



## **Supplemental Environmental Project Semi-Annual Report Volume 11**

**Eleventh Semi-Annual Report  
January 1, 2010 – June 30, 2010**

**Submitted to EPA on July 28, 2010**

I certify under penalty of law that this document and all attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering such information, the information submitted is, to the best of my knowledge and belief, true, accurate and complete. I am aware that there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.

  
D. Wayne Loveday

  
Date

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# Supplemental Environmental Project Eleventh Semi-Annual Report January 1, 2010, through June 30, 2010

## 1. Introduction

KUB is required to perform and complete a Supplemental Environmental Project (SEP) as set forth in Section VIII. Supplemental Environmental Project and Appendix B Supplemental Environmental Project of the Consent Decree (CD). *This project was undertaken in connection with the settlement of a civil enforcement action taken by the United States for violations of the Clean Water Act.* This Semi-Annual Report covers events from January 1, 2010, through June 30, 2010.

In addition to the required SEP funding, KUB has also voluntarily established a low-income, no-interest loan program. This program serves customers earning a predetermined percentage of median income that is above the level that would qualify for SEP funding. The cost of the lateral repair or replacement is added to the customers' KUB bill over a period of 48 months. No customers were approved for the no-interest loan during this reporting period and no disbursements were made.

## 2. Deposit of Funds to the SEP Escrow by KUB

KUB made a deposit of \$200,000 to the Escrow Account on February 11, 2010. The next deposit to the Escrow Account is scheduled for February 11, 2011.

## 3. Disbursement of Funds From the SEP Escrow by Escrow Agent to the Third Party Administrator to Pay Plumbers for Services Completed

A total of \$79,710.49 was disbursed from the SEP Escrow Account to the Third Party Administrator during this reporting period. The disbursements are shown in the table below.

<b>Date of Invoice</b>	<b>Amount Invoiced</b>	<b>Number of Laterals Repaired/Replaced</b>	<b>Amount Disbursed</b>
1/5/2010	\$25,008.00	12	\$25,008.00
2/2/2010	\$9,675.68	5	\$9,675.68
3/2/2010	\$13,664.81	6	\$13,664.81
4/8/2010	\$10,220.00	5	\$10,220.00
5/3/2010	\$11,185.00	6	\$11,185.00
6/1/2010	\$9,957.00	4	\$9,957.00
<b>Totals</b>	<b>\$79,710.49</b>	<b>38</b>	<b>\$79,710.49</b>

#### 4. Balance of Funds in the SEP Escrow

The balance in the SEP Escrow Account, as of June 30, 2010, is \$657,554.85. The disbursements from the escrow account and the accrued interest for this reporting period are shown in the table below.

Date	Deposit	Disbursement	Accrued Interest	Balance
1/1/2010		\$25,008.00	\$14.01	\$512,187.96
2/1/2010	\$200,000.00	\$9,675.68	\$13.28	\$702,525.56
3/1/2010		\$13,664.81	\$11.13	\$688,871.88
4/1/2010		\$10,220.00	\$15.00	\$678,666.88
5/1/2010		\$11,185.00	\$12.91	\$667,494.79
6/1/2010		\$79,710.49	\$83.39	\$657,554.85

#### 5. Payment of Funds by Third Party Administrator to Plumbers

In this reporting period, the Third Party Administrator made the following payments to plumbers for services completed at the properties listed below.

Property Address	Plumber	Amount
[REDACTED]	Lyon Plumbing	\$1,520
[REDACTED]	Lyon Plumbing	\$1,765
[REDACTED]	Lyon Plumbing	\$2,210
[REDACTED]	Lyon Plumbing	\$3,625
[REDACTED]	Lyon Plumbing	\$3,190
[REDACTED]	Lyon Plumbing	\$2,210
[REDACTED]	Mo's Mechanical	\$1,051.68
[REDACTED]	Paul Hayes Plumbing	\$1,378.13
[REDACTED]	Lyon Plumbing	\$3,380
[REDACTED]	FM Plumbing	\$1,320
[REDACTED]	Lyon Plumbing	\$2,290
[REDACTED]	Lyon Plumbing	\$1,560
[REDACTED]	East TN Rooter	\$1,285
[REDACTED]	Paul Hayes Plumbing	\$1,890
[REDACTED]	Lyon Plumbing	\$1,575
[REDACTED]	Lyon Plumbing	\$2,975
[REDACTED]	Lyon Plumbing	\$1,560
[REDACTED]	Lyon Plumbing	\$1,900
[REDACTED]	FM Plumbing	\$350
[REDACTED]	FM Plumbing	\$962
[REDACTED]	Lyon Plumbing	\$4,925
[REDACTED]	Lyon Plumbing	\$3,720
[REDACTED]	Paul Hayes Plumbing	\$1,320
[REDACTED]	Paul Hayes Plumbing	\$1,380
[REDACTED]	FM Plumbing	\$2,176
[REDACTED]	Lyon Plumbing	\$2,155
[REDACTED]	Lyon Plumbing	\$748
[REDACTED]	Paul Hayes Plumbing	\$720
[REDACTED]	FM Plumbing	\$3,298

[REDACTED]	Lyon Plumbing	\$1,975
[REDACTED]	Lyon Plumbing	\$1,446
[REDACTED]	East TN Rooter	\$1,424
[REDACTED]	FM Plumbing	\$2,780
[REDACTED]	FM Plumbing	\$1,290
[REDACTED]	Paul Hayes Plumbing	\$2,270
[REDACTED]	FM Plumbing	\$2,056
[REDACTED]	FM Plumbing	\$1,591

**6. Location of Private Residential Properties Where Services Have Been Performed Under the SEP Program**

Private service laterals have been repaired or replaced under the SEP program at the following locations during this reporting period.

Owner	Property Address	Work Complete Date
[REDACTED]	[REDACTED]	1/10/2010
[REDACTED]	[REDACTED]	1/11/2010
[REDACTED]	[REDACTED]	1/11/2010
[REDACTED]	[REDACTED]	1/13/2010
[REDACTED]	[REDACTED]	1/18/2010
[REDACTED]	[REDACTED]	1/22/2010
[REDACTED]	[REDACTED]	1/29/2010
[REDACTED]	[REDACTED]	1/29/2010
[REDACTED]	[REDACTED]	2/1/2010
[REDACTED]	[REDACTED]	2/1/2010
[REDACTED]	[REDACTED]	2/2/2010
[REDACTED]	[REDACTED]	2/10/2010
[REDACTED]	[REDACTED]	2/16/2010
[REDACTED]	[REDACTED]	2/22/2010
[REDACTED]	[REDACTED]	3/10/2010
[REDACTED]	[REDACTED]	3/11/2010
[REDACTED]	[REDACTED]	3/11/2010
[REDACTED]	[REDACTED]	3/15/2010
[REDACTED]	[REDACTED]	4/1/2010
[REDACTED]	[REDACTED]	4/1/2010
[REDACTED]	[REDACTED]	4/1/2010
[REDACTED]	[REDACTED]	5/17/2010
[REDACTED]	[REDACTED]	5/21/2010
[REDACTED]	[REDACTED]	6/5/2010
[REDACTED]	[REDACTED]	6/5/2010
[REDACTED]	[REDACTED]	6/5/2010
[REDACTED]	[REDACTED]	6/9/2010
[REDACTED]	[REDACTED]	6/11/2010
[REDACTED]	[REDACTED]	6/11/2010
[REDACTED]	[REDACTED]	6/11/2010
[REDACTED]	[REDACTED]	6/11/2010

[REDACTED]	[REDACTED]	6/11/2010
[REDACTED]	[REDACTED]	6/11/2010
[REDACTED]	[REDACTED]	6/11/2010
[REDACTED]	[REDACTED]	6/14/2010
[REDACTED]	[REDACTED]	6/14/2010
[REDACTED]	[REDACTED]	6/16/2010
[REDACTED]	[REDACTED]	6/22/2010
[REDACTED]	[REDACTED]	6/25/2010
[REDACTED]	[REDACTED]	6/29/2010

## 7. SEP Implementation and Ongoing Tasks

KUB implemented the Private Lateral Program (PLP) in 2005 to address defective laterals and improper connections within its collection system. Prior to program implementation, KUB performed an initial analysis to determine the approximate number of defective laterals in KUB's wastewater system and smoke testing was chosen as the primary tool for determining defects and prohibited connections requiring enforcement action. Also, during the development of this program, homeowner income information from all areas of the KUB wastewater service area was obtained to establish hardship eligibility guidelines for funding assistance provided under the SEP for private lateral rehabilitation. KUB conducted a careful examination of expected lateral failure rates, and looked at 2000 Census homeowner income information to determine how to best establish income limits for financial assistance and extend this support to as many customers as possible. The income limits selected were those from the Housing and Urban Development (HUD) guidelines for very low income households, where very low income is defined as less than 50% of the median income based on family size. HUD guidelines are widely used in many homeowner assistance programs and include limits for homeowner incomes defined at very low, low, and moderate levels relative to median income for service area. In the first two years of the PLP, the very low Income limits updated annually for earning growth by HUD were used in determining a property owner's eligibility for funding under the SEP Grant<sup>(1)</sup> program.

During this time, KUB gained information about the number of defective laterals in its system, the best tools for evaluating the collection system problems, and the income qualification rate for financial assistance where defective laterals are identified. In addition to smoke testing, closed circuit camera televising (CCTV) was evaluated for use in determining defects in 2006. CCTV of private laterals after mainline rehabilitation quickly became the most preferred means of accurately determining defects to avoid unnecessary repairs, and it continues to be the primary tool for determining the need for lateral rehabilitation. All private laterals are subject to inspection as prescribed in the CSSAP, and this specific tool has been very effective in resolving any questions related to required corrective action and enforcement. In many cases CCTV has confirmed the need for only a point repair and as many as one third of all defective laterals have required only repairs rather than

extensive replacement. Although the defective lateral rate varies with the specific area of the system, KUB has observed an average lateral failure rate of 35 percent.

In the first two years of the program implementation, KUB also determined from the PLP data that areas with the highest failure rate also had a large number of tenant occupants. By the end of 2007, the average tenant occupancy rate of properties requiring lateral repair was at least 40%. These situations greatly reduced the expected number of property owners eligible to apply for assistance.

An analysis of upcoming projects associated with the CAP/ER based on historical failure rates and Grant approvals indicated that 50% of the median income was too low for many homeowners to qualify. Thus, an adjustment was made to the income guideline limits for Grant qualification to permit more property owners to qualify for funding assistance over the remaining five years of the program. On January 1, 2008, KUB moved the income guidelines for Grant<sup>(1)</sup> program qualification from 50% of median income (very low income) to 80% of median income (low income). This adjustment was communicated in the Sixth SEP Semi-Annual Report.

During this SEP semi-annual period, KUB conducted a similar analysis of all PLP data including historical failure rates, grant approvals and the projects to be undertaken in the next three years. An analysis was also conducted related to the percentage of tenancy in various sub-basins and those applications that failed to qualify for assistance. In the last two years, KUB completed CAP/ER projects in some areas that were expected to have high grant qualification rate, but the tenant occupancy in these areas rose to 55%. From this analysis KUB determined that an adjustment of median income requirement again would permit more homeowners to qualify and make use of the eligible funds in the remaining three years of the SEP. At a time when many customers may be struggling economically, this adjustment would also be very beneficial to homeowners, who have seen their monthly wastewater bills increase by more than 140% since the implementation of the Consent Decree.

The SEP states that very low, low and moderate income levels are eligible to receive funding assistance. Beginning January 1, 2010, KUB increased the income guidelines for Grant<sup>(1)</sup> program qualification from 80% of median income (low income) to 95% of income (moderate income). The 95% level is defined as moderate income by the US Department of Housing and Urban Development (HUD). The increase follows research of homeowner incomes in the Knox County area based on 2000 Census data obtained from the Knoxville/Knox County Metropolitan Planning Commission. The expected result is an increase in the number of approved applications over the remaining three years of the program, while ensuring support for customers who need assistance the most during the remainder of this period. KUB will continue to analyze information related to defect rates and income

qualification as necessary to satisfactorily complete the SEP in accordance with the Consent Decree.

**Effect of Previous Income Qualification Limits:**

During this reporting period, four property owners qualified for Grants due to the increase in the income guidelines effective January 1, 2010.

**8. Tasks Scheduled for the Next Six Months**

The following tasks are scheduled for the next six months:

- Continue to identify properties with defective laterals or prohibited connections.
- Continue private lateral enforcement notifications.
- Make payments from the Escrow account for work completed under the SEP.

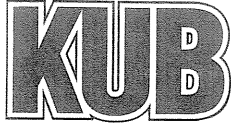


# **Appendix A**

Grant and Loan Income Guidelines

**GRANT AND LOAN PROGRAM  
INCOME GUIDELINES**

<b>Family Size</b>	<b>Grant Program 95% of Median Income</b>	<b>Loan Program 100% of Median Income</b>
1	39,710	41,800
2	45,410	47,800
3	51,110	53,800
4	56,715	59,700
5	61,275	64,500
6	65,835	69,300
7	70,395	74,100
8	74,955	78,900



Knoxville Utilities Board

February 26, 2010

**VIA CERTIFIED MAIL**

Mr. Doug Mundrick  
Chief, Water Programs Enforcement Branch  
Water Management Division  
U.S. Environmental Protection Agency, Region 4  
Atlanta Federal Center  
61 Forsyth Street, SW  
Atlanta, GA 30303

Re: Payment of \$200,000 Supplemental Environmental Project (SEP) payment: U.S., et al. v. Knoxville Utilities Board (KUB): Case Nos. 3:04-CV-568 and 3:03-CV-497; DOJ Case No. 90-5-1-1-08186

Dear Mr. Mundrick:

On February 11, 2010, KUB paid the eighth SEP payment in the amount of \$200,000 to the SEP escrow account identified in the executed Escrow Agreement, as required by Appendix B.D.1 of the Consent Decree (CD). KUB is required to make this seventh payment no later than forty-eight (48) months after the Date of Entry of the CD, which was entered in the United States District Court for the Eastern District of Tennessee, Northern Division, Knoxville, Tennessee, on February 11, 2005.

Appendix B.D.1. also requires KUB to provide documentation of the deposit to the SEP Escrow within thirty (30) days of each such deposit. A transaction report and wire confirmation of the transfer is enclosed as proof of payment.

If you have any questions, please call Mark Walker, Vice President of Finance, at (865) 594-7418.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bill R. Elmore', is written over a horizontal line.

Bill R. Elmore  
Senior Vice President and Chief Operating Officer

cc: Chief, Environmental Enforcement Section, Environment and Natural Resources  
Division, DOJ  
E. Joseph Sanders, General Counsel, TDEC  
Renee Victoria Hoyos, Executive Director, TCWN  
Bill Haslam, Mayor, City of Knoxville  
Hiram G. Tipton, Hodges, Doughty & Carson, PLLC  
Phil Simmons, TDEC  
Susan H. Richardson, Kilpatrick Stockton, LLP  
John West, TDEC  
Wayne Loveday, Vice President, Plants and Underground Construction, KUB

Enclosures



User Activity Inquiry Results

> Search criteria

User Name -- Account  
 Date Range (MM/DD/YYYY) From 02/11/2010 To 02/11/2010 Activity Release  
 Amount Range From 0.00 To 0.00 Debit/Credit All

Payment Sequence Number	User ID	Activity	Amount	Debit Credit	Account	Beneficiary Or Sender Name	Entry Time	Release Time	Template	Payment Status
100211010230	DTILLER	Release	200,000.00	Debit		WEALTH MANAGEMENT OPERATIONS	02/11/2010 07:52	02/11/2010 09:32		ACKS
000										

Feb. 11. 2010. 11:39AM

REPORT DATE: 02/11/10 09:35:09 WIRE TRANSFER ADVICE NOTIFICATION

PAGE 1

ACCOUNT : KNOXVILLE UTILITIES BOARD

N : 100211010336 DEBIT REPEAT: STATUS : COMPLETED  
AMOUNT : \$ 200,000.00 COMPLETION TIME : 2010-02-11:0932

AUTHORIZER : GRAYSON PURSCH CONFIRMER :  
WIRE TYPE : FEDWIRE REFERENCE # : 0211H4B7331C000188  
DEBIT ACCOUNT KNOXVILLE UTILITIES BOARD

ORDERING BANK :  
ORDERING CUST :  
BENE CUSTOMER : WEALTH MANAGEMENT OPERATIONS

SENDING BANK :  
RECEIVING BANK :  
DEST BANK : I 062000019 REGIONS  
OBI : FOR FURTHER CREDIT TO KUB ACCOUNT # SEP ESCROW ACCOUNT

BBI :