

STATE OF CONNECTICUT
DEPARTMENT OF PUBLIC HEALTH
DRINKING WATER STATE REVOLVING FUND
INTENDED USE PLAN
FEDERAL FISCAL YEARS 2008 - 2009 & 2009 - 2010 CAPITALIZATION GRANTS

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I. INTRODUCTION

The 1996 Amendments to the Safe Drinking Water Act (SDWA) authorize the United States Environmental Protection Agency (EPA) to offer states capitalization grants to create Drinking Water State Revolving Fund (DWSRF) Programs. The SDWA provides for an annual congressional authorization of monies to the DWSRF. Connecticut's annual allocation is 1% of the national allotment. On October 30, 2009, Public Law 111-88 was enacted, which included the federal fiscal year (FFY) 2010 DWSRF appropriations. This law also added new requirements to the existing DWSRF program.

Each year the State of Connecticut (CT) is required to submit a capitalization grant application to EPA to capture its DWSRF allocation. The Intended Use Plan (IUP) is one of the documents the State must submit as part of its application. This IUP discusses how the State of Connecticut intends to utilize its allotment of FFY 2009 & FFY 2010 funds, which will be available after the State receives the grant award from the EPA.

Connecticut has legislation enabling it to establish and operate a DWSRF program and to apply for and receive federal funds. Connecticut General Statutes (CGS) Sections 22a-475 through 22a-483 inclusive designates the Connecticut Department of Public Health (DPH) as the lead agency for the DWSRF program. As the lead, DPH coordinates activities of four different state agencies with the charge of implementing certain aspects of and overseeing the DWSRF program. A Memorandum of Understanding (MOU), which details the roles and responsibilities of each agency, is an attachment to the Operating Agreement (OA) between the State of Connecticut and the EPA. The OA was filed with EPA as part of the State's 1997 Capitalization Grant application and established the basic framework and procedures of the DWSRF program that are not expected to change annually.

In October 2009, after many years of reliance, the DPH transitioned many of the DWSRF administrative services previously performed by the Department of Environmental Protection's (DEP) Clean Water Program to the DPH Fiscal Office and DPH Grants and Contracts Management Section. The DPH proposed several statute changes to reflect this transition and reduce DEPs requirements with regards to DWSRF loan agreements. These changes are reflected in Public Act 10-117 and will become effective on October 1, 2010. A new MOU has been drafted to reflect these statutory changes and the MOU is planned to be in effect shortly after the statutory changes become effective. The DWSRF Program will continue to operate within the original DWSRF MOU until the new MOU is in place. The following is a brief overview of State agency participation in the DWSRF Program:

The DPH is responsible for programmatic and fiscal administration of DWSRF projects, programmatic and fiscal administration of set-aside projects and accounts, and administration of planning, design and construction projects. The DPH provides the bi-annual capital budget request and State Bond Commission authorization requests for DWSRF projects to the DEP for processing under the Clean Water Fund (CWF).

The DEP is responsible for jointly entering into DWSRF loan agreements with DPH and administration of the CWF, of which the DWSRF is a sub-account. The DEP processes DPH's bi-annual DWSRF capital budget request and processes DWSRF State Bond Commission authorization requests for projects as part of the CWF.

The Office of the State Treasurer (OTT) is responsible for the fiscal administration of all DWSRF accounts, oversight of loans, and administration of a DWSRF financial plan.

The Connecticut Department of Utility Control (DPUC) is responsible for programmatic and fiscal input on DWSRF projects for those privately-owned water companies that it regulates.

II. EXECUTIVE SUMMARY

The Intended Use Plan (IUP) covers the period October 1, 2009 to September 30, 2011 and is based on the use of anticipated Federal Fiscal Years 2009 & 2010 Capitalization Grant monies, a state match of 20% of the FFY 2009 and FFY 2010 Capitalization Grant awards and unobligated funds carried forward from previous IUPs. The DPH is requesting from the FFY 2009 & FFY 2010 allotments the following set-asides allowed under the Act: Administrative, State Program Management, Small Systems Technical Assistance, and Local Assistance and Other State Programs. The uses and amounts of these set-asides are described in Section III.B.

On October 30, 2009, Public Law 111-88 was enacted, which included the FFY 2010 DWSRF appropriations. This law also added new requirements to the existing DWSRF program. These requirements included:

- A minimum of 30% of the 2010 capitalization grant to be used to subsidize projects funded through the DWSRF
- To the extent that there are sufficient applications for funding, a minimum Green Project Reserve (GPR) of 20% of the 2010 capitalization grant to be used for green infrastructure, water and energy efficiency, and other environmentally innovative activity
- Federal Davis-Bacon Act wage rate requirements for construction contracts

In 2010, the DPH is anticipating that approximately \$32,000,000 will be available to provide low interest loans with partial subsidization to PWSs for infrastructure improvements and \$8,104,550 will be used for set-aside activities. The DPH intends to blend the project funds from the FFYs 2009 and 2010 capitalization grants and spread the subsidization from the FFY 2010 capitalization grant to all projects that receive funding. Subsidization will be provided in the form of principal forgiveness. Projects that receive DWSRF funding will each receive a minimum subsidization of 20% of the eligible project cost.

On March 2, 2010 the DPH issued a Call for Projects that included a specific solicitation for projects qualifying under the GPR. The DPH received 83 eligibility applications for approximately \$142,000,000 from PWSs by the March 31, 2010 application deadline. The DPH utilizes a priority ranking system (Attachment B) to determine the FFY 2010 DWSRF Draft Project Priority List (PPL) (Attachment D). The PPL identifies all applicants who submitted eligibility applications in response to the Call for Projects.

Due to the limited amount of DWSRF funds available, only the top 6 projects on the PPL are expected to receive funding under this Call for Projects in 2010. These projects appear above the DWSRF “funding line” and are shaded on the PPL. In addition, 8 carryover projects from previous PPLs are anticipated to be funded. These projects are identified on Attachments D.1. (PPL) and D.2 (carryover).

To the extent that there are sufficient eligible project applications, the DPH is required to reserve a minimum of 15% of the capitalization grant funds for projects undertaken by small PWSs serving fewer than 10,000 persons. Approximately 46% of the 2009 and 2010 capitalization grant funds are being made available to small PWSs in 2010 and these systems are identified on the PPL.

The PPL also identifies projects that qualified under the GPR and the dollar value for the qualifying green elements of the project. The total amount of funding expected to be contributed to qualifying green projects is \$2,890,000 and represents approximately 21% of the 2010 capitalization grant amount.

A Public Hearing was held on June 2, 2010 to address any questions regarding this IUP and the FFY 2010 PPL. An Open Forum immediately followed to answer questions and explain DWSRF program requirements to interested parties.

III. SOURCES AND USES OF FUNDS

A. RATIONALE FOR DETERMINING AMOUNTS OF CAPITALIZATION GRANT INTENDED FOR SET-ASIDE FUNDS

DPH uses set-aside funds to promote safe drinking water efforts integral to Connecticut's multiple barrier approach to protection of public drinking water supplies and public health. Additionally, DPH plans to use these funds to foster greater appreciation of drinking water among the general public and the regulated community. Both of these intended uses address proactive and preventive measures endorsed by Congress in its authorization of the SDWA.

Subsection B below provides an overview of how each set-aside will be used. Prior to requesting disbursement of these funds, DPH will submit work plans to EPA Region 1 as part of the 2009 and 2010 capitalization grant applications which provide specific detail for set-aside utilization.

Refer to Table 1 following Subsection B for estimated monetary amounts of sources and uses of DWSRF funds. For complete financial analysis of the DWSRF please refer to the DWSRF Annual Reports produced by OTT. Please refer to the attachments of this document for a description of the amounts appropriated and actual expenditures for set-aside monies from previous DWSRF capitalization grant awards.

In the FFY 2008 grant application, DPH chose to bank some funds for future use under the Administrative, Small System Technical Assistance, and State Program Management set-asides. These banked funds are being requested as part of the FFY 2009 Capitalization Grant application. Table 1 reflects the total amount of set-asides being applied for including these banked funds along with the FFY 2009 and FFY 2010 amounts.

B. DESCRIPTION OF SET-ASIDE ACTIVITIES AND PERCENTAGE OF FUNDS

1. DWSRF Administrative Funds – 4% of the Capitalization Grant

DPH intends to use funds in the Administrative set-aside to support existing staff at DPH and OTT dedicated to administrative and fiscal management of the DWSRF accounts as well as providing assistance to borrowers in preparing their loan applications and satisfying program requirements. In addition, DPH intends to utilize funds from this set-aside for the development of a state specific project, financing, loan and accounting management system for the Connecticut DWSRF Program. This program will provide the following:

- An improved system for the management of project and financing information
- Identification and tracking of all necessary program elements as required for EPA, State and stakeholders reports.
- Information to be used in reports (i.e. Annual Report for the state legislature, EPA's National Information Management Systems)

2. State Program Management – 10% of the Capitalization Grant

Funding under this set-aside will be used primarily to support and administer the Public Water System Supervision (PWSS) grant activities, support implementation of the DPH capacity development strategy, and provide direct technical assistance to PWSs. DPH staff are funded under this set-aside to conduct activities directly related to State Program Management activities.

Highlighted activities performed under this set-aside include:

- Prepare guidance documents, workplans, and long-term strategies for DWSRF program management and EPA required program management reports (i.e. Quality Assurance Project Plan, Performance Partnership Agreement),
- Provide direct technical assistance to PWSs regarding the required reporting of water quality and inventory/facility data utilized in Safe Drinking Water Information System and electronic data interchange; provide information and educational opportunities to PWSs via internet postings.
- Prepare capacity development guidance documents, work plans, standard operating procedures, long-term strategies, training events and direct technical assistance to PWSs
- Conduct outreach programs to educate PWS staff, certified operators, the general public and other stakeholders on capacity development and state drinking water program administration elements
- Provide support for Drinking Water Section activities by performing a wide variety of general office support functions.
- Provide legal assistance to the DWS regarding the DWSRF program and other public water system supervision activities

3. Small System Technical Assistance – 2% of the Capitalization Grant

Activities performed under this set-aside are aimed at helping small PWSs serving fewer than 10,000 persons achieve long term sustainability through direct technical assistance to PWSs. Technical assistance efforts include assisting small PWS in developing asset management programs, on-site small water system infrastructure evaluations, sanitary surveys and DWSRF assistance.

4. Local Assistance and Other State Programs - 15% of the Capitalization Grant

The DPH uses this set aside for wellhead protection and capacity development activities. The Wellhead Protection Program utilizes 5% of the set-aside funds and the Capacity Development Program utilizes the remaining 10%. Each program is described below.

a. Source Water Assessment Program (SWAP) and Wellhead Protection.

Connecticut secured the full 10% Local Assistance SWAP set-aside for FFY 1997 and has secured 5% for wellhead protection set-aside each FFY since 1997. Following the completion of Connecticut's SWAP assessment report on April 28, 2003, a drinking water Source Water Protection (SWP) Program was developed in order to utilize assessment information to further public health protection.

Funding will be used for activities necessary to complete the 5-year SWP Strategic Plan. Topics include, but are not limited to: drinking water source protection, public health, septic systems, drinking water initiatives, linking the Clean Water Act to the SDWA, water conservation, drinking water system security, risk communications, public water supply management planning, community relations, water supply planning including emergency contingency planning, and drinking water quality.

One Full Time Equivalent (FTE) staff will be used to support the implementation of drinking water source protection by linking the protection of public water supplies with subsurface sewage disposal system approval, maintenance, training, and repair.

b. Capacity Development Program

The DPH utilizes 10% of the Local Assistance set-aside for capacity development initiatives to improve the technical, financial and managerial capacity of PWSs. DPHs strategies account for both immediate and long-term sustainability initiatives including education, technical assistance, enforcement, consolidation, DWSRF assistance, and water system restructuring. DPH has promoted the consolidation of small public water systems for many years as one method of improving small system compliance problems while also providing better long-term economies of scale to small system rate payers.

Staff funded under this set-aside conduct activities directly related to implementing the capacity development strategy.

Highlighted activities performed under this set-aside include:

- Incorporating technical and managerial capacity development assessments into sanitary surveys including comprehensive water system infrastructure analysis, SDWA/State regulatory compliance reviews, identification and recommendation of basic infrastructure repair and replacement program needs, technical assistance to small CWSs of SDWA regulations, identification of water systems that would most benefit from collaboration or regionalization and guidance on sustainability initiatives including asset management, capitol improvement, planning, budgeting and rate setting.
- Provide technical assistance and enforcement referral to local health departments for maximum contaminant level violations, source water construction violations and cross-connections identified at Non Transient Non Community (NTNC) and Transient Non Community (TNC) food service establishments.
- Participate in training programs related to the technical, managerial and financial capacity for PWS operators and local health officials.
- Evaluate the adequacy and protection of the water distribution networks with emphasis on viability of the systems' cross connection programs.
- Screen local land use development projects for creation of new water companies and refer appropriate water company projects to the DPH and DPUC for a Certificate of Public Convenience and Necessity
- Evaluate Water Company Land classifications
- Assist in various aspects of water supply planning including technical assistance to PWSs regarding capacity development topics
- Monitor state legislation for matters related to public drinking water
- Assist in preparing annual capitalization grant applications, budgets, financial status reports and other associated DWSRF reports and IUPs
- Coordinate the preparation of DWSRF loan agreements within DPH and with other State agencies
- Provide technical assistance to the Water Planning Council in the areas of the Water Utility Coordinating Committee, water supply planning, and the Connecticut Drought Advisory Committee
- Provide technical assistance to DWSRF applicants to assist them in understanding program requirements and completing applications
- Reviewing capitalization grant set-aside expense reports

The DPH believes that by enhancing system operations and ensuring the technical, financial, and managerial capacity of its PWSs, the DPH can promote greater long-term compliance with national primary and state drinking water regulations.

TABLE 1
Sources and Uses of Estimated Amounts of DWSRF Funds
For FFY 2010

<u>Sources</u>	<u>Amount</u>
FFY 2009 Capitalization Grant	\$ 8,146,000
FFY 2010 Capitalization Grant	\$13,573,000
State Match Requirement ¹	\$ 4,343,800
Carry-over Monies ²	\$10,053,746
2010 State Revenue Bond Authorization	\$10,000,000
Total Sources	\$46,116,546
<u>Uses</u>	<u>Amount</u>
DWSRF Administrative Fund Set-Aside	\$ 1,104,600
State Program Management Set-Aside	\$ 3,144,800
Small Systems Tech Assistance Set-Aside	\$ 597,300
Local Assistance & Other State Programs Set-Aside	\$ 3,257,850
Total Set-Aside³	\$ 8,104,550
Available Project Funds for Direct Loans	
FFY 2009 & 2010 Capitalization Grants	\$13,614,450
State Match	\$ 4,343,800
Carry-over for projects	\$ 4,291,068
2010 State Revenue Bond Authorization	\$10,000,000
Total Money Available Project Funds	\$32,249,318
Carry-Over for Current/Future Set-Aside Activities	\$ 5,762,678
Total Uses⁴	\$46,116,546

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1. The SDWA requires a minimum state match of 20% of each federal award.
 2. This represents the approximate amount of carry-over monies for set-aside and project funds. These amounts are split within the "Uses".
 3. This represents the portion of the FFY 2007-08 Capitalization Grant that will be used for set-aside purposes authorized under the SDWA.
 4. This represents the sum of Total Set-Aside and Total Available Project Funds.

C. PROJECT FUNDS

1. Total Funds Available for Projects

The total DWSRF funds available for direct loans and subsidization to public water systems are shown in Attachment A. This amount is a combination of the following: any carry-over project funds from previous IUPs that were not allocated to projects, the portions of the FFY 2009 & FFY 2010 capitalization grants that are being allocated to project funds, the required state matches, and any loan repayments and interest earnings to the project fund account. Additional funds may also be realized through the leveraging process. Projects will be prioritized by their ranking on the PPL and some projects may need to be by-passed if they are not progressing or if the applicant withdraws the project from funding consideration. Projects considered “fundable” means that based on their initial ranking, there are expected to be sufficient funds available for those projects. These projects are above the “funding line” on the PPL. Projects considered “potentially fundable” means that based on their initial ranking there are not expected to sufficient funds available for those projects, unless higher-ranked projects are bypassed. These projects appear below the “funding line” on the PPL. A project may also be “partially fundable” if, based on initial ranking, there are funds available for only part of the total cost of the project. Financial assistance will only be made available to those eligible projects which have satisfied all program requirements and have executed a loan agreement with the State of CT.

2. Eligibility for Funds

Only projects submitted specifically in response to the FFY 2010 Call for Projects will be eligible for DWSRF funds. The projects that are ultimately funded may differ from those outlined in the DWSRF FFY 2010 PPL in Attachment D of this document for various reasons, which include the following:

- A project on the fundable portion of the priority list receives full or partial funding from another source;
- A project on the fundable portion of the priority list is by-passed, as described in the Priority Ranking System criteria and Section VII.B. of this document;
- An applicant is unable to comply with all applicable state and federal program requirements for DWSRF funding;
- An applicant withdraws its DWSRF funding application ; or
- A project, or a portion of a project, is determined to be ineligible for DWSRF funds.

It is the goal of the State of CT to fund as many projects as it can with the available DWSRF funding.

If a loan closing cannot be accomplished during this IUP period for any of those projects identified as fundable on the PPL and the project is actively progressing towards a loan agreement, then those projects will automatically be carried over to the priority list for the next IUP in accordance with the procedure described in Section VII.A. of this IUP.

3. Additional Subsidization

The FFY 2010 DWSRF Appropriation requires that not less than 30% of the FFY 2010 capitalization grant amount be used to provide additional subsidization to eligible recipients in the form of grants, principal forgiveness, or negative interest loans or any combination of these. The State of Connecticut is therefore required to provide at least \$4,071,900, which is 30% of the FFY 2010 capitalization grant, in additional subsidization. The State has the

statutory authority to provide subsidization in the form of grants, principal forgiveness, negative interest rates or any combination of these under CGS Section 22a-477(s). The DPH has determined in consultation with OTT that all recipients of DWSRF assistance for FFY 2010 will be provided loans that include forgiveness of principal, for at least 20% of the total amount of assistance they receive. The amount of total subsidization for all projects receiving funding is expected to be \$4,113,992, or approximately 30% of the FFY 2010 capitalization grant amount.

4. Transfer of Funds between the DWSRF and CWSRF

The State has not transferred funds between the DWSRF and the CWSRF programs. While such a transfer is permitted under the SDWA, the State does not anticipate making such a transfer under the current IUP but reserves the right to do so if necessary.

D. Projects Funded Since last Capitalization Grant Application

Since the last grant application 3 project loans (CT Water Company-Shoreline Region – Point O’ Woods \$800,000, City of Norwich \$450,000 and Town of Brookfield \$71,000) totaling \$1,321,000 were executed. Each is described in more detail below.

Connecticut Water Company – Shoreline Region – Point O’ Woods

This project became the first in Connecticut to use the combined funding of the Drinking and Clean Water State Revolving Fund programs. Point O’ Woods is a community of 420 homes, the majority of which are seasonal, and most have antiquated on-site septic systems. In addition, several homes were still utilizing on-site private wells which did not meet current well construction regulations. The project consists of replacing water and sewer lines throughout the community. By doing this project under one contract, the overall cost will be reduced. The total cost of the combined project is approximately \$7 million.

City of Norwich / Norwich Public Utilities

The City of Norwich requested funding to repair, rehabilitate, and retrofit the Norwich Business Park’s water storage tank. The tank was over 30 years old and excessive corrosion necessitated tank repairs. Norwich Public Utilities serves a population of over 36,000.

Town of Brookfield

The Town of Brookfield received funding under the American Recovery and Reinvestment Act of 2009 (ARRA) to install a water main and pump station to provide potable water to several community water systems that have water quality violations with their on-site systems. A loan was provided under the base DWSRF Program to cover some costs that were deemed not eligible under the ARRA. The total population served by this project is approximately 485.

In addition, DPH anticipates closing on 8 loans for carryover projects from the FFY 2008 PPL by September 30, 2010. These projects are listed in Attachment D.2. and will be funded with a combination of carryover monies and state revenue bond authorizations.

IV. DWSRF PROGRAM GOALS

The DWSRF short-term goals are focused on continued development and implementation of all facets of the DWSRF program, including moving eligible fundable projects through the loan process to ensure that all monies are committed in a timely manner. The short-term goals as indicated below are benchmarks for measuring overall success and effectiveness of the program.

The DWSRF long-term goals, as outlined in the OA between the State of CT and the EPA, express strategic principals for guiding CT's DWSRF Program into the future.

A. SHORT-TERM GOALS-FINANCIAL

1. Approve and disburse loans and financial assistance for projects funded from the FFY 2009 & FFY 2010 grants in accordance with this IUP.
2. Continue to implement:
 - a. Effective and efficient fiscal management of DWSRF funds
 - b. Routine procedures for entering into project funding agreements with recipients
 - c. Effective and efficient communications between State agencies for fiscal components of the DWSRF program
3. Complete a review of DWSRF fiscal elements as required by the EPA.
4. Input project financial information into the DWSRF Project Benefits Reporting (PBR) on-line database.
5. Maintain a financing plan that secures the perpetuity of the DWSRF and meets loan demand by utilizing the leveraging system.

B. SHORT-TERM GOALS-PROGRAMMATIC

1. Review and approve applications for DWSRF assistance for projects, as ranked on the PPL, with an overall goal of committing all available project funds during the IUP period.
2. Continue to implement the following existing DWSRF elements, including re-evaluation and improvement when necessary:
 - a. Procedures for determining technical review and approval of DWSRF projects
 - b. Responsibilities delineated in the DWSRF Interagency MOU
 - c. Routine procedures for monitoring oversight and contract compliance of DWSRF set-aside projects
 - d. Communication and information connections between State agencies for programmatic components of the DWSRF
 - e. Procedures for evaluating technical and managerial capacity and sustainability aspects of proposed projects
3. Revise the DWSRF Interagency MOU to reflect modifications made with respect to each agency's responsibilities to the DWSRF Program to reflect the statutory changes approved in 2010.
4. Utilize procedures for meeting the provisions of the FFY 2010 DWSRF appropriation regarding:
 - a. Goal of utilizing at least 20% of the FFY 2010 capitalization grant to fund projects that qualify under the GPR as green infrastructure, water and energy efficiency, and other environmentally innovative activity
 - b. Davis-Bacon Act wage requirements
 - c. Providing a minimum of 30% of the FFY 2010 capitalization grant as additional subsidization
5. Input project information into the DWSRF PBR on-line database.

6. Revise the OA as necessary to reflect any revisions in processing DWSRF projects.
7. Complete a review of DWSRF programmatic elements as required by EPA.
8. Evaluate the needs of small PWSs and mechanisms for getting these types of projects through the DWSRF process. Staff had been participating in the EPA Small Systems Workgroup; however this was suspended when it became necessary to focus efforts on implementing DWSRF provisions associated with the American Recovery and Reinvestment Act of 2009. This goal will be emphasized as staff availability allows.
9. Improve PWS education and proficiency in sustainable infrastructure/asset management.

C. LONG-TERM GOALS/PROJECTIONS

The State has established management goals for the DWSRF program as part of its statewide public health initiative. The condition of the DWSRF continues to be strong primarily because of the effective management and the placement of the DWF within the financial structure of the Clean Water Fund (CWF). This guarantees that the DWSRF will benefit from the same management and financial planning mechanisms that have marked the success of the CWF Program. In addition to the long-term goals outlined in the OA, ongoing discussions about the following issues will shape the program in the coming years:

1. Coordination within the DPH and continued collaboration with other State agencies where possible and advantageous, to maximize the effectiveness of the program and meet the State's water quality goals.
2. The amount of administrative and program set-asides allowed by the EPA and the discretion the State will exercise in the use of those dollars.
3. The EPA's program guidelines and regulations and their impact on the program at the State level.
4. The PPL, the amount of DWSRF funding available and the number of potential loans.
5. Continued improvement on the use of set-aside funds to maximize effectiveness as it relates to the State's PWSs and its customers. One major area of concern is small water systems.

The last projection of future water infrastructure needs was completed in 2009, based on data from the 2007 Drinking Water Infrastructure Needs Survey and Assessment. As anticipated, the needs have risen since the 2003 survey was announced in 2005. In the past, results have been low due to lack of full participation by PWSs and DWS. The State of CT will be fully participating in the 2011 survey and hopes that with increased staff involvement with this process, participation and results will improve. A Needs Survey coordinator and survey team have been organized to work directly with PWS which receive the survey to ensure that they are completed and reflect the PWS total needs. Further discussion of future needs can be found in Section V.F. of this IUP under "Expected Loan Demand".

V. DESCRIPTION OF DWSRF FINANCIAL STATUS

A. TOTAL AMOUNT OF FUNDS IN DWSRF AND SET-ASIDE ACCOUNTS

Attachment A reflects the total amounts projected for the DWSRF project funds and set-aside accounts available to Connecticut upon EPA approval of Connecticut's FFYs 2009 - 2010 Capitalization Grant. It includes the 20% State match required by EPA, but does not reflect additional funds that may be obtained through leveraging.

B. THE DWSRF FINANCING PLAN

The DWSRF financing plan is similar to the plan for the State's CWF program. This plan includes leveraging where project funding comes from the proceeds of revenue bonds supported by the Capitalization Grants. The State has been leveraging the DWSRF loans since Federal Fiscal Year 2001. Bonds were most recently issued in 2008. A more detail financial analysis of the DWSRF program can be found in the DWSRF Annual Report provided to the OTT.

C. STATE MATCHING REQUIREMENT

The required 20% State match for Capitalization Grant for FFY 2009 is \$1,629,200 and for FFY 2010 is \$2,714,600, for a total of \$4,343,800 and is intended to be made prior to final grant award. The match is secured with cash provided by the state.

D. ISSUANCE OF BONDS FOR LEVERAGING

As noted above in Section B, Connecticut utilizes leveraging with DWSRF monies. EPA has approved the leveraging process and bonds have been issued.

Leveraged financing allows the DWSRF to maximize the available project funding because the revenue bond proceeds can be two to three times the amount of the available capitalization grants and state match contributions. This strategy also allows the state to provide loans with a low interest rate at favorable terms to more of the PWS applicants. The leveraging process has been successful because it has allowed the State to fund projects that would not be normally funded using federal funds only. A prime example is the \$55 million New Britain Water Treatment project, which was built using \$36.6 million in SRF monies. This project, which replaced an antiquated system, provides excellent quality water to its over 90,000 customers as well as keeping the water rates relatively low. Another great example is the \$29 million water treatment plant upgrade for the South Norwalk Electric and Water utility. This project was built using \$24.7 million in DWSRF monies to replace an antiquated water treatment plant that was badly in need of upgrades. A highlight of the project is the replacement of the conventional filtration with immersed membrane filtration, which will help maintain quality drinking water to over 42,000 customers. Without leveraging, projects of this magnitude could only be funded under DWSRF by using monies from multiple capitalization grants.

E. FINANCIAL TERMS OF LOANS

Connecticut has instituted a tiered schedule of interest rates for DWSRF loans derived from the market costs of debt financing for the DWSRF program. The tier applicable to a specific project will be based on the financial and legal status of the recipient as well as on the type of project. CGS Sections 22a-475 through 22a-483 inclusive allows for amortization to begin one year from the project's completion date and provides a formula, based on the State's prevailing taxable or tax-exempt bond market rates, for setting interest rates. The State may adjust these terms based on the financial viability of the borrower.

CGS Sections 22a-475 through 22a-483 inclusive allows the State to offer project loans with reduced interest rates or an extended term, if permitted by Federal law, to eligible PWSs that qualify as disadvantaged communities. Attachment 10 to the OA also contains an explanation of a disadvantaged community.

Within the provisions of the CGS Sections 22a-475 through 22a-483 inclusive, the State will consider appropriate financial terms for refinancing (under the SDWA, permitted only for municipal projects incurring debt and initiating construction after June 30, 1993) and acquisition of land and sanitary easements on a case-by-case basis.

Additional lending policies pertaining to the DWSRF program are found in Attachment 6 (last revised April 1999) to the OA.

F. EXPECTED LOAN DEMAND

Connecticut's participation in the EPA-sponsored 1999, 2003, and 2007 Drinking Water Infrastructure Needs Survey evidenced that a significant need continues to exist throughout the State for funding capital improvements. The results of these surveys are used to determine the percentage of DWSRF allotment that each state will receive each year for the 4-year period interval following release of each Survey's report.

The completed 2007 Drinking Water Infrastructure Needs Survey assessed the cost and types of drinking water needs throughout the nation for the period 2007 to 2027. The results of the survey were used to determine the DWSRF allocation for fiscal years 2010 through 2013. Connecticut is one of many states that will receive the minimum 1% allocation. The results of the 2007 Survey showed that the estimated need had grown from \$653.1 million in 2003 to \$1.394 billion in 2007.

The breakdown was as follows:

1. Transmission and Distribution	\$807.1 million
2. Treatment	\$280.6 million
3. Storage	\$151.6 million
4. Source	\$134.9 million
5. Other	\$19.7 million

Connecticut is fully participating in the 2011 Needs Survey and will have comprehensive information to represent Connecticut's needs. The DWS expects to have a higher response rate than the 2007 Needs Survey and intends to work closely with the PWSs selected to participate.

As cost and need for infrastructure projects continue to increase, the demand for low cost loans will most likely also increase. Excluding projects submitted last year specifically for the ARRA, the number of DWSRF projects submitted in 2010 (83 received) has doubled compared to the number submitted in 2009 (42 received). For ARRA, the number of projects seeking funding was even greater, requesting approximately \$330 million total.

Should any additional federal "economic stimulus" funding become available during this IUP period/funding cycle, this IUP will be amended to include those funds and any additional necessary provisions. If this were to occur, the ranking of projects on the PPL may be adjusted based on federally imposed provisions of that funding. Additional solicitation for projects will not be done, unless required by law.

VI. CRITERIA AND METHOD FOR DISTRIBUTION OF PROJECT FUNDS

A. Priority Ranking System.

Only projects submitted specifically in response to the DWSRF FFY 2010 Call for Projects will be eligible for funds.

The Priority Ranking System developed by DPH for its DWSRF program specifies the criteria that will determine the distribution of funds and is found in Attachment B of this document. The primary objective of the ranking system is to award the highest points for projects that protect public health through improvements designed to address PWS performance in the areas of water quality and water quantity. DPH has statutory and regulatory jurisdiction over all statewide matters related to the purity and adequacy of drinking water. Consequently, the DPH considers quantity as important as quality in the protection of public health.

Modifications were made to the Priority Ranking System for the 2010 DWSRF funding cycle. They were made available to all applicants for their reference in completing and submitting project Eligibility Applications. EPA approved these modifications by letter dated March 17, 2010.

DWSRF funds will be distributed based on criteria in the following categories of eligibility:

- Water quality
- Water quantity
- Acquisition and Transfers
- Proactive Infrastructure upgrades
- Protective measures covering sources of supply and distribution systems,
- Affordability
- Green Infrastructure
- Ground Water Rule compliance

All eligible projects are ranked by points, highest to lowest, in one comprehensive list. The FFY 2010 PPL also indicates if the project, or portions of the project, meets the green infrastructure criteria and the amount of money it contributes to meeting the goal.

Projects identified as “fundable” (i.e. above the funding line) on the FFY 2010 PPL may be bypassed by a project listed as potentially fundable (i.e. below the funding line) if the higher-ranking project is not progressing. In the event that one or more projects are tied in the number of points, the tie-breaker provisions outlined in Section VII.C. of this IUP will be used to determine which project will be ranked higher on the PPL. The project ranked lowest within the “fundable” range may only be “partially fundable” based on the amount of total funds available.

Within the parameters set by the Priority Ranking System, DPH intends to exercise considerable flexibility in the types of projects the DWSRF will fund with protection of public health and compliance with Federal and State drinking water mandates as the predominate concerns, while also implementing green infrastructure goals. Exclusions for growth and other non-eligible elements as described in the EPA’s DWSRF Guidance Document (dated February 1997) stand as limitations on project funding.

While Connecticut intends to fund a wide range of drinking water projects, it will do so only after careful consideration of a potential recipient’s technical, managerial and financial capabilities. An assessment of an applicant’s financial capabilities will be conducted before any funding commitment is made. The purpose of this assessment is to screen the capabilities of applicants to ascertain if a system possesses the ability to repay a DWSRF loan.

B. Other FFY 2010 DWSRF Provisions

1. GPR: Green Infrastructure, Water and Energy Efficiency, and Other Environmentally Innovative Activity

- a. To the extent there are sufficient eligible project applications, not less than 20 percent of the funds from the FFY 2010 Capitalization Grant shall be for projects to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities
- b. If there are not a sufficient number of projects to reach the minimum amount of funding, additional solicitation for projects of this type will be done
- c. If after additional solicitation for projects there are still not a sufficient number to meet the minimum amount of funding, a request for a waiver of this requirement will be made to EPA.

2. Davis-Bacon Act Wage Requirements

- a. For FFY 2010 the requirements of section 1450(e) of the Safe Drinking Water Act (42 U.S.C. 300j-9(e)) shall apply to any construction project carried out in whole or in part with assistance made available by a drinking water treatment revolving loan fund as authorized by section 1452 of that Act (42 U.S.C. 300j-12).

C. Relationship to DWSRF Goals

The DWSRF Priority Ranking System reinforces the DWSRF long-term goals. It is also consistent with the congressional intent of the DWSRF program to direct the highest priority to projects that protect public health and/or achieve SDWA compliance. In addition, the 2010 modifications incorporate the new FFY 2010 goal for funding “green” projects. Affordability continues to be included by awarding additional ranking points to those systems that meet the affordability criteria, as those PWSs may gain the greatest potential benefit from access to DWSRF loan funds. As described in the Priority Ranking System, affordability points are awarded to a project located in a municipality where the Median Household Income (MHI) is less than 80% of the State’s average MHI as determined by the most recent census. Additionally, the criteria are preventative in that they levy points for situations in which water quality impairments, water quantity inadequacies, or water system imperfections may increase risk to public health and/or result in non-compliance. Points awarded for acquisition and proactive upgrades emphasize the importance of supporting projects oriented toward achieving long-term solutions to existing deficiencies.

The Priority Ranking System compliments Connecticut’s multiple barrier approach to source protection with criteria recognizing every protective barrier of water system operations from the source to the tap. To ensure that DWSRF funds move expediently to where they are needed most, the Priority Ranking System incorporates by-pass procedures for readiness to proceed and for drinking water emergencies.

VII. DWSRF POLICIES

A. Project Application Carryovers and Rollovers

1. Project progressing towards a loan agreement (Carryover)

A project(s) that has been identified as “fundable” on the PPL, or became “fundable” through the by-passing procedure, and is progressing through the DWSRF process toward a loan agreement, but for which a loan closing does not occur during the IUP period/funding cycle, will be automatically carried over to the subsequent IUP period/funding cycle. A project(s) in this category will not be re-ranked on the subsequent PPL, but will be maintained in a separate list (see Attachment D.1.). Funds allocated for these projects will be considered “reserved” and will be included in the amount of carry-over monies but will not be included in the amount of project funds available for the current IUP period/funding cycle. Carryover funds are subject to state and federal laws and regulations, including, but not limited to, federal restrictions on the period in which capitalization grant awards are available for obligation by a state.

2. Project on the PPL, but not progressing towards a loan agreement (Rollover)

A project(s) that has not been withdrawn, but which is not progressing towards a loan agreement during the IUP period/funding cycle, can be rolled over for consideration in the subsequent IUP period/funding cycle upon written request to DPH by the applicant. Any PWS seeking to rollover a project in accordance with this Section will be required to update its DWSRF application, upon request by DPH. This project(s) will be ranked with all new applications received by DPH for the fiscal year into which the project is being rolled over and in accordance with DPH's then current Priority Ranking System. Any project that is rolled over must continue to comply with all requirements of the DWSRF Program.

B. Multi-Year projects on the Fundable Portion of the Priority List

The construction of some of the projects on the PPL may take place over multiple years. For such multi-year projects, DPH reserves the right to require the applicant to break the project into phases and to limit the amount of funding reserved for the project on the priority list to the amount of funds the system reasonably projects it will need for the phase to be designed and/or constructed during the current IUP period. Multi-year projects that are identified as fundable on the PPL for the current IUP will automatically be rolled over to the PPL for the next IUP and will retain the ranking points assigned to it. Subsequent phases of multi-year project(s) will be ranked on the PPL with new applications received by DPH for the fiscal year into which the project(s) is/are rolled forward.

C. Project By-Pass Procedures and Readiness-to-Proceed

1. By-Pass for GPR, Readiness-to-Proceed, etc.

- a. Projects that meet the GPR provision may bypass other project(s) until the federal GPR goals as identified in Section VI.B.1 of this document have been met.
- b. If for some reason a project is not ready to proceed in a timely fashion, the DPH may by-pass that project and select the next highest ranked eligible project for funding based on that PWS's ability to initiate the project during the current funding cycle. A project may also be by-passed if the applicant has withdrawn its application. This By-Pass

process is necessary to ensure that available DWSRF funds will be disbursed in a timely fashion.

- c. Only those elements (planning, design, construction) of eligible projects that can result in executed contracts and DWSRF loan agreements within the current FFY 2010 funding cycle may receive funding during that cycle. Elements of eligible, fundable projects that cannot result in executed contracts and DWSRF loan agreements will be eligible to receive funding in future funding cycles, based on the rollover procedure. The criterion used to evaluate readiness is included in the Eligibility Application.

D. Tie-Breaking Procedures

The total numeric score for a project is determined by summing the points awarded based on the Priority Ranking System and details in the DWSRF Eligibility Application. In circumstances where more than one project has an equivalent ranking score, the following tiered approach will be implemented to break the tie:

1. The size of the population served by the project; the project with the larger population served will be given preference.
2. The percentage of total system population served by the project; the project serving a higher percentage of the overall system population will be given preference.
3. The size of the total population served by the system applicant; the system with the larger population will be given preference.

If two or more projects remained tied after implementation of tie-breaker #1, then #2 will be applied. If two or more projects remain tied after implementation of tie-breakers #1 & #2, then #3 will be applied.

E. Reimbursement

DPH implements the EPA policy on eligibility of reimbursement of incurred costs for approved projects, which was issued on or about January 12, 1999 in the Federal Register (Volume 64, Number 7, Pages 1802-1804). Consistent with this policy, an eligible PWS must receive written authorization from DPH prior to commencement of construction in order to be eligible to receive reimbursement at the loan closing for any construction costs incurred prior to the loan closing. If such authorization is not received from DPH, then the PWS will only be reimbursed for construction costs incurred from and after the date of the loan closing.

F. Withdrawal of Project from Funding Consideration

1. If a PWS chooses not to pursue funding of a project through the DWSRF, or chooses to not go forward with implementation of a project, the PWS shall submit a letter indicating the withdrawal of the project. Upon receipt, the project will be removed from the DWSRF FFY 2010 PPL and no longer considered for funding. Withdrawal of a project will not preclude a PWS from continuing to pursue funding for other projects or from submitting the same project for consideration during a subsequent funding cycle.
2. Projects for which an Eligibility Application is received and placed on the FFY 2010 PPL but for which a Financial Assistance Application is not received by the established deadline will be considered withdrawn. DPH will notify a PWS if their application is withdrawn by DPH.

G. Letter of Authorization to Award for Eligible Projects

DPH may issue a letter authorizing the PWS to award a contract for a project if sufficient information has been submitted to DPH. Typically, this letter indicates to the applicant that it appears the materials that they have submitted to the DPH satisfy the regulations for the DWSRF program. The applicant may award the contract(s) subject to conditions set forth in the letter. The authorization letter does not constitute a commitment by the State to make a project loan under the DWSRF program.

VIII. IMPACT OF PROGRAM ON LONG-TERM FINANCIAL STATUS OF DWSRF.

The main features of Connecticut's DWSRF program – the ranking system, the leveraging plan and the maximization of set-aside monies – will be implemented and managed in a prudent and responsible manner. This will allow DPH to meet the public health and compliance goals of the DWSRF while simultaneously preserving the integrity and perpetuity of the fund itself. Loan terms will be attractive, while lending procedures will include safeguards structured to minimize unforeseen losses to the fund. The DWSRF also produces numerous opportunities for strengthening water supply mechanisms (i.e. source protection, PWSS program) that will ultimately result in improvements to safe and adequate supplies of drinking water for Connecticut residents. Additionally, the placement of the DWSRF within the financial structure of Connecticut's CWF, guarantees that the DWSRF will benefit in the long term from the same management and financial planning mechanisms that have marked the success of Connecticut's CWSRF Program.

IX. PUBLIC OUTREACH AND COMMENT

DPH has engaged in a concerted effort to prepare and provide accurate and understandable information on the DWSRF to potential loan applicants and other interested parties. The DWSRF loan applicant pool in Connecticut consists of approximately 900 PWSs. Outreach to these systems as well as to other interested parties has and will continue to occur simultaneously with the implementation of the DWSRF program. Outreach is accomplished through posting of information on Department's web-site, meeting with applicants, distribution of the program information by staff, participation in various water-related forums, and publication of a DWSRF Program brochure.

In conformance with 40 CFR 35.3555(b), the DPH sought meaningful public review and comment during development of this IUP. In addition, Regulations of Connecticut State Agencies (RCSA) Section 22a-482-1(c)(4) requires that a public hearing be held to allow for the opportunity to comment on the Draft PPL. As has been done in previous years, a Draft version of this IUP and Draft PPL was made available to all applicants and other interested parties for review and comment at least 30 days prior to the public hearing.

The FFY 2010 Public Hearing was held on June 2, 2010 and was followed by an open forum where attendees could meet directly with DWSRF Program staff to answer questions and learn more about the loan program. The Notice of Hearing (Attachment F.1) had been formally advertised on April 30, 2010 in daily newspapers of statewide and regional distribution and on April 29, 2010 in two minority periodicals. The Public Hearing was attended by 36 people (Attachment E.2.). Testimony was received from 11 different organizations concerning 7 projects. All testimony, both written and oral, was reviewed to determine if any adjustments were requested to either the IUP or ranking points awarded to a project. After consideration of all testimony, some adjustments were made to the Draft PPL, which are reflected in the Final PPL (Attachment D.1). The Hearing Report (Attachment E.3.) includes DPH's responses to all comments or concerns that were received during the public comment period and explains the basis for the adjustments that were made.

X. ATTACHMENTS

- A. Uses for DWSRF Project Funds and Set-Aside Accounts
 - 1. [Cumulative Capitalization Grant Funding and List of Projects Funded under DWSRF through April 30, 2010](#)
 - 2. [FFY 1997 – 2010 Total Funds Breakdown](#)
 - 3. [FFY 1997 – 2010 Set-Aside Funds Breakdown](#)
 - 4. [FFY 1997 – 2010 Administrative Set-Aside Funding Breakdown by State Agency](#)
- B. [Priority Ranking System](#)
- C. [DWSRF Eligibility Application](#)
- D. Project Lists
 - 1. [FFY 2010 Project Priority List](#)
 - 2. [Carryover Projects from FFY 2008 PPL](#)
 - 3. [GPR Projects Selected to be Funded](#)
- E. [Public Outreach and Comment](#)
 - 1. [Public Notice for FFY 2010 Public Hearing/Open Forum](#)
 - 2. [List of Attendees](#)
 - 3. [Hearing Report](#)
- F. [List of Acronyms](#)