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Fred: D.



State of New Jersey
DEPARTMENT OF ENVIRONMENTAL PROTECTION
MAIL CODE 401-04Q
DIVISION OF WATER SUPPLY AND GEOSCIENCE

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BOB MARTIN
Commissioner

PUBLIC NOTICE
FOR THE PROPOSED FFY2016 PRIORITY
SYSTEM, INTENDED USE PLAN AND PROJECT
PRIORITY LIST DOCUMENT AND THE
PROPOSED INTENDED USE PLAN FOR SUPER
STORM SANDY

August 28, 2015

Dear Interested Party:

The Department of Environmental Protection (Department) is proposing the Federal Fiscal Year 2016 Priority System, Intended Use Plan (IUP) and Project Priority List Document for the administration of the Drinking Water State Revolving Fund (DWSRF) program. In addition, the Department is proposing an IUP for the federal Disaster Relief Appropriations Act (DRAA) DWSRF that provides an additional opportunity for those facilities impacted by Superstorm Sandy and in need of implementing resiliency measures.

The Federal Fiscal Year 2016 documents must be approved by the U.S. Environmental Protection Agency (USEPA) for the Department to be awarded its FFY2016 capitalization grant. The FFY2016 DWSRF capitalization grant is targeted to be awarded to the Department and available for loan awards to project sponsors beginning in September 2016, for use in the State Fiscal Year 2017 Financing Program (July 1, 2016 to June 30, 2017). Projects included for assistance include wells, storage facilities, water treatment, and distribution system projects. The DRAA DWSRF IUP for FFY2015 was completed in July 2015; this FFY2016 DRAA DWSRF

IUP provides those water systems impacted by Superstorm Sandy another opportunity to apply for possible unspent funds.

FFY2016/SFY2017 Base DEP/Trust Financing Program

The Base DWSRF can finance a variety of water system treatment and distribution system improvements under the traditional Priority System ranking methodology, Financing is generally in the form of a low-interest loan (rates as low as one quarter of market rate) with limited opportunities for principal forgiveness as described below. Complete details of the SFY17/FFY16 Base DEP/Trust Financing Program are included in the Proposed FFY16 Priority System document which is being issued for public comment in conjunction with this notice.

All water purveyors that have a project or projects listed or eligible for listing on the FFY2016 Priority List must commit, by October 9, 2015, to the schedule below for the Department to consider them for the SFY 2017 Financing Program. The Letter of Intent, which is the indication of commitment, is completed through your user account at www.h2loans.com/app/. If you are new to the Financing Program, please contact the New Jersey Environmental Infrastructure Trust, to request a user account, at (609) 219-8600.

**DWSRF Program Schedule
(FFY16/SFY17)**

Activity	Deadline
Commitment Letter (Letter of Intent) and Planning Documents	October 9, 2015
Design Documents and Loan Application	March 4, 2016

For the SFY2017/FFY2016 Financing Program, the Department is proposing the program, with changes, as follows:

- Expedite the availability of project funding, by granting priority status to DWSRF ranked projects that are ready to proceed based on the date of project approval. As such, there is a strong incentive for applicants to submit necessary application related documents and secure approvals as soon as possible. The Department is committing resources for the timely approval of all applications and will rank "ready to proceed" project funding on a quarterly basis.

Moreover, short term funding of such projects will be available immediately upon approval through either the Interim Financing (Construction Loan) Program or the Statewide Assistance Infrastructure Loan (SAIL) Financing Program, further ensuring that such projects commence construction as soon as possible.

- Post a listing of active projects for project sponsors and other interested parties to view which will include key milestone dates with target dates or actual completion dates for active drinking water projects on the DEP website and the NJEIT website quarterly.
- Allow eligible borrowers to convert their short-term construction loans into long-term NJDEP/NJEIT loans every 6-8 months provided the project is able to satisfy NJEIT's Term Financing Criteria requiring an established percentage of construction completion and the project is listed in approved State financing authorization legislation;
- Allocate projected amounts of principal forgiveness funds (must be less than 30% of the capitalization grant) for the FFY 2016 fiscal year, in priority order as follows:
 - 1) Very Small Systems
 - 2) Small Systems,
 - 3) Municipal systems needing a facility for treatment of a primary contaminant.

Any unallocated principal forgiveness fund will be carried over to the next funding cycle.

- Reserve up to \$1M for equipment purchases. For the purposes of the equipment purchase reserve, equipment is limited to portable generators and other equipment where construction services (such as the installation of a pad to support a generator) are not needed to effectuate the project
- Adjust the financing terms for projects that have significant private involvement and are utilizing a local government unit as a conduit to access the Financing Program for redevelopment purposes such that 50% of the allowable costs are financed with interest-free loans and the remaining costs financed through the NJEIT at market rate;
- Remove the existing caps of \$600,000 for emergency loans and \$500,000 for supplemental loans that is currently in place;

In FFY2013, the DWSRF loan program implemented the Small Water Systems loan program. This program was initiated in order to proactively ease access to small system financing. From the applicants that met the first deadline of the DWSRF program, NJDEP identified project sponsors who qualified for the SWS program. Eligible candidates are active public community water systems and nonprofit noncommunity water systems serving less than 10,000 persons. Current active water systems are identified as those systems having an active PWSID number in the NJDEP's NJEMS database and who are responsible for at least two complete prior years of requisite public water system compliance sampling.

Allocation of principal forgiveness for the DWSRF loan program is prioritized as follows:

1) Very Small Water Systems (VSWS) Loan Program

Very Small Water Systems, serving 500 persons or less, can receive a principal forgiveness (PF) loan up to \$500,000, using NJDEP-only funds as long as they supply at least 15% of the project cost (available through outside sources or NJDEP base program). The project must be a discrete project that can be completed in full with the funds allocated.

2) Small Water System (SWS) Loan Program

Small Systems, serving 10,000 persons or less, can receive a loan up to \$1,000,000 allocated as follows: 50% project costs as PF, 25% zero interest, 25% NJEIT market rate, based on the established point priority ranking system, using the hierarchy as follows: 1) Water systems serving less than 500 residents, 2) Water systems serving 500 to 3,300 residents and 3) Water systems serving 3,301 to less than 10,000 residents.

- In FFY 2016, the NJDEP will also provide VSWS or SWS loans to larger more viable water systems which are willing to take ownership of small water systems in the calendar year 2015 or later and make needed capital improvements. Therefore, the larger water systems would be eligible for the same enhanced loan terms as the otherwise eligible small water system.
 - At this time, the financing program is discussing other advantages to small systems; such as waiving administrative fees, direct loans, getting the lowest costs for bond counsel, etc.
 - Restrictions apply to the VSWS and the SWS loan programs as follows:
 - Limit of \$500,000 principal forgiveness for any individual water system in any three year funding cycle.
 - VSWS and SWS loans are unavailable to public and private utilities who serve more than 10,000 residents statewide except as follows: Larger public and private systems can utilize the VSWS and SWS to make infrastructure improvements to small water systems that they have recently acquired (since 2015).
- 3) Municipally owned water systems with primary contaminant violations (new) will be eligible to receive funds as follows: 20% project costs as PF, 40% zero interest, 40% market rate.

Any principal forgiveness funds not used in this funding cycle will be transferred to the next funding cycle.

At the time of letter of intent submittal, there will be a box where the applicant may note their interest in the Small Water System Loan Program. The NJDEP will work with these systems to provide the best available loan terms.

The Department strongly recommends that all applicants attend a pre-application meeting with appropriate staff within the Municipal Finance and Construction Element and the Bureau of Safe Drinking Water. To request a pre-application meeting, please contact Gautam Patel, Acting Chief, Bureau of Engineering and Environmental Reviews at (609) 633-1170. The Department is continuing to require project sponsors to submit a planning checklist with the planning document submittal so that the submittals are more complete and the Department can expedite reviews.

Please note that loan terms for supplemental loans will be the same terms as were made for the original executed DWSRF loan. The FFY 2016 program also includes a category of projects called legacy projects, projects that were not able to meet the previous financing cycle deadlines for the Trust Bond sale but were awarded an interim loan before April; included in this legacy project category will be those sponsors implementing resiliency measures or other improvements to those facilities as part of the Sandy DWSRF program that were not able to be funded, as long as the project is consistent with the DWSRF program requirements.

Sandy SRF Financing Program

On January 23, 2013, the Disaster Relief Appropriation Act (DRAA) was approved by Congress and included in P.L. 113-2 which was signed by the President of the United States on January 29, 2013. The purpose of the DRAA was to provide additional funding to the State's Clean Water and Drinking Water SRF programs to fund disaster assistance to communities impacted by the Superstorm Sandy and for projects whose purpose is to reduce storm damage risk and vulnerability and/or to enhance resiliency to rapid hydrologic change or other natural disaster.

The DRAA and the USEPA Guidance direct the development of New Jersey's Sandy related SRF programs to contain the provisions as follow:

1. USEPA allocated \$191,105,958 to New Jersey's Clean Water SRF and \$38,189,086 to the Drinking Water SRF.
2. The State must provide a 20% match to the Sandy SRF federal monies. The Department is coordinating with the Department of Community Affairs Community Development Block Grant (CDBG) program to meet this requirement. We are also evaluating additional funding sources.
3. A minimum of 20% and a maximum of 30% of the SRF grant can be used for additional subsidization (or principal forgiveness loans (PFLs)).

4. The Sandy SRF monies must be expended within 24 months of obligation to the State (i.e. the award of the SRF capitalization grant) unless a waiver is granted by the federal Office of Management and Budget (OMB). USEPA is working with the states to seek a waiver from the 24-month spending limit and expects to have a waiver that would extend the limit 5-7 years.
5. The Sandy SRF assistance must be provided to facilities that were impacted by the Superstorm (including physical damage, loss of power, loss/interruption of mission essential services, etc.) and for projects that are otherwise SRF eligible and serve at least one of the following purposes:
 - Reduces the likelihood of physical damage to a treatment works or drinking water system;
 - Reduces a treatment works' or water system's susceptibility to physical damage or ancillary impacts caused by floods;
 - Facilitates preparation for, adaptation to, or recovery from a sudden unplanned change in the amount of and movement of water in proximity to a treatment works or water system; or
 - Facilitates preparation for, adaptation to or recovery from climate change or any other type of natural disaster.

Projects were eligible for funding through the Sandy DWSRF in SFY2015/FFY2014 based on the project's rank on the Priority List and the amount of available funds. The Department also issued a Track II Call for Projects in December 2014 to insure that all eligible projects had another chance to apply for Sandy DWSRF funding. The Department and the Trust expect that all Sandy DWSRF funds will be allocated in SFY2016/FFY2015. In the case where Sandy DWSRF funds are still available, the SFY2017/FFY2016 project document submittal schedule for Sandy DWSRF funding is identical to the base program schedule as identified below:

**Sandy DWSRF Program Schedule
(FFY16/SFY17)**

Activity	Deadline
Commitment Letter (Letter of Intent) and Planning Documents	October 9, 2015
Design Documents and Loan Application	March 4, 2016

For the vast majority of the projects financed through the Sandy DWSRF Program, the Trust will provide a 25% share of the loan amount and that the Department will provide financing for 75%

of the allowable project costs, of which approximately 19% will be in the form of a principal forgiveness loan.

Complete details regarding the Sandy DWSRF Financing Program, including allowance for principal forgiveness, are included in the Proposed FFY2016 Priority System document which is being issued for public comment in conjunction with the Sandy IUP.

As stated above, the Department is working to award all of the Sandy DWSRF funds in the SFY2016 Program, however, there is the possibility that the amount of approvable projects in the SFY2016 program do not utilize all of the available Sandy DWSRF funds. Therefore, the Department will continue to accept submittals under the Sandy DWSRF Program, which includes a principal forgiveness component of approximately 19% of the allowable costs. If all of the Sandy DWSRF funds are awarded in SFY2015, new submittals will continue to be eligible under the 75% DEP and 25% Trust loan structure.

All applicants are strongly encouraged to attend a pre-application meeting with appropriate staff within the Municipal Finance and Construction Element. To request a pre-application meeting, please contact Gautam Patel, Acting Chief, Bureau of Engineering and Environmental Reviews at (609) 633-1170. The Department is continuing to require project sponsors to submit a planning checklist with the planning document submittal so that the submittals are more complete and the reviews can be expedited.

SAIL Loan Program

The Trust-administered Disaster Recovery Emergency Loan Fund (commonly referred to as the Statewide Assistance Infrastructure Loan (SAIL) Program) is designed for project sponsors that are certain that FEMA will provide grant funding for a substantial portion of the overall project costs. SAIL is a short-term bridge loan program to help facilitate the cash flow needs of municipalities and authorities and pay for construction costs related to the repair of infrastructure damaged during Sandy and projects to improve infrastructure resiliency in future disasters.

Projects will be financed on a first-approved, first-funded basis provided the project satisfies the requirements to be classified as a SAIL project under the approved legislation (including listing of the project on the SAIL List submitted to Legislature) and certification for eligibility by the Department and the Trust.

A hearing on the Proposed FFY2016 Priority System document for Drinking Water Financing will be held at the offices of the NJ Environmental Infrastructure Trust, 3131 Princeton Pike, Building 4, Suite 216, Lawrenceville, New Jersey, in the large conference room on Tuesday, September 22, 2015. The hearing will commence at 10:00 a.m. and conclude at noon or the end of testimony (whichever is sooner) and will be held in conjunction with the Priority System and Intended Use Plan hearing for the Clean Water Program. Presentations may be made orally or in writing; if written testimony is prepared, the oral presentation should be limited to a summary of the text. The period for submitting written comments on the proposal will close on September 30, 2015 (all comments must be received by

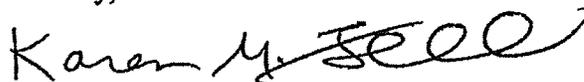
that date). All comments submitted prior to the close of the comment period will be considered in the preparation of the final FFY2016 Priority System and Sandy DWSRF documents.

Written comments should be sent to the following address:

Mail Code 401-04Q
Sandra Krietzman, Bureau Chief
Bureau of Safe Drinking Water
NJ Department of Environmental Protection
PO Box 420
401 East State Street, 4th Floor, West Wing
Trenton, New Jersey 08625-0420

The Proposed Priority System document is posted on the Department's web site at http://www.nj.gov/dep/watersupply/dws_loans.html. You can request a hard copy by contacting Todd Taylor, Supervisor, Bureau of Safe Drinking Water at (609) 292-5550. If you have any questions regarding the Drinking Water proposals, please contact one of the following: Alan S. Dillon, Section Chief, 609-292-5550 or Todd Taylor, Supervising Environmental Engineer, 609-292-5550.

Sincerely,



Karen M. Fell, Assistant Director
Water System Operations Element
Division of Water Supply & Geoscience