE:

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

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

OBJECTIVE: ***To reduce the risk of both long term and short term health effects by implementing EPA rules, evaluating exception request and providing technical assistance through August 31, 2007, at a cost not to exceed \$961,499.***

TASK 1.1: Evaluation of Disinfection By-Product Compliance

§ Reduce the risk of various long term health effects by determining which public water systems are out of compliance with the current disinfection by-product (DBP) rule and when appropriate sending these systems to enforcement. Also, begin implementing the new disinfection by-product (DBP2) rule.

§ Coordinate stakeholders meeting for input on the Long Term Enhanced Surface Water Treatment Rule (LT2) and DBP2 package.

DELIVERABLES:

1. Continue to collect samples and evaluate compliance with the current DBP rules.

The chemical sample contractors collected 15,020 required Stage 1 Disinfectants and Disinfection Byproducts Rule (DBP1) samples in FY 2007.

2. When appropriate, send systems out of compliance to enforcement.
A total of 539 DBP1 notices of violation were sent to systems, and 46 systems were referred to the Enforcement Division.

3. Begin implementing the DBP2 rule:
- a. Begin sampling for Systems on Schedule 1.
 - b. Offer Technical assistance to systems via phone calls, emails, and letters. Also, present on this topic at two training events.

Sampling for all DBP2 Schedule 1 systems was initiated. Training presentations were provided at the TCEQ Environmental Trade Fair, American Water Works Association - Texas Section Annual Conference, TCEQ Water/Wastewater Instructors' School, and TCEQ Public Drinking Water Conference. In addition, training was provided at three Texas Water Utilities Association chapter meetings. Technical assistance was provided to systems on all Schedules for Initial Distribution System Evaluation sampling.

4. Conduct stakeholders meetings throughout the year for input on LT2 and DBP2 rule package.
Four stakeholders meetings on LT2, DBP2 and GWR were held in FY 2007.

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

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

DELIVERABLES:

1. Review disinfection profiles for surface water treatment plants and ground water under the influence plants.
60 disinfection profiles were reviewed in FY 2007.
2. Provide necessary equipment, rental space, and supplies to perform Comprehensive Performance Evaluations (CPEs) and Special Performance Evaluations (SPEs)
In FY 2007, we conducted 1 optional CPE (oCPE) (City of Kilgore) and continued or completed mandatory CPE (mCPE) follow up on five systems: City of Lawn, City of Winters, City of Cherokee Shores, Loop 360 WSC and Choke Canyon State Park. We issued a proposed Agreed order on one of the mCPE systems (City of Lawn) that included a penalty for violating the corrective action plan. We conducted six SPEs: City Nome, City of Three

Rivers, City of Laredo, City of Olney; Webb County; and Beachwood Estates. We also replaced outdated reagents and purchase additional supplies (beakers, volumetric flasks, graduated cylinders, etc).

3. Convert training modules for use with surface water treatment plants to Microsoft products and PDF for web posting. These modules enhance the ability of TCEQ staff and water plant operators to identify design, operational, maintenance, and administrative problems that could impair the performance of surface water treatment plants.

The contract to convert the training modules was completed.

4. Begin redoing the Surface Water Monthly Operating Reports (SWMOR) to support the LT2 Enhanced Surface Water Treatment Rule.

A contract to begin updating the SWMOR for LT2 was started and a first round of revisions was completed. This contract will continue on into FY 2008 and possibly FY 2009.

TASK 1.3: Review of Exception Requests

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

DELIVERABLES:

1. Review engineering exception requests to assure these exceptions will protect public health and not degrade the quality or quantity of water the public water system (PWS) customers receive.

603 exceptions requests were reviewed during FY 2007 and either denied or approved based on protection of public health.

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

An engineering contractor was hired and began working in February, 2007. The engineer was a factor in successfully completing the 603 exception request reviews.

TASK 1.4: Annual Public Drinking Water Conference

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

DELIVERABLES:

1. Contract to provide a free two day public drinking water conference for public water systems operators, owners, board members, and

engineers as well as funding and regulatory agencies and other members of the drinking water community.

2. The contractor is responsible for the logistical portion of the conference including arranging the conference location, registration, distribution of promotional materials and on-site conference organization.

TCEQ held its fourth annual Public Drinking Water (PDW) Conference August 14 -15, 2007 in Austin. Once again this conference was very popular. By underwriting the conference using a combination of DWSRF set-aside funds and exhibitor fees, TCEQ was able to offer free registration. Another popular feature was that operators were able to earn credit towards their water operator licenses. Over 800 people attended the conference, including TCEQ and EPA personnel, exhibitors, water operators, board presidents, managers and consultants. A favorite of this conference continues to be the “chat room” where staff from various program areas answered questions ranging from bacteriological monitoring to how to implement rate increases. There were 53 presentations and 35 exhibitors, including representatives from state and federal funding agencies. The contractor was the University of Texas LBJ School’s Governor’s Center for Management Development.

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

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

STRATEGIC PLAN LINKAGE:

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

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

OBJECTIVE: *To implement SWP for multiple PWSs in a large region of the state through August 31, 2007, at a cost not to exceed \$739,526.*

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

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

DELIVERABLES:

1. TCEQ: Direct contractor to implement SWP in large region or area that serves multiple PWSs (ten to twenty). Typical project activities include:
 - Coordination meetings,
 - BMP assistance,
 - Site investigations,
 - Electronic data management,
 - Report generation, and
 - Public education and outreach.

The contractor implemented two Source Water Protection projects affecting 14 public water systems using the Edwards Aquifer and Lake Houston as their sources. Multiple meetings and site visits were conducted; individual protection strategy reports were developed. The TCEQ was provided the potential source of contamination data sets and Best Management Practice (BMP) recommendations were made. The contractor developed an extremely useful BMP guidance document for use in current and future projects and it was instrumental in the source water protection curriculum of several schools in the San Antonio area. Continued support from the Edwards Aquifer Authority and the City of Houston helped make the project a success.

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

The contractor was timely with their assigned deliverables and completed work according to specifications. Ongoing evaluations and corrections required for continued data quality reviews were performed during FY 2007.

3. Population served by vulnerable water sources protected by a SWP program.

The Edwards Aquifer is the sole source of drinking water for over 1.7 million people in Central Texas. The aquifer is highly permeable, and has rapid recharge and discharge, making the aquifer highly vulnerable to contamination where it is exposed at the surface in the aquifer recharge zone. Due to the aquifer's

sensitive nature and the presence of the Edwards Aquifer Authority, overall participation in the project was greater than anticipated.

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

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

DELIVERABLES:

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

United States Geographical Survey (USGS) has maintained the functionality of the Source Water Assessment and Protection Decision Support Software (SWAP-DSS) code and continued to participate in and respond quickly to the change control and error

tracking process TCEQ has in place. Deliverables included upgrading the software to Visual Basic NET, improving alluvial well methodology, enabling the use of polygon sources of contamination in addition to point sources for susceptibility assessment, one onsite training of TCEQ staff on code improvements, documentation on methodology improvements, and upgrading the software to handle the latest ESRI code changes. The improved assessment software results in more accurate assessments which lead to focused source water protection plans.

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

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

STRATEGIC PLAN LINKAGE:

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

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

OBJECTIVE: *To assist public water systems on a statewide basis in developing and implementing the Capacity Development Strategy requirement of the SDWA Section 1452(g)(2)(8) through August 31, 2007, at a cost not to exceed \$2,039,677.*

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

- Identify public water systems that need assistance in developing, increasing and maintaining their financial, managerial and technical (FMT) abilities to meet state requirements.
- Identify public water systems that need assistance in consolidating.
- Conduct assessments of and provide assistance to those systems.
- Continue to develop innovative approaches to enable systems to reach compliance.

- Prohibit nonviable public water systems from coming into existence.
- Encourage and promote regionalization and partnerships where applicable to increase compliance and affordability.
- Evaluate and facilitate potential acquisition, merger or lease of ownership of water systems to ensure FMT abilities.
- Identify and rank public water systems and their proposed projects for the DWSRF.
- Assess DWSRF applicants.
- Assist water utilities in meeting the new mapping requirements.

DELIVERABLES: TCEQ will:

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

In addition to the work the TCEQ staff does on a daily basis with public water systems and utilities, TCEQ uses a contract, funded in part by the DWSRF 10% set-aside, to provide direct assistance to public water systems to maintain and increase their FMT capabilities.

During FY 2007, there were 414 assignments for on-site visits to public water system through the TCEQ's FMT contract. The assignments included:

- **financial assistance – developing and updating tariffs, rate analysis, funding sources;**
- **managerial assistance – a joint project of the FMT contract and Homeland Security (Counter Terrorism) focused on using FMT contractors and security funding to help systems too small for required Vulnerability Assessments and Emergency Response Plans, but with an interest in developing them;**
- **consolidations, vulnerability assessments and emergency response plans, various required applications, board training;**
- **technical assistance – disinfection byproducts, arsenic, sampling, water loss;**
- **FMT assessments –for Drinking Water State Revolving Fund applicants and others as needed;**
- **consolidation assessments and assistance – to encourage and assist in regionalization;**
- **EPA Needs Assessments; and**
- **special assignments – locate maps in TCEQ records for all CCN holders.**

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

FY 2007 was the third year of a three-year, renewable FMT contract that was awarded to the Texas Rural Water Association (TRWA).

There were seven consolidation assessments assigned and one consolidation assistance assignment made through the contractor.

2. Review and evaluate contractor reports.
The contractor submits monthly reports which are reviewed and evaluated by TCEQ.
3. Review and evaluate business plans and FMT capabilities.
Staff reviewed and evaluated 193 business plans and other financial information to analysis the FMT capabilities of systems and utilities.
4. Propose and evaluate new programs to continue improving financial, managerial and technical capacities of public water systems.
To help public water systems continue to improve their FMT capabilities, TCEQ develops new training and assistance assignments as new rules and requirements are implemented. Examples are:
 - **A major project in 2007 was assistance to the 2,133 water and 781 wastewater utilities in Texas with CCNs in meeting a new legislative mandate regarding mapping.**
 - **DBP2 training – TCEQ’s Public Drinking Water section provided in-depth training to the contractors who in turn are teaching system managers, operators and other staff the new rules and how to reach and maintain compliance with them.**

During the last year, the states and the U.S. EPA participated in the fourth national assessment of public water system infrastructure needs. The surveys were due in FY 2008; TCEQ and their contractors completed 106 of the 121 needs assessments assigned to Texas by EPA. The Texas Water Development Board (TWDB) did the remaining 15 assessments. This work was extremely time consuming, but critical in establishing the base infrastructure need for the next 20 years that Congress and EPA use to make the annual appropriation of DWSRF monies to the states. TCEQ staff participated in needs assessment training as well as many conference calls and meetings with EPA and their contractors to develop and implement this process.

5. Draft ranking of the DWSRF Intended Use Plan.
Last year TCEQ evaluated a total of 150 DWSRF Intended Use Plan (IUP) applications for physical deficiencies, health and compliance factors and consolidation projects. Staff then determined if the proposed projects solved the deficiencies ranked. Staff evaluated 83 PWSs as applicants and another 67 as consolidated systems for a total of 150 PWSs. The IUP was printed and distributed by TWDB. The total amount of project costs on the FY 2008 IUP was \$426,855,000.

6. Assessment reports on loan applicants.

TCEQ provides a report to TWDB for each DWSRF loan program applicant. This report analyzes the applicant's FMT capabilities to use the funds to make improvements to their water system. Generally, the steps in the process include an indication from an applicant to TWDB that they are going to pursue a loan application and then a request from TWDB to TCEQ for an FMT report. TCEQ in turn assigns the FMT contractor to meet on-site with the applicant to conduct an FMT assessment. Once that is prepared, TCEQ staff analyzes the field assessment along with the entity's compliance history and the proposed project on the Intended Use Plan (IUP) and writes a report determining whether or not the applicant has FMT capability. During the last year, TCEQ completed 17 DWSRF FMT reports.

7. Coordinate activities with the Texas Water Development Board.

The TCEQ and TWDB are in frequent, almost daily, contact on a variety of issues concerning the implementation of the DWSRF program. These areas include: development and distribution of the annual IUP forms, the needs assessment survey, outreach on the loan program, advising potential applicants, ranking projects, pre-application meetings, annual reports and grant and set-aside management and administration. Staff from both agencies participate in regular meetings, ad hoc work groups and joint training. This year the two agencies met with the five other states and Region 6 in Austin to discuss issues related to the SRF programs. Staff from both agencies also attended SRF training sponsored by EPA in Dallas in August. Other activities coordinated between the two agencies include implementation of the model subdivision rules, plan review and border projects.

8. Increasing numbers of viable systems.

Regionalization, consolidation and system restructuring are some methods that can increase the viability of water systems and decrease nonviable systems.

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

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

TCEQ made a referral to the FMT contractors to facilitate a consolidation between Fort Stanley Area Water Utility (Fort Stanley) and Four Way Water Supply Corporation (Four Way). Fort Stanley provided service to approximately 790 connections and Four Way served approximately 1,760 connections. In addition to being on the significant non-complier (SNC) list, Fort Stanley had a long history of problems, including water outages and poor service. Fort Stanley was eventually abandoned by its owner. The FMT contractors provided assistance over a 12 month period, meeting monthly with Four Way. (Four Way started operating Fort Stanley before the formal consolidation was complete because of the abandonment.) Some of the tasks addressed during these meetings included:

- financial analysis of the impact of the consolidation, which in turn resulted in the filing of a rate change application;**
 - holding a public meeting for the customers of Fort Stanley to discuss the advantages of consolidation,**
 - explaining the procedures and applications that needed to be followed to do the consolidation;**
 - answering questions and addressing concerns from the customers and utility,**
 - analyzing the management structure; and**
 - completing and submitting the Sale, Transfer or Merger (STM) application to TCEQ.**
- The major strategy used by the contractor for this consolidation was the promotion of economies of scale and improved customer service for those served by Fort Stanley. There were no objections to the consolidation raised by customers of either entity and the transfer of the service provider is progressing smoothly.**

TCEQ made another referral to the FMT contractors to assess whether a consolidation between Sutton Hills Property Owners Association (Sutton Hills) and another water system was possible and favorable. The small system consisting of 18 connections was losing its volunteer operator, and the customers had no interest in managing and maintaining a utility. The contractor contacted five systems and facilitated several meetings between Sutton Hills and representatives of the other systems. Four of the systems determined the distance to Sutton Hills was too far and the system was too small to consider consolidation. The fifth, Sam Rayburn Water, Inc., agreed to accept the system, and the 18 residents have agreed to the transfer of service.

9. Convert water utility maps to an electronic format that can be made available on the agency website.

The Utilities & Districts Section contracted with the Texas A & M University Spatial Science Center to assist with the conversion of existing CCN service area maps into digital data in GIS format. The TCEQ is now in the QA/QC phase of the project and expects to complete the conversion of all CCN service area maps within the coming fiscal year. See attachment for a status map of the conversion project.

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

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

DELIVERABLES:

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

The TCEQ successfully implemented 360 reviews and evaluations of water conservation and drought contingency plans to meet state requirements. As drought continues to affect many parts of Texas, these plans can be very important in maintaining PWSs viability.

FIELD OPERATIONS DIVISION

PROGRAM ELEMENT 4: PWSS INSPECTIONS & INVESTIGATIONS

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

STRATEGIC PLAN LINKAGE:

EPA Goal: **5.1.1-Improve environmental performance through compliance with environmental requirements, prevention pollution, and promoting environmental stewardship. Protect human health and the environment by encouraging innovation, and**

providing incentives for governments, business, and the public that promote environmental stewardship.

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

OBJECTIVE: *To conduct 2,535 comprehensive compliance investigations at public water supply systems, and respond to complaints where appropriate through August 31, 2007, at a cost not to exceed \$2,825,281.*

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

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

DELIVERABLES:

1. Conduct Comprehensive Compliance Investigations (sanitary surveys) of 2535 PWSs.
 2. Investigate complaints on PWSs.
 3. Actual increase in the number of inspections, Comprehensive Compliance Investigations (sanitary surveys) and complaint responses.
- Conducted a total of 1,175 investigations including compliant responses and Comprehensive Compliance Investigations (CCIs). Of these investigations, 954 were CCIs and there were 131 complaint follow-up, reconnaissance, and focused investigations. Note: Historically, Field Operations Division reported all investigations regardless of the funding source and that number was about 2,500. Due to better accounting processes, we are now able to get a more accurate count of work done by investigators funded by the DWSRF, thus the number of 1,175.**

COMPLIANCE SUPPORT DIVISION

PROGRAM ELEMENT 5: PWSS LABORATORY INSPECTIONS

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

STRATEGIC PLAN LINKAGE:

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

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

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

OBJECTIVE: ***To inspect 30 PWSs laboratories statewide through August 31, 2007 at a cost not to exceed \$213,972.***

TASK 5.1: Certify Public Water Supply Laboratories

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

DELIVERABLES:

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

Laboratory staff completed 14 drinking water laboratory inspections and an additional five inspections of drinking water laboratories applying for NELAC accreditation.

At the close of fiscal year 2007, 93 laboratories held drinking water certifications. An additional 40 drinking water laboratories held NELAC accreditations.