



ECONOMICALLY DISTRESSED AREAS PROGRAM

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

LEGISLATIVE BUDGET BOARD ID: 9375

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OBJECTIVE

The Economically Distressed Areas Program (EDAP), administered by the Texas Water Development Board (TWDB), provides financial assistance through grants and loans for water and wastewater projects in economically distressed areas statewide where service is inadequate or unavailable.

KEY FACTS

- ◆ Projects must be located in counties that are enforcing Model Subdivision Rules.
- ◆ From fiscal years 1992 to 2025, EDAP has committed more than \$977.9 million for approximately 189 projects statewide. Other TWDB programs have provided additional financial assistance to economically distressed areas in Texas. The state has spent approximately \$502.6 million in General Revenue Funds on debt service for EDAP.

BUDGETARY IMPACT

Appropriations for the 2026–27 biennium include \$72.8 million for debt service, including \$62.0 million in General Revenue Funds and \$10.8 million from loan repayment proceeds. An additional \$0.8 million in General Revenue Funds is appropriated for program administration.

STATUTORY REFERENCES

The Texas Constitution, Article III, Sections 49-d-7, 49-d-8, 49-d-10, and 49-d-14

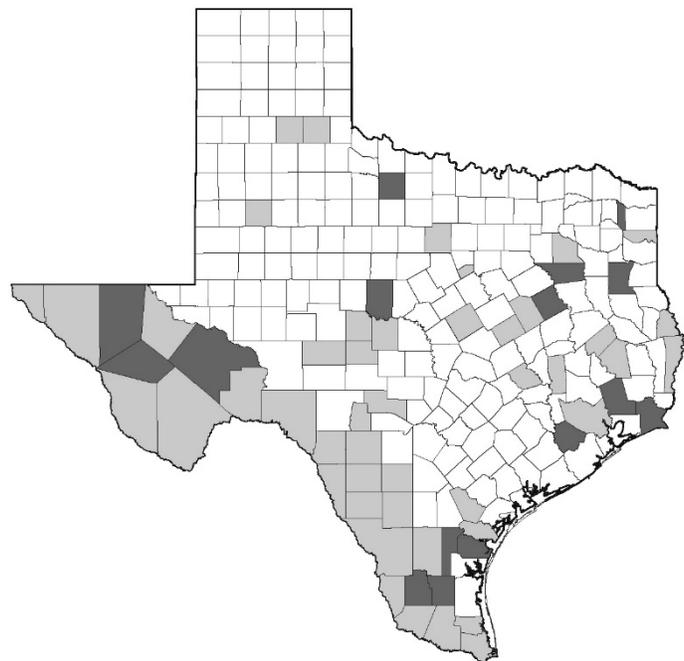
The Texas Water Code, Chapter 15, Subchapter F; Chapter 16, Subchapter J; and Chapter 17, Subchapters K and L

The Federal Water Pollution Control Act

The U.S. Environmental Protection Agency Appropriations Act, 1992, 1993, 1996, and 1998

The **Economically Distressed Areas Program** (EDAP) provides financial assistance to supply water and wastewater services to economically distressed areas where water or wastewater facilities are inadequate to meet minimum state standards. Local governments, including counties, cities, and water districts, may benefit from EDAP, along with nonprofit water-supply corporations. To be eligible for an EDAP grant or loan, the city or county in which a project is located must adopt and enforce Model Subdivision Rules (MSR) and meet other requirements. MSRs are model ordinances that provide criteria intended to ensure that an adequate supply of safe drinking water and adequate safe sewage facilities are available to residential areas in accordance with state standards. **Figure 1** shows counties that contain EDAP projects and EDAP-eligible counties that have adopted MSRs.

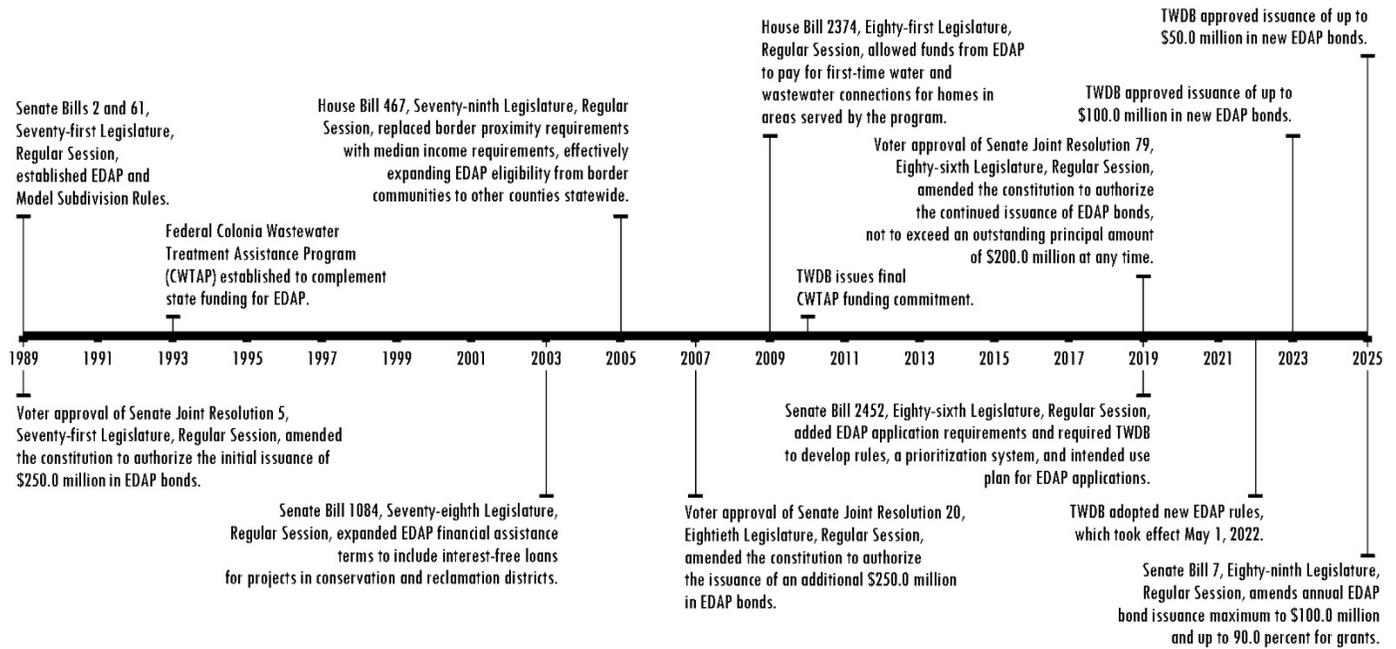
FIGURE 1
TEXAS COUNTIES WITH EDAP PROJECTS AND EDAP-ELIGIBLE COUNTIES THAT HAVE ADOPTED MSRs, FISCAL YEAR 2026



Counties with Economically Distressed Areas Program (EDAP)
 EDAP-eligible Counties with Approved Model Subdivision Rules (MSR)

NOTE: All counties shown as containing EDAP-funded projects have adopted MSRs.
SOURCE: Texas Water Development Board.

FIGURE 2
SIGNIFICANT LEGISLATION AFFECTING THE ECONOMICALLY DISTRESSED AREAS PROGRAM (EDAP), FISCAL YEARS 1989 TO 2025



SOURCE: Texas Water Development Board (TWDB).

HISTORICAL CHANGES

The Seventy-first Legislature, Regular Session, 1989, established EDAP and MSRs to regulate residential subdivisions. These laws focused on two major goals: delivering water and wastewater services to meet immediate health and safety concerns; and curbing the proliferation of substandard subdivisions through tougher enforcement of development standards. Pursuant to voter-approved constitutional amendments in 1989 and 2007, the **Texas Water Development Board (TWDB)** was authorized to issue \$500.0 million in General Obligation (GO) bonds to provide affordable water and wastewater services in these areas. In addition to this state funding, from fiscal years 1993 to 2010, the federal government provided \$394.0 million through the federal Colonia Wastewater Treatment Assistance Program (CWTAP) to complement the state’s EDAP. Through fiscal year 2025, TWDB has committed \$977.9 million through EDAP and CWTAP funding for approximately 189 projects across the state. **Figure 2** shows a timeline of other key legislative changes to EDAP.

EDAP FUNDING

Eligible entities may apply for EDAP financial assistance, of which no more than 90.0 percent may be provided as grant funding. All repayments from loans are remitted to TWDB and must be used to

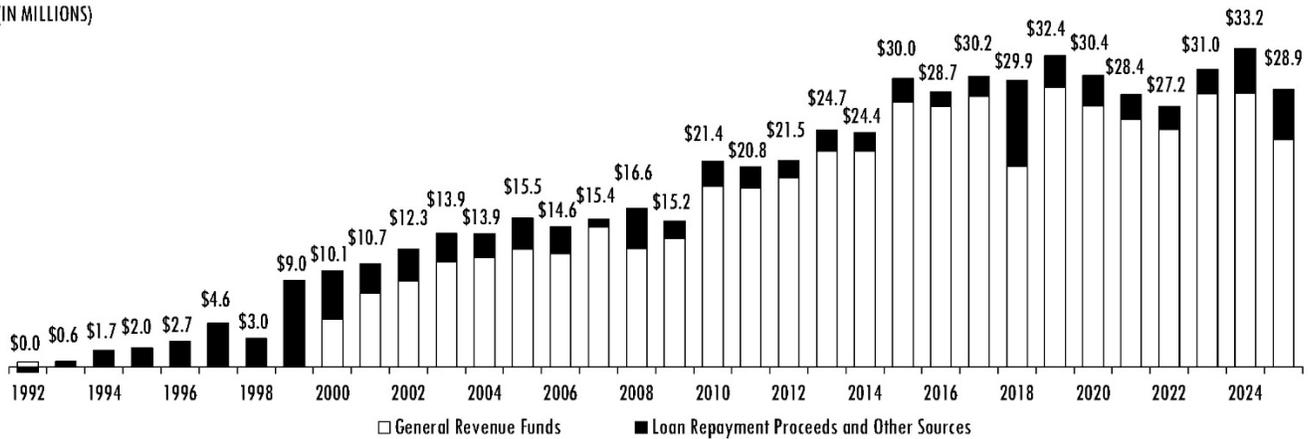
pay debt service before using General Revenue Funds. General Revenue Funds are needed to support debt service payments on EDAP bonds because most of EDAP funding is grant-based. **Figure 3** shows EDAP-related debt service as funded by General Revenue Funds and Other Funds from the program’s inception to fiscal year 2025. Other Funds consist primarily of EDAP bond repayment proceeds. From fiscal years 2018 to 2021, TWDB utilized Appropriated Receipts proceeds from Texas Water Resources Finance Authority (TWRFA) funds, a dormant TWDB fund with minimal remaining balances, to supplant a portion of General Revenue Funds for EDAP debt service. During fiscal year 2023, the remaining TWRFA funds were exhausted, and the account subsequently was closed. At the end of each biennium, TWDB applies any remaining General Revenue Funds appropriated for EDAP debt service that otherwise would lapse toward retiring existing EDAP debt.

RECENT CHANGES

Voter approval of Proposition 2, 2019, amended the Constitution to authorize TWDB to issue additional GO bonds when the principal debt outstanding does not exceed \$200.0 million. GO bonds are secured by the state’s pledge to use legally available resources, including tax revenues, to repay bond holders. To exhaust

FIGURE 3
ECONOMICALLY DISTRESSED AREAS PROGRAM DEBT SERVICE, FISCAL YEARS 1992 TO 2025

(IN MILLIONS)



SOURCE: Texas Water Development Board.

the remaining funding capacity authorized during fiscal year 2007, TWDB issued the remaining \$53.5 million in EDAP bonds during fiscal year 2019 by prioritizing the completion of projects that previously received EDAP funds for preliminary project phases. Senate Joint Resolution 79, in conjunction with its enabling legislation Senate Bill 2452, Eighty-sixth Legislature, 2019, presented the proposition to amend EDAP and further expand its funding capacity.

The bonding authority enables TWDB to issue EDAP bonds on a continuing basis if the outstanding principal on the new bonds issued pursuant to the Texas Constitution, Article III, Section 49-d-14, does not exceed \$200.0 million. EDAP also is a subaccount of the Texas Water Development Fund II (DFund II). Therefore, EDAP’s debt and debt limits are a subset of those of DFund II, which has a debt limit of \$6.0 billion pursuant to the Texas Constitution, Article III, Section 49-d-11.

Additionally, Senate Bill 2452 made the following changes to EDAP: authorized TWDB to use EDAP bond proceeds to support public-private partnerships; required political subdivisions to document their enforcement of MSRs; added application requirements for proposed water-quality enhancement projects; required TWDB to develop and implement a prioritization system for EDAP applications; and added program reporting requirements, which include directing TWDB to produce an annual report discussing projects funded by EDAP.

TWDB adopts an Intended Use Plan (IUP) to determine and outline the use of funds during the specified application period, a process currently utilized by the state revolving funds. Projects were

funded in order of arrival before Senate Bill 2452 mandated the prioritization process. A city or county in which the project is located must enforce MSRs, qualify as economically distressed, and propose an eligible project type before an application is considered for ranking. **Figure 4** shows the scoring criteria.

Senate Bill 7, Eighty-ninth Legislature, Regular Session, 2025, modified EDAP to increase the annual cap on GO bonds issued for eligible projects from \$50.0 million to \$100.0 million, and increased the amount of financial assistance TWDB may issue as grants to support EDAP from 70.0 percent to 90.0 percent of the total principal amount plus outstanding interest. Senate Bill 7 also added the EDAP account of DFund II to the group of eligible accounts and funds into which the Texas Water Fund, administered by TWDB, may transfer. The EDAP account consists primarily of bond payment proceeds used for the repayment of EDAP debt service, and other sources that TWDB may deposit to the account.

RECENT FUNDING

After exhausting the remaining funding capacity, and with the enactment of the new legislation by the Eighty-sixth Legislature, 2019, EDAP bonds were not issued during the 2020–21 biennium while new rules were developed for the program. Accordingly, the Legislature appropriated \$60.4 million in All Funds to pay existing debt service on EDAP bonds but did not provide funding to support debt service payments to issue new bonds. The Eighty-seventh Legislature, Regular Session, 2021, appropriated \$6.1 million in General Revenue Funds to support the issuance of up to \$50.0 million in EDAP bonds during fiscal years 2022 and 2023, which was the annual limit at that time, because the program was expected

**FIGURE 4
INFORMATION AND APPLICATION SCORING CRITERIA FOR ECONOMICALLY DISTRESSED AREAS PROGRAM, FISCAL YEAR 2026**

ELIGIBLE APPLICANTS

- Political subdivisions, including cities, counties, and water districts
- Nonprofit water supply corporations

ELIGIBLE PROJECTS

Planning, land acquisition, design, and construction for the following projects:

- first-time water and wastewater service
- water supply and/or treatment system improvements; or
- wastewater collection system and/or treatment works improvements

BENEFITS AND TERMS

- Projects with documented public health nuisance determination from the Texas Water Development Board (TWDB) or Texas Department of State Health Services are eligible for grants up to 90.0%; projects without a public health nuisance determination are eligible for grants up to 50.0%
- Portion not paid for by a grant must be provided as an Economically Distressed Areas Program (EDAP) loan
- Loans with low-interest rates are based on the TWDB's cost of funds

PROGRAM REQUIREMENTS

- Prioritization, detailed program requirements, and application process are established in an Intended Use Plan
- Water supply projects must be consistent with the current state water plan
- Service area median household income can be no greater than 75.0% of statewide median household income

PROGRAM REQUIREMENTS (CONTINUED)

- Clear documentation of system inadequacies
- Residential subdivision served by the project must have been established before June 1, 2005
- County or city is enforcing Model Subdivision Rules
- Application and maintenance of authorized agent designation for regulating onsite waste disposal facilities
- Application or possession of Certificate of Convenience and Necessity, if required pursuant to the Texas Water Code, Chapter 13
- Adoption of a water conservation and drought contingency plan for entities receiving assistance greater than \$500,000
- U.S. Iron and Steel requirements
- Review of legislative requirements regarding water-loss threshold limits

PRIORITIZATION RANKING CRITERIA

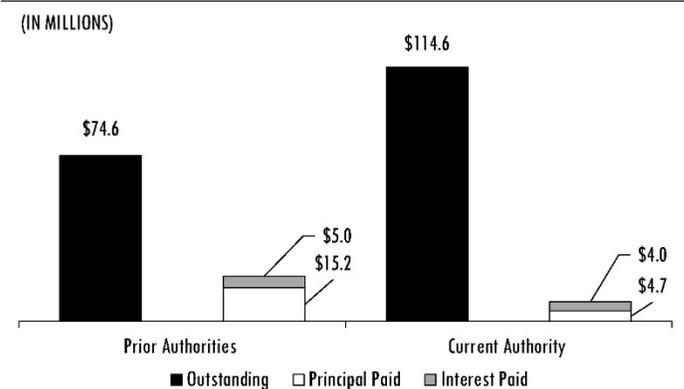
- Projects providing first-time service (15.0 points)
- Projects resolving public health nuisances and violations (10.0 points)
- Projects with a previous TWDB investment (8.0 points)
- Projects addressing violations related to storage capacity or service pressure (3.0 points)
- Consideration of service areas with the lowest Average Median Household Income is used as a tiebreaking scoring metric

SOURCE: Texas Water Development Board.

to resume during fiscal year 2022 but was granted an exemption by the Bond Review Board to exceed the annual authority and issue the total biennial amount of \$100.0 million in bonds during fiscal year 2023. The Eighty-eighth Legislature, Regular Session, 2023, appropriated \$7.8 million in General Revenue Funds to support the further issuance of up to \$100.0 million in total EDAP bonds during the 2024–25 biennium. TWDB did not issue EDAP bonds during fiscal year 2024 but was approved to issue up to \$50.0 million in EDAP bonds during fiscal year 2025. As of August 31, 2025, the principal debt outstanding for all EDAP bonds totaled \$189.1 million, including \$74.6 million in outstanding principal subject to previous debt authorities (from 1989 and 2007 constitutional authorities), and \$114.6 million subject to new debt authority (from the current 2019 constitutional authority). **Figure 5** shows outstanding principal debt and the total EDAP debt service paid during fiscal year 2025.

The Eighty-ninth Legislature, Regular Session, 2025, appropriated \$72.8 million in All Funds to pay existing debt service on EDAP bonds; however, the agency did not request nor receive additional funding to support debt service payments to issue new bonds. According to the agency, because TWDB is nearing the limit for remaining new authority (as of August 31, 2025, \$114.6 million of

**FIGURE 5
OUTSTANDING ECONOMICALLY DISTRESSED AREAS PROGRAM DEBT, FISCAL YEAR 2025**



NOTE: Totals may not sum due to rounding.
SOURCE: Texas Water Development Board.

\$200.0 million currently outstanding; \$85.5 million in currently remaining authority), it will consider EDAP bond issuances for future biennia after evaluating EDAP capacity during the 2026–27 biennium. Annual principal payments would replenish the constitutional authority at a slow pace.

The amount and timing of future issuances depend upon the level of interest received through the IUPs, and, as the constitutional limit is reached, the pace of future issuances will be guided by

continued interest in EDAP and whether any replenished constitutional authority is sufficient to meet demand. No loan repayment funds are expected to remain when the program ends or final bond payments are made.

USEFUL REFERENCES

www.twdb.texas.gov/financial/programs/EDAP/index.asp

www.twdb.texas.gov/publications/reports/edap_reports/

CONTACT

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