

**THE SOUTH DAKOTA CONSERVANCY DISTRICT
DRINKING WATER STATE REVOLVING FUND
ANNUAL REPORT**

**FEDERAL FISCAL YEAR 2001
October 1, 2000 - September 30, 2001**



**Department of Environment and Natural Resources
Division of Financial and Technical Assistance
523 East Capitol Avenue
Pierre, South Dakota 57501-3181
PHONE: (605)773-4216 FAX:(605)773-4068**

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**THE SOUTH DAKOTA CONSERVANCY DISTRICT
BOARD MEMBERS**

GREGG GREENFIELD, CHAIRMAN
Sioux Falls
Member since 1996

STEVE LOWRIE, VICE-CHAIRMAN
Watertown
Member since 1985

DALE KENNEDY, SECRETARY
Beresford
Member since 1985

DON BOLLWEG
Harrold
Member since 1994

JERRY KLEINSASSER
Frankfort
Member since 1996

ROGER LARSEN
Sioux Falls
Member since 1997

JOHN LOUCKS
Rapid City
Member since 1989

MISSION

The mission of the South Dakota Drinking Water State Revolving Fund loan program is to capitalize the fund to the fullest; ensure that the state's drinking water systems remain safe and affordable; protect public health; and promote the economic well-being of the citizens of the state of South Dakota.

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
Annual Report	
Introduction	3
Executive Summary	4
Drinking Water SRF Loans	4
Assistance to Small Systems	5
Interest Rates	5
Repayments	6
Drinking Water SRF Non-Project Activities (Set-Asides)	9
Goals and Objectives	11
Details of Activities	12
Fund Financial Status	12
Assistance Activity	12
Provisions of the Operating Agreement/ Conditions of the Grant	13
Program Changes	15
Drinking Water State Revolving Fund Loan Program History	17
Initiation of the Program	19
Capitalization Grant and State Matching Funds	19
Principal Repayment Loans	20
Trustee	20
Bond Counsel	20
Underwriter	20
EPA Region VIII	20
Drinking Water State Revolving Fund Loan Portfolio	21
Project Descriptions	27
Drinking Water SRF Status Reports (Exhibits I-VII)	31
Drinking Water SRF Financial Statements (Exhibits VIII-XII)	41
Intended Use Plan (Federal Fiscal Year 2002)	53

List of Tables

<u>Table</u>		<u>Page</u>
1	FFY 2001 Drinking Water Loans	4
2	Drinking Water SRF Set-Aside Status	10
3	Status of Capitalization Grants and State Matching Funds	11
4	Drinking Water SRF Loan Program	24

List of Figures

<u>Figure</u>		<u>Page</u>
1	Loans by Service Population	7
2	Loans by Service Population by Capitalization Grant	8
3	Capitalization Grants and State Match	16
4	Loans	23
5	Interest Rates by Percent of Loan Portfolio	25
6	Loan Terms by Percent of Loan Portfolio	26

List of Exhibits

<u>Exhibit</u>		<u>Page</u>
I	Projects Receiving SRF Assistance for FFY 2001	33
II	SRF Needs Categories for FFY 2001	33
III	Allocation and Source of SRF Funds	33
IV	Obligations for FFYs 1997-2001 Capitalization Grants and Principal Repayments	34
V	Loan Disbursements for FFY 2001	36
VI	Letter of Credit Projected vs. Actual Draws for FFY 2001	38
VII	Environmental Review and Land Purchase Information	39
VIII	Loan Participants as of September 30, 2001	43
IX	Projected Cash Flow Worksheet for FFY 2002 (Unaudited)	44
X	Balance Sheet as of September 30, 2001 (Unaudited)	45
XI	Statement of Income and Retained Earnings for FFY 2001	46
XII	Statement of Cash Flows for FFY 2001 (Unaudited)	47

FEDERAL FISCAL YEAR

2001

ANNUAL REPORT

INTRODUCTION

The State of South Dakota herewith submits its Annual Report for Federal Fiscal Year (FFY) 2001 (October 1, 2000 to September 30, 2001). This report describes how South Dakota has met the goals and objectives of the Drinking Water State Revolving Fund (SRF) Loan Program as identified in the 2001 Intended Use Plan, the actual use of funds, and the financial position of the Drinking Water SRF.

The Annual Report consists of three main sections. The *Executive Summary* section provides an overview of the Drinking Water SRF program and the FFY 2001 activities. The next section addresses the *Goals and Objectives* the State of South Dakota identified in its 2001 Intended Use Plan and the steps that have been taken to meet these measures. The *Details of Activities* section provides information on the financial status of the program, the financial assistance provided during FFY 2001, and compliance with the EPA grant and operating agreement conditions. The Annual Report is followed by a brief history of the Drinking Water SRF Program.

The *Program History* is followed by the *Drinking Water SRF Loan Portfolio*. The loan portfolio provides information on the interest rates, loan amounts, projects, and loan terms. Exhibits I through VII provide detailed financial and environmental program information. Exhibits VIII through XII are the unaudited financial statements of the Drinking Water SRF program prepared by personnel of the Department of Environment and Natural Resources. Finally, Addendum I is the *Intended Use Plan for Federal Fiscal Year 2002*. The primary purpose of the Intended Use Plan is to outline the proposed use of the funds made available to the Drinking Water SRF program.

EXECUTIVE SUMMARY

The South Dakota Drinking Water SRF Program received a federal capitalization grant of \$7,789,100 for FFY 2001. These funds were matched by \$1,557,820 in state issued revenue bonds.

Drinking Water SRF Loans

Eight communities entered into binding commitments with the conservancy district totaling \$10,675,000 in loans for the construction of drinking water projects. No projects with higher priority points were denied funding in FFY 2001. These projects were bypassed because they were not ready to proceed or had secured other financing. A breakdown of the loans made during FFY 2001 is detailed in Table 1. On a cumulative basis, the Board of Water and Natural Resources has obligated a total of 29 loans, one of which was rescinded in FFY 1999. A list of all the binding commitments and a brief description of each project can be found in the loan portfolio section.

**TABLE 1
Drinking Water Loans
Federal Fiscal Year 2001**

Recipient	Project Description	Assistance Amount	Rate, Term
Bristol (DW-01)	Water system improvements	\$ 139,000	4.5%, 20 yrs
Britton (DW-01)	Water system improvements	320,000	4.5%, 20 yrs
Gettysburg (DW-01)	Waterline replacement project	565,000	4.5%, 20 yrs
Harrisburg (DW-01)	Water system improvement	525,000	5.0%, 20 yrs
Mitchell (DW-01)	B-Y rural water hookup project	6,000,000	4.5%, 20 yrs
Redfield (DW-01)	Water line replacement	85,000	4.5%, 20 yrs
Sioux Falls (DW-02)	Drinking water facility replacements	2,750,000	4.5%, 10 yrs
Tripp (DW-01)	Water system improvements	291,000	2.5%, 30 yrs
TOTAL		\$10,675,000	

Disbursements from the program during FFY 2001 totaled \$3,148,782. This total includes loan disbursements of \$2,908,702 to the various recipients with the balance going to set-asides. See Exhibit V for a breakdown of all disbursements during FFY 2001. The following five projects initiated operations this past year: Clear Lake (01), Hartford (01), Kingbrook RWS (01), Lead (01), and Sioux Falls (01).

Drinking Water SRF program forms are incorporated into the Department of Environment and Natural Resources' *State Water Planning Process* document. This document contains application forms and instructions for the State Water Plan and various funding programs. A drinking water project self-assessment was incorporated into the State Water Plan application to facilitate the project priority determination process required by EPA's Drinking Water SRF guidance. All forms are also available from the department's website at http://www.state.sd.us/denr/denr_form_program.htm.

The Drinking Water SRF loan application incorporates the *Capacity Assessment Worksheets for Public Water Systems*. The Safe Drinking Water Act requires that a public water system applying for a Drinking Water SRF loan must demonstrate that it has the financial, managerial, and technical capacity to operate its system in full compliance with the Act.

In October 2001 revenue bonds in the amount of \$5,270,000 were sold to provide state match funding for the Drinking Water SRF. DENR staff incurred time during FFY 2001 in preparation of the Series 2001 bond issue that would provide a match for FFY 2001, 2002, and 2003. More information on this will be provided with the FFY 2002 annual report.

Assistance to Small Systems

A requirement of the Drinking Water SRF program is to annually use at least 15 percent of all dollars credited to the loan fund to provide loans to communities with populations less than 10,000. In FFY 2001, 18 percent of the binding commitments (\$1,925,000) were made to systems serving less than 10,000 people. Since the Drinking Water SRF program was initiated, \$15,222,302 (47.2 percent) has been awarded to systems serving a population of less than 10,000 as outlined in Figure 1. Figure 2 shows the binding commitments awarded by service population by capitalization grant since 1997. This reflects the planning aspect of the binding commitments only and is not indicative of the year in which the actual loan disbursements were made.

Interest Rates

The Board of Water and Natural Resources annually sets the interest rates for the federal fiscal year. In determining the rates, the Board reviews: 1) the current market rates, 2) rates secured on state issued matching funds, and 3) current demand for SRF funds.

The board reviewed interest rates in July 2000 and determined that the current average rate on the Bond Buyers Index was 6.19 percent, which was an increase of 0.91 percent from the previous year. A review of Rural Development rates showed that its current rates were 4.500 percent poverty rate, 5.125 percent intermediate rate, and 5.875 percent market rate. Although interest rates were increasing in other loan programs, the Board decided to set interest rates for FFY 2001 at the level approved for FFY 2000.

In December 2000 US Bancorp Piper Jaffray presented the Board with an analysis of the financial health of the Drinking Water SRF program. The presentation also included a review of options available to provide state match for future capitalization grants. This analysis highlighted that the current interest rates were higher than needed to pay existing bonds and were higher than SRF programs in surrounding states. The Board approved setting the Drinking Water SRF interest rate for the remainder of FFY 2001 at 4.50 percent for any loan for a term of up to twenty years. Included in this rate was a 1.00 percent administrative surcharge fee. Rates for Disadvantaged Communities were retained at previous levels.

Communities that meet the disadvantaged community criteria may receive a Drinking Water SRF loan at an interest rate below that for other recipients. Additionally, the maximum allowable repayment period for disadvantaged communities can be extended to 30 years. Municipalities, rural water systems, and sanitary districts must have a median household income below 80 percent of the statewide median household income to be eligible for a 2.5 percent

interest rate and a median household income less than 60 percent of the statewide median household income to be eligible for a loan at zero percent interest. No administrative surcharge fee is assessed on disadvantaged community loans. Residential water bills must be at least \$20 for 5,000 gallons usage for municipalities and sanitary districts and \$50 for 7,000 gallons usage for rural water systems.

Repayments

Sixteen loans are currently in repayment, and no loans have been repaid in full. Repayments totaled \$1,777,821 in FFY 2001, of which \$941,271 was principal and \$644,745 was interest. Administrative surcharge collections totaled \$191,805.

FIGURE 1
DW SRF Loans by Service Population
For Grant Years 1997-2001
(\$32.3 Million)

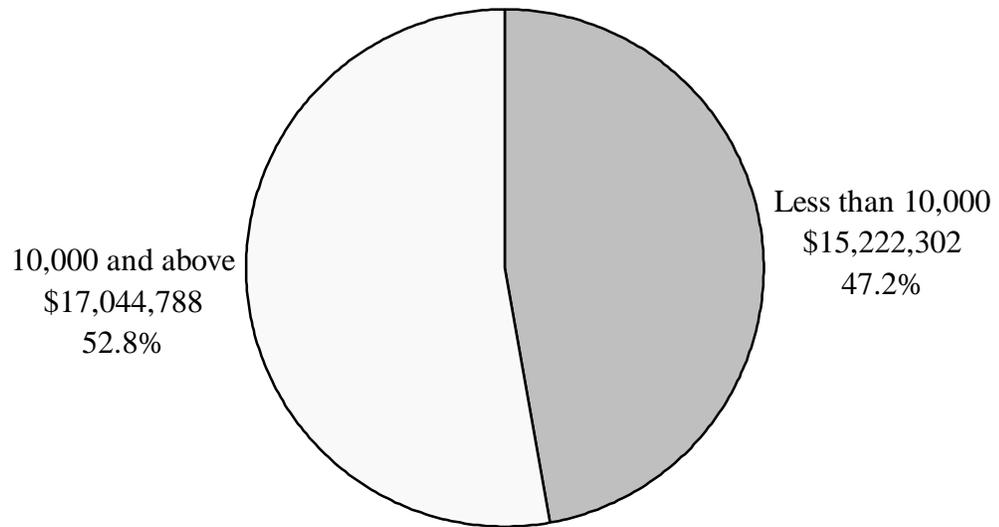
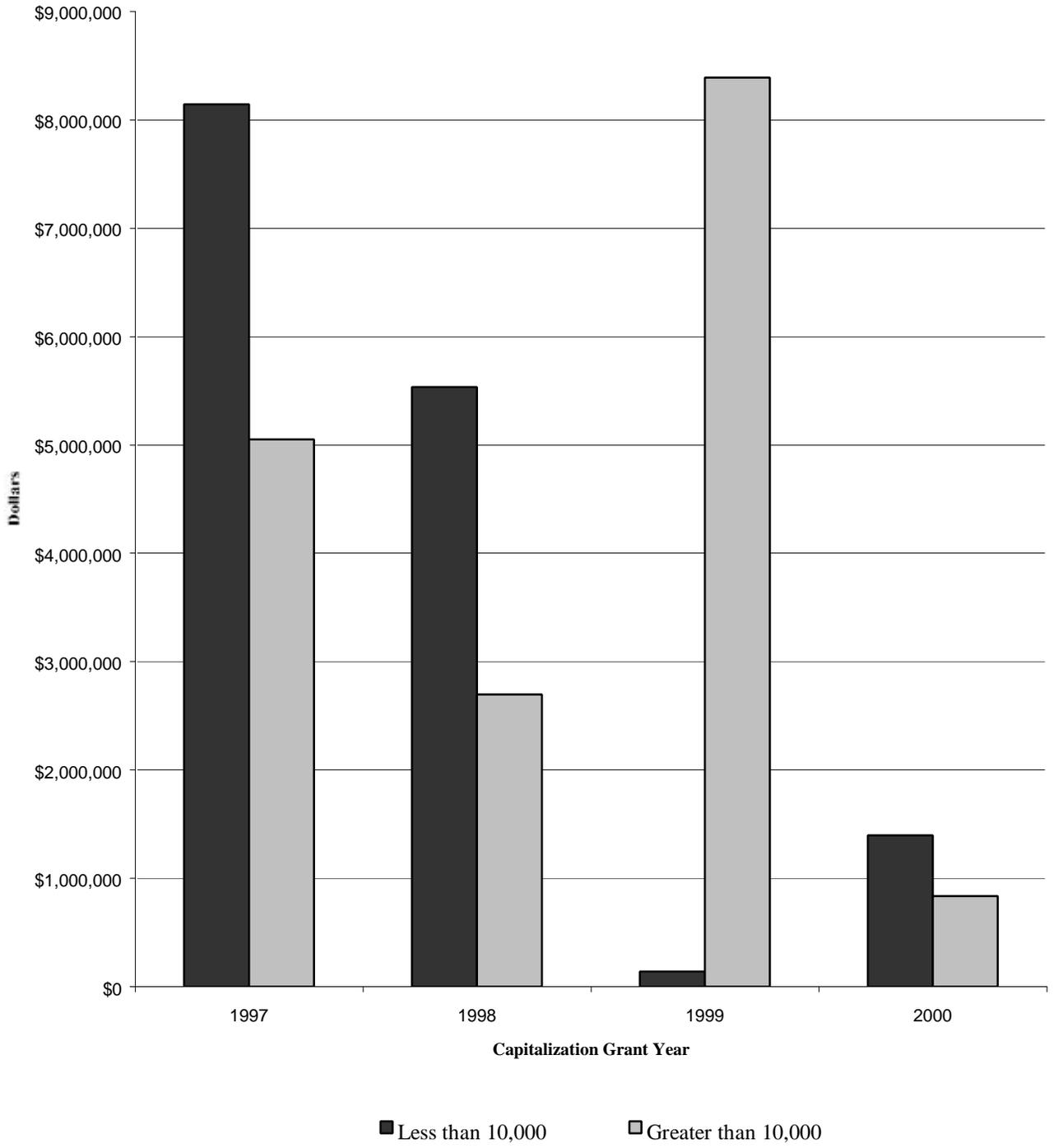


FIGURE 2
Loans by Service Population
by Capitalization Grant



Drinking Water SRF Non-Project Activities (Set-Asides)

The Safe Drinking Water Act authorizes states to set aside funding for certain non-project activities, provided that the amount of that funding does not exceed certain ceilings. Unused set-aside funds will be banked for future use, where allowable, or transferred to the project loan account at the discretion of the State and with concurrence from the EPA Regional Administrator. Exhibit V details the Drinking Water disbursements during FFY 2001. Table 2 recaps the Drinking Water SRF cumulative set-aside status.

? Administration

Four percent of the 2001 capitalization grant (\$311,564) was allocated to administer the Drinking Water SRF program. During FFY 2001, \$202,900 was disbursed for administrative expenses. Specific activities funded from this set-aside include the following:

Staff salaries	Benefits
Travel	Overhead
Bond counsel	Trustee expenses
Bond underwriter	Other administrative costs

? Small system technical assistance

Prior years' allocations were used to provide technical assistance to public water systems serving 10,000 people or less. At the beginning of FFY 2001, \$59,500 of unobligated funding remained available for this activity. The objectives of these past set-asides were to bring non-complying systems into compliance, to improve operations of water systems, and to facilitate small systems' access to the Drinking Water SRF program. In FFY 2001, with the use of these prior years' technical assistance set-asides, the state has contracted with five planning districts and the South Dakota Association of Rural Water Systems (SDARWS) to provide technical assistance. In FFY 2001, \$37,180 was disbursed for small system technical assistance.

Funding in the amount of \$50,000 was set aside from the 2001 Capitalization Grant for the Small Community Planning Grant Program. This program is to encourage more proactive planning with small communities. Grants are available to communities of 1,000 or fewer to assist in preparing an engineering study. Participating systems were reimbursed 80 percent of the cost of the study, up to a maximum of \$4,000. Grants totaling \$23,200 were obligated to the following six communities:

Vivian San. Dist.	Davis
Humboldt	Wessington
Baltic	Valley Springs

? **Operator Certification**

Operator certification training activities were allotted \$20,000 in 1997. During Fall 1997, proposals were requested from organizations to provide supplemental operator certification training. A contract for the supplemental training was awarded to SDARWS. SDARWS provided the additional dollar-for-dollar match required under this set-aside category. The contract with SDARWS terminated on September 30, 2000. Disbursements under this contract totaled \$4,300.

? **Local Assistance and other state programs -- Source Water Assessment Program**

The Department of Environment and Natural Resources did not expend any 1997 set-aside funds (\$1,255,880) during FFY 2001 to delineate and assess source water protection areas. Source water activities conducted during FFY 2001 will be summarized in the Wellhead Protection/Source Water Assessment and Protection Biennial Report to EPA.

**TABLE 2
Drinking Water SRF
Set-Aside Status**

Set-Aside	Allotment 1997-2000	Allotment 2001	Total Obligated	Balance
Administration	\$1,396,036	\$311,564	\$1,032,833	\$ 674,767
Small System Tech Assistance	250,000	50,000	213,700	86,300
State Program Mgmt	20,000	0	4,300	15,700
Local Assistance/ Other	1,255,880	50,000	0	1,305,880
TOTAL	\$2,921,916	\$411,564	\$1,250,833	\$2,082,647

GOALS AND OBJECTIVES

The following goals were developed for the FFY 2001 Intended Use Plan. The short-term goals support the implementation of the program's long-term goals. The long-term goals provide a framework that guide management decisions for the Drinking Water SRF program.

Short-Term Goal

Goal: To fully capitalize the fund.

As of September 30, 2001, South Dakota has made binding commitments equal to \$31,720,793 of its total capitalization awards and associated state matching funds.

Long-Term Goals

Goal: To fully capitalize the fund.

The state has received and fully obligated the 1997, 1998, and 1999 capitalization grants and the associated state matching funds. The status of the grants and state matching funds as of September 30, 2001, is shown in Table 3.

TABLE 3
Status of Capitalization Grants and State Matching Funds

<u>Grant Year</u>	<u>Amount Available for Loans</u>	<u>Amount Obligated</u>	<u>Remaining to Obligate</u>
2000	\$8,998,120	\$3,639,705	\$5,358,415
2001	\$8,935,356	\$0	\$8,935,356

Goal: To ensure that the state's drinking water supplies remain safe and affordable, ensure that the systems are operated and maintained, and promote economic well being.

The state has awarded 29 loans to 27 entities to assist with construction or refinancing of drinking water projects. Since the Drinking Water SRF program began in 1997, the state has set aside \$300,000 to provide technical assistance to public water systems serving 10,000 people or fewer, has set aside \$50,000 for a capacity development program, and has set aside \$20,000 to supplement the existing operator certification program. Additionally, \$1,255,880 has been set aside to provide funding to delineate and assess source water protection areas.

DETAILS OF ACTIVITIES

Fund Financial Status

Binding Commitments: In order to provide financial assistance for drinking water projects, the state entered into eight binding commitments totaling \$10,675,000. Exhibit I details the Drinking Water SRF binding commitments made during FFY 2001.

Sources of Funds: During FFY 2001, the state was awarded a federal capitalization grant totaling \$7,789,100. State match totaling \$1,557,820 was provided. Exhibit III and Figure 3 show the annual allocation and source of Drinking Water SRF funds.

Revenues and Expenses: Fund revenues consisted of interest earned on loans to communities, investments, and administrative expense surcharge payments received from each borrower. These revenues totaled \$1,188,608. Fund expenses included administration expenditures, interest payable on bonds, and the amortization of each bond issuance's costs. These expenses totaled \$537,253. Additionally, \$21,996.13 was transferred out to the DENR indirect cost pool. The Statement of Income and Retained Earnings is shown on Exhibit XI.

Disbursements and Guarantees: There were no loan guarantees during FFY 2001.

Findings of the 2001 Audit: The Drinking Water SRF program was audited by the South Dakota Department of Legislative Audit, for state fiscal year 2000 (July 1, 1999, through June 30, 2000). The audit did not contain any written findings or recommendations.

In August 2001, EPA Region VIII conducted a site review of the South Dakota Drinking Water SRF program. The final report has not yet been issued.

Assistance Activity

Exhibits I through VII illustrate the assistance activity of the Drinking Water SRF in FFY 2001.

- | | |
|-------------|--|
| Exhibit I | Recipients that received Drinking Water SRF loans during FFY 2001. |
| Exhibit II | The assistance amount provided to each project by needs category. |
| Exhibit III | The total Drinking Water SRF dollars available, broken down by fiscal year, capitalization amounts, and state match amounts. |
| Exhibit IV | Drinking Water SRF loans and source of funding. |

- Exhibit V The cash draws and the projects or administrative assistance for which they were made.
- Exhibit VI The estimated and actual cash disbursement schedule from the federal Letter of Credit for FFY 2001. The estimated schedule was agreed upon by the state and EPA in the 2001 Capitalization Grant Agreement.
- Exhibit VII The environmental review and land purchase information for the loans made in FFY 2001.

Provisions of the Operating Agreement/Conditions of the Grant

The state of South Dakota agreed to 22 conditions in the Operating Agreement and Capitalization Grant Agreement. The following 21 conditions have been met and need no further description:

1. Enact Legislation to Establish Drinking Water SRF
2. Comply With All Applicable State Statutes and Regulations
3. Allocate Adequate Personnel and Resources to Drinking Water SRF Program
4. Agreement to Accept Payments
5. Cash Draws for Drinking Water SRF Program Separate
6. Provide State Match
7. Deposit of All Funds into Drinking Water SRF Account
8. Establish Fiscal Controls and Accounting Procedures in Accordance With Generally Accepted Accounting Principles
9. Annual Audit
10. Loan Covenants
11. Timely and Expeditious Use of Funds
12. Project Priority List Additions and Modifications
13. Annual Revision of the Intended Use Plan
14. Reports on the Actual Use of Funds
15. Conduct Environmental Reviews
16. Set-Asides Will Be Identified Each Year
17. Compliance with Specific Title I Requirements
 - A. Authority to ensure new systems demonstrate technical, managerial, and financial capability
 - B. Funds provided only to systems with technical, managerial, and financial capability
- Operator Certification
18. Privately-Owned Systems May Receive Funding
19. Disadvantaged Communities
20. Transfers Between Clean Water SRF Program and Drinking Water SRF Program
21. Compliance with Title VI of the Civil Rights Act.

The compliance status on the remaining condition is detailed below.

22. Compliance With All Applicable Federal Cross Cutting Authorities, Including the Establishment of Minority Business Enterprise (MBE)/Women's Business Enterprise (WBE) Goals and Submittal of MBE/WBE Utilization Report.

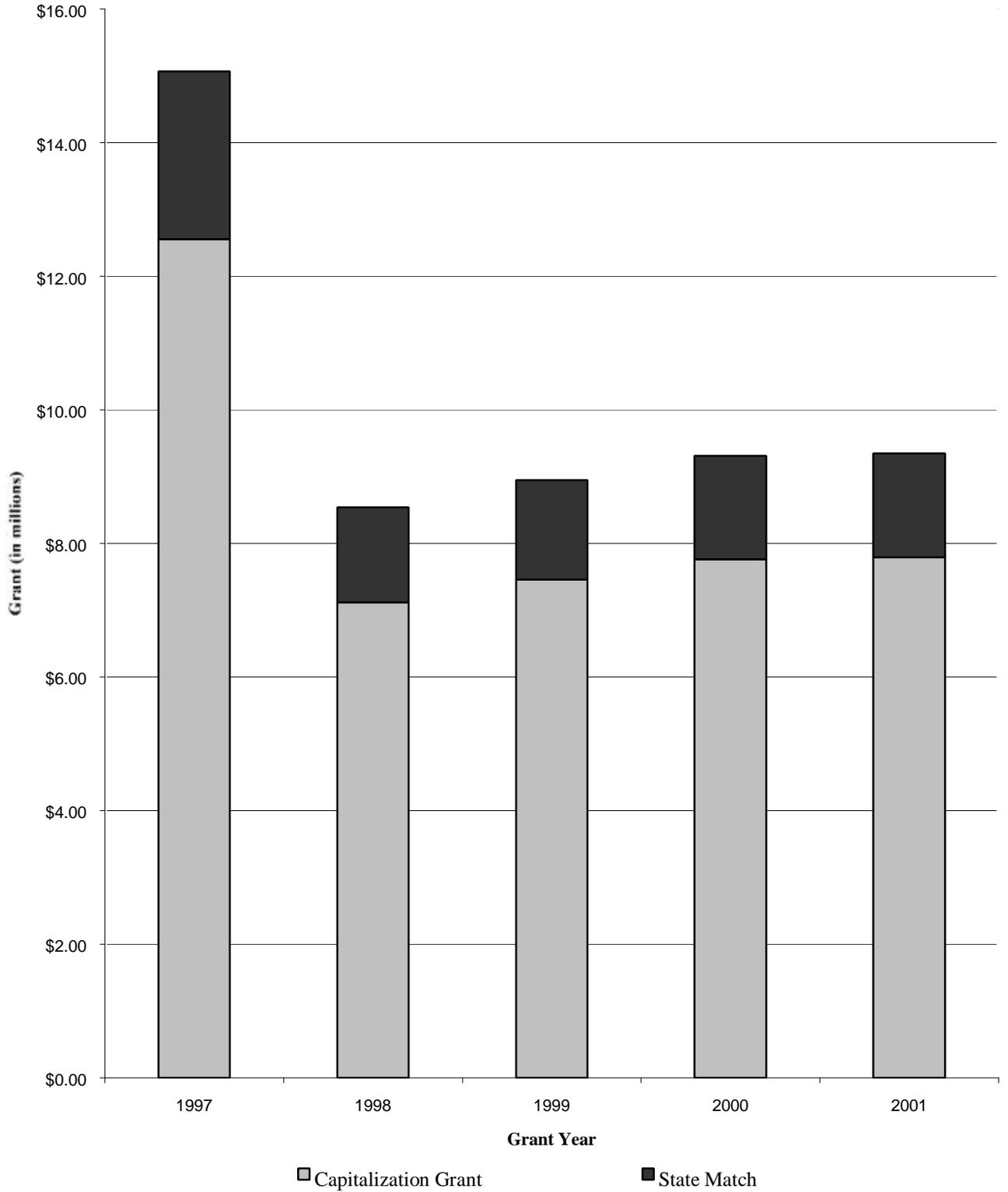
The state and EPA have agreed on "fair share" goals of one percent MBE and three percent WBE. The actual MBE/WBE participation achieved for FFY 2001 0.6 percent MBE and 1.3 percent WBE.

PROGRAM CHANGES

2002 Intended Use Plan

The Annual Report contains the 2002 Intended Use Plan as approved by the Board of Water and Natural Resources on November 9, 2001, and is shown on page 53.

FIGURE 3
SRF Capitalization Grants and State Match



**SOUTH DAKOTA
DRINKING WATER
STATE REVOLVING FUND
LOAN PROGRAM HISTORY**

INITIATION OF THE PROGRAM

The Drinking Water State Revolving Fund (SRF) Loan Program is a low interest loan program to finance drinking water projects. Funds are provided to the state in the form of capitalization grants awarded annually through the United States Environmental Protection Agency (EPA). The federal capitalization grants are matched by state funds at a ratio of 5 to 1.

The program was federally authorized by the Safe Drinking Water Act Amendments of 1996. The state authorized the loan program in 1994 in anticipation of federal action. EPA provided the final guidance for the Drinking Water SRF program on February 28, 1997. The South Dakota Conservancy District, acting in its capacity as the Board of Water and Natural Resources (the Board), conducted a public hearing on April 15, 1997, to adopt formal administrative rules for the program.

The Board conducted a public hearing on May 28, 1997, to adopt the 1997 Intended Use Plan. The State of South Dakota submitted an Operating Agreement and Capitalization Grant application for FFY 1997 in August of that year and received EPA approval on September 23, 1997. South Dakota's Drinking Water SRF program was the fourth in the nation to be approved by EPA.

CAPITALIZATION GRANT AND STATE MATCHING FUNDS

Since 1997 South Dakota's Drinking Water SRF Program received federal capitalization grants totaling \$42,690,000. In order to receive each of the capitalization grants, the federal grant must be matched with state funds equal to at least 20 percent of each grant. To meet this requirement, state appropriations as well as revenue bonds have provided the required \$8,538,000 in state matching funds. Exhibit III shows the amount of federal capitalization grants and state match by year.

The Safe Drinking Water Act amendments allowed states to defer the state match of the 1997 capitalization grant until September 30, 1999. South Dakota deferred its match until program bonds were issued in 1998. For the 1998 capitalization grant, the source of the state match had to be identified at the time of the grant application in December 1997. The 1997 state appropriation of \$1,424,260 was utilized to match the 1998 capitalization grant.

In June 1998, \$6,450,000 in program bonds were issued. This bond issue was insured by Ambac Assurance Corporation and was rated Aaa by Moody's Investors Services, Inc. The Series 1998A bonds were issued to provide \$2,511,760 to match the 1997 federal capitalization grant, \$1,492,760 to match the 1999 federal capitalization grant, and \$1,551,400 to match the 2000 federal capitalization grant. The balance was used to match a portion of the 2001 federal capitalization grant.

The underlying program received a Aa3 rating from Moody's in June 1998, and the Moody's rating was upgraded to Aa1 in August 2001.

PRINCIPAL REPAYMENT LOANS

The Drinking Water SRF program is intended to last in perpetuity. As borrowers repay their loans, the principal repayments are then available to be loaned out to other communities. When federal capitalization grants are discontinued, all loans will be made from the principal repayments of other borrowers.

TRUSTEE

The First National Bank in Sioux Falls has been the trustee since the onset of the program in 1997. The trustee manages and invests all funds and accounts for the Drinking Water SRF Program, issues amortization schedules, disburses loan funds, and receives all loan repayments.

BOND COUNSEL

Alzheimer & Gray served as bond counsel for the Series 1998A and Series 2001 Drinking Water State Revolving Fund Program Bonds.

UNDERWRITER

Dougherty and Company was selected as underwriter for the Series 2001 bonds. Piper Jaffray was the underwriter for the Series 1998A Drinking Water State Revolving Fund Program Bonds.

EPA REGION VIII

Region VIII of the Environmental Protection Agency oversees the Drinking Water State Revolving Fund Loan Program. EPA assists the state in securing capitalization grants and guides the conservancy district in its administration of the program.

DRINKING WATER
STATE REVOLVING FUND
LOAN PORTFOLIO

Figure 4
Drinking Water
State Revolving Fund Loans

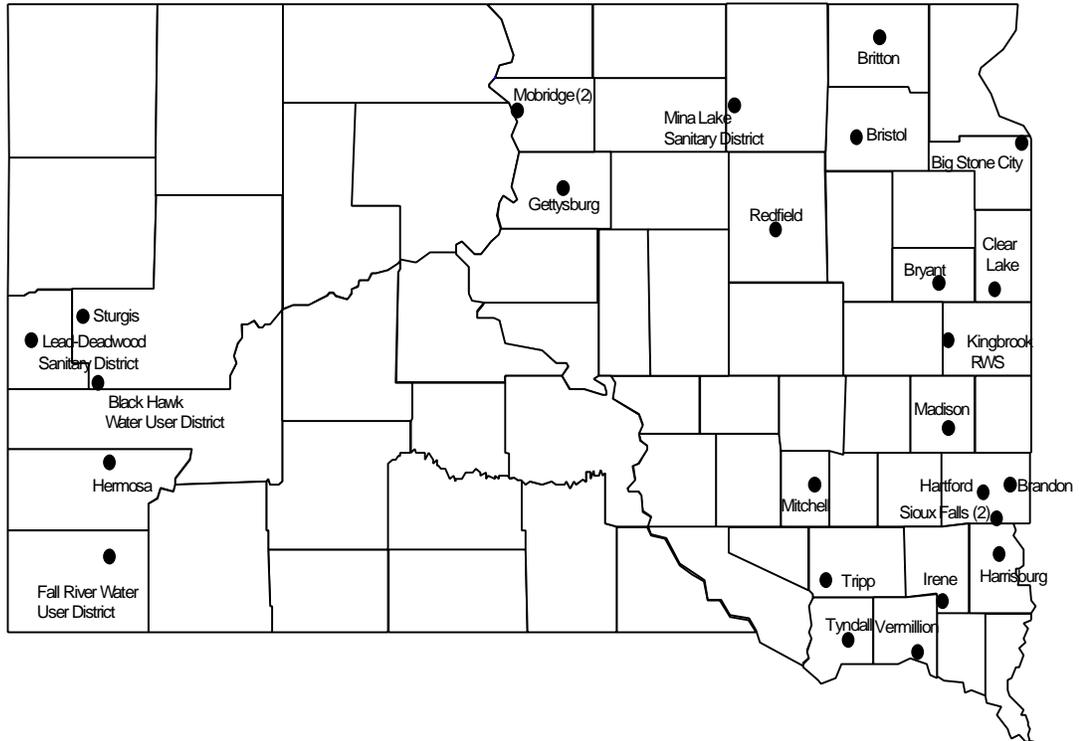


TABLE 4
State Of South Dakota
Drinking Water State Revolving Fund Loan Program

RECIPIENT	BINDING COMMITMENT DATE	RATE, TERM	BINDING COMMITMENT AMOUNT	ACTUAL LOAN AMOUNT
Big Stone City	07/22/98	5.25%, 20	\$600,000	\$570,000
Black Hawk WUD	03/26/98	5.25%, 20	\$500,000	\$500,000
Brandon	11/13/98	4.75%, 15	\$1,950,000	\$1,950,000
Bristol	04/25/01	4.5%, 20	\$139,000	\$139,000
Britton	04/25/01	4.5%, 20	\$320,000	\$320,000
Bryant	01/13/00	3.00%, 30	\$142,000	\$142,000
Clear Lake	12/10/98	3.00%, 30	\$565,000	\$565,000
Fall River WUD	12/09/99	3.00%, 30	\$759,000	\$759,000
Gettysburg	06/14/01	4.50%, 20	\$565,000	\$565,000
Harrisburg	10/12/00	5.00%, 20	\$525,000	\$525,000
Hartford	04/13/00	5.00%, 20	\$185,000	\$185,000
Hermosa	12/10/98	5.00%, 20	\$300,000	\$300,000
Irene	06/22/00	5.00%, 20	\$145,000	\$145,000
Kingbrook RWS	04/13/00	0.00%, 30	\$475,000	\$475,000
Lead	07/27/00	4.50%, 10	\$192,800	\$192,800
Lead-Deadwood Sanitary District	06/24/98	5.25%, 20	\$2,700,000	\$2,683,957
Madison	05/14/98	5.00%, 15	\$2,372,000	\$2,372,000
Mina Lake San. Dist.	11/13/98	5.00%, 20	\$255,200	\$255,200
Mitchell	10/12/00	4.50%, 20	\$6,000,000	\$6,000,000
Mobridge (01)	03/26/98	5.25%, 20	\$965,000	\$965,000
Mobridge (02)	07/22/98	5.25%, 20	\$355,000	\$355,000
Redfield	04/25/01	4.50%, 20	\$85,000	\$85,000
Sioux Falls (01)	07/22/98	4.50%, 10	\$7,022,000	\$7,022,000
Sioux Falls (02)	01/11/01	4.50%, 10	\$2,750,000	\$2,750,000
Sturgis	01/08/98	5.00%, 15	\$700,000	\$700,000
Tripp	07/26/01	2.50%, 30	\$291,000	\$291,000
Tyndall	07/27/00	2.50%, 10	\$300,000	\$300,000
Vermillion	05/13/99	5.00%, 20	\$942,000	\$795,338
WEB	03/26/98	5.25%, 20	\$1,110,000	\$0
TOTAL 29 Loans, 27 Entities			\$33,210,000	\$31,907,295

FIGURE 5
SRF Interest Rates by Percent
of Loan Portfolio (\$31.9 Million)

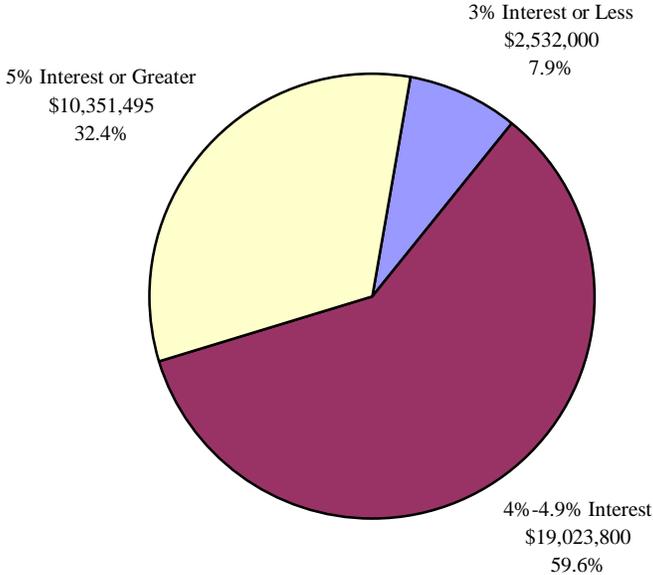
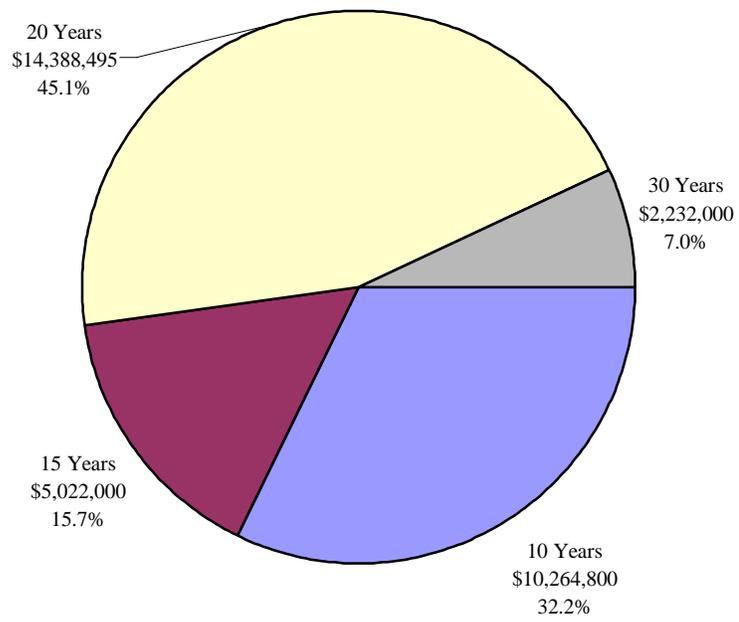


FIGURE 6
DW SRF Loan Terms
by Percent of Loan Portfolio



PROJECT DESCRIPTIONS

**Loans approved during Federal Fiscal Year 2001
are designated with 2001 directly beside the recipient's name
and italic lettering within the paragraph.**

BIG STONE CITY -- The city of Big Stone City utilized a \$600,000 loan to construct a 100,000-gallon elevated water storage tank. The project also included the installation of a water main to connect the tank to the existing distribution system, and the refinancing of debt incurred to connect to the Ortonville, Minnesota regional water treatment plant. The 20-year loan is at 5.25 percent.

BLACK HAWK WATER USER DISTRICT -- The Black Hawk Water User District received a loan for \$500,000. This loan financed a new well, pump house construction, installation of chlorination and fluoridation equipment, a 48,000-gallon water storage reservoir, and approximately 7,000 feet of new water lines. This loan is at 5.25 percent for 20 years.

BRANDON -- Brandon received a loan for \$1,950,000 at 4.75 percent for 15 years. This project consists of constructing a new water treatment plant and upgrading the current distribution system.

BRISTOL (2001) – *The town of Bristol received a loan in the amount of \$139,000 at 4.5 percent interest for 20 years. The project involves construction of a new elevated storage tank as well as replacement of an underground storage tank. This will allow the town to discontinue renting railroad land where the current low level tank is located and to eliminate its existing pumping station that pressurizes the distribution system.*

BRITTON (2001) – *The city of Britton received a loan in the amount of \$320,000 to replace and make improvements to approximately 30 blocks of watermain throughout the city. The project involves replacing 50-year old cast iron pipes, much of which has completely deteriorated due to rust and scale build-up. The loan is at 4.5 percent interest for 20 years.*

BRYANT -- The city of Bryant received a \$142,000 loan to help replace lead service lines and asbestos cement water mains throughout the city. The loan is at 3 percent interest for a term of 30 years.

CLEAR LAKE -- Clear Lake received a loan in the amount of \$565,000. This loan qualifies for the disadvantaged rate and term of 3 percent for 30 years. This project consists of constructing a new 300,000-gallon water tower and installation of a 2,700 LF of 10-inch water main to connect the tower with the water distribution system.

FALL RIVER WATER USERS DISTRICT -- The Fall River Water Users District received a \$759,000 loan at 3 percent interest for 30 years. This loan will help finance the construction of the Fall River Rural Water System to include supply, storage, and distribution.

GETTYSBURG (2001) – *The city of Gettysburg received a \$565,000 loan at 4.5 percent interest for 20 years to replace and relocate water lines within the city.*

HARRISBURG (2001)—*The city of Harrisburg will abandon its existing wells and water treatment plant, construct a connection to the Lincoln County RWS, construct an elevated water storage tank, and loop a line to ensure uninterrupted water service. The city received a loan in the amount of \$525,000 at 5 percent interest for 20 years.*

HARTFORD -- Hartford received a \$185,000 loan at 5 percent interest for 20 years. This project will replace water distribution lines throughout the city.

HERMOSA -- Hermosa received a loan for \$300,000. This loan is at 5 percent for 20 years. This project will replace water distribution lines.

IRENE -- The city of Irene received a 5 percent interest loan for 20 years in the amount of \$145,000. The project is to replace water main along SD Highway 46.

KINGBROOK RWS -- The Kingbrook Rural Water System received a loan in the amount of \$475,000. This loan was at 0 percent interest for 30 years. The project being financed will hook up the city of Carthage and upgrade its distribution system and storage tank. Kingbrook RWS will take over the system and provide individual service.

LEAD -- Lead received a \$192,800 loan at 4.5 percent interest for 10 years. This loan will help replace water lines beneath a portion of US Highway 85 in conjunction with the South Dakota Department of Transportation roadway reconstruction project.

LEAD-DEADWOOD SANITARY DISTRICT -- The Lead-Deadwood Sanitary District received a \$2,683,957, 5.25 percent, 20-year loan to refinance their Series 1994 General Obligation Bond issue. The Series 1994 bonds were originally issued to finance the construction of a new water treatment plant in Lead.

MADISON -- Madison received a loan for \$2,372,000 to refinance their Series 1995 Bonds. The Series 1995 Bonds were originally issued to finance the rehabilitation of the treatment facility and the construction of three new wells. This loan is at 5 percent for 15 years.

MINA LAKE SANITARY DISTRICT -- Mina Lake Sanitary District received a loan for \$255,200 at an interest rate of 5 percent for 20 years. This loan is for the construction of a 150,000-gallon water tower.

MITCHELL (2001) – *The city of Mitchell received a \$6,000,000 loan at 4.5 percent interest for 20 years for construction of a water pipeline from the Lesterville area to Mitchell. The project includes constructing 61 miles of pipe, two pumping stations, a water storage reservoir, a meter station, and appurtenances.*

MOBRIDGE -- The city of Mobridge received two loans in the amounts of \$965,000 and \$355,000 to finance water treatment plant upgrades. Both loans are at 5.25 percent for 20 years.

REDFIELD (2001) – *The City of Redfield received a loan in the amount of \$85,000 at an interest rate of 4.5 percent for 20 years. The loan will finance the replacement of water lines located under US Hwy 212 and 281. The project involves construction of approximately 4,900 feet of pipe, services lines, and appurtenances and will replace brittle asbestos cement or cast iron pipes that are fifty to eighty years old.*

SIoux FALLS (2001)-- The city of Sioux Falls received a loan in the amount of \$7,022,000 at an interest rate of 4.5 percent for 10 years. The loan will finance central pressure zone improvements with the construction of a new water tower and booster pumps. The city will upgrade the water treatment plant with new filter valves, piping, and wall sleeves in the filter gallery. Two water mains will be upgraded to provide additional water pressure to the existing city pressure zones. The upgrades will allow the city to serve an area recently annexed and an adjacent public water supply that has experienced water quality problems. *The city's second loan will allow the city to continue with drinking water facility improvements, including treatment plant upgrades, central pressure zone improvements, and installation of a water main from the East Pumping Station to I-229. This loan is for \$2,750,000 at 4.5 percent interest for 10 years.*

STURGIS -- Sturgis received a loan for \$700,000 at 5 percent interest for 15 years. This loan financed the replacement of approximately 7,800 feet of water main in conjunction with a South Dakota Department of Transportation roadway reconstruction project.

TRIPP (2001) – *The city of Tripp received a loan for \$291,000 at 2.5 percent interest for 30 years to complete the city's on-going water main rehabilitation project. The project involves approximately 8,100 feet of pipe, service connections, valves, fire hydrants, and appurtenances to replace 70-year old cast iron water mains.*

TYNDALL -- Tyndall received a loan for \$300,000 at 2.5 percent interest for 10 years. This loan will finance the installation of approximately 2,800 feet of water main to enhance the overall efficiency of the distribution system by looping areas of the community that are currently dead ends.

VERMILLION -- Vermillion received a loan for \$942,000 at 5 percent interest for 20 years. This loan is being used to construct lime sludge disposal lagoons.

WEB -- WEB Water Development Association, Inc. received a loan for \$1,110,000 at 5 percent interest for 15 years. The project includes the installation of 116,640 feet of new PVC pipe and necessary appurtenances, such as valves and pressure regulators. The project will allow WEB to extend service to approximately 200 additional rural homes and farms and provide additional water service to four existing bulk users. **The Board of Water and Natural Resources rescinded this loan on May 13, 1999.**

EXHIBITS I-VII
DRINKING WATER SRF
STATUS REPORTS

EXHIBIT I
PROJECTS RECEIVING SRF ASSISTANCE
FEDERAL FISCAL YEAR 2001

Recipient	Assistance Amount By Population		Binding Commitment Date	Rate, Term
	Less than 10,000	Greater than 10,000		
Bristol (DW-01)	\$139,000		4/25/01	4.5%, 20
Britton (DW-01)	\$320,000		4/25/01	4.5%, 20
Gettysburg (DW-01)	\$565,000		6/14/01	4.5%, 20
Harrisburg (DW-01)	\$525,000		10/12/00	5.0%, 20
Mitchell (DW-01)		\$6,000,000	10/12/00	4.5%, 20
Redfield (DW-01)	\$85,000		4/25/01	4.5%, 20
Sioux Falls (DW-02)		\$2,750,000	1/11/01	4.5%, 10
Tripp (DW-01)	\$291,000		7/26/01	2.5%, 30
TOTAL	\$1,925,000	\$8,750,000		

EXHIBIT II
SRF NEEDS CATEGORIES
FEDERAL FISCAL YEAR 2001

Recipient	I Trans/Dist	II Treatment	III Storage
Bristol (DW-01)			\$139,000
Britton (DW-01)	\$320,000		
Gettysburg (DW-01)	\$565,000		
Harrisburg (DW-01)	\$105,000		\$420,000
Mitchell (DW-01)	\$6,000,000		
Redfield (DW-01)	\$85,000		
Sioux Falls (DW-02)	\$125,000	\$1,500,000	
Tripp (DW-01)	\$291,000		
TOTAL	\$7,491,000	\$1,500,000	\$559,000

EXHIBIT III
**ALLOCATION AND SOURCE OF
SRF FUNDS**

Fiscal Year	Capitalization		Total
	Grant Award	State Match	
1997	\$12,558,800	\$2,511,760	\$15,070,560
1998	\$7,121,300	\$1,424,260	\$8,545,560
1999	\$7,463,800	\$1,492,760	\$8,956,560
2000	\$7,757,000	\$1,551,400	\$9,308,400
2001	\$7,789,100	\$1,557,820	\$9,346,920
TOTAL	\$42,690,000	\$8,538,000	\$51,228,000

EXHIBIT IV
OBLIGATIONS FOR FEDERAL FISCAL YEARS 1997-2001
CAPITALIZATION GRANTS AND PRINCIPAL REPAYMENTS

1. PROJECTS UTILIZING 1997 SRF FUNDS

RECIPIENT	BINDING COMMITMENT DATE	BINDING COMMITMENT AMOUNT	ACTUAL AMOUNT	BALANCE
1997 Capitalization Grant and State Match				\$15,070,560
Set-Asides		\$1,878,232	\$1,878,232	\$13,192,328
Sturgis (DW-01)	01/08/98	\$700,000	\$700,000	\$12,492,328
Black Hawk WUD (DW-01)	03/26/98	\$500,000	\$500,000	\$11,992,328
Mobridge (DW-01)	03/26/98	\$965,000	\$965,000	\$11,027,328
WEB (DW-01)	03/26/98	\$1,110,000	\$0	\$11,027,328
Madison (DW-01)	05/13/98	\$2,372,000	\$2,372,000	\$8,655,328
Lead-Deadwood (DW-01)	06/24/98	\$2,700,000	\$2,683,957	\$5,971,371
Big Stone City (DW-01)	07/22/98	\$600,000	\$570,000	\$5,401,371
Mobridge (DW-02)	07/22/98	\$355,000	\$352,207	\$5,049,164
Sioux Falls (DW-01) *	07/22/98	\$7,022,000	\$5,049,164	\$0

* Balance of loan is from 1998 SRF Funds

2. PROJECTS UTILIZING 1998 SRF FUNDS

RECIPIENT	BINDING COMMITMENT DATE	BINDING COMMITMENT AMOUNT	ACTUAL AMOUNT	BALANCE
1998 Capitalization Grant and State Match				\$8,545,560
Set-Asides		\$309,852	\$309,852	\$8,235,708
Sioux Falls (DW-01) *	07/22/98		\$1,972,836	\$6,262,872
Brandon (DW-01)	11/13/98	\$1,950,000	\$1,877,375	\$4,385,497
Mina Lake San Dist (DW-01)	11/13/98	\$255,200	\$255,200	\$4,130,297
Clear Lake (DW-01)	12/10/98	\$565,000	\$540,637	\$3,589,660
Hermosa (DW-01)	12/10/98	\$300,000	\$300,000	\$3,289,660
Vermillion (DW-01)**	05/13/99	\$873,173	\$726,511	\$2,563,149
Fall River WUD (DW-01)	12/09/99	\$759,000	\$759,000	\$1,804,149
Bryant (DW-01)	01/13/00	\$142,000	\$142,000	\$1,662,149
Kingbrook RWS (DW-01)	04/13/00	\$475,000	\$475,000	\$1,187,149
Hartford (DW-01)	04/13/00	\$185,000	\$185,000	\$1,002,149
Irene (DW-01)	06/22/00	\$145,000	\$127,126	\$875,023
Lead (DW-01)	07/27/00	\$192,800	\$192,800	\$682,223
Tyndall (DW-01)	07/27/00	\$300,000	\$300,000	\$382,223
Harrisburg (DW-01)***	10/12/00	\$525,000	\$382,223	\$0

* Balance of loan is from 1997 funds

** Balance of loan is from repayment funds

*** Balance of loan is from 1999 funds

3. PROJECTS UTILIZING 1999 SRF FUNDS

RECIPIENT	BINDING COMMITMENT DATE	BINDING COMMITMENT AMOUNT	ACTUAL AMOUNT	BALANCE
1999 Capitalization Grant and State Match				\$8,956,560
Set-Asides		\$423,552	\$423,552	\$8,533,008
Harrisburg (DW-01)*	10/12/00		\$142,777	\$8,390,231
Mitchell (DW-01)	10/12/00	\$6,000,000	\$6,000,000	\$2,390,231
Sioux Falls (DW-02)**	01/11/01	\$2,750,000	\$2,390,231	\$0

* Balance of loan is from 1998 funds

** Balance of loan is from 2000 funds

4. PROJECTS UTILIZING 2000 SRF FUNDS

RECIPIENT	BINDING COMMITMENT DATE	BINDING COMMITMENT AMOUNT	ACTUAL AMOUNT	BALANCE
2000 Capitalization Grant and State Match				\$9,308,400
Set-Asides		\$310,280	\$310,280	\$8,998,120
Sioux Falls (DW-02)*	01/11/01		\$359,769	\$8,638,351
Bristol (DW-01)	04/25/01	\$139,000	\$139,000	\$8,499,351
Britton (DW-01)	04/25/01	\$320,000	\$320,000	\$8,179,351
Redfield (DW-01)	04/25/01	\$85,000	\$85,000	\$8,094,351
Gettysburg (DW-01)	06/14/01	\$565,000	\$565,000	\$7,529,351
Tripp (DW-01)	07/26/01	\$291,000	\$291,000	\$7,238,351

* Balance of loan is from 1999 funds

5. PROJECTS UTILIZING 2001 SRF FUNDS

RECIPIENT	BINDING COMMITMENT DATE	BINDING COMMITMENT AMOUNT	ACTUAL AMOUNT	BALANCE
2001 Capitalization Grant and State Match				\$9,346,920
Set-Asides		\$411,564	\$411,564	\$8,935,356

NOTE: All breakdowns listed above are used for planning purposes only and do not reflect the actual source of payments. As payments are processed, oldest funds are expended first.

6. PROJECTS UTILIZING REPAYMENT FUNDS

RECIPIENT	BINDING COMMITMENT DATE	BINDING COMMITMENT AMOUNT	ACTUAL AMOUNT	BALANCE
Total Repayments as of 9/30/2001				\$1,452,521

Vermillion (DW-01) *	05/13/99	\$68,827	\$1,383,694
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* Balance of loan is from 1998 funds

EXHIBIT V
Drinking Water SRF Disbursements
FFY 2001

LOAN DISBURSEMENTS

Disburse No.	Date	Borrower Name	Other	State	Federal	Total Payment
01-01	10/19/00	Fall River (DW-01)	\$0.00	\$0.00	\$23,335.00	\$23,335.00
01-02	10/19/00	Hartford (DW-01)	\$0.00	\$0.00	\$20,597.00	\$20,597.00
01-03	10/19/00	Tyndall (DW-01)	\$0.00	\$0.00	\$100,914.00	\$100,914.00
01-04	10/26/00	Hermosa (DW-01)	\$0.00	\$0.00	\$9,622.00	\$9,622.00
01-05	11/13/00	Clear Lake (DW-01)	\$0.00	\$0.00	\$36,547.00	\$36,547.00
01-06	11/13/00	Fall River (DW-01)	\$0.00	\$0.00	\$150,000.00	\$150,000.00
01-07	11/13/00	Hartford (DW-01)	\$0.00	\$0.00	\$22,354.00	\$22,354.00
01-08	11/21/00	Hermosa (DW-01)	\$0.00	\$0.00	\$1,162.00	\$1,162.00
01-09	11/21/00	Tyndall (DW-01)	\$0.00	\$0.00	\$75,352.00	\$75,352.00
01-10	12/14/00	Hartford (DW-01)	\$0.00	\$0.00	\$6,716.00	\$6,716.00
01-11	12/21/00	Fall River (DW-01)	\$0.00	\$0.00	\$141,050.00	\$141,050.00
01-12	12/21/00	Tyndall (DW-01)	\$0.00	\$0.00	\$6,055.00	\$6,055.00
01-13	12/21/00	Sioux Falls (DW-01)	\$0.00	\$0.00	\$385,025.00	\$385,025.00
01-14	01/11/01	Clear Lake (DW-01)	\$0.00	\$0.00	\$30,803.00	\$30,803.00
01-15	01/11/01	Kingbrook (DW-01)	\$0.00	\$0.00	\$18,559.00	\$18,559.00
01-16	01/30/01	Hartford (DW-01)	\$0.00	\$0.00	\$3,108.00	\$3,108.00
01-17	02/01/01	Clear Lake (DW-01)	\$0.00	\$0.00	\$3,887.00	\$3,887.00
01-18	02/01/01	Fall River (DW-01)	\$0.00	\$0.00	\$94,420.00	\$94,420.00
01-19	02/01/01	Hermosa (DW-01)	\$0.00	\$0.00	\$46,247.00	\$46,247.00
01-20	02/09/01	Kingbrook (DW-01)	\$0.00	\$0.00	\$55,139.00	\$55,139.00
01-21	02/23/01	Tyndall (DW-01)	\$0.00	\$0.00	\$9,144.00	\$9,144.00
01-22	03/08/01	Irene (DW-01)	\$0.00	\$0.00	\$17,009.00	\$17,009.00
01-23	05/11/01	Mobridge (DW-02)	\$0.00	\$0.00	\$10,290.00	\$10,290.00
01-24	05/11/01	Sturgis (DW-01)	\$0.00	\$0.00	\$95,320.00	\$95,320.00
01-25	05/24/01	Hartford (DW-01)	\$0.00	\$0.00	\$8,053.00	\$8,053.00
01-26	05/24/01	Fall River (DW-01)	\$0.00	\$0.00	\$5,250.00	\$5,250.00
01-27	06/15/01	Fall River (DW-01)	\$0.00	\$0.00	\$12,744.00	\$12,744.00
01-28	06/21/01	Bryant (DW-01)	\$0.00	\$0.00	\$25,180.00	\$25,180.00
01-29	06/28/01	Sioux Falls (DW-02)	\$0.00	\$0.00	\$577,112.00	\$577,112.00
01-30	07/05/01	Harrisburg (DW-01)	\$0.00	\$0.00	\$127,356.00	\$127,356.00
01-31	07/12/01	Britton (DW-01)	\$0.00	\$0.00	\$161,109.00	\$161,109.00
01-32	07/27/01	Harrisburg (DW-01)	\$0.00	\$0.00	\$157,981.00	\$157,981.00
01-33	07/30/01	Hartford (DW-01)	\$0.00	\$0.00	\$7,071.00	\$7,071.00
01-34	08/09/01	Britton (DW-01)	\$0.00	\$0.00	\$53,138.00	\$53,138.00
01-35	08/17/01	Hartford (DW-01)	\$0.00	\$0.00	\$51,731.00	\$51,731.00
01-36	08/23/01	Tyndall (DW-01)	\$0.00	\$0.00	\$5,000.00	\$5,000.00
01-37	08/23/01	Britton (DW-01)	\$0.00	\$0.00	\$89,329.00	\$89,329.00
01-38	09/10/01	Fall River (DW-01)	\$0.00	\$0.00	\$3,964.00	\$3,964.00
01-39	09/14/01	Gettysburg (DW-01)	\$0.00	\$0.00	\$202,054.00	\$202,054.00
01-40	09/21/01	Harrisburg (DW-01)	\$0.00	\$0.00	\$38,509.00	\$38,509.00
01-41	09/28/01	Hartford (DW-01)	\$0.00	\$0.00	\$20,466.00	\$20,466.00
Total Loan Disbursements			\$0.00	\$0.00	\$2,908,702.00	\$2,908,702.00

SET-ASIDE DISBURSEMENTS

Disburse No.	Date	Borrower Name	Other	State	Federal	Total Payment
01A-01	10/26/00	SD*	\$0.00	\$0.00	\$12,200.00	\$12,200.00
01A-01	10/26/00	SD**	\$0.00	\$0.00	\$5,400.00	\$5,400.00
01A-02	10/26/00	Alzheimer & Gray	\$0.00	\$0.00	\$12,000.00	\$12,000.00
01A-03	12/07/00	SD*	\$0.00	\$0.00	\$12,000.00	\$12,000.00
01A-03	12/07/00	SD**	\$0.00	\$0.00	\$5,300.00	\$5,300.00
01A-04	12/07/00	FNB	\$0.00	\$0.00	\$4,075.00	\$4,075.00
01A-05	12/22/00	SD*	\$0.00	\$0.00	\$12,600.00	\$12,600.00
01A-05	12/22/00	SD**	\$0.00	\$0.00	\$1,000.00	\$1,000.00
01A-06	02/01/01	SD*	\$0.00	\$0.00	\$13,200.00	\$13,200.00
01A-06	02/01/01	SD**	\$0.00	\$0.00	\$5,800.00	\$5,800.00
01A-07	02/23/01	US Bancorp Piper Jaffray	\$0.00	\$0.00	\$5,000.00	\$5,000.00
01A-08	03/02/01	SD*	\$0.00	\$0.00	\$24,400.00	\$24,400.00
01A-09	03/08/01	Fiduciary Communications	\$0.00	\$0.00	\$650.00	\$650.00
01A-10	03/22/01	SD*	\$0.00	\$0.00	\$11,100.00	\$11,100.00
01A-11	04/27/01	SD*	\$0.00	\$0.00	\$11,300.00	\$11,300.00
01A-11	04/27/01	SD**	\$0.00	\$0.00	\$2,000.00	\$2,000.00
01A-12	06/01/01	SD*	\$0.00	\$0.00	\$13,900.00	\$13,900.00
01A-13	06/15/01	FNB	\$0.00	\$0.00	\$4,075.00	\$4,075.00
01A-14	06/26/01	SD*	\$0.00	\$0.00	\$13,800.00	\$13,800.00
01A-15	07/27/01	SD*	\$0.00	\$0.00	\$13,500.00	\$13,500.00
01A-15	07/27/01	SD**	\$0.00	\$0.00	\$6,100.00	\$6,100.00
01A-16	09/05/01	SD*	\$0.00	\$0.00	\$23,900.00	\$23,900.00
01A-16	09/05/01	SD**	\$0.00	\$0.00	\$9,000.00	\$9,000.00
01A-17	09/21/01	SD*	\$0.00	\$0.00	\$15,200.00	\$15,200.00
Total Set-aside Disbursements			\$0.00	\$0.00	\$237,500.00	\$237,500.00
Total DWSRF Disbursements			\$0.00	\$0.00	\$3,146,202.00	\$3,146,202.00

* DW Admin

** DW Set-aside (Tech Assist)

Disbursements to the State of SD reflect reimbursements for disbursements made through the state accounting system. These reimbursements are for payroll expenses, overhead costs, and Technical Assistance Set-asides, are rounded and do not reflect expenses as incurred during the year. Expenses reimbursed also may be from a prior fiscal year. See Financial Statements for expenses incurred on an accrual basis.

EXHIBIT VI

**LETTER OF CREDIT PROJECTED VS. ACTUAL DRAWS
FFY 2001**

<u>QUARTER</u>	<u>PROJECTED DRAWS</u>	<u>ACTUAL LOAN DRAWS</u>	<u>ACTUAL SET-ASIDE DRAWS</u>	<u>DIFFERENCE</u>
1ST	\$3,545,000	\$1,031,604	\$11,700	(\$2,501,696)
2ND	\$470,000	\$332,666	\$5,800	(\$131,534)
3RD	\$655,000	\$777,024	\$2,000	\$124,024
4TH	\$2,390,000	\$970,308	\$15,000	(\$1,404,692)
TOTAL	\$7,060,000	\$3,111,602	\$34,500	(\$3,913,898)

Letter of Credit Draws

FFY2001

<u>Draw #</u>	<u>Date</u>	<u>Loan</u>	<u>Admin</u>	<u>Tech Asst</u>	<u>Total</u>
0371	10/17/2000	\$144,846			\$144,846
0372	10/24/2000	\$9,622	\$24,200	\$5,400	\$39,222
0371	11/08/2000	\$208,901			\$208,901
0375	11/17/2000	\$76,514			\$76,514
0376	11/28/2000		\$12,000	\$5,300	\$17,300
0377	12/05/2000		\$4,075		\$4,075
0378	12/12/2000	\$6,716			\$6,716
0379	12/19/2000	\$532,130			\$532,130
0380	12/20/2000		\$12,600	\$1,000	\$13,600
0381	01/09/2001	\$49,362			\$49,362
0382	01/25/2001	\$3,108			\$3,108
0383	01/29/2001	\$144,554	\$13,200	\$5,800	\$163,554
0385	02/07/2001	\$55,139			\$55,139
0386	02/21/2001	\$9,144	\$5,000		\$14,144
0387	02/23/2001		\$24,400		\$24,400
0389	03/06/2001	\$17,009	\$650		\$17,659
0391	03/20/2001		\$11,100		\$11,100
0393	04/24/2001		\$11,300	\$2,000	\$13,300
0394	05/08/2001	\$105,610			\$105,610
0396	05/22/2001	\$13,303			\$13,303
0398	05/30/2001		\$13,900		\$13,900
0399	06/12/2001	\$12,744	\$4,075		\$16,819

Draw #	Date	Loan	Admin	Tech Asst	Total
0400	06/19/2001	\$25,180			\$25,180
0401	06/20/2001		\$13,800		\$13,800
0402	06/26/2001	\$577,112			\$577,112
0403	07/02/2001	\$127,356			\$127,356
0404	07/10/2001	\$161,109			\$161,109
0405	07/25/2001	\$157,981	\$13,500	\$6,100	\$177,581
0406	07/26/2001	\$7,071			\$7,071
0407	08/07/2001	\$53,138			\$53,138
0408	08/14/2001	\$51,731			\$51,731
0409	08/21/2001	\$94,329			\$94,329
0410	08/30/2001		\$23,900	\$9,000	\$32,900
0411	09/05/2001	\$3,964			\$3,964
0412	09/11/2001	\$202,054			\$202,054
0413	09/19/2001	\$38,509	\$15,200		\$53,709
0414	09/26/2001	\$20,466			\$20,466
TOTAL		\$2,908,702	\$202,900	\$34,600	\$3,146,202

**EXHIBIT VII
ENVIRONMENTAL REVIEW AND
LAND PURCHASE INFORMATION**

Loan Recipient	Environmental Assessment Class	Environmental Assessment Publication Date	Land Purchase w/ SRF?
Bristol (DW-01)	CATEX	04/16/01	No
Britton (DW-01)	CATEX	04/04/01	No
Gettysburg (DW-01)	CATEX	06/07/01	No
Harrisburg (DW-01)	CATEX	09/20/00	No
Mitchell (DW-01)	FNSI	09/23/00	No
Redfield (DW-01)	CATEX	04/11/01	No
Sioux Falls (DW-02)	FNSI/CATEX	07/07/00	No
Tripp (DW-01)	CATEX	07/30/01	No

EXHIBITS VIII -- XII
DRINKING WATER SRF
FINANCIAL STATEMENTS
(Unaudited)

EXHIBIT IX
PROJECTED CASH FLOW WORKSHEET
For 10/1/01 through 9/30/02
(Unaudited)

Borrower	Principal	Interest	Admin Surcharge	Total
Big Stone City (DW-01)	\$18,093	\$20,900	\$6,967	\$45,960
Black Hawk WUD (DW-01)	\$15,677	\$18,500	\$6,167	\$40,344
Brandon (DW-01)	\$94,551	\$64,113	\$17,043	\$175,708
Britton (DW-01)	\$5,003	\$13,584	\$3,831	\$22,419
Bryant (DW-01)	\$526	\$1,153	\$0	\$1,679
Clear Lake (DW-01)	\$11,625	\$15,724	\$0	\$27,349
Fall River (DW-01)	\$10,718	\$15,262	\$0	\$25,981
Gettysburg (DW-01)	\$0	\$0	\$0	\$0
Harrisburg (DW-01)	\$9,697	\$18,494	\$4,624	\$32,814
Hartford (DW-01)	\$4,129	\$7,976	\$1,994	\$14,098
Hermosa (DW-01)	\$9,805	\$11,221	\$2,805	\$23,831
Irene (DW-01)	\$4,076	\$4,864	\$1,216	\$10,155
Kingbrook RWS (DW-01)	\$10,464	\$0	\$0	\$10,464
Lead (DW-01)	\$0	\$0	\$0	\$0
Lead-Deadwood San Dist (DW-01)	\$90,630	\$93,790	\$31,263	\$215,684
Madison (DW-01)	\$125,125	\$75,445	\$25,148	\$225,719
Mina Lake San Dist (DW-01)	\$7,931	\$9,862	\$2,466	\$20,259
Mitchell (DW-01)	\$0	\$0	\$0	\$0
Mobridge (DW-01)	\$48,329	\$33,770	\$11,257	\$93,356
Mobridge (DW-02)	\$17,169	\$12,654	\$4,218	\$34,042
Redfield (DW-01)	\$2,688	\$2,948	\$832	\$6,468
Sioux Falls (DW-01)	\$543,727	\$199,715	\$56,330	\$799,772
Sioux Falls (DW-02)	\$0	\$0	\$0	\$0
Sturgis (DW-01)	\$24,135	\$17,008	\$5,669	\$46,812
Tripp (DW-01)	\$0	\$0	\$0	\$0
Tyndall (DW-01)	\$26,749	\$7,251	\$0	\$33,999
Vermillion (DW-01)	\$25,027	\$30,489	\$7,622	\$63,139
WEB (DW-02)	\$0	\$0	\$0	\$0
West River/Lyman Jones (DW-01)	\$0	\$0	\$0	\$0
Total FFY02	\$1,105,873	\$674,725	\$189,452	\$1,970,050

EXHIBIT X
DENR DRINKING WATER STATE REVOLVING FUND
BALANCE SHEET
09/30/01

	SET-ASIDES					AI SURC
	STATE ADMIN	TECHNICAL ASSISTANCE	OPERATOR TRAINING	LOCAL ASSISTANCE	TOTAL SET-ASIDES	
ASSETS:						
Cash	(\$15,783.25)	(\$8,098.43)			(\$23,881.68)	\$43
Investments					\$0.00	
Loans Receivable					\$0.00	
Federal LOC Commitment less Cash Draws	\$709,067.00	\$158,800.00	\$15,700.00	\$1,305,880.00	\$2,189,447.00	
Accrued Interest Receivable	\$0.07				\$0.07	\$
Due from Other Governments					\$0.00	\$5
Deferred Charges	\$251,028.63				\$251,028.63	
TOTAL ASSETS	\$944,312.45	\$150,701.57	\$15,700.00	\$1,305,880.00	\$2,416,594.02	\$45
LIABILITIES AND FUND EQUITY:						
Liabilities:						
Accounts Payable	\$21,650.00				\$21,650.00	
Bonds Payable					\$0.00	
Wages Payable	\$5,439.26				\$5,439.26	
Accrued Employee Benefits	\$1,091.71				\$1,091.71	
Accrued Interest Payable					\$0.00	
Total Liabilities	\$28,180.97	\$0.00	\$0.00	\$0.00	\$28,180.97	
Fund Equity:						
Contributions from EPA	\$1,707,600.00	\$300,000.00	\$20,000.00	\$1,305,880.00	\$3,333,480.00	
Retained Earnings	(\$791,468.52)	(\$149,298.43)	(\$4,300.00)		(\$945,066.95)	\$45
Contributed Capital					\$0.00	
Total Fund Equity	\$916,131.48	\$150,701.57	\$15,700.00	\$1,305,880.00	\$2,388,413.05	\$45
TOTAL LIABILITIES AND FUND EQUITY	\$944,312.45	\$150,701.57	\$15,700.00	\$1,305,880.00	\$2,416,594.02	\$45

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

EXHIBIT XI
DENR DRINKING WATER STATE REVOLVING FUND
STATEMENT OF INCOME AND RETAINED EARNINGS
For the Fiscal Year Ended September 30, 2001

SET-ASIDES

	STATE ADMIN	TECHNICAL ASSISTANCE	OPERATOR TRAINING	LOCAL ASSISTANCE	TOTAL SET-ASIDES
Operating Revenues:					
Interest Income					\$0.00
Investment Income	\$1.29				\$1.29
Other Income					\$0.00
Total Operating Revenue	\$1.29	\$0.00	\$0.00	\$0.00	\$1.29
Operating Expenses:					
Administrative Expenses	\$190,002.65	\$37,233.09	\$0.00	\$0.00	\$227,235.74
Interest Expense					\$0.00
Bond Issuance Expense	\$9,981.24				\$9,981.24
Bond Discount Expense	\$5,080.55				\$5,080.55
Total Operating Expenses	\$205,064.44	\$37,233.09	\$0.00	\$0.00	\$242,297.53
Operating Income (Loss)	(\$205,063.15)	(\$37,233.09)	\$0.00	\$0.00	(\$242,296.24)
Operating Transfers:					
Operating Transfer Out	(\$21,996.13)				(\$21,996.13)
Net Income (Loss)	(\$227,059.28)	(\$37,233.09)	\$0.00	\$0.00	(\$264,292.37)
Fund Equity, Beginning	(\$564,409.24)	(\$112,065.34)	(\$4,300.00)	\$0.00	(\$680,774.58)
RETAINED EARNINGS, ENDING	(\$791,468.52)	(\$149,298.43)	(\$4,300.00)	\$0.00	(\$945,066.95)

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

EXHIBIT XII
DENR DRINKING WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2001

	STATE ADMIN	TECHNICAL ASSISTANCE	SET-ASIDES OPERATOR TRAINING	LOCAL ASSISTANCE	TOTAL SET-ASID
Cash flows form operating activities:					
Net Income	(\$205,063.15)	(\$37,233.09)	\$0.00	\$0.00	(\$242,2
Adjustments to reconcile net income to net cash provided (used) by operating activities:					
Investment Income	(\$1.22)	\$0.00	\$0.00	\$0.00	(
Amortization of bond issuance cost	\$9,981.24				\$9,9
Amortization of bond discount	\$5,080.55				\$5,0
Assets: (Increase)/Decrease					
Loans Receivable					
Accrued Interest Receivable on Loans					
Federal LOC Commitment less Cash Draws	(\$108,664.00)	(\$15,400.00)	\$0.00	(\$50,000.00)	(\$174,0
Deferred Bond Issuance Costs					
Due from Other Governments					
Liabilities: Increase/(Decrease)					
Accounts Payable	\$4,094.00				\$4,0
Bond Issuance					
Accrued Interest payable					
Cost of Issuance Payable					
Accrued Employee Benefits	\$224.59				\$:
Wages Payable	\$1,193.92				\$1,
Net cash provided by operations	(\$293,154.07)	(\$52,633.09)	\$0.00	(\$50,000.00)	(\$395,7
Cash flows from noncapital financing activities:					
Operating Transfers Out	(\$21,996.13)				(\$21,9
Unamortized Bond Issuance Costs					
Unamortized Bond Discount Costs					
Bonds Payable					
Payment to Escrow Agent for Defeased Bonds					
Contributions from State					
Contributions from EPA	\$311,564.00	\$50,000.00		\$50,000.00	\$411,:
Net cash provided by noncapital financing activities	\$289,567.87	\$50,000.00	\$0.00	\$50,000.00	\$389,:
Cash Flows from Investing Activities:					
Interest on Investments	\$1.29				
Net (Purchase/Sale) of Investment Securities					
Increase in Investments	\$1.29	\$0.00	\$0.00	\$0.00	
Net Decrease in cash and cash equivalents	(\$3,584.91)	(\$2,633.09)	\$0.00	\$0.00	(\$6,2
Cash and cash equivalents at beginning of year	(\$12,198.34)	(\$5,465.34)	\$0.00	\$0.00	(\$17,6
Cash and cash equivalents at year end	(\$15,783.25)	(\$8,098.43)	\$0.00	\$0.00	(\$23,8

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

DRINKING WATER STATE REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS

September 30, 2001

1. The financial information contained on the Loan Participants; Projected Cash Flow Worksheet; Balance Sheets; Revenues, Expenses and Changes in Retained Earnings; and Cash Flows in Exhibits VIII through XII of the Drinking Water SRF Biennial Report is unaudited and prepared by personnel of the Department of Environment and Natural Resources, Division of Financial and Technical Assistance. The format for these statements is generally consistent with guidelines provided by EPA personnel.
2. The Drinking Water State Revolving Fund (DWSRF) Loan Program was federally authorized by the Safe Drinking Water Act Amendments of 1996. The state authorized the loan program in 1994 in anticipation of federal action. The Environmental Protection Agency (EPA) developed final guidance for the Drinking Water State Revolving Fund in February 28, 1997. The South Dakota Conservancy District, acting in its capacity as the Board of Water and Natural Resources, conducted a public hearing on April 15, 1997 to adopt formal administrative rules for the program. This program is a low interest loan program to finance drinking water projects. Funds are provided to the states in the form of capitalization grants awarded annually through EPA. The federal capitalization grants are matched by state funds at ratio of 5:1.
3. The Drinking Water State Revolving Fund is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises.
4. The Drinking Water State Revolving Fund follows the accrual basis of accounting. Revenue is recognized in the accounting period in which it is earned and expenses are recognized when they are incurred. The DWSRF follows all Governmental Accounting Standards Board (GASB) pronouncements and interpretations.
5. Cash and Cash Equivalents consists of a GoldmanSachs Financial Square Treasury Obligation Fund rated "AAAm" by Standard andPoors, which paid on average approximately 4.85% for the year ending September 30, 2001.
6. Investments consist of an Investment Agreement at 5.56% with CDC Funding Corporation due August 1, 2008 totaling \$5,594,341.
7. Reserve Accounts consist primarily of an Investment Agreement at 5.56% with CDC Funding Corporation due August 1, 2008 totaling \$514,500.

8. Bonds outstanding plus principal and interest payments on the bond issue is due as follows:

	<u>Bonds Outstanding</u>	<u>February 1, 2002</u>	<u>August 1, 2002</u>
Series 1998 Bonds			
Principal	6,030,000		225,000
Interest	<u> </u>	<u>143,805</u>	<u>143,805</u>
Total	<u>6,030,000</u>	<u>143,805</u>	<u>368,805</u>

9. The contribution from EPA is the full amount authorized for the periods ending as follows:

September 30	
1997	12,558,800
1998	7,121,300
1999	7,463,800
2000	7,757,000
2001	<u>7,789,100</u>
Total	<u>42,690,000</u>

On the federal fiscal year end statements, contributions from EPA are recognized as assets once the grants are awarded. On the June 30th state year end statements EPA funds are not recognized as assets until the funds are drawn.

10. The annual administrative expenses of the Drinking Water SRF program are as follows:

	<u>Year Ending</u> <u>09/30/01</u>	<u>Cumulative</u> <u>Total</u>
State of South Dakota	195,467	881,465
First National Bank	9,744	27,688
Alzheimer & Gray	16,375	64,000
Other	<u>5,650</u>	<u>5,650</u>
Total	<u>227,236</u>	<u>978,803</u>

ADDENDUM I
FEDERAL FISCAL YEAR 2002
INTENDED USE PLAN

**SOUTH DAKOTA
DRINKING WATER STATE REVOLVING FUND
FY 2002 INTENDED USE PLAN**

INTRODUCTION

The Safe Drinking Water Act Amendments of 1996 and South Dakota Codified Law 46A-1-60.1 to 46A-1-60.3, inclusive, authorize the South Dakota Drinking Water State Revolving Fund (SRF) program. Program rules are established in Administrative Rules of South Dakota chapter 74:05:11.

The state of South Dakota proposes to adopt the following Intended Use Plan (IUP) for the federal fiscal year 2002 as required under Section 1452(b) of the Safe Drinking Water Act and ARSD 74:05:11:03. The IUP describes how the state intends to use the Drinking Water SRF to meet the objectives of the Safe Drinking Water Act and further the goal of protecting public health. A public hearing was held on November 9, 2001, to review the 2002 Intended Use Plan and receive comments. The IUP reflects the results of this review.

The IUP includes the following:

- Priority list of projects;
- Criteria and method of fund distribution;
- Financial status;
- Short- and long-term goals;
- Amount of funds transferred between the Drinking Water SRF and the Clean Water SRF;
- Description and amount of non-Drinking Water SRF (set-aside) activities; and
- Disadvantaged community subsidies.

PRIORITY LIST OF PROJECTS

A project must be on Attachment I, the project priority list, to be eligible for a loan. This list was developed from the State Water Plan and includes projects that did not designate Drinking Water SRF loans as a funding source.

Projects may be added to the project priority list at any meeting of the Board of Water and Natural Resources if the action is included on the agenda at the time it is posted.

Priority ratings are based on the project priority system established in ARSD 74:05:11:06. The general objective of the priority system is to assure projects that address compliance or health concerns, meet certain affordability criteria, or regionalize facilities receive priority for funding.

Attachment II is a list of those projects from which the department expects to receive applications. The estimated funding dates are only estimates and should not be interpreted as deadlines or that the loan funds have been reserved. Projects with a later expected funding date may receive loans prior to those projects with an earlier date based on time of submittal of its funding application. Any project that is listed on the project priority list, but not listed on Attachment II, will be moved to Attachment II upon submittal of an application. Attachment II will be revised as projects are added. These revisions do not require approval by the Board of Water and Natural Resources.

CRITERIA AND METHOD OF FUND DISTRIBUTION

Projects will be funded based on their assigned priority as set forth on the Project Priority list. Projects with the highest ranking that have submitted a complete State Revolving Fund loan application and demonstrated adequate financial, managerial, and technical capacity to receive the loan shall be funded before any lower ranked projects. Projects on the priority list may be bypassed if they have not demonstrated readiness to proceed by submitting a loan application. The next highest priority project that has submitted an application will be funded. The state shall exert reasonable effort to assure that the higher priority projects on the priority list are funded.

Interest rates are reviewed annually and are set to be competitive with other funding agencies and to keep pace with inflation. In July 2001 the BWNR set the interest rates for fiscal year 2002 at 3.50 percent for a term of up to 20 years. The term of each loan is at the discretion of the project sponsor, provided that the proposed repayment source produces sufficient coverage. The board also established a rate of 2.5 percent for loans intended for interim financing with a maximum term of three years. Loan rates for disadvantaged communities are set at 2.5 percent or zero percent depending on the recipient's median household income. Information regarding disadvantaged eligibility and subsidy level criteria can be found in the disadvantaged community subsidies section.

A one-percent administrative surcharge is included in the interest rate. This surcharge will be used for staff salary, benefits, travel, and overhead. Additionally, this surcharge may be used for retaining of bond counsel, bond underwriter, and trustee. The administrative surcharge shall be waived for loans made to disadvantaged communities and for loans made for interim financing.

A requirement of the program is that a minimum of 15 percent of all dollars credited to the fund be used to provide loan assistance to small systems that serve fewer than 10,000 persons. Since the inception of the program, systems meeting this population threshold have been obligated \$15.2 million (47 percent) of the \$32.3 million of loans. Of the projects shown on Attachment II – List of Projects to be Funded in FY2002, \$10.3 million is identified for systems serving fewer than 10,000 persons. This equates to 35 percent of the funds available to loan as shown Attachment III - Program Funding Status.

Water systems must demonstrate the technical, managerial, and financial capability to operate a water utility before it can receive a loan.

The distribution methods and criteria are designed to provide affordable assistance to the borrower with maximum flexibility while providing for the long-term viability of the fund.

FINANCIAL STATUS

Based on the most current information, the Drinking Water SRF loan program will receive a capitalization grant of approximately \$7,800,000 for federal fiscal year 2002. The required state match of \$1,560,000 will be secured through bonds. The bonding authority for this program is established in SDCL 46A-1-60.1.

As of November 1, 2001, thirty-one loans totaling \$32,267,090 have been made.

The department will allocate funds to the set-aside activities in the amounts indicated below. All remaining funds will be used to fund projects on the project priority list. A more detailed description of the activities can be found in the section pertaining to set-asides and the attachments.

Administration	\$312,000
Small System Technical Assistance	<u>\$156,000</u>
Total for set-asides	\$468,000

The department has received five previous capitalization grants totaling \$42,690,000 and has provided the required state match of \$8,538,000. Of this amount, \$3,333,480 was allocated to set-aside activities as follows: \$1,707,600 for administration, \$300,000 for small system technical assistance, \$20,000 for state program management – operator certification, \$1,255,880 for source water assessment and delineation, and \$50,000 for capacity development.

With the 2001 capitalization grant and repayments, the South Dakota Drinking Water SRF program will have dedicated \$47.9 million for loans to qualifying public water systems. Of this amount, \$16.9 million is available for loan as of November 2001. When the state receives the FY 2002 capitalization grant, approximately \$9.3 million of additional funds will be available to loan. This amount is based on the best available information at this time. This information is provided in Attachment III, Drinking Water SRF Funding Status. The attached project priority list identifies \$72.2 million in potential loans.

Moderate demand is expected on the program for calendar year 2002.

The department does not intend to leverage funds at this time. The department is taking a conservative approach to set-asides and subsidized loans to assure achieving the goals of developing a permanent, self-sustaining SRF program. Future demand on the program will influence the allocation of funds to set-asides and loan subsidies.

The Safe Drinking Water Act included three provisions that call for a withholding of Drinking Water SRF grant funds where states fail to implement three necessary programmatic requirements. These provisions were assuring the technical, financial and managerial capacity of new water systems, developing a strategy to address the capacity of existing systems, and developing an operator certification program that complies with EPA guidelines. The State of South Dakota has met the requirements of these provisions and will not be subject to withholding of funds.

SHORT- AND LONG-TERM GOALS AND OBJECTIVES

The long-term goals of the Drinking Water SRF are to fully capitalize the fund, ensure that the state's drinking water supplies remain safe and affordable, ensure that systems are operated and maintained, and promote economic well-being.

The specific long-term objectives of the program are:

1. To maintain a permanent, selfsustaining SRF program that will serve in perpetuity as a financing source for drinking water projects and source water quality protection measures. This will necessitate that the amount of capitalization grant funds for non-Drinking Water SRF activities are reviewed annually by approved financial advisors to assure adequate cash flow to maintain the fund.
2. To fulfill the requirements of pertinent federal, state, and local laws and regulations governing safe drinking water activities, while providing the state and local project sponsors with maximum flexibility and decision making authority regarding such activities.

The short-term goal of the SRF is to fully capitalize the fund.

The specific short-term objectives of the program are:

1. To ensure the technical integrity of Drinking Water SRF projects through the review of planning, design plans and specifications, and construction activities;
2. To ensure the financial integrity of the Drinking Water SRF program through the review of the financial impacts of the set-asides and disadvantaged subsidies and individual loan applications and the ability for repayment;
3. To ensure compliance with all pertinent federal, state, and local safe drinking water rules and regulations; and
4. To obtain maximum capitalization of the funds for the state in the shortest time possible while taking advantage of the provisions for disadvantaged communities and supporting the non-Drinking Water SRF activities.

AMOUNT OF FUNDS TRANSFERRED BETWEEN THE DRINKING WATER SRF AND THE CLEAN WATER SRF

The Safe Drinking Water Act Amendments of 1996 allowed states to transfer up to 33 percent of the Drinking Water SRF capitalization grant to the Clean Water SRF or an equivalent amount from the Clean Water SRF to the Drinking Water SRF. States can also transfer Second Round Funds (repayments) between funds. To date, South Dakota has transferred no funds between programs. The authority for these transfers expired on September 30, 2001; however, the transfer provision is expected to be extended by Congress. If the provision is extended, the state will request the transfer of an amount equal to 33 percent of the Drinking Water SRF fiscal year 2002 capitalization grant or approximately \$2,575,000 million of Clean Water SRF repayments to the Drinking Water SRF program. These funds will be used as match for the State and Tribal Assistance Grants. At the beginning of fiscal year 2002, approximately \$1.38 million of repayments were available in the Drinking Water SRF fund.

This transfer will not impact any set-aside activities. The long-term impact will be to create additional principal and interest payments into the fund.

DESCRIPTION AND AMOUNT OF NON-PROJECT ACTIVITIES (SET-ASIDES)

The Safe Drinking Water Act authorizes states to provide funding for certain non-project activities provided that the amount of that funding does not exceed certain ceilings. Unused funds in the non-Drinking Water SRF will be banked for future use, where allowable, or transferred to the project loan account at the discretion of the State and with concurrence from the EPA Regional Administrator.

The following sections identify what portions of the capitalization grant will be used for non-Drinking Water SRF activities and describe how the funds will be used.

Administration. Four percent of the capitalization grant or an estimated \$312,000 will be allocated to administer the Drinking Water SRF program.

This is the maximum allowed for this purpose. Specific activities to be funded are: staff salary, benefits, travel, and overhead; retaining of bond counsel, bond underwriter, and trustee; and other costs to establish and administer the program.

Unused administrative funds will be banked to assure a source of funds not dependent on state general funds.

Small system technical assistance. Two percent of the capitalization grant or an estimated \$156,000 will be allocated to provide technical assistance to public water systems serving 10,000 or fewer.

The objective of this set-aside is to bring non-complying systems into compliance and improve operations of water systems. Specific activities to be conducted are facility evaluations and on-site training covering all aspects of water treatment and distribution systems.

To encourage more proactive planning within small communities, last year the department used \$50,000 of these set-aside funds to initiate the Small Community Planning Grant program. Grants were available for community water systems serving a population of 1,000 or fewer. The systems were reimbursed 80 percent of the cost of an engineering study, with the maximum grant amount for any project being \$4,000. Based on demand, \$75,000 of the \$156,000 will be allocated for this program. Should program demand exceed this level, additional funds, if available, will be directed toward the Small Community Planning Grant program. Additionally, the department is seeking input from the Consulting Engineer Council to determine if the maximum grant amount should be raised.

In fiscal year 1997, the board contracted with the South Dakota Rural Water Association and the Planning Districts to help communities evaluate the technical, managerial, and financial capability of its water utilities. These contracts have been renewed annually. Since that time \$300,000 in set-aside funds have been allocated to this activity, and \$71,100 remains unobligated. This will provide continuation of the activities initiated by the previous contract awards through fiscal year 2003. Technical Assistance set-aside funds not used for the Small Community Planning Grant program will be used in fiscal year 2003 to support the activities of the South Dakota Rural Water Association and the Planning Districts. Unused funds from the set-aside for small system technical assistance will be banked for use in future years.

State program management. The state may use up to 10 percent of its allotment to (1) administer the state PWSS program; (2) administer or provide technical assistance through water protection programs, including the Class V portion of the Underground Injection Control program; (3) develop and implement a capacity development strategy; and (4) develop and implement an operator certification program. A dollar-for-dollar match of capitalization funds must be provided for these activities.

In fiscal year 1997, \$20,000 were set aside for supplemental operator training. Proposals were requested from interested organizations. The South Dakota Rural Water Association entered into a contract to assist operators that were having difficulty becoming certified. Of that amount, \$4,300 was spent on this activity. The remaining \$15,700 will be returned to the loan fund.

No funds will be set-aside for these activities in federal fiscal year 2002.

Local assistance and other state programs. The state can fund other activities to assist development and implementation of local drinking water protection activities. Up to 15 percent of the capitalization grant may be used for the activities specified below, but not more than 10 percent can be used for any one activity. The allowable activities for this set-aside are: (1) assistance to a public water system to acquire land or a conservation easement for source water protection; (2) assistance to a community water system to implement voluntary, incentive-based source water quality protection measures; (3) to provide funding to delineate and assess source water protection areas; (4) to support the establishment and implementation of a wellhead protection program; and (5) to provide funding to a community water system to implement a project under the capacity development strategy.

The set-aside to delineate and assess source water protection areas was available only in federal fiscal year 1997. At that time \$1,255,880 were set aside for this activity. The funds were to be obligated within four fiscal years. No funds have been expended to date. The workplan has been amended and approved by EPA to commit \$400,000 to this activity; therefore, \$855,880 will be returned to the loan fund.

In fiscal year 2001, \$50,000 were allocated to develop a Capacity Development Program.

The program is intended to assist water systems that lack technical, managerial and/or financial capacity. Depending on the type of problems identified, different types of assistance will be offered. Examples of assistance that could be offered are, but not limited to, board training, accounting assistance, or completion of capacity assessments. To date no funds have been expended for this activity. The funds will be banked for use in fiscal year 2002. The department will evaluate the demand for assistance from this new program to determine future allocations to the program.

No funds will be set-aside in fiscal year 2002 for local assistance and states programs.

DISADVANTAGED COMMUNITY SUBSIDIES

Communities that meet the disadvantaged eligibility criteria described below may receive additional subsidies. This includes communities that will meet the disadvantaged criteria as a result of the project.

Definition. To be eligible for loan subsidies a community must meet the following criteria:

(1) for municipalities and sanitary districts:

- (a) the median household income is below the state-wide median household income; and
- (b) the monthly residential water bill is \$20 or more for 5,000 gallons usage; or

(2) for rural water systems:

(a) the median household income is below the state-wide median household income; and

- (b) the monthly water bill for rural households is \$50 or more for 7,000 gallons usage.

The source of income statistics will be the most recent federal census or statistically valid information supplied by the applicant.

Affordability criteria used to determine subsidy amount Loans given to disadvantaged communities may have a term up to 30 years or the expected life of the project, whichever is less. Disadvantaged communities below the statewide median household income, but at or greater than 80 percent, are eligible to extend the term of the loan up to 30 years. Disadvantaged communities below 80 percent of the statewide median household income, but at or greater than 60 percent may receive up to a two percentage point reduction in interest rates. Disadvantaged

communities with a median household income less than 60 percent of the statewide median household income may receive a zero percent loan.

Amount of capitalization grant to be made available for providing additional subsidies. Additional subsidies in the form of principal forgiveness or negative interest rates are not authorized under the program rules.

Identification of systems to receive subsidies and their amount. Systems that are eligible to receive disadvantaged community rates and terms are identified in Attachment I and Attachment II.

ATTACHMENT I

PROJECT PRIORITY LIST

Attachment I is a comprehensive list of projects that are eligible for Drinking Water was developed from State Water Plan applications. Inclusion on the list carries n Drinking Water SRF program. Attachment II lists those projects that are expected to b

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount	E: Lo &
293	Nisland	C462079-01	<i>Problem:</i> the city's water distribution system is old and in poor condition with non-operational valves and fire hydrants, poorflows, and reduced pressure. Additionally the system has tested positive for bacterial contamination on several occasions, which is believed to be largely due to the distribution system conditions. <i>Project:</i> install approximately 13,700 feet of new water main and associated valves, hydrants, and other appurtenances.	\$300,000	09
179	Garretson	C462063-01	<i>Problem:</i> the drinking water violates radium standards. <i>Project:</i> connect to nearby rural water system or construct treatment facility.	\$1,000,000	3.5
132	Tripp County WUD (Extension to Town of Wood)	C462434-02	<i>Problem:</i> the distribution system in the town of Wood is aging and in need of replacement. <i>Project:</i> the Tripp County Water user district, which supplies bulk water service to Wood, is proposing to replace the town's distribution system and assume the system.	\$150,000	09
131	B-Y RWS (NW Hutchinson County Expansion)	C462431-02	<i>Problem:</i> the communities of Tripp, Scotland, and Dimock and nearby rural residences have water quality or quantity problems. <i>Project:</i> the	\$1,000,000	2.5

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount	E: Lo &
130	B-Y RWS (Bon Homme County Expansion)	C462431-03	installation of 145 miles of pipeline to provide Tripp, Scotland, Dimock, and 175 rural residences with water from the B-Y Rural Water System. <i>Problem:</i> the community of Tyndall and nearby rural residences have water quality or quantity problems. <i>Project:</i> the installation of 127 miles of pipeline to provide Tyndall and 127 rural residences with water from the B-Y Rural Water System.	\$1,300,000	3.5
130	B-Y RWS (Hanson County Expansion)	C462431-05	<i>Problem:</i> two nearby Rural water systems are considering consolidation with B-Y Rural Water with the intent to discontinue treating water. <i>Project:</i> the installation of five miles of 24-inch ductile iron pipe and two pumping stations to provide the water necessary for consolidation.	\$1,000,000	3.5
121	Tripp County WUD (Gregory County Expansion)	C462434-01	<i>Problem:</i> the communities of Gregory, Burke, Herrick, and St. Charles and nearby rural residences have water quality or quantity problems. <i>Project:</i> the installation of 88 miles of pipeline to provide Gregory, Burke, Herrick, St. Charles, and 65 rural residences with water from the Tripp County Water Users District.	\$2,400,000	2.5
118	T-M RWS	C460429-01	<i>Problem:</i> additional users have requested service from the rural water system. <i>Project:</i> install approximately 50 miles of 1-1/2" to 6" lines to serve new users.	\$500,000	3.5
98	B-Y RWS (Treatment Plant Expansion)	C462431-01	<i>Problem:</i> the existing water treatment plant, constructed in 1978-79, will exceed its design peak day demand due to proposed expansion. <i>Project:</i> expand the capacity of the raw water intake and the water treatment plant.	\$8,500,000	2.5
93	Fall River WUD	C462435-02	<i>Problem:</i> Lack of reliable water sources in eastern Fall River County. <i>Project:</i> construction	\$300,000	2.5

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount	E: Lo &
92	Kingbrook RWS	C462432-02	of a rural water system. <i>Problem:</i> rural individual well users in Fedora area seek to connect to safe, reliable water source. <i>Project:</i> extend approximately 40 miles of pipeline to serve rural users.	\$300,000	3.5
88	Minnehaha Community Water Corporation	C462440-01	<i>Problem:</i> two communities - Garretson and Colton - have requested to be connected to the system resulting in the need expand the supply and treatment capabilities. <i>Project:</i> the construction of a new well field and water plant to provide an additional 2 MGD of plant capacity, a 500,000-gallon elevated storage tank, new 10-inch transmission lines, and modifications to an existing high service pump.	\$3,800,000	3.5
81	Aurora-Brule RWS	C462425-01	<i>Problem:</i> the capacity of the clearwell does not allow the treatment plant to operate for an extended period without shutting down, and these shutdowns result in turbidity spikes. <i>Project:</i> increase clearwell capacity and modify the disinfection process to meet requirements of the disinfection by-products rule.	\$525,000	3.5
75	Clark	C462124-01	<i>Problem:</i> the majority of the water distribution system consists of cast iron and asbestos-cement mains that are approximately 80 years old and experiencing breaks and failed or inoperable valves. <i>Project:</i> install approximately 5,230 feet of 6- to 10-inch watermains and other appurtenances.	\$250,000	3.5
64	BDM RWS	C462444-01	<i>Problem:</i> the city of Britton relies on a surface water source as part of its water supply and as a result is likely to face compliance issues due to upcoming regulations. <i>Project:</i> the construction of approximately eight miles of new waterline and expand the capacity of BDM Rural Water	\$625,000	3.5

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount	E: Lo &
60	Dakota Dunes Community Improvement District	C462035-01	System treatment plant to provide Britton water from the rural water system. <i>Problem:</i> the system's pumping capacity is not adequate to provide the maximum daily pumping demand of the system with one pump out of service as recommended by the Ten States Standard and the city storage ability is reaching its capacity. <i>Project:</i> connect to the Sioux City, Iowa water system.	\$853,000	3.5
60	Skyline Heights Public Works Co-Operative	C462442-01	<i>Problem:</i> Skyline Heights is proposing to abandon its water system and connect to the city of Sioux Falls. <i>Project:</i> installation of approximately 1,200 feet of 8-inch water line to connect to the Sioux Falls system and upgrade existing lines.	\$136,000	3.5
58	Colton	C462135-01	<i>Problem:</i> the city is seeking to connect to a regional water system. <i>Project:</i> construct 1.5 miles of 8-inch water line to connect to the Minnehaha Community Water Corporation system and participate in the upgrade of the Minnehaha CWC system necessary to provide service to Colton.	\$325,000	3.5
45	Tyndall	C462131-02	<i>Problem:</i> the city's water is hard, high in iron, and has odor problems. <i>Project:</i> install approximately 54,000 feet of eight-inch line to connect to the B-Y RWS.	\$850,000	2.5
43	Egan	C462271-01	<i>Problem:</i> much of the town's water distribution system consists of 2- and 4-inch cast iron water main that is sixty to seventy years old resulting in inadequate pressure and excessive leaking. <i>Project:</i> replace approximately 11,000 feet of existing water lines with 6-inch PVC lines.	\$200,000	3.5
42	West River/Lyman-Jones RWS	C462446-01	<i>Problem:</i> the Reliance distribution system is not adequate to supply quality water service and has	\$300,000	2.5

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount	Est. Loan &
34	WEB RWS	C462426-02	experienced several breaks recently. <i>Project:</i> replace approximately 12,000 feet of 2-, 3- and 4-inch lines and appurtenances. <i>Problem:</i> the system is experiencing severe water losses and has limited means of pressurizing the system. <i>Project:</i> replace approximately 13,600 feet of line with 4-inch PVC lines and construct a 35,000-gallon ground storage reservoir and booster pump.	\$140,000	2.5
33	Pringle	C462380-01	<i>Problem:</i> the majority of residents haul water for use in individual cisterns, while other residents and the two businesses are provided water from a well and limited distribution system. <i>Project:</i> construct a 30,000-gallon fiberglass reservoir and install 5,500 feet of 6-inch PVC pipe to serve the entire community.	\$100,000	2.5
31	Huron	C462291-01	<i>Problem:</i> the city's surface water source, the James River, has variable water quality and taste and odor problems that are difficult and expensive to treat. Additionally, compliance with the Enhanced Surface Water Treatment Rule will require substantial upgrades to the existing water treatment plant. <i>Project:</i> abandon the existing water treatment plant, connect to the Mid-Dakota Rural Water System to provide the city's current average day demand, develop a new well field to as a supplement supply for peak day demands, and construct an iron and manganese removal plant to treat the new groundwater source.	\$5,000,000	3.5
28	Lake Norden	C462256-01	<i>Problem:</i> one of the city's five wells ceased producing and as a result the city cannot produce an adequate supply to meet normal usage demands. <i>Project:</i> construct two new wells.	\$100,000	3.5

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount	Est. Loan &
23	Pierre	C462288-01	<i>Problem:</i> peak day water demand is approaching the city's well capacity. <i>Project:</i> expand well field capacity with the addition of two new wells, pumps and pump houses and install approximately 3,800 feet of 16-inch water line to connect to the distribution system.	\$1,100,000	3.5
22	Sioux Falls	C462232-03	<i>Problem:</i> growth within the community necessitates improvements to the system to meet water demand. <i>Project:</i> expansion of the city's well field in the Big Sioux Aquifer for additional water supply, pumping station improvements to improve water pressures in areas where pressure is minimal, and upgrades to the water treatment plant.	\$13,100,000	3.5
21	Baltic	C462223-01	<i>Problem:</i> the distribution system consists of a significant amount of 50-year old cast iron water lines resulting in odor complaints, discolored water, and difficulty with maintaining proper chlorine residuals. <i>Project:</i> replace the existing cast iron water lines	\$120,000	3.5
21	Canton	C462039-02	<i>Problem:</i> the distribution system within the city is over 50 years old, has dead-end water mains, and has areas of reduced pressure. <i>Project:</i> replace portions of the distribution system in conjunction with a DOT highway project, and loop lines to improve service.	\$450,000	3.5
20	Gregory	C462126-01	<i>Problem:</i> the city's two existing concrete storage tanks are in poor structural condition. <i>Project:</i> Replace the concrete storage tanks with a 286,000 steel tank and booster station.	\$335,000	2.5
19	McLaughlin	C462233-01	<i>Problem:</i> existing water mains are over 50 years old and in need of replacement. <i>Project:</i> replace approximately 7 blocks of water main in conjunction with a Main Street improvement	\$100,000	2.5

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount	E: Lo &
19	New Underwood	C462257-01	project. <i>Problem:</i> the existing elevated storage reservoir is in poor condition due to interior and exterior corrosion and is not at an elevation that provides sufficient pressure to all portions of the system. <i>Project:</i> construct a new 187,000-gallon tank.	\$200,000	3.5
19	Philip	C462205-01	<i>Problem:</i> the majority of the water lines are over 70 years old and subject to corrosion and numerous breaks. <i>Project:</i> replace approximately 16,700 feet of water line and construct a 12-inch line from the water treatment plant to the storage tank to meet peak-day demand.	\$600,000	3.5
18	Prairiewood Township	C462443-01	<i>Problem:</i> during peak use periods pressure drops below 20 psi making faucets in the upper levels of houses useless. <i>Project:</i> construct a 100,000-gallon water tower.	\$200,000	3.5
18	Wessington	C462302-01	<i>Problem:</i> waterlines within the city are old and deteriorating. <i>Project:</i> replace approximately 7,950 feet of water line, 15 gate valves, and other appurtenances.	\$100,000	2.5
17	Lincoln County RWS	C462445-01	<i>Problem:</i> The system does not have adequate pressurized storage. <i>Problem:</i> construct a new 750,000-gallon elevated storage tank.	\$1,125,000	3.5
15	Dell Rapids	C462064-01	<i>Problem:</i> The existing pump station has only one pump, which does not meet the Ten State Standards. <i>Project:</i> addition of an additional pump and appurtenances.	\$320,000	3.5
14	Aberdeen	C462072-01	<i>Problem:</i> the city's water treatment plant needs improvements to meet increased demand and to ensure system reliability, operability, and water quality. <i>Project:</i> construct new clarifiers, recarbonation basins, solids contact units, reclaim pump station and basin, chemical feed	\$12,225,000	3.5

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount	E: Lo &
12	Vermillion	C462022-02	units, treated water reservoir, pump station, and controls and instrumentation. <i>Problem:</i> Major pieces of equipment in the water treatment facility needs to be renovated or replaced. <i>Project:</i> pump replacement, electrical and control system upgrade, and telemetry, heating ventilation, and lighting system improvements.	\$1,110,000	2.5
10	Custer	C462021-01	<i>Problem:</i> waterlines within the city's commercial district are old, undersized, and deteriorating. <i>Project:</i> install approximately 8,500 feet of 4-, 6-, and 8-inch PVC watermains, and appurtenances.	\$650,000	3.5
10	Groton	C462051-01	<i>Problem:</i> water lines within the city are 50-years old or older and are in need of frequent repair. <i>Project:</i> replace approximately 4,200 feet of water line.	\$440,000	3.5
10	Webster	C462054-01	<i>Problem:</i> waterlines within the city are old cast iron pipe in need of replacement. <i>Project:</i> replace 19 blocks of water main in conjunction with a sanitary sewer line replacement project.	\$350,000	3.5
9	Big Stone City	C462224-02	<i>Problem:</i> a portion of the distribution system consists of 50-year old cast iron water lines and breaks are common. <i>Project:</i> replace approximately 5,000 feet of various sized waterlines.	\$240,000	3.5
9	Davis or TM RWS	C462329-01 or C460429-02	<i>Problem:</i> much of the city's waterlines are old and deteriorating. <i>Project:</i> replace 3,000 feet of water lines under U.S. Highway 18 in conjunction with a DOT project.	\$150,000	3.5
8	Irene	C462255-02	<i>Problem:</i> the city's water mains are mainly 4-inch cast iron lines that are over 50 years old and are experiencing frequent breaks and reduced flow capacity due to mineral buildup;	\$280,000	3.5

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount	E: Lo &
8	Pierre	C462288-02	<p>additionally most of the valves within the system are not fully functional. <i>Project:</i> the installation of 10,500 feet of 6-inch PVC pipe to replace existing cast iron lines and 40 gate valves.</p> <p><i>Problem:</i> pressure within areas of the northeast portion of the city fall below 20 psi during periods of high water use. <i>Project:</i> construction of a new water tower, booster station, and approximately 15,000 feet of various sized pipe to establish a new pressure zone within the distribution system.</p>	\$1,800,000	3.5
8	Yankton	C462038-01	<p><i>Problem:</i> The city is experiencing breaks and rust problems in areas of the distribution system and the water treatment facility requires upgrades to extend the useful life of the facility and to maintain compliance with the Disinfectant/Disinfection By-products Rule. <i>Project:</i> replacement approximately 52 blocks of watermain, construct an on-site disinfection system to eliminate the use of one-ton chlorine cylinders and replacement of CO₂ tanks and motor starters for high service pumps.</p>	\$3,460,000	3.5
7	Sturgis	C462068-01	<p><i>Problem:</i> the reliability and capacity of the city's system is dependent upon one 8-inch loop line that connects supply and storage components in the south part of the city with those in the north. <i>Project:</i> construct approximately 9,200 feet of 6- and 10-inch water lines along a proposed service road to improve the systems reliability and capacity.</p>	\$400,000	3.5
7	Rapid Valley Sanitary District	C462013-01	<p><i>Problem:</i> the existing treatment plant will not be able to meet future turbidity standards required by the Enhanced Surface Water</p>	\$2,000,000	3.5

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount	E: Lo &
5	Colonial Pine Hills Sanitary District	C462270-01	Treatment Rule. <i>Project:</i> Construct a new water treatment plant consisting of an Actifloc clarification process, gravity filters and ultraviolet radiation for disinfection. <i>Problem:</i> inadequate supply for Countryside South system and Whispering Pines system. <i>Project:</i> construct a new well, well house, and water mains to provide additional water.	\$335,000	3.5
5	Fort Pierre	C462049-01	<i>Problem:</i> the city wishes to extend water service to areas not currently on the city system. <i>Project:</i> install approximately 28,000 feet of water mains.	\$1,000,000	3.5
4	Springfield	C462071-01	<i>Problem:</i> the backwash water, lime sludge, and pretreatment sludge from the city's water treatment plant are discharged to a dammed drainage resulting in non-compliance of the city's discharge permit. <i>Project:</i> construction of two lime sludge settling ponds.	\$100,000	3.5

Projects identified with an asterisk(*) will not qualify as disadvantaged until pending rule changes become effective.

**ATTACHMENT II
LIST OF PROJECTS TO BE FUNDED IN FY2002**

Priority Points	Community/ Public Water System	Project Number	Loan Amount	Funding Date	Ex Ca
LOANS AWARDED					
34	WEB Rural Water System	C462426-02	\$137,450	October 2001	
42	West River/Lyman-Jones RWS	C462446-01	\$340,000	October 2001	
LOANS EXPECTED					
93	Fall River WUD	C462435-02	\$300,000	November 2001	
51	Tyndall	C462131-02	\$850,000	November 2001	
8	Yankton	C462038-01	\$3,460,000	November 2001	
293	Nisland	C462079-01	\$300,000	December 2001	
23	Pierre	C462288-01	\$1,100,000	December 2001	
8	Pierre	C462288-02	\$1,800,000	December 2001	20
17	Lincoln County RWS	C462445-01	\$1,125,000	January 2001	
60	Dakota Dunes Community Improvement District	C462035-01	\$853,000	January 2001	
64	BDM RWS	C462444-01	\$625,000	January 2001	
31	Huron	C462291-01	\$5,000,000	April 2001	Rep
88	Minnehaha CWC	C462440-01	\$3,800,000	April 2001	
10	Webster	C462054-01	\$350,000	April 2001	
7	Rapid Valley Sanitary District	C462013-01	\$2,000,000	June 2001	20
12	Vermillion	C462022-02	\$1,110,000	June 2001	
21	Baltic	C462223-01	\$120,000	June 2001	
22	Sioux Falls	C462232-03	\$13,100,000	June 2001	20 Se Re

Projects identified with an asterisk(*) will not qualify as disadvantaged until pending rule changes become effective.

**ATTACHMENT III
PROGRAM FUNDING STATUS**

FFY 1997 - 2001

Capitalization Grants	\$42,690,000	
State Match	\$8,538,000	
Set-Asides	(\$3,333,480)	
Available to Loan		\$47,894,520

FY 2002

Capitalization Grants	\$7,800,000	
State Match	\$1,560,000	
Set-Asides	(\$468,000)	
Prior Years' Set-Asides to Loan Fund	\$871,580	
Transfer of CWSRF Repayment Funds	\$2,600,000	
Available to Loan		\$12,363,580
Repayments made as of Oct. 15, 2001		<u>\$1,452,521</u>
Total Funds Dedicated to Loan		\$61,710,621
Loans made through Oct. 15, 2001		<u>(\$32,267,090)</u>
Funds Available for Loans		<u><u>\$29,443,531</u></u>
Amount of Estimated Loans Identified on Attachment I of FFY 2002 Intended Use Plan		<u><u>\$72,244,000</u></u>