

STATE OF TEXAS

Intended Use Plan

Drinking Water State Revolving Fund

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



SFY 2018

TEXAS WATER DEVELOPMENT BOARD
PO BOX 13231 ■ AUSTIN, TX 78711

Drinking Water State Revolving Fund

SFY 2018 Intended Use Plan

Amendment Dated: October 17, 2017

Cover Photo: Fort Worth – Placing concrete for one-half of the Break Tank Slab

Contents

I. Overview.....	5
II. Purpose	5
III. Projects to Fund	6
A. Eligible Applicants.....	6
B. Eligible and Ineligible Use of Funds.....	6
IV. Significant Program Changes.....	7
V. Amount Available.....	8
VI. Funding Options and Terms	9
VII. Multi-year Commitments.....	14
VIII. Cost Savings Calculation.....	14
IX. Goals	15
A. Short-Term Goals	15
B. Long-Term Goals	16
X. Participating in the DWSRF Program	17
A. Solicitation of Project information	17
B. Updating Projects from the Prior Intended Use Plan.....	18
C. Evaluation of the Project Information Received and Priority Rating System	18
D. Ranking and Creation of the Project Priority List and Initial Invited Projects List	19
E. Bypassing Projects	20
F. Phases on the Initial Invited Projects List	20
G. Invitations and Application Submissions.....	20
H. Addressing Any Water Loss Mitigation within the Application	21
I. Self-Certification for Certain Systems Serving 500 or Fewer Persons	22
J. Commitment Timeframes for Projects with Principal Forgiveness Component(s).....	22
K. Closing Deadlines.....	22
L. Limits on Funding	23
M. Leveraging to Provide Additional Funding.....	23
N. Funds from Prior Years.....	23
O. Transfer of Funds	23
P. Updates to the Intended Use Plan.....	24
XI. Set-Asides	24
A. Texas Water Development Board Administration and Technical Assistance Activities.....	24

B. Texas Commission on Environmental Quality Activities.....	24
C. Coordination of Activities with the Texas Commission on Environmental Quality	25
XII. Financial Status	25
A. Sources of State Match	25
B. Binding Commitment Requirement.....	25
C. Leveraging and Cross-collateralization.....	25
D. Inter-fund Loan / Investment.....	26
E. Method of Cash Draw	26
F. Long-Term Financial Health of the Fund	26
G. Interest Rate Policy.....	26
H. Fees.....	26
I. EPA Program Evaluation Report and Audit.....	27
XIII. Navigating the Lists	27
Appendix A. Public Review and Comment	29
Appendix B. Projected Sources and Uses of Funds	31
Appendix C. Rating Criteria	32
Appendix D. Affordability Criteria to Determine Disadvantaged Community Eligibility	36
Appendix E. Federal Requirements and Assurances	40
Appendix F. Bypass Procedures.....	45

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

Drinking Water State Revolving Fund Acronyms

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

I. Overview

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

For State Fiscal Year (SFY) 2018, a total of \$250 Million is available under the DWSRF for all financing options including \$21 Million in principal forgiveness. Of the total amount available, \$229 Million will be offered at interest rates of 135 basis points below the borrower's market rate level. These savings directly lower the overall cost of providing safe, affordable water to every customer.

II. Purpose

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

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

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

The IUP contains the state's priority list of projects to receive funding under the DWSRF. This list is subdivided further into an Initial Invited Projects List (Appendix K), which represents the projects that will be invited to submit applications after Board approval of the IUP. After the initial invitation round, the remaining applications for funding under this SFY 2018 IUP will be accepted on a first-come, first-served basis throughout the year until the SFY 2019 IUP is approved.

III. Projects to Fund

A. Eligible Applicants

Applicants eligible to apply for assistance are:

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

B. Eligible and Ineligible Use of Funds

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

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

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

2. Examples of ineligible project costs include:

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

IV. Significant Program Changes

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

1. Increased the amount of interest rate subsidy from 125 basis points below market rates to 135 basis points below market rates (Section V).
2. The method used to calculate the Disadvantaged Communities principal forgiveness amount when the project is concurrently receiving other DWSRF principal forgiveness funding has been revised (Section VI).
3. The maximum amount available under the Very Small Systems funding option has increased from \$200,000 to \$300,000 per project. However, the definition of a single "project" for SFY 2018 includes the planning, acquisition, design and construction phases (Section VI).
4. An additional \$5,000,000, for a total of \$7,000,000, will be available in the form of principal forgiveness for Urgent Need projects. The maximum amount of Urgent Need principal forgiveness per project that an entity may receive is based on their eligibility percentage under the Disadvantaged Community funding criteria (Section VI).
5. A portion of the total amount available under the Urgent Need funding will be reserved for entities and projects that qualify for the Disadvantaged/Small/Rural set-aside. A total of 50 percent of the principal forgiveness and 20 percent of the funds with an interest rate of zero percent made available for Urgent Need funding will be reserved for this set-aside (Section VI).
6. A limited amount of Urgent Need funding will be available with an interest rate of zero percent. The amount available at the additional reduction in the interest rate will be at least \$25 Million in SFY 2018 (Section VI).
7. All projects requesting only loan funds will receive an invitation to submit an application during the initial submission period (Section X and Appendix F).
8. Added the Water Infrastructure Improvements for the Nation Act requirement for certain applicants serving 500 or fewer persons to self-certify that they have considered publicly owned wells as their water source. (Section X).
9. The loan origination fee has been reduced from 2.25% to 2.15%. (Section XII).
10. Projects that previously received certain TWDB Planning, Acquisition and Design financing received an additional 10 points (Appendix C).

V. Amount Available

1. Allocations

Texas will be eligible for a federal capitalization grant from funds appropriated by Congress for Federal Fiscal Year (FFY) 2017. The TWDB will use the grant, along with other available sources of funds, to provide \$250,000,000 for projects in this SFY 2018 IUP. The sources of funds include the FFY 2017 capitalization grant, unexpended funds from prior grants, state match, principal and interest repayments from financial assistance, investment earnings, additional cash resources, and if demand warrants, the net proceeds from bond issues.

The DWSRF program offers subsidies in the form of both below-market interest rates and additional subsidization. The additional subsidization is offered as principal forgiveness to eligible disadvantaged communities, very small systems, urgent need projects, and green projects. Throughout the IUP, this principal forgiveness may be referred to as Additional Subsidization, Disadvantaged Community funding, Subsidized Green funding, Very Small Systems funding, or Urgent Need funding.

The \$250,000,000 available for SFY 2018 will be allocated to the following funding options.

Funding Option	Allocation
Disadvantaged Community	\$10,000,000
Subsidized Green	\$1,000,000
Very Small Systems	\$3,000,000
Urgent Need *	\$7,000,000
Bonds/Loans *	\$229,000,000
Total	\$250,000,000

* Entities that anticipate being reimbursed for a portion of their project with a federal source such as the Federal Emergency Management Agency's Public Assistance funding must follow the federal procurement rules found in 2 CFR Part 200 and other federal requirements.

2. Terms Available Under Each Funding Allocation:

Funding Option	Principal Forgiveness	Interest Rate	Origination Fee
Disadvantaged Community	30%, 50%, or 70%*	135 basis points below market **	2.15%***
Subsidized Green	15% of DWSRF-funded Green Costs		
Very Small Systems	Up to \$300,000 per project	N/A	N/A
Urgent Need	Maximum amount per project varies from \$500,000 to \$800,000	N/A	N/A
Urgent Need – Bond/Loan		0% ****	2.15%
Bond/Loan	N/A	135 basis points below market **	2.15%
* Percentage of DWSRF-funded project costs remaining after subtracting other DWSRF principal forgiveness ** Based on a level debt service schedule *** Not assessed on the principal forgiveness portion **** Amount of Urgent Need funding available at 0% is limited			

VI. Funding Options and Terms

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

1. Disadvantaged Community Funding

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

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

This funding option offers a financial assistance component with the interest rate subsidy and 30 percent, 50 percent, or 70 percent of the DWSRF-funded project cost in principal forgiveness. TWDB will calculate the Disadvantaged Communities principal forgiveness amount based on the amount of SRF-funded project costs remaining after subtracting all other DWSRF principal forgiveness funding being provided in SFY 2018 to the proposed project. (As an option at TWDB’s discretion, if the DWSRF loan portion would be less than \$100,000, the entity may reduce the amount of DWSRF funds requested by the amount of the loan portion and the Disadvantaged Communities percentage calculation will be based on the amount of DWSRF-funded costs before other DWSRF program principal forgiveness amounts are subtracted from the total requested.) The maximum repayment period is 30 years. The origination fee will not be applied to project costs that are funded with principal forgiveness. Additional information may be found in Appendix D.

2. Subsidized Green Funding

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

3. Very Small Systems Funding

The TWDB recognizes the difficulty for very small systems to secure financial assistance. In an effort to extend resources to address critical issues with these public water systems, the TWDB will allocate up to \$3,000,000 in Additional Subsidization to target systems with populations of 1,000 or fewer for projects addressing public health, compliance, or water quantity issues. Entities may be eligible to receive 100 percent of the total project cost in principal forgiveness up to a total of \$300,000 per project. A particular public water system may only receive a total of \$300,000 in principal forgiveness of Very Small Systems funds in a program year. The definition of a “project” for SFY 2018 includes the planning, acquisition, design and construction phases. Projects that received Very Small Systems funds prior to SFY 2018 for only the planning, acquisition, or design phase will be

grandfathered to the previous \$200,000 maximum for the construction phase of the same project. In the event funding does not fully cover total project costs, the entity will need to secure additional financial assistance to complete the proposed project.

4. Urgent Need

Urgent Need projects must address situations that require immediate attention to protect public health and safety. They may result from (1) an unanticipated reduction in the adequate supply of water due to prolonged drought that will result in the loss of water service to customers within the next 180 days; (2) a catastrophic natural event or accident resulting in the loss of over 20 percent of the water service connections or 20 percent of the total water provided to customers; (3) situations that require immediate attention to address a substantial, imminent public health issue affecting at least 20 percent of the water provided to customers, such as contamination in excess of water quality standards; (4) situations that require immediate attention to address a substantial, imminent public health issue affecting at least 20 percent of the water provided to customers from severe flood damage that occurred during a Governor-designated natural disaster; and (5) other situations as established by TWDB guidelines. Urgent Need projects submitted after the March 3, 2017 project information form submission deadline may be invited in the first round of invitations for funding. To recover from a disaster, an entity may change the scope of an existing project in the IUP by simply providing the proposed new scope and budget to the TWDB without the need to submit a new Project Information Form. The Executive Administrator may bypass projects to provide funding to Urgent Need projects. An Urgent Need project may qualify and receive funding concurrently as a Disadvantaged Community, Very Small System, and Subsidized Green project, provided funding is available. The proposed project must not be for replacement of facilities that have failed because they exceeded their useful life or failed due to lack of adequate maintenance. For projects addressing contamination levels in excess of water quality standards, the system must currently be in noncompliance with TCEQ requirements and the proposed project must be designed to bring the system into compliance to the extent financially practical.

Amount of Urgent Need Funding available as Principal Forgiveness

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

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

In addition, a particular recipient may only receive the maximum eligible amount in principal forgiveness under Urgent Need in a program year for all of its projects. If eligible project costs that would have qualified for Urgent Need but exceed the maximum principal forgiveness allowable or available for the project, the entity may receive funding for the remainder with an interest rate of zero percent for the term of the financing. For disaster recovery, special terms and conditions on loan/bond financing, including the repayment terms, may be available that are not offered under other funding options. To ensure the long-term viability of the program, the amount of funding made available for Urgent Need projects with an interest rate of zero percent for SFY 2018 is \$25 Million, or such other higher amount as the TWDB Executive Administrator may establish consistent with maintaining the DWSRF in perpetuity and any other appropriate factors. The funds will be obligated only as the TWDB Board makes commitments. Projects that received Urgent Need funds in SFY 2017 for only the planning, acquisition, or design phase are grandfathered to receive a zero interest rate for the construction phase of the same project. Entities that previously received principal forgiveness under the Urgent Need funding option for a particular project may not receive additional principal forgiveness for that project if the total amount of principal forgiveness provided under the Urgent Need funding option would exceed \$500,000.

Disadvantaged / Small / Rural Set-aside

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

Set-aside criteria:

- a. Disadvantaged Community – a entity/project eligible as described in Appendix D.
- b. Small Community – an entity serving a population of not more than 10,000.

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

Reserved funds not allocated by July 1, 2018 for entities and projects that qualify for this set-aside may be re-allocated to other projects that met the Emergency Relief funding criteria.

Single-year commitments only

Multi-year funding commitments are not offered for Urgent Need funding.

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

5. Bond/Loan Funding

All entities that are listed on a PPL that are invited to submit applications are eligible to receive funding through the TWDB's purchase of the entity's bonds or through a loan agreement as allowed under the entity's governing law. All financial assistance will be offered at an interest rate subsidy of up to 135 basis points below market interest rates based on a level debt service schedule.

An origination fee of 2.15 percent is assessed at closing on the portion of a commitment that requires repayment. The origination fee does not apply to any principal forgiveness amounts. The financial assistance recipient has the option of financing the origination fee or paying this fee up front at closing.

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

6. Terms of Financial Assistance

Financing may be offered for a term of up to 30 years for the planning, acquisition, design, and/or construction phases for up to 75 percent of available funds according to TWDB determined guidelines and in accordance with the SDWA. The remainder of available funds may be offered for a term up to 20 years. The term of financial assistance offered may not exceed the expected design life of an eligible project.

7. Federal Requirements on Available Funds

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

VII. Multi-year Commitments

In SFY 2018, the DWSRF will offer multi-year commitments up to five years to assist entities that need to fund projects over a period of time. This option will provide a reliable source of capital based on a commitment structure that meets the annual capital requirements of the project. To assist in providing for long-term financial planning, the minimum interest rate reduction (e.g. 135 basis points) for the multi-year commitments will be established and locked for the five-year period based on the interest rate reduction in the IUP for the first year’s commitment. If the interest rate reduction is increased for a particular year during the multi-year commitment period, the entity will receive the benefit of the increased reduction for that year. Similarly, if the loan origination fee is reduced for a particular year during the multi-year commitment period, the entity will receive the benefit of the lower loan origination fee for that year.

This option is only available for projects that do not receive Additional Subsidization in the form of principal forgiveness as a Disadvantaged Community based on the affordability criteria or for Urgent Need. However, the entity receiving a multi-year commitment may receive Additional Subsidization for the other eligible options, such as green subsidy, for the funds committed for the initial year.

Annually, prior to the development of each year’s IUP, any entity receiving a multi-year commitment will be required to re-confirm their anticipated funding commitments established with the initial commitment.

VIII. Cost Savings Calculation

The DWSRF program provides lower cost funding that will result in significant savings

compared to market-rate financing. The chart below illustrates the estimated savings from using the DWSRF program using TWDB’s methodology for calculating cost savings for new commitments. This example assumes a borrower with an AA market rating receives DWSRF financial assistance of \$10 Million over 30 years with an interest rate reduction of 135 basis points from the market rate.

Funding Option	Cost of Funds	DWSRF - \$10,000,000 borrowed over 30 years	
		Total Principal and Interest Payments over 30 Years	% Savings over Market
Market – Borrower rating of AA	2.62% *	\$14,003,235 **	
DWSRF Program	1.27% *	\$12,087,118	
Savings Using DWSRF *		\$1,844,886	13%

* Rates were current as of June 15, 2017. The example above is for illustrative purposes only.

** The market amount used for comparison was \$9,808,730.

In this example, the borrower would make approximately \$1.8 million dollars, or 13 percent, less in payments.

IX. Goals

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

A. Short-Term Goals

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

projects.

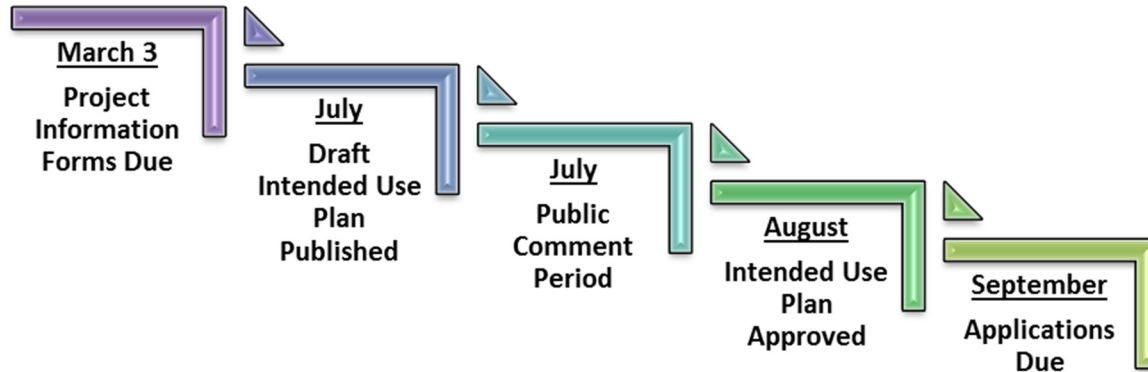
4. Enhance the DWSRF by cross-collateralizing, if necessary, the program with the Clean Water State Revolving Fund (CWSRF) program in accordance with state and federal law.
5. Enhance our current level of outreach on the State Revolving Fund (SRF) programs by hosting regional financial assistance workshops in conjunction with the continued use of social media.
6. Assist water systems with urgent needs through financial assistance in the form of principal forgiveness and loans with an additional interest rate subsidy from the Urgent Need reserve.

B. Long-Term Goals

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

X. Participating in the DWSRF Program

Below are the major steps in the production of the initial IUP for SFY 2018.



A. Solicitation of Project information

Project information was solicited from eligible entities across the state using direct emails, notices posted on the TWDB website, and financial assistance workshops held throughout the State. Potential applicants submitted Project Information Forms (PIFs) by the response deadline of March 3, 2017.

The required information submitted on a PIF consisted of:

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

B. Updating Projects from the Prior Intended Use Plan

For SFY 2018, a potential applicant must update, at a minimum, the readiness to proceed information, and if seeking disadvantaged community eligibility, the socioeconomic economic census data and utility rate information. The requirement to update the readiness to proceed information will apply to an entity that previously received a commitment for Planning, Acquisition and/or Design only and desires to be considered for the construction portion of the project.

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

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

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

1. Rating Criteria for Water System Projects

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

2. Rating Criteria for Source Water Protection Projects

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

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

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

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

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

The IIPL presented in the IUP (Appendix K) refers to a subset of projects from the PPL and includes only the projects to be invited to apply for funding during the initial invitation round following the Board's approval of the IUP. The IIPL includes the type and amount of funding necessary to meet requirements and goals of the DWSRF, such as Additional Subsidization and Reserve requirements. Based on a review of readiness to proceed to construction, the TWDB determined which phases would be eligible to receive funding during SFY 2018. The phases indicated on the IIPL represent the phases deemed eligible based on that review. Projects that were determined to be ready to proceed to construction were included on the IIPL. If an entity is interested in applying for additional phases of the project not listed on the IIPL or not mentioned in the invitation letter, an updated Readiness to Proceed to Construction form must be submitted and an eligibility determination will be made by TWDB prior to the pre-application meeting. For SFY 2018, all projects requesting only loan funds, without any principal forgiveness, will be included on the IIPL.

An entity that previously received a commitment for Planning, Acquisition and/or Design only and desires to be considered for the construction portion of the project must update, at a minimum, the readiness to proceed information. It will then be added to the PPL for construction phase funding based on the same number of points, or higher, they

received in the year they were rated. Any invitation for construction phase funding is contingent upon the project having met the required ready to proceed milestones.

A project submitted for the SFY 2018 IUP that received a commitment for all requested phases from TWDB prior to creation of the initial PPL has not been included on the initial PPL. Those projects that already received the commitment are shown as being ineligible for funding in SFY 2018. A project that previously received a commitment from TWDB for only the initial phase of the project, such as planning, acquisition, and/or design, and also provided an update of the project's readiness to proceed to the construction phase has been listed on the initial PPL.

E. Bypassing Projects

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

F. Phases on the Initial Invited Projects List

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

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

2. Construction Funding Only

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

3. Planning, Acquisition, and Design

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

G. Invitations and Application Submissions

Entities with projects on the IIPPL will be informed of the opportunity to submit an application for the project phases shown on the list using the funding options in the next section. **The projects listed on the IIPPL that are interested in pursuing funding are encouraged to begin working on their applications upon publication of the draft**

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

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

Entities invited for only planning, acquisition and/or design phases but wish to pursue Construction phase funding, may provide an updated Readiness to Proceed to Construction form for review.

Projects may be bypassed if an applicant fails to timely submit a complete application or additional requested information. After the initial invitation period, all other projects on the PPL will be invited and applications will be processed on a first-come, first-served basis, with funding allocations based on the date the application is considered administratively complete.

Applicants may submit a PIF at any time for a project to be considered for inclusion on the amended PPL. Eligible projects will be rated and ranked and added to the project lists. Amendments to the project lists will undergo a 14-day public review period that will be advertised on the agency website. Projects requesting Urgent Need funding may undergo a 7-day public review period if the TWDB determines it is necessary to protect public health and safety. Once the project has been added to the amended PPL, the TWDB will send out an invitation to apply on a first-come, first-served basis provided funding is available.

H. Addressing Any Water Loss Mitigation within the Application

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

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

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

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

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

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

K. Closing Deadlines

The deadline to close a commitment is dependent on whether the commitment includes Additional Subsidization in the form of principal forgiveness. Commitments that include only principal forgiveness must close within three months from the date of commitment. All commitments that include principal forgiveness funding concurrently with bonds/loan funding must close within six months from the date of the commitment. All commitments for bonds/loan funding without any principal forgiveness funding must close within one year from the date of commitment. For multi-year commitments described in the next section, the closing deadline for the initial year will follow the chart below. For each subsequent year, the commitment must close within the dates established by the TWDB at commitment. In extenuating circumstances, the Board may grant extensions of time to close if an applicant demonstrates sufficient reason for a delay.

Type of Financial Assistance	Closing Deadline
Commitments that include only principal forgiveness	3 months
All commitments that include principal forgiveness and bonds/loan	6 months
All commitments for bonds/loan without any principal forgiveness	12 months

L. Limits on Funding

1. Proportionate Share

The TWDB may limit the amount of funding available to an individual entity based on a proportionate share of total funds available.

2. Additional Project Funding Before Closing

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

3. Cost Overruns After Closing

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

M. Leveraging to Provide Additional Funding

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

N. Funds from Prior Years

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

O. Transfer of Funds

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

P. Updates to the Intended Use Plan

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

XI. Set-Asides

Federal regulations allow states to set aside up to 31 percent of the capitalization grant funds for purposes other than financing construction projects for water systems. The set asides for SFY 2018 will be allocated as follows: 4 percent for the TWDB for administration/technical assistance, 10 percent for TCEQ for State Program Management, 2 percent for TCEQ for Small Systems Technical Assistance, and \$1,800,000 (approximately 3 percent) for TCEQ for Local Assistance and Other State Programs.

A. Texas Water Development Board Administration and Technical Assistance Activities

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

The TWDB will draw administrative and technical assistance set-asides from the FFY 2017 Capitalization Grant in the amount of \$2,383,600. This amount is based on the third option of four percent of the FFY 2017 capitalization grant. These funds will be used for allowable expenses such as reporting activities, payment processing, application assistance, project development and monitoring, and technical assistance to public water systems. In addition, the TWDB assesses fees for the purpose of recovering administrative costs. These fees are placed in a separate account for future administrative expenses. The fees are generated by an assessment of 2.15 percent of the portion of the DWSRF financial assistance that is repaid and is assessed at closing. Fees collected will be deposited into the Administrative Cost Recovery Fund.

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

B. Texas Commission on Environmental Quality Activities

The funds for TCEQ Set-Aside activities from the FFY 2017 capitalization grant total \$8,950,800 may be used in SFY 2018. Remaining funds from the previous DWSRF

grant, except for funds for Local Assistance and Other State Programs, may also be used in SFY 2018.

State Program Management Set Aside from FFY 2017 grant	\$5,959,000
Small Systems Technical Assistance Set Aside from FFY 2017 grant	\$1,191,800
Local Assistance and Other State Programs Set Aside from FFY 2017 grant	\$1,800,000
Total TCEQ Set-Aside amount from FFY 2017 grant	\$8,950,800

A detailed description of activities may be found in TCEQ's DWSRF Set-Aside Work Plans. Activities are expected to be completed by August 31, 2018.

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

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

XII. Financial Status

The base amount of funding available for SFY 2018 is set at \$250,000,000. The amount of the FFY 2017 capitalization grant allotment for the DWSRF program is \$59,590,000, with a match of \$11,918,000 to be provided by the state. If demand warrants, the TWDB may leverage the DWSRF to provide additional financial assistance to projects. The TWDB will comply with the requirements associated with the FFY 2017 allotment in SFY 2018.

A. Sources of State Match

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

B. Binding Commitment Requirement

The TWDB will enter into binding commitments with entities during SFY 2018 that total 120 percent of the amount of a FFY 2017 grant payment allocated to projects within one year after the receipt of the grant payment. A binding commitment occurs when the TWDB's Board adopts a resolution to commit funds to a project.

C. Leveraging and Cross-collateralization

The DWSRF may be leveraged to provide funds over and above the capitalization grant and state match to assist public water systems meet their needs. In order to leverage, the TWDB may issue debt obligations which would be repaid using repayments from recipients of DWSRF financial assistance. As authorized by the SDWA, Clean Water Act, and the Texas Water Code, the TWDB may use the assets of the DWSRF and the CWSRF as a source of revenue and security for the payment of the principal and

interest on revenue bonds for the DWSRF and CWSRF. The authority to cross-collateralize the DWSRF and CWSRF enhances the ability of the DWSRF to leverage its funds and increase its lending capacity without harm to the SRF programs. Prior to cross-collateralizing the DWSRF and CWSRF in SFY 2018, the TWDB will comply with all applicable EPA requirements.

D. Inter-fund Loan / Investment

During SFY 2018, the TWDB may invest funds from the CWSRF in the DWSRF in an amount not to exceed \$150 million. If the TWDB elects this option, it will execute an inter-fund loan agreement between the CWSRF and the DWSRF with a term that will not exceed three years. Any CWSRF recycled funds deposited in accordance with the inter-fund loan agreement would be used exclusively for DWSRF eligible purposes. The TWDB would also issue a reimbursement resolution providing for repayment of funds to the CWSRF using the proceeds of a DWSRF bond issuance once the DWSRF program is leveraged. The TWDB received EPA approval for this option on March 8, 2017.

E. Method of Cash Draw

The method of cash draw for the FFY 2017 capitalization grant is to expend the required state match first, and then federal funds will be drawn at a rate of 100 percent.

F. Long-Term Financial Health of the Fund

The long-term financial health of the DWSRF is monitored through ongoing cash flow and capacity modeling. The TWDB lending rate policy has been established to preserve the corpus of the capitalization grants and state match funds, excluding the amount of principal forgiveness and set-aside amounts from each grant. The TWDB will continue to manage the DWSRF to ensure funds will be available in perpetuity for activities under the SDWA.

G. Interest Rate Policy

The TWDB has established an interest rate policy that provides for fixed rates. The fixed interest rate for the program is designed to provide borrowers with a 135-basis point reduction from the market based on a level debt service payment schedule. Fixed rates are set five business days prior to the adoption of the political subdivision's bond ordinance or resolution or the execution of the financial assistance agreement and are in effect for forty-five days.

H. Fees

The only fee is an origination fee of 2.15 percent that is assessed at closing. Fees are not deposited into the DWSRF. The fees may be used for administrative costs, including, but not limited to, project oversight, long-term financial monitoring, and to assist smaller water systems create a sustainable plan for system replacements and to prepare these entities for applying for and implementing financial assistance under the DWSRF program.

I. EPA Program Evaluation Report and Audit

EPA conducted an annual program review of the DWSRF for SFY 2016 through an onsite review occurring from March 27, 2017 to March 30, 2017. EPA sent the final report to TWDB on August 23, 2017.

The Texas State Auditor's Office published the results of the SFY 2016 Single Audit of the DWSRF on February 21, 2017 (Report 17-314). There were no findings as a result of the review.

XIII. Navigating the Lists

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

- **Appendix G** - The alphabetical list is the PPL sorted alphabetically. It contains the project information; the name of the applying entity, their total number of points and associated priority order rank, the type of system, the system's PWS ID number, the total population based on TCEQ data, a detailed description of the proposed project, all project phases requested by the entity, the estimated construction start date, total project cost, the percentage of principal forgiveness if the project is eligible to receive disadvantaged funding, information regarding included green components, and a reference to any other related PIFs from the current or previous IUPs. A grand total for all of the projects is listed on the last page of the appendix.
- **Appendix H** – Lists projects that were deemed ineligible to receive DWSRF funding with a brief description as to why they were deemed ineligible.
- **Appendix I** – Lists projects that were deemed ineligible to receive disadvantaged funding with a brief description as to why they were deemed ineligible. The project may still be eligible to receive other funding options.
- **Appendix J** – Lists projects in order of highest priority to receive funding. The content is the same as the alphabetical list in Appendix G.
- **Appendix K** – Is the list of projects that will be invited in the initial invitation round. The information provided in this list is similar to the alphabetical and priority order lists. The TWDB has determined which project phases are eligible to receive funding during this SFY, which is depicted in the Phase(s) column. Projects on this list will receive an invitation letter from the TWDB upon Board approval of the IUP. Pertinent notes and the definitions of acronyms and footnotes are listed on the last page of the appendix along with a grand total for the projects.
- **Appendix L** - The Initial Invited Green Projects List is a subset of the IIPL of only projects with green components. The information detailed includes a description of the green components, the categories of those green components, the eligible phases of the project, the total project cost, the total of the green component costs, the type of green project, and whether the proposed project is eligible to receive subsidized green funding.

A grand total for the projects is listed on the last page of the appendix along with any pertinent notes and the definitions of acronyms and footnotes.

Appendix A. Public Review and Comment

Public Participation in the Development of the Intended Use Plan

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

A. Notice

To seek public comment on the proposed uses of funds, the narrative portion of the draft amended IUP, was made available for a 14-day public comment period. This amendment does not alter the current Project Priority List or any other project list in the IUP. The narrative portion of the draft amended SFY 2018 DWSRF IUP, dated September 28, 2017, was announced as follows:

- Public notification of the draft amended IUP, the public comment period, and public hearing notice were posted on the TWDB website at www.twdb.texas.gov.
- A notice of the public hearing was published in the *Texas Register*.
- A copy of the draft amended IUP was sent to EPA.

B. Comment

Comments were accepted via the following four options from September 28, 2017, until 5:00 P.M. on October 12, 2017.

1. Attending a public hearing that will be held on October 11, 2017, at 9:00 A.M. in Room 172 of the Stephen F. Austin Building located at 1700 N. Congress Avenue in Austin, Texas
2. Submitting comments via the following online comment page:
<https://www2.twdb.texas.gov/apps/iup/>
3. Emailing comments to the following electronic mail address and specifying in the subject line "*DWSRF comments*".
iupcomments@twdb.texas.gov.
4. Mailing comments to the following postal mail address:
Mr. Mark Wyatt
Director, Program Administration and Reporting
Texas Water Development Board
P.O. Box 13231
Austin, TX 78711-3231

In accordance with federal requirements, all comments were responded to on an individual basis and reported to the TWDB's Board at the time of their review of the IUP.

C. Approval

The amended SFY 2018 DWSRF IUP will be finalized once it is considered and approved by the TWDB's Board.

D. Documentation

After Board approval, the final approved amended IUP will be formally submitted to the EPA and posted on the TWDB website.

Appendix B. Projected Sources and Uses of Funds
 9/1/2017 to 8/31/2018
 (As of May 31, 2017)

SOURCES:

FFY 2017 Federal Capitalization Grant	\$59,590,000
State Match - for FFY 2017 Federal Capitalization Grant	\$11,918,000
Undrawn previous grants	\$32,243,696
Principal Repayments	\$46,622,180
Interest Repayments	\$14,224,920
Investment Earnings on Funds	\$1,991,364
Cash available	\$163,995,626
Additional net leveraging bond proceeds (based on "Projects to be Funded")	\$128,050,000

TOTAL SOURCES: **\$458,635,786**

USES:

Set-Asides from FFY 2017 Grant:

TWDB Administrative Set-Aside	\$2,383,600
Total TWDB Set-Aside:	\$2,383,600

TCEQ Small Systems Technical Assistance Program Set-Aside	\$1,191,800
TCEQ Texas State Management Program Set-Aside	\$5,959,000
TCEQ Local Assistance and Other State Programs Set-Aside	\$1,800,000
Total TCEQ Set-Asides	\$8,950,800

Set-Asides from prior grant \$5,045,783

Projects to be funded:

SFY 2018 IUP Commitments – Additional Subsidization	\$16,000,000
SFY 2018 IUP Commitments – Bonds/Loans (Available Amount less Addit. Subsidy)	\$234,000,000
Total Projects To Be Funded - SFY 2018:	\$250,000,000

Projects already pledged

Commitments ¹	\$125,455,889
Applications	\$43,368,188
Installment closings during SFY 2018	\$10,299,040
Total Projects Already Pledged or being processed:	\$179,123,117

Debt Service for Match:

Principal Payments	\$9,166,969
Interest Payments	\$3,965,517
Total Debt Service:	\$13,132,486

TOTAL USES: **\$458,635,786**

NET SOURCES (USES): **\$0**

Fees are not deposited into the Fund; therefore, based on EPA guidance they are not included in the Sources and Uses for the Fund.
 1. Excludes multi-year commitments closing after SFY 2018

Appendix C. Rating Criteria

TCEQ Ratings

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

Combined Rating, Health and Compliance, and Primary Compliance Factors

Microbiological Factors

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

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

Chronic Chemical

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

Result/MCL

Acute Chemical

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

(Result/MCL) X 3

Carcinogen

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

(Result/MCL) X 2

Lead/Copper

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

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

Filtration

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

12.00

Groundwater Rule Factor

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

12.00

Population Factor

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

Population Range

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

Secondary Compliance Factors

Secondary Chemical

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

(Result/MCL) X 0.5

Physical Deficiency Factor

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

Deficiency:

Pressure <20 psi	1.00	Water Loss >25%	0.25
No disinfection	1.00	Pressure >20 & <35 psi	0.25
Production <85%	0.25	Other Secondary MCLs	0.25
Storage <85%	0.25		

Consolidation Factor

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

TWDB Ratings

Effective Management

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

Entity plans to prepare an asset management plan with completion of proposed project 1.00

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

Project addresses a specific goal in a water conservation plan 1.00

Project involves the use of reclaimed water 1.00

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

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

Disadvantaged Eligibility

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

Previously Received TWDB Planning, Acquisition or Design Funds

The project is requesting construction financing and previously received Planning, Acquisition, or Design (PAD) financing under the DWSRF program or the TWDB's Economically Distressed Areas Program, the entity has substantially completed the PAD activities that were financed and is ready to proceed to the next phase, TWDB has released from escrow at least fifty percent of the PAD funds, and the project has not received any TWDB funding for construction. 10.00

Tie Breaker

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

Source Water Protection Rating Criteria and Process

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

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

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

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

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

Appendix D. Affordability Criteria to Determine Disadvantaged Community Eligibility

A disadvantaged community is a community that meets the DWSRF's affordability criteria based on income, unemployment rates, and population trends. An eligible disadvantaged community consists of all of the following:

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

Acceptable Source of Socioeconomic Data for SFY 2018

For SFY 2018, the TWDB will utilize:

- (1) U.S. Census 2011-2015 American Community Survey (ACS) 5-year estimates, along with the 2007-2011 ACS 5-year estimates for determining whether there was a decline in population, or
- (2) Data from a survey approved by the Executive Administrator of a statistically acceptable sampling of customers in the service area completed in accordance with the most current Socioeconomic Surveys Guidelines (WRD-285) posted on the TWDB website. An entity must submit documentation that substantiates the inadequate or absent Census data that led to the need to conduct a survey. All entities must obtain prior approval to use survey data instead of the most recently available American Community Survey data.

Affordability Calculation and Disadvantaged Community Eligibility

Step 1. Comparison to State annual median household income.

The AMHI for the project service area (either entire or portion) must be 75 percent or less than the state's AMHI using an acceptable source of socioeconomic data for SFY 2018.

Step 2. Determining the Household Cost Factor

The total HCF is comprised of a household cost factor based on the AMHI, plus an additional household cost factor based on unemployment rates (if the unemployment rate for the service area is greater than the state average) plus an additional household cost factor based on population decline (if there has been a decline in the population of the service area over a period of time). The HCF used in the affordability criteria takes into consideration the potential burden that the cost of a proposed project will place on a household. The entity's total HCF,

which consists of the Income HCF (the percentage of annual household income that goes toward water, sewer, fees/surcharges, and project financing costs) combined with the Unemployment Rate HCF (not to exceed 0.75 percent) and the Population Decline HCF (not to exceed 0.5 percent), must be:

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

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

Step 3. Principal Forgiveness Eligibility and Levels

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

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

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

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

County	Census Tract	Block Group	From Entity	Calculation	ACS 2011-2015	Calculation	ACS 2011-2015	Calculation	Calculation
			Total Number of Household Connections	% of TTL Connections	AMHI	Prorated AMHI	Average HH Size	Prorated Average HH Size	Entity's Population Served
Liberty	7006	1	1,105	66.65%	\$18,004	\$11,999	2.15	1.43	1,583
Liberty	7006	2	302	18.21%	\$44,350	\$8,078	2.45	0.45	135
Liberty	7006	3	251	15.14%	\$46,688	\$7,068	3.38	0.51	128
			1,658	100.00%		\$27,145		2.39	1,847

County	Census Tract	Block Group	ACS 2011-2015	Calculation	ACS 2011-2015	ACS 2007-2011	Calculation
			Unemployment Rate	Prorated Unemployment Rate	Prorata Population 2015	Prorata Population 2011	Prorata Pop. Change
Liberty	7006	1	23.5%	5.6%	668	991	-323
Liberty	7006	2	27.5%	8.3%	1,259	803	456
Liberty	7006	3	7.9%	3.6%	995	971	24
				17.5%	2,922	2,765	157

For entities that serve retail customers with differing rate structures, prorated rates are used, in some instances, to calculate each entity's household cost factor in SFY 2018. The following tables are an example of the method used. The TWDB will require use of prorated rates to determine an entity's water and/or sewer bills when applicable.

Prorated Average Monthly Water Bill

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

Prorated Average Monthly Sewer Bill

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

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

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

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

AMHI will automatically receive Disadvantaged Community status with the lowest available level of principal forgiveness.

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

Appendix E. Federal Requirements and Assurances

A. Federal Requirements

1. Davis-Bacon Wage Rate Requirements

A subrecipient must comply with the requirements of section 1450(e) of the Safe Drinking Water Act (42 U.S.C.300j-9(e)) in all procurement contracts and must require contractors to include compliance with section 1450(e) of the Safe Drinking Water Act in all subcontracts and other lower tiered transactions. All contracts and subcontracts for the construction project must contain in full in any contract in excess of \$2,000 the wage rate requirements contract clauses prescribed by TWDB. Section 1450(e) requires compliance with 40 U.S. Code Sections 3141 to 3144, 3146, and 3147 covering wage rate requirements. TWDB guidance is available at <http://www.twdb.texas.gov/financial/instructions/doc/DB-0156.pdf>.

2. American Iron and Steel (AIS)

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

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

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

EPA may waive the AIS requirement under certain circumstances.

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

3. Compliance with Cross-cutting Authorities

There are a number of federal laws, executive orders, and federal policies that apply to projects and activities receiving federal financial assistance, regardless of whether the

federal laws authorizing the assistance make them applicable. These federal authorities are referred to as cross-cutting authorities or cross-cutters. The cross-cutters apply to all projects and activities assisted with DWSRF funds.

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

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

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

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

5. Additional Subsidization

In accordance with the Consolidated Appropriations Act, 2017 (Public Law 115-31), the TWDB is required to provide 20 percent of the capitalization grant of \$59,590,000, or \$11,918,000, in Additional Subsidization. The TWDB has allocated Additional Subsidization for SFY 2018 as follows:

Funding Option	Additional Subsidy Allocation
Disadvantaged Community	\$10,000,000
Subsidized Green	\$1,000,000
Very Small Systems	\$3,000,000
Urgent Need	\$7,000,000
Total	\$21,000,000

Of the total Additional Subsidization being made available for SFY 2018, an amount equal to \$11,918,000 may only be used where such funds would be for initial financing for an eligible recipient or to buy, refinance, or restructure the debt obligations of eligible recipients where such debt was incurred on or after May 5, 2017.

6. Green Project Reserve

The capitalization grant for FFY 2017 states that at the discretion of each State, the capitalization grant may be used for projects to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. The TWDB is establishing a goal to allocate an equivalent of 10 percent of the capitalization grant to approved green project costs. The discretionary allocation is known as the Green Project Reserve (GPR).

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

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

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

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

7. Competency Statements

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

A. TWDB Competency Statement

TWDB ascertains that competency can be demonstrated by the following:

1. The "TWDB Quality Management Plan," approved by EPA Region 6 on June 29, 2017, demonstrates competency by providing a description of the quality policies including all requirements described in EPA QA/R-2.

B. TCEQ Competency Statement

TCEQ ascertains that competency can be demonstrated by the following:

1. EPA approval of the "Quality Assurance Project Plan for the Public Water Supply Supervision Program Relating to the Safe Drinking Water Act of the Texas Commission on Environmental Quality", Revision 11.2 (QTRAK #16-449), received on September 16, 2016 which is approved through November 4, 2019. The most recent revision was approved by EPA on November 4, 2016.

2. The "TCEQ Quality Management Plan, Revision 22 (2017)" (QTRAK# 17-060) approved on January 12, 2017 by EPA Region 6 which demonstrates competency by providing a description of the quality policies including all requirements described in EPA QA/R-2.

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

- A. Capacity development authority. The State of Texas, through the TCEQ, has the legal authority to ensure that all new community water systems, and new nontransient, noncommunity water systems that commence operations have demonstrated FMT capacity with respect to national primary drinking water regulations. If DWSRF financial assistance is being provided to the new system, TCEQ conducts and provides to TWDB the results of its FMT assessment prior to closing on the financial assistance.
- B. Capacity development strategy. The State of Texas, through the use of DWSRF set-asides provided to TCEQ, implements a strategy to assist public water systems in acquiring and maintaining financial, managerial, and technical capacity. The TWDB has set aside funds from the FFY 2017 grant for TCEQ to implement a capacity development strategy. TCEQ will use funds from the State Program Management, Small Systems Technical Assistance, and Local Assistance and Other State Programs set-asides to conduct the capacity development activities. The TCEQ demonstrates compliance with the Capacity Development Strategy requirement of the SDWA by annually submitting the Capacity Development Report to EPA. The most recent report was provided to EPA on December 29, 2016.
- C. Operator certification program. The State of Texas, through the TCEQ, has a program for certifying operators of community and nontransient, noncommunity public water systems. The TCEQ demonstrates compliance with the Operator Certification Program Provisions by annually submitting an Operator Certifications Program Report to EPA. The most recent report was provided to EPA on September 20, 2016.

9. Signage

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

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

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

10. Reserves Established from Available Funds

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

Funding Reserves	
Reserve	Amount
Green Projects (10% of capitalization grant)	\$5,959,000
Small Communities (15% of available funds)	\$37,500,000
Extended Terms (75% of available funds)	\$187,500,000
Urgent Need Disadvantaged/Small/Rural (50% of principal forgiveness and 20% of loans with an interest rate of zero percent)	\$3,500,000 (principal forgiveness) and \$5 Million (0% loans)

B. Assurances

Entry into the Federal Reporting Systems

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

Appendix F. Bypass Procedures

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

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

1. Projects Previously Funded

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

2. Disadvantaged Community

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

3. Green Project Reserve

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

4. Very Small Systems

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

5. Urgent Need

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

6. Small Communities

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

7. Readiness to Proceed

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

8. Past Project Performance

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

9. Financial Capacity

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

10. Loan Only Invitation – Initial Application Round

A project may be bypassed in the initial application round to extend an invitation to projects requesting only loan funds without any principal forgiveness. The projects invited in the first round because they are requesting only loan/bond financing will not be eligible to receive additional subsidization during the initial application round. The Executive Administrator will ensure that sufficient capacity remains to provide at least loan/bond financing to all projects bypassed in the first application round to invite these loan-only projects.