

**COMMONWEALTH OF PENNSYLVANIA
PA INFRASTRUCTURE INVESTMENT AUTHORITY
and
PA DEPARTMENT OF ENVIRONMENTAL PROTECTION**

CLEAN WATER STATE REVOLVING FUND

INTENDED USE PLAN

American Recovery and Reinvestment Act

March 2009

TABLE OF CONTENTS

I. Introduction1

II. List of Projects1

III. Green Infrastructure Projects3

IV. Outputs and Outcomes4

V. Long-Term and Short-Term Goal Statements4

VI. Information on the CWSRF Activities to be Supported7

VII. Assurances and Specific Proposals8

VIII. Criteria and Method for Distribution of Funds 9

IX. Transfer Amounts 9

X. Description of How Pennsylvania Will Define a Disadvantaged System10

XI. Public Review and Comment10

Attachments:

Wastewater Project Ranking Criteria

**Clean Water State Revolving Fund
Intended Use Plan
American Recovery and Reinvestment Act**

I. Introduction

Pennsylvania herewith submits its Intended Use Plan (IUP) for use of all Clean Water State Revolving Fund (CWSRF) funds awarded or available through September 30, 2010 under the American Recovery and Reinvestment Act (ARRA).

The State has developed a comprehensive Cash Flow Projection Model to determine the optimal annual project approval funding. This Model incorporates both state and federal loan funding, as well as state grant availability.

Act 68 of 1999, commonly known as Growing Greener Grants, has provided additional grant funding to water, sewer and storm water projects in Pennsylvania. These grants are being used to help communities improve infrastructure throughout the Commonwealth. Funding is also being made available to watershed groups and others to protect and restore watersheds, reclaim abandoned mines and plug abandoned oil and gas wells.

The CWSRF program is an essential component of the Commonwealth's efforts to protect and improve the quality of life of the citizens of Pennsylvania by helping to protect the water environment, promoting community revitalization and supporting economic development. To this end, the Pennsylvania Infrastructure Investment Authority (PIIA) and the Department of Environmental Protection (DEP) work closely together and with other state and federal agencies to identify opportunities for funding specific projects and to coordinate funding efforts. These efforts are instrumental in achieving the requirements of the federal Clean Water Act and the ARRA.

II. List of Projects

Under this IUP, Pennsylvania intends to utilize the entire \$155 million to fund up to 96 wastewater projects. The state intends to waive the ability to utilize 4% of these funds for administrative purposes by using other existing funds. The list of projects included in this IUP will be the subset of projects on the Project Priority List described below that are expected to begin construction before October 1, 2009. The final award of funding will be based on project readiness, the number of jobs created by the project, the financial need of the receiving community and similar criteria consistent with the goals of the ARRA. A minimum of \$31 million has been reserved for allocation to "Green Infrastructure" projects. In addition, a minimum of \$77.5 million will be provided to disadvantaged communities as defined in Section XI in the form of principal forgiveness.

A. Priority Projects

To determine which wastewater treatment facility projects should be funded, program staff completed an extensive outreach effort and request for proposals. The cutoff date for this

request was February 17, 2009. The project priority list (PPL) is a compilation of all the eligible, complete applications received. Projects that will be included on the IUP project list will be selected from the PPL using the attached ranking framework approved by the US Environmental Protection Agency (EPA) on June 26, 2008., the criteria identified in Section 10(b) of Act 16 of 1988 and in Title 25, Section 963.8 of the PIIA regulations, project readiness and the number of jobs created and similar criteria consistent with the goals of the ARRA.

B. Bypass Procedure

In the event that projects identified for funding in the IUP are unable to proceed, these delayed projects will be bypassed and other projects from the PPL will be funded based on their ranking, project readiness, the number of jobs created and related criteria.

A project may also be bypassed if the PIIA determines that provision of funds from the CWSRF will be used to replace or supplant other funds reasonably available for the project. Further, the PIIA reserves the right to provide funding for only a portion of the total costs of a project or only a portion of the amount requested where the municipality can, based on its ability to pay, obtain other affordable financing for the remainder of the project.

A project may be bypassed if Pennsylvania determines that a different project should be funded due to an emergency condition that can only be addressed in an immediate time frame. The final IUP and PPL lists will reflect the changes caused by the emergency situation.

Bypassed projects that retain their priority rating will be subject to the same eligibility and funding considerations from future allotments as other fundable projects.

C. IUP and PPL Amendment Process

Consistent with the reporting requirements established in the ARRA and associated EPA grant guidance, DEP/PENNVEST will submit to EPA updated PPL and IUP/fundable lists for EPA's approval as needed to reflect changes in projects that have been approved for funding using ARRA funds. This includes the submittal of any additional project lists eligible for the reallocation of ARRA funds.

Should a project be approved by PENNVEST and included on the IUP/PPL that subsequently is found to not be an eligible project, it will be removed from the fund and any funds that have been expended will be reimbursed to the fund.

D. Re-Allotment of ARRA Funds

In order to insure the goals of the ARRA are achieved Pennsylvania commits to accomplishing the following:

1. Review project progress to insure timely completion of projects to avoid the loss of ARRA funds.

2. Insure the state has the ability to recover funds from project applicants that do not make timely progress towards construction or entering into contracts for construction.
3. Provide certification to EPA that any additional ARRA funds provided to the state through re-allotment will be assigned to projects that will be under contract for construction within 120 days of reallotment.

III. Green Infrastructure Projects

In this application Pennsylvania proposes to utilize at least 20% of this capitalization grant to fund green infrastructure projects as defined by EPA in their grant guidance to include the following categories:

1. Water efficiency
2. Energy efficiency
3. Mitigation of stormwater runoff and restore natural hydrology
4. Environmentally innovative

It is anticipated that a portion of this funding will be awarded in a first round of funding by the PIIA Board on April 20, 2009 based on applications that were received by February 17. The rest of this funding will be awarded to projects selected through the following process:

- A request for proposals will be released on April 6, 2009. The cutoff date for submitting an application is May 18, 2009. The application and guidance for submittal of this application will be posted on the PIIA and DEP website.
- A separate public meeting to highlight this request for proposals and answer questions will be held no later than April 17. The possibility of scheduling an additional follow up webinar to answer questions before the end of April is also being explored
- Projects will be ranked by DEP program staff using criteria highlighted in the request for proposals.
- Final projects will be selected by the PIIA Board at their July, 2009 meeting. This list of projects will be posted with the PPL on the same website at:

<http://www.depweb.state.pa.us/watersupply/cwp/view.asp?a=1263&Q=448094&watersupplyNav=|30198|>

Projects selected for this funding will be consistent with the Commonwealth's Statewide Programs to Address Specific Non-point Source (NPS) Categories, as described in the Commonwealth's approved Non-point Source Management Program. As stated in the NPS Program 1999 Update, which was approved by EPA Region III on October 14, 1999, the NPS Categories address several potential sources of NPS pollution. Under these categories, the cleanup of acid mine drainage, agricultural runoff, urban runoff, silviculture runoff, hydrologic modification, Pennsylvania's many on-lot sewage disposal systems and hazardous waste sites,

which can cause significant degradation of both surface and ground water, are Pennsylvania's highest priorities.

In 1992, the PIIA began to utilize state funds to provide low interest loans to construct, improve or rehabilitate public storm water facilities to address urban runoff. Facilities eligible for this funding are: (1) new or updated storm sewer systems to reduce storm water flooding or to separate storm water from sanitary sewers, (2) detention basins to control storm water runoff, and (3) storm water facilities to implement best management practices that reduce non-point source pollution. Some of the funds set-aside for green infrastructure may be used to support this aspect of the PIIA's program.

Through the Commonwealth's Growing Greener initiative, Pennsylvania embarked upon the most aggressive environmental funding programs in its history. These grant funds will continue to be used to support traditional water, sewer and storm water infrastructure projects as well as providing a substantial infusion of grant funds into non-point source and watershed restoration and protection projects.

Finally, PIIA and DEP have coordinated and will continue to organize the state funding that is available to maximize the opportunities to blend with the ARRA and CWSRF loan funding, if and when it is appropriate.

IV. Outputs and Outcomes

A. Environmental Reporting

The state will complete the environmental benefit worksheets and enter the information into the national database for each project funded with the ARRA funds.

B. Annual Reporting

The state agrees to include reporting on the PAMs, Outputs, and Outcomes in the Annual Report.

C. ARRA Specific Reporting

The state agrees to comply with any additional reporting requirements of section 1512 of the ARRA as defined by guidance issued by the Director of the federal Office of Management and Budget or EPA.

V. Long-Term and Short-Term Goal Statements

A. Long-Term Goals

1. Provide funding to promote economic recovery and the creation of jobs through expeditious use of the ARRA funds for wastewater and green infrastructure projects.

2. Encourage innovative solutions to water quality and stormwater control problems throughout the Commonwealth.
3. Provide funding that will enable publicly owned wastewater systems to achieve and/or maintain compliance with State and Federal water quality standards. Based on the recently completed study by the Governor's Water Infrastructure Sustainability Task Force, Pennsylvania's total wastewater infrastructure capital construction needs is approximately \$25 billion
2. Protect the quality of life for Pennsylvania residents by providing financing for facilities and other improvements that provide for a clean, safe and healthful environment, support economic development and community revitalization.
3. Utilize the CWSRF to provide funding opportunities for addressing water quality problems identified through the watershed assessment and TMDL process, as well as problems identified through the watershed assessment and TMDL process, as well as problems identified through updates to Pennsylvania's Non-point Source Management Plan to the extent practicable.
4. Administer the CWSRF to issue loans, loan guarantees, or insurance, at fees commensurate with risk, to applicants, such that the revolving nature of the CWSRF is assured in perpetuity.
5. Coordinate the CWSRF with other state and federal funding sources to maximize the impact on the water quality needs of the Commonwealth.
6. Assist communities in meeting required water quality standards at affordable user rates.
7. Ensure technical integrity of the funded system operation with adequate and effective program management and project planning, design and construction management.
8. Maintain an adequate data management system to track and monitor CWSRF related information.
9. Ensure proper accounting, audit and fiscal procedures conforming to generally accepted governmental accounting standards.
10. Investigate expanded use of activities coordination with other state and federal agencies, and the development of a methodology to review water quality needs in a comprehensive manner.
11. Support and implement infrastructure sustainability initiatives to protect public health and the environment to insure long-term continued economic growth and

development; including, but not limited to; the Operator Certification Program, the EPA Special Appropriations Program and the state Growing Greener Programs.

12. Continue to enhance the results of the Pennsylvania Gap Study to identify the gap between available funding resources and financial infrastructure need to further enhance the estimation of total infrastructure financing need in the Commonwealth.

B. Short-Term Goals

1. Insure projects are in compliance with ARRA provisions for the use of American manufactured steel and the establishment of prevailing wages as established by the Davis Bacon Act.
2. Reduce the volume of paper based application, review, settlement and disbursement materials used to implement the CWSRF program.
3. Streamline the Disadvantaged Business Enterprise solicitation process to insure compliance with the Six Affirmative Steps and minimize paper, and the time necessary for DEP review and approval. DEP will continue to collect data on proposed and actual use of DBE firms by Borrowers on DWSRF loan projects and submit semi-annual reports to Region 3 on DBE firm procurement actions.
4. Increase the availability and quality and reliability of information available to stakeholder parties via web based and other electronic means.
5. Assure that approved projects make timely progress to construction completion, initiation of operations, and repayment.
6. Continue to improve coordination of CWSRF financial assistance, planning, permitting and enforcement as well as non-point source management activities.
7. Follow-up on recommendations found in the EPA Program Evaluation Reports and address any audit findings in an expeditious manner.
8. Develop markets, and coordinate technical/funding efforts for "green infrastructure" initiatives.
9. Implement the recommendations of the Governor's Sustainable Water Infrastructure Task Force.
10. Develop and deliver a combination of classroom and web-based training courses to promote Asset Management. Create an Asset Management Specialty Team as part of DEP's Outreach Assistance Provider Program to assist system personnel with the implementation of an asset management framework.

VI. Information on the CWSRF Activities to be Supported

A. Allocation of Funds

Allocation of funds from the new eligible traditional and NPS projects was based on a three-step process:

1. The type and amount of financial assistance needed for each community was determined;
2. The sources and spending limits for all ARRA funds were identified; and
3. The ARRA funds were allocated among the projects, consistent with the amount available and the financial assistance needed.

Information pertinent to each project is contained in the PPL.

B. CWSRF Policies

Market Loan Rate

Based on Pennsylvania's financial assistance policy as noted in V.A. above and an analysis of communities' ability to repay loans, the PIIA will charge interest on all CWSRF loans in accordance with the following:

1. The minimum interest rate allowable for any loan is 1%. Maximum interest rates are determined by comparing the unemployment rate of the county in which the project is located to the statewide average unemployment rate. The figures used for unemployment rate comparison are the rates from the previous calendar year as reported by the Pennsylvania Department of Labor and Industry. For projects that serve multiple counties, the highest unemployment rate of the counties involved shall be used. For projects located within municipalities for which unemployment rates exist which would qualify the project for lower interest rates than if the relevant county unemployment rate were used, the unemployment rate of that municipality may be used in determining the interest rate of the loan. If the county unemployment rate exceeds the statewide average unemployment rate by 40% or more, the maximum interest rate allowable for projects in that county is 1% for the first five years of the term, and 25% of the interest rate the Commonwealth must pay for the bonds it has issued to finance the program for the remainder of the term.
2. For projects in counties where the unemployment rate exceeds the statewide average rate, but by less than 40%, the maximum interest rate is 30% of the state bond issue rate for the first five years of the term, and 60% of the state bond issue rate for the remainder of the term. Projects in counties whose unemployment rate is equal to or below the statewide average rate receive

maximum interest rates of 60% of the bond issue rate and 75% of the bond issue rate for the first five years and the remainder of the term, respectively.

3. Interest rates may be set lower than the maximum if the PIIA Board determines that the community is so financially distressed that repayment of the loan is unlikely if the project were financed at the interest rate caps. If the Board determines that the community may not be able to repay the loan even if it were offered at 1%, the Board may offer the community a supplemental grant from a totally state funded account managed by the Board.
4. These reduced interest rates will allow many communities to undertake badly needed sewerage improvement projects that may not be financially feasible otherwise. These projects will ultimately benefit the health and safety of the residents while allowing for continued economic growth in the community.
5. Consistent with the provisions of the ARRA, a minimum of 50% of these funds will be allocated in the form of principal forgiveness to disadvantaged communities.

The “green infrastructure” projects interest rates will be at County Cap rates, with a maximum 20 year term.

D. Administrative Costs

As identified in the grant application, the PIIA does not intend to use any of the capitalization grant funds for administrative support. Other existing funds will be used to cover these costs.

VII. Assurances and Specific Proposals

The PIIA will provide the necessary assurances and certifications as part of the Operating Agreement (OA) between the Commonwealth of Pennsylvania and the U.S. EPA. The OA was amended and submitted with the FY 1997 Drinking Water State Revolving Fund capitalization grant application. The OA includes, as it relates to this capitalization grant application, the requirements of the following sections of the law:

A. 602(a) - Environmental Reviews

DEP will conduct environmental reviews as specified in Attachment 7 (Project Review Procedures) of the OA and Appendix D (Criteria for Structuring a State Environmental Review Process) in EPA’s SRF Initial Guidance. A new template has been designed to facilitate these reviews per EPA’s FY2007 Program Evaluation.

B. 602(b)(3) - Binding Commitments

The PIIA will enter into binding commitments for 100% of these funds within 1 year of grant award. The goal is for PIIA to enter into binding commitments for at least 50% of these funds by June 15, 2009.

C. 602(b)(4) - Expeditious and Timely Expenditures

The PIIA will expend all funds in the CWSRF in a timely and expeditious manner, as outlined in the CWSRF financial plan.

VIII. Criteria and Method for Distribution of Funds

The following approach was used to develop Pennsylvania's proposed distribution of its funding with a priority placed on project readiness and job creation:

- Analysis of the type of communities served and financial assistance needed;
- Identification of the sources and spending limits of funds;
- Allocation of funds among projects;
- Development of a payment schedule which will provide for making timely binding commitments to the projects selected for CWSRF assistance; and
- Development of a disbursement schedule to pay the project costs as incurred.

A. Type of Communities Served and Financial Assistance Needed

In Pennsylvania, the decision on whether to provide low interest loans or to insure or guarantee municipal bonds is being based on a municipality's ability to pay.

All of the projects are new; therefore, we do not anticipate using refinancing provisions.

B. Sources and Spending Limits of Funds

The ARRA, in setting project requirements, established that certain amounts of these funds must be used to meet particular requirements. These source/requirement limits were calculated before any allocations to projects were made.

IX. Transfer Amounts

Pennsylvania does not intend to transfer any of the federal ARRA dollars between the DWSRF and the CWSRF. However, Pennsylvania does continue to reserve the authority to transfer additional funds as appropriate at some time in the future, up to the maximum of 33% of the ARRA capitalization grants, respectively, between the DWSRF and the CWSRF. This includes any funds generated through loan repayments. This transfer, in addition to the transfer of the maximum amount between the CWSRF and the DWSRF for all prior grants and any

future transfers between funds, will assist in meeting the demand for CW and DWSRF funding. The effect of these transfers on the fund will be minimal. No additional transfers are anticipated at this time.

X. Description of How Pennsylvania Will Define a Disadvantaged System

PIIA utilizes a financial capability analysis that compares various community specific demographic data to similarly situated communities across the Commonwealth to determine a percent of the community's adjusted Median Household Income (MHI) that should be available to pay for water service. The amount that should be available to pay for water service by residential customers will range from one to two percent of the community's adjusted MHI dependent upon the specific socio-economic factors that are provided by the Pennsylvania Department of Community and Economic Development. This process aids in an equitable distribution of residential user rates.

Should the estimated resulting residential user rates be higher than similar systems, even after PIIA has provided the most favorable funding package available based upon criteria set forth in the PIIA act and regulations and further described in this document under Section III. C., "Priority and Allocation of Assistance", these systems would be considered "disadvantaged" for the purpose of term extension from the normal 20 years to a term of up to, but not to exceed, 30 years repayment of principal and interest. Systems qualifying for term extensions must exceed the user rate(s) found in similar systems according to the PIIA financial capability model. The terms will be extended to a point that will allow the residential user rate to fall to a level equal to similar system's cost of water service, as determined by the demographic analysis and financial capability analysis.

A minimum of 50% of these funds will be targeted to these communities in the form of principal forgiveness. It is Pennsylvania's intention to include communities that are implementing either a "green infrastructure" or a "traditional" wastewater project for consideration.

XI. Public Review and Comment

On March 15, 2009, a notice was published in the Pennsylvania Bulletin regarding a public meeting scheduled for April 1, 2009 in Harrisburg, PA on the this IUP and the PPL..

The PIIA Board schedules four project review and approval meetings each state fiscal year. The Board meets in January, April, July, and October to review and approve funding for projects. These projects are subject to the provisions included in the public comment periods for the IUP and PPL. Copies of the IUP and the PPL are available upon request from the DEP, Division of Technical and Financial Assistance or through the DEP website, at the following link:

<http://www.depweb.state.pa.us/watersupply/cwp/view.asp?a=1263&Q=449900&watersupplyNav=|30198|>

A separate list of the final “green infrastructure” projects will also be posted on this website once it is finalized.

A public meeting will be held on April 1, 2009 to go over the IUP and the PPL. Written comments will also be accepted until close of business on April 15, 2009. A separate public meeting will be scheduled no later than April 15 to highlight the request for proposals for “green infrastructure” projects.

A summary of the public participation activities for this capitalization grant application will be submitted to EPA after the April 20, 2009 PIIA Board meeting.