

State of Vermont

Draft Intended Use Plan for the

Drinking Water State Revolving Fund

Authorized Under

The American Recovery and Reinvestment Act of 2009

March 17, 2009

I. Introduction

This Intended Use Plan (IUP) accompanies the State of Vermont's application for a \$19,500,000 capitalization grant for its DWSRF under the American Recovery and Reinvestment Act (ARRA) of 2009.

II. Program Goals

The State of Vermont is committed to using the capitalization grant for which it is applying to provide 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 (SDWA). Vermont's goal is to enter into binding commitments for projects that will proceed to construction or award of construction contracts by February 17, 2010. The state intends to award assistance available under this capitalization grant in full conformance with the deadlines established under the ARRA and the terms and conditions of the capitalization grant award.

Vermont recognizes that the goal of the ARRA is to expeditiously fund projects that simultaneously create or preserve 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 have not previously been priorities of the base SRF program. Priorities and activities in the base program which may not practically be attainable within the timeframes associated with the ARRA will be pursued using funds made available through the base program.

III. Sources and Uses of Funds

The State of Vermont 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 ARRA. Note that the ARRA has waived the match that the State is normally required to provide in order to receive a capitalization grant.

Although the State does not intend to transfer any money between the DWSRF and CWSRF, it retains the right to do so up to the allowable limit of 33% of the capitalization grant. Should the state decide at some later date to transfer funds, it will do so consistent with the requirements of the ARRA and USEPA guidance.

The State intends to take a set-aside of 4% for DWSRF program administration; a set-aside of 2% for small system technical assistance (which will be focused on working with the small water systems on the State's Project Priority List to proceed expeditiously to construction); and a set-aside of 5% to support the Public Water System Supervisory Program (PWSS) implementation. The PWSS program support will help preserve positions in the program and help fund additional short-term support. The State will provide the required 1:1 match to the 5% Program Management Set-Aside from a combination of in-kind services and credit for State 1993 PWSS program expenditures.

Workplans for the small system technical assistance and program management set-asides will be developed and implemented consistent with grant conditions required by USEPA guidance for the ARRA. Generally, set-aside funds will be used for activities that will assist systems eligible for ARRA funding to receive construction loans. The following table summarizes the sources and uses of the capitalization grant for which the State is applying:

Table 1
Sources and Uses of the Capitalization Grant

SOURCES	AMOUNT
Capitalization Grant	\$19,500,000
USES	AMOUNT
4% DWSRF Program Administration	\$780,000
2% Small Systems Technical Assistance	\$390,000
5% State Program Management for PWSS Program	\$975,000
Infrastructure Assistance Agreements	\$17,355,000

IV. Criteria and Methods for Distribution of Funds

A. Loan Terms and Fees

Under the State of Vermont base DWSRF program, the standard loan term is 20 years, except for loans to those systems that meet the Vermont statutory definition of disadvantaged. For such systems, the term may be extended up to a maximum of 30 years. Interest and administrative fees for loans range between +3% and -3%, and are determined in accordance with previously established methods as described in the adopted 2008 Intended Use Plan. Additionally, under the base program municipally-owned schools are eligible for up to \$25,000 in principal forgiveness for qualifying projects. The State will provide additional subsidy beyond what is currently allowed for in the base program as described in the following section.

B. Additional Subsidization

The ARRA requires that at least 50% of the capitalization grant be provided in the form of subsidy, either through forgiveness of loan principal, negative interest or grant. Vermont has decided to provide this 50% subsidy through loan forgiveness as it requires the least programmatic change of the three options. Because the minimum subsidy of 50% is based on the \$19,500,000 capitalization grant amount, or \$9,750,000, and since the State intends to take a portion of the grant for set-aside activities, the actual percentage of loan forgiveness must be greater than 50% of the grant. Based on taking 11% in set-asides, or \$2,145,000, the \$9,750,000 in subsidy must be applied to the balance available for loans, or \$17,355,000, which equates to 56.25% in principal forgiveness. Rounding to the nearest whole percent, the minimum loan forgiveness will be set at 57%.

Vermont intends to provide this base subsidy of 57% to all loan recipients to encourage projects to proceed to construction that might not otherwise be undertaken under the current economic conditions. Under the ARRA, states are expected to target subsidy, as much as possible, to communities that could not otherwise afford an SRF loan. To meet this intent, additional subsidy will be provided to disadvantaged communities that qualify for negative interest. For example, a community that receives a \$1,000,000 loan and qualifies for negative 3% over a 30-year term (currently, the deepest subsidy available for all but school projects) will receive principal forgiveness of approximately \$750,000, or 75%.

Lastly, projects that include or are entirely comprised of Green Infrastructure will receive further principal forgiveness. To encourage water systems to incorporate green elements into their projects, Vermont will provide an additional 10%, or a total of 67% loan forgiveness for Green Infrastructure costs. More detail on Green Infrastructure is provided in the following section.

The Fundable PPL in Section VI demonstrates that loans awarded with ARRA funds will meet the ARRA requirement of providing total subsidy equal to at least 50% of the capitalization grant. Any subsequent revision to the Fundable PPL will likewise demonstrate that ARRA loans provide principal forgiveness equal to at least 50% of the capitalization grant. The draft list shows total loan subsidy of approximately \$10,144,000, which exceeds the minimum required subsidy of \$9,750,000.

C. Green Infrastructure

The ARRA requires that, to the extent there are sufficient eligible project applications, not less than 20% of the funds provided for projects must be used for water or energy efficiency, green infrastructure, or other environmentally innovative activities. Preliminarily, the PPL includes 9.4%, or \$1,828,300 of the total grant amount for projects or portions of projects meeting one or more of the specific objectives required by this provision. However, further review of these projects is required to make a definitive eligibility determination. The amount noted above is intended to address water leakage, which will conserve water and improve energy efficiency. There are additional projects on both the fundable and non fundable lists that potentially include green infrastructure, but the total amount has not yet been determined.

Where it is not clear that a project or a component of a project qualifies to be included as counting towards the 20% requirement, the project file 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 PPL meeting one or more objectives are designated as follows: Green Infrastructure = G; Energy Efficiency = E; Water Efficiency = W; and Environmentally Innovative Activity = I.

Vermont intends to make a timely and concerted solicitation effort to identify additional projects, with the objective of determining no later than August 17, 2009 (180 days after Feb. 17 enactment) which additional qualifying projects will be part of an amended PPL to achieve the 20% goal for Green Infrastructure. Solicitation efforts will direct contact

with all applicants on the PPL and may include a public announcement of the availability of funds for this purpose and targeted meetings with associations and other groups involved in green infrastructure, water or energy efficiency improvements and other environmentally innovative activities.

It should be noted that at when the public notice was prepared and published for this PPL, the ARRA had not yet been enacted, so the Green Infrastructure funding portion was not well understood at that time, thus the need to revise the PPL for this purpose.

D. Priority for Projects Ready to Proceed to Construction

Vermont has a priority system for its DWSRF program that ranks projects in accordance with criteria primarily based on public health, compliance and affordability. However, the ARRA requires that priority be given to projects that will be ready to proceed to actual construction within 12 months of the date of enactment. Additionally, ARRA Section 1602 requires that recipients shall give preference to activities that can be started expeditiously, including a goal of using at least 50 percent of the funds for activities that can be initiated not later than within 120 days after enactment of the ARRA. Vermont intends to implement this provision by elevating those projects determined as ready to proceed by July 1, 2009, which for this purpose are designated as Quick Start Projects (QSP), and are so designated on the PPL. Projects that receive QSP designation that are later found to be delayed may be bypassed and replaced, as funding allows, with the highest ranking project that is ready to proceed in the non fundable list.

The draft PPL consists of a fundable list and a comprehensive list of projects, all of which could proceed to construction by February 17, 2010, based on information provided in the priority list applications. The comprehensive list consists of projects that currently fall below the fundable limit; however, through the bypass process (if implemented) projects on that list could move into the fundable range.

The current lists include 145 total projects, 46 of which are fundable or partially fundable. Because the State will continue its practice of limiting the total loan amount to any one water system to \$2,000,000, several projects (both in the fundable and non fundable lists) are shown to have loans capped at \$2,000,000. If reallocation of ARRA funds becomes necessary later in the year due to project delays, the State can opt to provide funds in excess of the \$2,000,000 cap to ensure that all ARRA funds are awarded. The actual loan amount needed for each project is shown in the last column in the PPL, which aggregates to approximately \$120,000,000 for both the fundable and non fundable lists.

E. Avoidance of Re-allotment/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 Vermont will regularly review the data reported to EPA on the progress of assistance recipients under the statutory deadlines specified in this IUP to identify any issues with the timeliness. If such issues

are identified, the State of Vermont intends to work with EPA to resolve such issues. The State will include conditions in its assistance agreements to ensure that assistant recipients make timely progress with respect to entering into contracts and/or construction. If a recipient fails to maintain progress with these conditions, it will receive funding from other DWSRF monies so that ARRA funding can be provided for a project that is ready to proceed. Consistent with timely use of these funds, a project that has not yet completed the environmental review process and which does not qualify for a categorical exclusion, will not be eligible for ARRA funding.

The State understands that EPA may de-obligate grant funds from states that fail to meet requirements on use of ARRA funds. However, if the State is eligible for additional funds made available by a re-allotment of ARRA funds, the State will provide EPA with a list of projects from its project priority list that are immediately prepared to proceed to construction.

V. Public Participation

In compliance with the requirement in SDWA sec. 1452(b)(1) to provide for public review and comment, the State of Vermont has posted this Intended Use Plan in draft form at www.anr.state.vt.us/dec/watersup/grants.htm beginning on March 18, 2009. In February 2009, the State mailed notices to all community and non-transient non-community water system representatives, consultants and other stakeholders announcing the availability of priority list application forms for ARRA funding and establishing a deadline of March 13, 2009 for submittal. Notice was also published in several newspapers having a combined statewide circulation.

Both notices included announcement of a public hearing to be held March 20, 2009 in Waterbury, Vermont to present the Draft IUP, to receive public comment at the hearing, and to accept written comment through March 27, 2009. Additional effort was made through meetings, emails, etc. to inform various stakeholder groups of the impending IUP and hearing. The following is a copy of the February 12, 2009 public notice.

February 12, 2009

Re: Economic Stimulus Funding- Fiscal Year 2008 Priority List Amendment

Dear Public Water Supplier:

The Vermont Drinking Water State Revolving Fund (VT DWSRF) is anticipating a significant amount of additional federal funding to come into the DWSRF Program early in 2009 through passage of the American Recovery and Reinvestment Act of 2009. The United States House of Representatives and the United States Senate will vote on a final Bill this week. All information contained in this public notice is preliminary and subject to change until the legislation is finalized and the Bill enacted. At this time, we are anticipating additional funding in the amount of \$19,306,000 for the VT DWSRF. To be eligible for stimulus funding through the DWSRF you must be a Public Community Water System or a Public Non-Community Water System that is non profit (tax exempt).

Additionally, to be eligible to receive economic stimulus funds for water system improvements you must complete the DWSRF Priority List Application and the readiness to proceed form on the reverse side of this letter by the close of business Friday, March 13, 2009. If we receive your priority list application by the March 13, 2009 deadline your project will also be listed on the 2009 DWSRF Construction Priority List which is also currently under development. Please note the regular deadline for 2009 priority list applications will be delayed until May 1, 2009. We have scheduled a joint public hearing with the Clean Water State Revolving Fund for Friday, March 20, 2009 from 1:00-4:00 p.m. at the Summit Training Center located in the Osgood Building in the Waterbury State Office Complex to discuss stimulus funding, solicit public input, and to release the draft funding list.

Although the details of this program are not set, a few key points can be made. First and foremost, strong emphasis is placed on a project's readiness to proceed and the economic imperative for these funds to enter the economy. In order to be considered for stimulus funding off the 2008 Amended Construction Priority List you will need to meet the priority list application deadline, satisfy project readiness to proceed criteria (detailed on reverse side), and have a loan commitment and construction started by September 30, 2009. If stimulus funds remain uncommitted after September 30, 2009, then they will be allocated to projects on the 2009 Construction Priority List that are ready to proceed. Information regarding the economic stimulus is changing daily but these are some of the concepts we are currently considering in order to administer stimulus funds.

- 50% to 75% subsidy in the form of principal loan forgiveness.
- First in first out policy (based on readiness to proceed) for allocating funds.
- Adjust funding cap commensurate with the level of funding received (currently considering 25% of total EPA grant vs. the current \$2.0M funding cap)
- Require construction contract award within 45 days of making loan commitment.

The readiness to proceed form and priority list applications can be mailed to the attention of Bryan J. Redmond, DWSRF Program Specialist at the address above or it can be scanned and emailed to bryan.redmond@state.vt.us. Priority list applications are available by calling the Water Supply Division at (802) 241-3400 or by downloading the application from the Water Supply Division's website at:

<http://www.vermontdrinkingwater.org/DWSRFGuidanceDocuments/DWSRFPriorityListApplication.doc>

We thank you for your time and look forward to receiving your response.

Sincerely,

Gary Schultz
Director, Water Supply Division

**American Recovery and Reinvestment Act of 2009
Drinking Water State Revolving Fund (DWSRF)
Project Readiness Update Form**

Please complete this form and the enclosed priority list application by March 13, 2009. Both documents are required in order to be considered for stimulus funding. If you have multiple projects in a Town please complete this form for each and include a project description and anticipated total project cost for each segment on the priority list application.

<u>Economic Imperative- Readiness to Proceed</u>	<u>Completion Date</u>	(T) Target or (A) Actual
1. Submittal of Engineering Report:		() ___/___/___
2. Submittal of Final Environmental Review Documents:		() ___/___/___
3. Date of Authority to Borrow Funds:		() ___/___/___
4. Submittal of Final Design Plans:		() ___/___/___
5. Anticipated Project Start Date:		() ___/___/___

Print Name (Authorized Representative) _____

Signature _____ Date ___/___/___

E-Mail Address _____

Total Estimated Project Cost: _____

Project Description: _____

Return by March 13, 2009 to: Bryan J. Redmond
Water Supply Division
Old Pantry Building,
103 South Main Street
Waterbury, VT 05671-0403

VI. List of Projects to be Funded

See Attached Fundable List and Comprehensive List.