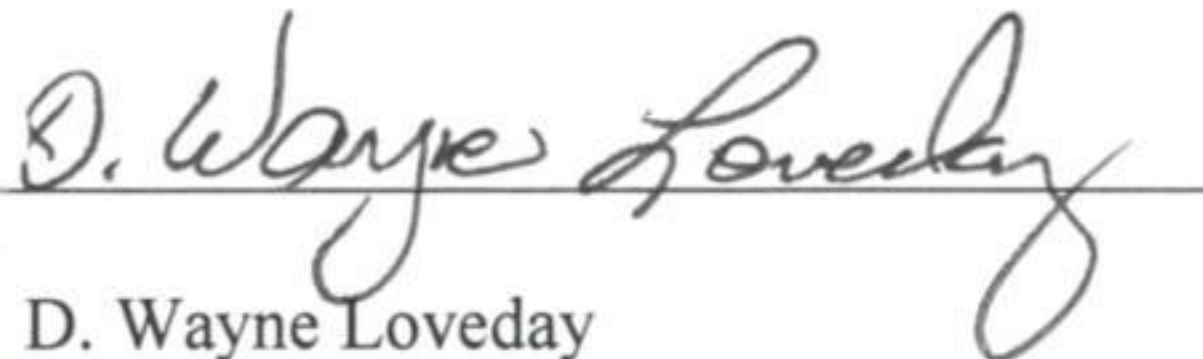


Supplemental Environmental Project Semi-Annual Report Volume 6

**Sixth Semi-Annual Report
July 1, 2007 – December 31, 2007**

Submitted to EPA on January 30, 2008

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

1.30.2008

Date

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**Supplemental Environmental Project
Sixth Semi-Annual Report
July 1, 2007, through December 31, 2007**

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 Environment 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 July 1, 2007, through December 31, 2007.

In addition to the required SEP funding, KUB has also voluntarily established a low-income, no-interest loan program. This program will serve customers earning a predetermined percentage of median income. The cost of the lateral repair or replacement will be added to the customers' KUB bill over a period of 48 months.

Seven customers were approved for the no-interest loan during this reporting period. Work was completed for seven properties during the reporting period. Payment was dispersed for seven properties, two of which were completed in the last reporting period. The total amount dispersed for loans during this reporting period was \$14,785.50.

2. Deposit of Funds to the SEP Escrow by KUB

There were no deposits made to the Escrow Account during this reporting period. The next deposit to the Escrow Account is scheduled for February 11, 2008.

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 \$46,170.00 was disbursed from the SEP Escrow Account to the Third Party Administrator during this reporting period. The disbursements are shown in the table below.

Date of Invoice	Amount Invoiced	Number of Laterals Repaired/Replaced	Amount Disbursed
07/25/2007	4,470.00	3	4,470.00
07/25/2007	4,510.00	2	4,510.00
08/03/2007	1,425.00	1	1,425.00
09/06/2007	11,430.00	7	11,430.00

10/08/2007	1,900.00	1	1,900.00
11/09/2007	14,755.00	10	14,755.00
12/07/2007	7,680.00	4	7680.00
12/20/2007	8555.00	4	0.00
Totals	54,725.00	32	46,170.00

4. Balance of Funds in the SEP Escrow

The balance in the SEP Escrow Account, as of December 31, 2007, is \$557,656.01. 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
07/01/2007		0.00	2,290.54	592,718.41
08/01/2007		8,980.00	2,366.52	586,104.93
09/01/2007		12,855.00	2,340.10	575,590.03
10/01/2007		1,900.00	2,195.89	575,885.92
11/01/2007		14,755.00	2,194.11	563,325.03
12/01/2007		7,680.00	2,010.98	557,656.01

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
	Lyons Plumbing	1,485.00
	Lyons Plumbing	1,400.00
	Lyons Plumbing	1,585.00
	Lyons Plumbing	2,260.00
	Lyons Plumbing	2,250.00
	Lyons Plumbing	1,425.00
	Lyons Plumbing	3,450.00
	Lyons Plumbing	1,700.00
	Lyons Plumbing	1,460.00
	Lyons Plumbing	600.00
	Lyons Plumbing	2,050.00
	Lyons Plumbing	1,120.00
	Lyons Plumbing	1,050.00
	Lyons Plumbing	1,900.00
	Lyons Plumbing	1,700.00
	Lyons Plumbing	1,050.00
	Lyons Plumbing	1,375.00
	Lyons Plumbing	2,100.00
	Lyons Plumbing	2,100.00
	Lyons Plumbing	1,525.00
	Lyons Plumbing	1,390.00
	Lyons Plumbing	500.00

	Lyons Plumbing	1,590.00
	Lyons Plumbing	1,425.00
	Lyons Plumbing	2,475.00
	Lyons Plumbing	1,985.00
	Lyons Plumbing	1,570.00
	Lyons Plumbing	1,650.00
	Lyons Plumbing	1,620.00
	Lyons Plumbing	2,100.00
	Lyons Plumbing	2,885.00
	Lyons Plumbing	1,950.00

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.

Homeowner Name	Property Address	Work Completed Date
		5/24/07
		6/28/07
		7/9/07
		8/6/07
		8/8/07
		8/14/07
		8/14/07
		8/17/07
		8/17/07
		8/20/07
		8/20/07
		8/31/07
		9/18/07
		9/19/07
		9/27/07
		9/27/07
		9/27/07
		9/27/07
		10/02/07
		10/04/07
		10/09/07
		10/10/07
		10/11/07
		10/15/07
		10/30/07
		11/09/07
		11/12/07

			11/20/07
			12/3/07
			12/3/07
			12/4/07
			12/5/07
			12/5/07
			12/17/07
			12/19/07
			12/20/07
			12/26/07
			12/26/07

7. SEP Implementation and Ongoing Tasks

All implementation tasks for the SEP have been completed.

KUB continues to identify and document defective laterals. Customers are notified and enforcement actions are initiated through the Private Lateral Program. Water service was terminated at seven properties during this reporting period where property owners failed to make repairs to their private sewer lateral within the required 120 day time period.

A Private Lateral Program brochure along with a financial assistance insert is included with each Notice of Noncompliance (NONC), Notice of Violation, and Termination of Service (NOV) mailed to the customer. The brochure and insert inform the customer that financial assistance may be available to them through the Third Party Administrator and both provide contact information.

Evaluation of Income Qualification Limits:

The Private Lateral Program was implemented in 2005 to address defective laterals and improper connections within KUB's collection system. Prior to program implementation an initial analysis was performed to determine the approximate number of defective laterals in KUB's wastewater system. 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. A careful examination of expected lateral failure rates, in addition to 2000 Census homeowner income information was performed 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. Very low-income is defined household income not exceeding 50 percent 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 a particular area. During the first two years of the Program, the very low-income limits (updated annually for earning growth by HUD) have been used in determining a property owner's eligibility for funding under the SEP Grant⁽¹⁾ program.

Since 2005, KUB has continued to gather information about the number of defective laterals in its system, the best tools for evaluating collection system problems, and the income qualification rate for financial assistance where defective laterals are identified. All private laterals are subject to inspection as prescribed in the Continuing Sewer System Assessment Program (CSSAP). In addition to smoke testing, closed circuit camera televising (CCTV) was utilized to determine lateral defects in 2006. CCTV of private laterals after mainline rehabilitation quickly became the preferred means of accurately determining defects to avoid unnecessary repairs and continues to be the inspection tool by which the extent of lateral rehabilitation, if any, is required. This effective and specific tool has resulted in a more deliberate approach to enforcement action. Although the defective lateral rate varies with the specific area of the system, KUB has observed an average failure rate of approximately 30 percent. In many cases CCTV has confirmed the need for repairs as opposed to a complete replacement of the line. As many as one-third of all defective laterals have required repairs rather than complete replacement. The use of this more accurate tool along with data indicating a large number of tenant occupants in areas with higher failure rates suggested that the funding assistance qualification limits needed to be re-examined.

During the current reporting period, projects scheduled through the end of the SEP timeline were evaluated against historical failure rates and Grant approval percentages from previous CAP/ER projects. A study was conducted to ascertain the basis for which applications failed to qualify for assistance. As a result of that study and a higher percentage of tenant occupied properties than initially expected, KUB determined that an adjustment to the income guideline limits for Grant qualification was necessary. This change will permit more customers to meet the criteria for funding assistance over the remaining five years of the program since tenant occupied properties do not qualify.

The SEP requires that very low-, low-, and moderate-income levels be developed to determine eligibility to receive funding assistance. Beginning January 1, 2008, KUB will increase the income guidelines for Grant program qualification from 50 percent of median income (very low-income) to 80 percent of median income (low-income). The 80 percent level is defined as low-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 will provide support for a greater number of customers that need assistance 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.

The income guidelines for the voluntary Loan program will increase from 80 percent of median income to 95 percent of median income effective January 1, 2008. HUD defines the 95 percent level as moderate-income.

A table listing the new guidelines effective January 1, 2008, is shown in Appendix A.

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.
- Make fifth SEP funding deposit to the Escrow Account.
- Implement use of the increased income guidelines.

Appendix A

Income Guidelines

**GRANT AND LOAN PROGRAM
INCOME GUIDELINES**

Family Size	Grant Program 80% of Median Income	Loan Program 95% of Median Income
1	30,700	36,457
2	35,100	41,682
3	39,450	46,848
4	43,850	52,073
5	47,350	56,229
6	50,850	60,385
7	54,350	64,542
8	57,900	68,757