

**State of Ohio**

**Drinking Water Assistance Fund**

**Annual Report**

**Program Year 2006**

to U.S. EPA, REGION V

Final September 13, 2006

Prepared by:  
The OHIO ENVIRONMENTAL PROTECTION AGENCY  
Division of Drinking and Ground Waters  
Division of Environmental and Financial Assistance  
and the  
OHIO WATER DEVELOPMENT AUTHORITY

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## **I. Introduction**

The State of Ohio is pleased to submit this Annual Report on Ohio's drinking water state revolving fund, the Drinking Water Assistance Fund, for Program Year (PY) 2006. This Report addresses operation of the Drinking Water Assistance Fund during the time period from July 1, 2005 through June 30, 2006. During that time period, Ohio was awarded the 2005 capitalization grant.

Ohio EPA provides this report detailing the activities undertaken to reach the goals and objectives set forth in the Program Management Plans developed for PY 2006. This report documents the status of the program by; describing progress made toward long- and short-term program goals, the sources (e.g., federal grants) and uses of all funds (e.g., loans, set-asides), financial status of the Drinking Water Assistance Fund, and compliance with federal Drinking Water State Revolving Fund requirements.

### **Ohio Drinking Water Assistance Fund - PY 2006 OVERVIEW**

**Total Capitalization Received: \$25,257,900**

**Number of Projects Binding Commitments: 23**

**Number of Supplemental Loans: 4**

**Project Funding Binding Commitments: \$119,802,073**

**Average Interest Rate: 3.10 percent, w/o 5 yr. Loans**

**Small Systems Funded: 11 loans for \$26,693,586**

## II. Goals and Accomplishments

The long term goals for this program were established to allow the best use of funds available from each capitalization grant to assist water supply systems in meeting their goals in providing safe water to the people of Ohio and continue operation of a revolving fund capable of providing low interest loans to these water systems on a continuing basis. Our short term goals were aimed at providing the infrastructure necessary to implement the Drinking Water Assistance Fund (DWAFF), identification of public water systems most in need of loan assistance, and providing a means for such systems to avail themselves of the loan program. The reporting period for this report is July 1, 2005 through June 30, 2006.

### A. Progress Toward Long Term Goals

1. ***Maximize below-market rate loans to eligible public water systems to fund improvements to eliminate public health threats and ensure compliance with federal and state drinking water laws and regulations;***

***Progress Toward Long Term Goal #1.*** During the 2006 program year, there were twenty-three binding loan commitments totaling \$ 119,802,073. Of these twenty-three, twenty-two served unique public water systems. In addition to the twenty-three loans, four systems received supplemental loans. Eleven of the twenty-three loans served a population of 10,000 or less. The eleven loans to small systems accounted for \$26,693,586, which is 22% of the funds awarded, 7% above the minimum 15% required for small systems.

Many of the twenty-three binding loan commitments addressed multiple needs. The projects are described below by components addressed.

<b>Project Type by Needs Code</b>	<b>Number of Loans</b>
Planning and Design	2
Distribution and Transmission Lines	8
Storage	6
Treatment/Plant	11
Source	1

As of July 1, 2005, the state anticipated having \$167,734,147 available to loan during the program year, including all or parts of previously obtained and newly available capitalization grants, the required state match for each capitalization grant and proceeds from bonds.

2. ***Target technical assistance to public water systems serving 10,000 or fewer people with a technical assistance program provided by funds from the technical assistance set-aside account;***

***Progress Toward Long Term Goal #2.*** Great Lakes Rural Community Assistance Program (RCAP)/WSOS continued to provide managerial and financial assistance to public

water systems with populations of 10,000 or fewer. Capability Assurance technical assistance focused on financial management of systems. Two types of training sessions were held for water boards, mayors, councils and operators. The first course was "Utility Management for Local Officials" and the second was "Financial Management for Local Officials". Eleven total courses were held, six of the Utility Management course and five of the Financial Management course. The one day training sessions addressed issues related to: utility planning, identifying both direct and indirect O&M costs, developing budgets, cost recovery, types of financing resources, financial plan development and marketing utility products and services to customers. A total of 240 attendees received training. A copy of templates of spreadsheets for asset management were given to each attendee on a CD, along with a hard copy of material covered in the session.

A summary of activities for Great Lakes RCAP during PY 2006 are as follows:

- Six Capability Assurance Plans completed, with ten in progress as the year ended
- Two pre-applications for the PPL
- Eight Construction Loan applications. A total of thirty-five loans were in progress at year end.
- Nine systems were assisted with meeting State and other Cross-Cutting Requirements
- Eighteen systems identified as requesting assistance in making readiness to proceed decisions
- Seven systems aided in selecting the most cost effective and affordable option to obtain safe drinking water
- Twenty systems were assisted in procurement of funding through various sources in addition to the DWSRF
- Eleven training sessions on financial and managerial issues for Water boards were held with two-hundred forty people attending.

The Compliance Assurance Coordinator position was continued during PY2006. This field agent provides technical assistance to water systems serving 250 or fewer customers. Activities undertaken include presenting educational programs to County Health Departments and providing assistance to local systems on public health based issues using the water use advisory list, significant non-complier and ground water under the influence of surface water lists. A primary goal was removal of systems with long term boil advisories (>8 weeks). A secondary focus was working with public water systems that have multiple monitoring and reporting violations in consecutive quarters using the violation database as a reference. Additional duties include visiting individual water systems to provide training and direction, and providing assistance with sample siting plans, contingency plans, detail plan process, consumer confidence reports and corrosion control recommendations. A formalized monthly report to Central Office, detailing actions taken under set-aside activities by our NEDO operative, was provided during this reporting period.

A summary of activities for the Compliance Assurance Coordinator during PY 2006 are, as follows:

- 16 technical assistance site visits, 23 follow up visits, 3 complaint investigations
- 19 Public Water Supply Evaluation forms received and reviewed
- 422 technical assistance communications
- 395 phone contacts with the general public
- 17 boil advisories added, 11 were resolved at year end

**3. *Provide financial assistance for completing source water assessments and wellhead protection plans (delineation, inventory, susceptibility analysis and distribution of assessment information) with funds from the wellhead protection set-aside account to promote locally developed source water protection plans;***

**Progress Toward Long Term Goal #3.** Ohio EPA utilized FFY 2002 and FFY 2003 capitalization grant wellhead protection set-asides to fund activities during Program Year 2006 (PY 06). These funds were used to complete source water assessment and wellhead protection activities for public water systems using ground water. Funds were also used for general administrative and information management support and to assist local communities in the development of their own wellhead protection/source water protection plans.

The Agency has completed source water assessment reports for all public water systems, except for recently activated public water systems. To date, 5,400 source water assessment reports have been completed by Ohio EPA. During PY 2006, the Ohio EPA completed 1,303 final source water assessment reports.

Beginning in the second half of PY 2006, the program focus shifted to promoting protective strategies, developing education and outreach activities, conducting training workshops, providing direct technical assistance to public water system officials and QA/QC of the source assessment information and databases. Staff continue to complete source water assessment reports for public water systems that were activated during program year. Staff provided on-site assistance to dozens of public water systems in development of local wellhead protection plans and conducted 12 county or regional protection planning workshops. Eighteen municipal protection plans were reviewed and twelve of these plans were endorsed by the agency. Finally, 409 non-municipal public water systems completed and returned a protective strategy template customized for their facility that was sent to them with their source water assessment report, on which they indicated which protective strategies they intend to implement to protect their source of water. As of June 30, 2006, a total of 1,074 such templates had been received by the Agency.

As of July 2006, thirty-six percent of the community public water systems addressing forty percent of Ohio's population served by public water systems have developed source water protection plans or are implementing protection strategies based on Ohio's definition of "substantial implementation" which includes public water systems with ground water sources determined to have a "low" susceptibility to contamination.

A more thorough description of all the program accomplishments is presented in the full *Wellhead Protection Set-Aside Program Year 2006 Annual Report*.

**4. *Improve the types and quantity of small and disadvantaged community assistance to reduce the financial impact of capital improvement projects on smaller systems and systems serving less affluent populations;***

***Progress Toward Long Term Goal #4.*** Ohio has not implemented a disadvantaged community assistance program yet. The agency is required to adopt rules in order to implement a disadvantaged community system program. During PY2006, Ohio EPA finished drafting the rules, policy and methodology for a disadvantaged community program. Ohio conducted the interested party comment period that occurs prior to rule proposal during PY 2006 and proposed the draft rules during July 2006. The rules will be finalized and implementation will begin during PY2007.

During PY 2006, small systems were evaluated and received affordability points based on a ratio of median household income and water rates, and were eligible for a 2% loan. A 2% loan is often used in coordination with other grant/loan programs.

**5. *Promote the development of the technical, managerial and financial capability of public water systems to maintain compliance with the state and federal SDWA requirements, and Ohio's Capacity Assurance Program***

***Progress Toward Long Term Goal #5.*** Ohio has implemented the Capacity Assurance Program as required in the SDWA for all new systems and all recipients of WSRLA assistance. Rules to implement this program became effective October 1, 1999. The Agency has also developed a guidance document to assist systems in the development of an approvable Capacity Assurance Plan. This guidance became final on September 25, 2000.

The Agency must ensure that each public water system (PWS) that receives a WSRLA loan can demonstrate technical, managerial, and financial capacity. WSRLA funds cannot be used to provide any type of assistance to a PWS that lacks the technical, managerial, or financial capability to maintain SDWA compliance, unless the PWS owner agrees to implement feasible and appropriate changes in operation and maintenance practices, and in the financial management of the system. All 23 systems that received loan award during program year 2006 completed a capacity assurance plan that was evaluated by district and central office personnel from the Division of Drinking and Ground Waters and planners from the Division of Environmental and Financial Assistance. For further information on accomplishments of the capability assurance program during this program year, please see the *SFY2006 Capability Assurance Report*.

Ohio EPA provides additional assistance to all potential loan recipients with populations of 10,000 or fewer in the completion of a Capacity Assurance Plan. Ohio RCAP, program provider of financial and managerial assistance through the Small Systems Technical Assistance Program, assisted in the development of these plans for eligible small systems.

For further information on how many systems RCAP has provided help during this program year, please see the *Program Year 2006 Small Systems Technical Assistance Set-aside Report*.

During 2006, four new public water systems completed a capacity assurance plan. Plans for new systems are evaluated by both central and district office personnel from the Division of Drinking and Ground Waters before being accepted.

During program year 2006, Ohio EPA did not move forward the revised capacity assurance rules and guidance. Instead we increased efforts in revising the sanitary survey process which includes more capability related questions and a new Capability Assurance Program (CAP) Trigger Evaluation Form. During PY 2006, ninety-three CAP Trigger Forms were completed during the pilot of the new sanitary survey process and results were tracked. The pilot has given us additional information that was necessary before proceeding with the revised capability assurance rules which includes a new requirement to address existing systems. The capacity development rules and process will tie-in closely with the new sanitary survey process that Ohio is in the midst of developing. During PY2007, the capability assurance rules are due for rule review and the new sanitary survey process will go into effect, therefore we expect to proceed with a revised capability assurance program unless the rules are tabled due to other divisional priorities or resource allocation concerns.

Through the currently enacted rules, guidance document, and additional assistance provided to eligible small systems, Ohio EPA is able to ensure that each WSRLA loan recipient demonstrates capacity assurance. We are currently putting measures in place to ensure all new, existing and loan systems demonstrate this capability.

**6. *Fund the construction of extensions of public water systems, or if extensions are not economically feasible, the construction of new public water systems to address pockets of contaminated private water systems;***

***Progress Toward Long Term Goal #6.*** Bishopville Water District received a loan to extend distribution lines to tie-in many private wells that had total coliform bacteria contamination.

**7. *Encourage the consolidation and/or regionalization of small public water systems to allow them to take advantage of the economies of scale available to larger water systems;***

***Progress Toward Long Term Goal #7.*** The loan for Hidden Lakes MHP was to pay for the line and meter to tie-in to the city of Streetsboro. This system had arsenic levels above the new maximum contaminant level which would have been costly to treat. The project for Tupper Plains- Chester Water District included a storage tank and distribution line to serve additional existing homes.

## **B. Progress Toward Short-Term Goals**

- 1. Continue implementation of the Drinking Water Assistance Fund as an ongoing environmental assistance program. Subsequent years will more fully develop the capabilities of the Drinking Water Assistance Fund in development and implementation of source water protection, and assistance for disadvantaged system improvements.***

***Progress Toward Short Term Goal #1.*** The agency made progress in establishing the Drinking Water Assistance Fund as an effective environmental assistance program in Ohio. For the WSRLA this program year, this includes obligation of substantial portions of the available capitalization grants and state match funds. Extensive work was completed in both the source water protection program and preparing the new program for disadvantaged community system improvements. See Long Term Goals #3 and #4 for more detailed information.

- 2. Provide opportunities for meaningful public involvement in DWAF continuing implementation by public notification of the Intended Use Plan/Management Plan, Project Priority List, and hosting two public meetings per program year.***

***Progress Toward Short Term Goal #2.*** When seeking approval for each Management and Intended Use Plan public notifications are sent to twelve statewide newspapers and a list of interested parties indicating that a new plan is available for review. Draft plans may be obtained from Central Office by phone request, in person at Central Office and via the Ohio EPA website. For PY 2006 the draft plans were made available on May 6, 2005 for 30 days. Then two public meetings were held on June 7, 2005 to receive public comments from the public and water system stakeholders. In addition, written comments were also accepted during the public comment period. No comments were received in writing or in person during the comment period for PY2006. If there had been any comments, a responsiveness summary would have been prepared and made available to the public. If comments are received, they would be addressed before the Management Plan/IUP is approved.

The Drinking Water Advisory Committee (DWAC) was formed September 19, 2001 to help strengthen the division's drinking and ground waters programs through valuable and independent input from stakeholders. DWAC maintains between 15-20 members representing a balanced, cross-section of civic and environmental groups that have an interest in drinking water programs and issues. The group focuses on providing input on rule development, assessing and recommending improvements to new and existing programs, and identifying funding alternatives to address state and local funding needs. For PY 2006, our program did not have any issues to discuss at DWAC. However as issues arise in program development, DWAC is one method the state has available to bring issues to the stakeholder to involve them in the decision making process.

- 3. Promote the fund as an effective means to provide financial assistance to systems developing capital improvement projects to address new regulations, specifically: Long Term Enhanced Surface Water Treatment Rule, Disinfection/Disinfection By-Product Rule, Ground Water Rule, Arsenic Rule, Radiological Rule, Radon Rule and systems adversely affected by any ongoing or previous drought occurrences.***

***Progress Toward Short Term Goal #3;*** Ohio EPA has promoted the use of WSRLA funds to meet the above goals by:

- Use of the WSRLA program is promoted by Ohio EPA District Office personnel. As water systems are identified that may need to replace or upgrade their equipment to meet one of the new rules, the WSRLA program is marketed to them as a means of obtaining funds to meet compliance requirements.
  - Ohio EPA has placed information on the agency website so that all water systems can be familiar with the requirements of these new rules. Links have also been created from the Ohio EPA website, to the USEPA website, where additional fact sheets are available.
  - The technical assistance providers used by Ohio EPA have been promoting the use of WSRLA funds as they identify water systems with compliance and infrastructure needs. They have also been distributing fact sheets, pre-applications and additional technical assistance, as needed.
  - Ohio EPA gave multiple presentations to drinking water system personnel who attended workshops sponsored by the Operator Training Committee of Ohio, Ohio American Water Works Association and Water One Association. During PY 2006, Ohio EPA presented to approximately 200 water system personnel in multiple small training sessions/workshops.
- 4. Develop and finalize disadvantaged community rules for the Ohio DWAF Program during the 2005 Program Year for implementation in Program Year 2006.***

***Progress Toward Short Term Goal #4*** The draft rules were sent out for interested party comments during PY 2006. The rules were proposed in July 2006 and are expected to be final by October 1, 2006. Implementation of the disadvantaged community program will occur during PY 2007.

## **C. Outputs and Outcomes for PY 2006**

- 1. Output:** The State funded eight drinking water transmission/distribution loans in PY 2006 to construct/rehabilitate/upgrade drinking water transmission and distribution systems across the State. The total dollar amount for transmission/distribution related

projects is \$31,945,471.

**Outcome:** The funding of these projects will result in more people getting better drinking water from current and existing treatment systems across the State.

2. **Output:** The State funded eleven drinking water treatment projects in PY 2006 to construct and/or rehabilitate drinking water treatment facilities across the State. The total dollar amount for treatment related projects is \$80,561,854.

**Outcome:** The funding of these projects will result in better drinking water for thousands of people across the State and, upon completion of the projects, facilities that meet all applicable permits and SDWA requirements.

3. **Output:** The State funded six drinking water storage projects in PY 2006 to construct and/or rehabilitate drinking water storage facilities across the State. The total dollar amount for storage related projects is \$6,257,181.

**Outcome:** The funding of these projects will result in better drinking water for thousands of people across the State and, upon completion of the projects, storage facilities that meet all applicable permits and SDWA requirements.

4. **Output:** The State funded one drinking water source projects in PY 2006 to construct and/or rehabilitate drinking water sources across the State. The total dollar amount for source related projects is \$73,225.

**Outcome:** The funding of these projects will result in better drinking water and source water that meet all applicable permits and SDWA requirements.

### III. Drinking Water Assistance Fund: Loan and Set-Aside Activities

In this section we provide a discussion of the Drinking Water Assistance Fund assistance activities during PY 2006. We provide details on the sources of funding in our program, the status of loan activities, and the status of set-aside activities.

#### A. Sources of Funding for the Drinking Water Assistance Fund

The binding commitments from the Drinking Water Assistance Fund program in this reporting period totaled \$119,802,073 (see Table 9). Since the program's inception, federal capitalization grants, state match funds, and leveraged bond proceeds have been the major sources of funding. The major aspects of sources of Drinking Water Assistance Fund funding during the reporting period are described below.

##### 1. Capitalization Grants

Prior to Program Year 2006, Ohio EPA had received five (5) capitalization grants totaling \$213,828,600 from USEPA. During Program Year 2006, one (1) capitalization grant was received (August 2005) totaling \$25,257,900. Thus, the total capitalization grant funds received through the end of Program Year 2006 was \$239,086,500 (see Table 2).

Please refer to Table 3, "Drinking Water Assistance Fund-Summary of Funds Available," attached to this report, regarding the status of the grants awarded including the remaining grant balances in the set-aside accounts.

##### 2. State Match

The State of Ohio is required to match all federal capitalization grants with a state match of a least 20%. Since the inception of the DWAF program, the state matching funds have been provided from a number of sources including: the Ohio Water Development Authority, 2001 Bond Anticipation Notes, 2002 and 2004 State Match Bond Proceeds, and interest earned on state match accounts.

Table 2 attached to this report provides a breakdown of the match provided to date. The table shows, at the end of the reporting period, the proportion of state match to federal capitalization grants was 32.69%, exceeding the requirement.

##### 3. DWAF Leveraged Revenue Bonds

No Leveraged Bonds were issued during this reporting period. Bond anticipation notes will be issued during program year 2007. We anticipate the next leveraged bond issue will be during program year 2008.

During the program year, 13 loans were made from DWAF leverage bond proceeds in the amount of \$63,543,490.

#### **4. Investment Income**

Investment income in the amount of \$5,737,685 was earned during the reporting period.

#### **5. Repayments**

During PY 2006, one loan (total binding commitment of \$112,452) was awarded utilizing the Repayment Fund. The balances on hand were included in the evaluation of the overall funds capacity and the potential need for their use in providing coverage for the State Match and Leveraged Bond issuances. It was determined in the evaluation that the repayments on hand were not necessary to provide coverage for the bond issues. The repayments of principal, \$11,677,683, and interest, \$8,955,781, totaling \$20,633,464 will be used for loans as needed to meet our project demand.

### **B. Uses of Funds under the Drinking Water Assistance Fund**

The Drinking Water Assistance Fund has provided \$474,884,796.70 in loans to public water systems since its inception. The program has set-aside \$28,009,905 for activities which include, Administration, Source Water Assessment, Small Community Technical Assistance and Wellhead Protection.

#### **1. Loan Assistance Status**

The Drinking Water Assistance Fund entered into 23 loan agreements and 4 supplemental loan agreements totaling \$119,802,073 during the 2006 program year. The loans range in size from \$59,393 to \$25,160,122. The term for most construction loans were 20 years, with one exception, one loan was awarded with a nine (9) year term. The loan term for the two planning and design loans were 5 years with the requirement that they be repaid immediately upon the receipt of financing for construction. The overall rate of return for the long term loans (i.e. excluding the short-term planning/design loans) is an interest rate of approximately 3.10% (see Table 1 below).

**Table 1. Interest Rates and Overall Rate of Return\***

<b>Number Loans</b>	<b>Loan Amount</b>	<b>Rate</b>	<b>Annual Interest</b>
6	\$17,812,472	2.00%	\$194,355
6**	\$8,369,636	2.75%	\$127,063
15+	\$93,619,965	3.25%	\$1,705,463
<b>27</b>	<b>\$119,802,073</b>	<b>3.10%</b>	<b>\$2,026,881</b>

\*Calculation for overall rate of return excludes the short-term (5 year) loans.

\*\* Includes (1) 5 year loan, which is excluded from calculation.

+ Includes (1) 5 year loan, which is excluded from calculation. Also includes one (1) 9 year loan.

During PY 2006, a total of 23 loans and 4 supplemental loans were awarded from the WSRLA, for a total dollar amount of \$119,802,073. The average loan amount was \$4,437,114. However, this average is probably skewed due to five relatively large loans awarded to the City's of Cleveland, Toledo, Steubenville, and Delphos, and the Tate Monroe Water District (see Table 9). The remaining 22 loans averaged \$1,037,811.

**a. Binding Commitments**

During the reporting period, the Ohio EPA entered into binding commitments totaling \$119,802,073. Of that amount, \$2,023,240 was from state matching funds, \$63,543,490 was from leveraged bond proceeds, \$54,122,891 was from capitalization grant funds, and \$112,452 was from repayment funds. This brings the total binding commitments from the federal capitalization grants to \$209,492,871.13, state match \$78,266,398.53, leverage bond proceeds \$186,666,875.04, and repayments fund \$458,652.

**b. Project Bypass**

During the initial years of the WSRLA, projects were bypassed, because applicants were at various stages in the WSRLA loan process. Some of the projects that were ranked lower were further along in the loan process. In addition, many of the higher ranked projects were small systems and we have found that the WSRLA is the loan program of last resort for some of these systems. These smaller systems look for the most affordable available funding first, then the next most affordable, etc. Sometimes the WSRLA is the 3<sup>rd</sup> or 4<sup>th</sup> funding option for these systems.

Projects may be bypassed due to (1) withdrawal of the project by the applicant, (2) the applicant's inability to meet the WSRLA requirements or (3) lack of readiness to proceed. Examples of an applicant not being ready to proceed are: lack of timely progress in completing the assistance application process, or failure to develop an approvable and implementable project. A project may also be bypassed if the loan award is projected to

be delayed beyond the end of the program year. Additionally, projects in the fundable category may be bypassed as a result of the inclusion, during the program year, of fundable emergency projects as described in the Program Management Plan.

Funds available through bypassing may be awarded to qualifying projects in keeping with the loan award procedures established in the Program Management Plan.

Ohio EPA will work with bypassed applicants to ensure funding eligibility in following program years to the maximum extent possible. Projects bypassed during the program year may retain their relative PPL ranking and be considered for funding during the next program year in which they are anticipated to be ready to proceed. Those projects' relative PPL ranking will be in accordance with the Project Priority Ranking System in effect at that time.

### **c. Small Systems**

During PY2006, the Drinking Water Assistance Fund awarded a total of 23 loans and 4 supplemental loans. Of those 27 loans, eleven loans and two supplemental loans were awarded to small water systems serving a population of 10,000 or fewer. A total of \$26,693,586 was awarded to small systems during PY 2006. Since the beginning of the DWAF, the cumulative percentage of funds awarded to small communities is 27.50% (see Table 5).

### **d. Disbursements**

Since the beginning of the program through this reporting period, the total disbursements from the DWAF were \$354,027,622. This total includes the total WSRLA disbursements of \$335,017,994 and the total set-aside disbursements of \$19,009,628. Table 4, titled, "WSRLA - Loan Disbursements", identifies the disbursements made from the state match account and the revolving loan account.

### **e. Status of the Top 10 Systems on the PPL**

1. Beaver Creek Estates- Project failed to proceed during PY 2006. Small private system It is on the PY 2007 PPL.
2. Put-in-Bay- Project received funding elsewhere for the project.
3. Tri-County Rural Water and Sewer District- Project failed to proceed during PY 2006. It is on the PY 2007 PPL.
4. Burr Oak- Project had multiple issues during PY 2006. It will be funded during PY 2007, most likely by USDA Rural Development. Costs have increased and the system needs a repayment term of forty years to make the project affordable.
5. Manchester Farms Water Association- Project failed to proceed during PY 2006. It is

on the PY 2007 PPL, but is considered inactive.

6. Buckeye Water District- Project failed to proceed during PY 2006. It was funded early during PY 2007.

7. Columbiana- Project failed to proceed during PY 2006. It is on the PY 2007 PPL.

8. Beverly- Project failed to proceed during PY 2006. It has been removed from the PPL for consideration.

9. Shiloh- Project failed to proceed during PY 2006. It is on the PY 2007 PPL.

10. Fremont- Project failed to proceed during PY 2006. It was updated and placed on the PY 2007 PPL split into two projects, one project for design during PY 2007 and construction to occur much later.

Ohio EPA recognizes that many of the highly ranked projects on the project priority list were not awarded a loan during PY 2006. We are currently reviewing our plan to determine what measures will be taken to correct this issue in future program years. Ohio is considering more stringent requirements before a system is placed on the project priority list to demonstrate the system is interested in pursuing funding during the program year.

## **2. Set-Aside Activity Status**

### **a. Administration**

Funds from this set-aside were used to pay salaries and associated expenses of personnel administering the Drinking Water Assistance Fund program. Ohio EPA currently collects administrative fees from loan recipients. Administrative fees collected are deposited into the Administrative Account which also contains the set-aside. Ohio EPA requires a loan origination fee of 1.0% of the principal of each loan originated from the WSRLA. In addition, OWDA requires a fee of 0.35% of the principal of the loan amount. The OWDA fees are also deposited into the Administrative Account to be utilized by the OWDA for administrative costs related to the program. Fees deposited into the Administrative Account must be used solely to defray the costs of administering the program. These fees are due at the time of the loan award. Administrative funds that remain in the account at the conclusion of the program year remain in the account to address program administrative costs in subsequent program years.

Implementation of the Drinking Water Assistance Fund has involved the budgeting of 16.0 FTEs – 12.0 with the Division of Drinking and Ground Waters, and 4.0 with the Division of Environmental and Financial Assistance. During the past year of the program, Ohio EPA has completed the following administrative activities:

- Development of program documents
- Development of program procedures

- Solicitation of applications
- Development of comprehensive list of projects
- Evaluation of public water systems for technical, financial, and managerial capacity
- Project selection and development of IUPs
- Development of set-aside work plans
- Conduct public meetings for development of project priority lists and IUPs
- Preparation of capitalization grant applications
- Bonding for state match creation
- Oversight/implementation of Small Systems Technical Program implementation

**b. Small Systems Technical Assistance**

Please see the *PY2006 Small Systems Technical Assistance Set-aside Report* for further detailed information.

**c. Wellhead Protection Program**

Please see the *PY2006 Wellhead Protection Set-aside Report* for further detailed information.

**d. Capacity Development Program**

Please see the *PY2006 Capability Assurance Report* for further detailed information.

## **IV. FINANCIAL SUMMARY**

The following discussion provides additional details on the financial management activities in the Drinking Water Assistance Fund.

### **A. Status of Loans**

The Drinking Water Assistance Fund has entered into binding commitments for \$119,802,073 during the reporting period. Table 9, "Binding Commitments in PY 2006" shows the status of all Drinking Water Assistance Fund loans awarded during the reporting period. Information includes the following: water system name, project description, loan number, date of loan award, loan amount, interest rate and term, and the population served.

### **B. Loan Disbursements/Cash Draw Proportionality**

The WSRLA has made \$73,017,979 in disbursements during the reporting period. Of that amount, \$49,271,619 was disbursed from leveraged bond proceeds, \$16,606,149 was from the state match account, \$6,831,766 was from the revolving loan account (federal capitalization grant funds), and \$308,445 was disbursed from other accounts. Quarterly disbursements of state matching funds and capitalization grant funds are illustrated in Table 4. We are using the rolling average method to determine federal/state proportionality as provided in 40 CFR Part 35 subpart L, subsection 35.3560(g).

### **C. Set-Aside Disbursements**

Total set-aside disbursements from the program's inception equal \$19,009,628. The remaining set-aside balances are illustrated in Table 3 "Summary of Funds Available", attached to this report.

### **D. Annual Repayment/Aging of Accounts**

Please refer to Section III. A. 5. of this report regarding the amount of repayments and their future intended use.

### **E. Investments**

Please refer to Section III. A. 4. of this report regarding the amount of investment income.

### **F. Financial Statements**

The Ohio Water Development Authority, our partner in administering the DWAF, is audited annually on a calendar year basis. The DWAF is included in that audit. The annual audit reports, including financial statements, are forwarded to U.S. EPA upon their release by the Auditor, State of Ohio. Financial Statements (Tables 6,7,8) for Program Year 2006 including a balance sheet, statement of cash flows and statement of revenues, expenses and changes in net assets are attached.

## **V. COMPLIANCE WITH OPERATING AGREEMENT AND GRANT CONDITIONS**

The Ohio EPA agreed to administer the Drinking Water Assistance Fund in accordance with conditions outlined in the Grant Agreements and the Operating Agreement (July 1998). The following conditions have been met as described in the operating agreement or the capitalization grant agreement and will not be described further:

- Agreement to accept payments
- Follow state laws and procedures
- Follow state accounting and auditing procedures
- Recipient accounting procedures using GAAP and auditing procedures using GAGAS
- Use of the ASAP
- Preparation of Project Priority List and Intended Use Plan annually
- Through the Ohio Water Development Authority, establish and maintain designated Drinking Water Assistance Fund accounts

Other conditions, requirements or regulations which were met during PY 2006 include: matching ASAP increases at the 20% level, expeditious and timely expenditure of funds, providing SRF funds only for eligible activities, compliance with SDWA requirements for all projects receiving binding commitments, the MBE/WBE requirements, compliance with other federal authorities; compliance with the State Environmental Review Process (SERP); compliance with the ASAP cash draw procedures and rules established by U.S. EPA; and the performance of an annual audit and annual review.

## Table 2

### Capitalization Grant Award and State Match Summary

30-Jun-2006

Grant Number	FFY Appropriation	Cap Grant Award Date	Cap Grant Amount	State Match Amount (20%)	Remarks
FS985954-98	1997	11-Sep-98	\$43,073,000.00	\$8,614,600.00	Provided by OWDA
FS985954-99	1998	30-Sep-99	\$22,806,200.00	\$4,561,240.00	Provided by OWDA
FS985954-00	1999	21-Sep-00	\$23,903,100.00	\$4,780,620.00	2001 BAN
FS985954-00	2000	21-Sep-00	\$24,842,200.00	\$4,968,440.00	2001 BAN
FS985954-00-1	2001	19-Sep-01	\$24,944,900.22	\$4,988,980.04	2001 BAN
FS985954-02	2002	26-Apr-02	\$24,547,600.00	\$4,909,520.00	\$261,960 by 2001 BAN and \$4,647,560 by 2002 SM Bonds
FS985954-03	2003	17-Sep-03	\$24,400,100.00	\$4,880,020.00	2002 SM Bonds
FS985954-04	2004	30-Sep-04	\$25,311,500.00	\$5,062,300.00	\$3,259,157 by 2002 SM Bonds and \$1,803,143 by 2004 SM Bonds
FS985954-05	2005	30-Aug-05	\$25,257,900.00	\$5,051,580.00	2004 SM Bonds
			\$239,086,500.22	\$47,817,300.04	Total

#### State Match Sources

Source	Amount
OWDA	\$13,175,840.00
2001 BAN	\$15,000,000.00
2002 SM Bonds*	\$12,786,737.00
2004 SM Bonds	\$33,814,620.00
Interest Earned	\$3,388,543.27
<b>Total</b>	<b>\$78,165,740.27</b>

**32.69%**

**Percentage of Match**

**to Capitalization Grants Received**

\*2002 SM Bond Proceeds

Sources and Uses of Funds \$30,076,919.70 - Cost of Issuance (286,807.33), Debt Service Reserve Fund (1,727,415) and Deposit to Debt Service Fund for retirement of Series 2001 BAN 2001 BAN (15,275,958.93)

### Table 3

## Summary of Funds Available

15-Jun-06

FFY2006 & 2007 Appropriation Capitalization Grants		\$24,670,900	\$24,670,900	
Set-Asides Accounts	Prior Year Balances	2006 Grant Amounts*	2007 Grant Amounts**	Totals for Each Account
Administrative	\$3,340,457	\$986,836	\$986,836	\$4,327,293
Source Water Assessment	\$0	\$0	\$0	\$0
Wellhead Protection Program	\$2,747,275	\$1,233,545	\$1,233,545	\$3,980,820
Small Community Tech Asst	\$1,675,123	\$493,418	\$493,418	\$2,168,541
<b>Revolving Loan Accounts</b>				
WSRLA CAP Grant	\$10,111,834	\$21,957,101	\$21,957,101	\$54,026,036
State Match for New Grants	N/A	\$4,934,180	\$4,934,180	\$9,868,360
State Match Account - Overmatch	(\$28,592,554)	(\$4,934,180)	(\$4,934,180)	(\$18,724,194)
State Match Account - After New Grants	\$1,723,340	\$0	\$0	\$1,723,340
Subtotal WSRLA CAP grant (w/State Match)	\$11,835,174	\$21,957,101	\$21,957,101	\$55,749,376
Leveraged Bond proceeds balance***	\$5,331,260	\$70,000,000	N/A	\$75,331,260
Other Projects Fund (repayments)	\$16,147,844	\$0	\$0	\$16,147,844
<b>Total estimated WSRLA Funds</b>	<b>\$33,314,279</b>	<b>\$91,957,101</b>	<b>\$21,957,101</b>	<b>\$147,228,481</b>
Amount of funds being made available PY 2007				\$65,000,000
Proportionate Share (15% of PY 07 WSRLA total)				\$9,750,000
Proportionate Share (10% of PY 07 WSRLA total)				\$6,500,000

\* Application for the FFY 2006 Capitalization Grant is at U.S. EPA

\*\* FFY 2007 Allotment is anticipated to be almost the same as that FFY 2006

\*\*\* Amount shown in 2006 column is an estimate  
(Funds will be acquired through the issuance is either notes or bonds as needed to meet projected demand.)

## Table 4

PY 2006 WSRLA Loan Disbursements				Actual	WSRLA	State	Target
				Proportionality	Federal Amt	Match	Proportionality
				Percentage			Percentage
as of 6/30/2005					\$188,597,064	\$42,765,720	18.48%
	Federal	State	(Total SM/Fed+SM)				
Encumbered	\$147,842,523.45	\$74,412,054.85	33.48%				
Disbursed	\$138,479,613.85	\$54,920,252.19	28.40%				
as of 9/30/2005					\$211,076,595	\$47,817,300	18.47%
	Federal	State	(Total SM/Fed+SM)				
Encumbered	\$147,615,163.13	\$75,921,931.69	33.96%				
Disbursed	\$140,504,048.45	\$61,622,239.50	30.49%				
as of 12/31/2005					\$211,076,595	\$47,817,300	18.47%
	Federal	State	(Total SM/Fed+SM)				
Encumbered	\$147,570,851.86	\$76,149,186.44	34.04%				
Disbursed	\$141,538,031.66	\$67,311,694.44	32.23%				
as of 3/31/2006					\$211,076,595	\$47,817,300	18.47%
	Federal	State	(Total SM/Fed+SM)				
Encumbered	\$179,877,667.71	\$76,409,853.98	29.81%				
Disbursed	\$142,510,049.24	\$70,486,180.90	33.09%				
as of 6/30/2006					\$211,076,595	\$47,817,300	18.47%
	Federal	State	(Total SM/Fed+SM)				
Encumbered	\$199,900,071.63	\$76,266,973.16	27.62%				
Disbursed	\$145,311,377.85	\$71,526,401.98	32.99%				

**Table 5****15% to Small Communities  
Calculation**

Start of PY	End of PY	Amount Available in PY	15% of Available	Amount to Small Coms.	Prior Year Carryover	% of Amount Available with Carryover
11/1/1998	6/30/1999	\$90,479,160	\$13,571,874	\$1,276,203	\$0	1.41%
7/1/1999	6/30/2000	\$122,904,728	\$18,435,709	\$6,025,698	\$0	4.90%
7/1/2000	6/30/2001	\$108,532,852	\$16,279,928	\$6,470,664	\$0	5.96%
7/1/2001	6/30/2002	\$49,799,315	\$7,469,897	\$15,861,749	\$8,391,852	31.85%
7/1/2002	6/30/2003	\$120,855,214	\$18,128,282	\$17,097,690	\$7,361,260	21.09%
7/1/2003	6/30/2004	\$89,449,175	\$13,417,376	\$29,622,629	\$23,566,512	41.35%
7/1/2004	6/30/2005	\$134,511,633	\$20,176,745	\$16,045,452	\$19,435,219	29.45%
7/1/2005	6/30/2006	\$167,734,147	\$25,160,122	\$26,182,108	\$20,457,205	27.20%

## Table 6

### Drinking Water Assistance Fund

Balance Sheet

June 30, 2006

<u>Assets</u>		
Cash		1,020,020
Investments		120,865,510
Receivables:		
Federal and local government authorities		308,759,072
Deferred bond and note issuance expense		1,904,999
	Total assets	<u>432,549,601</u>
<u>Liabilities and Net Assets</u>		
Accrued interest		900,698
Drinking Water Assistance Fund Bonds		
State Match Series		55,176,165
Leverage Series		189,550,270
	Total liabilities	<u>245,627,133</u>
Net Assets		186,922,468
	Total liabilities and net assets	<u>432,549,601</u>

## Table 7

### Drinking Water Assistance Fund

Statement of Revenues, Expenses and Changes in Net Assets  
Year ended June 30, 2006

Revenues:	
Project revenue	11,581,691
Investment income	5,737,682
Contribution from U.S. EPA	<u>9,547,997</u>
	26,867,370
Expenses:	
Interest on bonds and notes	7,869,798
Amortization of bond issuance expenses	98,914
Operating expenses and other	<u>2,737,503</u>
	10,706,215
Excess (deficiency) of revenues over expenses before non - operating revenue	16,161,155
Other	<u>-</u>
Excess (deficiency) of revenues over expenses	16,161,155
Net Assets at beginning of year	<u>170,761,313</u>
Net Assets at end of year	<u><u>186,922,468</u></u>

## Table 8

### Drinking Water Assistance Fund

Statement of Cash Flows

Year ended June 30, 2006

Operating activities:	
Operating expenses	(2,737,503)
Net cash provided (used) by operating activities	<u>(2,737,503)</u>
Investing activities:	
Proceeds from maturity or sale of investments	257,176,118
Purchase of investments	(264,089,670)
Interest received on investments, net of purchased interest	5,143,543
Interest received on projects	8,955,781
Principal collected on projects	11,677,683
Payment for construction of projects	(73,017,979)
Net cash provided (used) by investing activities	<u>(54,154,524)</u>
Noncapital financing activities:	
Interest paid on bonds and notes, net of purchased interest	(9,525,031)
Redemption of bonds and notes	(4,800,000)
Proceeds of bonds and notes	63,164,089
Bond issuance expense	(491,737)
Contribution from U.S. EPA	9,547,997
Net cash provided (used) by noncapital financing activities	<u>57,895,318</u>
Net increase (decrease) in cash and cash equivalents	1,003,291
Cash and cash equivalents at beginning of period	16,729
Cash and cash equivalents at end of period	<u><u>1,020,020</u></u>
Recon to net cash provided (used) by oper activities:	
Excess (deficiency) of revenues over expenses before operating transfer	16,161,155
Adjustments:	
Investment income	(5,737,682)
Operating expenses	-
Interest on bonds and notes	7,869,798
Project revenue	(11,581,691)
Amortization of bond issuance cost	98,914
Contribution from U.S. EPA	(9,547,997)
Net cash provided (used) by operating activities	<u><u>(2,737,503)</u></u>

### Table 9- Binding Commitments in PY 2006

Applicant	Project Description	Loan No.	Seq	Population	Award Date	Term	Rate	Type	Rate	Loan Amount
Tuppers Plains-Chester W.D.	500,000 gallon water storage tank/water line	390351	01	14133	28-Jul-05	20	Standard	3.25%		\$282,431.00
Bishopville Water District	New tank / line extension	390277	01	1282	25-Aug-05	20	Hardship	2.00%		\$928,087.00
Ottawa, Village of	Pohl Rd Distribution Line	390241	01	5000	29-Sep-05	20	Small	2.75%		\$1,249,887.00
Findlay, City of	Replacement of chem. feeders, gaseous chlorination syst	390350	01	40000	27-Oct-05	20	Standard	3.25%		\$4,133,451.00
Lindsey, Village of	Install new WTP w/Fe Seq.,Aer & lines	390312	01	539	27-Oct-05	20	Small	2.75%		\$228,829.00
West Alexandria	Addition of Iron Removal Process	390302	01	1395	15-Dec-05	20	Small	2.75%		\$2,080,542.00
Steubenville, City of	WTP Construction	390111	03	19915	15-Dec-05	20	Standard	3.25%		\$23,418,907.00
Tuppers Plains-Chester Water District	Storage Tank-Supplemental	390351	01	14133	15-Dec-05	20	Standard	3.25%		\$59,393.00
Cincinnati, City of	Western Row and Butler-Warren Mains	390317	01	331285	15-Dec-05	20	Standard	3.25%		\$1,713,780.00
Jackson County Water Company, Inc	Replace water tank with 575,000 standpipe	390306	01	14400	15-Dec-05	20	Standard	3.25%		\$1,115,095.00
Toronto, City of	Construction of a 5 MGD supplemental	390097	03	5676	15-Dec-05	20	Small	3.26%		\$511,478.00
Cleveland ,City of	Morgan WTP Filter Rehab	390346	01	465000	26-Jan-06	20	Standard	3.25%		\$25,160,122.00
Piqua, City of	Supplemental - Local funding change	390262	01	20738	26-Jan-06	9	Standard	3.25%		\$202,700.00
Antwerp, Village of	Replace Storage Tank & 2 sets lines	390136	01	1740	26-Jan-06	20	Small	2.75%		\$905,425.00
Spencerville, Village of	Water Tower Replacement	390320	01	2300	23-Feb-06	20	Hardship	2.00%		\$483,770.00
Toledo, City of	Replace 72" water line	390341	01	521000	23-Feb-06	20	Standard	3.25%		\$16,011,948.00
Hidden Lakes MHP	WTP Impro. or tie in to Streetsboro	390240	01	195	23-Feb-06	20	Hardship	2.00%		\$112,452.00
Mahoning Valley Sanitary Dist.	Replacement of roof on chem. feed building	390324	03	300000	23-Feb-06	20	Standard	3.25%		\$1,583,864.00
Bishopville Water District	Supplement to original project	390277	01	1282	30-Mar-06	20	Small	2.00%		\$157,002.00
Danville	Lines and Storage Tank	390035	02	1000	30-Mar-06	20	Hardship	2.00%		\$195,239.00
Berea , City of	Design - Add Storage , Improv. Treatment	390334	01	18970	30-Mar-06	5	Standard	3.25%		\$878,560.00
Delphos, City of	Water System Improvements	390270	01	6944	30-Mar-06	20	Hardship	2.00%		\$15,935,922.00
Tate Monroe Water Assn.	Addl. Wellfield and WTP	390242	01	27178	27-Apr-06	20	Standard	3.25%		\$16,443,329.00
Mahoning Valley Sanitary Dist	Replace Niles Stand Pipe	390324	02	300000	27-Apr-06	20	Standard	3.25%		\$1,351,967.00
Canal Winchester, City of	Restructure WTP	390045	01	4478	25-May-06	20	Small	2.75%		\$3,819,171.00
Norwalk	Reaction Basins w/pot. perm./PAC feeds	390359	01	16000	29-Jun-06	20	Standard	3.25%		\$752,940.00
Lewisburg, Village	Replacement of water softening facilities	390344	01	1798	29-Jun-06	5	Small	2.75%		\$85,782.00
<b>\$119,802,073.00</b>										