



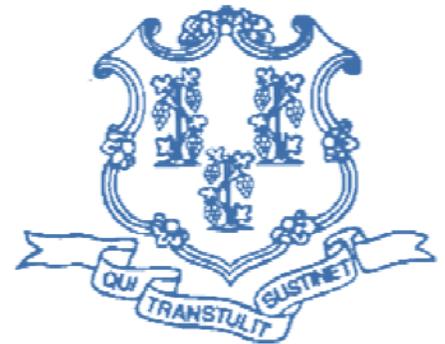
# 2012

# Annual Report



State of Connecticut  
State Revolving Fund Programs:

Drinking Water Fund



# Connecticut Drinking Water Fund

*Supporting the Planning, Design, and Construction  
of Water Quality Projects*



**Jewel Mullen, MD, MPH, MPA, Commissioner  
Department of Public Health**

*Programmatic and fiscal administration of Drinking Water State Revolving Fund (DWSRF) funded projects and of set-asides*



**Denise L. Nappier, State Treasurer**

*Fiscal administration of DWSRF accounts, oversight of loans  
and administration of the DWSRF bond financing program*



**Daniel C. Esty J.D., Commissioner, Department of  
Energy and Environmental Protection**

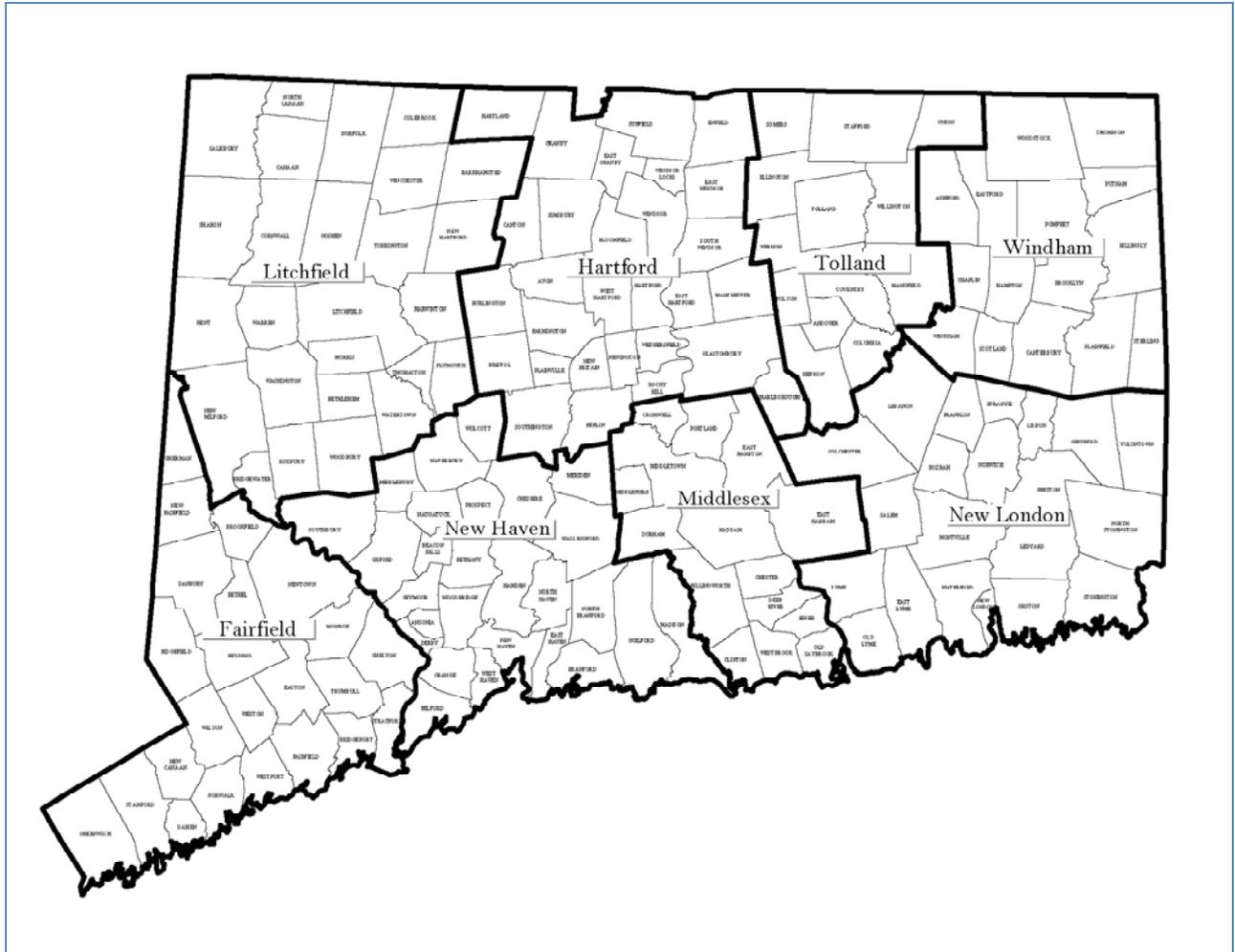
*Administration of the Connecticut Clean Water Fund*

# Table of Contents

Communities Served by the Drinking Water Fund.....	1
Report Introduction.....	2
Executive Summary.....	3
Brief History and Background of Connecticut Drinking Water SRF Program.....	4
Summary of Activities and Accomplishments.....	5
Local Assistance and Other State Program Set-Aside .....	10
Administrative Set-Aside.....	13
Program Management Set-Aside .....	17
Project Financing.....	18
Borrowers .....	22
Pending Projects .....	23
Program Funding .....	23
Program Management.....	25
Compliance with Operating Agreement and Grant Conditions .....	26
DWSRF Program Activities and Initiatives.....	27
Program Management Set-Aside.....	31
Small Systems Technical Assistance Set-Aside .....	32
Long Term Projections/Goals.....	33
Condition of the Fund.....	33
DWSRF Annual Report Acronym List.....	35
Appendix I: State Match for Federal Capitalization Grants.....	37
Appendix II: Federal Capitalization Grants Project Funds (As of June 30, 2012).....	37
Appendix III: Set-Aside Management .....	39
Appendix IV: Drinking Water SRF Closed Loans as of June 30, 2012.....	43
Appendix V: Cumulative and Pending Projects Commitments.....	44
Appendix VI: Financial Assistance by Bond Rating – FY 2012 .....	45
Appendix VII: Project Priority List – FY2012/FY2013 .....	46
Appendix VIII: Program Management .....	49
Appendix IX: Program Management by the State Treasurer’s Office.....	50
Appendix X: Application Process.....	56
Appendix XI: Summary of Project Funding Agreements.....	58
Appendix XII: Cumulative DWSRF Projects Information/Loan Status.....	60
Appendix XIII: ARRA Project Information/Loan Status .....	62
Drinking Water Fund Audit Report	

# Communities Served by the Drinking Water Fund

As Of June 30, 2012



**Fairfield County:** Bethel, Brookfield, New Fairfield, Newtown, Norwalk, Ridgefield, Stamford, Woodbury

**Hartford County:** Farmington, Marlborough, Metropolitan District Commission (MDC), New Britain, Southington, Manchester

**Litchfield County:** New Milford, Plymouth, Sharon, Watertown

**Middlesex County:** Portland

**New Haven County:** Meriden

**New London County:** Colchester, Ledyard, Norwich, Salem, Old Lyme, East Lyme

**Tolland County:** Coventry, Tolland

**Windham County:** Plainfield, Putnam

# Report Introduction

The Connecticut State Revolving Fund Programs have been created within the Connecticut Clean Water Fund (CWF) and include the Drinking Water State Revolving Fund (Drinking Water SRF or DWSRF). Drinking Water SRF provides financing for projects that have been identified by the Department of Public Health (DPH) as part of the agency's responsibility for ensuring the quality and adequacy of Connecticut's public drinking water sources.

*The Connecticut Clean Water Fund includes the Drinking Water SRF that provides financing for projects that have been identified by the Department of Public Health as part of the agency's responsibility for ensuring the quality and adequacy of Connecticut's public drinking water sources.*

This is the Annual Report to the Governor on the Drinking Water SRF for fiscal year ending June 30, 2012. It has been prepared jointly by the DPH Drinking Water Section and the State Treasurer's Office's Debt Management Division.

Included in this report are the history of the Drinking Water SRF, a review of the SRF during fiscal year 2012, descriptions of the revenue bond program, and projections of future project funding and the management initiatives for fiscal year 2013. As a major recipient of federal financial assistance, the State must provide this annual report and audited statements to comply with federal reporting requirements under the Safe Drinking Water Act. The State must also comply with the federal Single Audit Act of 1984. The audited statements for the fiscal year ending June 30, 2012, as provided in this report have been prepared by a firm of independent certified public accountants.

This report includes some references to the Connecticut Clean Water Fund (CWF) and the Clean Water State Revolving Fund (Clean Water SRF). Information on the Clean Water programs is available in a separate annual report.

Copies of the 2012 report and previous annual reports since 2001 are available on the State Treasurer's website at [www.state.ct.us/ott](http://www.state.ct.us/ott).



## Executive Summary

Within Connecticut's borders, there are approximately 450,000 acres of wetlands, 6,000 miles of streams and rivers, over 2,000 lakes and reservoirs, and 600 square miles of estuarine water in Long Island Sound. Managing these resources for today and tomorrow is a critical goal of the State of Connecticut and the primary purpose for the creation of the Connecticut State Revolving Fund Programs, the Clean Water SRF and the Drinking Water SRF (or DWSRF).

The Drinking Water SRF is a designated federal state revolving fund under the federal Safe Drinking Water Act (SDWA) and is managed by the Department of Public Health (DPH), Drinking Water Section.

The DPH Drinking Water Section is responsible for the administration of all state and federal drinking water regulations and is comprised of the following units: Compliance, Capacity Development, Information Systems, Enforcement and Operator Certification, Statewide Planning, Source Protection, and Grants and Administrative Support. The Business Office within DPH provides fiscal administrative support for the DPH Drinking Water Section.

The DPH Drinking Water Section focuses on compliance with state and federal drinking water regulations, and the maintenance and improvement of water quality through sustainable public water systems. By providing technical assistance, education, regulatory enforcement and financing to Connecticut's public drinking water systems, the State continues to demonstrate its commitment to drinking water treatment, water monitoring, drinking water source protection, and consumer education. These efforts assure the availability of high quality drinking water to Connecticut's citizens.

*The DPH Drinking Water Section provides financing as well as technical assistance, education, and regulatory enforcement to over 2,600 public drinking water systems, which provide drinking water to approximately 2.7 million persons on a daily basis.*

The DWSRF can provide low-interest loans to approximately 1,050 eligible public water systems for drinking water infrastructure improvements as well as funding for program set-asides used for activities related to the maintenance and improvement of drinking water quality and technical, managerial and financial capacity of public water systems in the State. The DPH Drinking Water Section promotes asset management, and uses various tools to assist operators with the management of small public water systems.

The primary sources of funding for the DWSRF financing program are revenue bonds and State contributions which are managed by the State Treasurer's Office, and yearly federal capitalization grants through the Safe Drinking Water Act administered by the U.S. Environmental Protection Agency (EPA). The State also received a grant from the American Recovery and Reinvestment Act of 2009 (ARRA.)

In mid-2011, the DPH initiated a section-wide strategy to prioritize increasing the pace of its DWSRF. Changes were made within the management of the program and the DWSRF Priority Ranking System. These changes were communicated to the EPA.

On October 19, 2011, the DPH solicited for drinking water infrastructure projects to be funded by the DWSRF in state fiscal year 2012 and 2013. The DPH received 55 project eligibility applications from public water

systems (PWS) during the solicitation period for approximately \$165 million in total funding.

During the fall of 2011, Connecticut was hit with two separate significant storms that left over 200 small PWSs without power to operate their water systems for several days. Because of these storms, the DPH announced a new DWSRF Small System Emergency Power Generator Program.

On December 23, 2011, federal Public Law 112-74 was enacted, which included the federal fiscal year (FFY) 2012 DWSRF appropriation. This law made several changes to the DWSRF program for FFY 2012. The changes include:

- Establishment of minimum and maximum amounts of subsidization that may be used for drinking water infrastructure projects. States are required to provide a minimum of 20% and a maximum of 30% of the FFY 2012 capitalization grant in the form of subsidization.
- Elimination of the federal mandate for a minimum percentage of the capitalization grant for Green Project Reserve (GPR) projects and made the GPR projects provisions discretionary for State DWSRF programs.
- Establishment of the permanent applicability of the federal Davis-Bacon law requirements to construction contracts funded under the DWSRF.

The DPH held a Public Hearing on May 21, 2012, at 470 Capitol Avenue in Hartford, Connecticut to allow interested persons the opportunity to provide oral and written testimony on the DWSRF Intended Use Plan. An Open Forum was held immediately after the hearing to answer questions and explain

DPH's DWSRF program features and requirements.

The DPH expects that there will be approximately \$125 million available from the DWSRF for drinking water infrastructure projects in fiscal year 2012 and fiscal year 2013. Projects that are anticipated to be funded during this timeframe includes those listed in 2012 Priority List of Projects, the projects listed above the funding line in the 2013 List and projects carried forward from previous Intended Use Plans (IUP).

## Brief History and Background of Connecticut Drinking Water SRF Program

In 1996, Congress passed amendments to the SDWA authorizing the United States EPA to offer states Capitalization Grants to create the Drinking Water SRF. The SDWA provided for an annual Congressional authorization of \$1 billion for the DWSRF through 2003.

Each year the State of Connecticut is required to submit a Capitalization Grant application to EPA to capture its DWSRF allocation. The IUP which documents how the State intended to use the grant funds, is one of the documents the State must submit as part of its application. Sections 22a-475 through 22a-483, inclusive, of the Connecticut General Statutes governs the establishment and administration of the DWSRF.

In FFY 1997, Congress exceeded its original appropriation and authorized \$1.275 billion for the DWSRF. Connecticut's allocation of this appropriation was \$ 21,408,200. In FFY 1998-2012, Connecticut's allocation was for just 1% of the national allotment and allotted funds ranged from approximately \$7.1 million for

FFY 1998 to a high of \$13.5 million for FFY 2010. The State received FFY 2011 allocation of \$9.4 million during July 2012. The FFY 2012 capitalization grant in the amount of \$8,975,500 was submitted in September 2012.

The Connecticut Department of Public Health (DPH) is the lead agency for the DWSRF. As the lead, DPH coordinates activities between three different state agencies with the charge of implementing certain aspects of and overseeing the DWSRF.

There is significant coordination of efforts both within DPH and among the agencies of the State, including the State Treasurer's Office, the Department of Energy and Environmental Protection (DEEP), and the Office of Policy and Management (OPM). DPH entered into an Interagency Memorandum of Understanding (MOU) with the State Treasurer's Office and DEEP and the MOU is an attachment to the Operating Agreement (OA) between the State of Connecticut and the EPA. The OA is filed with EPA as part of the State's Capitalization Grant application and establishes the basic framework and procedures of the DWSRF that are not expected to change annually.

The following is a brief overview of State agency participation:

\* The DPH is responsible for programmatic and fiscal administration of DWSRF infrastructure improvement projects and the set-aside projects and accounts. The DPH also provides the Capital Budget requests and State Bond Commission authorization requests for DWSRF projects to the DEEP for processing under the Clean Water Fund.

\* The State Treasurer's Office is responsible for the fiscal administration of the DWSRF accounts, and administration of the DWSRF financial plan as part of the Connecticut Clean Water Fund. The Treasurer's Office manages

and administers the State's bond financings and provides the State Bond Commission bonding authorization requests for DWSRF projects under the Clean Water Fund.

\* The DEEP is responsible for the administration of the Connecticut Clean Water Fund of which DWSRF is a sub-account. As part of the Connecticut Clean Water Fund, the DEEP processes both the DPH's bi-annual DWSRF Capital Budget requests and the DWSRF State Bond Commission project allocation requests. The Public Utilities Regulatory Authority (PURA), now part of DEEP, provides assistance to the DWSRF applicants it regulates.

## Summary of Activities and Accomplishments

The DPH Drinking Water Section uses the Drinking Water SRF resources including federal capitalization grants and the required state match, to assist public water systems and operators to meet critical needs, reduce public health risk, and maintain safe high quality water resources for the State's citizens.

As more fully discussed in this report, major accomplishments for the DWSRF during fiscal year 2012 include:

Executed five project commitments totaling \$3.28 million (of which \$2.61 million was loan commitments and \$.67 million was subsidy) that included a water main extension and water tank installation.

Closed on permanent loans for six of the 12 subsidized projects totaling \$13.6 million (of which \$5.6 million is for loans under the ARRA Program as detailed on [www.ct.gov/dph](http://www.ct.gov/dph).)

Created Small System Emergency Power Generator Program and allocated \$3 million

from project funds for the purchase and/or installation of emergency generators.

Conducted 369 update sanitary surveys inspections of public water systems, including evaluations of technical, financial, and managerial capacity and cross-connection control programs. The survey documents:

- Comprehensive water system infrastructure analyses
- SDWA/State regulatory compliance reviews
- Financial and managerial capacity examinations for community public water systems
- Identification and recommendation of basic infrastructure repair and replacement program needs
- Technical assistance and training to public water systems on SDWA regulations
- Guidance on sustainability initiatives including asset management, capital improvement planning, budgeting, and rate setting for community public water system
- Guidance to small systems of the benefits of consolidation/interconnection with larger public water systems

Provided ongoing asset management and technical assistance to small systems identified with weaknesses during sanitary surveys or compliance assessments. Promoted and provided on-site technical support for the EPA Check Up Program for Small Systems (CUPSS) asset management software.

Conducted 13 central system reviews through the Environmental Engineering Program. Reviewed 14 well exceptions, one was denied, and five were returned for additional information.

Electronically processed over 500,000 individual sample analytical results into the Safe Drinking Water Information System (SDWIS).

Developed draft regulations for CGS 25-33(b) to provide DPH with additional authority to deny applications for new sources of supply for new water systems if the future purity and adequacy of the sources or neighboring sources may be adversely impacted by the proposed source.

Developed draft regulations that formalize the approval process for proposed new sources.

Provided training at the 2012 Annual Technical Conference and Vendor Exposition on February 29, 2012, with the Connecticut Section of the American Water Works Association. There were several hundred attendees, many of which earned water system operator training hours and/or continuing education credits for food inspectors.

## DWSRF Loans and ARRA Subsidized Loans

Since inception, the DWSRF has made 52 loan commitments totaling approximately \$115.6 million. This includes 12 subsidized loans made during fiscal year 2010 committing \$17.2 million in funding provided by the ARRA.

The State recognizes the need for construction funds to be available to borrowers year round. This need is addressed by making funds available to eligible projects through the execution of project loan agreements. Projects listed in the Intended Use Plan enter into a loan agreement with the terms and conditions for interim financing and permanent financing. After a project is completed, the loans bear interest rates set at half of the prevailing market rate in effect at the time the State makes the commitment. As of June 2012, the State disbursed \$95.5 million under the base DWSRF program and \$16.8 million under the ARRA program for drinking water projects to various public water system entities.

For the ARRA program, the State program provided funding at approximately 2.06%

interest rates to nine municipalities and one private public water system to assist in various infrastructure improvement projects. These loans will be permanently financed when fully drawn, generally within three years of closing.

## Small System Emergency Generator Program

This program was established in response to two extreme weather events that occurred during the late summer and fall of 2011. These events left many customers of 214 small PWSs throughout Connecticut without water service for extended periods of time primarily due to power outages. Boil water advisories were issued to residents of public water systems that lost water service until water pressure was restored and water quality testing determined that the water was safe for consumption.

This new program was announced on November 22, 2011, and projects specifically for emergency power generator systems were solicited as part of the Call for Projects.

The DPH received 63 applications for generator projects in response to the solicitation. The list of emergency generator projects is part of the current DWSRF Intended Use Plan. DPH reviewed and ranked these projects along with all of the other DWSRF projects and determined that 60 emergency generator projects were eligible for DWSRF funding in fiscal year 2012.

DPH has allocated \$3 million in fiscal year 2012 to cover the anticipated costs associated with the purchase and/or installation of generator system associated with these projects. Subsidization will be provided for up to 45% of the cost of eligible components of each generator project that receives DWSRF funding.

## 2012 Projects

During fiscal year 2012, the Drinking Water SRF made five interim project commitments totaling \$3.28 million (of which \$2.61 million is for loans) for the following projects:

### **City of Norwich – Deep River Water Treatment Plant Pumps, Drives, & Tanks (\$232,700) (design phase)**

This project will include upgrades to the finished water pumps and motors at the Deep River water treatment plant and construct two new water storage tanks.

The existing pumps and motors are beyond their useful service life and are costly to maintain. The new storage tanks will improve the operation of the finished water pumping from the plant by allowing the pumps to cycle on/off rather than operate continuously to supply the distribution system. The tanks will also improve the reliability of the system, as currently there is no finished water storage in this area of the distribution system.

This project closed on an interim funding obligation to provide the amount of \$184,997 at an interest rate of 2% for the design phase on January 26, 2012. The construction phase of the project is being carried over and will be funded when design is complete.

### **City of Norwich – Deep River Water Treatment Plant Transmission Main, Meter, & Microturbine (\$186,150) (design phase)**

This project will include 1) replacement of approximately 3,500 linear feet of 30-inch diameter cast iron transmission main with 30-inch cement lined ductile iron main, 2) installation of a new water meter to estimate unaccounted for water along approximately 6.6 miles of the transmission main, and 3) installation of an in-line micro turbine to generate clean energy.

The original transmission main was installed in 1928 and includes several wetlands and stream crossings. The new route will avoid such crossings and be located along existing roadways. The micro turbine will take the place of an existing pressure reducing valve.

The energy generated by the micro turbine will be sold back the local municipal electric utility.

This project closed on an interim funding obligation to provide the amount of \$147,989 at an interest rate of 2% for the design phase on January 26, 2012. The construction phase of the project is being carried over and will be funded when design is complete.

### **Southeastern Connecticut Water Authority (SCWA) - Hillcrest and Tower-Ferry View Divisions AMR Radio Frequency Meter Purchase (\$198,816)**

This project consists of the purchase of automated meter reading (AMR), Radio Frequency water meters. The meters will be installed by SCWA staff at their expense.

This project's Interim Funding Obligation closed on June 5, 2012. Of the total project financing, the loan amount was \$158,059 at an interest rate of 2%.



***SCWA staff with a Radio Frequency Water Meter***

**City of Meriden – Broad Brook Water Treatment Plant & Pump Station Improvements (\$2,008,997) (design phase)**



***Aeration Supply System – Intake Building***



***Lagoons Receiving Sludge from Sedentary Basin and Backwash Wastewater***

This project consists of the design of the upgrades and improvements to the Broad Brook Water Treatment Plant and Pump Station, including replacement of all major items of equipment, installation of dissolved air floatation in existing sedimentation basins, installation of backwash recovery system, installation contact basin for manganese removal, and conversion from chlorine gas to sodium hypochlorite. This \$2,008,997 project closed on an interim funding obligation to provide the amount of \$1,597,153 at an interest rate of 2% for the design phase on April 25, 2012. The construction phase of the project is being carried over and will be funded when design is complete.

**Candlewood Trails Association – Water System Improvements (\$662,000)**



***Candlewood Trails Association – Excavation for new pump house project***

The Candlewood Trails Association is located on Candlewood Lake in New Milford, CT. This project consists of the design and construction of a new pump house, new well pumps, VFDs, installation of a buried 250,000 gallon atmospheric storage tank, and appurtenances to utilize two new wells which were drilled in 2004. The need for continuous chlorination will be eliminated with the use of the new wells. This project closed on an Interim Funding Obligation to provide the amount of \$526,290 on May 1, 2012. The interest rate for this loan was 2%.

## Local Assistance and Other State Program Set-Aside

There are several set-asides allowed from the federal grants. The use of these set-asides provide for critical work that is important to the programmatic success of the Drinking Water SRF.

The following discussion focuses on the accomplishments achieved through the use of the set-aside funding.

### Source Water/Wellhead Protection Program

The DPH Drinking Water Section continued to develop a proactive approach toward source water protection. The Source Water Protection Unit (SWP Unit) is responsible for the protection of Connecticut's 4,000 drinking water sources. Four full time equivalent (FTE) staff members are funded by this set-aside, including one FTE that provides support to the DPH Drinking Water Section through the Environmental Engineering Unit. The SWP Unit program elements coordinate, manage, and regulate source protection through application and enhancement of existing source protection statutes and regulations, permitting, integration with water supply planning, education of local land use officials, and involvement with stakeholders on a continuous basis.

The SWP Unit reviews applications for new sources of public water supply, and permits to sale, or change in use, of land classified as water company land. These laws ensure that only the safest water is made available for public consumption through protection of the land that surrounds Connecticut's public water supplies. The SWP Unit authorizes and issues permits for recreational activities on water company land, provided that the activities are adequately monitored and do not degrade the watershed. The SWP Unit continues to develop, enhance and adapt source water

protection laws. SWP Unit activities conducted in fiscal year 2012 are as follows:

Reviewed and approved proposed sources of supply, including verification that the water system has ownership or control of the sanitary radius for proposed ground water sources.

- Received and reviewed or continued to review 72 proposed sources of supply. Issued 60 approvals and four denials. The remainder are under active review
- All of the approved sources had full ownership or control of sanitary radius for each ground water source

Reviewed and evaluated approximately 325 required notifications of proposed projects in public water system watersheds and aquifer protection areas. For example, the SWP Unit reviewed plans for a commercial horse barn and riding stables within a public water supply watershed and provided comments regarding best management practices and consistency with regulations.

Reviewed and drafted reports for 26 watershed sanitary surveys, submitted by public water systems as required by the Regulations of Connecticut State Agencies Section 19-13B102(b).

Reviewed, approved and issued:

- five Source Abandonment Permits
- 26 Water Company Land Change of Use Permits
- four Recreational Activity Permits
- Conducted one DEEP Diversion Permit Review

Conducted an upgrade of the drinking water Geographic Information System (GIS) by upgrading the software, developing a browser-based application and meeting with other state agencies to coordinate data sharing. Initial consultations with the vendor for the Implementation of the Connecticut Wellhead Protection GIS System have been conducted, and a purchase order has been executed.

Collaborated with the DEEP on 1) the implementation of the aquifer protection area land use regulations and as a result over 90% of the state's aquifer protection areas have land use regulations implemented; and 2) emerging issues within the regulated aquifer protection areas.

Reviewed effects of new sources for public water systems on nearby wells. In accordance with CGS 25-33(b), required all proposed new sources for a public water supply to submit a description of potential effects that the proposed new source of water supply may have on nearby water supply systems including public and private wells.

- Drafted proposed regulations for interference monitoring and to formalize the approval process for proposed new sources
- Issued Well Site Suitability Certificates with required monitoring for interference to any private or public wells nearby

Continued the development of the Drinking Water Source Management Plan.

Proposed legislation to link the sale of water company land with the sale and abandonment of the sources of supply and to streamline the source abandonment permitting process.

Continued to work with multiple towns and the Departments of Transportation, Agriculture, and Economic and Community Development, as well as the DEEP, Office of Policy and Management, the Environment Policy Review Team, and the State Treasurer's Office to emphasize source water protection, including

- Participation in a yearlong series of storm water management workshops with the DEEP and stakeholders
- Working with Office of Policy and Management to address SWP related interim change requests to the Connecticut Plan of Conservation and Development

Staff Reviewed

- 89 Sewage Bypass reports
- 57 DEEP Aquatic Pesticide Permits

## Applications

The Environmental Engineering Program provided detailed technical reviews of

- DEEP Statewide Bacteria Total Maximum Daily Load (TMDL) document prepared for EPA and
- DEEP General Permit to Discharge from Subsurface Sewage Disposal Systems Serving Existing Facilities

Conducted hands-on soil training in October 2011 for local health departments, installers, and professional engineers for the proper siting of subsurface sewage disposal systems and promotion of drinking water/source water protection and wellhead protection.

The Environmental Engineering Program presented at the Water Pollution Control Authority annual meeting. Presentation focused on 1) common goals of public health and environmental protection; 2) advocacy of a statewide decentralized sewage system management; and 3) promotion of collaboration between municipal facilities and other groups throughout the state.

The Environmental Engineering Program reviewed and approved two plans for large subsurface sewage disposal systems and provided direct contact with other state agencies when decisions may be affected by program policies and procedures.

The Environmental Engineering Program assisted municipalities in the development of wastewater management ordinances and regulations for the purposes of reducing potential wastewater impacts to environmentally sensitive areas, aquifer protection areas and to reduce non-point source pollution. Two ordinances were developed and/or reviewed for the Towns of Westbrook and Killingworth.

The Environmental Engineering Program conducted 13 central system reviews, one of which was denied. Reviewed 14 well exceptions, and five were returned for additional information.

## Capacity Development Activities

Under this set-aside, staff is responsible for assessing compliance with State regulations and the Safe Drinking Water Act. As enforcement actions are initiated, staff assesses the cause or trigger of any violations and assist the public water systems to recognize corrective measures in order to comply with State regulations. Systems that do not correct existing violations through technical assistance are referred for formal enforcement actions including possible takeover proceedings.

Staff also assisted in the preparation of capitalization grants, work plans and reports. There were ten FTEs within the Capacity Development unit in fiscal year 2012. Consistent with the EPA approved capacity development strategy, fiscal year 2012 activities included:

Conducted 261 public water system sanitary surveys which included financial, managerial, and technical capacity assessments.

Completed reviews of 62 projects submitted by public water systems for permit approval, including infrastructure projects and water company land use. Continued development of operators and contractors guidelines for the planning, design, and construction of infrastructure projects.

Received and processed 11 applications for a Sale of Excess Water permits. Enforced the state requirements through technical review of the water supply plans.

Reviewed 26 Water Company Screening Applications to determine potential status as a public water system and applicability of the Certificate of Public Convenience and Necessity (CPCN) process. Held technical assistance meetings for public water system infrastructure projects, including proposed new systems going through the CPCN process.

Provided technical assistance to public water systems facing violations and deficiencies noted during assessments or sanctions by other state agencies. Provided technical assistance to eight local health departments.

Prepared and submitted to the EPA the annual Drink Water National Information Management Report and assisted in the preparation of the DWSRF Annual Report.

Reviewed and processed required documentation from DWSRF/ARRA loan applicants. Conducted site visits/reviews of DWSRF/ARRA applicants. Assisted in the processing of payment requests.

## Capacity Development Coordinated Training Initiatives: ATCAVE

The Connecticut Section – American Water Works Association’s Annual Technical Conference and Vendor Exposition (ATCAVE) was held on February 29, 2012, in Cromwell, Connecticut. Several hundred participants attended for educational purposes or to meet with vendors on drinking water related products and services. Many of the attendees participated in one or more concurrent all-day trainings geared toward local health officials and operator certification. Training participants received operator training contact hours and/or continuing education credits for food inspections.

DPH Drinking Water Section staff participated as instructors, and staffed the DPH Drinking Water Section information booth. This workshop has become very successful and is one of the more important events in which the DPH Drinking Water Section participates.



*DPH Drinking Water Section staff at ATCAVE*

## Small Systems Technical Assistance Set-Aside

The DPH Drinking Water Section uses this set-aside to provide assistance to small public water systems serving fewer than 10,000 people. In fiscal year 2012, emphasis continued on asset management and DWSRF loan assistance to small systems. The Small Systems Technical Assistance Set-Aside supported one FTE in fiscal year 2012. Some of the small system activities performed by the DPH Drinking Water Section for the year are listed below:

Provided asset management and technical assistance to small public water systems targeting those small systems identified with weaknesses during sanitary surveys or compliance assessments.

Completed 41 Sanitary Surveys at small public water systems and four project reviews. The surveys included extensive technical assistance and technical, managerial, and financial capacity evaluations.

Provided administrative support for small systems that received ARRA financial assistance.

Received and reviewed 63 applications for the Emergency Power Generator Program. Of those, 60 were deemed eligible for funding. Met with applicants and their representatives as needed or requested.

Provided required progress reports to EPA.

The projects which received active support and completed construction during fiscal year 2012 are as follows:

### Town of Ridgefield – Barlow Mountain & Scotland Elementary Schools (ARRA Project)

The Town of Ridgefield entered into a loan agreement in fiscal year 2010, funded by ARRA, to extend a water main and interconnect the Barlow Mountain & Scotland Elementary Schools to the Aquarion Water Company-Ridgefield Water Supply System. The on-site public water system supplying the school complex had incurred multiple water quality violations and as a result, bottled water was being provided for drinking. The permanent loan closed on July, 1, 2011.

## Administrative Set-Aside

The State uses this set-aside for the financial administration of DWSRF. Funds are allowed to pay for support services provided by other state agencies. The total FTEs for the Administrative Set-Aside was four staff although two of these staff members are not funded 100%. Some of the activities accomplished during fiscal year 2012 included:

Reviewed and approved financial aspects of Financial Assistance Applications then drafted, finalized, and processed DWSRF loan agreements executed 11 loans as previously discussed.

Reviewed and processed DWSRF and ARRA payment requests in the amount of \$3.28 million.

### Town of East Lyme/East Lyme Water & Sewer Commission (ELWSC) (ARRA Project)

The Town of East Lyme entered into a loan agreement to install system-wide disinfection and other treatment at all of its water treatment facilities. Installation of this treatment will help to ensure that ELWSC customers are provided with clean, potable drinking water. The total cost of this project is approximately \$1.23 million with DWSRF ARRA funds covering almost \$900,000 with approximately \$506,000 in subsidy. The permanent loan closed on December 28, 2011.



East Lyme construction – chemical storage tanks and water piping.

## MDC – Smart Metering and Water Main Replacement (ARRA Project)

The MDC completed construction on two projects which had been initiated in 2010. The first project was for the purchase and installation of approximately 30,000 radio frequencies automated meter reading devices and new water meters. The new meters replaced existing meters that are beyond their expected useful service life. The “smart” meter reading devices are designed to promote water efficiency. The DWSRF ARRA funded program provided the entire cost of the project, approximately \$5.89 million.

This project also satisfied the ARRA Green Project Reserve requirements. This project closed on the permanent loan on August 31, 2011.



MDC smart meter

The second project was for the replacement of a water main on several streets in the vicinity of Tower Avenue in Hartford. The water main in the area is beyond its useful service life. This main replacement, done in conjunction with MDC’s Clean Water Project, provides local students and a daycare facility with clean, potable drinking water and eliminates a public water system. This project was completed and the permanent loan was closed on July 1, 2011.

## MDC – Water Main Project for Storm and Sanitary Sewer Separation (ARRA Project)

This project is part of an overall project that is being completed under one construction contract in an effort to reduce overall project costs. The sewer portion of this project is being funded by Clean Water SRF ARRA funds through the DEEP. DWSRF ARRA funds are being used for a portion of the water main replacement costs, approximately \$1.77 million.

By working closely with the MDC the DPH was able to provide the another \$445,000 in ARRA funding towards this project. The original agreement was amended and this segment of the permanent note will close during fiscal year 2013.



## The Woodlake Tax District - New Drinking Water Wells (ARRA Project)

The Woodlake Tax District located in Woodbury, Connecticut, entered into a loan agreement in fiscal year 2010 for the development of new drinking water wells and associated work to connect the new wells to the existing water supply system. This project will allow the Woodlake Tax District to continue to provide an adequate water supply to its customers. DWSRF ARRA funds covered the entire cost of this project, approximately \$551,101. This project closed on its permanent loan on November 25, 2011.



**MDC – Water Main Installation Project – Main Street, Hartford**



**MDC – Installation of RF Meters - Phase II**

## Town of Putnam Water Pollution Control Authority – Well Field Extension



### ***Town of Putnam – Interior of Water Treatment Facility***

The Town of Putnam entered into a loan agreement in fiscal year 2010 to expand the existing Park Street well field with the drilling of several new drinking water wells and the construction of a new water treatment facility at the same location.

The Town of Putnam has been experiencing increased water demands, and this project will allow the Authority to maintain adequate water service for its customers and maintain compliance with the DEEP minimum stream flow requirements.

The total cost of this project is approximately \$3.2 million with the DWSRF ARRA funding covering approximately \$2.46 million. This project closed on its permanent loan on December 30, 2011.

## Town of Portland/Portland Water Department – High Street Water Storage Tanks Repair and Replacement

This project consists of demolition and replacement of a structurally deficient 500,000 gallon concrete water storage tank on High Street, adjacent to the Portland Middle School. In addition, masonry repairs and painting will be done on the one million gallon concrete water storage tank at the same location. This project closed on its permanent loan of \$975,033 on January 31, 2012.



***Town of Portland Water Storage Tank***



***Town of Portland Project Drinking Water SRF Sign***

## Town of Manchester Water Department - Hercules Drive Booster Pump Station



### *Town of Manchester – Interior of Pump Station (ARRA)*

The Town of Manchester entered into a loan agreement in fiscal year 2010 for the construction of the new Hercules Drive Booster Pump Station. The new facility will provide redundancy to the Highland Street pump station. The station will be equipped with a pair of water booster pumps, disinfection treatment, and an emergency generator, and will be connected to the Town's automated operational system. DWSRF ARRA funds covered the entire cost of the project, approximately \$667,448. This project was completed and the loan amount of \$290,340 was repaid in full during February 2012.

## Program Management Set-Aside

This set-aside is used to assist in the administration of the State's Public Water System Supervision (PWSS) Program. Nine FTE's staff funded under the DPH Drinking Water Section's fiscal year 2012 Program Management set-aside. Activities included:

Initiated the upgrade to the new Safe Drinking Water System – loan and grant tracking system through coordination with the Department of Information Technology, the DPH Information Technology Unit and the State Treasurer's Office.

Conducted 67 sanitary surveys and reports.

### *Town of Manchester – Interior of Pump Station (ARRA)*

Maintained a quality assurance system in cooperation with EPA - Region 1.

Assisted in security and emergency response initiatives.

Submitted grant applications, associated work plans, and progress reports to the EPA. Participated in conference calls regarding ARRA process.

Prepared documents, work plans and long-term strategies as well as EPA required program management reports. Prepared contracts related to technical assistance to public water systems to assist the DPH Drinking Water Section in capacity development efforts.

Met with Drinking Water SRF/ARRA applicants on program application and project financing process.

Electronically processed over 500,000 individual sample analytical results into the Safe Drinking Water Information System (SDWIS).

Performed Quality Assurance/Quality Control procedures to help maintain accurate and reliable data in SDWIS.

Ran compliance reports in SDWIS to help with the implementation of the Public Notification Rule.

Reported the required PWSS program information to EPA on a quarterly basis.

Scanned, imported, and stored information in the DPH Drinking Water Section's electronic document management system, Laserfiche, to make current and historical program information available to all DPH Drinking Water Section staff.

Maintained the DPH Drinking Water Section website. The website is used as an important tool to deliver information to the public and the regulated community.

Provided business support functions (i.e. archiving, mailing, answering phones) to help the entire DPH Drinking Water System operate effectively and efficiently.

Developed a Quality Assurance/Quality Control application and procedures to help maintain high quality inventory and compliance data in SDWIS.

Assisted in the software and hardware upgrades of the DPH Drinking Water Section GIS to:

- Provide staff with new, more powerful tools and web applications to quickly and efficiently analyze data
- Make current and historical program information available to all DPH Drinking Water Section staff

## Project Financing

The Drinking Water SRF provides financial assistance to Public Water Systems that meet certain eligibility criteria. Within the parameters set by the EPA, the State exercises considerable flexibility in the type of planning, design, and construction projects that the Drinking Water SRF will fund. The major limitations on project financing are exclusions for projects that are primarily for growth. Other limitations are further described in the Drinking Water SRF guidance documents available from the DPH and the EPA.

*In the course of a day, almost every Connecticut resident and each visitor to the State comes in contact with the drinking water provided by a public water system.*

*The State has worked diligently to recognize that water resources are not limitless and that responsible planning and conservation are essential elements to maintaining sufficient, safe drinking water.*

The Drinking Water SRF financial assistance consists of low interest rate loans at one-half of the market rate with up to 20 years to repay. The Drinking Water SRF also provides technical assistance and training with a portion of the federal grant.

All projects are selected for financial assistance based on a priority ranking system created and managed by the DPH. As described below, the priority ranking system reinforces long-term goals of the State and reflects the DPH's philosophy of encouraging public health protection through the distribution of adequate and safe drinking water.

The Drinking Water SRF does not offer state funded grants. However, in fiscal year 2011, the Drinking Water SRF began to offer federally funded loan subsidies designed to encourage more rapid compliance at a lower cost to users. Due to continued availability from the federal capitalization grant, subsidization will continue to be offered as part of the Drinking Water SRF funding package.

Once a project is deemed eligible for funding, the applicant's capabilities are evaluated by the DPH Drinking Water Section engineering staff and the State Treasurer's Office to ascertain if the applicant's system can support a Drinking Water SRF loan.

## Drinking Water Infrastructure Needs Survey

The Drinking Water Infrastructure Needs Survey documents and assesses the 20-year costs and types of capital investment needs of public water systems that are required to protect public health and ensure compliance with the SDWA throughout Connecticut and the U.S.

Local water utilities make significant investments to install, upgrade, or replace equipment in order to deliver safe drinking water and protect public health. Every four years, EPA conducts a Drinking Water Infrastructure Needs Survey of the anticipated costs of these investments. The results are reported to Congress and are used to help determine the amount of funding each state receives for its DWSRF program, which funds the types of projects identified in the survey.

The most recent completed survey was done in 2007, with the report to Congress produced in February 2009. The 2007 Survey for the years 2007 through 2027 was used to determine the federal Drinking Water SRF allocation for fiscal years 2010 through 2013. Connecticut is one of the many states that historically receives the minimum 1% allocations. The most recent allocation received was \$13.57 million for fiscal year 2010. Another \$9.4 million was received for fiscal year 2011 after the end of the fiscal year.

The results of the 2007 needs survey, which were released in February 2009, showed a nationwide need of \$334.8 billion. Of that, Connecticut's needs were in the following categories:

Needs	Amounts (in Millions)
<b>Transmission and Distribution</b>	\$ 807.1
<b>Treatment</b>	\$ 280.6
<b>Storage</b>	\$ 151.6
<b>Source</b>	\$ 134.9
<b>Other</b>	\$ 19.7
<b>Total</b>	\$1,393.9

Compared with the other five New England States, 20-year needs in Connecticut were higher than New Hampshire (\$847.2 million), Rhode Island (\$428.4 million), Vermont (\$453.2 million), and Maine (\$539.8 million) but lower than Massachusetts (\$6.79 billion).

Based on the surveys, Connecticut receives 1% of the total allocation, which is the minimum that a state can receive.

Connecticut is still actively engaged in data verification for the 2011 survey and expects to have comprehensive information to represent Connecticut's needs over the next 20 years when the 2011 survey is completed. The DPH Drinking Water Section had a much higher response rate in 2011 than the 2007 survey and has worked closely with the PWSs selected to participate to try to capture all qualifying infrastructure projects. The survey will be used to determine the federal Drinking Water SRF allocation for fiscal years 2014 through 2017. The results of the 2011 survey are expected to be released by EPA in February of 2013.

## Project Priority List

The priority ranking system is a key component of the management of the Drinking Water SRF. Project eligibility applications are ranked and compiled to create a project priority list to ensure that funding is available for projects that have the most pressing needs, while reserving funds for other projects. The ranking system also incorporates procedures for emergencies.

The DPH Drinking Water Section develops a list of projects that will receive funding during the year and maintains a comprehensive priority list of eligible projects for funding in future years.

Priority for the use of funds is designated to those projects that address one or more of the following: water quality; water quantity; acquisitions and transfers; green infrastructure; infrastructure upgrades; protective measures covering sources of water supply and distribution systems, and affordability.

The priority ranking criteria is used to award points for situations in which water quality impairments, water quantity deficiencies, or water system imperfections may increase risk to public health or result in non-compliance. The resulting Project Priority List shows name of the public water system, population of the public water system's service area, project description, the projected dollar amount of the project, the points awarded to the project and other pertinent information. The highest points are assigned to projects that are designed to bring systems into compliance with quality and quantity regulations of the Connecticut public health code. Points are also awarded for the acquisition of an existing public water system and upgrades to emphasize the importance of supporting projects that achieve long-term solutions to existing or potential water quality or quantity deficiencies.

Affordability points are given to projects located in communities where the median household income is less than 80% of the State's average, based on current data from the American Community Survey available at the time the Project Priority List is generated. The American Community Survey data is updated on an annual basis.

In each fiscal year, the DPH approves project loans to recipients on the project priority list to the extent of funds available. Each recipient may apply for and receive a project loan and subsidies in an amount up to 100% of the eligible project cost. In some cases, based on readiness to proceed, a project may be bypassed on the Project Priority List. In these situations, the DPH Drinking Water Section continues to provide support for a potential recipient so that eligible projects can proceed as soon as possible.

The DWS uses its computer-based application to track and continually update programmatic information on all Drinking Water SRF loan applications. The most recent list available, the fiscal years 2012 and 2013 Project Priority List, can be found on the DWS website and a truncated version is shown in Appendix VII.

## Intended Use Plan Summary

The DPH's Intended Use Plan shows the proposed use of state and federal funding assistance for drinking water quality and quantity projects as well as the uses of set-aside funds used to administer the drinking water program.

The current Intended Use Plan covers state fiscal years 2012 and 2013, from July 1, 2011 to June 30, 2013, and is based on 1) the use of anticipated fiscal year 2011 and 2012 capitalization grant monies, 2) a state match of 20% of the fiscal year 2011 and 2012 capitalization grant awards, and 3)

unobligated funds carried forward from previous Intended Use Plans. Connecticut will be providing the 20% match of \$1.8 million and \$1.7 million of the FFY2011 and FFY2012 awards, respectively.

Connecticut, at this time, intends to request the remaining portion of the banked FFY 2008 Program Management Set-Aside as part of the FFY 2012 capitalization grant application. The other set-asides have been requested at the maximum amount of set-asides allowed under the SDWA for administrative, technical assistance state program management and local assistance.

A brief explanation of each is located on the set-aside projection sheets. Unused set-aside monies from prior capitalization grant awards will be utilized on a first-in first-out basis. If at any time the funds reserved for particular set-aside activities are not expended, the monies may be transferred to the DWSRF project fund after an amendment to the capitalization grant.

To date, the State has not transferred funds between the DWSRF and the Clean Water SRF and the State does not anticipate making such a transfer under the current Intended Use Plan.

Projects on the Project Priority List are currently in the process of moving forward and are at varying stages of progress. Due to delays in certain projects originally earmarked to receive funding, from time to time bypass procedures were implemented which adjusted the project priority list in order to allocate all available project funds. The current list of cumulative and pending projects allocated to receive DWSRF funding is shown in Appendix V.

Funding is allocated as follows: approximately 23% of the available project funds for systems under 10,000 population and 77% of the

available project funds for systems serving greater than 10,000 populations. The goal is to provide at least 15% of the total funds to systems serving a population of less than 10,000 and Connecticut intends to meet or exceed this goal.

The most recent DWSRF Public Hearing and Open Forum was held on May 21, 2012. Applicants and interested parties participated at the hearing on projects to be funding during state fiscal years 2012 and 2013 and gave testimony on several projects.

## SRF Leveraged Program

The State Treasurer is authorized to issue bonds and provide low-cost financing for water quality projects. The resources used for the bonds include federal grants, state matching funds and repayments from borrowers. The DWSRF program leverages these resources by issuing bonds to provide construction proceeds for loans. Loans made since 1996 have a borrower interest rate ranging from 2.0% to 4.6%. In fiscal year 2012 the interest rate on the bonds is higher than the loan rate; borrowers receive a subsidy equal to the difference between marked ratio and the interest rate of 2.06%. Debt service on the SRF bonds is paid from a combination of three sources: borrower loan repayments, interest earnings on the investment of SRF funds, and state match payments provided since the inception of the program. Each borrower is obligated to repay the principal amount of its loan.

Program assets and reserve funds are held as security for all bonds. As of June 30, 2012, the State held \$71.6 million in program assets invested in loans, the State's Short-Term Investment Fund, general obligation bonds and guaranteed investment contracts. Earnings on these investments are applied to pay a portion of the debt service on the related SRF bonds.

## Borrowers

All Connecticut community and non-profit non-community public water systems are eligible to participate in the Drinking Water SRF. A public water system is defined as having 15 or more service connections or regularly serves at least 25 people 60 or more days a year. In Connecticut, there are approximately 1,050 eligible public water systems subdivided by regulation into two categories: community and non-community, which are owned and operated by municipalities, private, or non-profit entities. Community water systems provide water to populations that reside in the same place for more than 60 days a year. Eligible non-community systems provide water to schools and other locations where the population changes more frequently.

The DPH emphasizes the importance of reaching potential applicants. Each year outreach initiatives have included statewide e-mail to eligible public water systems, statewide informational meetings, open forums and the posting of information on the DPH Drinking Water Section website. The DPH Drinking Water Section staff also participates as presenters and instructors in conferences and workshops in several locations around the State. The DWSRF program is also promoted during sanitary survey inspections of public water systems.

### Portfolio Credit Quality

The overall financial condition of the State's municipal and privately owned public water systems reflects positively on the Drinking Water SRF. The analysis and review of borrowers and their financial condition prior to the approval of a project loan is essential to the long-term viability of the program.

Each borrower applying for financial assistance submits documentation to evidence its ability to repay debt and its technical and financial management capabilities. Required documents include financial statements, capital budgets, current operating budgets, projected budgets including the proposed debt, and economic data. Applicants must document their ability to charge rates for services and collect from their customers. Applicants may also be asked to provide information explaining the alternatives to the proposed project as well as the benefit of the project to customers.

The project-specific review includes an engineering report or a feasibility study, a project capital cost repayment analysis including any projected need for increases in user fees, and a review of any management contracts. Further information about the application and loan documents can be found in Appendix X and Appendix XI.

The Drinking Water SRF loan portfolio is diverse, with almost all of the loans and commitments to municipalities rated "A" or higher by Moody's Investors Service as shown in Appendix VI. Most of the private and non-profit borrowers do not have credit ratings. The program's loan administration includes separate loan servicing by the program's trustee bank. No defaults have occurred to date. There is no grace period for loan repayments although the agreements allow up to 30 days to cure other defaults. A policy is in place to implement collection procedures in the event of a delayed payment. An outline of the standard loan agreement has been provided in Appendix XI.

## Pending Projects

In accordance with section 22a-478(o) of the CGS, this annual report includes the list of new project funding agreements in Appendix V of this report.

The table in Appendix V of this report shows a total of \$91.5 million in loans to borrowers with outstanding loans or undrawn loan commitments through June 30, 2012, and those with new loan commitments expected to be executed through June 30, 2013.

## Program Funding

The primary sources of funds for the Drinking Water SRF are federal capitalization grants, state contributions for the 20% match of the federal capitalization grants, proceeds of the revenue bonds and earnings on the assets of the Drinking Water SRF.

The State can request up to 31% of the federal capitalization grant as set-asides to administer the Drinking Water SRF, and provide managerial and technical assistance to public water systems. For FFY 2010, the state recipients of the federal capitalization grant must provide a minimum subsidization to program participants. For FFY 2012, the federal capitalization grant also includes a requirement to provide subsidization to program participants. The State will continue to use principal forgiveness as subsidization similar to the ARRA. There are no state-funded grant programs associated with the Drinking Water SRF.

To maintain flexibility within its programs, the State has created the following separate accounts within the Connecticut CWF to accept federal capitalization grants and state matching funds for the Drinking Water SRF.

Fund	Account Name	Purpose/Requirements
21014	STATE Account (Clean Water)	State Grants State Match for the Drinking Water SRF and the Clean Water SRF
21018	Designated Federal Drinking Water Account	The designated qualifying State Revolving Fund under Title VI of the federal Water Quality Act and the federal Safe Drinking Water Act

Appendix II and III shows the total amounts for the DWSRF project funds and set-aside accounts available to Connecticut based upon EPA approval of the FFY2009 and FFY2010 Capitalization Grants for Connecticut. It includes the 20% State match required by EPA, but does not reflect additional funds that may be obtained through leveraging. FFY2011 Capitalization Grant was not received by June 30, 2012 and is not included in the totals.

## Federal Capitalization Grants

The 1996 amendments to the SDWA established the State Drinking Water SRF, and the SDWA both authorized the Drinking Water SRF and continues to place legal constraints on each state program. Federal regulations limit the uses of the Drinking Water SRF equity to loans, support for bonds issued to make loans, loan guarantees or insurance, refinancing of prior debt, or administrative expenses associated with qualified projects.

The Clean Water SRF and the Drinking Water SRF have many similarities. However, one major difference is that the Drinking Water SRF can make loans to private entities that own and operate public water systems. The

initial federal authorizations ended in 2003 and as of June 30, 2012, the SDWA has not yet been reauthorized by Congress. However, in each subsequent year since 2002, Congress has appropriated funding for the DWSRF. Each year Connecticut is allocated 1% of the federal funds available for federal capitalization grants to State Drinking Water SRF. The federal drinking water, non-ARRA, capitalization grants awarded to Connecticut from FFY 1997 through FFY 2010 totaled \$130.4 million.

Since last year's report, the State was awarded the remainder of FFY 2009 funds, which consisted of project funds (\$4.3 million) and the remaining two set-asides (\$1.5 million) as well as FFY 2010 funds (\$13.4 million). The full allocation for FFY 2010 was \$13.5 million, however, EPA withheld \$90,000 based on an agreement with the State. The money is being used for the SRF Loan and Grant Tracking System. Connecticut's allocated grant award for 2011 is approximately \$9.4 million. The DPH Drinking Water Section has applied for these funds and anticipates the notification of award in the near future.

While states have significant latitude in the creation of the SRF program, the federal capitalization grants and the required match for the Drinking Water SRF must be maintained by the SRF in perpetuity.

Federal capitalization grants are paid to the State as cash draws under the federal payment system, which is initiated when a written payment request is submitted by the DPH. The periodic cash draws by the State are based on the amount of incurred costs for eligible projects or activities by either all or a specific group of projects receiving loans, as elected by the State from time to time. The State has elected to base its cash draws on the costs incurred by a specified group of projects on a dollar-for-dollar basis.

Set-asides are funds allocated for a range of specific activities including SRF program administration and management, technical assistance for small water systems, and operator education and support. As mentioned previously, these approved purposes can use as much as 31% of each capitalization grant. Information on the required State matching funds, the amount of federal grants for the Drinking Water SRF and a description of the programs funded with the set-asides can be found in Appendices I and II of this report.

## State Authorizations

The State has demonstrated a significant commitment to high water quality for its citizenry through its support of the Connecticut Clean Water Fund including the Clean Water SRF and Drinking Water SRF. Due to the similarities between the federal programs, the State authorizations of revenue bonds and general obligation bonds for the two programs are combined. As projects are approved, authorizations are allocated to the Drinking Water SRF from the total available authorizations.

## Required State Matching Funds

The State has provided sufficient funds in the Drinking Water SRF to meet the required State match of all amounts drawn to date. Connecticut's match has been made in the form of cash contributions in the Drinking Water SRF for a total of \$25.3 million.

At present, future match requirements will be provided with cash contributions from the State. It is anticipated that match requirements for all awarded grants will be met before additional grants are drawn by the State from the EPA.

## Revenue Bonds

To date, revenue bond authorizations of \$87.7 million for projects have been made available to the Drinking Water SRF.

The bonds are rated at the highest available credit rating from three rating agencies:

Fitch Ratings	AAA
Standard and Poor's	AAA
Moody's Investor's Service	Aaa

Each rating reflects only the views of the respective rating agency, and an explanation of the significance of any rating may be obtained from the rating agency. There is no

assurance that ratings will continue for any given period or that they will not be revised or withdrawn entirely by a rating agency if in their judgment, circumstances so warrant.

## Program Management

The DPH, the State Treasurer's Office, the DEEP, and with the Office of Policy and Management have worked together since 1995. With a great deal of consideration for existing regulations and procedures, the Drinking Water SRF Interagency Memorandum of Understanding (MOU) details the roles and responsibilities of each agency. An overview of the participation and responsibilities of each State agency is available in Appendix VIII and Appendix IX of this report.



*Department of Public Health and State Treasurer's Office Drinking Water SRF managers and staff with DPH Commissioner Jewel Mullen (front row, center).*

# Compliance with Operating Agreement and Grant Conditions

Connecticut has complied with the conditions of the Drinking Water SRF Operating Agreement with EPA. We have met and continue to comply with the following conditions as described in the Operating Agreement:

- Attorney General Certification included with FFY 2011 grant application meets the requirement of the state having the authority to conduct the DWSRF program
- State certification to comply with applicable state laws and procedures
- Deposit state matching funds. The State provided \$1.88 million as state match for the FFY 2011 capitalization grant
- Submit Biennial Report and annual audit. During November 2010, the EPA approved the use of the DWSRF Annual Report, with slight modifications can be used to fulfill the requirements of the Biennial Report
- Review technical, financial, and managerial capacity of assistance recipients
- Establish DWSRF loan account, set-aside account, and DWSRF administration account
- Deposit all funds in appropriate accounts
- Follow state accounting and auditing procedures
- Require DWSRF loan recipient to adhere to accounting and auditing procedures
- Submit Intended Use Plan and use all funds in accordance with the plan
- Complied with enforceable requirements of the Safe Drinking Water Act

- Independent auditor has evaluated program on a yearly basis
- Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- Developed and submitted project priority ranking system
- Submitted and obtained EPA approval for Drinking Water SRF Set-Aside Work plans
- Request approval from the EPA Project Officer as needed prior to any significant deviation to the approved work plans

DPH has also met the following conditions of the capitalization grant with the EPA:

**Applicant Credit Evaluation:** State Treasurer's Office staff conducts a credit review evaluation for all municipal public water systems. This evaluation determines whether an applicant has the ability to repay a loan. State Treasurer's Office staff conducts a similar credit review for all private water systems. For all public water systems, the expected revenue stream from user fees must be sufficient to repay the loan, pay operation and maintenance costs, and pay for other necessary expenses.

**Use Funds in Timely and Expeditious Manner:** Public water systems with binding commitments have moved in an expeditious and timely manner to start and complete construction. DPH monitors construction progress to ensure that operations are initiated according to schedule.

**Ensure Recipient Compliance with Applicable Federal Cross-Cutting Authorities:** The State of Connecticut and all of its assistance recipients have complied with all applicable federal crosscutting authorities. Section 6.7 "Compliance with Federal and State Requirements" is stated in the executed loan agreements. In order to establish an overall fair-share objective for Minority and Women's Business Enterprises (MBE/WBE), the DWSRF utilized the same percentages that were approved by the EPA for the Clean Water

program of 3% for MBE participation and 5% for WBE participation. This objective was accepted by the EPA during fiscal year 2012.

**Conduct Environmental Reviews:** The five public water systems that received assistance during fiscal year 2012 were reviewed and approved using the DPH Drinking Water Section's "Environmental Reviews of DWSRF Project" guidance document. To date there has not been any significant environmental impact associated with the projects, which has been classified as either a category 1 or 2. A brief description of the environmental review process, examples of project types by category and an environmental assessment checklist, for a funded project is located on the DPH Drinking Water Section website. This environmental evaluation is conducted on all DWSRF projects prior to their approval.

## DWSRF Program Activities and Initiatives

The DWSRF Program Activities and Initiatives include the status of the State's meeting or obtaining short term goals and accomplishments thus far. The DPH in consultation with the Fund Administrator in the Treasurer's Office, develops goals for each program of the Drinking Water SRF and set-asides. The DWSRF short term goals are focused on continued development and implementation of all facets of the DWSRF program. The DWSRF long-term goals outlined on page 33 and in the Operating Agreement between the State of Connecticut and the EPA, express strategic principles for guiding the DWSRF into the future.

The short-term goals as indicated below are benchmarks for measuring overall success and effectiveness of the program.

### Short-Term Goals

The short-term and long-term program goals noted below include several new activities.

## SHORT-TERM GOALS-FINANCIAL

- 1) Approve loans and financial assistance for projects funded from all previous unspent grant funds and the FFY 2011 and FFY 2012 capitalization grants in accordance with the current 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; and
  - 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.

## SHORT-TERM GOALS-PROGRAMMATIC

- 1) Review and approve applications for DWSRF assistance for projects ranked on the Project Priority List with an overall goal of committing all available project funds during the IUP period and increasing the pace of the DWSRF program.
- 2) Change from an annual DWSRF project planning period to a 2-year planning period to coincide with the biennial State budget cycle.
- 3) Continue to implement the following existing DWSRF elements, including re-evaluation and improvement when necessary:
  - a) Review of the Priority Ranking System;
  - b) Procedures for determining technical review and approval of DWSRF projects;

- c) Responsibilities delineated in the DWSRF Interagency MOU;
  - d) Routine procedures for monitoring oversight and contract compliance of DWSRF set-aside projects;
  - e) Communication and information connections between State agencies for programmatic components of the DWSRF; and
  - f) Procedures for evaluating technical and managerial capacity and sustainability aspects of proposed projects.
- 4) Utilize procedures for meeting the provisions of the most current DWSRF appropriation regarding:
    - Goal of utilizing at least 20% of the capitalization grant to fund GPR projects;
    - Davis-Bacon law requirements; and
    - Providing a minimum of 30% of the capitalization grant as additional subsidization.
  - 5) Input project information into the DWSRF Projects Benefits Reporting (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) Utilize the Small System Emergency Power Generator Program as an initial model for streamlining DWSRF requirements for small systems that undertake projects with a total project cost of less than \$100,000.
  - 9) Improve PWS education and proficiency in sustainable infrastructure and asset management.
  - 10) Transition to a new Loans and Grants Tracking System database that will improve communication between State agencies and information sharing with EPA for projects funded through the DWSRF program.
  - 11) Dedicate significantly more resources to the 2011 Drinking Water Infrastructure Needs Survey to better demonstrate the drinking water infrastructure needs for Connecticut over the next 20 years. This includes the

establishment of a Needs Survey Coordinator and Needs Survey Assessment Team within DPH and a Needs Survey Coordinator for each of the PWS selected by EPA to participate in the survey.

The major activities planned for 2013 in order to meet these goals include:

### Administrative Set-aside and Projects

Four staff members are funded under this set-aside and focus on the administrative aspects of the DWSRF. Activities planned for fiscal year 2013 include:

Review and provide comments to the federal capitalization grant application prior to submission to EPA.
Review DWSRF Financial Assistance Applications.
Evaluate financial assistance for eligible systems through the DWSRF Loan Program.
Review, approve, and process payment requests.
Participate in DWSRF Public Hearing / Open Forum on the project priority list.
Evaluate ways to streamline the Drinking Water SRF loan process to improve program efficiency
Meet with stakeholders and applicants as needed.
Evaluate and implement program to greater assist small systems.
Draft, finalize, and process loan agreements and process payments.
Development and utilization of effective accounting management reports.
The Amendment to the remaining ARRA project is scheduled to be completed during fiscal year 2013.
Attend workshops and trainings to improve program's efficiency.

### State and Local Program Set-Aside Source Water Protection Unit

The SWP Unit maintains a *Strategic Plan for the Implementation of Drinking Water Source Protection in Connecticut*. The SWP Unit coordinate, manage, and regulate source

protection through the proactive enhancement and oversight of existing source protection laws and regulations, integration with water supply planning, education of local land use officials, and involvement with stakeholders on a continuous basis.

The focus of the three staff under this set-aside will continue to be the implementation of drinking water wellhead protection.

## OBJECTIVES

- Efficiently enhance, oversee, and enforce existing public health source protection laws and regulations, and maintain a 100 percent minimized risk to public health in source water areas for community water systems (both surface and ground water) by substantial implementation of the source water protection actions as identified in the SWP Unit Strategic Plan. If necessary, propose legislation designed to better protect and monitor land around public water supplies.
- Educate, train and support municipalities and water systems, and link to related programs to emphasize proactive public health protection through source water protection.
- Work to streamline the SWP Unit workflow, including evaluating ways to make the permitting process more efficient and improving performance via an improved geographical information system.

## IMPLEMENTATION PLAN:

- 1) Efficiently maintain regulatory programs including water company lands, well siting, water supply planning, recreational use permits, and environmental reviews
- 2) Conduct and oversee watershed management planning and watershed surveys, and integrate source water protection into individual and regional water supply plans.

- 3) Enhance, oversee and enforce existing public health source protection laws and regulations.
- 4) Educate local land use officials and involve stakeholders on a continuous basis.
- 5) Integrate drinking water source protection with water supply management planning and other related programs.
- 6) Provide review comments to state and local agencies on proposed development projects that may have an impact on sources of public drinking water.
- 7) Upgrade the Drinking Water Geographic Information System and its link to Source Water Assessment Plan information.
- 8) Propose legislation designed to better protect and monitor land around public water supplies when necessary.
- 9) Encourage the development of drinking water quality management plans throughout the State.
- 10) Update the strategic plan with the intent to streamline the SWP Unit workflow, including evaluating ways to make the permitting process more efficient and improving performance via an improved geographical information system.
- 11) Develop and analyze staff work plans to maximize efficiency and productivity.

Activities scheduled for fiscal year 2013 include:

Review and approve of proposed sources of supply, including verification that the water system has ownership or control of the sanitary radius for proposed ground water sources.

Investigate the redevelopment of source protection regulations, including the adoption of regulations under CGS 25-33(b) statutes and regulations concerning water company lands, develop statutes and / or regulations pertaining to the sale of a water

company, update RSCA Sections 19-13-B51 and 19-13-B32 to include permitting requirements and enforcement mechanisms for non-compliance.

Review and evaluate potential impacts of proposed projects in public water system watersheds and aquifer protection areas.

Review and approve: Water Company Land Permits, recreational activity permit proposals and renewals, watershed surveys, and DEEP Diversion Permits of public water supplies.

Continue to enhance drinking water Geographic Information System (GIS) capabilities and data, including continued interaction with state agencies to improve data sharing. Develop a new GIS software product. Hold meetings with the software development team in accordance with the contract.

Review Effects of New Sources for Public Water Systems on Nearby Wells [CGS Sections 25-33(b)].

Continue to link the protection of public water supplies with septic system approval, maintenance, training and repair.

Educate and provide guidance to local officials and link them with related state and federal programs.

Continue to work with multiple towns and the Departments of Transportation (DOT), the Department of Energy and Environmental Protection, Agriculture, and Economic and Community Development, as well as the Office of Policy and Management, Council on Environmental Quality, the Environmental Review Team and the State Treasurer's Office, to emphasize source water protection.

Evaluate land applications of pesticides and herbicides within drinking water watersheds. Work with state agencies, municipalities, utilities and stakeholders to develop responsible techniques and usages of pesticides and herbicides.

Develop and compile literature on emerging source water topics, including cyanotoxins and invasive species, and post on the DPH Drinking Water Section website.

Continue outreach efforts such as hosting water utilities stakeholder's meeting slated for Spring of 2013 in order to discuss source water protection

issues and provide tools to protect drinking water supplies.

Redevelop and execute an aquatic pesticide Memorandum of Understanding with the DEEP to improve source protection of ground water and surface water supplies through permit policy improvements. Evaluate toxicology and environmental effects of new pesticides proposed for water bodies and tributaries to public supplies.

Research emerging potential source water contaminants, such as hexavalent chromium, perchlorate and 1,4-dioxane and evaluate the impact to Connecticut's public water sources. Evaluate if action is necessary to protect public health.

The Environmental Engineering Program, continue to advocate the protection of public water supplies through reduction of non-point source pollution from subsurface sewage disposal systems. Continue to review and approve well exception requests, central system exception requests and holding tanks and provide technical assistance to municipalities and DPH Drinking Water Section.

The Environmental Engineering Program, educate and provide guidance to local officials and others and link them with related state and federal programs.

The Environmental Engineering Program, continue to provide technical assistance and detailed technical document reviews for DPH and other agency documents.

The Environmental Engineering Program, modify as needed hands-on training program to ensure proper siting of subsurface sewage disposal systems to prevent negative impacts to water quality and promote drinking water/source water protection, non-point source pollution and wellhead protection. The program is offered to local health departments, installers, professional engineers and other interested parties.

The Environmental Engineering Program, review and approval plans for large and small subsurface sewage disposal systems and provide direct contact with other state agencies such as the DEEP or the DPH Drinking Water Section when decisions may be affected by their program policies and procedures.

Assist municipalities in the development of wastewater management ordinances and regulations for the purposes of reducing potential wastewater impacts to environmentally sensitive areas, aquifer protection areas and reduce non-point source pollution.

## Capacity Development

Nine staff will continue to be funded under this set-aside and will continue working on the implementation of the Capacity Development strategy as well as improving the pace of processing DWSRF loans. Activities for fiscal year 2013 will include:

Enter and maintain data in the federal DWSRF Projects Benefit Reporting system.

Continue to provide assistance at meetings for public water systems facing sanctions at other State agencies.

Assist in the implementation of the Drinking Water SRF Program by:

- Soliciting DWSRF Eligibility applications
- Determining project eligibility, reviewing and ranking Eligibility Applications, preparing Project Priority Lists
- Providing technical assistance to applicants and their representatives
- Coordinate and conduct public hearing on project priority list
- Prepare capitalization grant application, Intended Use Plan and required reports
- Track progression of projects throughout construction to completion

Participate as necessary in training programs related to technical, managerial and financial capacity for public water system operators and local health officials. Continue participation as instructors at DPH water system operator classes and participate in other training sessions to enhance the financial, managerial, and technical capacity of public water systems.

Review and approve Sale of Excess Water (SEW) permits. Enforce the requirement for a SEW permit for public water systems that sell bulk water to neighboring public water systems. This requirement is a critical step in assuring the adequate capacity both of the public water system selling the water and the public water system purchasing the water.

Complete reviews of Water Company Screening Applications to determine potential status as a public water system and applicability of the Certificate of Public Convenience and Necessity process.

Provide technical assistance and enforcement referral to local health departments for maximum contaminant level violations, source water construction violations, and cross-connections identified at food service establishments.

Contract with a qualified consultant to develop templates, tools and resources to be use by Capacity Development staff.

## Program Management Set-Aside

These funds are designated for the administration of the State Public Water Supply Supervision Program. Activities to be conducted by the ten staff that will continue to be funded under this set-aside during fiscal year 2013 include:

Prepare guidance documents, work plans, progress reports, standard operating procedures and long-term strategies for DWSRF program management and EPA required program management reports (e.g. Quality Management Plan, Quality Assurance Progress Plan, Performance Partnership Agreement) status reports and contracts related to technical assistance to public water system in capacity development efforts.

Assist in the preparation of grant applications, associated work plans, and progress reports to the EPA.

Continue to provide direct technical assistance to public water systems and laboratories regarding the required reporting of water quality and inventory/facility data in SDWIS and electronic data interchange, provide information and educational opportunities to public water systems via internet posting.

Conduct outreach programs to educate public water system staff, certified operators, the general public and other stakeholders on capacity and State drinking water program administration issues as related to the Sanitary Survey process.

Conduct outreach programs to educate public water system staff, certified operators, the general public and other stakeholders on capacity and State drinking water program administration issues as related to the sanitary survey process.

Provide technical assistance to the Water Planning Council, the Water Utility Coordinating Committee, and the Connecticut Drought Advisory Committee.

Coordinate activities with the Environmental Health Section's Laboratory Certification Program in assisting public water systems regarding water quality testing issues.

Revise the approval process and other regulatory mechanisms and provide direct technical assistance to public water systems to better address capacity development concerns.

Prepare standard operating procedures for water supply plans, sale of excess water permits, diversion permits, and water company lands to ensure consistency.

Test and install the latest version of the SDWIS/State software (3.1) and related add-ons. Communicate new reporting requirements to laboratories and certified operators to provide a smooth transition.

Electronically process all incoming water quality test results accurately and efficiently.

Continue the development and maintenance of the data quality assurance/quality control application and procedures to continue maintaining high quality data in SDWIS.

Develop a section on the DPH Drinking Water Section webpage to provide information and templates related to the Public Notification Rule.

Assist with the development and implementation and continued maintenance of a consultant-developed Geographic Information System web application to help staff perform geospatial analysis on collected data.

Provide legal assistance to the DPH Drinking Water Section.

Run compliance reports to help determine water systems compliance with the Public Notification Rule.

Continue the enhancements, maintenance and organization of the DPH Drinking Water Section electronic document management system (Laserfiche) to make current and historical program information available to all DPH Drinking Water Section staff.

## Small Systems Technical Assistance Set-Aside

One staff person will continue to be funded under this set-aside. Activities to be funded to assist small public water systems (population of less than 10,000) during fiscal year 2013 include:

Conduct sanitary surveys of community, non-transient, non-community, and transient non-community public water systems serving fewer than 10,000 people (small systems).

Assess existing small public water system's technical, financial, and managerial capacity during sanitary surveys.

Conduct regulatory compliance reviews of engineering plans and specifications for small public water system infrastructure improvements, including projects funded under the DWSRF.

Conduct reviews of water quality and quantity of newly developed drinking water sources and review engineering plans and specifications for new water system designs in accordance with Section 16-262m of CGS.

Evaluate the adequacy and protection of the small distribution networks with emphasis on viability of the small systems-cross connection program as part of sanitary survey.

## Long Term Projections/Goals

DPH has established management goals for the DWSRF program as part of its statewide public health performance improvement initiative. The condition of the DWSRF continues to be enhanced by the placement of the DWSRF within the financial structure of the CWF. This helps to assure that the DWSRF will benefit from the same management and financial planning mechanisms as 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. DPH's commitments to monitor, track and continue to improve the pace of the DWSRF program.
2. 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.
3. 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.
4. The EPA's program guidelines and regulations and their impact on the DWSRF program at the State level.
5. The amount of DWSRF funding available for drinking water infrastructure projects and the number of potential project loans.
6. Continued improvement to use set-aside funds to maximize effectiveness as it relates to Connecticut's aging drinking water infrastructure, drinking water regulatory compliance, PWSs and Connecticut residents. Areas of concern include PWS sustainable infrastructure programs, long

term water supply planning and small water systems.

7. Continued improvement on the determination of the PWS infrastructure needs projections for Connecticut through on-going participation and support for the Drinking Water Infrastructure Needs Survey.
8. Offer, as effectively as possible, a low cost financing mechanism to eligible PWSs that possess self-sustaining technical, managerial and financial capabilities.

## Condition of the Fund

The listing in Appendix XII and Appendix XIII of projects funded by the Connecticut Drinking Water SRF as of June 30, 2012, shows that the DWSRF has more than \$100 million in completed projects and project commitments.

Each year, the Department of Public Health and the State Treasurer's Office in conjunction the DEEP estimate the amount of funding that will be available for specific projects. The amount is based on the remaining authorizations and the allocations approved through the State Bond Commission.

The Drinking Water SRF depends on the State's continued willingness to commit financial resources to the program. In fiscal year 2012, the State continued to demonstrate its commitment with annual authorizations, consistent staffing levels, and resources to meet existing and future program needs.

Authorizations for Clean Water and Drinking Water projects have been provided for fiscal year 2012 and fiscal year 2013 and the DPH was able to initiate the project priority process and create the priority list for these years. The current Project Priority List for the base Drinking Water SRF Program is shown in Appendix VII and at the Department's web site [www.ct.gov/dph](http://www.ct.gov/dph).

Since the inception of the Program, the Drinking Water SRF has over \$115.6 million in completed projects and project commitments. Many of the borrowers have multiple loans and the largest

number of loans and commitments continue to be with the MDC and the City of Norwich.

Since 2001, the State has issued revenue bonds to expand the Drinking Water SRF and its ability to fund critical water quality projects. State bond authorizations for the Drinking Water SRF have only been used for project purposes.

The volume of projects funded in each year, as measured by DWF agreements executed with PWSs, is a reflection of the both past demands on the program and the availability of funding through the State Bond Commission. Program capacity projections show that the program can sustain bond issuance of approximately \$10 to \$12 million in revenue bonds per year through 2020 without additional State funds.

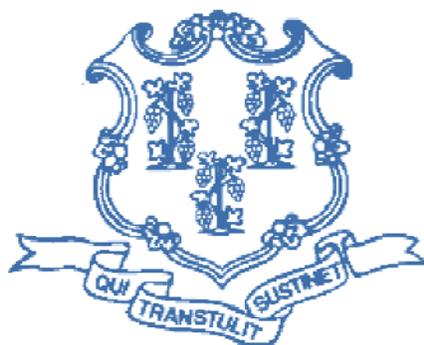
There is evidence that meaningful progress in water quality improvements, increased managerial and financial capacity and needs monitoring and oversight of water resources has been made through the Drinking Water SRF programs. Maintenance and continued improvement of the existing water infrastructure in Connecticut are dependent upon consistent funding for the DWSRF.

The projected investments needed to sustain the demands of the DWF is part of the analysis of the DWF's sustainability. The DPH and the Treasurer's Office will work together to develop assumptions based on the current project needs in order to maintain the sustainability of the DWF.

## DWSRF Annual Report Acronym List

ARRA	American Recovery and Reinvestment Act of 2009
ATCAVE	Annual Technical Conference and Vendor Expo
CPCN	Certificate of Public Convenience & Necessity
CGS	Connecticut General Statutes
CT AWWA	Connecticut Section of American Water Works Association
CWF or CWSRF	Clean Water Fund and Clean Water State Revolving Fund
DEEP	Department of Energy and Environmental Protection (formerly the Department of Environmental Protection)
DPH	Department of Public Health
DWS	DPH Drinking Water Section
DWF or DWSRF	Drinking Water State Revolving Fund
EPA	United States Environmental Protection Agency
FY	Fiscal year of the State of Connecticut Fiscal Year from July 1 to June 30 each year
FFY	Federal Fiscal Year
IUP	Intended Use Plan
MOU	Memorandum of Understanding
OA	Operating Agreement between the State and the EPA
OPM	Office of Policy and Management
OTT	State Treasurer's Office
PBR	Project Benefits Reporting
PURA	Public Utilities Regulatory Authority
PWS	Public Water System
RCSA	Regulations of Connecticut State Agencies
SDWA	Safe Drinking Water Act
SDWIS	Safe Drinking Water Information System
SRF	State Revolving Fund
SWP	Source Water Protection (unit within DWS)

## APPENDICES



## Appendix I: State Match for Federal Capitalization Grants

Fiscal Year	Federal Proceeds Received*	Cumulative Federal Received	20% Match	Match Provided	Cumulative Match Provided	Over/Under Match
19897	\$0	\$0	\$0	\$0	\$0	\$0
1998	\$0	\$0	\$0	\$0	\$0	\$0
1999	\$0	\$0	\$0	\$0	\$0	\$0
2000	\$3,376,664	\$3,376,664	\$675,333	\$0	\$0	\$0
2001	\$13,156,884	\$16,533,548	\$3,306,710	\$10,398,696	\$10,398,696	\$7,091,986
2002	\$6,730,236	\$23,263,784	\$4,652,757	\$0	\$10,398,696	\$5,745,939
2003	\$16,527,779	\$39,791,563	\$7,958,313	\$0	\$10,398,696	\$2,440,383
2004	\$4,966,467	\$44,758,030	\$8,951,606	\$0	\$10,398,696	\$1,447,090
2005	\$1,694,187	\$46,452,217	\$9,290,443	\$0	\$10,398,696	\$1,108,253
2006	\$6,636,504	\$53,088,721	\$10,617,744	\$5,000,000	\$15,398,696	\$4,780,952
2007	\$19,027,960	\$72,116,681	\$14,423,336	\$1,610,500	\$17,009,196	\$2,585,860
2008	\$14,083,841	\$86,200,522	\$17,240,104	\$1,600,820	\$18,610,016	\$1,369,912
2009	\$5,296,317	\$91,496,839	\$18,299,368	\$1,660,620	\$20,270,636	\$1,971,268
2010	\$4,380,560	\$95,877,399	\$19,175,480	\$1,956,020	\$22,226,656	\$3,051,176
2011	\$6,538,617	\$102,416,016	\$20,483,203	\$1,827,687	\$24,054,343	\$3,571,139
2012	\$3,554,620	\$105,970,636	\$21,194,127	\$1,250,398	\$25,304,741	\$4,110,613
<b>Totals to 2012</b>		\$105,970,636	\$21,194,127		\$25,304,741	

## Appendix II: Federal Capitalization Grants Project Funds (As of June 30, 2012)

Fiscal Year	Project Funds	Total Capitalization Grant
1997	\$14,771,658	\$21,408,200
1998	\$4,913,697	\$7,121,300
1999	\$5,150,022	\$7,463,800
2000	\$5,352,330	\$7,757,000
2001	\$5,374,479	\$7,789,100
2002	\$5,556,225	\$8,052,500
2003	\$5,522,829	\$8,004,100
2004	\$5,729,139	\$8,303,100
2005	\$5,716,995	\$8,285,500
2006	\$5,678,217	\$8,229,300
2007	\$6,500,910	\$8,229,000
2008	\$6,924,100	\$8,146,000
2009	\$4,399,080	\$8,146,000
2010*	\$9,215,370*	\$13,483,000*
2011**	\$6,022,180**	\$9,418,000***
2012		
<b>Total</b>	<b>\$90,805,051</b>	<b>\$130,417,900</b>
<b>2009 ARRA***</b>	<b>\$17,257,500</b>	<b>\$19,500,000</b>
<b>Total</b>	<b>\$108,062,551</b>	<b>\$149,917,900</b>

\* \$90,000 of FFY 2010 award (\$13,573,000) was withheld by EPA for SRF Tracking System

\*\* FFY 2011 has not been awarded as of 6/30/12 and is not included in the Total.

\*\*\*This is the American Recovery and Reinvestment Act of 2009.

## Appendix III: Set-Aside Management

The Drinking Water SRF has several program set-asides that give the State extensive flexibility to explore multiple options to support eligible participants in the Drinking Water SRF. Set-asides are funds allocated for a range of specific activities such as encouraging source water protection and supporting other State drinking water program activities which can represent up to 31% of the capitalization grant. The Intended Use Plan describes the State's intended uses for set-aside and project funds. Those uses are also listed in this report.

The following descriptions include the set-aside categories, percentages of the federal capitalization grant taken and the use of the funds:

### Administrative Set-Aside - (up to 4%)

These funds are used in various aspects of administering the Drinking Water SRF. Funds are earmarked for the DPH and the State Treasurer's Office. Administrative functions include:

- Reviewing and approving eligibility and full loan applications and meeting with applicants as needed;
- Drafting and processing loan agreements including loan closings;
- Reviewing and approving project costs;
- Determining if the applicants possess adequate financial, technical and managerial capabilities to ensure long-term compliance with applicable state and federal regulations;
- Receiving, reviewing and processing payment requests;
- Preparing and submitting funding request to the State Bond Commission; and
- Assisting in the preparation of the capitalization grant application and various Drinking Water SRF reports.

### Local Assistance and Other State Programs Set-Aside - (up to 15%)

**Source Water Protection** – The DPH Drinking Water Section also uses the Local Assistance set-aside for source water protection of wellheads. Funds are designated for the following source water protection activities:

- Delineation and assessment of source water protection areas;
- Review and approve: Water Company Land Change of Use permits, new Recreation permits, sewage bypass reports, and water supply plans
- Loans to systems to acquire land or conservation easements
- Loans to systems to assist in voluntary, incentive-based source water protection measures;

- Development and implementation of wellhead protection programs and
- Technical assistance for systems as part of a capacity development strategy.

**Capacity Development** – This set-aside is used to fund staff for assessing compliance with State regulations and the SDWA and assisting in the preparation of grants applications and work plans. The staff also assesses the managerial and technical capacities of public water systems by conducting and reviewing sanitary surveys. As enforcement actions are initiated, staff also assesses the cause or triggers of violations associated with a public water system and assist the system in recognizing the corrective measures to return the system to compliance with the regulations. Systems that do not correct existing violations through technical assistance are referred for formal enforcement actions including possible take-over proceedings.

### **Small Systems Technical Assistance Set-Aside – (up to 2%)**

These funds are designated for technical assistance to small systems. Some of the activities include:

- Conducting sanitary surveys of community, non-transient non-community and transient non-community public water systems serving fewer than 10,000 persons (small systems)
- Providing technical assistance to small public water systems on violations and deficiencies noted during sanitary surveys
- Conducting regulatory compliance reviews of engineering plans and specifications for existing small public water system infrastructure improvements including projects funded under the Drinking Water SRF and
- Educating and assist small systems in applying for DWSRF loans for infrastructure improvement projects

### **State Program Management Set-Aside – (up to 10%)**

These funds are designated for the administration of the State Public Water Supply Supervision Program. The Program provides technical assistance through source water protection, capacity development, and operator certification programs. Activities include:

- Developing, tracking and submitting grant applications, work plans and progress reports to the Environmental Protection Agency
- Continue implementing electronic reporting by water systems.
- Managing State Drinking Water Information System (SDWIS)
- Web-page development and management.
- Develop and coordinate reports to the Environmental Protection Agency.

- Develop fact sheets, brochures pamphlets and electronic public informational services (e-mail, internet and DPH's Health Alert Network).
- Coordinate with public water systems, businesses, trade associations etc. to provide speakers to and/or initiate conferences and workshops.
- Prepare, review and submit formal enforcement actions on non-compliant water systems for processing and
- Staff has presented information on operator certification to various industry groups such as water system owners and operators, and well drillers.

### Set-Asides Management

<i>As of 6/30/2012</i>	Administration	State Management	Small Systems Technical Assistance	Local Assistance	Total
<b>Set-Aside percentage:</b>	<b>4%</b>	<b>10%</b>	<b>2%</b>	<b>15%</b>	
<b>1997 Award</b>	<b>\$ 856,328</b>	<b>\$ 2,140,820</b>	<b>\$ 428,164</b>	<b>\$ 3,211,230</b>	<b>\$ 6,636,542</b>
Drawn thru 6/30/12	856,328	2,140,820	428,164	3,211,230	6,636,542
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>1998 Award</b>	<b>284,852</b>	<b>712,130</b>	<b>142,426</b>	<b>1,068,195</b>	<b>2,207,603</b>
Drawn thru 6/30/12	284,852	712,130	142,426	1,068,195	2,207,603
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>1999 Award</b>	<b>298,552</b>	<b>746,380</b>	<b>149,276</b>	<b>1,119,570</b>	<b>2,313,778</b>
Drawn thru 6/30/12	298,552	746,380	149,276	1,119,570	2,313,778
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2000 Award</b>	<b>310,280</b>	<b>775,700</b>	<b>155,140</b>	<b>1,163,550</b>	<b>2,404,670</b>
Drawn thru 6/30/12	310,280	775,700	155,140	1,163,550	2,404,670
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2001 Award</b>	<b>311,564</b>	<b>778,910</b>	<b>155,782</b>	<b>1,168,365</b>	<b>2,414,621</b>
Drawn thru 6/30/12	311,564	778,910	155,782	1,168,365	2,414,621
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2002 Award</b>	<b>322,100</b>	<b>805,250</b>	<b>161,050</b>	<b>1,207,875</b>	<b>2,496,275</b>
Drawn thru 6/30/12	322,100	805,250	161,050	1,207,875	2,496,275
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2003 Award</b>	<b>320,164</b>	<b>800,410</b>	<b>160,082</b>	<b>1,200,615</b>	<b>2,481,271</b>
<i>(continued)</i>					
Drawn thru 6/30/12	320,164	800,410	160,082	1,200,615	2,481,271
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<i>As of 6/30/2012</i>	<b>Administration</b>	<b>State Management</b>	<b>Small Systems Technical Assistance</b>	<b>Local Assistance</b>	<b>Total</b>
<b>2004 Award</b>	<b>332,124</b>	<b>830,310</b>	<b>166,062</b>	<b>1,245,465</b>	<b>2,573,961</b>
Drawn thru 6/30/12	332,124	830,310	166,062	1,245,465	2,573,961
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2005 Award</b>	<b>331,420</b>	<b>828,550</b>	<b>165,710</b>	<b>1,242,825</b>	<b>2,568,505</b>
Drawn thru 6/30/12	331,420	828,550	165,710	1,242,825	2,568,505
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2006 Award</b>	<b>329,172</b>	<b>822,930</b>	<b>164,586</b>	<b>1,234,395</b>	<b>2,551,083</b>
Drawn thru 6/30/12	329,172	822,930	164,586	1,234,395	2,551,083
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2007 Award</b>	<b>329,160</b>	<b>-</b>	<b>164,580</b>	<b>1,234,350</b>	<b>1,728,090</b>
Drawn thru 6/30/12	329,160	-	164,580	1,234,350	1,728,090
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2008 Award</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,221,900</b>	<b>\$ 1,221,900</b>
Drawn thru 6/30/12	-	-	-	803,342	803,342
<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>418,558</b>	<b>418,558</b>
<b>2009 Award</b>	<b>561,680</b>	<b>1,637,500</b>	<b>325,840</b>	<b>1,221,900</b>	<b>3,746,920</b>
Drawn thru 6/30/12	493,654	1,637,500	322,695	-	2,453,849
<b>Balance</b>	<b>68,026</b>	<b>-</b>	<b>3145</b>	<b>1,221,900</b>	<b>1,293,071</b>
<b>2010 Award</b>	<b>452,920</b>	<b>1,507,300</b>	<b>271,460</b>	<b>2,035,950</b>	<b>4,267,630</b>
Drawn thru 6/30/12	-	1,021,926	0	-	1,021,926
<b>Balance</b>	<b>452,920</b>	<b>485,374</b>	<b>271,460</b>	<b>2,035,950</b>	<b>3,245,704</b>
<b>2009 ARRA Award</b>	<b>780,000</b>	<b>1,170,000</b>	<b>292,500</b>	<b>-</b>	<b>2,242,500</b>
Drawn thru 6/30/12	563,234	1,170,000	281,924	-	2,015,162
<b>Balance</b>	<b>216,762</b>	<b>-</b>	<b>10,576</b>	<b>-</b>	<b>227,338</b>
<b>TOTAL Awarded:</b>	<b>\$5,820,316</b>	<b>\$13,556,190</b>	<b>\$2,902,658</b>	<b>\$19,576,185</b>	<b>\$41,855,349</b>
<b>Drawn thru 6/30/12:</b>	<b>\$5,082,608</b>	<b>\$13,070,816</b>	<b>\$2,617,477</b>	<b>\$15,899,777</b>	<b>\$36,670,678</b>
<b>TOTAL Balance:</b>	<b>\$737,708</b>	<b>\$485,374</b>	<b>\$285,181</b>	<b>\$3,676,408</b>	<b>\$5,184,671</b>

## Appendix IV: Drinking Water SRF Closed Loans as of June 30, 2012

Closing Date	Entity	Project Number	SCD*	IFO/PLO*	Amount	New PLO	New IFO t
07/6/2011	Norwich	2011-7005	10/31/2012	IFO	184,996.50		184,996.50
07/6/2011	Norwich	2011-7006	04/30/2012	IFO	147,989.25		147,989.25
05/01/2012	Candlewood Trails Assoc.	2012-7007	09/30/2012	IFO	526,290.00		526,290.00
04/25/2012	Meriden	2012-7008	12/31/2012	IFO	1,597,152.61		1,597,152.61
06/07/2012	SCWA	2012-7009	06/30/2012	IFO	158,058.72		158,058.72
<b>TOTALS:</b>					<b>2,614,487.08</b>		<b>2,614,487.08</b>

\* SCD (Scheduled Completion Date); IFO (Interim Funding Obligations); PLO (Permanent Loan Obligations)

\*\*PLO payment received at closing

ARRA (PLO) Closed Loans – FY 2012						
Closing Date	Entity	Project Number	SCD*	New PLO Amount***	Subsidy Amount	Total Project
12/28/2011	East Lyme	2010-8003	06/30/2011	401,453.51	506,672.57	908,126.08
7/01/2011	Ridgefield	2010-8004	07/1/2010	529,288.11	687,466.18	1,216,754.29
08/31/2011	MDC	2010-8008	08/31/2010	2,579,412.00	3,332,523.61	5,911,935.61
11/25/2011	Woodlake	2010-8010	8/30/2010	243,156.86	307,945.79	551,102.65
12/30/2011	Putnam	2010-8011	12/31/2010	1,075,271.00	1,382,929.39	2,458,200.39
01/30/2012	Manchester	2010-8013	01/30/2011	**	377,109.00	667,448.98
02/28/12	MDC	2010-8009	08/31/10	772,079	1,002,815.77	1,774,894.77
				<b>5,600,660.48</b>	<b>7,597,462.31</b>	<b>13,488,462.77</b>

\* SCD (Scheduled Completion Date); IFO (Interim Funding Obligations); PLO (Permanent Loan Obligations)

\*\* Loan repayment of \$290,339.98 plus accrued interest of \$1,834.53 was received before PLO closing date -

\*\*\* The New PLO amount does not include the amount of subsidy provided to each project

## Appendix V: Cumulative and Pending Projects Commitments

Project Name	Total IFO/PLO (as of 6/30/12)	Undrawn Loan Commitments	Additional Loan Commitments (thru 6/30/13)	Total Commitments
Aquarion Water(BHC)	182,368			182,368
Bethel			500,000	500,000
Brookfield	751,838			751,838
Candlewood Trails Assoc.	39,737	486,553		526,290
Colchester	2,067,041			2,067,041
Cook Willow	395,303			395,303
Crystal Lake	201,892			201,892
East Lyme	401,454		8,282,533	8,683,987
Harrybrook Park Condo	108,552			108,552
Hillside Water Corp	93,190			93,190
Ledyard	2,171,613		4,320,825	6,492,438
MDC	6,762,919		2,549,692	9,312,611
Meriden		1,597,153		1,597,153
New Britain	19,471,572			19,471,572
Newtown	430,360			430,360
Norwich	1,820,594	332,985	4,442,665	6,596,244
Point- o-Woods	752,580			752,580
Portland	2,807,295			2,807,295
Putnam Water Pollution Control	993,735			993,735
Ridgefield	480,973			480,973
Second Taxing District- City of Newtown	20,706,386			20,706,386
Sharon	1,238,702			1,238,702
Southern CT Water Authority		158,059		158,059
Southington	4,255,521			4,255,521
Twin Hills	87,669			87,669
Watertown Fire District	683,056			683,056
Woodlake Taxing District	560,210			560,210
2012- Generator Program			1,360,444	1,360,444
<b>TOTAL:</b>	<b>67,464,560</b>	<b>2,574,750</b>	<b>21,456,159</b>	<b>91,495,469</b>

## Appendix VI: Financial Assistance by Bond Rating – FY 2012

Borrower	Total Commitment Amount	AAA	A and Aa	B to Baa	Not Rated
<b>PUBLIC</b>					
Bethel	500,000		500,000		
Brookfield	751,838		751,838		
Colchester	2,067,041		2,067,041		
East Lyme	8,683,987		8,683,987		
Ledyard	6,492,438		6,492,438		
MDC	9,312,611		9,312,611		
Meriden	1,597,153		1,597,153		
New Britain	19,471,572		19,471,572		
Newtown	430,360		430,360		
Norwich	6,596,244		6,596,244		
Portland	2,807,296		2,807,296		
Ridgefield	480,973	480,973			
Second Taxing District- City of Norwalk	20,706,386				20,706,386
Sharon	1,238,702		1,238,702		
Southington	4,255,521		4,255,521		
Watertown Fire District	683,056				683,056
<b>Subtotal:</b>	<b>86,075,178</b>	<b>480,973</b>	<b>64,204,763</b>		<b>21,389,442</b>
<b>PRIVATE</b>					
Aquarion Water(BHC)	182,368				182,368
Candlewood Trails Assoc.	526,290				526,290
Cook Willow	395,303				395,303
Crystal Lake	201,892				201,892
Harrybrook Park Condo	108,552				108,552
Hillside Water Corp	93,190				93,190
Point- o-Woods	752,580				752,580
Putnam Water Pollution Control	993,735				993,735
Twin Hills	87,669				87,669
Southern CT Water Authority	158,059				158,059
Woodlake Taxing District	560,210				560,210
2012- Generator program	1,360,444				1,360,444
<b>Subtotal:</b>	<b>5,420,291</b>				<b>5,420,291</b>
<b>Total (Public and Private):</b>	<b>91,495,469</b>	<b>480,973</b>	<b>64,204,763</b>		<b>26,809,733</b>
<b>Percentage:</b>		<b>1%</b>	<b>70%</b>		<b>29%</b>

## Appendix VII: Project Priority List – FY2012/FY2013

Rank Points	Project #	PWS Name	Project Name	County	Population Served		Amount Requested	Estimated Subsidization Amount
					System	Project		
120	2010-0065	BRAINARD MEMORIAL LIBRARY (Town of Haddam)	Water Main Ext. to Tylerville (Haddam) from CT0231031	Middlesex	25 <sup>2</sup>	TBD	\$4,857,000	
75	2012-0006	NORWALK FIRST TAXING DISTRICT	Spring Hill Area System Reliability Improvements	Fairfield	40,256	4,000	\$7,000,000	
70	2010-0117	MERIDEN WATER DIVISION	Broad Brook WTP & Pump Sta. Improvements (construction)	New Haven	58,441	58,441	\$14,600,000	\$730,000
70	2012-0092	MERIDEN WATER DIVISION	Elmere WTP - LT2ESWTR Compliance - UV Treatment	New Haven	58,441	36,500	\$1,025,000	\$51,250
60	2012-0001	NEW LONDON DEPT. OF PUBLIC UTILITIES	Lake Konomoc Intake Pump Station - Phase 2	New London	26,273	50,000	\$6,000,000	\$300,000
55	2012-0014	NORWICH PUBLIC UTILITIES	Stony Brook Buoyant Media (construction)	New London	36,067	36,067	\$1,523,000	\$76,150
50	2012-0039	METROPOLITAN DISTRICT COMMISSION - Hartford	RF Meter Phase IV *	Hartford	388,700	198,000	\$5,000,000	\$250,000
45	2012-0011	COLCHESTER COMMONS - Colchester	New Well & Filter System	New London	224 <sup>2</sup>	224	\$400,000	
45	2012-0018	METROPOLITAN DISTRICT COMMISSION	Wickham Hill Storage Basins - Phase I Improvements	Hartford	388,700	133,000	\$3,515,000	\$175,750
40	2012-0005	NORWALK FIRST TAXING DISTRICT	Phase 1 Water Meter/AMI Program *	Fairfield	40,256	13,300	\$1,560,000	
35	2012-0019	METROPOLITAN DISTRICT COMMISSION - Hartford	Res. #6 Bloomfield -Phase II WTP Improvements	Hartford	388,700	388,700	\$2,500,000	\$125,000
35	2012-0002	MIDDLETOWN WATER DEPARTMENT	Bartholomew Rd. Water Booster Station	Middlesex	41,019	1,300	\$650,000	
35	2010-0132	METROPOLITAN DISTRICT COMMISSION - Hartford	Bloomfield Bear Ridge Pump Station Replacement	Hartford	388,700	160	\$1,100,000	
30	2010-0115	BRISTOL WATER DEPARTMENT	Grove St. Storage Tank Improvements	Hartford	52,079	52,079	\$446,000	
30	2012-0004	BITTNER PARK (Town of Guilford)	Town of Guilford - Mulberry Point Water Main Ext. (construction)	New Haven	25 <sup>2</sup>	1,005	\$3,772,811	
30	2010-0097	WOODLAKE TAX DISTRICT - Woodbury	Atmospheric Storage Tank	Litchfield	912 <sup>2</sup>	912	\$749,500	

20	2012-0009	BRANCHVILLE SCHOOL - Ridgefield	Water Main Extension for Interconnection	Fairfield	488 <sup>2,3</sup>	488	\$230,000	
20	2012-0010	COLCHESTER COMMONS - Colchester	Pumphouse Expansion & New Storage Tank	New London	224 <sup>2,3</sup>	224	\$150,000	
15	2012-0007	PUTNAM WATER POLLUTION CONTROL AUTHORITY	Water Main Replacement (construction) <sup>4</sup>	Windham	7300 <sup>2,3</sup>	TBD	\$6,712,000	\$187,864

**FUNDING LINE - FUNDS ARE ANTICIPATED TO BE AVAILABLE TO PROJECTS ABOVE THIS LINE**

Rank Points	Project #	PWS Name	Project Name	County	Population Served		Amount Requested
					System	Project	
25	2012-0032	METROPOLITAN DISTRICT COMMISSION - Hartford	Trans. Main Replacement - Hartford; Hamilton & Park Phase II	Hartford	388,700	388,700	\$4,750,000
25	2012-0017	NORWICH PUBLIC UTILITIES	Southern Stony Brook Transmission Main Renewal (construction)	New London	36,067	36,067	\$1,920,000
25	2012-0016	NORWICH PUBLIC UTILITIES	Northern Stony Brook Transmission Main Renewal & Micro-Turbine (construction)	New London	36,067	36,067	\$2,025,000
25	2012-0015	NORWICH PUBLIC UTILITIES	Mohegan Park Water Tank (construction)	New London	36,067	31,300	\$2,052,200
25	2012-0026	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Main Franklin #4	Hartford	388,700	3,559	\$8,245,000
25	2012-0030	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Main Franklin #1	Hartford	388,700	2,200	\$3,904,000
25	2012-0029	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Main Park #1 & #3	Hartford	388,700	2,040	\$6,130,400
25	2012-0027	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Main Upper Albany #2	Hartford	388,700	1,600	\$2,091,000
25	2012-0028	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Main Farmington #4	Hartford	388,700	1,560	\$1,550,000
25	2012-0037	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Main Replace - Various East Hartford	Hartford	388,700	1,398	\$2,450,000
25	2012-0013	NORWICH PUBLIC UTILITIES	Royal Oaks Project (construction)	New London	36,067	1,250	\$1,833,640
25	2012-0033	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Main Replacement - Retreat Ave Hartford	Hartford	388,700	798	\$4,094,000
25	2012-0036	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Main Replace East Hartford	Hartford	388,700	438	\$450,000

Rank Points	Project #	PWS Name	Project Name	County	Population Served		Amount Requested
					System	Project	
25	2012-0034	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Main Replace Farmington Ave, Hartford	Hartford	388,700	402	\$3,500,000
25	2012-0035	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Main Replace - various Hartford (Church St.)	Hartford	388,700	798	\$5,000,000
25	2012-0031	METROPOLITAN DISTRICT COMMISSION - Hartford	Water Pump Station Upgrades	Hartford	388,700	TBD	\$4,870,000
20	2010-0108	METROPOLITAN DISTRICT COMMISSION - Hartford	Simsbury Rd Pump Station Upgrade, Bloomfield	Hartford	388,700	950	\$1,035,000
20	2010-0109	METROPOLITAN DISTRICT COMMISSION - Hartford	Uplands Way Pump Station Upgrade, Glastonbury	Hartford	388,700	588	\$1,035,000
15	2012-0038	METROPOLITAN DISTRICT COMMISSION - Hartford	Raw Water Pipeline-Phase I - Res #6 to Res #5	Hartford	388,700	388,700	\$5,000,000
15	2010-0155	MANCHESTER WATER DEPARTMENT	New State Road Disinfection Conversion From Gaseous Chlorine	Hartford	51,066	51,066	\$110,000
15	2010-0153	MANCHESTER WATER DEPARTMENT	Painting of Birch Mount and Rockledge Storage Tanks	Hartford	51,066	19,700	\$490,000
15	2010-0154	MANCHESTER WATER DEPARTMENT	Village St. and Valley St. Neighborhoods - Water Main Replacements	Hartford	51,066	350	\$1,700,000
5	2012-0008	CANDLEWOOD TRAILS ASSOCIATION - New Milford	Water Main Replacement	Litchfield	312 <sup>2</sup>	312	\$1,350,000

## Green Project Reserve (GPR) Projects

Footnotes:

- 1) For projects tied in number of points, the appropriate tie-breaking criteria has been implemented and the projects ranked accordingly.
- 2) These PWSs serve a population less than 10,000 and are considered "small" for the purposes of DWSRF
- 3) In order to meet the 15% small system funding goal, these projects have been prioritized above other higher point projects. Please refer to the IUP for detailed information.
- 4) Project 2012-0007: This project is anticipated to receive partial funding in the amount of \$3,757,270.

# Appendix VIII: Program Management

## Department of Public Health (DPH)

The DPH is a State of Connecticut regulator focused on protecting public health by regulating access to the health care professions as well as community-based and environmental providers, and provides regulatory oversight of health care facilities and other services including drinking water systems. The DPH is the primary agency responsible for the administration of state and federal drinking water regulations. This mandate focuses on the use and the protection of the State's drinking water resources and assuring the quality and adequacy of Connecticut's public drinking water sources. The DPH Drinking Water Section within the DPH is responsible for enforcement of and compliance with State and federal laws, rules and regulations pertaining to drinking water and its use in the State. CGS Section 25-32 grants DPH jurisdiction over all matters concerning the purity and adequacy of drinking water and provides regulatory oversight of public water systems throughout the State. In the course of a day, virtually every Connecticut resident as well as many others who visit the State come into contact with drinking water provided by a public water system. DPH monitors approximately 4,000 public water systems in Connecticut. Of those, approximately 2,600 public water systems are eligible for Drinking Water SRF funding. Public water systems monitoring activities include:

- Emphasizing the importance of reaching these potential applicants through the implementation of its public outreach initiatives simultaneously with the development of the Drinking Water SRF program.
- Determining future needs and setting priorities with the preparation of an annual project priority list.
- Providing project information to the DEEP for development of the biennial capital budget.

- Distributing applications and project information to the State Treasurer's Office and when applicable, the DEEP's PURA, for review and approval. Once approved, the loans with the Drinking Water SRF borrowers are signed by the DPH. As mentioned in the 2011 DWSRF Annual Report, the DEEP is no longer required to approve DWSRF loans after October 1, 2010.
- Establishing a compliance schedule for each step of the project, including planning, design and construction.
- Quarterly and Annual reporting on the details of these and other program activities to the EPA.
- Conducting the annual Public Hearing and Open Forum on the project priority list.

## Department of Energy and Environmental Protection (DEEP)

The Connecticut Drinking Water SRF, as one of the major programs of the Connecticut Clean Water Fund, was created and initially managed through the coordination of the DPH, the DEP, the DPUC and the Treasurer's Office. The State Clean Water Act gave the agencies certain statutory responsibilities for the Drinking Water SRF, and the agencies worked together through an Interagency Committee. As the program has evolved, October 2010, the DPUC had been absorbed into the DEEP and the DEEP coordinates the capital budget requests for entire Clean Water Fund, including the DWSRF.

## Appendix IX: Program Management by the State Treasurer's Office

The State Treasurer, elected for a term of four years as prescribed by the State Constitution, is responsible for the safe custody of the property and money of the State and makes disbursements on warrants drawn and presented by the State Comptroller. The State Treasurer receives all money belonging to the State, makes disbursements as directed by Statute, and manages, borrows, and invests all funds for the State. The State Bond Commission delegates to the State Treasurer the authority and responsibility for determining the State's financing plans including the terms and conditions of issuing State general obligation and revenue bonds. The State Treasurer also invests all funds in the State's General Fund as well as the assets of the State pension, trusts and other funds.

The State Treasurer's Office has responsibilities for the Drinking Water SRF's financing program and various financial components of the Drinking Water SRF. Pursuant to entered into a Memorandum of Agreement in 1989 and modified in 2009 by the State Treasurer and the Department of Environmental Protection Commissioner and a Memorandum of Understanding in 1999 by the State Treasurer, the Department of Environmental Protection Commissioner and the Department of Public Health Commissioner. These Agreements delegate to the State Treasurer various financial components of the CWF and the Drinking Water Fund and certain responsibilities with respect to the implementation and management of the CWF and the Drinking Water Fund. A financial administrator, works for the State Treasurer, manages, and coordinates the various financial components of the CWF and the Drinking Water Fund Programs on a day-to-day basis. The activities of the financial administrator are coordinated with those of the Department of

Public Health, the Department of Environmental Protection and OPM. The financial administrator is also responsible for:

- The review of supporting data for financing of DWF & CWF projects and credit related documents submitted by the borrowers;
- Preparation and review of loan and grant agreements and related documents;
- Investment of bond proceeds and other funds to maximize the yield and meet programmatic requirements;
- Management of the bond financing for the DWF & CWF programs including documentation of the projects to meet Internal Revenue Service requirements;
- Coordination of the independent audit of the State's federal account and the audit of all program accounts by the State Auditors of Public Accounts and the preparation of the annual report;
- Ongoing procedures including: surveillance of the borrowers' financial condition; compliance with secondary market disclosure regulations; loan administration, including preparation of loan schedule information and coordination with the trustee on billing and collection of loan payments;
- Participation in the development of financing plan to new initiatives, which might expand the use of revolving funds and leverage financing concepts within the State.
- Participation as a member of the Drinking Water SRF Interagency Committee.

The DPH and the State Treasurer have joint responsibility for the program's data management systems. An extensive project tracking system is maintained by the DPH and the DEP. A dual entry general ledger accounting system was developed by the Office of the State Treasurer.

The program management goals and objectives of the State Treasurer's Office relating to the Drinking Water SRF are to:

- Maintain accurate project funding and accounting systems for the Drinking Water SRF;
- Develop the Fund's capacity to provide low-cost financing for eligible projects, as simply and effectively as possible;
- Fund loan amounts to the maximum extent possible;
- Provide effective financial management to ensure integrity of the Drinking Water SRF; and

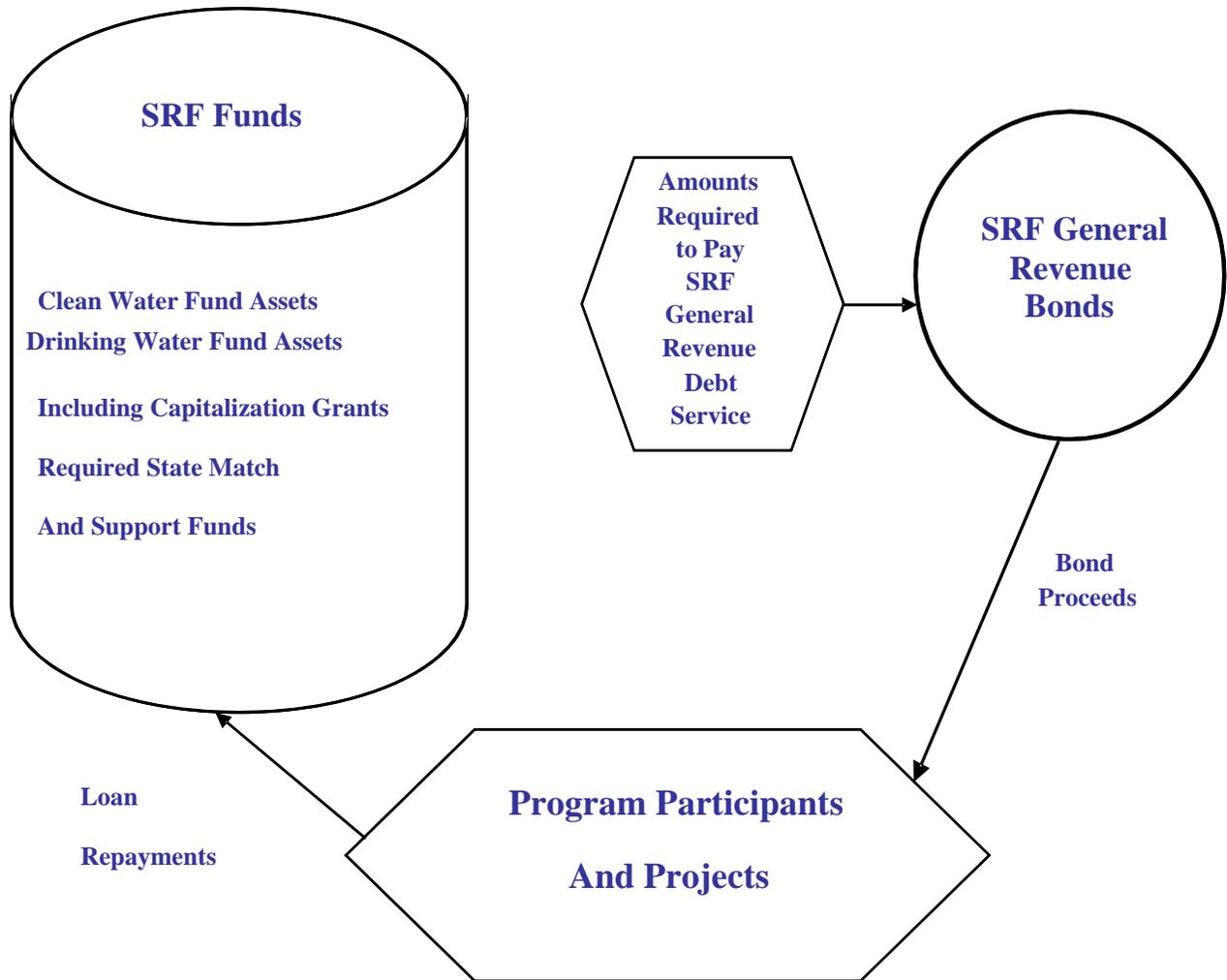
- Maintain both the federal tax-exempt status and the high credit ratings of the program's publicly issued debt.

## Financing Program Administration

Both the DPH and the State Treasurer's Office are involved in the evaluation of each loan application and after review by both offices, all loan and subsidy agreements have been approved by the Commissioners of the DPH. The State Treasurer's Office has the responsibility to structure loans based on consideration of the borrower's financial condition and financial management capabilities, protection of the high credit quality of the state fund, as well as the laws and regulations of the State. Although there is some flexibility with regard to the timing of approvals, in all cases funding is subject to a project being listed on the project priority list and State Bond Commission approval.

## Flow of Funds

A schematic of the flow of funds for the Drinking Water SRF, which is part of the Connecticut Clean Water Fund Financing Program, follows:



## Program Bond Resolutions

There are three resolutions under which bonds are outstanding as summarized below. As more fully described in financial statements, the bonds are special obligations of the State payable solely from all moneys available for debt service payments under the resolutions. The flow of funds, security provisions and the accounts held by trustee under each resolution are discussed in the financial statements\

<b>Summary of Bond Resolutions</b>				
<b>Resolutions</b>	<b>Security</b>	<b>Fund Account</b>	<b>Restricted/Unrestricted</b>	<b>Debt Outstanding as of 6/30/2012 (Millions)</b>
General Revenue Resolution adopted Dec 17, 2002	Available Money Assets of the Fund	Loan Fund		\$768 million CW \$55 million DW
		Debt Service Fund (DSF)	Restricted	\$823 million
		Support Fund	Restricted	
		Revolving Fund	Unrestricted	
Bond Resolution adopted Dec 7, 1990	Revenue, Loans DSF and DSRF	Loan Fund	Restricted	\$0
Debt Service Fund	Restricted			
Debt Service Reserve Fund (DSRF)	Restricted			
Sr. Sinking Fund	Restricted			
Subordinate Bond Resolution adopted Feb 7, 1996	Second Lien on Revenue and Loans	Debt Service Fund	Restricted	\$0

## Bond Debt Service

Repayment of the revenue bonds comes from loan repayments, interest earnings on assets and the State's earlier interest subsidy contributions. While all loan repayments are available for the payment of the bonds, a portion of loan repayments is retained in the debt service fund as a cash flow cushion in conformance with rating agency default coverage guidelines. The debt service schedule for all bonds outstanding is provided in the financial statements.

## Cross-Collateralization

Both the DWF and the CWF make loans from the proceeds of revenue bonds. Loan repayments from both State Revolving Fund Programs are available to pay all bonds whether the loans were made under the Drinking Water or the Clean Water programs. This cross-collateralization of the State Revolving Fund Programs has been structured in accordance with the EPA regulations, interpretations and guidance and the Bond Resolution, as amended and supplemented.

## Investments and Reserve Account Information

As further described in the financial statements, the State currently invests Drinking Water Fund assets in the State's Short-Term Investment Fund and in guaranteed investment agreements with financial institutions. The 2002 bond resolution requires that the investment agreements be with, or be guaranteed by, institutions with ratings in the two top rating categories given by Standard & Poor's and Moody's Investors Service or any rating service recognized by the State Banking Commissioner, or agencies or instrumentalities whose market value is at least 100% of the funds invested. Upon the issuance of the 2003 bonds and the restructuring of the program's debt, certain long-term investments pursuant to investment agreements with AA providers and are collateralized with securities issued or guaranteed by the U.S. Government, may be unrestricted assets. The restricted accounts for the Drinking Water SRF are related to each bond issue and are described in the financial statements.

**CONNECTICUT CLEAN WATER FUND RESTRICTED ACCOUNTS\***

Bond Series	Revenue Bond Amount	Federal Grants Pledged	State Required Match (GO Bonds and Project Funding)	Direct Loan Repayments	Reserve Fund 'Free-Up'	GO Interest Subsidy	Support Fund Assets
<b>Clean Water Fund</b>							
1991	\$100,000,000	\$37,126,619	\$12,873,381	\$0	\$0	\$25,374,384	\$0
1992	105,000,000	25,155,089	26,144,911	1,200,000	0	\$7,078,288	0
1993	50,000,000	23,600,217	0	1,399,783	0	\$6,784,356	0
1994	75,000,000	32,222,500	0	2,900,000	2,377,500	\$4,875,088	0
1996	80,000,000	18,064,373	5,000,000	7,183,127	9,752,500	\$2,730,388	0
1997	110,000,000	20,415,930	19,000,000	4,016,570	11,567,500	\$6,065,301	0
1999	125,000,000	25,088,408	18,000,000	5,389,093	14,022,500	\$6,282,430	0
2001	70,385,254	3,124,857	0	5,000,000	23,270,000	\$5,390,670	0
2003	95,255,000	0	0	0	0	0	19,112,776
2004	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2006	145,000,000	0	0	0	0	0	24,078,454
2008	171,195,000	0	0	0	0	0	18,463,136
2009	194,765,000	0	0	0	0	0	10,739,528
2011	166,464,150	0	0	0	0	0	26,195,279
2012	0	0	0	0	0	0	0
	<b>1,488,064,404</b>	<b>184,797,993</b>	<b>81,018,292</b>	<b>27,088,573</b>	<b>60,990,000</b>	<b>64,580,906</b>	<b>98,589,173</b>
<b>Drinking Water Fund</b>							
Bond Series	Revenue Bond Amount	Federal Grants Pledged	State Required Match (GO Bonds)	Direct Loan Repayments	Reserve Fund 'Free-Up'	State Required Match - State Cash Contribution	Support Fund Assets
2001	29,614,746	13,206,447	10,398,696	0	0	0	0
2002	0	0	0	0	0	0	0
2003	22,830,000	0	0	0	0	0	4,308,747
2004	0	0	0	0	0	0	0
2005	0	0	0	0	0	0	0
2006	5,000,000	0	0	0	0	5,000,000	822,595
2007	0	0	0	0	0	1,610,500	822,595
2008	25,000,000	0	0	0	0	1,600,820	3,715,256
2009	4,675,000	0	0	0	0	1,660,620	0
2010	0	0	0	0	0	1,956,020	0
2011	16,464,850	0	0	0	0	1,827,687	0
2012	0	0	0	0	0	1,250,398	0
	<b>103,584,596</b>	<b>13,206,447</b>	<b>10,398,696</b>	<b>0</b>	<b>0</b>	<b>14,906,045</b>	<b>8,846,598</b>
	<b>\$1,591,649,000</b>	<b>\$198,004,440</b>	<b>\$91,416,988</b>	<b>\$27,088,573</b>	<b>\$60,990,000</b>	<b>\$79,486,951</b>	<b>\$107,435,771</b>

\* includes Debt Service Reserves 1991 to 2001; Restricted assets 2003 to 2012 except Loan Fund, Debt Service Fund, Rebate Account

## Appendix X: Application Process

To qualify for funding, the project must be listed on the DPH's project priority list. Once a project is placed on the project priority list, the potential loan recipient applies for financial assistance for the specific project. The application must pass four levels of approval:

- **Evaluation and Enforcement and Project Administration (DPH):** The proposed project must address the needs cited by the DPH and comply with regulatory and statutory requirements for the project. All project costs requested in the application must be eligible for funding in accordance with state and federal regulations. Applicant's applying for Drinking Water State Revolving Fund loans for professional services are required to follow the Qualifications Based Selection, or QBS, process. QBS is an objective and fair process used to select architects, engineers and land surveyors based on the design professional's qualifications in relation to the project. Selecting design professionals is one of the keys to a successful project. The design will determine, among other things, the cost of the project.
- **Environmental Review (DPH):** Based on information received from the borrowers, the DPH prepares an environmental assessment of all activities to be undertaken in order to ensure that the project is consistent with the State Plan of Conservation and Development and the required environmental cross-cutter programs. DPH identifies those programs that need to evaluate and provide comment on the proposed project activities and sends a letter to each program requesting comment  
As of April 1, 2011, this process has been modified. DPH still prepares an initial environmental assessment. However, each project now has a Scoping Notice prepared and posted in the Council on Environmental Quality's Environmental Monitor. This notice is available for public and state agency review and comment, including OPM and all cross-cutters. A final assessment, incorporating all appropriate comments, is then completed. Applicants are provided with all comments received and must address any concerns or requirements identified by OPM or the cross-cutters.
- **Credit Review (State Treasurer's Office, DPUC and the interagency committee):** The applicant must be creditworthy, and the Drinking Water SRF underwriting standards must be met. The State Treasurer's Office reviews the financial information submitted with each application. The interagency committee determines whether, and on what general terms and conditions, financial assistance will be provided. The loan agreements are written to permit eventual financing through a revenue bonding program.

At each level of approval, modifications can be made to address any concerns. Once all approvals are in place and after completion of an overall review of the Project Loan Agreement and the other loan documents, a closing is scheduled with the State Treasurer's Office. The Project Loan Agreement is then executed and signed first by the borrower, and then by the DPH Commissioner. The State Attorney General also reviews and signs the documents.

Loan funds are disbursed on a first-come, first-served basis as project costs are incurred. Under the terms of the loan, the specific amounts disbursed to any borrower will depend upon the actual progress of construction.

Project audit requirements are subject to the provisions of the Single Audit Act Chapter 55b of the Connecticut General Statutes. Once disbursement is complete, the interim loan is converted to a Project Loan Obligation (PLO). The borrower is billed according to the terms of the PLO. Generally, all borrowers make monthly principal and interest payments. The DPH and its staff of engineers assist each borrower through the process as each department completes its work.

## Appendix XI: Summary of Project Funding Agreements

In accordance with the State’s SRF and as required by the Connecticut General Statutes, financial assistance is provided to the borrower pursuant to a project loan and subsidization funding agreement between the borrower and the State. Under each agreement, the State agrees to make loans and provide subsidy for eligible project costs as incurred by the borrower, upon the terms and in the maximum amount specified. Funds are disbursed to pay eligible project costs as incurred by the public water system, and the amounts of loan and subsidy are equal only to the aggregate of such disbursed amounts. Thus, the public water system is obligated to repay only that amount that it actually draws down as loan for the payment of project costs.

The FFY 2010 (Public Law 111-85) federal capitalization grants required subsidization for eligible projects. The program developed a mechanism for determining the amount subsidy and consistent with the federal law, subsidy has been provided in the form of loan forgiveness to borrowers since 2010.

Each funding agreement specifies a scheduled completion date and the amortization of the loan is expected to begin one year from the project’s scheduled completion date with the final maturity set at twenty years from the scheduled completion date. Loans are secured by a pledge of full faith and credit and/or a dedicated source of revenue. Principal and interest payments are payable in equal monthly installments, with an option to pay the first year’s payments with a single annual installment not later than one year after the scheduled completion date.

Below is a section-by-section summary of a typical project agreement:

<b>SECTION I</b>	Definitions
<b>SECTION II</b>	The Project: Project Description and Eligible Project Costs
<b>SECTION III</b>	The Subsidization: The Project Subsidy, Increase in Project Subsidy, Required Repayment of the Subsidy, Disbursement of Project Subsidy, and Audit Requirements for Subsidy
<b>SECTION IV</b>	The Loan: The Loan Commitment, Increase in Loan Commitment, The Interim Funding Obligations and Project Loan, Disbursement of Project Loan and Project Subsidy, Required Repayment of Obligations, Optional Prepayment of Principal, Method of Payments, New Municipality, and Timing of Disbursement of Advance
<b>SECTION V</b>	Representations & Warranties: Existence and Power, Authority, No Litigation Pending, Expenditure of Project Loan and Project Subsidy by Municipality, Validity, and Events of Default
<b>SECTION VI</b>	Conditions Precedent: Written Documentation, Evidence of Municipal Action, Opinion of Bond Counsel, Signature and No Litigation Certificate, No Event of Default, Representations and Warranties, Compliance with Federal and State Requirements, Procedures for

	Compliance with Davis-Bacon Act, Compliance with Federal Regulations Concerning Grants and Agreements, and Reporting Requirements		
<b>SECTION VII</b>	Agreements of the Municipality: Design and/or Construction, Municipality to Pay Excess Cost of Project, Inspection of Project By State, Maintenance of Project Records, Maintenance of Existence, Use of Proceeds, Tax Compliance, Nondiscrimination, Executive Orders of the Governor, Insurance, Indemnification, Audits, Waiver of Governmental Immunity, Expenses, Completion of Project; Audit, Maintenance of Project, Continuing Disclosure; Official Statement, and MBE/WBE Requirements		
<b>SECTION VIII</b>	Agreements of the State: Loan and Subsidy, Termination, Notification of Approval, Audit and Project Subsidy		
<b>SECTION IX</b>	Defaults: Events of Default and Remedies		
<b>SECTION X</b>	Miscellaneous: Waivers, Notices, Litigation, Connecticut Law, Interpretation, Severability, Survival of Representations, Warranties and Covenants, Successors and Assigns, Incorporation of Other Documents, Amendments, Cancellation, Effective Date, Other Provisions of State Contracts, and Public Records Disclosure		
<b>Exhibit I</b>	Form of Interim Funding Obligation	<b>Exhibit VIII</b>	Form of Request for Advance
<b>Exhibit II</b>	Form of Project Loan Obligation	<b>Exhibit IX</b>	Closing Statement
<b>Exhibit III</b>	Form of Opinion of Bond Counsel	<b>Exhibit X</b>	Conditions Precedent
<b>Exhibit IV</b>	Form of Signature No Litigation Certificate	<b>Exhibit XI</b>	Insurance Requirements
<b>Exhibit V</b>	Continuing Disclosure Agreement	<b>Exhibit XII</b>	Disadvantaged Business Enterprise Payment Report-Contractor/Consultant
<b>Exhibit VI</b>	Budget	<b>Exhibit XIII</b>	Davis-Bacon Certification Form
<b>Exhibit VII</b>	Certification of System of Charges, Assessments and Other Revenues	<b>Exhibit XIV</b>	DWSRF Budget Revision Request Instructions and Form
		<b>Exhibit XV</b>	Authorization for ACH Payment

## Appendix XII: Cumulative DWSRF Projects Information/Loan Status

<b>PWSNAME (Applicant)</b>	<b>ID#</b>	<b>TOWN</b>	<b>LOAN AMOUNT</b>	<b>INT RATE</b>	<b>TERM (years )</b>	<b>BRIEF DESCRIPTION</b>	<b>POP. SERVED*</b>	<b>TOTAL CUMULATIVE PROJECT FUNDING**</b>
Metropolitan District (A)	C 97 0640011a	Bloomfield	\$1,163,888	2.6%	20	Filtration Plant Improvement	400,000	\$1,163,888
Metropolitan District (C)	C 97 0640011c	Bloomfield , Hartford, West Hartford	\$861,978	2.5%	20	Water Main Replacement	400,000	\$861,978
Town Of Portland	C 97 1180081a	Portland	\$2,500,000	2.5%	20	Interconnection With MDC	8,270	\$2,500,000 (State)
Harrybrooke Condominium	PDC 97 0960131a	New Milford	\$231,327	4.11%	20	Interconnection With United Water	110	\$231,327
Sharon Water & Sewer (B)Refinance	DC 97 1250011b	Sharon	\$1,084,010	2.77%	20	Refinance Intake & Pipeline Upgrades	1,288	\$1,084,010
Sharon Water & Sewer (A)	DC 98 1250011a	Sharon	\$1,100,000	2.77%	20	Water Main Replacement	1,288	\$1,100,000 (State)
New Britain Water Dept.	PDC 98 1530011a	New Britain	\$12,682,987	2.77%	20	New Water Treatment Plant -Phase I	85,000	\$12,682,987 \$11,189,038 (Federal) \$1,493,949 State
Crystal Lake Condominium Association	C 97 1210021/3 1a	Salem	\$359,902	4.68%	20	Construct New System	40	\$359,902
Bridgeport Hydraulic Co. (Stamford) - Aquarion	PDC 97 1350011a	Stamford	\$391,038	4.11%	20	Upgrade Pump Station	105,460	\$391,038
Cook Willow Realty	DC 97 1110111a	Plymouth	\$704,259	4.11%	20	Interconnection To Ct. Water Company	85	\$704,259
Norwich Water Dept.	DC 97 1040011a	Norwich	\$1,898,651	2.77%	20	Replacement Of Asbestos Cement Pipes With Ductile Iron Pipe	7,200	\$1,898,651
Watertown Fire District(a)	DC 98 1530011a	Watertown	\$717,731	2.73%	20	Construct Pump Station	35,000	\$717,731
Twin Hills Water District	C 97 0340131a	Coventry	\$207,421	2.60%	20	Distribution Source Improvements	156	\$207,421
Sharon Sewer & Water (a)	DC 97 0640011c	Sharon	\$210,000	2.60%	20	Pump Station	1,288	\$210,000
Metropolitan District (b)	C 97 0640011b	West Hartford	\$3,086,188	2.60%	20	Facility Repairs	400,000	\$3,086,188
New Britain Water Phase II	PDC 98 0890011a	New Britain	\$24,000,000	2.43%	20	Continued Construction of Water Treatment Plant	74,400	\$24,000,000
Sharon Water & Sewer	DC 01 1250011a	Sharon	\$438,153	2.40%	20	Water Main Replacement	704	\$438,153
Hillside Corporation	PDC 00 0790021a	Marlborough	\$149,052	3.84%	20	Replace Water Main & Distribution System	136	\$149,052
Town Of Newtown High School	C 02 0970442a	Newtown	\$516,000	2.10%	20	Interconnect to Town Water	1173	\$516,000
Metropolitan District Commission (x)	C 01 0640011x	Bloomfield	\$2,343,735	2.10%	20	Construction of Water Mains	381,000	\$2,343,735

Town of Newtown Elementary School	D 03 0970422a	Newtown	\$171,738	2.03%	20	Interconnect to Town Water	560	\$171,738
Unionville Water Company	C 97 0520011b	Farmington	\$1,646,970	3.56%	20	Interconnection to MDC	13,400	\$1,646,970
Watertown Fire District (b)	DC 98 1530011b	Watertown	\$435,500	3.43%	20	Upgrade Chemical Feed Equipment	35,000	\$435,500
Southington Water Department (a)	D 03 1310011a	Southington	\$4,356,916	2.32%	20	Wellhead Protection Project	40,408	\$4,356,916
Second Taxing District – City of Norwalk	D 04 1030021a	Norwalk	\$24,715,165	2.04%	20	Water Treatment Plant Upgrade	42,000	\$24,715,165
Town of Ledyard (a)	DC 03 0727031a	Ledyard	\$926,006	2.05%	20	Interconnection to Elem. School	2,400	\$926,006
Southington Water Department (b)	DC 03 0727031b	Southington	\$1,037,097	2.21%	20	Water Main Extension	40,408	\$1,037,097
Woodlake Tax District	PDC 03 1680031a	Woodbury	\$404,494	2.55%	20	Land Purchase / Well Development	912	\$404,494
Town of Colchester	C 04 0280111a	Colchester	\$2,496,990	2.12%	20	Water Treatment Plant Upgrade	4001	\$2,496,990
CT Water Company – Shoreline Region – Point O' Woods	DC 07 1050752a	Old Lyme	\$800,000	2.44%	20	Water Main Installation	928	\$800,000
City of Norwich / Norwich Water Department	DC 07 1040011d	Norwich	\$450,000	2.27%	20	Water Storage Tank	36,067	\$450,000
Town of Brookfield	D 06 0189043a	Brookfield	\$71,000	2.06%	20		485	\$15,000
Town of Ledyard	C 05 0720031a	Ledyard	\$1,629,000	2.00%	20	Water Storage Tank	4,134	\$1,629,000
Town of Portland	DC 08 1130011a	Portland	\$816,000	2.00%	20	Water Main Installation	5,010	\$816,000
Town of Portland	DC 07 1130011b	Portland	\$975,034	2.00%	20	Water Storage Tank	5,010	\$975,034
<b>City of Norwich</b>	<b>2010-1040011c</b>	<b>Norwich</b>	<b>\$186,150</b>	<b>2.00%</b>	<b>20</b>	<b>Transmission Mains, Meter &amp; Microturbine (Design)</b>	<b>36,067</b>	<b>\$0</b>
<b>City of Norwich</b>	<b>2010-1040011b</b>	<b>Norwich</b>	<b>\$232,700</b>	<b>2.00%</b>	<b>20</b>	<b>Pump Drives &amp; Tanks (Design)</b>	<b>36,067</b>	<b>\$0</b>
<b>City of Meriden</b>	<b>2010-0800011a</b>	<b>Meriden</b>	<b>\$2,008,997</b>	<b>2.00%</b>	<b>20</b>	<b>Broad Brook WTP &amp; Pump Station Improvements (Design)</b>	<b>36,500</b>	<b>\$0</b>
<b>Candlewood Trails Association</b>	<b>2010-09600901a</b>	<b>New Milford</b>	<b>\$662,000</b>	<b>2.00%</b>	<b>20</b>	<b>Pumphouse, New Wells, Water Storage Tank</b>	<b>312</b>	<b>\$49,984</b>
<b>Southeastern Water Authority</b>	<b>2010-0720041a</b>	<b>Ledyard</b>	<b>\$198,816</b>	<b>2.00%</b>	<b>20</b>	<b>AMR Radio Frequency Meters</b>	<b>3017</b>	<b>\$0</b>

\* Based on population served being less than 10,000

\*\* Final Loan Amount may be different than the initially reported IFO loan amount due to lower project costs, additional funding, capitalized interest or prepayments.

(P = Planning, D = Design, C = Construction) – NEW PROJECTS IN BOLD

## Appendix XIII: ARRA Project Information/Loan Status

<b>PWS NAME (Applicant)</b>	<b>ID #</b>	<b>TOWN</b>	<b>LOAN AMOUNT</b>	<b>INT RATE</b>	<b>TERM (years)</b>	<b>BRIEF DESCRIPTION</b>	<b>POP. SERVED</b>	<b>TOTAL CUMULATIVE PROJECT FUNDING</b>
CT Water Co. & Gallup Water Service Inc.	2010-8012	Plainfield	\$237,115	2.06%	20	Interconnection to Harrington Mobile Home Park	2,538	\$104,010 (Loan) \$133,105 (Subsidy)
Barlow Mountain & Scotland Elementary Schools	2010-8004	Ridgefield	\$1,426,870	2.06%	20	Water Main Extension for Consolidation	1,000	\$529,288 (Loan) \$687,466 (Subsidy)
Putnam Water Pollution Control Authority	2010-8011	Putnam	\$1,890,316	2.06%	20	Park Street Well field Expansion	7,300	\$1,075,271 (Loan) \$1,382,925 (Subsidy)
Brookfield Municipal Bldgs	2010-8001	Brookfield	\$1,901,979	2.06%	20	Water Main Extension – Silvermine Road	485	\$827,361 (Loan) \$1,062,955 (Subsidy)
East Lyme Water & Sewer Commission	2010-8003	East Lyme	\$955,879	2.06%	20	System-wide Chlorine Disinfection	15,245	\$401,454 (Loan) \$506,673 (Subsidy)
Tolland Water Department	2010-8002	Tolland	\$170,336	2.06%	20	Consolidation of Torrey Rd Public Water System	1,251	\$74,096 (Loan) \$96,240 (Subsidy)
Metropolitan District	2010-8008	Hartford	\$5,929,684	2.06%	20	RF Automated Reading System & Meter Replacement – Phase II	388,700	\$2,579,412 (Loan) \$3,332,524 (Subsidy)
Woodlake Tax District	2010-8010	Woodbury	\$579,717	2.06%	20	New Wells & Related Work	912	\$138,027 (Loan) \$179,276 (Subsidy)
Norwich Public Utilities	2010-8005	Norwich	\$750,000	2.06%	20	Water Storage Tank Repairs/Painting – Fitch Hill	36,067	\$326,250 (Loan) \$423,750 (Subsidy)
Norwich Public Utilities	2010-8012	Norwich	\$330,189	2.06%	20	Water Storage Tank Repairs/Painting Pump Station Upgrades – Fairview Reservoir	36,067	\$144,728 (Loan) \$185,461 (Subsidy)
Manchester Water Department	2010-8006	Manchester	\$667,449	2.06%	20	Hercules Drive Booster Pump Station	51,066	\$290,340 (Loan) \$377,109 (Subsidy)
Metropolitan District	2010-8009	Hartford	\$1,774,895	2.06%	20	Water main Replacement – Tower Ave.	35,000	\$772,079 (Loan) \$1,002,816 (Subsidy)

\* Based on population served being less than 10,000

\*\* Final Loan Amount may be different than the initially reported IFO loan amount due to lower project costs, additional funding, capitalized interest or prepayments.

(P = Planning, D = Design, C = Construction)

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING  
LOAN ACCOUNT (STATE REVOLVING FUND)**

**AUDIT REPORTS AND SCHEDULES IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

**June 30, 2012 and 2011**

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**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING  
LOAN ACCOUNT (STATE REVOLVING FUND)  
June 30, 2012 and 2011**

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**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1 - 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 - 8
<b>FINANCIAL STATEMENTS</b>	
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Fund Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	12 - 25
<b>REPORTS AND SCHEDULES REQUIRED BY OMB CIRCULAR A-133</b>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	26 - 27
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	28 - 29
Schedule of Expenditures of Federal Awards	30
Notes to Schedule of Expenditures of Federal Awards	31
Schedule of Findings and Questioned Costs	32 - 33

# SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS  
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## INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, Treasurer

Dr. Jewel Mullen, Commissioner,  
Department of Public Health,  
State of Connecticut

We have audited the accompanying financial statements of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the SRF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Clean Water Fund - Drinking Water Federal Revolving Loan Account and do not purport to, and do not, present fairly the financial position of the State of Connecticut, as of June 30, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account - SRF as of June 30, 2012 and 2011, and the changes in its financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2012 on our consideration of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account - SRF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Seward and Monde*

September 18, 2012

**OFFICE OF THE TREASURER  
STATE OF CONNECTICUT  
DRINKING WATER FUND  
FISCAL YEAR ENDED JUNE 30, 2012  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management Discussion and Analysis (MD&A) of the State of Connecticut Drinking Water Fund provides an introduction to the major activities affecting the operation of the state revolving fund and is a narrative overview of the financial performance for the fiscal year ended June 30, 2012. The information contained in this discussion should be considered in conjunction with the Fund's basic financial statements and the notes thereto.

**Financial Highlights**

Changes in Net Assets - Net assets under management in the Drinking Water Fund at the close of the fiscal year 2012 were \$132,401,515 including assets of \$191,605,650 offset by liabilities of \$59,204,135 compared to fiscal year 2011 were \$125,142,069 including assets of \$189,568,047 offset by liabilities of \$64,425,978. Fund net assets increased by \$7,259,446 or 5.8%.

Net Assets of the Drinking Water Fund are categorized as follows:

Restricted - includes net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - includes all net assets that are not restricted and are available for any program purpose. The majority of the net assets are invested and portions are restricted in accordance with the requirements of State Statutes and the Federal Clean Water Act. Restricted assets represent the amount of assets which relate to the federal capitalization grants and associated State match.

The financial statements show restricted fund net assets of \$119,176,974 an increase of \$7,948,499 or 7.15% above the 2011 balance which was adjusted during the year to more closely align with the federal and state restrictions on the Drinking Water Fund.

Loans Receivable - Total loans receivable decreased by \$3,593,806 from \$71,058,367 to \$67,464,561 due to the net of new loans (\$1,698,100) and principal repayments (\$5,291,906).

Bonds Outstanding - During the year, no bonds were issued. The Fund's total debt outstanding decreased by \$4,643,268 to \$55,443,559 as a result of scheduled debt repayments.

Operating Revenues - The Fund's gross operating revenue decreased \$58,208 or 3.5% to \$1,594,996.

Statement of Cash Flows - The Statement of Cash Flows shows a decrease in cash for the year of \$585,461.

Capitalization Grants - During the year, \$5,918,106 was drawn from the U.S. Environmental Protection Agency (US EPA) for projects, compared to \$15,764,103 in 2011. To date, since inception, the State has drawn \$124,793,412. Cumulative federal drinking water capitalization grant awards totaled \$149,917,900. The State has provided the required 20% match of the capitalization grant of \$40,677,637. The match has been provided by the State and used for program purposes in accordance the State's operating agreement with the US EPA.

## **Overview of the Financial Statements**

The Drinking Water Fund financial statements are prepared by the Office of the Treasurer in conjunction with the Department of Public Health (DPH). The Treasurer is responsible for reporting the detailed financial information in the Drinking Water Fund financial statements, which incorporates information, generated and prepared by the DPH Business Office and DPH Drinking Water Section.

The Drinking Water Fund is a part of the Clean Water Fund which is classified as an enterprise fund within the Proprietary Funds of the State of Connecticut. Proprietary Funds focus on the determination of the change in fund net assets, financial position, and cash flow for governmental activities that operate similar to a commercial enterprise. Proprietary funds use the accrual basis of accounting.

The Statements of Revenues, Expenses and Changes in Fund Net Assets divide the activities of the Fund into two categories:

Operating Activities, including the Drinking Water State Revolving Fund project financing program (the Loan Program); and

Nonoperating Activities, including the revenue bonds issued for the Fund (the Revenue Bond Program) and the investment of the Drinking Water State Revolving Fund assets.

For the Loan Program activities, the financial statements indicate the amount of loans financed and the amount of repayments collected during the past year. Fund financial statements also provide information about activities of the Fund as a recipient of federal capitalization grants and state matching funds. The amount of capitalization grants remaining for future use is disclosed in the Notes to the Financial Statements.

The Revenue Bond Program is the leveraged financing strategy implemented by the Connecticut Clean Water Fund that maximizes the financing capacity of the respective federal capitalization grants, the required 20% state match for these grants and the Fund's assets. Based on this strategy, the Connecticut Clean Water Fund issues revenue bonds and uses the proceeds to provide financing for Clean Water and Drinking Water projects. Where necessary, due to the issuance of bonds and investment activities for both the Clean Water Fund and Drinking Water Fund, bond proceeds, interest income and expenses may be allocated between the Clean Water Fund and the Drinking Water Fund. For the Revenue Bond Program activities, the financial statements indicate the amount of the bonds issued and retired, and the remaining amount of bonds to be repaid in the future.

The financial statements indicate the amount of interest income generated by the investment of funds and describe the structure of the investments.

Since 2001, the proceeds of the Connecticut Clean Water Fund bonds have been used for both clean water and drinking water projects. All of the currently outstanding bonds were issued under the 2002 general bond resolution as further described in Notes to the Financial Statements. All of the accounts established under the 2002 general bond resolution, whether restricted or unrestricted, are held by US Bank (the Trustee), as further described in the Notes to the Financial Statements.

## **Operating Activities**

### **The Drinking Water Loan Program**

Loans are made to public water systems, owned by both municipalities and private entities, for project funding. There are two categories of loans, construction loans or interim funding obligations (IFOs) and the long-term permanent financing obligations (PLOs) which are signed after projects are completed. The PLOs have 20 year repayment terms and can be prepaid at any time without penalty. Although there are no state grants available to participants in this program, portions of the federal capitalization grant and the 2009 ARRA funding are used to subsidize the projects.

Construction loans in progress totaled \$39,737 a decrease of \$5,185,034. Payments to public water systems for ongoing projects totaled \$1,698,100. Completed projects which were permanently financed during the year totaled \$6,640,936. There were 5 loan originations during the year.

At year-end there are no delinquent loans in the Drinking Water loan program. Further details about the loans can be found in the Notes to the Financial Statements.

New construction loan commitments totaled \$20,956,159.

Loan repayment collection services are provided by the Trustee, US Bank. Repayments on all DWF loans made by the State since 1998 are paid to the Drinking Water Fund account held at US Bank. These funds provide security for the Bonds and any new Bonds issued hereafter.

## **Non-Operating Activities**

### **Investment of Funds**

The federal capitalization grants and state provided matching funds are used to provide leveraged financing for eligible projects in the state Federal capitalization grants and the match are deposited into the State Revolving Fund accounts held by the Trustee in the form of either cash or permitted investments. State contributions are held by the Trustee in the form of cash, permitted investments or State general obligation bonds and are used as they are deposited for program purposes.

The State currently invests in the State's Short Term Investment Fund (STIF) and in guaranteed investment agreements with financial institutions. The 2002 bond resolution requires that the investment agreements be with, or be guaranteed by, institutions with ratings in the two top rating categories given by Standard & Poor's and Moody's Investors Service or any rating service recognized by the State Banking Commissioner. Certain moneys currently held in the Fund are invested pursuant to investment agreements with AA providers which are collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities whose market value is at least 100% of the funds invested.

### **The Bond Program**

The Connecticut Clean Water Fund has issued long-term debt obligations backed by the pledge of specific assets including loans, reserve funds and other program assets. Pursuant to the 2002 bond resolution and the State Act, the long-term debt obligations of the Fund are special obligations of the State which are payable only from the revenues or monies available in the Fund. Currently, bonds are outstanding under the 2002 General Revenue Bond Resolution the latest of three resolutions used for Connecticut Clean Water Fund bonds issues since 1991. Proceeds have been used for program purposes including the funding of loans to Drinking Water Fund borrowers. During the year, the state did not issue bonds for new projects. Further information about outstanding bonds can be found in the Notes to the Financial Statements.

The issuance of bonds under the 2002 general bond resolution resulted in the creation of three additional fund accounts. These accounts are the Senior Sinking Fund and the Support Fund which are restricted accounts and the General Revenue Revolving Fund account which is unrestricted. All three accounts are held by the Trustee.

The program's advisors are:

Bond Counsel - Edwards, Angell, Palmer and Dodge and Hardwick Law Firm, LLC

Financial Advisors - Lamont Financial Services Corporation and First Southwest

Trustee - US Bank

Loan Repayment Collection Services - US Bank

Verification Agent - AMTEC

Arbitrage Rebate Calculation Services - AMTEC

Auditor - Seward & Monde CPAs

General Counsel - Attorney General of the State of Connecticut

### **Credit Ratings**

The Connecticut Clean Water Fund is the recipient of credit ratings from three nationally recognized credit rating agencies as follows: AAA from Standard and Poor's, AAA from Fitch Investors Services and Aaa from Moody's' Investor Services.

## SELECTED FINANCIAL INFORMATION

	2012	2011	Increase (Decrease)
Loans Outstanding - current and long term portions	\$67,464,561	\$71,058,367	(\$3,593,806)
Change in Net Assets	\$7,259,446	\$15,413,175	(\$8,153,729)
Operating Revenues – Interest on Loans	\$ 1,594,996	\$ 1,653,204	(\$ 58,208)
Operating Expenses - Less grants to recipients	\$ 4,126,245	\$ 4,176,175	(\$49,930)
Interest on Investments	\$ 1,123,590	\$ 1,220,142	(\$ 96,552)
Interest Expense	\$3,058,622	\$ 2,438,374	\$ 620,248
Federal Capitalization Grants	\$ 6,703,602	\$ 14,845,660	(\$8,142,058)

## ECONOMIC CONDITIONS AND OUTLOOK

As the nation continues to experience slow and erratic growth, Connecticut has maintained persistent focus on economic development and job creation. Like other states, Connecticut has dealt with budget deficits with various strategies while continuing to plan and implement programs designed to bring a variety of manufacturing, technology and research companies to the State. Some recovery continued during fiscal year 2012, however volatility in the jobs numbers hampered the State's ability to reduce unemployment and the unemployment rate at June 2012 was 8.1 percent. Some optimism might be warranted however since consumers are spending again, many businesses are flush with cash, and firms have begun to hire new workers. While home prices have not yet recovered ground lost in 2008 and 2009, sales have begun to pick up pace.

Although the State's economic and financial situation continued to slowly improve, there was a modest budget deficit by the end of the fiscal year, and concern continued about Connecticut's debt levels despite several mitigating factors including Connecticut's ranking highest in per capita income, legislative approval of additional funding for the State employee's Retirement Plan, and expectations of job growth over the next year.

With its diversified economy, measures to spur economic growth will mean continued need for transportation and water infrastructure upgrades and energy improvements. The Drinking Water Fund has made significant efforts to get necessary funding to as many communities as possible. Local, state and federal budget constraints will continue to mean greater pressure on the Fund to provide timely and innovative financial assistance for critical projects. These constraints might be even greater in 2013 if ominous threat of the approaching "fiscal cliff" (the end of the "Bush" tax cuts, payroll tax holiday, and extended unemployment benefits end, and automatic budget cuts) becomes real. All of these factors impact how Connecticut public water systems plan and implement the capital projects funded by the Drinking Water Fund.

The major focus for the Drinking Water Fund continues to be setting priorities and providing financing for critical work, especially for small water systems. The Connecticut Department of Public Health and the Office of the Treasurer, working together, will continue to assist state legislators and public water systems in determining the most cost effective and efficient way to meet their water quality needs.

The Office of the Treasurer Debt Management Division continually monitors the impact of credit ratings of investment providers and municipalities, assists in the preparation of comments on financial regulation and participates in industry discussions on infrastructure, including water and transportation, as well as the economic development and growth potential for the state.

## **REQUIRED SUPPLEMENTARY INFORMATION**

The Drinking Water Fund does not separately report required supplementary information that contains budgetary comparison schedules; schedules presenting infrastructure assets or supplementary pension fund information because this information is recorded by the State of Connecticut.

The Notes to the Financial Statements provide additional information that further explains and supports the information in the financial statements. The Notes provide additional information that is essential to a full understanding of the data provided in the Drinking Water Fund's financial statements.

## **CONTACTS**

This financial report is designed to provide a general overview of the Drinking Water Fund's finances. Questions about this report or requests for additional information should be addressed to:

Drinking Water Fund Financial Administrator  
Connecticut State Treasurer's Office  
Debt Management Division  
55 Elm Street  
Hartford, CT 06106-1773  
Telephone (860) 702-3134  
[www.state.ct.us/ott](http://www.state.ct.us/ott)

Questions about the Drinking Water Fund and water quality in Connecticut should be addressed to:

Connecticut Department of Public Health  
Drinking Water Section  
410 Capitol Avenue, MS# 51 WAT  
P.O. Box 340308  
Hartford, CT 06134-0308  
Telephone (860) 509-7333  
[www.state.ct.us/dph](http://www.state.ct.us/dph)

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT  
(STATE REVOLVING FUND)  
BALANCE SHEETS  
June 30, 2012 and 2011**

	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,623,939	\$ 8,209,400
Interest receivable - investments	233,923	252,452
Interest receivable - loans	8,380	117,327
Grant receivable	309,108	-
Loans receivable	4,895,759	9,800,511
Total current assets	13,071,109	18,379,690
Noncurrent assets:		
Loans receivable	62,568,802	61,257,856
Revolving fund	47,396,919	40,338,420
Deferred loss on early retirement of bonds	917,851	1,404,148
Restricted assets:		
Bond proceeds fund	11,361,131	12,953,961
Revolving fund	15,364,574	16,498,805
Debt service fund	31,348,099	28,539,381
Support fund	9,577,165	10,195,786
Total restricted assets	67,650,969	68,187,933
Total noncurrent assets	178,534,541	171,188,357
Total assets	\$ 191,605,650	\$ 189,568,047
<b>LIABILITIES</b>		
Current liabilities:		
Interest payable on revenue bonds	\$ 882,649	\$ 700,891
Deferred grant revenue	-	476,388
Bonds payable	4,951,563	4,643,268
Total current liabilities	5,834,212	5,820,547
Noncurrent liabilities:		
Premium on revenue and refunding bonds	2,877,927	3,161,872
Bonds payable	50,491,996	55,443,559
Total noncurrent liabilities	53,369,923	58,605,431
Total liabilities	59,204,135	64,425,978
<b>FUND NET ASSETS</b>		
Unrestricted	13,224,541	13,913,594
Restricted for loans	119,176,974	111,228,475
Total fund net assets	132,401,515	125,142,069
Total liabilities and fund net assets	\$ 191,605,650	\$ 189,568,047

The notes to the financial statements are an integral part of this statement.

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT  
(STATE REVOLVING FUND)  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
For the Years Ended June 30, 2012 and 2011**

	2012	2011
<b>OPERATING REVENUES</b>		
Interest on loans	\$ 1,594,996	\$ 1,653,204
<b>OPERATING EXPENSES</b>		
Salaries	1,747,222	1,978,007
Employee benefits	1,161,445	1,308,890
Other	1,217,578	889,278
Project grants	906,252	4,626,212
Total operating expenses	5,032,497	8,802,387
Operating loss	( 3,437,501)	( 7,149,183)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest on investments	1,123,590	1,220,142
Amortization of bond premium	283,945	217,017
Interest expense	( 3,058,622)	( 2,438,374)
Total nonoperating revenues (expenses)	( 1,651,087)	( 1,001,215)
Loss before federal capitalization grants and transfers	( 5,088,588)	( 8,150,398)
<b>FEDERAL CAPITALIZATION GRANTS</b>		
Project funds - loans	1,698,100	6,050,344
Project funds - grants	906,252	4,626,212
Set-aside activities	4,099,250	4,169,104
Total federal capitalization grants	6,703,602	14,845,660
<b>OPERATING TRANSFERS</b>	5,644,432	8,717,913
Change in fund net assets	7,259,446	15,413,175
<b>FUND NET ASSETS, beginning</b>	125,142,069	109,728,894
<b>FUND NET ASSETS, ending</b>	\$ 132,401,515	\$ 125,142,069

The notes to the financial statements are an integral part of this statement.

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT  
(STATE REVOLVING FUND)  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2012 and 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received on loans	\$ 1,703,943	\$ 1,583,089
Loan originations	( 1,698,100)	( 6,026,395)
Principal paid on loans receivable	5,291,906	4,453,482
Payments to employees for salaries and benefits	( 2,908,667)	( 3,286,897)
Payments on project grants	( 906,252)	( 4,626,212)
Other payments	( 1,217,578)	( 889,278)
Net cash provided (used) by operating activities	265,252	( 8,792,211)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Federal capitalization grants	5,918,106	15,764,103
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Repayment of bonds payable	( 4,643,268)	( 4,055,406)
Proceeds from bonds payable	-	16,464,150
Premium on bonds payable	-	1,535,850
Payment to refunded revenue bond escrow agent	-	( 7,281,610)
Interest paid on bonds payable	( 2,390,567)	( 2,140,858)
Operating transfers	5,644,432	8,717,913
Net cash provided (used) by noncapital financing activities	( 1,389,403)	13,240,039
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	1,142,119	1,234,165
Decrease (increase) in revolving fund	( 7,058,499)	2,809,528
Decrease (increase) in restricted assets	536,964	( 16,460,560)
Net cash used by investing activities	( 5,379,416)	( 12,416,867)
Net change in cash and cash equivalents	( 585,461)	7,795,064
<b>CASH AND CASH EQUIVALENTS, beginning</b>	8,209,400	414,336
<b>CASH AND CASH EQUIVALENTS, ending</b>	\$ 7,623,939	\$ 8,209,400
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating loss	(\$ 3,437,501)	(\$ 7,149,183)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Decrease (increase) in interest receivable - loans	108,947	( 70,115)
Decrease (increase) in loans receivable	3,593,806	( 1,572,913)
Net cash provided (used) by operating activities	\$ 265,252	(\$ 8,792,211)

The notes to the financial statements are an integral part of this statement.

STATE of CONNECTICUT CLEAN WATER FUND - DRINKING WATER  
FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
NOTES to FINANCIAL STATEMENTS  
June 30, 2012 and 2011

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1 - NATURE OF ORGANIZATION

The State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund or SRF), an enterprise fund of the State of Connecticut, established in 1998 pursuant to Connecticut General Statutes Section 22a-475 to 22a-483, provides assistance to the public water systems in Connecticut to finance the costs of infrastructure needed to achieve or maintain compliance with the Safe Drinking Water Act (SDWA). The SRF is funded through revenue bonds and federal grants as established under the SDWA, which requires the State of Connecticut (State) to match federal funds to the extent of 20% of federal funds received.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the SRF conform to U.S. generally accepted accounting principles as applicable to government enterprises. The following is a summary of the SRF's significant accounting policies:

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting and the flow of economic resources as specified by the Governmental Accounting Standards Board's (GASB) requirements for an enterprise fund.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating and Nonoperating Revenues and Expenses

The SRF's principal operation consists of making low interest loans and grants to public water systems in Connecticut. Operating revenue consists of interest earned on those loans. Operating expenses consist of personnel, other expenses and grants incurred in the initial approval, disbursement and ongoing servicing of these loans and grants and incurred in set-aside activities.

Nonoperating revenues include interest earned on investments and nonoperating expenses include interest expense on revenue and refunding bonds.

### Revenue Recognition

Federal capitalization grants are reported as nonoperating revenue and are recognized as federal funds are drawn and as the SRF expenditures are made.

### Cash and Cash Equivalents

For purposes of the statements of cash flows, the SRF considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. However, the SRF's policy is to exclude restricted assets from cash and cash equivalents for purposes of the statements of cash flows due to the limitations imposed on their use by the Clean Water Fund Revenue Bond Program General Bond Resolution, adopted by the State Bond Commission on December 17, 2002 (the "Resolution").

### Investments

The SRF's policy is to present all investments at fair value except for money market investments and investment contracts, which the SRF has elected to report at amortized cost. The fair value of investments traded on public markets is determined using quoted market prices. The fair value of state general obligation bonds, which are not traded on a public market, is estimated using a comparison of other State general obligation bonds. Based on this comparison, the cost or par value of the state general obligation bonds approximates their estimated fair value.

There were no material investment gains or losses for the years ended June 30, 2012 and 2011.

### Loans, Allowance for Loan Losses and Credit Risk

The SRF makes loans to public water systems in the State of Connecticut to finance the costs of infrastructure needed to achieve or maintain compliance with the SDWA. Interest rates on the loans range from 2.00% to 4.68% and interest income is recognized as it is earned. The loans are secured by the full faith and credit or revenue pledges of the public water systems, or both. No allowance for loan losses is considered necessary based on management's evaluation of the collectability of the loans. The evaluation takes into consideration such factors as changes in the size of the public water system loans, overall quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay.

### Restricted Assets

Restricted assets consist of investments, which are segregated into funds and accounts in accordance with the Resolution as previously described, plus amounts determined to be prudent by management including amortizing long-term investments. The Resolution restricts investments to: a) the State Treasurer's Short-Term Investment Fund, b) Tax Exempt Proceeds Fund of the State, c) interest bearing time deposits held by the trustee, a member bank of the Federal Reserve System, or a bank which is insured by

the Federal Deposit Insurance Corporation and d) Investment Obligations as defined in the Resolution.

Bond Premiums/Deferred Loss

The premiums on the revenue and refunding bonds are being amortized over the term of the bonds on a straight-line basis, which yields results equivalent to the interest method.

The deferred loss on early retirement of bonds (Note 8) is being amortized over the shorter of the life of the refunded or refunding bonds.

Revenue Bonds

The following funds and accounts have been established in accordance with the Resolution adopted December 17, 2002:

Fund/Account	Description and Use
Revolving Fund	The Revolving Fund consists of amounts in the water pollution control federal revolving loan account and drinking water federal revolving loan account. The State maintains the Revolving Fund in accordance with the Federal Act. The State shall transfer to the Debt Service Fund any amounts necessary, together with any amounts on deposit therein, sufficient to pay principal of, redemption premium, if any, and interest on bonds.
Bond Proceeds Fund	Receives proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds are expensed for purposes of financing loans to borrowers under the State Revolving Fund program and if other monies are not available, payment of principal and interest on bonds.
Debt Service Fund	Receives amount from the Revolving Fund, Support Fund and, if necessary, Bond Proceeds Fund sufficient to pay the debt service on the bonds. Pays principal and interest on outstanding bonds.
Support Fund	The Support Fund, and accounts therein, shall be funded in the amounts and in the manner set forth in a Supplemental Resolution. Monies in the Support Fund shall be transferred to the Debt Service Fund to pay the interest, principal and Sinking Fund Installments and Redemption Price due on bonds, in accordance with the schedule set forth in the applicable Supplemental Resolution.
Administrative Fund: Cost of Issuance Account	Established outside the SRF, receives a portion of the revenue bond proceeds. Investment income is transferred to the revenue fund for debt service payments. Used to pay issuance cost on revenue bonds.
Rebate Fund	Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement. Used for IRS obligations as required.

## Fund Net Assets

Fund net assets are classified in the following categories:

- a. Invested in Capital Assets, Net of Related Debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The SRF does not have capital assets.
- b. Restricted Net Assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted Net Assets - All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

## Reclassifications

Certain prior year amounts have been reclassified for comparative purposes.

## Subsequent Events

The SRF has evaluated subsequent events for the period after June 30, 2012 through September 18, 2012, the date the financial statements were available to be issued.

## 3 - CASH DEPOSITS AND INVESTMENTS

According to GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the SRF needs to make certain disclosures about deposits and investment risks that have the potential to result in losses. Thus, the following deposit and investment risks are discussed below:

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment.

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Concentration of Credit Risk - the risk of loss attributed to the magnitude of an investment with a single issuer.

Custodial Credit Risk (deposits) - the risk that, in the event of a bank failure, the SRF's deposits may not be recovered.

Custodial Credit Risk (investments) - the risk that, in the event of a failure of the counterparty, the SRF will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

### Cash and cash equivalents

Cash and cash equivalents of the SRF include funds held by the Connecticut State Comptroller and US Bank (Trustee).

As of June 30, 2012 and 2011 funds held by the State Comptroller were \$7,736,627 and \$7,773,047, respectively. These funds are included with other State of Connecticut accounts, and custodial credit risk cannot be determined at the SRF level. As of June 30, 2012 and 2011, the Trustee held cash included in restricted assets in the amount of \$267,742 and \$12,000, respectively.

As of June 30, 2012 funds held in Connecticut Short Term Investment Funds (STIF) were \$89,582,862, of which \$11,361,131 is included in the bond proceeds fund, \$47,396,919 is included in the revolving fund and \$30,824,812 is included in the debt service fund on the Balance Sheet. As of June 30, 2011 funds held in STIF were \$81,243,827, of which \$12,953,961 is included in the bond proceeds fund, \$40,338,420 is included in the revolving fund and \$27,951,446 is included in the debt service fund on the Balance Sheet. STIF is a money market investment pool, rated AAAM as of June 30, 2012 by Standard and Poor's, in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. The State Treasurer is authorized to invest STIF funds in U.S. government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans.

As of June 30, 2012 funds held in Fidelity Institutional Government Money Market (FIGMM) were \$255,545 which is included in the debt service fund on the Balance Sheet. As of June 30, 2011 funds held in FIGMM were \$575,935 which is included in the debt service fund on the Balance Sheet. FIGMM is a money market investment pool, managed by Fidelity Investments, normally investing at least 80% of assets in U.S. Government securities and repurchase agreements for those securities and generally maintaining a dollar-weighted average maturity of 60 days or less.

## Investments

As of June 30, 2012, the SRF had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Guaranteed Investment Contracts	\$ 6,529,125	\$ -	\$ -	\$ 6,529,125	\$ -	Aaa
Guaranteed Investment Contracts	5,718,877	-	-	2,573,368	3,145,509	AA+
Guaranteed Investment Contracts	547,988	-	-	-	547,988	A-
U.S. Treasury State & Local Governments	5,883,668	1,246,585	4,567,704	-	69,379	A2
Connecticut General Obligation Bonds	6,262,081	-	-	6,262,081	-	AA
	<u>\$ 24,941,739</u>	<u>\$ 1,246,585</u>	<u>\$ 4,567,704</u>	<u>\$ 15,364,574</u>	<u>\$ 3,762,876</u>	

As of June 30, 2011, the SRF had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Guaranteed Investment Contracts	\$ 7,163,698	\$ -	\$ -	\$ 7,163,698	\$ -	Aaa
Guaranteed Investment Contracts	5,902,096	-	-	-	5,902,096	AA+
Guaranteed Investment Contracts	724,848	-	-	-	724,848	A
U.S. Treasury State & Local Governments	6,142,209	258,542	5,526,159	288,129	69,379	Unrated
Connecticut General Obligation Bonds	6,761,740	-	-	-	6,761,740	AA
	<u>\$ 26,694,591</u>	<u>\$ 258,542</u>	<u>\$ 5,526,159</u>	<u>\$ 7,451,827</u>	<u>\$ 13,458,063</u>	

### Interest Rate Risk

The SRF's policy for managing interest rate risk is to have the maturity or redemption dates of investments coincide as nearly as practicable with the times at which funds will be required for purposes as established in the General Bond Resolutions.

### Credit Risk

The SRF minimizes exposure to this risk by investing in Investment Obligations as defined by the Resolution.

### Concentration of Credit Risk

The SRF currently invests approximately 51% and 52%, at June 30, 2012 and 2011, respectively, in long-term investment agreements with Natixis Funding Corp., Trinity Plus Funding and Bank of America.

#### 4 - LOANS RECEIVABLE

The SRF loans funds to qualified public water systems. Principal and interest payments on loans are payable over a 20 year period in equal monthly installments commencing one month after the scheduled completion date, or in a single annual installment representing the first year's principal and interest not later than one year after the scheduled completion date and thereafter in monthly installments. Prepayments are not subject to any penalty.

Loans receivable by type are as follows as of June 30:

	<u>2012</u>	<u>2011</u>
Construction in process	\$ 39,737	\$ 5,224,771
Completed projects	<u>67,424,824</u>	<u>65,833,596</u>
	<u>\$ 67,464,561</u>	<u>\$ 71,058,367</u>

Aggregate maturities of loans receivable in subsequent years for completed projects are as follows:

<u>Year ending June 30</u>	
2013	\$ 4,856,022
2014	4,906,803
2015	4,958,802
2016	5,012,050
2017	5,053,441
Thereafter	<u>42,637,706</u>
	<u>\$ 67,424,824</u>

## 5 - FEDERAL LETTER OF CREDIT

The following represents a summary of the cumulative amounts of funds awarded and drawn, as well as the amount of funds available under the U.S. Environmental Protection Agency's letter of credit as of June 30:

	<u>2012</u>	<u>2011</u>
Awarded	\$ 130,417,900	\$ 130,417,900
Drawn	<u>105,920,909</u>	<u>102,415,716</u>
Available federal letter of credit	<u>\$ 24,496,991</u>	<u>\$ 28,002,184</u>

As part of the State grant agreements with EPA and in accordance with State and Federal statutes, the State is required to provide a 20% match on all federal grant drawdowns. As of June 30, 2012 and 2011, the required State match was \$33,143,713 and \$31,361,627, respectively. As of June 30, 2012 and 2011, the State match provided was \$40,677,637 and \$34,427,239, respectively.

The following represents a summary of the cumulative amount of funds awarded and drawn under the American Recovery and Reinvestment Act of 2009 (ARRA) award as of June 30:

	<u>2012</u>	<u>2011</u>
Awarded	\$ 19,500,000	\$ 19,500,000
Drawn	<u>18,872,503</u>	<u>16,413,654</u>
Available federal letter of credit	<u>\$ 627,497</u>	<u>\$ 3,086,346</u>

## 6 - RESTRICTED ASSETS

Restricted assets as of June 30 are comprised of the following:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents:		
Money market funds	\$ 42,441,488	\$ 41,481,342
Cash	267,742	12,000
Investments:		
Guaranteed Investment Contracts	12,795,990	13,790,642
U.S. Treasury State and Local Governments	5,883,668	6,142,209
Connecticut General Obligation Bonds	<u>6,262,081</u>	<u>6,761,740</u>
	<u>\$ 67,650,969</u>	<u>\$ 68,187,933</u>

## 7 - RELATED PARTY TRANSACTIONS

The SRF is one fund of many within the State of Connecticut financial reporting structure and as a result, certain transactions including operating transfers, loans receivable and allocation of expenses among funds are under the direction of the State.

### Investments

The SRF has invested in the State Treasurer's Short Term Investment Fund and holds State General Obligation Bonds as presented in Note 3.

### Allocation of Expenses

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended June 30, 2012 and 2011, the actual rates were 66.47% and 66.17%, respectively, of the SRF wages and the amounts charged aggregated \$1,161,445 and \$1,308,890, respectively.

## 8 - BONDS PAYABLE

A summary of changes in bonds payable during the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Issued	Principal Defeasance	Principal Paydown/ Transfers	Balance June 30, 2012
Revenue bonds payable	\$ 55,152,397	\$ -	\$ -	\$ 4,358,124	\$ 50,794,273
Refunding bonds payable	4,934,430	-	-	285,144	4,649,286
	<u>\$ 60,086,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,643,268</u>	<u>\$ 55,443,559</u>

A summary of changes in bonds payable during the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Issued	Principal Defeasance	Principal Paydown/ Transfers	Balance June 30, 2011
Revenue bonds payable	\$ 48,788,412	\$ 16,464,150	\$ 6,453,836	\$ 3,646,329	\$ 55,152,397
Refunding bonds payable	5,343,507	-	-	409,077	\$ 4,934,430
	<u>\$ 54,131,919</u>	<u>\$ 16,464,150</u>	<u>-</u>	<u>\$ 4,055,406</u>	<u>\$ 60,086,827</u>

### Revenue Bonds

The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities and public water systems, for use in connection with the financing or refinancing of waste water and drinking water treatment projects.

The State of Connecticut has issued the following bonds, of which a portion has been allocated to the SRF:

Issue Date	Issue Name	Original Allocated Par Amount	Balance Outstanding June 30, 2012
6/1/2001	Clean Water Fund Revenue Bonds, 2001 Series	\$ 29,614,747	\$ -
7/10/2003	State Revolving Fund General Revenue Bonds, 2003 Series A	33,063,800	9,848,123
7/10/2003	State Revolving Fund Refunding General Revenue Bonds, 2003 Series B	7,572,339	4,649,286
7/27/2006	State Revolving Fund General Revenue Bonds, 2006 Series A	5,000,000	3,957,000
8/6/2008	State Revolving Fund General Revenue Bonds, 2008 Series A	25,000,000	16,695,000
6/25/2009	State Revolving Fund General Revenue Bonds, 2009 Series A	4,675,000	4,370,000
3/24/2011	State Revolving Fund General Revenue Bonds, 2011 Series A	16,464,150	15,924,150
		<u>\$ 121,390,036</u>	<u>\$ 55,443,559</u>

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2003 Series dated July 10, 2003 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2003 Series Plan of Finance, the State allocated the proceeds of 2003 Series Bonds between the SRF and the Clean Water Fund with \$33,063,800 allocated to the SRF and \$85,021,200 allocated to the Clean Water Fund. Debt service on the 2003 Series Bonds is paid from any available monies in the SRF and the Clean Water Fund. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution. After a review of the total expenditures from both programs since 2003, as of July 1, 2006, the State transferred \$10,210,105 in 2003 bond proceeds from the Drinking Water Fund to the Clean Water Fund. An equal principal amount of 2003 bonds will now be designated Clean Water bonds and will be payable from Clean Water revenues for their remaining term. Other related accounts were affected and adjusted to reflect the transfer.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2006 Series dated July 27, 2006 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2006 Series Plan of Finance, the State allocated the proceeds of 2006 Series Bonds between the Clean Water Fund and the SRF with \$145,000,000 allocated to the Clean Water Fund and \$5,000,000 allocated to the SRF. Debt service on the 2006 Series Bonds is to be paid from any available monies in the Clean Water Fund and the SRF. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2008 Series dated August 6, 2008 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2008 Series Plan of Finance, the State allocated the proceeds of 2008 Series Bonds between the Clean Water Fund and the SRF with \$171,195,000 allocated to the Clean Water Fund and \$25,000,000 allocated to the SRF. Debt service on the 2008 Series Bonds is to be paid from any available monies in the Clean Water Fund and the SRF. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2009 Series dated June 25, 2009 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2009 Series Plan of Finance, the State allocated the proceeds of 2009 Series Bonds between the Clean Water Fund and the SRF with \$194,765,000 allocated to the Clean Water Fund and \$4,675,000 allocated to the SRF. Debt service on the 2009 Series Bonds is to be paid from any available monies in the Clean Water Fund and the SRF. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2011 Series dated March 24, 2011 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2011 Series Plan of Finance, the State allocated the proceeds of 2011 Series Bonds between the Clean Water Fund and the SRF with \$166,470,850 allocated to the Clean Water Fund and \$16,464,150 allocated to the SRF. Debt service on the 2011 Series Bonds is to be paid from any available monies in the Clean Water Fund and the SRF. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution.

The SRF's revenue bonds payable are serial bonds, of which \$50,794,273 and \$55,152,397 was outstanding as of June 30, 2012 and 2011, respectively. The serial bonds mature through June 1, 2027 and have interest rates ranging from 1.0% to 5.0%.

#### Refunding Bonds - 2003 Series

On July 10, 2003 the State issued \$115,785,000 of State Revolving Fund Refunding General Revenue Bonds, 2003 Series B with interest rates of 2.0% to 5.9% to advance refund Clean Water Fund 2001 Series Revenue Bonds (Refunded Bonds) with a principal balance totaling \$17,834,000 and interest rates of 4.0% to 5.5%. The State allocated \$7,572,339 of the 2003 Series B Refunding Bonds to the SRF. The Refunded Bonds had redemption dates through October 1, 2011.

The net proceeds of the 2003 Series B Refunding Bonds of \$18,879,694 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds are called on various dates through October 1, 2011. The advance refunding met the requirements of an in-substance defeasance and, accordingly, the Refunded Bonds with a principal balance of \$17,834,000 were removed from the SRF's balance sheet. As of June 30, 2012 and 2011, the outstanding principal balance of the Refunded Bonds was \$-0- and \$17,834,000, respectively.

The difference of \$1,045,694 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense through June 30, 2016. Amortization of the deferred loss for the years ended June 30, 2012 and 2011 totaled \$321,205 and \$293,129, respectively.

### Cash Defeasance - 2008

On June 30, 2008 the SRF paid \$5,622,931 to advance refund Clean Water Fund 2001 Series Revenue Bonds (Refunded Bonds) with principal balances totaling \$5,514,266 and interest rates of 4.0% to 6.0%. The Refunded Bonds will mature at various dates through October 1, 2012.

The \$5,622,931 was used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments and the call premium until the Refunded Bonds are called on various dates through October 1, 2012. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$5,514,266 were removed from the SRF's balance sheet. As of June 30, 2012 and 2011, the outstanding principal balance of the Refunded Bonds was \$1,393,351 and \$2,816,339, respectively.

The difference of \$7,572 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense through June 30, 2013. Amortization of the deferred loss for the years ended June 30, 2012 and 2011 totaled \$2,944 and \$841, respectively.

### Cash Defeasance - 2011

On March 24, 2011 the SRF paid \$7,281,610 to advance refund Clean Water Fund 2003 Series A Revenue Bonds (Refunded Bonds) with principal balances totaling \$6,453,836 and an interest rate of 5.0%. The Refunded Bonds were scheduled to mature at various dates through October 1, 2019, but have a redemption date of October 1, 2013.

The \$7,281,610 was used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments and the call premium until the Refunded Bonds are called on October 1, 2013. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$6,453,836 were removed from the SRF's balance sheet. As of June 30, 2012 and 2011, the outstanding principal balance of the Refunded Bonds was \$6,453,836.

The difference of \$521,185 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense through June 30, 2014. Amortization of the deferred loss for the years ended June 30, 2012 and 2011 totaled \$162,146 and \$34,746, respectively.

Bond Maturities

Requirements at June 30, 2012 to retire the SRF's revenue and refunding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 4,951,563	\$ 2,335,346
2014	5,726,569	2,138,872
2015	5,917,154	1,909,990
2016	6,017,534	1,687,912
2017	5,394,680	1,483,349
2018-2022	16,671,527	4,505,767
2023-2027	10,234,416	1,133,101
2028	530,116	18,433
	<u>\$ 55,443,559</u>	<u>\$ 15,212,770</u>

9 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended June 30, 2012 and 2011:

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</u>
Balance at June 30, 2010	\$ 13,377,515	\$ 96,351,379	\$ 109,728,894
Change in fund net assets	<u>536,079</u>	<u>14,877,096</u>	<u>15,413,175</u>
Balance at June 30, 2011	13,913,594	111,228,475	125,142,069
Change in fund net assets	<u>( 689,053)</u>	<u>7,948,499</u>	<u>7,259,446</u>
Balance at June 30, 2012	<u>\$ 13,224,541</u>	<u>\$ 119,176,974</u>	<u>\$ 132,401,515</u>

The fund net assets reserved for loans represents amounts accumulated from federal drawdowns, less set-aside activity expenses not exceeding 31% of the federal grant and subsidies, and the State's match of federal funds.

## 10 - OPERATING TRANSFERS

Operating transfers consist of the following for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Transfers related to CWF debt service	(\$ 605,966)	(\$ 109,774)
State match	1,250,398	1,827,687
Reallocation of funds from CWF	5,000,000	
Interfund transfer from CWF for projects	<u>-</u>	<u>7,000,000</u>
	<u>\$ 5,644,432</u>	<u>\$ 8,717,913</u>

## 11 - LOAN FUNDING COMMITMENTS

The operating agreements for the federal capitalization grants require that the SRF enter into binding commitments with local government units within one year of the receipt of each federal grant payment to provide assistance in an amount equal to 120% (including 20% state matching grants) of each federal capitalization grant.

The following represents a summary of loan commitments at June 30:

	<u>2012</u>	<u>2011</u>
Total funds committed to public water systems	\$ 91,495,470	\$ 90,658,642
Loan amount outstanding to public water systems	<u>67,464,561</u>	<u>71,058,367</u>
Loan commitments outstanding	<u>\$ 24,030,909</u>	<u>\$ 19,600,275</u>

In addition, the SRF has ARRA project grant commitments of \$251,026 and \$1,168,705 as of June 30, 2012 and 2011, respectively.

## 12 - RISK MANAGEMENT

The State of Connecticut is responsible for risk management of the SRF activities through the use of commercial and self-insurance.

# SEWARD AND MONDE

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Ms. Denise L. Nappier, Treasurer

Dr. Jewel Mullen, Commissioner,  
Department of Public Health,  
State of Connecticut

We have audited the financial statements of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 18, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the SRF is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the SRF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SRF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SRF's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the SRF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the SRF and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Seward and Monde*

September 18, 2012

# SEWARD AND MONDE

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Ms. Denise L. Nappier, Treasurer

Dr. Jewel Mullen, Commissioner,  
Department of Public Health,  
State of Connecticut

### COMPLIANCE

We have audited the compliance of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the SRF's major federal programs for the year ended June 30, 2012. The SRF's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of SRF's management. Our responsibility is to express an opinion on SRF's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the SRF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the SRF's compliance with those requirements.

In our opinion, the SRF complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

## INTERNAL CONTROL OVER COMPLIANCE

Management of SRF is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the SRF's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SRF's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management of the SRF and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Seward and Monde*

September 18, 2012

STATE OF CONNECTICUT CLEAN WATER FUND - DRINKING WATER  
 FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the year ended June 30, 2012

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<u>Federal Grantor; Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
ENVIRONMENTAL PROTECTION AGENCY		
Direct:		
Capitalization Grants for State Revolving Fund	66.468	\$ 4,211,409
Capitalization Grants for State Revolving Fund	ARRA - 66.468	<u>2,492,193</u>
		<u>\$ 6,703,602</u>

See notes to schedule.

STATE OF CONNECTICUT CLEAN WATER FUND - DRINKING WATER  
FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2012

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A - ACCOUNTING BASIS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Revenues are recognized to the extent of expenditures. Expenditures have been recognized to the extent that administrative costs have been incurred by the SRF and charged to the grant and federal funds have been loaned or granted to public water systems during the year.

B - SUBRECIPIENTS

Loans disbursed to subrecipients during year ended June 30, 2012 totaled \$1,698,100, of which \$689,844 were from ARRA grants. Grants disbursed to subrecipients during year ended June 30, 2012 totaled \$906,252, of which \$896,005 were from ARRA grants.

C - MUNICIPAL LOAN BALANCES

The balance of outstanding loans to municipalities totaled \$67,464,561 as of June 30, 2012.

STATE OF CONNECTICUT CLEAN WATER FUND - DRINKING WATER  
 FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the year ended June 30, 2012

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u>    </u> Yes <u>  X  </u> No
Significant deficiency(ies) identified?	<u>    </u> Yes <u>  X  </u> None reported

Noncompliance material to financial statements noted?      Yes   X   No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u>    </u> Yes <u>  X  </u> No
Significant deficiency(ies) identified?	<u>    </u> Yes <u>  X  </u> None reported

Type of auditors' report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?      Yes   X   No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
66.468	Capitalization Grants for State Revolving Fund
ARRA 66.468	Capitalization Grants for State Revolving Fund

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low risk auditee?   X   Yes      No

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings are reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported.