

STATE OF RHODE ISLAND

INTENDED USE PLAN

In Support Of The

DRINKING WATER CAPITALIZATION GRANT UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

I. INTRODUCTION

This document serves as the State of Rhode Island's application to the Environmental Protection Agency's for a \$19,500,000 capitalization grant for its DWSRF under the American Recovery and Reinvestment Act (ARRA) of 2009. As per the Act, state match will not be required for this capitalization grant award.

The entities involved in the application for this federal capitalization grant are the Rhode Island Clean Water Finance Agency (RICWFA) and the Rhode Island Department of Health (HEALTH). The RICWFA is the designated lead agency of the State and is empowered to enter into capitalization grant agreements with the Regional Administrator, to accept capitalization grant awards, and to otherwise manage the fund in accordance with the requirements and objectives of the Safe Drinking Water Act Amendments of 1996 (SDWA), as established by Chapter 46-12.8 of the General Laws of Rhode Island as amended. The RICWFA has extensive State Revolving Fund experience and expertise as it enters its' eighteenth year of administering Rhode Island's Clean Water State Revolving Fund whose success is measured by over \$632 million in wastewater pollution abatement loans since its inception.

HEALTH is designated as the primary agency for the SDWA, and will be responsible for: establishing assistance priorities; assisting in developing the Intended Use Plan (IUP); establishing project priority lists; determining project eligibility; performing technical project reviews; monitoring construction; and determining and implementing set-aside programs.

A Memorandum of Understanding, (MOU) exists between the two agencies and is included as an Attachment to the application package.

II. DWSRF Program Goals

Rhode Island is committed to using the capitalization grant for which it is applying to provide financial assistance to water systems for capital improvement projects which will proceed quickly to construction, creating jobs and furthering the public health protection objectives of the Safe Drinking Water Act. Rhode Island's goal is to enter into binding commitments for projects which will proceed to construction or award of construction contracts by February 17, 2010. The State intends to award all assistance available under this capitalization grant in full conformance with the deadlines established under the ARRA and the terms and conditions of the capitalization award.

Rhode Island recognizes that the goal of the ARRA is to expeditiously fund eligible projects that simultaneously will create jobs, promote economic recovery, and generate long-term benefits from infrastructure investment. In this grant, the State is being called upon to accomplish goals that may not previously have been priorities in its base SRF program. Some priorities and activities in the State's base program that may not practically be attainable within the timeframes associated with the ARRA will be pursued using funds made available through the base DWSRF program.

To determine which projects are to be funded by the DWSRF, the Rhode Island Department of Health has prepared its Project Priority List (PPL). The revised FY 2009, the most current, PPL is included as part of the IUP. HEALTH has developed a tie-breaking procedure; by-pass provisions; by-pass for small systems procedure; and emergency projects procedure as part of the Rules and Regulations Pertaining to the DWSRF Program.

In the event that projects identified for funding in the IUP are unable to proceed, funding assistance for these projects will be deferred and other projects from the PPL will be selected for funding based on procedures in the priority determination system, readiness to proceed, and availability of funds. Any qualified DWSRF applicant that has funding assistance deferred will be informed in writing by the RI Department of Health.

III. SOURCES AND USES OF FUNDS

The State of Rhode Island is applying for a capitalization grant in the amount of \$19,500,000. This represents the amount that USEPA Region 1 informed the State is eligible to receive under the State's allocation from the supplemental appropriation enacted under the ARRA. ARRA has waived the State Match requirement of 20%.

The State of RI does not intend to transfer any monies received from the DWSRF capitalization grant it will receive under the ARRA to the CWSRF grant.

The State intends to take a set-aside of 4% for DWSRF program administration and is not seeking to take any other set asides. The Department of Health and the Rhode Island Clean Water Finance Agency intend to use the allotment of administrative set-aside to manage the Drinking Water State Revolving Fund. The Agency is the lead agency responsible for fund administration while Health is the primary agency responsible for regulatory and programmatic aspects of the DWSRF. The 4% administrative set-aside totals \$780,000.

The following table summarizes the sources and uses of the capitalization grant for which RI is applying:

ARRA Sources	Amount
Capitalization Grant	\$19,500,000
Uses	Amount
4% DWSRF Administrative Set-aside	\$780,000
Infrastructure Assistance Agreements	\$18,720,000

IV. CRITERIA AND METHODS FOR DISTRIBUTION OF FUNDS

The financial structure of Rhode Island's DWSRF Program will be a culmination of extensive modeling and analyses which will provide the DWSRF Program with the flexibility to accomplish its goals within the changing financial and legal environment.

The State of Rhode Island DWSRF will have a financing structure flexible enough to meet the needs of the varied types of water suppliers who seek financial assistance from the program while ensuring the financial health of the DWSRF, the Agency, its bond holders, and existing financial assistance programs. The financial structure will also attempt to maximize the number and volume of loans the Agency can safely make to the local communities and water supply authorities while complying with the Safe Drinking Water Act Amendments of 1996 and the associated rules promulgated by EPA.

A. Loan Terms and Fees

Rhode Island's DWSRF program offers an economic benefit to its borrowers in the form of loan interest subsidization. The standard interest rate is $\frac{1}{4}$ off the borrowers' market rate of borrowing. Loans can be up to twenty years and can be structured to meet the repayment abilities unique to each borrower. Loan fees include a 1% loan origination fee and a .5% (one-half of one percent) service fee on the outstanding balance of the loan. Interest is collected twice annually and principal is collected once annually.

B. Additional Subsidization

The Stimulus package will be added to current Agency capitalization grants and recycled monies to create a substantial bond issue. Projects will be funded at 25% less than the borrowers rate with \$9,750,000 distributed amongst all the borrowers as principal forgiveness at a portion yet to be determined. The legislature of the State of Rhode Island is currently considering legislation which would establish authority to provide principal forgiveness and/or negative interest loans.

The Agency will also revise its DWSRF Loan Policies and Procedures to establish the authority to make principal forgiveness and/or negative interest loans.

C. Green Infrastructure

The projects listed in the attached Fundable Project Priority List includes 3 projects with an approximate assistance amount of \$780,000 (out of \$29.8 million on the Fundable Project Priority List) that are designated on the List as meeting one or more of the specific objectives required by the green infrastructure provision. Where it is not clear that a project or component qualifies to be included as counting towards the 20% requirement, the files for such project will contain documentation of the business case on which the project was judged to qualify, as described in Attachment 8 to the USEPA guidance for the ARRA. Projects on the List meeting

one or more objectives are designated as follows: Green Infrastructure = G; Energy Efficiency = E, Water Efficiency = W, Other Environmentally Innovative Activity = O.

The projects on the current Fundable Project Priority List will not allow the State to fund 20% of the projects as "green". The State Department of Health intends to make a timely and concerted solicitation for additional projects in , with the objective of determining new projects no later than May 15, 2009.

D. Priority for Projects Ready to Proceed to Construction in 12 Months/ Preference for Expeditious Activities

The Department of Health solicited for new projects in February 2009 in anticipation of ARRA funding. The Department also consulted with all potential assistance recipients with projects on the fundable list in order to determine which projects are most likely to be able to proceed to actual construction within the next 12 months. These systems have been given priority, and that priority is reflected in the ranking the project receives on the Fundable Project Priority List.

In addition, ARRA Section 1602 requires that "recipients shall give preference to activities that can be started and completed expeditiously, including a goal of using at least 50 percent of the funds for activities that can be initiated not later than 120 days after ... enactment" of the ARRA. The State intends to implement this preference requirement by selecting for first ARRA funding from among the projects with the priority determined above, those projects that, as far as it's possible to determine, appear most likely to be able to start construction by June 16, 2009.

E. Avoidance of Reallotment/ Relationship to Base Program

In order to meet the requirements and deadlines of the ARRA for the expeditious and timely commitment and expenditure of funds, the State of RI will regularly review the data reported to USEPA on the progress of assistance recipients under the statutory deadlines specified in this IUP to identify any issues with the timeliness of this progress. If such issues are identified, the State of RI intends to work with USEPA to resolve such issues as may place the State at risk of reallotment if not timely resolved. The State will include conditions in its binding commitments to ensure that assistance recipients make timely progress with respect to entering into contracts and/or construction. If a recipient fails to maintain progress with these conditions, they will receive funding from other DWSRF monies so that ARRA funding can be provided for a project that is ready to proceed.

The State understands that the USEPA may deobligate grant funds from States that fail to meet requirements on use of funds. The State of RI intends to avoid deobligation. If the State is eligible for additional funds made available from other States that fail to meet deadlines, the State will provide USEPA with a list of projects from its priority list that are ready to proceed to construction, and will also provide a certification through an amendment to this IUP that all funds received for these projects will be under contract for construction within 120 days of reallotment

V. Public Review and Comment

The IUP is subject to review and comment by the public prior to its incorporation into the State of Rhode Island's Capitalization Grant agreement with EPA. The IUP was put to public notice on April 2, 2009 in the Providence Journal and will simultaneously be sent to all interested parties by request.

The Revised FY 2009 PPL was put on public notice on February 27, 2009 and sent to all interested parties (all DWSRF eligible water systems, local interest groups, and involved units of government). As utilities show interest in utilizing the DWSRF Program, the Department of Health revises the PPL accordingly so that the utilities may access DWSRF funds.