State of Ohio

Drinking Water Assistance Fund

Annual Report

Program Year 2005

to U.S. EPA, REGION V

Final September 15, 2005

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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) 2005. This Report addresses operation of the Drinking Water Assistance Fund during the time period from July 1, 2004 through June 30, 2005. During that time period, Ohio was awarded the 2004 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 2005. 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 2005 OVERVIEW
Total Capitalization Received: $25,311,500
Number of Projects Binding Commitments: 18
Project Funding Binding Commitments: $65,649,626.09
Average Interest Rate: 3.23 percent, w/o 5 yr. Loans
Small Systems Funded: 11 loans for $16,045,452.09

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 (DWAF), 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, 2004 through June 30, 2005.

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 2005 program year, there were eighteen loans totaling $ 65,649,626. Of these eighteen loans, twelve served unique public water systems and three systems received two loans. Eleven of the eighteen loans served a population of 10,000 or less. The eleven loans to small systems accounted for $16,045,452, which is approximately 24% of the funds awarded, 9% above the minimum 15% expected to give to small systems. Examples of projects funded include: four (4) transmission and distribution system lines, two (2) storage, and twelve (12) water treatment plant improvements. As a further breakdown, five(5) of the projects were for planning/design, four of the five for water treatment plants and one of the five for storage. As of July 1, 2004, the state had $134,511,663 available to loan, including all or parts of previously obtained capitalization grants, the required state match for each capitalization grant and remaining 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. Financial and managerial training sessions for Water Boards were held throughout the state. Eight one day training sessions were held addressing 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 274 attendees, representing 118 communities 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 2005 are as follows:

- Three Capability Assurance Plans completed, with 11 in progress as the year ended
- Two pre-applications for the PPL
- Four Planning & Design Loan applications, and four Construction Loan applications. A total of twenty-four loans were in progress at year end.
- Twelve systems were assisted with meeting State and other Cross-Cutting Requirements
- Seven systems identified as requesting assistance in making readiness to proceed decisions
- Two systems aided in selecting the most cost effective and affordable option to obtain safe drinking water
- Sixteen systems were assisted in procurring various sources of funding in addition to the DWSRF
- Eight training sessions on financial and managerial issues for Water boards were held. Two-hundred thirty-three people attended representing one-hundred eighteen communities.

The Compliance Assurance Coordinator position was continued during the PY2005 year. 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 2005 are, as follows:

- Provided assistance to a total of 246 water systems. Of these, 11 were as a result of water advisories through the Ohio EPA, Ohio Department of Health, or County Department of Health
- 236 technical assistance activities
- 407 phone contacts with various systems
- 10 boil advisories were resolved

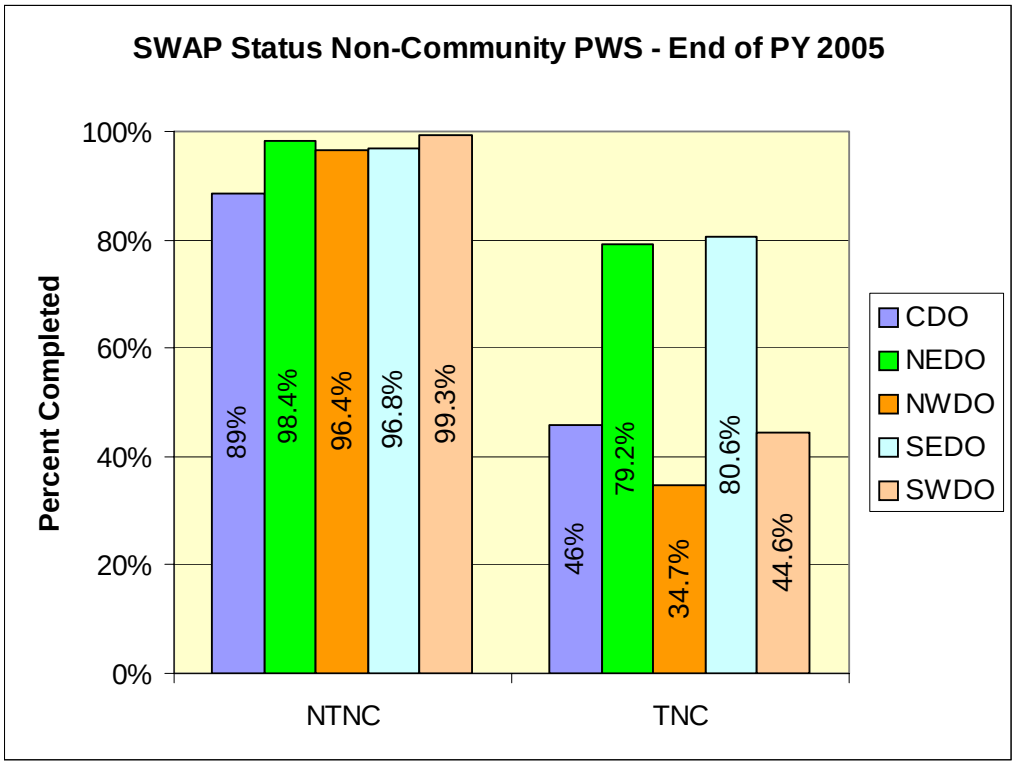
3. Provide financial assistance for completing source water assessments (delineation, inventory, susceptibility analysis and distribution of assessment information) with funds from the wellhead protection set-aside account to promote locally developed source water protection plans;

Progress Toward Long Term Goal #3. Wellhead Protection (WHP) work was funded

using two WHP set-aside funds during PY 2005 reporting period. Funds from the wellhead protection set-aside accounts for FY 2001 and FY 2002 were used to support development of source water assessment and wellhead protection activities in accordance with Section 1453 of the Safe Drinking Water Act as specified in the PY 2005 Intended Use Plan. Funds were used to complete source water assessment reports, provide direct technical assistance to local communities in development of local drinking water source protection plans, development of protective strategies at the local and state level, education and outreach, and for general administrative and information management support.

During PY 2005, the majority of the program activities completed were associated with completion of source water assessment reports for non-community public water systems using ground water sources. Ohio EPA has continued to make substantial progress toward completing source water assessments for non-community public water systems in Ohio. Ohio EPA completed over 1500 source water assessment reports during PY2005. The table and chart included presented below summarize the overall status of completing source water assessment report for the end of PY2005.

SWAP Overall Status							
		Non Community PWS					
District	Source Type	Total NTNC PWS	Reports Complete	NTNC	Total TNC PWS	Reports Complete	TNC
CDO	GW	141	125	88.7%	323	148	45.8%
NEDO	GW	430	423	98.4%	1243	984	79.2%
NWDO	GW	166	160	96.4%	835	290	34.7%
SEDO	GW	63	61	96.8%	242	195	80.6%
SWDO	GW	142	141	99.3%	525	234	44.6%
Total		**942**	**910**	**96.6%**	**3168**	**1851**	**58%**



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Source Water Assessment and Protection/Wellhead Protection Program (SWAP/WHP) received and reviewed 8 final drinking water source protection plans submitted voluntarily by public water system officials. Fifty percent of these Drinking Water Source Protection Plans were endorsed by the Agency. The SWAP/WHP program received and reviewed 338 protective strategies checklists originally included in the non-municipal community and non-community source water assessment reports. These public water systems have indicated that they have taken some type of action to implement a protective strategy to protect their source of drinking water. The Agency noted their efforts by issuing a Certificate of Recognition for Drinking Water Source Protection Planning.

Agency staff provided source water protection education and outreach to site owner and operators during all (>1,400) potential contaminant source inventory site visits, conducted 3 county wide source water protection workshops for 26 public water systems and provided direct technical assistance and presentations to over 50 public water systems officials in development of their local plans. The program also distributed over 3,000 Developing a Drinking Water Source Protection Plan/ Operator's Basic CD ROM to Ohio's public water system operators and community officials.

A more thorough description of all the program accomplishments is presented in the full *Wellhead Protection Set-Aside Program Year 2005 Annual Report***.**

4. *Improve the types and quantity of small and disadvantaged community assistance to reduce the financial burden imposed on low income customers;*

Progress Toward Long Term Goal #4. Ohio has not implemented a small or disadvantaged community assistance program as yet. The agency is required to adopt rules in order to implement a disadvantaged community system program. During PY2005, Ohio EPA worked to draft rules, policy and methodology for a disadvantaged community rule program. Ohio EPA intends to propose the draft rules in program year 2006, and implement a disadvantaged program during PY2006 (July 1, 2005 - June 30, 2006).

Currently, if a small system is evaluated and receives affordability points which are based on median household income and water rates, they become eligible for a 2% loan. Grants are the funds of choice and a 2% loan often is used as a make-up amount to cover what grants will not.

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 the Capacity Assurance Program

Progress Toward Long Term Goal #5. Ohio EPA 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 18 systems that were approved for loans during program year 2005 completed a capacity assurance plan that was evaluated by planners from the Division of Environmental and Financial Assistance, and district and central office personnel from the Division of Drinking and Ground Waters.

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 2005 Small Systems Technical Assistance Set-aside Report*.

During 2005, four new non-transient non-community 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 2005, Ohio EPA continued to revise the capacity assurance rules and guidance to include completion of a capability assurance plan for existing systems demonstrating non-compliance with technical, managerial and financial areas. Due to the amount of change associated with these rules and the overall changes to the capacity development program, the rules were filed as no change rules during PY2005 since they needed to be filed for the five year rule review. However, they were extended for only another two years since Ohio anticipates having all of the rule and program changes completed by July 1, 2006. The capacity development rules and process will tie-in closely with the new sanitary survey process that Ohio is in the midst of developing. It is expected that the sanitary survey changes and capacity development changes will happen concurrently.

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. Buckeye Water District received two planning loans for a new water treatment plant and source. The construction of the plant will also

include distribution lines to tie in private wells that have shown contamination of total coliform bacteria.

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. Buckeye Water District received two planning loans for a new water treatment plant and source. The construction of the plant will also include distribution lines to tie in multiple small public water systems including a mobile home park with arsenic issues. More specific information will be reported in next year's report once we fund the construction project.

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. As discussed in other sections of this report 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 matching funds. The agency will build on the foundation established to further develop and implement the source water assessment and protection program and the disadvantaged communities program.

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. During the approval of each Management Plan/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 2005 the draft plans were made available on May 7, 2004 for 30 days. Then two public meetings were held on June 8, 2004 to hear concerns of 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 PY2005. If there had been any comments, a responsiveness summary would have been prepared and made available to USEPA and 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 2005, 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 have some 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.

- Both of the technical assistance providers used by Ohio EPA have been promoting the use of WSRLA funds as they identify water systems with compliance issues. They have also been issuing fact sheet packets to water systems that describe both the new rules to be followed and the WSRLA as a funding source to meet these rules.

- 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 2005, Ohio EPA presented to approximately 600 water system personnel during five 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 Rules were drafted, discussed and revised during PY2004. During PY2005, a methodology, policy and language for the intended use plan were developed for the new program. Rule finalization and implementation is expected to occur during PY2006.

5. Continue development and complete a business plan for the Ohio DWAF during the 2005 Program Year.

Progress Toward Short Term Goal #5. The business plan workgroup finished a draft of the business plan during PY 2005. The plan is currently under review by the guidance team and is expected to be finalized during PY 2006.

6. Review and modify the current point system used to rank projects on the Project Priority List during the 2005 Program Year.

Progress Toward Short Term Goal #6. The goal was achieved. The point system was reviewed by an internal workgroup and several small changes were made during PY 2005. Most changes were to clarify and direct staff when completing their evaluations of the water systems. Substantive changes included the removal of one point from the ranking system given to systems who have completed their source water protection plan. All applicable systems have completed their plan in Ohio, therefore, there is no need to denote these systems with an extra point. Also, additional points will now be given to system who consolidate.

7. Review and modify the pre-application that entities use to apply to the DWAF during the 2005 Program Year.

Progress Toward Short Term Goal #7. This goal was achieved. The pre-application was reviewed by an internal workgroup and a few changes were made. Most changes were in the schedule section on page two. The group felt the amount of information requested was too much and hard to predict for most systems, so it was trimmed back. Additional contact information was also added to the form and small changes to the formatting.

C. Outputs and Outcomes for PY 2005

1. **Output:** The State funded five drinking water transmission/distribution loans in FY 2005 to construct/rehabilitate/upgrade drinking water transmission and distribution systems across the State. The total dollar value of these loans are $16,893,847.56.

   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 thirteen drinking water treatment projects in FY 2005 to construct and/or rehabilitate drinking water treatment facilities across the State. The total dollar amount of these loans are $45,005,039.09.

   Outcome: The funding of these projects will result in better drinking water for

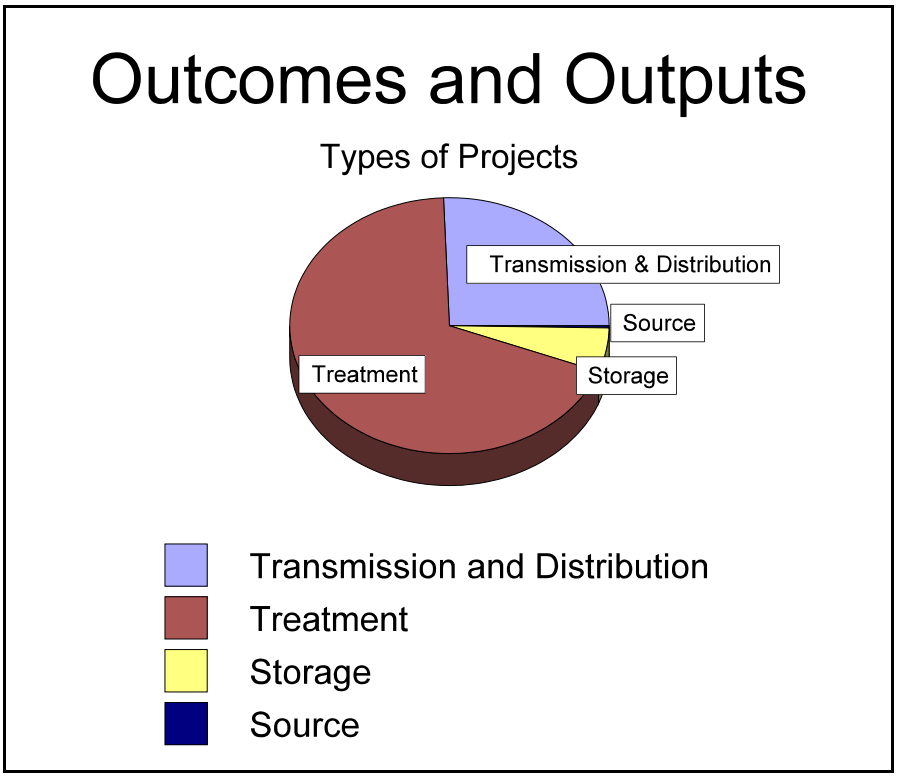
thousands of people across the State and, upon completion of the projects, facilities that meet all applicable permits and SDWA requirements.

3. **Output:** The State funded one drinking water storage projects in FY 2005 to construct and/or rehabilitate drinking water storage facilities across the State. The total dollar amount of this loan is $3,575,739.44.

   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 two drinking water source projects in FY 2005 to construct and/or rehabilitate drinking water sources across the State. The total dollar amount of these loans are $175,000.

   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 2005. 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 $65,649,626 (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 2005, Ohio EPA had received five (5) capitalization grants totaling $188,517,100 from USEPA. During Program Year 2005, one (1) capitalization grant was received (September 2004) totaling $25,311,500. Thus, the total capitalization grant funds received through the end of Program Year 2005 was $213,828,600 (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%. The "PY 2004 Drinking Water Assistance Fund Annual Report" contained a detailed discussion of the matching funds provided for all of the prior year capitalization grants received by Ohio. As described in the PY 2004 report, the $5,062,300 required match was provided by using the remainder of the 2002 DWAF State Match Bond proceeds ($3,259,157) and the remaining amount ($1,803,143) from the 2004 DWAF State Match Bond proceeds. This left $32,011,477 of the 2004 DWAF Bond Proceeds to be "banked" as match for future capitalization grants.

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 36.33%, exceeding the requirement.

3. DWAF Leveraged Revenue Bonds

No Leveraged Bonds were issued during this reporting period. We anticipate the next leveraged bond issue will be in early program year 2006 based on program demand.

During the program year,14 loans were made from DWAF leverage bond proceeds in the amount of $63,422,056.

4. Investment Income

Investment income in the amount of $2,825,228 was earned during the reporting period.

5. Repayments

During PY 2005, two loans (total binding commitments of $346,200) were 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, $7,664,260, and interest, $6,024,274, totaling $13,688,534 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 $356,006,581 in loans to public water systems since its inception. The program has set-aside $25,231,536 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 loan agreements with 18 public water systems totaling $65,649,626 during the 2005 program year. The loans range in size from $121,380 to $20,176,750. The term for most construction loans were 20 years, with two exceptions, one with a ten year term and the other with a twelve year term. The loan term for the five 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 3.23% (see Table 1 below).

Table 1. Interest Rates and Overall Rate of Return

Number Loans	Loan Amount	Rate	Annual Interest
4**	$1,231,433	2.00%	$3,777
1+	$3,704,449	2.75%	$55,831
3	$5,797,489	2.75%	$88,925
1	$3,430,711	2.85%	$54,694
3	$2,160,101	3.20%	Excluded from calc.
2	$21,901,319	3.25%	$402,753
3	$19,192,391	3.35%	$364,828
1#	$8,231,733	3.81%	$174,471
18	$65,649,626	3.23%*	$1,145,279

*Calculation for overall rate of return excludes the short-term (5 year) loans.
** Includes (2) 5 year loans and (2) 20 year loans. 5 year loans excluded from calculation.
+ Loan has a 12 year term. # Loan has a 10 year term.

During PY 2005, a total of 18 loans were awarded from the WSRLA, for a total dollar amount of $65,649,626.09. The average loan amount was $3,647,201. However, this average is probably skewed due to four relatively large loans awarded to the City of Cleveland ($20,176,750), the City of Akron ($8,231,733), Jefferson County ($7,948,977), and the Mahoning Valley Sanitary District ($7,314,030). The remaining 14 loans averaged $1,569,867.

a. Binding Commitments

During the reporting period, the Ohio EPA entered into binding commitments totaling $65,649,626. Of that amount, $1,881,370 was from state matching funds, $63,422,056 was from leveraged bond proceeds, and $346,200 was from repayment funds. No binding commitments were made from federal capitalization grants during the program year. This brings the total binding commitments from the federal capitalization grants to $155,943,916, state match $76,593,094, leverage bond proceeds $123,123,371, and repayments fund $346,200.

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 3rd or 4th 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 PY2005, the Drinking Water Assistance Fund awarded a total of 18 loans. Of those 18 loans, eleven were awarded to small water systems serving a population of 10,000 or fewer. A total of $16,045,452 was awarded to small systems during PY 2005. Since the beginning of the DWAF, the cumulative percentage of funds awarded to small communities is 29.25% (see Table 5).

d. Disbursements

Since the beginning of the program through this reporting period, the total disbursements from the DWAF were $278,925,213. This total includes the total WSRLA disbursements of $262,000,016 and the total set-aside disbursements of $16,925,197. 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. Clearview MHP- Owner failed to submit any paperwork to make progress towards receiving a loan. Discovered at end of program year that project had been built and alternative long term financing had been used. Removed from PY 2006 PPL.

2. Kelley's Island- Project 2 is still on the PY2006 PPL, the system has not expressed an interest in moving forward with the project.

3. through 7. Steubenville- All of Steubenville's projects were moved to PY2006 and PY2007 due to changing their engineering firm. We met with the system multiple times

during PY2005 to discuss their schedule for completing these high priority projects. The new plant is the first priority and is anticipated to be funded during PY2006. It will be Ohio's first design-build project for the DWAF which has added time to the process. The other projects will be scheduled as time permits after the water treatment plant project.

8. West Malta Rural W&S- This project is to fund a brand new system. It is taking longer than expected for West Malta to proceed with the project. Recently there has been discussion of a merger between West Malta, Bishopville and Morgan/Meigsville. We will continue to offer small systems technical assistance to the systems as they work towards the merger. West Malta remains on our PY2006 PPL.

9. Tri-County Rural W & S District- Project 9 is still on the PY2006 PPL, the system has not expressed an interest in moving forward with the project.

10. Buckeye Water District- Two design loans for this system totaling $1,781,707 were awarded during PY2005 with a larger construction loan planned for Fall 2005 (PY2006).

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 administrating 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 *PY2005 Small Systems Technical Assistance Set-aside Report* for further detailed information**.**

c. Source Water Protection Program

The *PY2004 Source Water Protection Program Set-aside Report* was the last report for this set-aside. All monies have been spent and the set-aside account has been terminated. This heading will no longer be included starting with next year's report.

d. Wellhead Protection Program

Please see the *PY2005 Wellhead Protection Set-aside Report* for further detailed information**.**

e. Capacity Development Program

Please see the *PY2005 Capability Assurance Set-aside 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.

1. Status of Loans

The Drinking Water Assistance Fund has entered into binding commitments for $65,649,626.09 during the reporting period. Table 9, “Loans issued during PY 2005" 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.

2. Loan Disbursements/Cash Draw Proportionality

The WSRLA has made $68,185,125 in disbursements during the reporting period. Of that amount, $14,914,906 was from the state match account, and $17,908,330 was from the revolving loan account (federal capitalization grant funds). The remainder of the disbursements were from leveraged bond proceeds. 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).

3. Set-Aside Disbursements

Total set-aside disbursements from the program’s inception equal $16,925,197. The remaining set-aside balances are illustrated in Table 3 “Distribution of Funds”, attached to this report.

4. 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.

5. Investments

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

6. 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 2005 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 2005 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-2005

Grant Number	FFY Appropriation	Cap Grant Award Date	Cap Grant Amount	State Macth Amount (20%)	Remarks
FS985954-98	1997	11-Sep-1998	$43,073,000	$8,614,600	Provided by OWDA
FS985954-99	1998	30-Sep-1999	$22,806,200	$4,561,240	Provided by OWDA
FS985954-00	1999	21-Sep-2000	$23,903,100	$4,780,620	2001 BAN
FS985954-00	2000	21-Sep-2000	$24,842,200	$4,968,440	2001 BAN
FS985954-00-1	2001	19-Sep-2001	$24,944,900	$4,988,980	2001 BAN
FS985954-02	2002	26-Apr-2002	$24,547,600	$4,909,520	$261,960 by 2001 BAN and $4,647,560 by 2002 SM Bonds
FS985954-03	2003	17-Sep-2003	$24,400,100	$4,880,020	2002 SM Bonds
FS985954-04	2004	30-Sep-2004	$25,311,500	$5,062,300	$3,259,157 by 2002 SM Bonds and $1,803,143 by 2004 SM Bonds
FS985954-05	2005	Pending			
			$213,828,600	$42,765,720	Total

State Match Sources

Source	Amount
OWDA	$13,175,840
2001 BAN	$15,000,000
2002 SM Bonds*	$12,786,737
2004 SM Bonds	$33,814,620
Interest Earned	$2,896,283
Total	$77,673,480

36.33% 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

(6/30/2005)

FFY 2005 Appropriation Capitalization Grant $25,257,900

Set-Asides Accounts	Balances as of 30-Jun-2005	2005 Grant Amounts*	Totals for Each Account
Administrative	$3,468,164	$1,010,316	$4,478,480
Source Water Assessment	$0	$0	$0
Wellhead Protection Program	$3,903,246	$1,262,895	$5,166,141
Small Community Tech Asst	$1,438,744	$505,158	$1,943,902

Revolving Loan Accounts*			
WSRLA	$40,754,541	$22,479,531	$63,234,072
State Match for New Grants	N/A	$5,051,580	$5,051,580
State Match Account - Overmatch**	-$31,646,335	-$5,051,580	-$26,594,755
State Match Account - After New Grants	$3,261,425	$0	$3,261,425
Subtotal WSRLA CAP grant (w/State Match)	$44,015,966	$22,479,531	$66,495,497
Leveraged Bond proceeds balance	$5,657,210	***	$5,657,210
Other Projects Fund (repayments)	$13,369,350	$0	$13,369,350
Total estimated WSRLA Funds	$63,042,526	$22,479,531	$85,522,057

* Application for the FFY 2005 Capitalization Grant was submitted in March 2005.

** Amount shown is based on obigations - Negative equals overmatch

*** Funds will be acquired as necessary to meet demand

Table 4

PY 2005 WSRLA Loan Disbursements			Actual Proportionality Percentage	WSRLA Federal Amt	State Match	Target Proportionality Percentage
as of 6/30/2004				$166,069,829	$37,703,420	18.50%
	Federal	State	(Total SM/Fed+SM)			
Encumbered	$150,350,860.36	$72,731,995.28	32.60%			
Disbursed	$120,571,283.02	$40,005,345.75	24.91%			
as of 9/30/2004				$188,597,064	$42,765,720	18.48%
	Federal	State	(Total SM/Fed+SM)			
Encumbered	$150,350,860.36	$73,206,371.70	32.75%			
Disbursed	$125,819,547.09	$40,857,993.83	24.51%			
as of 12/31/2004				$188,597,064	$42,765,720	18.48%
	Federal	State	(Total SM/Fed+SM)			
Encumbered	$150,091,089.83	$74,550,927.85	33.19%			
Disbursed	$129,401,688.53	$49,303,739.53	27.59%			
as of 3/31/2005				$188,597,064	$42,765,720	18.48%
	Federal	State	(Total SM/Fed+SM)			
Encumbered	$147,851,880.00	$74,482,088.39	33.50%			
Disbursed	$134,851,880.84	$52,193,189.00	27.90%			
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%			

Table 5

15% to Small Communites 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%

Drinking Water Assistance Fund

Balance Sheet
June 30, 2005

Assets	
Cash	16,729
Investments	111,799,225
Receivables:	
Federal and local government authorities	245,937,324
Deferred bond and note issuance expense	1,453,837
Total assets	359,207,115
Liabilities and Net Assets	
Accrued interest	690,072
Drinking Water Assistance Fund Bonds	
State Match Series	58,907,098
Leverage Series	128,848,632
Total liabilities	188,445,802
Net Assets	170,761,313
Total liabilities and net assets	359,207,115

Drinking Water Assistance Fund

Statement of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2005

Revenues:	
Project revenue	7,912,000
Investment income	2,825,228
Contribution from U.S. EPA	19,159,853
	29,897,081
Expenses:	
Interest on bonds and notes	7,640,799
Amortization of bond issuance expenses	75,542
Operating expenses and other	2,581,586
	10,297,927
Excess (deficiency) of revenues over expenses before non - operating revenue	19,599,154
Other	-
Excess (deficiency) of revenues over expenses	19,599,154
Net Assets at beginning of year	151,162,159
Net Assets at end of year	170,761,313

Drinking Water Assistance Fund

Statement of Cash Flows
Year ended June 30, 2005

Operating activities:	
Operating expenses	(2,581,586)
Net cash provided (used) by operating activities	(2,581,586)
Investing activities:	
Proceeds from maturity or sale of investments	97,065,184
Purchase of investments	(52,370,800)
Interest received on investments, net of purchased interest	2,825,228
Interest received on projects	6,424,907
Principal collected on projects	7,471,003
Payment for construction of projects	(68,185,125)
Net cash provided (used) by investing activities	(6,769,603)
Noncapital financing activities:	
Interest paid on bonds and notes, net of purchased interest	(8,363,718)
Redemption of bonds and notes	(2,578,322)
Proceeds of bonds and notes	-
Bond issuance expense	-
Contribution from U.S. EPA	19,159,853
Net cash provided (used) by noncapital financing activities	8,217,813
Net increase (decrease) in cash and cash equivalents	(1,133,376)
Cash and cash equivalents at beginning of period	1,150,105
Cash and cash equivalents at end of period	16,729
Recon to net cash provided (used) by oper activities:	
Excess (deficiency) of revenues over expenses before operating transfer	19,599,154
Adjustments:	
Investment income	(2,825,228)
Operating expenses	-
Interest on bonds and notes	7,640,799
Project revenue	(7,912,000)
Amortization of bond issuance cost	75,542
Contribution from U.S. EPA	(19,159,853)
Net cash provided (used) by operating activities	(2,581,586)

Table 9 - Binding Commitments in PY 2005

Applicant	Project Description	Loan No.	Seq.	Population	Award Date	Term	Rate Type	Rate	Loan Amount
Buckeye Water District	Raw Water Facilities -Design	390314	01	10000	30-Sep-04	5	Short Term	3.20%	$481,706.59
Akron, City of	Repl. 1" and smaller meters systemwide with auto-read m	390309	01	217074	30-Sep-04	10	Standard	3.81%	$8,231,733.00
Buckeye Water District	Design WTP and RES.	390313	01	10000	30-Sep-04	5	Short Term	3.20%	$1,399,663.00
Mahoning Valley Sanitary District	Filtration System Improvements	390208	01	300000	28-Oct-04	20	Standard	3.35%	$7,314,030.00
East Liverpool, City of	Utility relocation / Finish water Imps.	390216	01	13089	28-Oct-04	20	Standard	3.35%	$3,929,384.00
Jefferson County Commissioners	transmission line from Toronto to serve Jefferson Co	390307	01	17500	28-Oct-04	20	Standard	3.35%	$7,948,977.00
Lisbon, Village of	WTP - Pilot Study	390123	01	3000	16-Dec-04	5	Hardship	2.00%	$684,692.00
New Carlisle, City of	SRF - WTP Construction	390114	02	5763	16-Dec-04	20	Small	2.85%	$3,430,711.00
Countryside Water Association	SRF - replace galvanized water pi pes	390291	01	135	16-Dec-04	20	Hardship	2.00%	$121,380.00
Covington, Village of	Addit wells; new WTP - iron & mang removal, soft	390301	01	2660	27-Jan-05	20	Small	2.75%	$3,764,239.00
Grandview Heights Civic Association	Replace Distrib. System	390193	02	225	27-Jan-05	20	Small	2.75%	$238,113.00
Shelby, City of	Complete upgrade of WTP	390206	01	9821	28-Mar-05	12	Small	2.75%	$3,704,449.50
Lakengren Water Authority	WTP Improv.	390218	01	4000	28-Apr-05	20	Small	2.75%	$1,795,137.00
Lisbon , Village of	Plan/Design WTP Filt./ SEP's	390343	01	3000	28-Apr-05	5	Hardship	2.00%	$200,541.00
Mahoning Valley Sanit. District	Plan/Design Niles Standpipe and Head House Roof	390324	01	300000	28-Apr-05	5	Short Term	3.20%	$278,731.00
Ashford Corporation/Clearfork MHP	drill 2 wells (#612, #622 PWS)	390033	01	600	20-May-05	20	Hardship	2.00%	$224,820.00
Cleveland , City of	Baldwin Raw Water/Rapid mi x/flocc./Sed.	390287	01	465000	30-Jun-05	20	Standard	3.25%	$20,176,750.00
North Canton, City of	SRF - backwash/generator/chem feed, WTP Improvements	390323	03	25000	30-Jun-05	20	Standard	3.25%	$1,724,569.00
									$65,649,626.09