

III. CAPITALIZATION GRANT AGREEMENT

A. FY2010 Intended Use Plan

STATE OF RHODE ISLAND
FY2010 INTENDED USE PLAN

in support of the

FEDERAL FISCAL YEAR 2009 CAPITALIZATION GRANT

*To be made available by the Federal Clean Water Act for the
Clean Water State Revolving Fund*

Introduction

The Rhode Island Clean Water Finance Agency (“Agency”), hereby submits to the Environmental Protection Agency (“EPA”), the Intended Use Plan (IUP) for all Clean Water Act (“CWA”), Title VI funds available to the Clean Water State Revolving Fund (CWSRF) including the Federal Fiscal Year (FFY) 2009 allotment of \$4,515,300. The FFY2009 funding includes the State of Rhode Island’s twenty-percent match of \$903,060 for a total amount of \$5,418,360. This plan also reiterates the Agency’s intended use of revolved monies.

Listing of State Revolving Fund Projects

With this award of the total FFY2009 federal and state allotment of \$5,418,360 it is our plan to continue assisting wastewater abatement projects in Rhode Island and to continue the proper administration of the Clean Water State Revolving Fund Program (the “Program”). To determine which projects are to be funded by the Program, the State FY2010 Project Priority List (PPL), prepared by the Rhode Island Department of Environmental Management (“DEM”), Office of Water Resources, was reviewed, and projects needing CWSRF funds in FY2010 are identified in priority order. The projects identified for funding are in the communities of Bristol, Burrillville, Coventry, Cranston, East Greenwich, East Providence, North Smithfield and Warwick along with the Narragansett Bay Commission & Rhode Island Airport Corporation.

Within the State of Rhode Island the “first-use” requirement has been met. All National Municipal Policy (NMP) projects have completed construction, most receiving Title II Construction Grants funds.

Revision to the Intended Use Plan

Throughout the course of the year, the need may arise to amend this IUP. In such an event, the Program will only propose projects that have been selected from the approved PPL. The projects on this list will have been previously identified and approved through the public participation process as per 40 C.F.R. Section 35.3150 (c).

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.

Short and Long Term Goals

As required by the CWA, the RI CWSRF Program has identified the following goals for the CWSRF. The goals described below are grouped according to short-term and long-term objectives and are not listed in any particular order:

A. SHORT TERM GOALS

- Goal #1:** Continue the Program that will continue to operate in perpetuity.
- Goal #2:** Manage the Program to distribute loan monies to borrowing communities in a timely and efficient manner.
- Goal #3:** Administer rules, regulations and guidelines that are conducive to the proper functioning of the Program while ensuring compliance with the intent of the CWA.
- Goal #4:** Develop an Intended Use Plan (IUP), to be submitted along with the annual capitalization grant application, in a timely manner, to EPA.
- Goal #5:** Administer loan policies and procedures associated with the proper management of the CWSRF program.
- Goal #6:** Prepare an annual report which lists the State's accomplishments for the fiscal year and submit to EPA in a timely manner.
- Goal #7:** Assure full compliance with Title VI of the Clean Water Act and all federal crosscutting issues as required by the 1987 CWA amendments

B. LONG TERM GOALS

- Goal #8:** Place emphasis on all municipal facilities in attaining compliance with RIPDES permits limitations.
- Goal #9:** Stress the importance of attaining general water quality standards where they are negatively impacted by municipal point-source discharges.
- Goal #10:** Coordinate CWSRF activities with both State and Federal enforcement activities.
- Goal #11:** Coordinate all state funded programs for wastewater treatment facilities with CWSRF activities.
- Goal #12:** Evaluate environmental needs throughout the state, by rating specific needs for wastewater construction and strive to distribute CWSRF funds in a priority manner.
- Goal #13:** Protect the public health and the environment and promote completion of cost-effective projects.
- Goal #14:** Assist communities during facilities planning and application for CWSRF funding.
- Goal #15:** Continue efforts to improve the water quality of the Narragansett Bay and its tributaries, which was designated as an Estuary of National Significance in March of 1988.

Goal #16: Assist in the development of an assessment and management program for Non-Point Source (NPS) and Estuary Protection projects to be considered for funding by the State CWSRF.

Program Issues and Initiatives

This IUP addresses the sources of monies expected to be available to the CWSRF as of September 30, 2009. The use of the monies is expected to go beyond the term of this IUP. The financing capability of this IUP is based on the total federal and state capitalization grant awarded and paid into the Automated Clearing House (ACH) to date; direct loan repayments; revolved federal and state capital, Bond Proceeds and interest earnings from the CWSRF.

Projects are to be funded with this year's available Capitalization Grant monies and state match which totals \$5,418,360 (See Table 1 attached hereto). In addition to the aforementioned, the Agency will use repaid funds from previous loans and proceeds from an anticipated bond sale in September, 2009. The total amount of loans issued in FY2010 from the CWSRF is expected to total \$147 million. These resources will be allocated to long-term direct loans, pooled long-term financings (Leverage Loans), and the Community Septic System Loan Program (CSSLP). The resources available in the RI CWSRF are anticipated to be insufficient to finance all eligible projects ready for financing during this IUP period. The Agency will fund projects according to the Project Priority List and readiness to proceed.

Information on the CWSRF Activities to be supported

The FFY2009 Capitalization Grant funds for the CWSRF are intended for loans to municipalities, the Narragansett Bay Commission and other eligible borrowers using either direct loans or the "reserve" leverage method to meet project demand estimated for the immediate future and beyond. It is anticipated that all or a portion the Capitalization Grant plus the State Match, if leveraged, will be at a ratio of at least 2:1 (leveraged being defined as Total Loans divided by Net Capitalization Grant plus the State Match). The maximum permissible principal repayment period shall be 20 years following project completion, and may begin up to 12 months after construction is completed, but not to exceed 5 years from beginning of construction.

Rhode Island's CWSRF has de-allocated LIST funds, federal direct loan re-payments, and state match direct loan repayments in the fund. These amounts will be used to fund direct loans (not leveraged), or for leveraged revenue bond pool issues, or to fund another LIST fund during this IUP period as loan demand and timing dictates.

The Program intends to use four percent (4%) of the federal capitalization grant funds for DEM administrative costs to support the SRF program. Based upon the FFY2009 allotment of funds, the DEM plans to use \$180,612 of the FFY2009 Title VI funds for administrative support in managing and operating the SRF program. The Agency, from FFY98 through FFY05 has "banked" the authority to use the 4% of the federal capitalization funds for DEM administrative costs to support the CWSRF program. The Agency also banked the FFY2009 American Recovery and Reinvestment Act Capitalization Grant's 4% administrative monies. To date, \$3,849,156 in Capitalization Grant funds for DEM's administrative costs have been banked. These "banked" funds have been loaned to various communities.

The Agency has used its first round of revolved funds for direct loans to municipalities for establishing management and repair programs for on-site disposal systems (OSDS) to achieve the goals and objectives of the approved Section 319 Non-point Source Management Plan. This program called the Community Septic System Loan Program (CSSLP) was publicly announced in March of 1998.

Municipalities and special purpose districts whose primary function is management of OSDs are eligible to apply for direct loans funded by the revolved CWSRF funds. The Agency in cooperation with DEM and the Rhode Island Housing (RI Housing) successfully launched its CSSLP as part of the CWSRF in the spring of 1999. The Agency has engaged RI Housing to be the homeowner loan administrator on behalf of the community for the CSSLP. The CSSLP allows communities without wastewater treatment facilities to access low-interest cost CWSRF funds. Communities are able to access the CSSLP after completing an On-Site Wastewater Management Plan approved by DEM. Once the plan appears on DEM's PPL and the Certificate of Approval (CA) is obtained, the community will negotiate a loan with the Agency. The amount requested should be sufficient to repair or replace failing, failed or sub-standard septic systems. Once the loan is negotiated, the community may then allow residents to access the funds. The borrowing cost for the homeowner will be 2% for a term up to ten years. To date, the Agency has made twenty-two CSSLP loans to ten communities in Rhode Island in the total amount of \$6,200,000. As an illustration of this program's success, several of the communities are on their second and third round of borrowings and 2 communities are on their fourth round of borrowings. Several other communities whose On-Site Wastewater Management Plans are being prepared or reviewed have expressed interest in becoming part of the CSSLP.

In addition to the CSSLP program, the Agency has implemented a new program, the Sewer Tie-In Loan Fund (STILF). Modeled after the CSSLP, the STILF will provide below market rate loans to homeowners to connect their residences into the local sewer system and abandon their individual septic systems.

EPA's clarification of its regulations regarding the funding of water pollution control infrastructure on private property does not clear all the barriers towards funding sewer tie-ins. The enabling legislation of the Agency limits the Agency's lending to governmental entities. In order to fund the replacement of failing septic systems, the Agency and DEM created the CSSLP where the Agency loans a sum of money to a community, who in turn, through an intermediary, loans qualified residents the funds to replace the failed septic system. The STILF will follow this same procedure to deliver funds to those wanting to connect to the local sewer system.

The owner of the public wastewater treatment facility or sewerage system will first submit a project titled "Community Sewer Tie-In Program" to be included on DEM's Project Priority List.

The sewer system owner's next step is to prepare a document describing the local sewer tie-in program and any qualifications it may have, the environmental impacts associated with the program, and how the owner will advertise the program. Since the anticipated work is to occur in previously disturbed areas (e.g. yards, driveways, parking lots), DEM expects to issue a Categorical Exclusion for the local tie-in program.

Loans up to \$150,000 will be made to the sewer system owner by the Agency at an interest rate of 0%. The system owner will then direct the STILF funds, through an intermediary, to individual homeowners at a 2% interest rate. The term of the individual loans will be five years. As with the CSSLP, Rhode Island Housing (RI Housing) has agreed to act as the financial intermediary. Upon notification by the sewer system owner that the individual building owner qualifies for the local tie-in program, RI Housing will process the loan applications, cut the checks to the vendors and process loan repayments. Loans will be made to borrowers based upon program requirements and available funds.

The maximum a homeowner can borrow from the STILF is \$10,000. Connections to the sewer by either gravity or low-pressure, including the grinder pump, are both STILF eligible. The cost to properly abandon the existing septic system (pumping out its content and filling with sand) is also

STILF eligible. Since the average loan is expected to be around \$3,000, STILF loans will have a 5 year term.

On April 9, 2009, the Agency received from the EPA a \$26,314,600 Capitalization Grant for its Clean Water SRF Program under the American Recovery and Reinvestment Act (ARRA) for 2009 to be disbursed in the following manner:

Source	Amount
Capitalization Grant	\$26,314,600
USES:	
Project Assistance Loans	
Program Loans	\$6,841,796
Green Project Reserve Loans	\$5,262,920
Project Assistance Subsidization	\$13,157,300
*4% Admin. Monies ("banked" used for project loans)	\$1,052,584
Total Uses	\$26,314,600

As of June 30, 2009, these funds have not yet been disbursed.

Assurances and Specific Proposals

The Agency provides the necessary assurances and certifications as part of the Operating Agreement between the Agency and the U.S. Environmental Protection Agency. Rhode Island's Operating Agreement includes the requirements of the following sections of the law:

602 (a): Environmental Reviews

The DEM has formulated the State Environmental Review Process (SERP) which has been approved by EPA. For FFY02 funds, we expect that most projects will require a Finding of No Significant Impact (FONSI), or, reaffirmation of a FONSI.

602 (b)(3): Binding Commitments

The Agency certifies that it will enter into Binding Commitments for 120% of each quarterly payment received under the Capitalization Grant within one (1) year of receipt of that payment into the EPA/ACH payment system.

602 (b)(4): Expeditious and Timely Expenditures

The Agency will expend all funds in the CWSRF in a timely and expeditious manner. Disbursements for approved CWSRF projects are dependent upon changeable construction schedules.

602 (b)(5): First Use for Enforceable Requirements

The Agency certifies that it will use CWSRF funds first to assure maintenance of progress towards enforceable deadlines, goals and requirements of the CWA.

602 (b)(6): Compliance with Title II Requirements

The Agency agrees to meet the specific statutory requirements for publicly owned wastewater treatment projects constructed in whole or in part before FY95 with funds directly made available by Federal Capitalization Grants.

Sources and Uses of Funds Potential

The estimated funds available for projects in this IUP are summarized in Table 1 attached hereto. The estimate includes awarded but unused (undedicated) EPA and State capitalization grants available to be drawn from the ACH (see Table 1 attached hereto); direct loan repayments; deallocated reserve funds; Estimated Bond Proceeds; and interest earnings on investments of CWSRF resources.

In fiscal years 1997 and 1998, the Rhode Island Clean Water Finance Agency, with concurrence from its financial advisor, determined that a prudent financing strategy would include direct loans made with the federal and state match capitalization grants instead of pooled leveraged financing to accommodate the accumulation of federal award in the ACH and relatively slow construction starts. Also, the delay in the start of the Combined Sewer Overflow project by the Narragansett Bay Commission contributed to this decision. The Agency originated \$18.5 million in three direct loans in fiscal year 1997. Two loans were also made in fiscal year 1998, totaling \$11.4 million using this financing mechanism.

Criteria and Methods for Distribution of CWSRF Funds

DEM has an integrated priority ranking system, approved by EPA Region I. A Project Priority List (PPL) is developed annually using this ranking system (Attachment A).

The CWSRF will provide loans for up to 100 percent of eligible project and finance costs; consistent with Federal limitations on the use of CWSRF funds, with the State determining the eligibility based on State developed criteria.

The Agency and DEM take several factors into consideration when determining which projects from the PPL will be funded by the CWSRF. These factors include:

- ✧ Relative ranking on the PPL;
- ✧ Indication that the community (or service district) has the authority to encumber debt for wastewater projects from the Agency;
- ✧ Indication that the community (or service district) will make application to the CWSRF for financing;
- ✧ Indication that the community's (or service district's) credit quality is adequate;
- ✧ Indication that the DEM will approve the project in the form of a Certificate of Approval; and
- ✧ Indication that projects are ready to proceed within six months of bonding the loan.

Projected Funding List

With the award of this grant in the amount of \$4,515,300, plus the State Match of \$903,060 for a total amount of \$5,418,360 the Agency expects to fund all or portions of the projects identified in Table 2 attached hereto.

Schedule of Anticipated Payments into the ACH system

The Rhode Island CWSRF program anticipates deposits into the ACH for the FFY2009 capitalization grant as per the following schedule. At this time, it is also expected that the Agency will draw cash from the ACH as per the same schedule:

FFY09 CAPITALIZATION GRANT

ANTICIPATED PAYMENTS INTO EPA/ACH PAYMENT SYSTEM

Federal Fiscal Quarter	Payment Into ACH	Cummulative Ceiling
Oct - Dec 2009 (10-1)	\$1,128,825	\$1,128,825
Jan - Mar 2010 (10-2)	\$2,257,650	\$3,386,475
Apr - Jun 2010 (10-3)	\$846,618	\$4,233,093
Jul - Sep 2010 (10-4)	\$282,207	\$4,515,300

Public Review and Comment

Notice for the joint public hearing was announced in the Providence Journal Bulletin on August 28, 2009. The Joint public hearing for the FY2010 Intended Use Plan and FY2010 Project Priority List is to be held on September 30, 2009. Comments from attendees will be forwarded to EPA when received, along with responses from the Agency, if appropriate.

TABLE 1

Cap Grant Year	Cap Grant Amount	State Match	DEM Admin. 4%	Banked DEM Admin. 4%	Grants pledged for specific purpose	State Match Pledged for a Specific Purpose	Cap Grants Available	State Match Available	Total Cap Grant & State Match Available
CS44000190-0	\$13,378,481	\$2,675,696	\$535,139.24		\$13,378,481.00	\$2,675,696.20	\$0.00	\$0.00	\$0.00
CS44000191-0, 2	\$26,826,822	\$5,365,379	\$1,073,072.88		\$26,826,822.00	\$5,365,379.00	\$0.00	\$0.00	\$0.00
CS44000193	\$12,905,937	\$2,581,187	\$516,237.48		\$12,905,937.00	\$2,581,187.40	\$0.00	\$0.00	\$0.00
CS44000194	\$7,988,800	\$1,597,760	\$319,552.00		\$7,988,800.00	\$1,597,760.00	\$0.00	\$0.00	\$0.00
CS44000195	\$8,254,100	\$1,650,820	\$330,164.00		\$8,254,100.00	\$1,650,820.00	\$0.00	\$0.00	\$0.00
CS44000196	\$13,547,500	\$2,709,500	\$541,900.00		\$13,547,500.00	\$2,709,500.00	\$0.00	\$0.00	\$0.00
CS44000197	\$4,127,100	\$825,420	\$165,084.00		\$4,127,100.00	\$825,420.00	\$0.00	\$0.00	\$0.00
CS44000198	\$9,033,100	\$1,806,620	\$361,324.00	\$361,324.00	\$9,033,100.00	\$1,806,620.00	\$0.00	\$0.00	\$0.00
CS44000199	\$9,033,800	\$1,806,760	\$361,352.00	\$361,352.00	\$9,033,800.00	\$1,806,760.00	\$0.00	\$0.00	\$0.00
CS44000100	\$9,002,900	\$1,800,580	\$360,116.00	\$360,116.00	\$9,002,900.00	\$1,800,580.00	\$0.00	\$0.00	\$0.00
CS44000101	\$8,921,900	\$1,784,380	\$356,876.00	\$356,876.00	\$8,921,900.00	\$1,784,380.00	\$0.00	\$0.00	\$0.00
CS44000102	\$8,942,000	\$1,788,400	\$357,680.00	\$357,680.00	\$8,942,000.00	\$1,788,400.00	\$0.00	\$0.00	\$0.00
CS44000103	\$8,883,300	\$1,776,660	\$355,332.00	\$355,332.00	\$8,883,300.00	\$1,776,660.00	\$0.00	\$0.00	\$0.00
CS44000104	\$8,888,700	\$1,777,740	\$355,548.00	\$355,548.00	\$8,888,700.00	\$1,777,740.00	\$0.00	\$0.00	\$0.00
CS44000105	\$7,208,600	\$1,441,720	\$288,344.00	\$288,344.00	\$7,208,600.00	\$1,441,720.00	\$0.00	\$0.00	\$0.00
CS44000106	\$5,839,300	\$1,167,860	\$233,572.00	\$0.00	\$5,839,300.00	\$1,167,860.00	\$0.00	\$0.00	\$0.00
CS44000107	\$7,159,200	\$1,431,840	\$286,368.00	\$0.00	\$7,159,200.00	\$1,431,840.00	\$0.00	\$0.00	\$0.00
CS44000108	\$4,515,300	\$903,060	\$180,612.00	\$0.00	\$0.00	\$0.00	\$4,515,300.00	\$903,060.00	\$5,418,360.00
2W44000209	\$26,314,600	\$0	\$1,052,584.00	\$1,052,584.00	\$0.00	\$0.00	\$26,314,600.00	\$0.00	\$26,314,600.00
CS44000108	\$4,515,300	\$903,060	\$180,612.00	\$0.00	\$0.00	\$0.00	\$4,515,300.00	\$903,060.00	\$5,418,360.00
TOTALS	\$205,286,740	\$35,794,443	\$8,211,469.60	\$3,849,156.00	\$169,941,540.00	\$33,988,322.60	\$35,345,200.00	\$1,806,120.00	\$37,151,320.00

Points	Community	Project Name/Number	FY10 Estimated PPL COST (\$)	FY10 Project Cost (\$)	Funded with Available Cap Grant	Funded with Available State Match (\$)	Funded with Repayment and/or Leveraged Funds (\$)
41	NBC	Phase II CSO Facilities	\$269,402,000	11,293,333	830,260		10,463,073
32	North Smithfield	St. Paul Area	\$6,179,700	6,179,700			6,179,700
30	Warwick	Bayside/Longmeadow IV Sewer Project: WSA Contract #86D	\$3,800,000	1,350,000			1,350,000
27	Burrillville	Whipple Avenue Landfill Closure	\$2,400,000	2,500,000			2,500,000
26	East Greenwich	Howland Farm Sewer Extension	\$600,000	600,000		600,000	0
26	NBC	BP WWTF Nitrogen Removal Facilities	\$36,700,000	14,033,333	830,260		13,203,073
25	East Providence	Biological Nutrient Removal	\$21,500,000	10,000,000			10,000,000
23	Cranston	WWTP Nutrient Upgrades	\$7,000,000	5,500,000			5,500,000
22	North Smithfield	Great Road East Area	\$1,696,200	630,800			630,800
20	North Smithfield	Willerval/Tanglewood Area	\$5,588,000	6,936,000			6,936,000
19	Johnston	Cherry Hill Sewer Project	\$5,500,000	4,100,000			4,100,000
17	RI Airport Corp.	Glycol Collection & Treatment Facility	\$25,255,000	36,630,000			36,630,000
16	East Greenwich	Phase IV Sewer Extension - Pinewood	\$3,500,000	600,000		303,060	296,940
15	Bristol	Sewer Cleaning & TV Inspection: Phase III	\$270,000	270,000			270,000
15	Bristol	Sewer System Repairs: Phase II Area	\$1,500,000	1,500,000			1,500,000
15	NBC	Tunnel Odor Control	\$1,000,000	1,000,000			1,000,000
14	NBC	FP WWTF Wind Turbine	\$5,700,000	5,700,000	830,260		4,869,740
14	NBC	BP WWTF Biogas Energy Project	\$2,200,000	2,200,000	830,260		1,369,740
14	NBC	FP WWTF Flow Control Efficiencies	\$1,740,000	1,740,000			1,740,000
12	Bristol	Wind Energy	\$2,400,000	2,400,000			2,400,000
11	Bristol	Wastewater Storage Facilities	\$8,100,000	2,000,000			2,000,000
11	East Greenwich	Inflow/Infiltration Analysis	\$1,400,000	126,000			126,000
10	Coventry	Quidnick Village - Contract 8	\$4,800,000	4,800,000			4,800,000
10	NBC	Regulatory Compliance Building	\$21,100,000	14,033,334	830,260		13,203,074
9	East Greenwich	Water Street Collector Rehabilitation	\$1,600,000	1,674,000			1,674,000
Total:			\$1,321,250,588				
Not Rated - Project Already Funded and/or Under Construction							
Points	Community	Project Name/Number	Cost (\$)				
---	Warwick	Governor Francis Farms II Sewer Project: WSA Contract # 85A	\$4,100,000	250,000			250,000
Total:			\$10,291,200				
**TOTAL Projects on Project Priority List FY09:			1,331,541,788	138,046,500	4,151,300	903,060	132,992,140

* Multi-year projects requiring a series of loan agreements

** All projects not shown. Projects shown are expected to be funded w/2009 Capitalization Grant and other available Agency funds