
THE SOUTH DAKOTA CONSERVANCY DISTRICT

DRINKING WATER STATE REVOLVING FUND

BIENNIAL REPORT

FEDERAL FISCAL YEAR 1997

October 1, 1996 – September 30, 1997

FEDERAL FISCAL YEAR 1998

October 1, 1997 – September 30, 1998

Department of Environment and Natural Resources

Division of Financial and Technical Assistance

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**THE SOUTH DAKOTA CONSERVANCY DISTRICT
BOARD MEMBERS**

STEVE LOWRIE, CHAIRMAN

Watertown

Member since 1985

GREGG GREENFIELD, VICE-CHAIRMAN

Sioux Falls

Member since 1996

DALE KENNEDY, SECRETARY

Beresford

Member since 1985

DON BOLLWEG

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Member since 1994

JERRY KLEINSASSER

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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.

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I. INTRODUCTION

The State of South Dakota herewith submits its Biennial Report for Federal Fiscal Years 1997 (October 1, 1996 through September 30, 1997) and 1998 (October 1, 1997 through September 30, 1998). This report describes how South Dakota has met the goals and objectives of the Drinking Water State Revolving Fund Loan Program as identified in the 1997 Intended Use Plan and the 1998 Intended Use Plan, the actual use of funds, and the financial position of the Drinking Water SRF.

The Biennial Report consists of three main sections. The *Executive Summary* provides an overview of the initiation of the Drinking Water SRF program and the FFY 1997 and 1998 activities. The next section addresses the *Goals and Objectives* the state of South Dakota identified in its 1997 and 1998 Intended Use Plans 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 the biennium, and compliance with the EPA grant and operating agreement conditions.

The Biennial Report 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 the Department of Environment and Natural Resources, Division of Financial and Technical Assistance. Finally, Addendum I is the *Intended Use Plan for Federal Fiscal Year 1999*. 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.

II. EXECUTIVE SUMMARY

Initiation Of The Program

The Drinking Water State Revolving Fund (DW SRF) Loan 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 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 Federal Fiscal Year 1997 in August of that year and received EPA approval on September 23, 1997. South Dakota was the fourth state in the nation to have its complete Drinking Water SRF program approved by EPA.

Capitalization Grants

During the biennium, the state has received capitalization grants totaling \$19,680,100. The \$12,558,800 FY 1997 capitalization grant was approved in September of 1997. The \$7,121,300 FY 1998 capitalization grant was approved in May of 1998.

State Matching Funds

The Safe Drinking Water Act amendments allow 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. A 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. The balance of the 1998A bond proceeds will be used to match the 1999 and 2000 capitalization grants.

Non-Drinking Water SRF 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.

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

- A. Administration: Four percent of the capitalization grants, or \$502,352 for 1997 and \$284,852 for 1998, were allocated to administer the Drinking Water SRF program. Specific activities to be funded are staff salary, benefits, travel, and overhead; bond counsel, bond underwriter, and trustee expenses; and other costs to establish and administer the program. During the biennium, \$381,805 has been drawn for administration expenses.
- B. Small system technical assistance: Allocations of \$100,000 in 1997 and \$25,000 in 1998 were made to provide technical assistance to public water systems serving 10,000 people or less. The objective of this set-aside is to bring non-complying systems into compliance, to improve operations of water systems, and to facilitate small systems' access to the DW SRF program. In the fall of 1997, proposals were requested from organizations to provide technical assistance to small systems. Contracts to provide technical assistance were awarded to the South Dakota Association of Rural Water Systems and to five regional planning and development districts. No funds have been drawn for small system technical assistance during the biennium.
- C. State program management: Operator certification training activities were allotted \$20,000 in 1997. In the fall of 1997, proposals were requested from organizations to provide supplemental operator certification training. A contract for the supplemental training was awarded to the South Dakota Association of Rural Water Systems (The Association). The Association will provide the additional dollar for dollar match required under this set-aside category. During the biennium there have been no funds drawn for supplemental operator certification training.
- D. Local assistance and other state programs: Ten percent of the 1997 capitalization grant, or \$1,255,880, was allocated to delineate and assess source water protection areas. The Safe Drinking Water Act requires states to implement a source water protection strategy as a condition of primacy. The Act allowed a one-time set-aside of ten percent of the 1997 capitalization grant for the delineation and assessment of source water areas. The Department of Environment & Natural Resources developed a workplan for the state's Source Water Assessment Program. The workplan was approved by EPA and assessment activities have been initiated. No set-aside funds have been drawn for the state assessment program during the biennium.

DW SRF Loan Applications

Drinking Water SRF program forms were incorporated into the Department of Environment and Natural Resources' *1997 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. The Drinking Water SRF application form was revised in August of 1998, concurrent with the annual review and update of the planning process document.

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.

Interest Rates

The Conservancy District established the initial interest rates for the Drinking Water SRF program in November 1997. The District approved rates of 4.50% for a 10-year term, 5.00% for a 15-year term, and 5.25% for a 20-year term.

In September of 1998, the Conservancy District reviewed and approved the Drinking Water SRF interest rates for Federal Fiscal Year 1999. The District approved rates of 4.50% for a 10-year term, 4.75% for a 15-year term, and 5.00% for a 20-year term.

Communities seeking a Drinking Water SRF loan that meet the disadvantaged community criteria may receive a loan at an interest rate two percentage points below that for other recipients. Additionally, the maximum allowable repayment period can be extended to 30 years for disadvantaged communities. To be eligible for the disadvantaged rate and term, municipalities and sanitary districts must have a median household income below 80 percent of the state-wide median household income and a monthly residential water bill that exceeds \$20 for 5,000 gallons usage. Rural water systems must have a median household income below 80 percent of the state-wide median household income and a monthly water bill for rural households which exceeds \$50 for 7,000 gallons usage to be eligible.

Drinking Water SRF Loans

South Dakota's first Drinking Water SRF loan was awarded in January 1998. Through September 30, 1998, eight entities entered into binding commitments for nine loans totaling \$16,324,000 for the construction or refinancing of drinking water projects. The project facilities associated with two refinancing loans are fully constructed and are in operation. None of the loans were in repayment as of September 30, 1998. A breakdown of loans made during the biennium is detailed in Table 1.

**TABLE 1
DRINKING WATER LOANS
FEDERAL FISCAL YEAR 1998**

Recipient	Project Description	Assistance Amount	Rate, Term
Big Stone City	100,000 gallon elevated storage tank	\$600,000	5.25%,20
Black Hawk WUD	New well and pump house	\$500,000	5.25%,20
Lead-Deadwood San. Dist	Refinance 1994 GO bonds	\$2,700,000	5.25%,20
Madison	Refinance 1995 bonds	\$2,372,000	5.00%,15
Mobridge (01)	Water treatment upgrades	\$965,000	5.25%,20
Mobridge (02)	Water treatment upgrades	\$355,000	5.25%,20
Sioux Falls	Upgrade treatment plant & expand service	\$7,022,000	4.50%,10
Sturgis	Replacement of watermains	\$700,000	5.00%,15
WEB	Upgrade pipeline for expanded service	\$1,110,000	5.25%,20
TOTAL		\$16,324,000	

Disbursements from the program during the biennium totaled \$5,437,762. This total includes loan disbursements of \$5,055,957 to the various recipients. Additionally, the disbursements include the cost of issuance expenses incurred with the Series 1998A bond issue. The state chose to use funds from its 4% administration allotment to pay the expenses rather than issuing additional bonds to pay the expenses. See Exhibit V for a breakdown of all cash draws and the project and administration activity for which they were made.

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. To date, no principal repayment loans have been made.

Trustee

The First National Bank in Sioux Falls was selected as the trustee when the program was initiated in 1997. The trustee manages and invests all funds and accounts for the DW SRF Program; issues amortization schedules; disburses loan funds; and receives all loan repayments.

Bond Counsel

Alzheimer & Gray was hired as bond counsel for the Series 1998A Drinking Water State Revolving Fund Program Bonds.

Underwriter

Piper Jaffray was hired as 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.

III. GOALS AND OBJECTIVES

A. Short-Term Goals and Objectives

In its Intended Use Plans for 1997 and 1998, the State of South Dakota identified one short-term goal to be implemented and four objectives to be accomplished. The state has made significant progress toward successful completion of its short-term goal and objectives.

GOAL: To fully capitalize the fund.

As of September 30, 1998, South Dakota has made binding commitments equal to all but \$5,104,036 of its total capitalization awards and associated state matching funds.

OBJECTIVE: Ensure the technical integrity of Drinking Water SRF projects through the review of planning, design, plans and specifications, and construction activities.

Each Drinking Water SRF application is assigned to an engineer and is followed through by that engineer until project completion and initiation of operations. Plans and specifications and facility plans are reviewed and approved by the Department of Environment and Natural Resources. Pre-construction, initial, interim, and final construction inspections are conducted to ensure each project's technical integrity.

OBJECTIVE: 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.

Each Drinking Water SRF application is assigned to a program specialist that reviews all financial data contained in the application, including audited financial statements and revenues pledged toward the repayment of the loan. After performing a detailed analysis of the loan applications, recommendations are made to the Board of Water and Natural Resources to fund only applicants that have been determined to have the highest financial integrity.

OBJECTIVE: Ensure compliance with all pertinent federal, state, and local water pollution control laws and regulations.

The state works with all pertinent federal, state, and local agencies to ensure compliance.

OBJECTIVE: 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.

The state applied for its capitalization grants as soon as the awards were announced, and state matching funds were provided as required by the Drinking Water SRF guidance. Loans are awarded by assessing the following criteria: (1) the availability of funds in the Drinking Water SRF program; (2) the applicant's need; (3) violation of health or safety standards; and (4) the applicant's ability to repay. Loans are usually awarded within four to six weeks after receiving the application.

B. Long-Term Goals and Objectives

In its Intended Use Plans for 1997 and 1998, the State of South Dakota identified two long-term goals and two objectives to be accomplished.

GOAL: To fully capitalize the Drinking Water SRF.

The state has received and fully obligated the 1997 capitalization grant and the associated state matching funds. As of September 30, 1998, South Dakota has made binding commitments equal to all but \$5,104,036 of its 1998 capitalization award and associated state matching funds.

GOAL: 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 nine loans to eight entities to assist with construction or refinancing of drinking water projects. The state has set aside a total of \$125,000 to be used to provide technical assistance to public water systems serving 10,000 people or less; 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.

OBJECTIVE: Maintain a permanent, self-sustaining DW SRF program that will serve in perpetuity as a financing source for wastewater treatment works projects and water pollution control activities, including nonpoint source and groundwater protection projects.

By ensuring that all loans are made to financially sound and responsible borrowers, the Drinking Water SRF program will serve in perpetuity for South Dakota's drinking water projects.

OBJECTIVE: 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 state has tailored its Handbook of Procedures to be customer service oriented for State Revolving Fund Loan Program recipients. The handbook also allows for maximum program flexibility while continuing to maintain sufficient state oversight of the program's activities. The *Capacity Assessment Worksheets for Public Water Systems* were incorporated into the handbook.

IV. DETAILS OF ACTIVITIES

A. Fund Financial Status

1. Binding Commitments

In order to provide financial assistance for drinking water projects, the state entered into nine binding commitments totaling \$16,324,000. Exhibit I details the Drinking Water SRF binding commitments made during the biennium.

2. Sources of Funds

During the biennium, the state was awarded two federal capitalization grants totaling \$19,680,100. State match totaling \$3,936,020 was provided. Exhibit III shows the annual allocation and source of Drinking Water SRF funds.

3. Revenues and Expenses

Fund revenues consisted of interest earned on loans to communities, cash and investments, the special reserve account, and administrative expense surcharge payments received from each borrower. These earnings totaled \$109,274. Fund expenses included administration expenditures, interest payable on bonds, and the amortization of each bond issuance's costs. These totaled \$271,492. The Statement of Income and Retained Earnings is shown on Exhibit XI.

4. Disbursements and Guarantees

There were no loan guarantees during Federal Fiscal Years 1997 and 1998.

5. EPA Site Review

In April of 1998, EPA Region VIII conducted a site review of the South Dakota Drinking Water SRF program. No report was issued.

B. Assistance Activity

Exhibits I through VI illustrate the assistance activity of the Drinking Water SRF in Federal Fiscal Years 1997 and 1998.

Exhibit I shows those recipients that received Drinking Water SRF loans during Federal Fiscal Year 1998.

Exhibit II lists the assistance amount provided to each project by needs category.

Exhibit III lists the total DW SRF dollars available, broken down by fiscal year, capitalization amounts, and state match amounts.

Exhibit IV lists each Drinking Water SRF loan and its source of funding.

Exhibit V lists the cash draws and the projects or administrative assistance for which they were made.

Exhibit VI lists the estimated and actual cash disbursement schedule from the federal Letter of Credit (LOC) for FFY 1998. The estimated schedule was agreed upon by the state and EPA in the 1998 Capitalization Grant Agreement.

C. 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 20 conditions have been met and need no further description.

Enact Legislation to Establish Drinking Water SRF
Comply With All Applicable State Statutes and Regulations
Allocate Adequate Personnel and Resources to DW SRF Program
Agreement to Accept Payments
Cash Draws for Drinking Water SRF Program Separate
Provide State Match
Deposit of All Funds Into Drinking Water SRF Account

Establish Fiscal Controls and Accounting Procedures in Accordance With GAAP
Annual Audit
Loan Covenants
Timely and Expeditious Use of Funds
Project Priority List Additions and Modifications
Annual Revision of the Intended Use Plan
Biennial Reports on the Actual Use of Funds
Conduct Environmental Reviews
Set-Asides Will Be Identified Each Year
Compliance with Specific Title I Requirements

- **Authority to Ensure New Systems Demonstrate Technical, Managerial, and Financial Capability**
- **Funds Provided Only to Systems with Technical, Managerial, and Financial Capability**
- **Operator Certification**

Privately-Owned Systems May Receive Funding
Disadvantaged Communities
Transfers Between Clean Water SRF Program and Drinking Water Program

The following two conditions are described in detail below:

1. **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 6% and 2% for MBE and WBE firms. The actual MBE/WBE participation achieved for Federal Fiscal Year 1998 were 0.4% MBE and 0.3% for WBE.

2. **Prior to executing binding commitments on Drinking Water SRF projects, the Regional Administrator must certify project compliance with Title VI of the Civil Rights Act.**

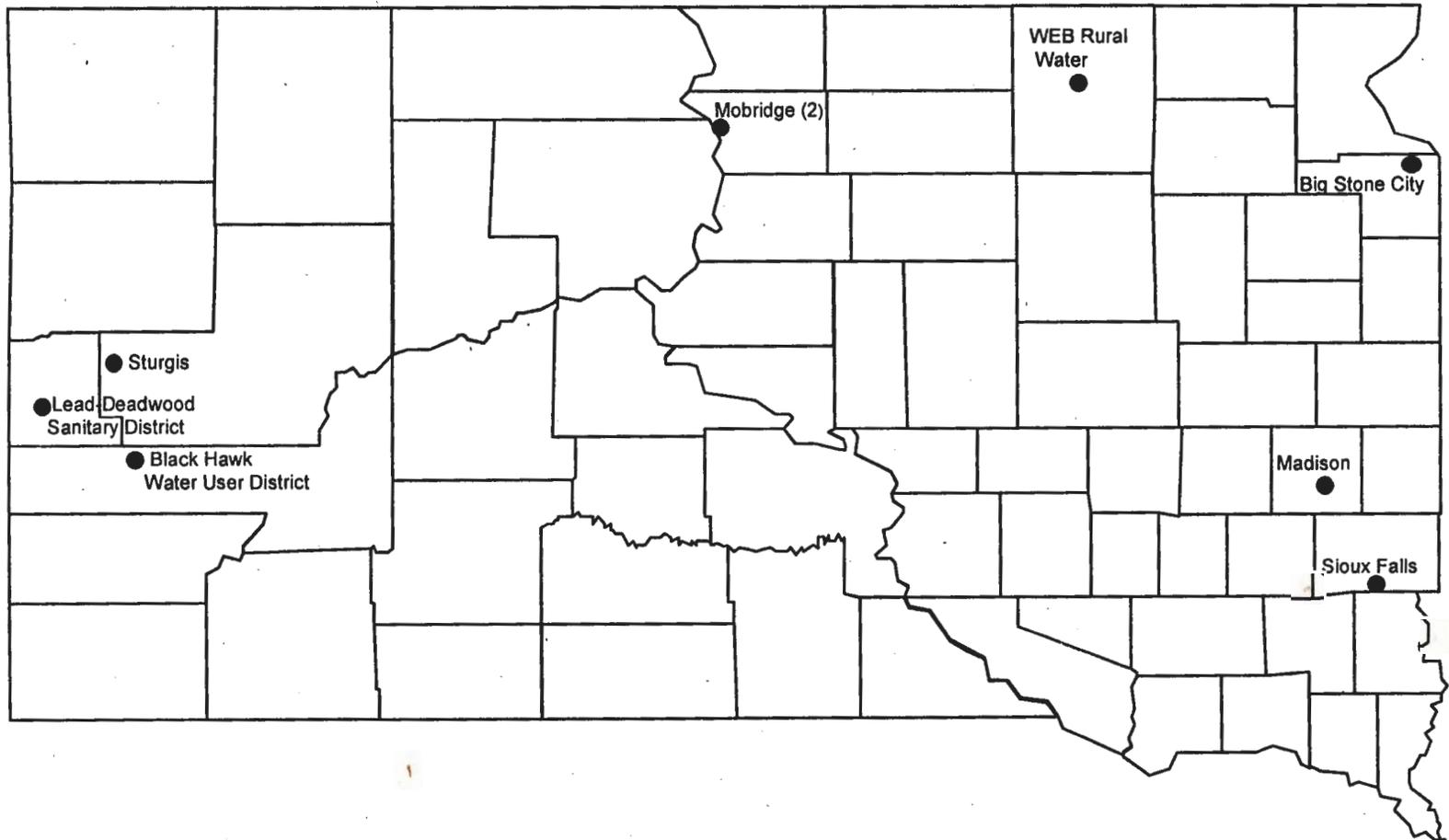
The nine loan recipients all submitted project certification forms (EPA 4700-4) to DENR, who in turn submitted these forms to EPA for concurrence. The forms were, in most cases, returned with EPA approval prior to the Board of Water and Natural Resources' action regarding the loans. In those cases that EPA did not return the forms prior to board consideration, the board approved each loan contingent on approval by EPA.

V. PROGRAM CHANGES

A. 1999 Intended Use Plan

The Biennial Report contains the 1999 Intended Use Plan as approved by the Board of Water and Natural Resources on November 12, 1998. The 1999 Intended Use Plan is included in the Biennial Report as Addendum I starting on page 39.

Drinking Water State Revolving Fund Loans



**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	\$600,000.00	\$600,000.00
Black Hawk WUD	03/26/98	5.25%, 20	\$500,000.00	\$500,000.00
Lead-Deadwood Sanitary District	06/24/98	5.25%, 20	\$2,700,000.00	\$2,683,957.00
Madison	05/14/98	5.00%, 15	\$2,372,000.00	\$2,372,000.00
Mobridge (01)	03/26/98	5.25%, 20	\$965,000.00	\$965,000.00
Mobridge (02)	07/22/98	5.25%, 20	\$355,000.00	\$355,000.00
Sioux Falls	07/22/98	4.50%, 10	\$7,022,000.00	\$7,022,000.00
Sturgis	01/08/98	5.00%, 15	\$700,000.00	\$700,000.00
WEB	03/26/98	5.25%, 20	\$1,110,000.00	\$1,110,000.00
TOTAL 9 Loans, 8 Entities			\$16,324,000.00	\$16,307,957.00

PROJECT DESCRIPTIONS

All of loans shown below were approved during federal fiscal year 1998.

BIG STONE CITY – The city of Big Stone City utilized a \$600,000 Drinking Water SRF loan to construct a 100,000-gallon elevated water storage tank. The project also included the installation of 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%.

BLACK HAWK WATER USER DISTRICT – The Black Hawk Water User District received a Drinking Water SRF loan for \$500,000. This loan financed a new well, pump house construction, installation of chlorination and flouridation equipment, and approximately 7,000 feet of new water lines. This loan is at 5.25% for 20 years.

LEAD-DEADWOOD SANITARY DISTRICT – The Lead-Deadwood Sanitary District received a \$2,683,957, 5.25%, 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 DW SRF 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 5.0% for 15 years.

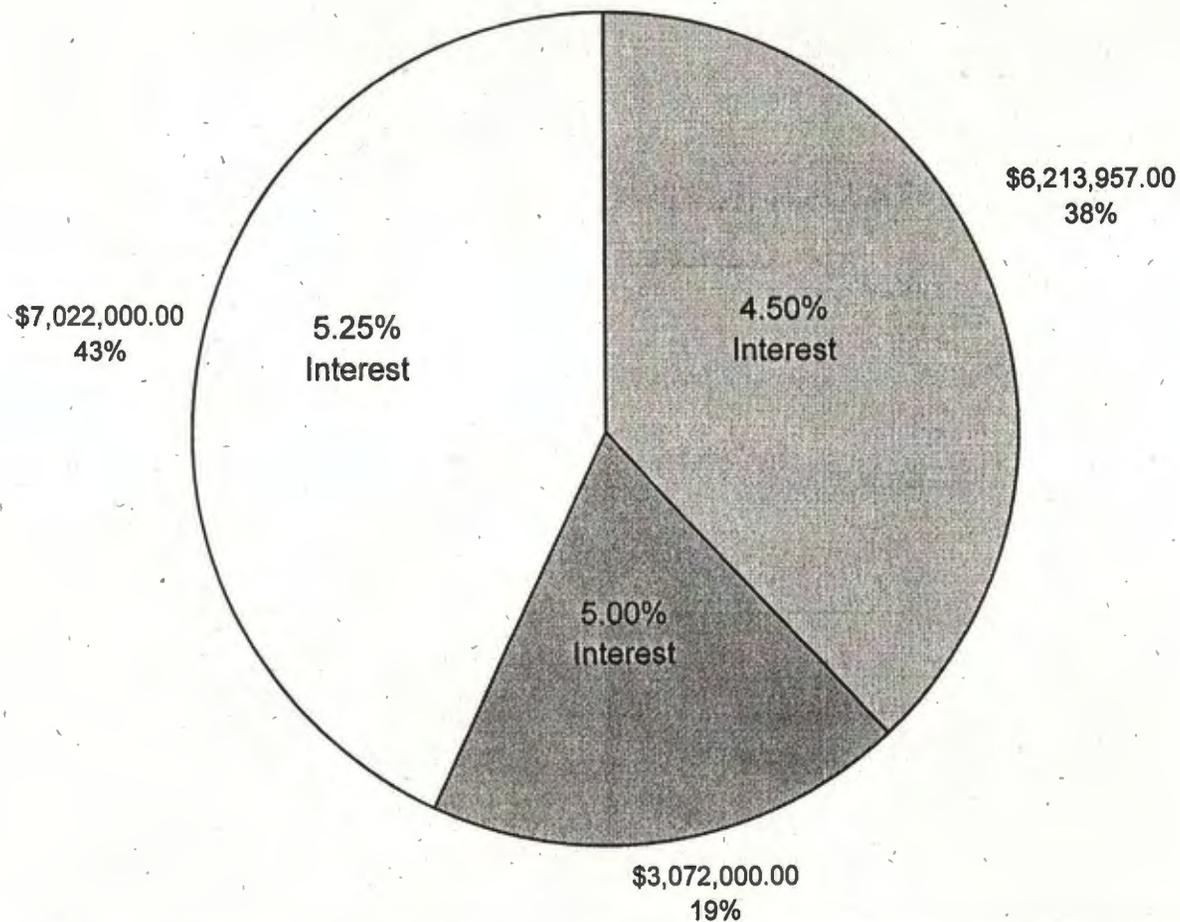
MOBRIDGE - The city of Mobridge received two loans in the amounts of \$965,000 and \$355,000 to finance water treatment plant upgrades. Both loans are at 5.25% for 20 years.

SIOUX FALLS – The city of Sioux Falls has received A Drinking Water SRF loan in the amount of \$7,022,000 at an interest rate of 4.5% for 10 years. The loan will finance central pressure zone improvements with the construction of a new water tower, and booster pumps at a booster station. The city will upgrade the water treatment plant with new filter valves, piping, and wall sleeves in the filter gallery. Two watermains 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.

STURGIS – Sturgis received a loan for \$700,000 at 5.0% interest for 15 years. This loan financed the replacement of approximately 7,800 feet of watermain in conjunction with a South Dakota Department of Transportation roadway reconstruction project.

WEB – WEB Water Development Association, Inc. received a DW SRF loan for \$1,110,000 at 5.0% 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.

STATE REVOLVING FUND INTEREST RATES BY % OF LOAN PORTFOLIO (\$16.3 M)



**EXHIBIT I
PROJECTS RECEIVING SRF ASSISTANCE
FEDERAL FISCAL YEAR 1998**

Recipient	Assistance Amount	Binding Commitment Date	Rate, Term
Big Stone City	\$600,000	07/22/98	5.25%, 20
Black Hawk WUD	\$500,000	03/26/98	5.25%, 20
Lead-Deadwood San. Dist	\$2,700,000	06/24/98	5.25%, 20
Madison	\$2,372,000	05/14/98	5.00%, 15
Mobridge (01)	\$965,000	03/26/98	5.25%, 20
Mobridge (02)	\$355,000	07/22/98	5.25%, 20
Sioux Falls	\$7,022,000	07/22/98	4.50%, 10
Sturgis	\$700,000	01/08/98	5.00%, 15
WEB	\$1,110,000	03/26/98	5.25%, 20
TOTAL	\$16,324,000		

**EXHIBIT II
SRF NEEDS CATEGORIES
FEDERAL FISCAL YEAR 1998**

Recipient	Project No.	I Trans/Dist	II Treatment	III Storage	IV Source
Big Stone City	C462224-01		\$272,000	\$328,000	
Black Hawk WUD	C462393-01	\$300,000			\$200,000
Lead-Deadwood San. Dist	C462002-01		\$2,700,000		
Madison	C462024-01		\$2,207,000		\$165,000
Mobridge (01)	C462016-01		\$965,000		
Mobridge (02)	C462016-02		\$355,000		
Sioux Falls	C462232-01	\$4,490,000	\$232,000	\$2,300,000	
Sturgis	C462068-01	\$700,000			
WEB	C462426-01	\$1,110,000			
TOTAL		\$6,600,000	\$6,731,000	\$2,628,000	\$365,000

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

Fiscal Year	Capitalization Grant Award	State Match	Total
1997	\$12,558,800	\$2,511,760	\$15,070,560
1998	\$7,121,300	\$1,424,260	\$8,545,560
TOTAL	\$19,680,100	\$3,936,020	\$23,616,120

**EXHIBIT IV
OBLIGATIONS FOR
FFY 97-98 CAPITALIZATION GRANTS AND DEOBLIGATIONS**

1. Projects utilizing 1997 DW SRF funds:

Project	Loan Amount	Board Action	1997 DW SRF Capitalization Amount=\$15,070,560
			Balance Remaining
			\$15,070,560
1. SRF Admin	\$502,352		\$14,568,208
2. Technical Assistance Set-Aside	\$100,000		\$14,468,208
3. State Program Management Set-Aside	\$20,000		\$14,448,208
4. Local Asst & Other State Program Set-Aside	\$1,255,880		\$13,192,328
5. Sturgis	\$700,000	01/08/98	\$12,492,328
6. Black Hawk WUD	\$500,000	03/26/98	\$11,992,328
7. Mobridge (01)	\$965,000	03/26/98	\$11,027,328
8. WEB	\$1,110,000	03/26/98	\$9,917,328
9. Madison	\$2,372,000	05/14/98	\$7,545,328
10. Lead-Deadwood Sanitary District	\$2,700,000	06/24/98	\$4,845,328
11. Big Stone City	\$600,000	07/22/98	\$4,245,328
12. Mobridge (02)	\$355,000	07/22/98	\$3,890,328
13. Sioux Falls *	\$3,890,328	07/22/98	\$0

*Remainder of \$7,022,000 loan (\$3,131,672) is out of 1998 funds

2. Projects utilizing 1998 DW SRF funds:

Project	Loan Amount	Board Action	1998 DW SRF Capitalization Amount=\$8,545,560
			Balance Remaining
			\$8,545,560
1. SRF Admin	\$284,852		\$8,260,708
2. Technical Assistance Set-Aside	\$25,000		\$8,235,708
3. Sioux Falls *	\$3,131,672	07/22/98	\$5,104,036

*Remainder of \$7,022,000 loan (\$3,890,328) is out of 1997 funds

3. Projects utilizing deobligated funds:

Project	Loan Amount	Board Action	1997-1998 DW SRF Deobligated As of 09/30/98 Amount=\$16,043
			Balance Remaining
			\$16,043

EXHIBIT V
DRINKING WATER STATE REVOLVING FUND CASH DRAWS
OCTOBER 1, 1997 TO SEPTEMBER 30, 1998

DISBURSEMENT NUMBER	DATE	RECIPIENT	STATE MATCH FUNDS	FEDERAL FUNDS	PAYMENT AMOUNT
98A-01	04/06/98	State of South Dakota *	\$0.00	\$138,445.00	\$138,445.00
98-01	05/23/98	City of Madison	\$0.00	\$2,372,000.00	\$2,372,000.00
98A-02	06/05/98	The First National Bank in Sioux Falls *	\$0.00	\$1,875.00	\$1,875.00
98A-03	06/17/98	State of South Dakota *	\$0.00	\$41,860.00	\$41,860.00
98-02	06/27/98	Lead-Deadwood Sanitary District	\$0.00	\$2,673,085.00	\$2,673,085.00
98A-04	06/27/98	Piper Jaffray, Inc. **	\$0.00	\$109,650.00	\$109,650.00
98A-05	06/27/98	Ambac Assurance Corporation **	\$0.00	\$33,838.00	\$33,838.00
98A-06	06/27/98	The First National Bank in Sioux Falls *	\$0.00	\$1,500.00	\$1,500.00
98A-07	07/09/98	Moody's Investors Service **	\$0.00	\$10,900.00	\$10,900.00
98A-08	07/09/98	Altheimer & Gray **	\$0.00	\$40,000.00	\$40,000.00
98A-09	07/30/98	American Financial Printing, Inc. **	\$0.00	\$3,737.00	\$3,737.00
98-03	08/27/98	Lead-Deadwood Sanitary District	\$1,812.00	\$9,060.00	\$10,872.00
TOTALS			\$1,812.00	\$5,435,950.00	\$5,437,762.00

Administration*	\$182,180.00
Contracts and Cost of Issuance**	\$199,625.00
Loan Disbursements	\$5,055,957.00
	<u>\$5,437,762.00</u>

**EXHIBIT VI
LETTER OF CREDIT
PROJECTED VS. ACTUAL
FFY 1998**

QUARTER	PROJECTED DRAWS	ACTUAL DRAWS	DIFFERENCE
1ST	\$26,250	\$0	(\$26,250)
2ND	\$30,000	\$0	(\$30,000)
3RD	\$485,833	\$5,372,253	\$4,886,420
4TH	\$1,715,833	\$63,697	(\$1,652,136)
TOTAL	\$2,257,916	\$5,435,950	\$3,178,034

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

Loan Recipient	Environmental Assessment Class	Environmental Assessment Publication Date	Land Purchase w/ SRF?
Big Stone City	FNSI	03/27/96	No
Black Hawk WUD	FNSI	03/21/98	No
Lead-Deadwood San. Dist	FNSI	07/25/94	No
Madison	FNSI	10/07/95	No
Mobridge (01)	CATEX	03/25/98	No
Mobridge (02)	CATEX	07/15/98	No
Sioux Falls	FNSI	08/07/98	No
Sturgis	CATEX	12/27/97	No
WEB	FNSI	03/23/98	No

**Exhibit VIII
Loan Participants
September 30, 1998
(Unaudited)**

Customer Name	Rate/ Term	Loan Amount	State Advances	Federal Advances	Total Advances	Repayment Amounts	Loan Balances
Big Stone City	5.25%, 20	\$600,000	\$0	\$0	\$0	\$0	\$0
Black Hawk WUD	5.25%, 20	\$500,000	\$0	\$0	\$0	\$0	\$0
Lead-Deadwood San Dist	5.25%, 20	\$2,700,000	\$1,812	\$2,682,145	\$2,683,957	\$0	\$2,683,957
Madison	5.00%, 15	\$2,372,000	\$0	\$2,372,000	\$2,372,000	\$0	\$2,372,000
Mobridge (01)	5.25%, 20	\$965,000	\$0	\$0	\$0	\$0	\$0
Mobridge (02)	5.25%, 20	\$355,000	\$0	\$0	\$0	\$0	\$0
Sioux Falls	4.50%, 10	\$7,022,000	\$0	\$0	\$0	\$0	\$0
Sturgis	5.00%, 15	\$700,000	\$0	\$0	\$0	\$0	\$0
WEB	5.25%, 20	\$1,110,000	\$0	\$0	\$0	\$0	\$0
SRF PROGRAM TOTAL		\$16,324,000	\$1,812	\$5,054,145	\$5,055,957	\$0	\$5,055,957

Exhibit IX
Projected Cash Flow Worksheet
for 10/01/98 through 09/30/99
(Unaudited)

Customer Name	Amt of Qtrly or Monthly Pymt	Total figured from Qtrly/Mnthly Pymt	Principal	Interest	Admin Surcharge
Big Stone City Initial Loan Amort Date 11/15/99	\$0	\$0	\$0	\$0	\$0
Black Hawk WUD Initial Loan Amort Date 01/01/99	\$0	\$0	\$0	\$0	\$0
Lead-Deadwood San Dist	\$53,921	\$215,684	\$100,683	\$86,251	\$28,750
Madison	\$56,430	\$225,719	\$109,144	\$87,431	\$29,144
Mobridge (01) Initial Loan Amort Date 07/01/99	\$0	\$0	\$0	\$0	\$0
Mobridge (02) Initial Loan Amort Date 07/01/99	\$0	\$0	\$0	\$0	\$0
Sioux Falls Initial Loan Amort Date 12/31/00	\$0	\$0	\$0	\$0	\$0
Sturgis Initial Loan Amort Date 10/01/99	\$0	\$0	\$0	\$0	\$0
WEB Initial Loan Amort Date 01/01/99	\$0	\$0	\$0	\$0	\$0
SRF PROGRAM TOTAL		\$441,403	\$209,827	\$173,682	\$57,894

Exhibit X
BALANCE SHEETS
September 30, 1998 AND 1997
(Unaudited)

	<u>1998</u>	<u>1997</u>
<u>ASSETS</u>		
Cash and Cash Equivalents (Note 2)	89,193	0
Investments (Note 3)	7,233,149	0
Loans Receivable (Exhibit VIII)	5,055,957	0
Federal LOC Commitment less Cash Draws	14,244,150	12,558,800
Reserve Accounts (Note 4)	515,273	0
Deferred Bond Issuance Costs	196,297	0
Accrued Interest Receivable	31,873	0
Accrued Administrative Expense Surcharges	10,624	0
TOTAL ASSETS	<u>27,376,516</u>	<u>12,558,800</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Bonds Payable (Note 5)	6,450,000	0
Less: Unamortized Charges	(99,917)	0
Accrued Interest - Bonds (Note 5)	59,475	0
Accrued Expenses	75,980	51,164
TOTAL LIABILITIES	<u>6,485,538</u>	<u>51,164</u>
<u>FUND EQUITY</u>		
Contribution from EPA (Note 6)	19,680,100	12,558,800
Contribution from State	1,424,260	0
Retained Earnings	(213,382)	(51,164)
TOTAL FUND EQUITY	<u>20,890,978</u>	<u>12,507,636</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>27,376,516</u>	<u>12,558,800</u>

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

Exhibit XI
REVENUES, EXPENSES & CHANGES IN RETAINED EARNINGS
FOR YEARS ENDING SEPTEMBER 30, 1998 AND 1997
(Unaudited)

	<u>1998</u>	<u>1997</u>
<u>REVENUES:</u>		
Interest Income on:		
Loans	49,415	0
Cash and Investments	42,615	0
Reserve Accounts	773	0
Administrative Expense Surcharges	16,471	0
Other	0	0
TOTAL REVENUES	109,274	0
 <u>EXPENSES:</u>		
Interest Expense	59,475	0
Administrative Expenses (Note 7)	206,996	51,164
Amortization:		
Unamortized Charges	1,694	0
Bond Issuance Costs	3,327	0
TOTAL EXPENSES	271,492	51,164
 Net Income	(162,218)	(51,164)
Retained Earnings at Beginning of Year	(51,164)	0
Retained Earnings at End of Year	(213,382)	(51,164)

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

Exhibit XII
STATEMENT OF CASH FLOWS
FOR YEARS ENDING SEPTEMBER 30, 1998 AND 1997
(Unaudited)

	<u>1998</u>	<u>1997</u>
Cash flows from Operating Activities:		
Net (Loss)/Income	(162,218)	(51,164)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Amortization of Unamortized Charges	1,694	0
Amortization of Bond Issuance Costs	3,327	0
Assets: (Increase)/Decrease		
Loans Receivable	(5,055,957)	0
Federal LOC Commitment less Cash Draws	(1,685,350)	(12,558,800)
Reserve Accounts	(515,273)	0
Deferred Bond Issuance Costs	(199,624)	0
Accrued Interest Receivable	(31,873)	0
Accrued Administrative Expense Surcharges	(10,624)	0
Unamortized Charges	(101,611)	0
Liabilities: Increase/(Decrease)		
Bond Issuance	6,450,000	0
Accrued Interest - Bonds	59,475	0
Accrued Expenses	24,816	51,164
Cash Provided by Operations	<u>(1,223,218)</u>	<u>(12,558,800)</u>
Cash Flows from Noncapital Financing Activities:		
Contributions from EPA	7,121,300	12,558,800
Contributions from State	1,424,260	0
Cash Flows from Investing Activities:		
Net (Purchase) of Investment Securities	<u>(7,233,149)</u>	<u>0</u>
Net Increase (Decrease) in Cash	89,193	0
Cash/Cash Equivalents at Beginning of Year	<u>0</u>	<u>0</u>
Cash/Cash Equivalents at Year End	<u><u>89,193</u></u>	<u><u>0</u></u>

NOTES TO FINANCIAL STATEMENTS

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 Heather Forney 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. Cash and Cash Equivalents consists of a Goldman Sachs Financial Square Treasury Obligation Fund rated "AAAm" by Standard and Poors, which paid on average approximately 5.3% for the year ending September 30, 1998.
3. Investments consist of an Investment Agreement at 5.56% with CDC Funding Corporation due August 1, 2008 totaling \$7,233,149.
4. Reserve Accounts consist primarily of an Investment Agreement at 5.56% with CDC Funding Corporation due August 1, 2008 totaling \$514,500. In addition, \$773.15 is invested in the Goldman Sachs Fund described in Note 2 above.
5. Bonds outstanding plus principal and interest payments on the bond issue is due as follows:

	<u>Bonds Outstanding</u>	<u>February 1, 1999</u>	<u>August 1, 1999</u>
Series 1998 Bonds			
Principal	6,450,000		
Interest		178,424	152,210
Total	6,450,000	178,424	152,210

6. 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
Total	19,680,100

7. The annual administrative expenses of the SRF program are as follows:

	Year Ending 09/30/98	Cumulative Total
State of South Dakota	189,683	240,847
First National Bank	2,813	2,813
Alzheimer & Gray	14,500	14,500
Other	0	0
Total	<u>206,996</u>	<u>258,160</u>

8. Based on the current loan and investment amounts, the following amounts are estimated to be received during the period from October 1, 1998 through September 30, 1999:

Loan Payments	
Principal	209,827
Interest	173,682
Administrative Expense Surcharges	57,894
Investment Earnings	
(\$7,800,000 at 6.0%)	468,000
	<u>909,403</u>

**SOUTH DAKOTA
DRINKING WATER STATE REVOLVING FUND
FY 1999 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 program. Program rules are established in Administrative Rules of South Dakota chapter 74:05:11. A public hearing was held on April 15, 1997, to approve the Drinking Water SRF rules and receive comments.

The state of South Dakota proposes to adopt the following Intended Use Plan (IUP) for the federal fiscal year 1999 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 State Revolving Fund 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 12, 1998, to review the 1999 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

Attachment I, the project priority list, was developed from State Water Plan applications. Projects must be on this list to be eligible for a loan. 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.

The Safe Drinking Water Act requires the list of projects to include the expected funding schedule for each project "to the extent known." The state believes it is not feasible or desirable to include a project schedule in the list for many reasons. The timing of the Intended Use Plan preparation and state grant award cycle are incompatible. The Intended Use Plan is prepared in the fall based on the unfunded projects on the State Water Plan. Grant awards from programs available to drinking water projects are made in the spring of the following year. Projects commonly seek funding from a variety of sources to "shop"

for the best available fund package, particularly with respect to grants. With limited grants available, projects often do not receive the amount of grants requested. When the community must re-evaluate non-grant funding options normally the project is delayed, many times to the following construction season, and occasionally indefinitely. From past experience with the Clean Water SRF program, it is not uncommon that a project will consider a loan only after grant funding is reduced or denied. This timing incompatibility renders any schedules meaningless.

However, to fulfill EPA requirements, an expected funding date has been included in Attachment I. These dates are only estimates and should not be interpreted as deadlines or that the loan funds have been reserved. This is inconsistent with the goals and objectives of the South Dakota program. 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.

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.

The SRF program provides loans at the following rates for communities that are not considered disadvantaged: 4.5 percent for 10-year loans, 4.75 percent for 15-year loans, and 5.00 percent for 20-year loans. Loan rates and terms for disadvantaged communities are in the disadvantaged community subsidies section. Rates are reviewed annually and are set to be competitive with other funding agencies and to keep pace with inflation. The rate and term of a loan is at the discretion of the project sponsor provided the proposed repayment source produces sufficient coverage.

A one-percent administrative 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.

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

The Drinking Water SRF loan program will receive a capitalization grant of \$7,463,800 for federal fiscal year 1999. Bonds have

been secured to provide for the required state match of \$1,492,760. The bonding authority for this program is established in SDCL 46A-1-60.1.

As of November 1, 1998, nine loans totaling \$16,308,000 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	\$298,552
Small System Technical Assistance	<u>\$125,000</u>
Total for set-asides	\$423,552

Unused administrative funds will be banked to assure a source of funds not dependent on state general funds. Unused funds from the set-aside for small system technical assistance will be banked for use in future years.

For financial planning purposes, the department has made the following assumptions: (1) that 40 percent of the available funds will be loaned to communities with populations of 2,500 or more; (2) 40 percent to rural water systems; (3) 10 percent to communities less than 2,500 that are not considered disadvantaged; and (4) 10 percent to disadvantaged communities. It is assumed that the majority of loans will be made at the highest interest rate and longest term.

The department has received two capitalization grants totaling \$19,680,100. Of this amount, \$2,188,084 was allocated to

set-aside activities as follows: \$787,204 for administration, \$125,000 for small system technical assistance, \$20,000 for state program management – operator certification, and \$1,255,880 for source water assessment and delineation.

With the 1999 capitalization grant, the South Dakota Drinking Water SRF program will have dedicated \$29,961,044 for loans to qualifying public water systems. Of this amount, \$5,120,079 is available for loan as of November 1998. This information is provided in Attachment II, DW SRF Funding Status. The attached project priority list identifies \$21.8 million of potential loans. Projects can be amended to the project priority list at any Board of Water and Natural Resources meeting.

Moderate to high demand is expected on the program for calendar year 1999.

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.

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, self-sustaining 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 be 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

At the Governor's discretion, the state may 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. These transfers can begin in federal fiscal year 1998. The state does not anticipate transferring funds in 1999.

DESCRIPTION AND AMOUNT OF NON-DRINKING WATER SRF 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 \$298,552 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.

Small system technical assistance. **The board will allocate \$125,000 of the capitalization grant to provide technical assistance to public water systems serving 10,000 people or less.** 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.

The department requested proposals from interested organizations for this activity in 1997. The board contracted with to the South Dakota Rural Water Association and the five Planning Districts to help communities evaluate the technical, managerial, and financial capability of their water utility. It is anticipated that the 1999 funds will be used to provide continuation of the activities initiated by the previous contract awards.

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.

No funds will be set-aside for these activities in federal fiscal year 1998.

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) 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. These funds are available for four years for this activity.

No funds will be set-aside for these activities in federal fiscal year 1998.

DISADVANTAGED COMMUNITY SUBSIDIES

Communities seeking a Drinking Water SRF loan 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 80 percent of the state-wide median household income; and
 - (b) the monthly residential water bill is \$20 or more for 5000 gallons usage; or
- (2) for rural water systems:
 - (a) the median household income is below 80 percent of the state-wide median household income; and
 - (b) the monthly water bill for rural households is \$50 or more for 7000 gallons usage.

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

Affordability criteria used to determine subsidy amount. The Board of Water and Natural Resources, through the rule-making process has provided for a two-percentage point reduction in interest rates as subsidies for disadvantaged communities. Zero-percent interest loans are available for disadvantaged communities with a median household income less than 60 percent of the statewide median household income. Disadvantaged communities may extend the loan term up to 30 years or the expected life of the project, whichever is less.

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 current rules.

Identification of systems to receive subsidies and their amount. Systems that are eligible to receive subsidies are identified in Attachment I.

ATTACHMENT I

PROJECT PRIORITY LIST

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount & Cap. Grant FY	Expected Loan Rate & Term & Funding Date	Pop. Served	Dis-advantaged
170	Sioux RWS	C462433-01	<i>Problem:</i> the community of Estelline and nearby rural residences have water quality or quantity problems. <i>Project:</i> the installation of 140 miles of pipeline and three finished water storage reservoirs to provide Estelline and 150 rural residences with water from the Sioux Rural Water System.	\$1,250,000 1999	3%, 30 yrs. July 1999	1,148	Yes
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 installation of 145 miles of pipeline to provide Tripp, Scotland, Dimock, and 175 rural residences with water from the B-Y Rural Water System.	\$1,500,000 2000	5%, 20 yrs. July 2000	3,650	
130	B-Y RWS (Bon Homme Expansion)	C462431-01	<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 1999	5%, 20 yrs. March 1999	1,328	
128	Bryant	C462121-94	<i>Problem:</i> much of the existing distribution system is about 90 years old, which includes some lead service lines, and is experiencing numerous breaks and leaks. <i>Project:</i> replace lines and service lines.	\$300,000 1999	3%, 30 yrs. July 1999	374	Yes
121	Tripp County WUD	C462434-01	<i>Problem:</i> the communities of Gregory, Burke, Herrick, and St. Charles and nearby rural	\$2,400,000	3%, 30 yrs.	2,509	Yes

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount & Cap. Grant FY	Expected Loan Rate & Term & Funding Date	Pop. Served	Dis-advan- taged
			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 92 rural residences with water from the Tripp County Water Users District.	2000	December 1999		
98	B-Y RWS (Treatment Plant Expansion)	C462431-03	<i>Project:</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.	\$3,900,000 2000	5%, 20 yrs. December 1999	12,500	
57	TM Rural Water District (Phase III)	C462429-01	<i>Problem:</i> rural residences have requested to receive water from the T-M Rural Water System to ensure a safe and reliable source of water. <i>Project:</i> the installation of water mains and associated appurtenances to connect 58 rural residences to the T-M Rural Water System.	\$780,000 1999	5%. 20 yrs September 1999	145	
54	Tripp	C462238-01	<i>Problem:</i> the city is experiencing inadequate water pressure and leaks in its 65 to 75-year-old, cast iron water mains. <i>Project:</i> Replace approximately 5,000 feet of 4-inch cast iron mains with 6-inch PVC,	\$130,000 1999	3%, 30 yrs. September 1999	664	Yes
46	Salem	C462057-01	<i>Problem:</i> portions of the distribution system are experiencing low pressure, line breaks, and water loss. <i>Project:</i> this project will replace approximately 27,000 feet of old 4-inch cast iron pipe and 4-inch asbestos cement pipe.	\$500,000 2000	5%, 20 yrs March 2000	1,289	
43	Veblen	C462186-01	<i>Problem:</i> the 60-year old distribution system is experiencing numerous line breaks and subsequent water losses; additionally, heavy encrustation has occurred within the lines resulting in loss of hydraulic capacity. <i>Project:</i>	\$403,600 1999	3%, 30 yrs. June, 1999	320	Yes

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount & Cap. Grant FY	Expected Loan Rate & Term & Funding Date	Pop. Served	Dis-advan-taged
35	Sisseton	C462053-01	this project will replace over 14,000 feet of various sized cast iron lines with 4- and 6-inch PVC lines. <i>Problem:</i> existing cast iron water mains are over 50 years old and have some lead service lines. <i>Project:</i> replace lines and service lines in conjunction with a street renovation project.	\$100,000 2000	5%, 20 yrs March 2000	2,181	
30	Clear Lake	C462037-01	<i>Problem:</i> the existing 50,000-gallon water tower does not provide adequate storage or pressure. <i>Project:</i> construction of a 300,000-gallon water tower.	\$365,000 1998	3%, 30 yrs December 1998	1,247	Yes
30	Tyndall	C462131-01	<i>Problem:</i> the system is experiencing 35% water loss due to old water mains. <i>Project:</i> installation of 20,800 feet of piping to address water loss and provide looping of lines in dead-ends.	\$500,000 1998	3%, 30 yrs June 1999	1,201	Yes
28	Conde	C462082-01	<i>Project:</i> users at the ends of the distribution system experience low volume and pressure problems due to four-inch lines within the system and because the system is not looped. <i>Project:</i> replace a portion of the system with six-inch lines and install additional lines to loop the system.	\$117,000 1999	3%, 30 yrs. July 1999	203	Yes
22	Sioux Falls	C462232-02	<i>Problem:</i> components of water treatment plant are near the end of their useful life. <i>Project:</i> upgrade the valves and piping in the filter gallery of the water plant.	\$1,423,500 1999	4.5%, 10 yrs. June, 1999	100,814	
20	Brandon	C462032-01	<i>Problem:</i> iron and manganese levels in the finished water exceed the guidelines for the secondary drinking water contaminants. <i>Project:</i> development of additional well sources for blending and construction of a treatment facility for iron and manganese removal, and	\$1,950,000 1997/1998	5%, 20 yrs November 1998	3,543	

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount & Cap. Grant FY	Expected Loan Rate & Term & Funding Date	Pop. Served	Dis-advan- taged
19	Highmore	C462106-01	lines, pumps and controls associated with the new well and treatment facility. <i>Problem:</i> the city does not have adequate storage capacity to meet peak day demand. <i>Project:</i> construct a 300,000 elevated finished water storage reservoir.	\$250,000 2000	5%, 20 yrs. January 2000	835	
8	Aberdeen	C462072-01	<i>Problem:</i> many of the chemical feed and process control systems in the treatment plant are near the end of their useful life and must be replaced to ensure compliance. <i>Project:</i> replace older manually controlled chemical feed systems with flow paced systems; upgrade process control system, electrical system, and motor control center; install telemetry for water towers; and other miscellaneous improvements	\$2,873,000 1998/1999	4.5%, 10 yrs. March 1999	24,927	
8	Hermosa	C462278-01	<i>Problem:</i> portions of the distribution system, constructed in the early 1900's, are experiencing numerous line breaks and subsequent water losses. <i>Project:</i> this project will replace approximately 9,900 feet of old 3-inch lines with 6-inch PVC lines.	\$200,000 1999	5%, 20 yrs March 1999	242	
8	Vermillion	C462022-01	<i>Problem:</i> the lime sludge handling system is inadequate to meet the need of the lime softening treatment plant. <i>Project:</i> construct three drying lagoons and associated piping.	\$942,000 1999	3%, 30 yrs. December 1998	10,034	Yes
7	Volin	C462405-01	<i>Problem:</i> mineral deposits within the community's 85-year old cast iron water mains have effectively reduced the water main capacity by 50% and rendered the distribution valves inoperable. <i>Project:</i> Replace approximately 4,500 feet of water mains and install 10 valves.	\$154,000 2000	5%, 20 yrs December 1999	175	
4	Mina Lake Sanitary District	C462287-01	<i>Problem:</i> Mina Lake Sanitary District is	\$255,200	5.0 %, 20 yrs	520	

Priority Points	Community/ Public Water System	Project Number	Project Description	Est. Loan Amount & Cap. Grant FY	Expected Loan Rate & Term & Funding Date	Pop. Served	Dis-advan-taged
			supplied water by the WEB RWS. Due to increased use in the sanitary district and expansion of the rural water system, pressure within the sanitary district drops below 20 psi during peak use hours. <i>Project:</i> installation of a 150,000 gallon water tower.	1998	November 1998		
3	Isabel	C462282-01	<i>Problem:</i> the city is experiencing breaks due to rusting and deteriorating ductile iron mains. <i>Project:</i> replace approximately 14,700 feet of ductile iron mains with 6-inch pvc.	\$160,000 2000	5%, 20 yrs. January 2000	319	

**ATTACHMENT II
DRINKING WATER SRF PROGRAM FUNDING STATUS**

	FFY 1997	
Capitalization Grant	\$12,558,800	
State Match (Available June, 30 1998)	\$2,511,760	
Set-Asides	(\$1,878,232)	
Available to Loan		\$13,192,328
	FFY 1998	
Capitalization Grant	\$7,121,300	
State Match	\$1,424,260	
Set-Asides	(\$309,852)	
Available to Loan		\$8,235,708
	FFY 1999	
Capitalization Grant	\$7,463,800	
State Match	\$1,492,760	
Set-Asides	(\$423,552)	
Repayments available as of 10/1/98	\$42,179	
Available to Loan		<u>\$8,575,187</u>
Total Funds Dedicated to Loan		\$29,961,044
Loans made through November 1, 1998		\$16,307,957
Funds Available for Loans as of November 1, 1998		\$13,653,087
Estimated Loans Identified on FFY 1999 Project Priority List		\$21,753,300