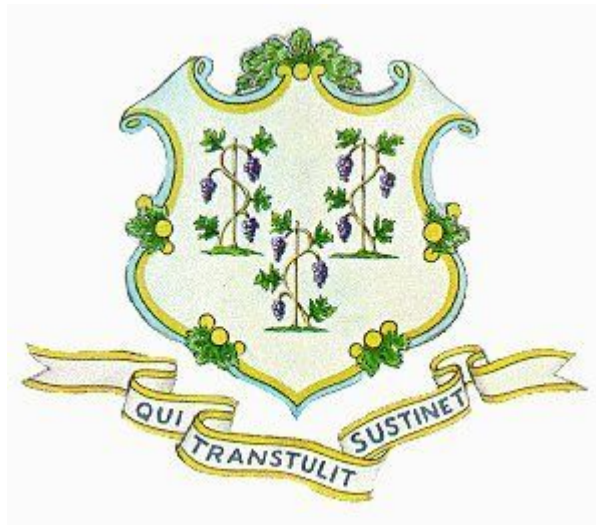


STATE OF CONNECTICUT



State Revolving Fund Programs:

DRINKING WATER FUND

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

2008 ANNUAL REPORT

State of Connecticut

DRINKING WATER FUND



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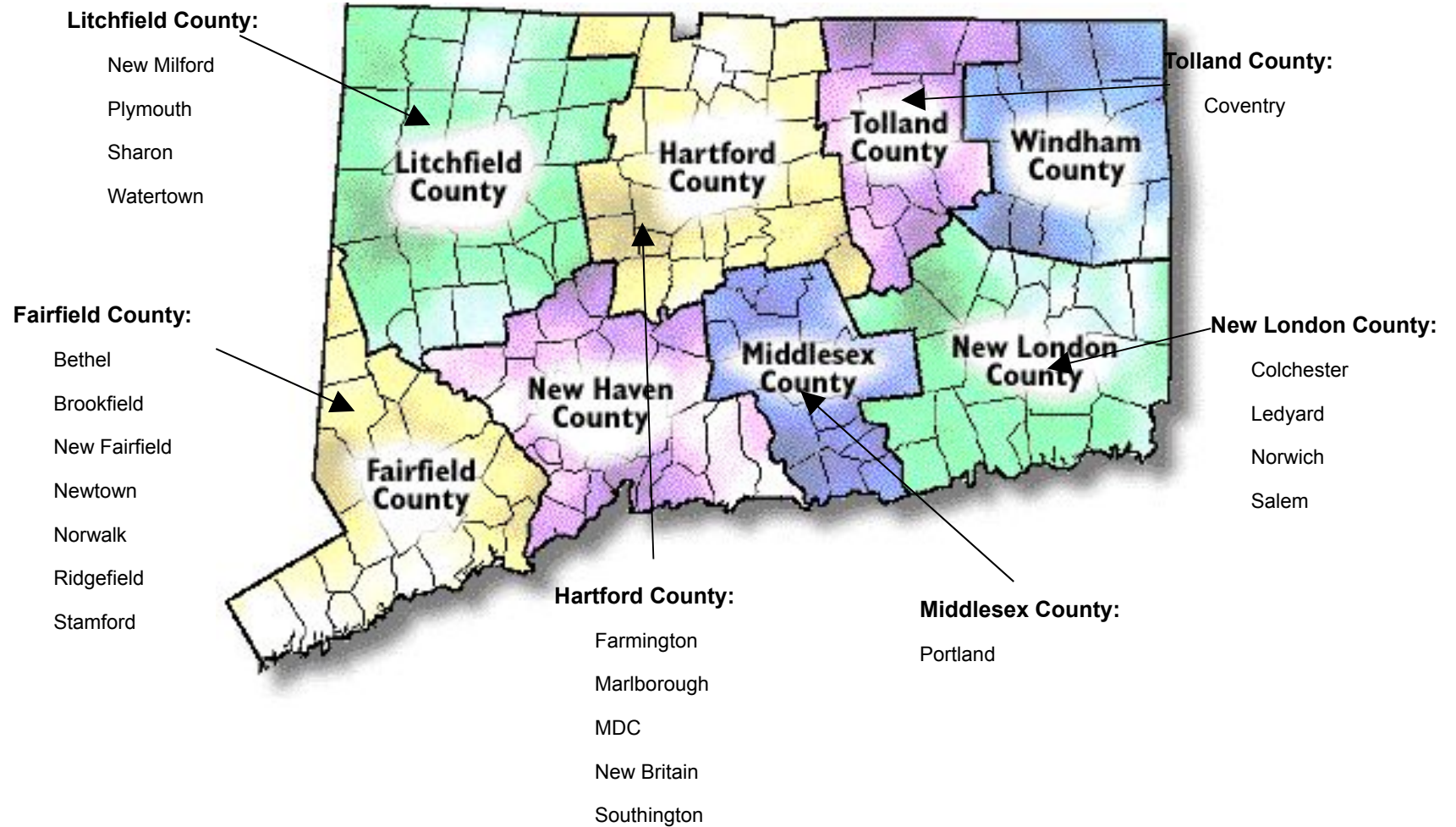
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PARTICIPANTS IN THE DRINKING WATER FUND PROGRAM

As of June 30, 2008



REPORT INTRODUCTION

The Connecticut Clean Water Fund includes the Drinking Water State Revolving Fund (Drinking Water SRF) program that 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.

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 one of DPH's most critical missions. Through 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 DPH focuses on compliance with state and federal drinking water regulations, and the maintenance and improvement of water quality through sustainable public water systems. These efforts are designed to reduce public health risk, as well as maintain safe high quality water resources for the State's citizens.

This report for the fiscal year ending June 30, 2008, is the tenth Annual Report to the Governor on the Drinking Water SRF. It has been prepared jointly by the DPH Drinking Water Section and the Office of the State Treasurer's Debt Management Division with assistance from the Department of Environmental Protection.

Included in this report is the history of the Drinking Water SRF, a review of the program during fiscal year 2008, descriptions of the revenue bond program, and projections of future project funding and the management initiatives for fiscal year 2009. As a major recipient of federal financial assistance, the State must provide audited statements and comply with the federal Single Audit Act of 1984. The audited statements for fiscal year ended June 30, 2008 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 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 this and previous annual reports since 2001 are available on the State Treasurer's website at www.state.ct.us/ott.

CONNECTICUT DRINKING WATER FUND

Annual Report 2008

EXECUTIVE SUMMARY

The Connecticut Drinking Water State Revolving Fund (Drinking Water SRF) Program is one of the programs in the State of Connecticut Clean Water Fund (CWF). The CWF is one of Connecticut's largest financing programs, which supports public water system projects as well as municipal sewage infrastructure projects throughout the state. The program provides low-interest loans to 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 capacity in the state.

The Drinking Water SRF is managed by the Department of Public Health (DPH), the primary agency responsible for ensuring the purity and adequacy of the state's drinking water and overseeing the administrative and technical components of the program. The DPH works closely with the Department of Environmental Protection, the Office of the Treasurer, the Department of Public Utility Control, and the Office of Policy and Management, all of which provide administrative, technical, or financial assistance to the DPH and contribute to the success of Connecticut's Drinking Water SRF program.

This report discusses various accomplishments and activities included in initiatives that are planned for fiscal year 2008, as well as initiatives planned for fiscal year 2009.

As of the end of fiscal year 2008, the Drinking Water SRF had made 29 loan commitments totaling more than \$91 million. Three loans totaling \$4.5 million were executed during fiscal year 2008. The projects included a water main extension and upgrading a water treatment plant. One loan has already closed in the first quarter of fiscal year 2009, with three more to follow in the near future.

The program has provided water infrastructure development in areas of Connecticut where more than 727,300 citizens reside. Primary sources of funding for the Drinking Water SRF program are state contributions and revenue bonds. The Drinking Water SRF also receives federal capitalization grants, as provided through the federal Drinking Water Act, with annual appropriations through the U.S. Environmental Protection Agency.

The DPH's Drinking Water Section continues to work on refining the loan to assist applicants and execute loans more efficiently. Modified loan applications are in the process of being developed and should be available for the next call for projects. Discussions are also taking place between the agencies on creating a program within the Drinking Water SRF geared toward assisting small public water systems. Drinking Water Section staff routinely provides information on the availability of the Drinking Water SRF financing during field visits to ensure access to the program.

Promoting asset management, and the Environmental Protection Agency's Check Up Program for Small Systems (CUPSS) application, has moved to the forefront in assisting small public water systems. CUPSS is a tool to be used by water systems to identify needs, determine assets, and assist in the preparation of a long-term capital improvement plan and funding strategy. Staff has met one-on-one with water systems to provide technical assistance in preparing asset management plans as part of their capacity development efforts.

SUMMARY OF ACTIVITIES AND ACCOMPLISHMENTS IN 2008

The State of Connecticut, through the Drinking Water Section of the DPH, uses the Drinking Water SRF federal capitalization grants to assist public water system operators in meeting federal water quality mandates. Major accomplishments during the 2008 fiscal year for the program include:

- Three loans totaling \$4.5 million were executed during fiscal year 2008. As further described in the 2008 Program Area Accomplishment Section of this report, the projects included a water main extension and upgrading a water treatment plant.
- The second Career Forum was held in April 2008, and attendance exceeded 200. The event, which is geared toward high school students and their guidance counselors, provided information about drinking water quality and regulation. Representatives of the drinking water industry as well as academic experts spoke about their careers. The Career Forum was a follow-up to the successful initial forum that was held in 2007.
- Development of a Drinking Water Quality Management Plan in Groton was spearheaded by the Section's Source Water Protection Unit. This is a grassroots initiative intended to produce a locally generated drinking water source protection plan to ensure source water sustainability. Start-up of the process entailed working with various stakeholders and the selection of a qualified consultant to develop the plan. The State awarded funding in the amount of \$200,000 to the Town of Groton for this purpose.
- The Treasurer restructured the Clean Water bond-financing program in 2003, and in 2008 cash defeased all of the older bonds, thereby allowing the benefits of the new simplified credit structure to be fully realized. The program's restructure is a significant accomplishment that will allow the State to structure future bond issues as appropriate to maximize project funding for essential Clean Water SRF and Drinking Water SRF projects throughout the State. The management of the bond-financing program has enhanced the ability of the Connecticut Clean Water Fund to meet the State's environmental water quality goals.
- Near the end of fiscal year 2008, the Drinking Water Section was restructured by management. The restructuring will promote cross-training to

provide staff flexibility and make the Section more efficient and responsive to the needs of public water systems as it adheres to state and federal mandates necessary to ensure the purity and adequacy of public drinking water that is consumed in Connecticut.

As exemplified in fiscal year 2008, the Drinking Water Fund depends on the state's continued ability and willingness to commit financial resources to meet its water quality needs. The state continues to demonstrate its commitment to the program with annual authorizations, consistent staffing levels, resources to meet existing and future needs, and support for the creation, development, and implementation of new program initiatives.

2008 ACTIVITIES IN EACH PROGRAM AREA

Activities and accomplishments during the fiscal year 2008 in each of the program areas within the Drinking Water SRF are described below.

Projects and Administrative Set-Aside - 4%

Second Taxing District of the City of Norwalk

The major active project during the year was the \$24.7 million project that was initiated for the Second Taxing District of the City of Norwalk at the end of fiscal year 2006. The project is substantially complete. The loan is for the upgrade of an existing ten-million-gallon-per-day water treatment plant from conventional treatment to one utilizing immersed membrane filtration.



Water Treatment Facility in the Second Taxing District of the City of Norwalk



Water Treatment Facility in the Second Taxing District of the City of Norwalk

A discussion of the new projects in 2008 can be found in the Project Financing section of this report.

During the fiscal year, the Drinking Water Public Hearing and Open Forum was held to review the 2008 draft priority list of projects. Also during the year, authorizations for up to \$25 million in projects were approved as part of the Connecticut Clean Water Fund.

Small Systems Technical Assistance Set-Aide - 2%

The Drinking Water Section uses this set-aside to provide assistance to small public water systems serving fewer than 1,000 people. In fiscal year 2008, emphasis was placed on coordination of and assistance to small systems for infrastructure projects. Some of the activities for the year included:

- Provided technical assistance to facility operators and public water system owners on infrastructure projects and asset management principles.
- Continued improvement of the project tracking database which tracks the progress of infrastructure improvement projects for small water systems.
- Reviewed proposed land use development projects to determine if the proposal included the creation of a new public water system.
- Performed financial and managerial capacity evaluations for new non-community public water systems.
- Continued participation as instructors for capacity-related topics at DPH water system operator classes.
- A survey of existing community public water systems was performed to determine which systems are employing advanced asset management concepts and to determine their needs for financial and managerial

capacity assistance; the responses to this survey are in the process of being compiled. The results will be included in the fiscal year 2009 annual report.

- Presentations on asset management and project submittals.
- The staff person funded under this set-aside obtained train-the-trainer certification for EPA's new CUPSS asset management software.
- The Drinking Water Section uses this set-aside to provide assistance to small public water systems serving fewer than 1,000 people. In 2008, emphasis was placed on outreach and dissemination of information and technical guidelines for various water works projects to help with the planning, design, and construction of these projects.

Local Assistance and Other State Programs Set-Aside - 15%

The Drinking Water Section uses this set-aside for capacity development of public water system operators and source water protection.

Capacity Development

The positions funded under this set-aside are 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 assists 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 take-over proceedings. Some of the activities performed by staff under this set-aside included:

- 746 sanitary surveys conducted at public water systems. Financial, managerial and technical capacity assessments are conducted during each sanitary survey.
- Continued updating of standard operating procedures for sanitary survey inspections to promote consistency among field staff. Surveys included water system sustainability evaluations and the assessment of critical infrastructure replacement needs.
- 20 compliance and technical assistance meetings were held for public water systems with long histories of violations or infrastructure deficiencies that could pose a risk to public health protection.
- 8 technical assistance meetings were held for public water system infrastructure projects, including proposed new systems going through the Certificate of Public Convenience and Necessity process. Provided technical assistance to local health departments.

- 34 public water systems serving a total population of 3,201 were consolidated with other systems.
- Completed reviews of 350 projects submitted by public water systems for permit approval, including infrastructure projects and water company land use.
- Continued development of technical guidelines and information documents to educate operators and contractors on regulatory requirements and industry standards during the planning, design, and construction of infrastructure projects. Topics included bulk water hauling, disinfection chlorine contact time, liquid chemical feed pumps, and the location of dumpsters relative to water supply wells.
- Participated as instructors on capacity-related topics during DPH water system operator classes.
- Made presentations on the Ground Water Rule to local health officials on food service establishments that are also public water systems.
- A staff person funded under this set-aside obtained train the trainer certification for EPA's new CUPSS asset management software. This means that two staff members in the DPH Drinking Water Section are now trained on the CUPSS system.

Source Water Assessment Program (SWAP)

The Drinking Water Section continued to develop a proactive approach toward source water protection. In 2008, building on the SWAP reports completed in 2003 and following the established five-year strategic plan for drinking water source protection, the Source Water Protection Unit completed the following items:

- Enhanced and enforced existing public health source protection laws. Linked to related programs to emphasize proactive public health protection through source water protection.
- Reviewed 93 and approved 56 new public water supply wells.
- Reviewed 21 and approved 15 water company land applications.
- Reviewed 13 and approved 8 recreational permits.
- Completed work on new regulations and statute changes to enhance source water protection under sections 25-32d, 25-32f of the Connecticut General Statutes, and Special Act 06-6.
- Supported the passage of House Bill 5730, which adds additional ownership and protection requirements to new public water supply wells.

- Initiated incorporation of water supply planning into source water group. Oversaw 53 aquatic pesticide permits by the Department of Environmental Protection within SWAP areas.
- Received and reviewed over 100 sewage bypass reports.
- Reviewed 51 watershed sanitary surveys under Public Health Code.
- Enhanced the Watershed Approach by development of drinking water quality management plans.
- Obtained funding and created contracts with numerous stakeholders to implement the Drinking Water Quality Management Plan under SA 06-6.
- Continued to work with multiple towns and state and federal agencies such as Departments of Transportation, Environmental Protection, Public Utility Control, Agriculture, and Economic and Community Development, as well as the Office of Policy and Management, Council on Environmental Quality, and the Environmental Review Team, to emphasize source water protection. Provided comments and recommendations on over 50 proposed projects.
- Developed a Drinking Water Quality Management Plan in Groton, which was spearheaded by the Section's Source Water Protection Unit. This plan is a grassroots initiative intended to create a locally generated drinking water source protection plan which will ensure source water sustainability. The Drinking Water Quality Management Plan project for the Town of Groton was established through Special Act No. 06-6, Section 1. Start-up of the process entailed working with various stakeholders and the selection of a qualified consultant to develop the plan. State funding of \$200,000 was awarded to the Town of Groton to develop the plan. The plan will provide a method to protect public drinking water supplies, while balancing the need for economic development within critical source water protection areas. One of the goals of this process is to develop a model plan that can be used statewide.

State Program Management (10%)

These funds are used to augment the Public Water System Supervision Program. During the year, activities included:

- Direct technical assistance to public water systems regarding the required reporting of water quality and inventory/facility data utilized in the Safe Drinking Water Information System and the electronic data interchange.

- Identification of water systems that would most benefit from collaboration or regionalization and assisted in developing and evaluating processes to aid in the success of capacity development efforts.
- Provision of water capacity development training to certified operators of small public water systems. Provided guidance documents, work plans, standard operating procedures, and long-term strategies. Conducted outreach programs to educate public water systems staff, certified operators, the general public and other stakeholders on water capacity and state drinking water program administration issues.
- Worked with the Laboratory Certification Program in assisting public water systems regarding water quality testing issues.
- Coordinated the second “Careers in Drinking Water” forum that was held on April 23, 2008, at the Farmington Club in Farmington, Connecticut. The purpose of the event was to increase the awareness of career opportunities in the drinking water field. Over 200 students, teachers, guidance counselors, and other school officials were made aware of the impending shortage of drinking water industry workers since half of today’s water professionals will retire in the next five to seven years. Various presentations and panel discussions focused on educating high school staff and students about different career choices in the water industry and how to pursue them. There were also exhibits where students learned about water utilities, the types of jobs available, and the education needed to enter these fields. The forum included live demonstrations of the following:
 - Water main tapping.
 - Testing of a backflow device.
 - A water quality testing demonstration.
 - Conservation measures by “Walter the Water Saver.”



The Career Forum was very successful and plans are being made to hold this event next year.

PROJECT FINANCING

Background

The State of Connecticut Clean Water Fund includes two state revolving funds (SRFs) that provide financial assistance to municipalities and private entities for the construction, rehabilitation, expansion or improvement of systems for the storage, treatment, recycling, and reclamation of water and waste water. These programs are administered in accordance with sections 22a-475 to 485 of the Connecticut General Statutes inclusive, which authorize the State to apply for and receive federal funds and to provide low-cost financing.

The State's SRFs are: (1) the waste water pollution control revolving fund program, or the Clean Water State Revolving Fund (Clean Water SRF), established by the State under the federal Water Quality Act of 1987, and (2) the Drinking Water State Revolving Fund (Drinking Water SRF), established by the State under the 1996 amendments to the Federal Safe Drinking Water Act that authorize the U.S. Environmental Protection Agency (EPA) to offer state capitalization grants for the Drinking Water SRF. Nationwide, there have been federal authorizations of \$1 billion annually for the Safe Drinking Water Act, and Connecticut has received annual appropriations of approximately \$8.2 million.

The DPH is responsible for compliance with federal and state drinking water mandates. The mission of the DPH Drinking Water Section is to "influence, through regulation and communication, the behavior of public water systems so that they take all necessary precautions to protect and preserve sources and systems of drinking water supply." The Drinking Water Section is also responsible for the administration of the Drinking Water SRF.

In the course of a day, 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.

Available Financing

The Drinking Water SRF provides financial assistance to privately owned, non-profit or publicly owned water systems. 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 funding are exclusions for increased capacity. Other limitations are

further described in the Drinking Water SRF guidance documents available from the DPH and the EPA.

The Drinking Water SRF financial assistance consists of low interest rate loans at one-half of the market rate with a 20-year repayment period. 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 list 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. Once a project is deemed eligible for funding, the applicant's capabilities are evaluated by the Drinking Water Section engineering staff and the Office of the State Treasurer to ascertain if the applicant's system can support a Drinking Water SRF loan. A Department of Public Utilities Control approved economic viability model may also be used to evaluate water systems with more than 50 service connections.

Needs Survey

The EPA is currently reviewing the completed 2007 Drinking Water Infrastructure Needs Survey which assessed the cost and types of drinking water needs throughout the nation for 2007 to 2027. The Survey is being used to determine the federal Drinking Water SRF allocation for fiscal years 2010 through 2013. Connecticut is one of the many states that receives the minimum 1% allocation (currently \$8.2 million) and because of the State's needs, will continue to do so in the foreseeable future.

The results of the 2003 needs survey, which were released in June 2005, showed a nationwide need of \$276.8 billion. Of that, Connecticut's needs were \$652 million in the following categories:

1) Transmission	\$336 million
2) Distribution and treatment	\$176 million
3) Storage	\$ 96 million
4) Service water	\$ 40 million
5) Other work	\$ 4 million

Compared with the other five New England States' needs, Connecticut's 20-year needs were higher than New Hampshire (\$595.6 million), Rhode Island (\$402.6

million), and Vermont (\$394.8 million), but lower than Maine (\$831.8 million) and Massachusetts (\$8.5 billion).

The results of the 2007 survey are scheduled to be presented to Congress in February 2009.

Project Priority List

The priority list system is a key component of the management of the Drinking Water SRF. Management compiles the 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 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
- Infrastructure upgrades
- Protective measures covering sources of supply and distribution systems
- Affordability

The 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 projects, the projected dollar amount of the project and the points awarded to the project. 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 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.

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 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 Drinking Water Section continues to provide

support for a potential recipient so that eligible projects can proceed as soon as possible. The Drinking Water Section uses its computer-based application to track and continually update programmatic information on all Drinking Water SRF loan applications.

The DPH's Intended Use Plan (IUP) shows the proposed use of state and federal funding assistance programs for drinking water quality and quantity projects. A list of the eligible systems can be found on the Drinking Water Section's website and the 2008 Project Priority List is shown in Appendix VI.

Borrowers

All Connecticut public water systems are eligible to participate in the Drinking Water SRF. A public water system has 15 or more service connections or regularly serves at least 25 people, 60 or more days a year. In Connecticut, there are approximately 1,249 public water systems subdivided by regulation into two categories, community and non-community, and owned and operated by municipalities, private or non-profit entities. Community systems provide water to populations that reside in the same place for more than 60 days a year. 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 annual mailings, statewide informational meetings, and open forums. The Drinking Water Section staff also participates as presenters and instructors in conferences and workshops in several locations around the State.

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 III. 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 VIII.

2008 Projects

During fiscal year 2008, as discussed below, the Drinking Water SRF made three loan commitments totaling \$4.5 million: Town of Southington Water Main Extension (\$1,500,000), Town of Colchester Water Treatment Plant Upgrades (\$2,600,000), and Woodlake Taxing District Land Purchase for Well Development (\$404,500). In accordance with section 22a-478(o) of the Connecticut General Statutes, this annual report includes the list of new project funding agreements in Appendix IV.

Town of Southington and the Southington Water Department



Southington Water Department

The \$1.5 million project to the Town of Southington consists of replacing pipes where there were restrictions or operational problems. Replacement of the water mains will reduce energy consumption, pressure losses, and unaccounted water loss, and will enhance water flows. Southington Water Department currently serves a population of approximately 40,400.

Woodlake Tax District



Access Road to Woodlake Tax District

The \$404,500 project for Woodlake Tax District consisted of a purchase of an easement on undeveloped land to be used for well development. The Woodlake Tax District used gravel packed wells which produced water with elevated levels of iron and manganese. Due to the presence of these minerals within the water, costly treatment is in use and the wells need ongoing redevelopment to maintain water supply. Each time the wells were redeveloped, there was a loss of safe water quantity. The land was proposed to be used for development of bedrock wells to supplement the supply of the existing wells. The project also includes contracts for the construction of an access road, and the drilling and testing of a bedrock well. Bedrock wells developed on this land may produce water of a lower mineral content thereby reducing facility and operational costs associated with current water treatment. The land will also provide for the protection of these well sources. Woodlake Tax District currently serves a population of 912.

Town of Colchester and the Colchester Sewer & Water Commission



Town of Colchester Drinking Water Project

The \$2.6 million project for the Town of Colchester is for water treatment plant upgrades and modifications. The existing pump and treatment facility (located at Taintor Hill Road) currently does not have the capacity to meet peak water system demands and has to operate at maximum capacity nearly 24 hours per day.

The level of iron in the water produced from wells supplying this facility has also increased, resulting in the decreased operational capacity of existing filters as well as decreased water quality. Water use restrictions have been instituted during some periods to prevent outages.

A Diversion Permit has been issued by the Department of Environmental Protection allowing for an increase in water supply. However, the existing pump and treatment facility does not have the capacity to pump and treat this increased quantity of water to the system's customers.

The proposed project comprises: the installation of additional filters and rehabilitation of existing filters; a water storage clear well; booster pump station; chemical feed systems; yard piping; replacement of building electrical and plumbing components; control and monitoring equipment; etc. The population served by this project is approximately 4,000.

Pending Projects

The table in Appendix V shows a total of \$77.1 million in loans to (1) borrowers with outstanding loans or undrawn loan commitments through June, 30, 2008, and (2) those with new loan commitments expected to be executed through June 30, 2009.

Program Funding

The primary sources of funds for the Drinking Water SRF are:

- (1) Federal capitalization grants.
- (2) State contributions for the 20% match of the federal capitalization grants.
- (3) Proceeds of the revenue bonds.
- (4) Earnings on the assets of the Drinking Water SRF.

The Drinking Water Section uses up to 31% of the federal capitalization grant to administer the Drinking Water SRF, and provide managerial and technical assistance to public water systems. 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 Clean Water Fund to accept federal capitalization grants and state matching funds for the Drinking Water SRF.

Fund	Name	Purpose/Requirements
21017	Drinking Water State Account	Initial state match
21018	Drinking Water Federal Account	The designated qualifying State Revolving Fund under Title VI of the federal Water Quality Act and the federal Safe Drinking Water Act

Federal Capitalization Grants

The 1996 amendments to the Safe Drinking Water Act established State revolving loan funds for public water systems. These funds are used to provide loans, grants, and technical assistance to public water systems for the construction, reconstruction, or replacement of public water supply or wastewater treatment facilities. The Clean Water SRF and the Drinking Water SRF have many similarities. However, one major difference is that, unlike the Clean Water SRF, the Drinking Water SRF can make loans to private entities that own and operate public water systems.

Each year Connecticut is allocated 1% of the federal funds available for federal capitalization grants to state Drinking Water SRF. The federal drinking water capitalization grant awards from 1997 through 2006 totaled \$92.4 million. The Drinking Water SRF has up to two years to apply for an allocated grant. Connecticut's allocated grant award for 2007 and 2008 is approximately \$8.2 million for each year, and the DPH applied for these grants in May 2008. 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

Set-asides are funds allocated for a range of specific activities including Drinking Water SRF program administration and management, technical assistance for small water systems, and operator education and support. These approved purposes can use as much as 31% of each capitalization grant. The IUP as required by the EPA, describes the state's intended uses for project and set-aside funds.

The project portion of the federal capitalization grants and state contributions have been used to make loans to public and private borrowers, to provide credit and interest support for revenue bonds. Set-asides have been used to pay administrative costs, encourage source water protection, and support other state drinking water program activities. 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.

State Authorizations – Projects and State Match

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 (GO) bonds for the two programs are combined. As projects are approved, authorizations are allocated to the Drinking Water SRF from the total available authorizations.

To date, revenue and GO bond authorizations of \$87.4 million for projects and \$10.3 million for match of the capitalization grant have been made available to the Drinking Water SRF. Connecticut's match has been made in the form of taxable state GO bonds deposited in the Drinking Water SRF and cash contributions. At present, future match requirements will be provided with cash contributions from the State. The State Bond Commission approved the use of excess funds for this purpose on June 9, 2006, making up to \$5 million in cash contributions available to the Drinking Water SRF. A similar request will be made in fiscal year 2009 based on new capitalization grant awards.

The State has provided or expects to provide sufficient funds in the Drinking Water SRF to meet the required State match. The State has provided bond authorizations and cash sufficient to meet the match requirements of all amounts drawn to date. 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 Bonding Program

Prior to the initial issuance of the bonds, the Drinking Water SRF loans to municipalities and private entities were made from the federal capitalization grants. Since 2001, revenue bonds provided a total of \$87.7 million for Drinking Water SRF projects. Bond proceeds are allocated to the Drinking Water SRF and distributed on a first-come, first-served basis to those borrowers that have executed loan agreements, as the borrowers incur project costs. Borrowers in addition to those listed in the appendices may receive funding. In all cases, funding is subject to State Bond Commission approval.

The bonds for Drinking Water SRF projects are liabilities solely of the Drinking Water SRF. This leveraged financing allows the Drinking Water SRF to maximize the available project funding more quickly than under a direct loan program using the capitalization grant. This strategy also allows the State to provide loans with a low interest rate at favorable 20-year terms to all of the eligible water systems without regard for the size of the project.

No new bonds were issued before the end of the fiscal year in 2008. The Series 2008A bonds closed on August 6, 2008, and provided \$25 million for Drinking Water SRF projects. More information on the bonds, the payment of debt service and the investments of the Drinking Water SRF can be found in the financial statements.

Ratings

The bonds are rated at the highest available credit rating from all three rating agencies, AAA from Fitch Ratings and Standard & Poor's Ratings Services, and Aaa by Moody's Investor's Service. 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 of time or that they will not be revised or withdrawn entirely by a rating agency if, in the judgment of such rating agency, circumstances so warrant.

PROGRAM MANAGEMENT

The state demonstrates its continuing commitment to the program in several ways: 1) a generous portion of the federal grant is set aside to provide critical services to water providers, 2) the State has coordinated funding sources to maximize the financing available, 3) the State provides significant administrative support through the coordinated efforts within the divisions of the DPH, Department of Environmental Protection, and the Office of the State Treasurer.

The DPH, the Department of Environmental Protection, and the Office of the State Treasurer have worked together with the Department of Public Utility Control and the Office of Policy and Management to address the drinking water needs of

the state since 1995. The process has been implemented with a great deal of consideration for existing regulations and procedures. The Drinking Water SRF Interagency Memorandum of Understanding (MOU) creates an interagency committee and details the roles and responsibilities of each agency. The following is a brief overview of state agency participation. Further information on the roles and responsibilities of each agency is available in Appendix VIII and Appendix IX.

2009 PROGRAM ACTIVITIES AND INITIATIVES

The DPH and the interagency committee develop goals for each program of the Drinking Water SRF and set-asides. The major activities in 2009 will include:

Local Assistance and Other State Set-Asides

Source Water Protection Program

- Enhance, oversee, and enforce existing public health source protection laws and continue to:
 - Maintain and enhance existing permit programs.
 - Integrate source water protection with water supply planning.
 - Enhance existing source water protection laws.
 - Review and process permits as required.
 - Enhance the watershed approach by integration and development of drinking water quality management plan.



Connecticut River

- Continue to work with communities across the State to emphasize the concepts of the Drinking Water quality management plan. Initiate contract

to assist Groton and other communities to develop source water protection plans.

- Educate and train local land use officials:
 - Hold at least 30 training sessions for local officials.
 - Link with related programs and state and federal agencies to emphasize proactive public health protection through source water protection.
 - Involve stakeholders and develop partnerships on a continuous basis, and hold two stakeholder forums to emphasize the importance of source water protection.

Capacity Development

Consistent with the EPA approved capacity development strategy, activities in fiscal year 2009 will include:

- 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.
- Continue to perform sanitary survey inspections of public water systems, including evaluations of technical, financial, and managerial capacity and cross-connection control programs.
- Hold compliance and technical assistance meetings for targeted small systems identified with weaknesses during sanitary surveys or compliance assessments.
- Continue to perform engineering reviews for public water system infrastructure projects, including Drinking Water SRF projects.
- Continue to provide technical assistance to local health departments on water issues that arise with public water systems serving food service establishments.
- Enter into contract with New England Interstate Water Pollution Control Commission to deliver advanced asset management training to Connecticut public water systems.
- Maintain the sanitary survey inspection standard operating procedures.
- Develop new technical guidelines and informational documents and update existing guidelines and documents as necessary.

- Assess technical and managerial capacity of public water systems.
- Provide technical assistance to public water systems on violations and deficiencies noted during assessments.
- 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.
- Participate in training programs related to the technical, managerial, and financial capacity for public water system operators and local health officials.
- Evaluate the adequacy and protection of the water distribution networks and emphasize the viability of cross-connection programs.
- Integrate Water Supply Planning process into sanitary survey process. Continue work on forms to provide critical information to Regional Engineers prior to scheduled sanitary surveys for the 84 largest public water systems in Connecticut.
- Compile information regarding safe water yield, available water, treatment restrictions, diversion permit restrictions, sale of excess water permits, and interconnections in a statewide database to provide the most accurate information to Drinking Water Section staff. Use database to track actual amount of water available for each of the 84 large public water systems, and each of the geographical Water Utility Coordinating Council (WUCC) regions of the State.
- Prepare and provide forms to applicants for new public water systems in Connecticut for submission to Exclusive Service Area (ESA) providers and WUCC area chairpersons.
- Format Water Supply Plan reviews and provide tools for Water Supply Plan preparers to ensure consistency and provide clients with critical information that is necessary for Water Supply Plan approval.
- Contract with a qualified consultant to develop templates, tools and resources to be use by capacity development staff.

Small Systems Technical Assistance

In fiscal year 2009, the priority activities relating to technical assistance to small systems will include:

- Continue to provide asset management and technical assistance to small public water systems targeting those small systems identified with

weaknesses during sanitary surveys or compliance assessments. These efforts will include promoting and providing technical support for the new EPA CUPSS asset management software.

- Continue to perform financial and managerial capacity evaluations for new non-community public water systems.
- Refine technical, financial and managerial capacity evaluations of new and existing public water systems to be conducted during sanitary surveys.
- Explore the feasibility of entering into a third-party contract to develop tools to assist small systems applying for Drinking Water SRF assistance, evaluated changes that can be made to simplify the SRF process for small systems.
- Provide technical assistance information to owners and operators to public water systems that serve less than 10,000 people.
- Review new land use development projects.
- Refer appropriate water company to the DPH and Department of Public Utility Control for a Certificate of Public Convenience and Necessity.
- Administer a consolidated tracking database for all water works for public water systems submitted to the Drinking Water Section for regulatory approvals or permits.
- Participate and/or coordinate Drinking Water Section's training events focused on capacity development.
- Assess financial and managerial capacity of new Non-Community public water systems.
- Screen local land use development projects for creation of new water companies.
- Coordinate public water system water works project tracking.

Program Management

The Program Management Activities in 2009 will include:

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

- Provide direct technical assistance to public water systems regarding the required reporting of water quality and inventory/facility data utilized in Safe Drinking Water Information System and electronic data interchange.
- Implement Connecticut's Operator Certification Program to provide capacity development training to certified operators of small public water systems.
- Prepare capacity development guidance documents, work plans, standard operating procedures, and long-term strategies.
- 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.
- Provide technical assistance to public water systems regarding capacity topics involved in water planning.
- Provide technical assistance to the Water Planning Council in the areas of the Water Utility Coordinating Committee water supply planning, and the Connecticut Drought Advisory Committee.
- Coordinate activities with the Environmental Health Section's Laboratory Certification Program in assisting public water systems regarding water quality testing issues.
- Revise the approval processes and other regulatory mechanisms and provide direct technical assistance to public water systems to better address capacity development concerns.
- Provide direct capacity development technical assistance to public water systems and educate public water systems on capacity development issues.
- Prepare, review and issuance of formal enforcement actions to ensure compliance with state and federal regulations, and return public water systems to compliance.
- Review all Sale of Excess Water (SEW) permits in relation to actual system interconnections and transfer of water between public water system to ensure all sales are legally permitted and to ensure accurate safe yields and available water quantities.
- Prepare standard operating procedures for all reviews (water supply plans, sale of excess water permits, diversion permits, water company lands, etc.) to ensure consistent reviews.
- Conduct "Careers in Drinking Water" forum.

- Coordinate staff activities to promote standardization of presentations and informational materials;
- Maintain a quality assurance system in cooperation with EPA, Region 1;
- Enhance security and emergency response initiatives;
- Submit grant applications and associated work plans and progress reports to the EPA.

Administrative

The Administrative activities in 2009 will include:

- Preparation of the Drinking Water SRF Capitalization Grant and related reports.
- Solicitation and review of project applications.
- Development and maintenance of comprehensive list of projects.
- Conducting Public Hearing and Open Forum on Priority list of projects.
- Evaluation of eligible systems for technical, managerial and financial capacity.
- Evaluating ways to streamline process to improve program efficiency.
- Meeting with stakeholders and applicants as needed.
- Evaluating and implementing program to greater assist small systems.

LONG TERM PROJECTIONS

The State has established management goals for the SRF program as part of its statewide public health initiative. The condition of the Drinking Water SRF continues to be strong primarily because of its effective management and the placement of the Drinking Water SRF within the financial structure of the Connecticut Clean Water. This guarantees that the Drinking Water SRF will benefit from the same management and financial planning mechanisms that have supported the successful Clean Water SRF program. Ongoing discussions about the following issues will shape the program in the coming years:

- Coordination within the DPH and continued collaboration with other state agencies, to maximize the effectiveness of the program and meet the state's water quality goals.

- Addressing areas of decentralized system management over the next several years including sewage system assessments as part of real estate transactions, and facilitating the abandonment of large capacity cesspools based on new EPA rules.
- Using administrative and program set-asides allowed by the EPA.
- Continuing outreach efforts to reach and assist small water systems, especially those in need of a high level of technical assistance and low cost financing.
- The EPA program guidelines and regulations and their impact on the implementation of the program at the state level.
- The project priority list of eligible projects, the amount of money available for projects, and the number of potential loans.

Condition of the Fund

Each year, the DPH and the Department of Environmental Protection Commissioners in conjunction with the Office of the State Treasurer estimate the amount of funding that will be available for specific projects in the Priority list. This amount is based on the remaining authorizations and the allocations approved through the State Bond Commission. Additional authorizations for Clean Water and Drinking Water projects have been provided for fiscal years 2008 and 2009. Once approved, DPH was able to initiate the project priority process and create a list for fiscal year 2008 and 2009 in January 2008. The current Project Priority List is shown in Appendix VII.

Since the inception of the program, the Drinking Water SRF has over \$91.7 million in completed projects and project commitments to date have been provided to public water systems. Many of the borrowers have multiple loans with the largest amount of loans and commitments continue to be with MDC and Norwich.

The listing in Appendix XI of water projects funded by the Drinking Water Fund as of June 30, 2008, shows the projects by borrower, and the amounts of funding from each of the state's programs.

Over the past seven years, 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. 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 state funded interest subsidy. Depending on the needs of the program, the

state may provide additional support for higher levels of revenue bond issuance in the future.

The Drinking Water State Revolving Fund has expended all bond proceeds for projects. The Series 2008A bond issue was completed on August 6, 2008, and it is anticipated that the Drinking Water State Revolving Fund will expend all the Series 2008A bond proceeds for projects by the end of the fiscal year. The next bond issue is anticipated for the summer of 2009. During 2008, the development and formulation of the Plan of Finance included a review of the Drinking Water Fund financing program. Each component of the Plan of Finance is dynamic, rather than static so that the State can cost effectively meet its goal of providing low-cost financing for critical Drinking Water projects.



FINANCIAL STATEMENTS

**STATE OF CONNECTICUT CLEAN WATER FUND –
DRINKING WATER FEDERAL REVOLVING
LOAN ACCOUNT (STATE REVOLVING FUND)
June 30, 2008 and 2007**

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SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS
296 STATE STREET
NORTH HAVEN, CONNECTICUT 06473

INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, State Treasurer

Mr. J. Robert Galvin, M.D., Commissioner,
Department of Public Health

Ms. Gina McCarthy, Commissioner,
Department of Environmental Protection,
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, 2008 and 2007, 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 statements of the State of Connecticut, as of June 30, 2008 and 2007, and the changes in its financial position and cash flows, where applicable, 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, 2008 and 2007, and the changes in 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 10, 2008 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.

The management’s discussion and analysis on pages 3 through 8, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Seward and Monde

September 10, 2008

**OFFICE OF THE TREASURER
STATE OF CONNECTICUT
DRINKING WATER FUND
FISCAL YEAR ENDED JUNE 30, 2008**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is a narrative overview and analysis of the financial performance and activities of the State of Connecticut Drinking Water Fund for the fiscal year ended June 30, 2008. Readers are encouraged to review it in conjunction with the Fund's financial statements that follow.

Financial Highlights

Changes in Net Assets - Fund net assets under management in the Drinking Water Fund at the close of fiscal year 2008 were \$97,489,251 (including assets of \$131,778,082 offset by liabilities of \$34,288,831) compared to fiscal year 2007 were \$83,282,249 (including assets of \$125,328,658 offset by liabilities of \$42,046,409). Fund net assets increased by \$14,207,002 or 17.1% primarily due to higher interest on loans resulting from increases in loans receivable, federal capitalization grants and the cash defeasance of bonds issued prior to 2003.

Operating Revenues - The Fund's gross operating revenues increased by \$462,380 or 37.5% to \$1,696,073 as higher interest on loans resulted from increases in loans receivable.

Bonds Outstanding – During the year no new bonds were issued. The Fund's total debt outstanding decreased significantly during the fiscal year by \$8,174,054 to \$31,139,048 as a result of the cash defeasance in the amount of \$5,514,266 for revenue bonds issued prior to 2003 and scheduled principal payments of \$2,659,788.

Loans Receivable - Total loans receivable increased by \$8,051,229 from \$61,058,899 to \$69,110,128 due to the net of new loans and regular loan repayments.

Capitalization Grants - During the year, \$12,462,439 was drawn from the EPA for projects, compared to \$18,597,000 drawn in 2007. To date, the State has drawn \$86,200,222 from the federal EPA against the total of \$92,413,900 in cumulative drinking water capitalization grant awards. A new grant in the amount of \$8,229,300 was awarded during the year.

Overview of the Financial Statements

The Drinking Water Fund financial statements are reported by the Office of the Treasurer in conjunction with the Department of Public Health (DPH) and the Department of Environmental Protection (DEP). The Treasurer is responsible for the detailed financial information in the Drinking Water Fund financial statements.

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 Drinking Water Fund Balance Sheets, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows provide information about the activities of the Fund as a whole and present an overall view of the Fund's finances.

The Balance Sheets include all of the assets and liabilities of the Fund.

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

1. Operating Activities, including the Drinking Water Loan program; and
2. Nonoperating Activities, including investment of funds and the Revenue Bond Program.

For the Drinking Water Loan Program activities, the statements indicate the amount of loans financed during the past year. The statements indicate the amount of interest income generated by the investment of funds and describe the structure of the investments. For the Revenue Bond Program activities, these statements indicate the amount of the bonds issued and retired, and the remaining amount of bonds to be repaid in the future. Fund financial statements also provide information about activities of the Fund as a recipient of federal capitalization grants and the amount of capitalization grants remaining for future use. The 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.

Net Assets

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

Restricted – includes net assets that have been restricted in use in accordance with the terms of an award, agreement or by state law, plus amounts determined to be prudent by management.

Unrestricted – includes all net assets not restricted and available for any program purpose of the Drinking Water Fund.

The Clean Water Fund has issued bonds under three bond resolutions since 1991. Since 2001, the proceeds of these bonds have been used for both clean water and drinking water projects. As of June 30, 2008, all bonds issued under the first two resolutions have either been paid, refunded or legally defeased. The issuance of bonds under the third general bond resolution resulted in the creation of three additional fund accounts within the Drinking Water Fund accounts. Two of these accounts, the Senior Sinking Fund and the Support Fund, are restricted accounts and the General Revenue Revolving Fund account is unrestricted. All three accounts are held by the Trustee.

Operating Activities

The Drinking Water Loan Program

The purpose of the State of Connecticut's State Revolving Fund Programs is to provide a source of low interest loans and other types of financial assistance (other than direct grants) to local entities for the construction, rehabilitation, expansion or improvement of wastewater treatment or drinking water facilities in accordance with the State Act. Loans are made by the Drinking Water Fund 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) which accrue interest during construction 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. There are no state grants available to participants in this program.

Construction loans in progress totaled \$25,801,691, an increase of \$10,637,342 from 2007. Payments to municipalities for ongoing projects totaled \$11,041,837. Completed projects which were permanently financed during the year totaled \$404,494 in 2008. There were 2 new construction loan commitments (excluding extensions under existing agreements) totaling \$2,958,631 made to public water systems during the year. 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.

Loan repayment collection services are provided by the Trustee, US Bank. Repayments on all loans made by the DPH and DEP 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 thereafter.

Non-Operating Activities

Investment of Funds

The federal capitalization grants and state matching funds are used to provide leveraged financing for eligible projects. Federal capitalization grants and state matching funds are held by the Trustee in the form of cash or permitted investments.

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 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 Clean Water Fund has issued long-term debt obligations backed by the pledge of specific assets including loans, reserve funds and other program assets. There are three bond resolutions: the 1990 General Bond Resolution, the 1996 Subordinate Bond Resolution and the 2002 General Revenue Bond Resolution. As noted previously, as of June 30, 2008, there are only bonds outstanding under the 2002 resolution. 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 as provided in the Resolutions and the State Act. The proceeds of these bonds were also used to fund loans to Drinking Water Fund borrowers. Further information about outstanding bonds can be found in the Notes to the Financial Statements. As indicated in the financial statements, the state issued bonds totaling \$196,195,000 after the end of the fiscal year on August 6, 2008, of which \$25,200,000 was allocated to the Drinking Water Fund.

The program's advisors are:

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

Financial Advisors - Lamont Financial Services Corporation and First Southwest

Auditor - Seward & Monde CPAs

Trustee - US Bank

Loan Repayment Collection Services - US Bank

Verification Agent – AMTEC

Arbitrage Rebate Calculation Services – AMTEC and Nixon Peabody

General Counsel - Attorney General of the State of Connecticut

Selected Financial Information

	2008	2007	Increase (Decrease)	% Change
Change in Net Assets	\$14,207,002	\$19,752,858	(\$5,545,856)	(28.1%)
Operating Revenues	\$ 1,696,073	\$ 1,233,693	\$ 462,380	37.5%
Federal Capitalization Grants	\$12,462,439	\$18,597,000	(\$6,134,561)	(33.0%)
Interest on Investments	\$ 2,852,133	\$ 2,655,732	\$ 196,401	7.4%
Operating Expenses	\$ 2,576,833	\$ 2,569,713	\$ 7,120	.3%
Interest Expense	\$ 1,632,894	\$ 2,081,492	(\$ 448,598)	(21.6%)

Economic Conditions and Outlook

During fiscal year 2008, housing and financial weakness, and rising energy and food costs persisted throughout the country. The U.S. is still facing war, repeated trade deficits, a weak dollar, a growing national debt, and depressed consumer confidence, and there is increasing concern that slumping economic conditions abroad will significantly weaken US export growth. All of these trends point toward caution on capital spending in all sectors, and put further pressure on the state's municipalities as they plan and complete critical water quality projects. During the year, the State's economic and financial situation remained relatively stable despite all of this turmoil, and the overall state budget showed a modest surplus by the end of June 2008.

The State's economic growth is expected to slow modestly during the next year, and leading indicators of future activity in Connecticut are mixed. Equity for homeowners across the state has eroded, which may impact the ability of municipalities to meet tax revenue collection targets. Prospects for job growth in the major labor markets also seem dimmer, and the state's citizens face the effects of relatively high costs (health care, housing, taxes, electricity, and gas), traffic congestion, an aging population and a widening disparity in economic prosperity between our urban and suburban residents.

The major concern for the Drinking Water Fund continues to be its ability to keep up with spiraling construction costs as state and federal budget constraints mean less funding available for the initiation of water quality and pollution control projects across the state.

There is continued pressure on the Fund to provide critical financial assistance to small systems that face major projects in the near future. Coordination of resources as well as outreach efforts designed to educate and inform potential borrowers will continue to be important in the coming year. DPH, DEP and the Office of the Treasurer will continue to work together to identify needs, set priorities and assist public water systems in determining the most cost effective and efficient way to meet their water quality needs.

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 State is in compliance with GASB Statement 34.

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 Office of the State Treasurer
55 Elm Street
Hartford, CT 06106-1773
Telephone (860) 702-3134
www.ott.ct.gov

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.dph.ct.gov

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT
(STATE REVOLVING FUND)
BALANCE SHEETS
June 30, 2008 and 2007**

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,469,528	\$ -
Interest receivable - investments	490,773	268,951
Interest receivable - loans	586,081	155,287
Grant receivable	-	706,420
Loans receivable	28,753,721	18,131,569
Total current assets	<u>31,300,103</u>	<u>19,262,227</u>
Noncurrent assets:		
Loans receivable	40,356,407	42,927,330
Revolving fund	17,876,870	23,647,538
Deferred loss on early retirement of bonds	641,164	716,210
Restricted assets:		
Debt service reserve fund	-	20,288,385
Revolving fund	19,413,887	-
Debt service fund	16,787,415	12,992,184
Support fund	5,402,236	5,494,784
Total restricted assets	<u>41,603,538</u>	<u>38,775,353</u>
Total noncurrent assets	<u>100,477,979</u>	<u>106,066,431</u>
Total assets	<u>\$ 131,778,082</u>	<u>\$ 125,328,658</u>
LIABILITIES		
Current liabilities:		
Interest payable on revenue bonds	\$ 393,731	\$ 472,336
Due to other funds	-	164,865
Deferred grant revenue	914,682	-
Revenue bonds payable	1,041,640	2,260,521
Refunding bonds payable	520,911	399,267
Total current liabilities	<u>2,870,964</u>	<u>3,296,989</u>
Noncurrent liabilities:		
Premium on revenue and refunding bonds	1,841,370	2,096,106
Revenue bonds payable	23,711,425	30,267,331
Refunding bonds payable	5,865,072	6,385,983
Total noncurrent liabilities	<u>31,417,867</u>	<u>38,749,420</u>
Total liabilities	<u>34,288,831</u>	<u>42,046,409</u>
FUND NET ASSETS		
Unrestricted	11,180,084	10,543,702
Restricted for loans	86,309,167	72,738,547
Total fund net assets	<u>97,489,251</u>	<u>83,282,249</u>
Total liabilities and fund net assets	<u>\$ 131,778,082</u>	<u>\$ 125,328,658</u>

Continued to Financial Statements

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, 2008 and 2007				
		2008		2007
OPERATING REVENUES				
Interest on loans		\$ 1,696,073		\$ 1,233,693
OPERATING EXPENSES				
Salaries		1,280,683		1,406,465
Employee benefits		737,077		789,572
Other		559,073		373,676
Total operating expenses		2,576,833		2,569,713
Operating loss		(880,760)		(1,336,020)
NONOPERATING REVENUES (EXPENSES)				
Interest on investments		2,852,133		2,655,732
Amortization of bond premium		153,644		177,388
Interest expense		(1,632,894)		(2,081,492)
Total nonoperating revenues (expenses)		1,372,883		751,628
Income (loss) before federal capitalization grants and transfers		492,123		(584,392)
FEDERAL CAPITALIZATION GRANTS				
Project funds		9,895,456		16,035,388
Set-aside activities		2,566,983		2,561,612
Total federal capitalization grants		12,462,439		18,597,000
OPERATING TRANSFERS		1,252,440		1,740,250
Change in fund net assets		14,207,002		19,752,858
FUND NET ASSETS, beginning		83,282,249		63,529,391
FUND NET ASSETS, ending		\$ 97,489,251		\$ 83,282,249
See notes to financial statements.				

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, 2008 and 2007			
		2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received on loans	\$	1,265,279	\$ 1,144,451
Loan originations	(	11,041,837)	(16,025,114)
Principal paid on loans receivable		2,990,608	2,735,917
Payments to employees for salaries and benefits	(	2,017,760)	(2,181,446)
Other payments	(	559,073)	(373,676)
Net cash used by operating activities	(	9,362,783)	(14,699,868)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Federal capitalization grants		14,083,541	19,027,960
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Repayment of revenue bonds payable	(	2,260,521)	(3,121,838)
Repayment of refunding bonds payable	(	399,267)	(87,636)
Proceeds from revenue bonds payable		-	5,000,000
Premium on revenue bonds payable		-	29,375
Interest paid on revenue and refunding bonds	(	1,628,880)	(2,017,990)
Payment for cash defeasance of revenue bonds	(	5,622,931)	-
Operating transfers		1,087,575	795,129
Net cash provided (used) by noncapital financing activities	(	8,824,024)	597,040
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments		2,630,311	2,699,904
Decrease (increase) in revolving fund		5,770,668	(7,649,854)
Decrease (increase) in restricted assets	(	2,828,185)	24,818
Net cash provided (used) by investing activities		5,572,794	(4,925,132)
Net change in cash and cash equivalents		1,469,528	-
CASH AND CASH EQUIVALENTS, beginning		-	-
CASH AND CASH EQUIVALENTS, ending	\$	1,469,528	\$ -
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES			
Operating loss	(\$	880,760)	(\$ 1,336,020)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Changes in assets and liabilities:			
Increase in interest receivable - loans	(	430,794)	(89,242)
Decrease in other assets		-	14,591
Increase in loans receivable	(	8,051,229)	(13,289,197)
Net cash used by operating activities	(\$	9,362,783)	(\$ 14,699,868)
See notes to financial statements.			

STATE of CONNECTICUT CLEAN WATER FUND - DRINKING WATER
FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
NOTES to FINANCIAL STATEMENTS
June 30, 2008 and 2007

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.

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and other Governmental Entities that Use Proprietary Fund Accounting*, the SRF has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

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 to public water systems in Connecticut. Operating revenue consists of interest earned on those loans. Operating expenses consist of personnel and other expenses incurred in the initial approval, disbursement and ongoing servicing of those loans through maturity 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 Resolutions, adopted by the State Bond Commission on December 7, 1990, as amended and supplemented on December 15, 2000 (the "1990 Resolution") and on December 17, 2002 (the "Resolution"). The SRF had no cash equivalents as of June 30, 2008 and 2007, except as reflected in Note 6.

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, 2008 and 2007.

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 2.04% 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 using the outstanding bond method, which yields results equivalent to the interest method.

Revenue Bonds

The following funds and accounts have been established in accordance with the 1990 Resolution:

<u>Fund / Account</u>	<u>Description and Use</u>
Revenue Fund	Receives all pledged receipts including loan repayments from the municipalities. Out-flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
a. Pledged Receipts Account	
b. Earnings Account	Receives all earnings on funds and investments in all funds and accounts. Out-flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
Loan Fund	Receives proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds expensed for purposes of the State Revolving Fund Program, including the financing of loans to municipalities.
Debt Service Reserve Fund	Required to be funded in an amount equal to 50% of all outstanding bonds. The reserve is funded by federal capitalization grant payments drawn under the federal letter of credit and state general obligation bonds. Investment income is transferred to the revenue fund for debt service payments. Used for payment of principal and interest in the event of deficiencies in the revenue accounts.
Debt Service Fund	Receives amounts from the revenue fund accounts sufficient to pay the interest portion due on each interest payment date. Pays interest on outstanding bonds.
a. Interest Account	
b. Principal Account	Receives amounts from the revenue fund accounts sufficient to pay the principal or current sinking fund installments. Pays principal on outstanding bonds.
c. Redemption Account	Receives amounts from the interest and principal accounts for the redemption of bonds. Used for redemption of bonds.
d. Capitalized Interest Account	Receives any capitalized interest received by the trustee. Amounts in the account are transferred for payment of capitalized interest on outstanding bonds.
Interest Subsidy Fund	Established outside of the state revolving fund, principal and investment income is transferred to the revenue fund, then to the debt service fund for payment of debt service. Provides payment of principal and interest in the event of a deficiency in the debt service reserve fund.
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.

The cash defeasance (see Note 8), on June 30, 2008, allowed all assets of the Revolving Fund that had previously been pledged to the Bonds issued under the 1990 Resolution to be released from that pledge and such assets or the receipts thereon are now available money under the Resolution. As a result of the cash defeasance or as fund/account balances are depleted, some of the funds/accounts listed above will be closed.

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 – Restricted for Loans

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, transfers from the State representing the 20% match on federal funds and interest earned on public water system loans.

3 - CASH DEPOSITS AND INVESTMENTS

According to GASB Statement No. 50, *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 Deposits

Cash deposits of the SRF include funds held by the Connecticut State Comptroller, USBank and the Connecticut Short Term Investment Fund (STIF). As of June 30, 2008 and 2007 funds held by the State Comptroller were \$554,878 and \$940,863, respectively. These funds are pooled with other State of Connecticut accounts, and custodial credit risk cannot be determined at the SRF level. As of June 30, 2008 and 2007, cash included in restricted assets was \$86,778 and \$0, respectively. As of June 30, 2008 funds held by STIF were \$23,718,087, of which \$15,418,087 is included in the revolving fund and \$8,300,000 is included in the debt service fund on the Balance Sheet. As of June 30, 2007 funds held by STIF were \$23,647,538, of which \$23,647,538 is included in the revolving fund on the Balance Sheet. STIF is a money market investment pool, rated AAAm 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.

Investments

As of June 30, 2008, 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	
Fidelity Institutional Government Money Market Funds	\$10,859,420	\$ 10,859,420	\$ -	\$ -	\$ -	AAA
Guaranteed Investment Contracts	15,057,714	-	-	-	15,057,714	AAA
Guaranteed Investment Contracts	1,079,664	-	-	-	1,079,664	AA+
U.S. Treasury State & Local Governments	480,421	480,421	-	-	-	Unrated
Connecticut General Obligation Bonds	8,198,324	-	-	-	8,198,324	AA
	<u>\$35,675,543</u>	<u>\$ 11,339,841</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,335,702</u>	

As of June 30, 2007, 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	
Federated Treasury Repurchase Agreements	\$ 12,992,183	\$ 12,992,183	\$ -	\$ -	\$ -	AAA
Guaranteed Investment Contracts	17,125,742	-	-	-	17,125,742	AAA
Connecticut General Obligation Bonds	8,657,428	-	-	-	8,657,428	AA
	<u>\$ 38,775,353</u>	<u>\$ 12,992,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,783,170</u>	

Interest Rate Risk

The SRF's policy for managing interest rate risk is to have the maturity or redemption dates of investment 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's minimizes exposure to this risk by investing in Investment Obligations as defined by the Resolution.

Concentration of Credit Risk

The SRF currently invests approximately 45% and 44%, at June 30, 2008 and 2007, respectively, in long-term investment agreements with CDC 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. Loans receivable by type are as follows as of June 30:

	2008	2007
Construction in process	\$ 25,801,691	\$ 15,164,349
Completed projects	43,308,437	45,894,550
	<u>\$ 69,110,128</u>	<u>\$ 61,058,899</u>

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

Year ending June 30	
2009	\$ 2,952,030
2010	2,951,357
2011	2,967,452
2012	2,984,022
2013	3,001,082
Thereafter	28,452,494
	<u>\$ 43,308,437</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:

	2008	2007
Awarded	\$ 92,413,900	\$ 84,184,600
Drawn	86,200,222	72,116,681
Available federal letter of credit	<u>\$ 6,213,678</u>	<u>\$ 12,067,919</u>

6 - RESTRICTED ASSETS

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

	2008	2007
Cash and cash equivalents:		
Money market funds	\$ 16,700,637	\$ -
Cash	86,778	-
Investments:		
Federated Treasury Repurchase Agreements	-	12,992,184
Guaranteed Investment Contracts	16,137,378	17,125,741
U.S. Treasury State and Local Governments	480,421	-
Connecticut General Obligation Bonds	8,198,324	8,657,428
	\$ 41,603,538	\$ 38,775,353

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 holds State General Obligation Bonds as presented in Note 6.

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, 2008 and 2007, the actual rates were 57.55% and 56.14%, respectively, of the SRF wages and the amounts charged aggregated \$737,077 and \$789,572, respectively.

8 - BONDS PAYABLE

A summary of changes in bonds payable during the year ended June 30, 2008 is as follows:

	Balance June 30, 2007	Principal Defeasance	Principal Paydown/ Transfers	Balance June 30, 2008
Revenue bonds payable	\$ 32,527,852	\$ 5,514,266	\$ 2,260,521	\$ 24,753,065
Refunding bonds payable	6,785,250	-	399,267	6,385,983
	<u>\$ 39,313,102</u>	<u>\$ 5,514,266</u>	<u>\$ 2,659,788</u>	<u>\$ 31,139,048</u>

A summary of changes in bonds payable during the year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Issued	Principal Paydown/ Transfers	Balance June 30, 2007
Revenue bonds payable	\$ 40,859,795	\$ 5,000,000	\$ 13,331,943	\$ 32,527,852
Refunding bonds payable	6,872,886	-	87,636	6,785,250
	<u>\$ 47,732,681</u>	<u>\$ 5,000,000</u>	<u>\$ 13,419,579</u>	<u>\$ 39,313,102</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 issued Clean Water Fund, Revenue Bonds 2001 series, dated May 24, 2001. These bonds are payable solely from funds pledged pursuant to the General Bond Resolution adopted December 7, 1990. In accordance with the State Clean Water Fund Revenue Bonds, 2001 Series Plan of Finance, the State allocated the proceeds between the SRF and the State of Connecticut Clean Water Fund - State Revolving Fund ("Clean Water Fund") (collectively, "The Obligated Group") with \$29,614,747 allocated to the SRF and \$70,385,253 allocated to the Clean Water Fund. The Clean Water Fund (an enterprise fund of the State of Connecticut) was also established pursuant to Connecticut General Statutes Section 22a-475 to 22a-483, and provides assistance to municipalities and public water systems of Connecticut for the planning, design and construction of water quality projects.

Debt service on the 2001 series bonds had been paid from a combination of pledged receipts, earnings on investments held in the debt service reserve funds, maturing principal and interest on investments, amounts held in the interest subsidy funds and amounts held in the support funds. "Pledged receipts" means payments of principal and interest on municipal obligations, including both timely and delinquent payments with late charges, if any, and includes any fees and charges, fines and penalties collected or held by the State.

Pledged receipts include the repayments of loans made by the Obligated Group, including all loans previously funded as well as future loans. Although amounts attributable to the Obligated Group are tracked separately for federal reporting purposes, all pledged receipts will secure all bonds of the revenue bond program. The SDWA and the General Bond Resolution adopted December 7, 1990 permit the pledging of assets of both the SRF and the Clean Water Fund SRF to secure these revenue bonds.

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. The 2003 Support Fund balances for each program are similarly impacted by the reassignment. Available money equal to \$1,734,740 in the Clean Water Fund's General Revenue Revolving Fund has been deposited in the Clean Water Fund's 2003 Support Fund and \$1,734,740 in the Drinking Water 2003 Support Fund has become available money in the Drinking Water Fund's General Revenue Revolving Fund. 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 SRF's revenue bonds payable are serial bonds, of which \$24,753,065 and \$32,527,852 was outstanding as of June 30, 2008 and 2007, respectively. The serial bonds mature on October 1, 2022 with interest rates ranging from 2.0% to 5.0%.

Refunding Bonds – 2003 Series

On July 10, 2003 the State of Connecticut issued \$115,785,000 of State Revolving Fund Refunding General Revenue Bonds, 2003 Series B (2003 Series B Refunding Bonds) 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 were to mature at various dates through September 1, 2022.

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, 2008 and 2007, the outstanding principal balance of the Refunded Bonds was \$17,834,000.

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 over the life of the 2003 Series B Refunding Bonds using the outstanding bond method. Amortization of the deferred loss for the years ended June 30, 2008 and 2007 totaled \$82,618 and \$83,421, 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 were to mature at various dates through March 1, 2020.

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, 2008 the outstanding principal balances of the Refunded Bonds were \$5,514,266.

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 over the life of the Refunded Bonds using the outstanding bond method.

Bond Maturities

Requirements at June 30, 2008 to retire the SRF's revenue and refunding bonds are as follows:

Year ending June 30,	Principal	Interest
2009	\$ 1,562,551	\$ 1,343,256
2010	1,589,578	1,300,608
2011	1,605,406	1,253,785
2012	1,473,268	1,201,790
2013	2,006,563	1,122,908
2014-2018	10,452,112	3,990,059
2019-2023	8,136,233	1,942,912
2024-2028	4,313,337	308,129
	<u>\$ 31,139,048</u>	<u>\$ 12,463,447</u>

9 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended June 30, 2008 and 2007.

	Unrestricted	Restricted for Loans	Total
Balance at June 30, 2006	\$ 11,267,003	\$ 52,262,388	\$ 63,529,391
Change in fund net assets	(723,301)	20,476,159	19,752,858
Balance at June 30, 2007	10,543,702	72,738,547	83,282,249
Change in fund net assets	636,382	13,570,620	14,207,002
Balance at June 30, 2008	<u>\$ 11,180,084</u>	<u>\$ 86,309,167</u>	<u>\$ 97,489,251</u>

10 - OPERATING TRANSFERS

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

	2008	2007
Transfer related to CWF debt service	(\$ 348,376)	\$ -
Interest subsidy transfer	1,600,816	1,610,500
Transfer of 2003 bond premium to CWF	-	623,583
Transfer related to 2006 bond offering	-	(29,374)
Transfer related to DWF bond reallocation	-	(464,459)
	<u>\$ 1,252,440</u>	<u>\$ 1,740,250</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:

	2008	2007
Total funds committed to public water systems	\$ 77,158,214	\$ 80,937,553
Loan amount outstanding to public water systems	69,110,128	61,058,899
Loan commitments outstanding	<u>\$ 8,048,086</u>	<u>\$ 19,878,654</u>

12 - RISK MANAGEMENT

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

13 - SUBSEQUENT EVENTS

2008 Series A Bonds:

On August 6, 2008 the State of Connecticut State Revolving Fund, which consists of the Clean Water Fund and the Drinking Water Fund, issued \$196,195,000 in General Revenue Bonds. The Series A bonds were issued to fund approximately \$177,500,000 of clean water and \$25,200,000 of drinking water projects. The Series A bonds are not subject to optional redemption prior to maturity.

The \$196,195,000 in new money bonds were issued with interest rates from 3.00% to 5.00%, maturing from February 1, 2009 through February 1, 2018.

SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS
296 STATE STREET
NORTH HAVEN, CONNECTICUT 06473

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

Ms. Denise L. Nappier, Treasurer

Mr. J. Robert Galvin, M.D., Commissioner,
Department of Public Health

Ms. Gina McCarthy, Commissioner,
Department of Environmental Protection,
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, 2008, and have issued our report thereon dated September 10, 2008. 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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 10, 2008

SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS
296 STATE STREET
NORTH HAVEN, CONNECTICUT 06473

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Ms. Denise L. Nappier, Treasurer

Mr. J. Robert Galvin, M.D., Commissioner,
Department of Public Health

Ms. Gina McCarthy, Commissioner,
Department of Environmental Protection,
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 are applicable to its major federal program for the year ended June 30, 2008. The SRF's major federal program is identified in the summary of auditors' results section of the accompanying schedule of federal findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the SRF's management. Our responsibility is to express an opinion on the 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

INTERNAL CONTROL OVER COMPLIANCE

The management of the 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 our auditing procedures for the purpose of expressing our opinion on compliance, 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 the SRF's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the SRF as of and for the year ended June 30, 2008, and have issued our report thereon dated September 10, 2008. Our audit was performed 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 OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 10, 2008

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, 2008

		Federal		
		CFDA		
<u>Federal Grantor; Program Title</u>		<u>Number</u>		<u>Expenditures</u>
ENVIRONMENTAL PROTECTION AGENCY				
Direct:				
Capitalization Grants for State Revolving Fund		66.468		<u>\$ 12,462,439</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, 2008

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 to municipalities during the year.

B - MUNICIPAL LOAN BALANCES

The balance of outstanding loans to municipalities totaled \$69,110,128 as of June 30, 2008.

FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

material weakness(es) identified? ☐ Yes ☒ No

significant deficiency(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal awards

Internal control over major programs:

material weakness(es) identified? ☐ Yes ☒ No

significant deficiency(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ 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 ☒ No

Major programs:

<u>CFDA Number</u>	<u>Name Of Federal Program</u>
--------------------	--------------------------------

66.468

Capitalization Grants For State Revolving Fund

Dollar threshold used to distinguish between type a and type b programs

\$373,873

Auditee qualified as low risk auditee? ☒ 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.



DES

APPE



APPENDIX I: STATE MATCH FOR FEDERAL CAPITALIZATION GRANTS

Fiscal Year	State Match	Federal Match
19		
19		
19		
20		
20		
20		
20		
20		
20		
20		
20		
20		
20		
20		
20		
20		
2008*		
Total		\$18,482,780

*2007 and 2008 Grant application had been submitted to the EPA in May 2008 and was not awarded prior to the end of the fiscal year. The anticipated match for 2008 is \$1,645,800 and the anticipated match for 2007 is \$1,629,200.

APPENDIX II FEDERAL CAPITALIZATION GRANTS

nds

58

97

22

30

79

25

29

39

95

17

91

****2007 and 2008 Grant application had been submitted to the EPA in May 2008 and was not awarded prior to the end of the fiscal year. The anticipated award for 2007 is \$8,229,000 including \$6,500,910 for projects and the anticipated award for 2008 is \$8,146,000 including \$6,924,100 for projects.**

Appendix II: Federal Capitalization Grant Summary

Cap Grant Awarded to Date-Total	\$ 92,413,900.00	
Cap Grant Drawn Through 6/2008-Total	\$ 86,200,221.56	
Remaining Undrawn Project Cap Grant	\$ 6,213,678.44	
Cap Grant Awarded to Date-Projects	\$ 63,765,591.00	
Cap Grant Drawn Through 06/2008-Projects	\$ 63,765,122.56	
Remaining Undrawn Project Cap Grant	\$ 468.44	
Cap Grant Awarded to Date-Admin	\$ 28,648,309.00	
Cap Grant Drawn Through 06/2008-Admin	\$ 22,435,099.00	
Remaining Undrawn Admin Cap Grant	\$ 6,213,210.00	
	Total (Projects and Set-Aside Amounts)	Project Amount Only
1/12/1998 - FY 97 Cap Grant Award	\$ 21,408,200.00	\$ 14,771,658.00
9/22/1999 - FY 98 Cap Grant Award	\$ 7,121,300.00	\$ 4,913,697.00
9/22/1999 - FY 99 Cap Grant Award	\$ 7,463,800.00	\$ 5,150,022.00
1/9/2001 - FY 00 Cap Grant Award	\$ 7,757,000.00	\$ 5,352,330.00
11/28/01 - FY 01 Cap Grant Award	\$ 7,789,100.00	\$ 5,374,479.00
1/15/2003 - FY 02 Cap Grant Award	\$ 8,052,500.00	\$ 5,556,225.00
3/5/2004 - FY 03 Cap Grant Award	\$ 8,004,100.00	\$ 5,522,829.00
9/20/2005 - FY 04 Cap Grant Award	\$ 8,303,100.00	\$ 5,729,139.00
9/20/2006 - FY 05 Cap Grant Award	\$ 8,285,500.00	\$ 5,716,995.00
- FY 06Cap Grant Award	\$ 8,229,300.00	\$ 5,678,217.00
	\$92,413,900.00	\$63,765,591.00

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. Drinking Water SRF program administration, drinking water program management, technical assistance for small water systems and operator education and support are approved purposes, which can represent up to 31% of the capitalization grant. The Intended Use Plan, a document required by the EPA for grant applications, describes the State's intended uses for set-aside and project funds. The following descriptions include the set-aside categories, percentages of the federal capitalization grant taken and the use of the funds:

Administration - (4%)

These funds are used in various aspects of administering the Drinking Water SRF. Funds are earmarked for the departments of Public Health (DPH), Environmental Protection (DEP) and the Office of the State Treasurer. Administrative functions include:

- Reviewing and approving eligibility and full loan applications and meeting with applicants as needed;

- Processing loan agreements including loan closings;

- Reviewing and approving project cost;

- Determining if the applicants possess adequate financial, technical and managerial capabilities to ensure long-term compliance with applicable state and federal regulations;

- Receiving and processing payment requests;

- Preparing and submitting funding request to the State Bond Commission; and

- Assisting in the preparation of the capitalization grant and various Drinking Water SRF reports.

Local Assistance and Other State Programs 15% Set-Aside

Capacity Development

The staff funded under this set-aside is responsible for assessing compliance with state regulation and the SDWA. 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 into 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.

Source Water Protection

The 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;

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 assistance for systems as part of a capacity development strategy.

Small Systems Technical Assistance - 2%

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

Preparing guidelines for the design and construction of water storage tanks, pumping facilities, chlorination treatment systems and chemical feed treatment systems.

Playing a lead role in project review management and providing technical assistance to facility operators on project submittal issues.

State Program Management - 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 and activities include:

Developing, tracking and submitting grant applications to the Environmental Protection Agency

Continue implementing electronic reporting of 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 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.

OCP staff person attends meetings of the Connecticut Section–American Water Works Association Operator Certification Committee, an advisory group that provides input on many areas including regulation development, examination and program administration.

The OCP also receives periodic input from the Association of Boards of Certification (ABC) and the New England Water Works Association's Operator Certification Committee, the Drinking Water Advisory Council and the Small Town Drinking Water Advisory Council.

Staff has presented information on operator certification to various industry groups such as water system owners and operators, and well drillers. The program is continually reviewed to improve usability and reflect current regulations.

Set-Asides Management

As of 6/30/2008	Administration 4%	State Management 10%	Small Systems Technical Assistance 2%	Local Assistance 15%	
	Set-Aside 21076 0000-4001-991	Set-Aside 21081 0000-4001-992	Set-Aside 21085 0000-4001-993	Set – Aside 21088 0000-4001-994	Total Set Asides
97 Award	856,328.00	2,140,820.00	428,164.00	3,211,230.00	6,636,542.00
rawn thru 6/30/08	856,328.00	2,140,820.00	428,164.00	3,211,230.00	6,636,542.00
alance	-	-	-	-	-
98 Award	284,852.00	712,130.00	142,426.00	1,068,195.00	2,207,603.00
rawn thru 6/30/08	284,852.00	712,130.00	142,426.00	1,068,195.00	2,207,603.00
alance	-	-	-	-	-
99 Award	298,552.00	746,380.00	149,276.00	1,119,570.00	2,313,778.00
rawn thru 6/30/08	298,552.00	746,380.00	149,276.00	1,119,570.00	2,313,778.00
alance	-	-	-	-	-
00 Award	310,280.00	775,700.00	155,140.00	1,163,550.00	2,404,670.00
rawn thru 6/30/08	310,280.00	775,700.00	155,140.00	1,163,550.00	2,404,670.00
alance	-	-	-	-	-
01 Award	311,564.00	778,910.00	155,782.00	1,168,365.00	2,414,621.00
rawn thru 6/30/08	311,564.00	778,910.00	155,782.00	1,168,365.00	2,414,621.00
alance	-	-	-	-	-
02 Award	322,100.00	805,250.00	161,050.00	1,207,875.00	2,496,275.00
rawn thru 6/30/08	322,100.00	805,250.00	161,050.00	1,207,875.00	2,496,275.00
alance	-	-	-	-	-

as of 6/30/2008	<div> <div>Administration</div> <div>State Management</div> <div>Small Systems Technical Assistance</div> <div>Local Assistance</div> </div>				
	4%	10%	2%	15%	
	Set-Aside	Set-Aside	Set-Aside	Set – Aside	
	21076	21081	21085	21088	Total Set Asides
	0000-4001-991	0000-4001-992	0000-4001-993	0000-4001-994	
003 Award	320,164.00	800,410.00	160,082.00	1,200,615.00	2,481,271.00
Drawn thru 6/30/08	320,164.00	800,410.00	202,018.00	195,188.00	1,517,780.00
Balance	-	-	(41,936.00)	1,005,427.00	963,491.00
004 Award	332,124.00	830,310.00	166,062.00	1,245,465.00	2,573,961.00
Drawn thru 6/30/08	332,124.00	830,310.00	166,062.00	-	1,328,496.00
Balance	-	-	-	1,245,465.00	1,245,465.00
005 Award	331,420.00	828,550.00	165,710.00	1,242,825.00	2,568,505.00
Drawn thru 6/30/08	331,420.00	480,222.00	165,710.00	-	977,352.00
Balance	-	348,328.00	-	1,242,825.00	1,591,153.00
006 Award	329,172.00	822,930.00	164,586.00	1,234,395.00	2,551,083.00
Drawn thru 6/30/08	102,385.00	-	35,598.00	-	137,983.00
Balance	226,787.00	822,930.00	128,988.00	1,234,395.00	2,413,100.00
					-
Total Awarded to date	3,696,556.00	9,241,390.00	1,848,278.00	13,862,085.00	28,648,309.00
Drawn thru 6/30/08	3,469,769.00	8,070,132.00	1,761,226.00	9,133,973.00	22,435,100.00
Total Undrawn Balance	226,787.00	1,171,258.00	87,052.00	4,728,112.00	6,213,209.00

Appendix IV: Drinking Water SRF Closed Loans—Fiscal Year 2008

Closing Date	Entity	Project No	SCD	IFO/PLO	Amount	New PLO Amount	New IFO Amount
8/30/2007	Southington	200201-C	8/31/2008	New IFO	\$1,500,000.00		\$1,500,000.00
9/25/2007	Woodlake Tax District	200602-C	9/30/2007	New IFO	\$ 404,500.00		\$ 404,500.00
12/21/2007	Colchester	200702-C	7/31/2008	New IFO	\$2,600,000.00		\$2,600,000.00
2/14/2008	Southington	200202-CD1	8/31/2008	IFO extension	\$2,158,630.85		
3/31/2008	Woodlake Tax District	200602-C	9/30/2007	PLO	\$ 404,494.27	\$404,494.27	
	Totals					\$404,494.27	\$4,504,500
Total New IFO Loans					4		
Total Dollar Value on New IFO Loans					\$4,504,500.00		
Total New PLO Loans					1		
Total Dollar Value on PLO Loans					\$ 404,494.27		
Key:	SCD- Scheduled Completion Date(Based on Loan Agreement) IFO- Interim Funding Obligations PLO- Permanent Loan Obligations						

Appendix V: Pending Projects

Loan		PROJECT NUMBER	Total IFO/PLO as of 06/30/08	Undrawn Loan Commitments	Add' Commitments To 06/30/09	Total Commitments
DW	Aquarion Water(BHC)	9701-C	\$ 266,537			\$266,537
DW	Candlewood Trails				285,000	285,000
DW	Colchester	200702-C	1,895,061	704,939		2,600,000
DW	Cook Willow	9706-C	512,744	1,073		513,817
DW	Crystal Lake	9711-C	270,329			270,329
DW	Harrybrook Park Condo	9703-C	153,666			153,666
DW	Hillside Water Corp	2000b-DC	118,816			118,816
DW	Ledyard	200401-C	859,258			859,258
DW	MDC	200105-C	5,326,629			5,326,629
DW	New Britain	2000A-DC	26,808,170			26,808,170
DW	Newtown	200101-C	555,307			555,307
DW	Norwich	9714-C	1,375,073		644,190	2,019,263
DW	Point-o-Woods	200802-C			800,000	800,000
DW	Portland	9708-C	1,579,492			1,579,492
DW	Second Taxing District- City of Norwalk	200601-C	23,565,425	1,149,740	1,081,453	25,796,618
DW	Sharon	2000d-DC	1,804,237			1,804,237
DW	Southington	200202-C	2,574,033	3,382,667		5,956,700
DW	Twin Hills	9707-C	128,182			128,182
DW	Watertown Fire District	200104-C	911,699			911,699
DW	Woodlake Taxing District		404,494			404,494
			\$69,109,152	\$5,238,419	\$ 2,810,643	\$77,158,214

Appendix VI: Financial Assistance by Bond Rating

Borrower	Total Commitments	AAA	A & AA	B to Baa	Not Rated	Total Loans
Public						
Colchester	2,600,000		2,600,000			2,600,000
Ledyard	895,258		895,258			895,258
						129
						170
						307
						263
						192
						318
						237
						700
						399
						373
						537
						000
						317
						329
						366
						316
						000
						182
						194
						340
						214
						00%

Appendix VII: Priority List of Projects for 2008

FY 2008 DWSRF - FINAL DRAFT PRIORITY LIST OF PROJECTS (Revised 05-08)

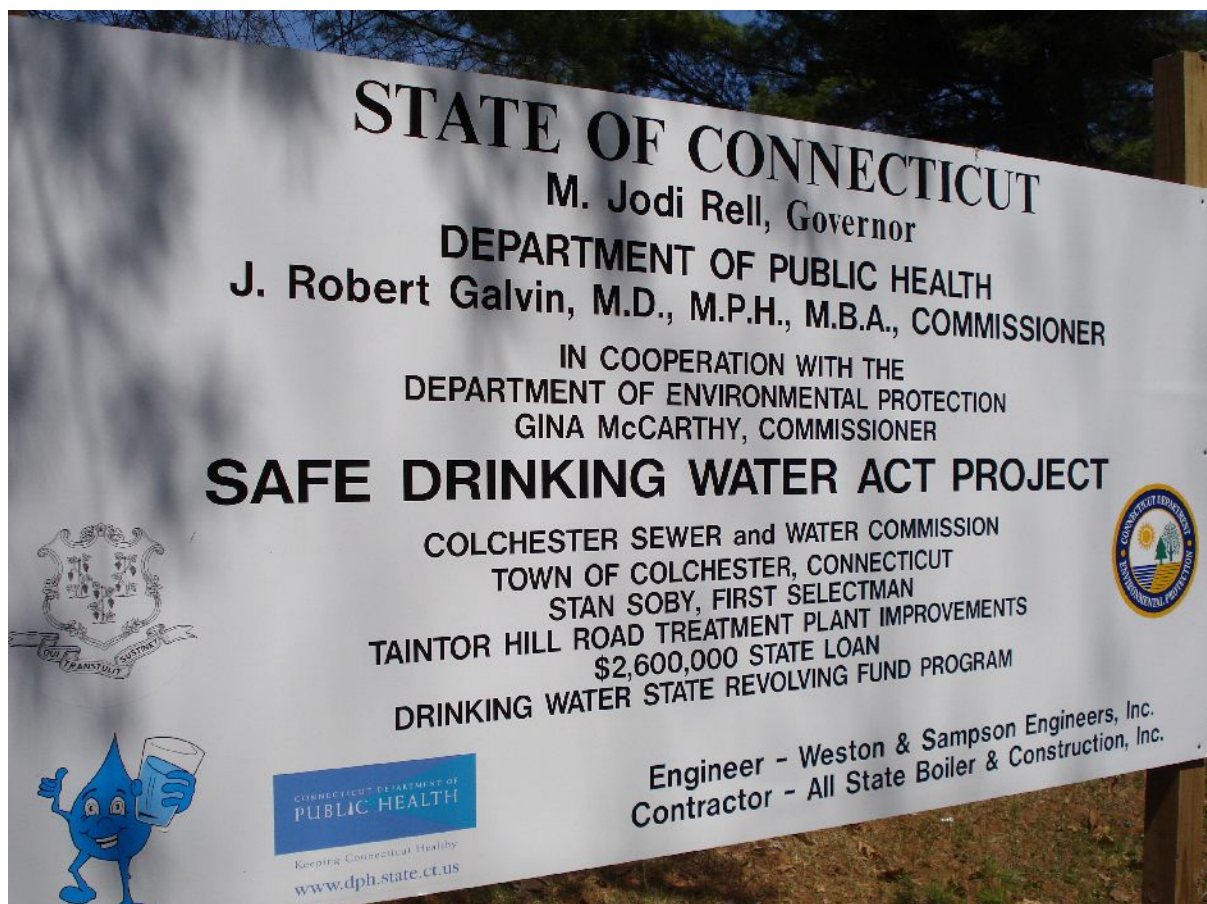
APPROXIMATE AMOUNT OF FUNDS AVAILABLE FOR FEDERAL FISCAL YEAR 2008: \$40 MILLION (subject to change)

APPLICANT/public water system	DWSRF ID #	DESCRIPTION	AMOUNT
HARRINGTON MOBILE HOME PARK	2008 1091011a	Interconnect to Connecticut Water Co.	\$640,000
EAST LYME WATER & SEWER COMMISSION	2008 0450011b	Replace Well 3B, Bride Brook Road	\$860,200
EAST LYME WATER & SEWER COMMISSION	2008 0450011a	Installation of System Wide Chlorine Disinfection	\$952,300
NORWICH PUBLIC UTILITIES	2007 1040011a	New Well(s) along Yantic River	\$1,800,000
MANCHESTER WATER DEPARTMENT	2008 0770021a	Improvements to Globe Hollow Water Treatment Plant	\$12,483,000
METROPOLITAN DISTRICT COMMISSION *	2007 0640011a	Water Main -Various Towns	\$12,115,422
METROPOLITAN DISTRICT COMMISSION *	2007 0640011c	Water Main –Hartford	\$342,000
METROPOLITAN DISTRICT COMMISSION	2007 0640011d	Water Main – Hartford	\$4,270,000
METROPOLITAN DISTRICT COMMISSION *	2007 0640011e	Install 16" Feeder Main - Glastonbury/East Hartford	\$4,691,520
NORWICH PUBLIC UTILITIES	2007 1040011b	Asbestos Cement Main Replacement	\$3,413,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011o	Water Main - Homestead Avenue, Hartford	\$1,137,500
METROPOLITAN DISTRICT COMMISSION	2008 0640011g	Water Main - Olds Place, Hartford	\$158,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011i	Transmission Main - Farmington Ave., Hartford	\$1,840,000

METROPOLITAN DISTRICT COMMISSION *	2008 0640011n	Water Main - Granby St. area, Hartford	\$7,136,640
METROPOLITAN DISTRICT COMMISSION	2008 0640011a	Water Main - Montclair Dr., West Hartford	\$1,521,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011b	Water Main - Linbrook Rd., West Hartford	\$846,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011c	Water Main - Norwood Rd., West Hartford	\$1,262,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011d	Water Main - Brenway Dr., West Hartford	\$764,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011e	Water Main - Rumford St., West Hartford	\$1,104,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011f	Water Main - Carol Rd., West Hartford	\$223,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011h	Transmission Main - Farmington Ave., West Hartford	\$930,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011j	Transmission Gate Valve Replacement - Various Towns	\$2,000,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011k	Water Main - Cold Spring Dr., Bloomfield	\$1,046,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011l	Water Main - Silas Deane Hwy, Wethersfield	\$362,000
METROPOLITAN DISTRICT COMMISSION	2008 0640011m	Water Main - Park Rd., West Hartford	\$414,000
PORTLAND WATER DEPARTMENT	2008 1130011a	Water Main - High Street	\$647,500
PORTLAND WATER DEPARTMENT	2008 1130011b	Water Storage Tanks - Improvements & Replacement	\$895,000
Total Amount Requested:			\$63,854,082

PROJECTS IN PROGRESS			
APPLICANT/public water system	DPH ID #	DESCRIPTION	AMOUNT

TOWN OF BROOKFIELD	2006 0189043a	WATER MAIN EXTENSION - SILVERMINE ROAD	\$2,271,000
METROPOLITAN DISTRICT COMMISSION	2006 0640011b	RESERVOIR NO. 6 WATER TREATMENT FACILITY FILTER REHABILITATION	\$4,500,000
NORWICH PUBLIC UTILITIES	2007 1040011c	FILTER BACKWASH RECYCLE	\$522,000
CTWC-SHORELINE REGION -POINT O' WOODS	2007 1050752a	WATER MAIN REPLACEMENT - (OLD LYME)	\$727,145
BETHEL WATER DEPARTMENT	2007 0090011a	NEW WATER STORAGE TANK	\$500,000
BARLOW MOUNTAIN & SCOTLAND ELEMENTARY SCHOOL	2007 1180013a	WATER MAIN EXTENSION - (RIDGEFIELD)	\$1,450,000
INTERLAKEN WATER COMPANY	2007 0911061a	INFRASTRUCTURE UPGRADE - (NEW FAIRFIELD)	\$145,800
RIDGEFIELD HIGH AND MIDDLE SCHOOLS	2007 1180382a	ACRE LANE WATER MAIN EXTENSION	\$400,000
<i>NORWICH PUBLIC UTILITIES*</i>	<i>2007 1040011d</i>	<i>BUSINESS PARK WATER TANK UPGRADE AND REPAIR</i>	<i>\$616,990</i>
<i>CANDLEWOOD TRAILS ASSOCIATION</i>	<i>2005 0960091a</i>	<i>NEW WELL PUMPING STATION</i>	<i>\$285,000</i>
<i>TOWN OF LEDYARD</i>	<i>2005 0727031a</i>	<i>LEDYARD CENTER STORAGE TANK</i>	<i>\$1,790,400</i>
METROPOLITAN DISTRICT COMMISSION	2006 0640011d	RAW WATER BYPASS ELIMINATION - WEST HARTFORD	\$1,000,000
Total Amount Requested for Projects in Progress:			\$14,208,335



Town of Colchester – Colchester Sewer and Water Commission – Treatment Plant Upgrade/Improvements

APPENDIX VIII: PROGRAM MANAGEMENT

Department of Public Health

The DPH is the state agency that carries out the public health policy of the State including the use and protection of the state's drinking water resources. The DPH is also responsible for enforcement of, and compliance with, state and federal laws, rules and regulations pertaining to drinking water and its use in the state. Connecticut General Statute Section 25-32 grants DPH jurisdiction over all matters concerning the purity and adequacy of drinking water. Acting on behalf of the Department, the Drinking Water Section protects public health through 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. It is the Department's mission to "protect and improve the health and safety of the people of Connecticut".

As the primary agency responsible for the Drinking Water SRF, DPH monitors approximately 1,249 public water systems in Connecticut that are eligible for funding. The DPH emphasizes 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. The DPH determines future needs and sets priorities with the preparation of an annual project priority list. The DPH distributes applications and project information to the Department of Environmental Protection and Office of the State Treasurer and when applicable, the Department of Public Utility Control, for review and approval. Once approved, the loans with the Drinking Water SRF borrowers are signed by the DPH and the Department of Environmental Protection. The DPH establishes a compliance schedule for each step of the project, including planning, design and construction. The DPH reports the details of these and other program activities to the EPA quarterly and annually each year. The DPH also conducts the annual Public Hearing and Open Forum on the priority list of projects. Representatives of all three state agencies and the EPA usually attend the public hearing with potential borrowers. In the upcoming year, DPH's role will increase significantly as it takes on a much grater role in the financial aspect of the program.

Department of Environmental Protection

The Department of Environmental Protection carries out the environmental policy of the State for conserving, improving and protecting the state's natural resources and environment and mitigating water, land and air pollution. The state Clean Water Act gives the Department of Environmental Protection certain statutory responsibilities for the Drinking Water SRF, which are similar to its Clean Water SRF responsibilities. The Department of Environmental Protection monitors the financial elements of a project from the design and planning phase to construction. In addition to assisting in the determination of project eligibility, the Department of Environmental Protection reviews all project information to ensure compliance with project schedules and budgets. The Department of Environmental Protection also enters into loans with Drinking Water SRF borrowers and approves disbursement requests for all eligible costs incurred. In the upcoming year, Department of Environmental Protection's function will be greatly reduced as the DPH takes on a much grater role in the financial aspect of the program.

Department of Public Utilities Control

The Department of Public Utility Control (DPUC) enforces the regulations of the state with regard to utilities including privately owned public water systems, with over 50 connections. The DPUC approves all rate change requests from privately-owned public water systems. The DPUC reviews the capital budget requests and adjudicates over the enforcement of state laws. In addition, the DPUC monitors and approves financing obligations for privately-owned public water systems before any disbursements can be made. As a result, the DPUC is a member of the interagency committee.

The DPUC develops liability and financial models to analyze each water company's rate structure and debt capacity. The DPUC has no formal role in the Drinking Water SRF project approval process for municipalities and small public water systems with fewer than 50 connections, but regularly consults with the DPH and the interagency committee on general credit issues for water system borrowers.

APPENDIX IX: PROGRAM MANAGEMENT BY THE OFFICE OF THE STATE TREASURER

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 invests all funds in the state's General Fund as well as the assets of the state pension, trusts and other funds. As authorized by the State Bond Commission, the State Treasurer administers the issuance of state bonds and the payment of principal and interest thereon. The State Treasurer also manages the process of the borrowing of those funds, the repayment of which is a limited or contingent liability of the state.

Subject to approval by the Governor, the State Treasurer is authorized to borrow funds which are a binding obligation backed by the full faith and credit of the state, and shall be redeemed as funds become available to do so.

Administering the state's bond and debt financing program, includes the sale of state bonds, monitoring the bond markets, financing structures and economic trends that affect interest rates in order to realize favorable bond issuances. The State Treasurer's oversee the issuance of bonds to finance state capital projects, refinance outstanding debt when appropriate, manage debt service payments and cash flow borrowing, and provide information and data to private credit rating agencies for the Clean Water Fund's financing program. Pursuant to entered into a Memorandum of Agreement in 1989 by the State Treasurer and the Department of Environmental Protection Commissioner. The Agreement delegates to the State Treasurer various financial components of the Clean Water Fund and certain responsibilities with respect to the implementation and management of the Clean Water Fund. A financial administrator, works for the State Treasurer and manages and coordinates the various financial components of the Clean Water Fund 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 Environmental Protection and OPM. OPM manages the State's capital budget and oversees the bond allocation process.

The financial administrator is also responsible for:

The review of supporting data for financing of Clean Water Fund 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 Clean Water Fund program including documentation of the projects to meet IRS 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; and

Participation as a member of the Nitrogen Credit Advisory Board created to administer the Nitrogen Credit Exchange Program.

Participated in the development of financing plan to new initiatives which might expand the use of revolving funds and leverage financing concepts within the state

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 Office of the State Treasurer has responsibilities for the Drinking Water SRF's financing program and various financial components of the Drinking Water SRF. The State Treasurer and the Commissioners of Department of Environmental Protection and DPH entered into a Memorandum of Agreement in 1996, which delegates to the State Treasurer certain responsibilities with respect to the implementation and management of the Drinking Water SRF. A financial administrator works for the State Treasurer, manages, and coordinates the various financial components of the Drinking Water SRF programs on a day-to-day basis. The activities of the financial administrator are coordinated with those of the DPH, Department of Environmental Protection and State Office of Policy and Management (OPM). OPM manages the state's capital budget and oversees the bond allocation process. The financial administrator is also responsible for:

- The review of supporting data for financing of Drinking Water SRF projects and credit related documents submitted by the borrowers;
- Preparation of loan 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 Drinking Water SRF program including documentation of the projects to meet IRS 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; and
- 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 was developed by Department of Environmental Protection and is maintained by the DPH and Department of Environmental Protection. A dual entry general ledger accounting system was developed by the Office of the State Treasurer. These systems are maintained by each agency's information technology staff, as coordinated by the State Department of Information and Technology.

The program management goals and objectives of the State Office of the State Treasurer 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 Office of the State Treasurer are involved in the evaluation of each loan application. After review by both offices, all loans are approved by the Commissioner of the DPH and the Commissioner of the Department of Environmental Protection. The State Treasurer 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. There are four levels of approval for each project:

1. Evaluation and Enforcement (DPH): The proposed project must address the needs cited by the Department of Environmental Protection and comply with regulatory and statutory requirements for the project.
2. Project Administration (DPH and Department of Environmental Protection): All project costs included in the application must be designated as either eligible or ineligible for funding in accordance with state and federal regulations. Any costs that are considered to be ineligible remain the responsibility of the local municipality.

3. Environmental Review (Department of Environmental Protection): Based on information received from the borrowers, the Department of Environmental Protection 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 complies with the Connecticut Environmental Policy. The assessment report is submitted to the Intergovernmental Policy Division of the Office of Policy and Management (OPM) for final concurrence.

4. Credit Review (Office of the State Treasurer): The applicant must be creditworthy, and the Clean Water Fund underwriting standards must be met. The Office of the State Treasurer reviews the financial information submitted with each application and determines the general terms and conditions for providing financial assistance. The loan agreements are written to permit eventual financing by the state through the program's revenue bonding program.

Although there is some flexibility with regard to the timing of approvals, in all cases funding is subject to project priority listing and State Bond Commission approval.

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.

Summary of Bond Resolutions			
Resolutions	Security	Accounts	Restricted /Unrestricted
General Revenue Resolution adopted Dec. 17, 2002	Available Money Assets of the Fund	Loan Fund	R
		Debt Service Fund	R
		Support Fund	R
		Revolving Fund	U
Bond Resolution adopted Dec. 7, 1990	Revenue, Loans DSF and DSRF	Loan Fund	R
		Debt Service Fund	R
		Debt Service Reserve Fund	R
		Sr. Sinking Fund	R
Subordinate Bond Resolution adopted Feb 7, 1996	Second Lien on Revenue, Loans	Debt Service Fund	R

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 Drinking Water Fund and the Clean Water Fund 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-

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The State currently invests 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. 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. Upon the issuance of the 2003 bonds and the restructuring of the program's debt, certain of these long-term investments became unrestricted assets of the Clean Water Fund. The restricted accounts for the Drinking Water SRF at the time of each bond issue are described below. I

RESTRICTED ACCOUNTS**

Drinking Water Fund	Revenue Bond Amount	Federal	General Obligation Bonds	Direct Loan Repayments	DSR "Free-Up"	Interest Subsidy	Support Fund Assets
2001	\$29,614,746	\$13,206,447	\$10,398,696	0	0	0	
2002	0	0	0	0	0	0	
2003	\$33,063,800	0	0	0	0	0	6,043,487
2004	0	0	0	0	0	0	
2005	0	0	0	0	0	0	
2007	5,000,000						822,595
SUBTOTAL	\$67,678,546	\$13,206,447	\$10,398,696	0	0	0	\$6,866,082
TOTAL for CT Clean Water Fund (including Drinking Water SRF and Clean Water SRF)	\$1,013,085,000	\$198,004,441	\$91,416,988	\$27,088,573	\$60,990,000	\$55,675,000	\$48,322,572
<p>* may include premium and excludes refunding bonds; may be reallocated as needed</p> <p>** includes DSRF in 1991–2001; Revolving Funds in 2003 and 2006 restricted accounts except Loan Fund and Debt Service Fund</p>							

APPENDIX X: APPLICATION PROCESS

Once a project is approved for the application process, 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:

- Department of Planning and Enforcement (DPH):** The proposed project must address the needs cited by the DPH and comply with regulatory and statutory requirements for the project.
- Department of Project Administration (DEP):** All project costs included in the application must be eligible for funding in accordance with state and federal regulations.
- 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. The assessment report is submitted to the Physical Resource Planning Section of OPM for final concurrence.
- Credit Review (Treasurer's Office, DPUC and the interagency committee):** The applicant must be creditworthy, and the Drinking Water SRF underwriting standards must be met. The 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. Upon receipt of the signed commitment letter from the borrower, the State Bond Commission approves the project funding. 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 Treasurer's Office. The Project Loan Agreement is then executed and signed first by the

APPENDIX XI: SUMMARY OF PROJECT GRANT AND LOAN AGREEMENTS

In accordance with the State's Clean Water SRF and Drinking Water SRF and as required by the Connecticut General Statutes, the mechanism by which financial assistance is provided to the borrower is the Project Loan Agreement between the borrower and the State. Under each loan agreement, the State agrees to make loans for eligible project costs incurred by the borrower, upon the terms and in the maximum amount specified. Funds are disbursed to a borrower to pay eligible project costs which have been incurred by the municipality, and the amount of a loan is equal only to the aggregate of such disbursed amounts. Thus the municipality is obligated to repay only that amount that it actually draws down for the payment of project costs.

Additionally, each loan agreement specifies a scheduled completion date. Amortization of each loan is required to begin one year from the project's scheduled completion date and the final maturity of each loan is twenty years from the scheduled completion date.

Each loan is secured by the borrower's pledge of its full faith and credit and/or a dedicated source of revenue.

Principal and interest payments on loans are payable (1) in equal monthly installments commencing one month after the scheduled completion date, or (2) 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.

Below is a summary of the Project Loan Agreements.

SECTION I DEFINITIONS

SECTION II THE PROJECT

Project Description including Eligible Project Costs

SECTION III THE GRANT

The Project Grant, Increase in Project Grant, Required Repayment of the Grant and Disbursement of Project Grant

SECTION IV THE LOAN

The Loan Commitment, The Interim Funding Obligations and Project Loan, Disbursement of Project Loan and Project Grant Proceeds, Required Repayment of Obligations, Optional Prepayment of Principal, Method of Payments, New Municipality.

SECTION V REPRESENTATIONS AND WARRANTIES

Existence and Power, Authority, No Litigation Pending, Expenditure of Project Grant and Project Loan by Municipality, Validity, and Events of Default.

SECTION VI 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.

SECTION VII AGREEMENTS OF THE MUNICIPALITY

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, Indemnification, Audits, Litigation, Waiver of Governmental Immunity Expenses, Completion of Project; Audit Maintenance of Project, Continuing Disclosure;

SECTION VIII AGREEMENTS OF THE STATE

Loan, Termination, Notice of Approval, Audit

SECTION IX DEFAULTS

Events of Default and Remedies

SECTION X MISCELLANEOUS

Waivers, Notices, Connecticut Law, Interpretation, Severability, Survival of Representations, Warranties and Covenants, Successors and Assigns, Incorporation of Other Documents, Amendments, Cancellation, Effective Date Official Statement.

Exhibit I	Form Of Interim Funding Obligation
Exhibit II	Form of Project Loan Obligation
Exhibit III	Form of Opinion of Bond Counsel
Exhibit IV	Form of Signature No Litigation Certificate
Exhibit V	Continuing Disclosure Agreement
Exhibit VI	Budget
Exhibit VII	Certification of System of Charges, Assessments and Other Revenues
Exhibit VIII	Form of Request for Advance
EXHIBIT IX	Closing Statement
Exhibit X	Conditions precedent
Attachment I	Insurance Requirements

APPLICANT
TWIN HILLS DISTRICT
SHARON SE
SHARON SE
MDC
MDC
NEW BRITAIN
NORWICH
MDC

TOWN OF NEWTOWN	D 03 0970422a	NEWTOWN	CONNECTION TO TOWN WATER	\$171, 738.00
TOWN OF SOUTHTON	D 03 1310011a	SOUTHTON	WELLHEAD PROTECTION	\$4,643,030.00
SECOND TAXING DISTRICT	DC 04 1030021a	NORWALK	WATER TREATMENT PLANT UPGRADE	\$24,715,165.00
TOWN OF LEDYARD	DC 03 0727031a	LEDYARD	INTERCONNECTION TO ELEM SCHOOL	\$926,006.00
TOWN OF SOUTHTON	DC 03 0727031b	SOUTHTON	WATER MAIN EXTENSION	\$1,500,000.00
WOODLAKE TAX DISTRICT	PDC 03 1680031a	WOODBURY	LAND PURCHASE/ WELL DEVELOPMENT	\$404,500.00
TOWN OF COLCHESTER	C 04 0280111a	COLCHESTER	WATER TREATMENT PLANT UPGRADE	\$2,600,000.00
TOTAL 1997 to 2008				\$91,689,532.65

