



State of Connecticut

State Revolving Fund Programs

Drinking Water Fund 2011 Annual Report



Connecticut Drinking Water Fund

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



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

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



Denise L. Nappier, State Treasurer

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



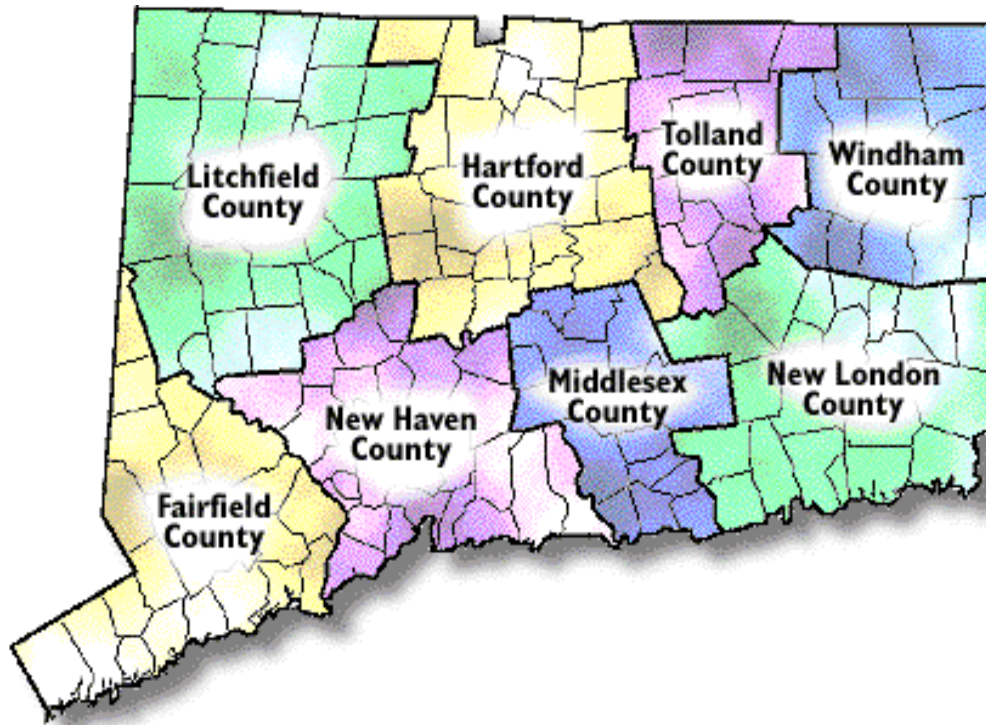
Daniel C. Esty J.D., Commissioner,
Department of Energy and Environmental Protection

Administration of Connecticut's Clean Water Fund

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Communities Served By The Drinking Water Fund As Of June 30, 2011



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

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

Litchfield County: New Milford, Plymouth, Sharon, Watertown

Middlesex County: Portland

New Haven County: None

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

Tolland County: Coventry, Tolland

Windham County: Plainfield, Putnam

Report Introduction

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

This is the Annual Report to the Governor on the Drinking Water SRF for fiscal year ending June 30, 2011. It has been prepared jointly by the DPH Drinking Water Section and the Office of the State Treasurer's Debt Management Division.

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

Included in this report are the history of the Drinking Water SRF, a review of the program during fiscal year 2011, descriptions of the revenue bond program, and projections of future project funding and the management initiatives for fiscal year 2012. As a major recipient of federal financial assistance, the State must provide this annual report and audited statements to comply with federal reporting requirements under the Safe Drinking Water Act. The State must also comply with the federal Single Audit Act of 1984. The audited statements for the fiscal year ending June 30, 2011, as provided in this report have been prepared by a firm of independent certified public accountants.

This report includes some references to the Connecticut Clean Water Fund (CWF) and the Clean Water State Revolving Fund (Clean Water SRF). Information on the Clean Water programs is available in a separate annual report. Copies of the 2011 report and previous annual reports since 2001 are available on the State Treasurer's website at www.state.ct.us/ott.



Connecticut Waterfalls

Executive Summary

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

The DPH Drinking Water Section provides financing as well as technical assistance, education, and regulatory enforcement to over 4,000 public drinking water systems, which provide drinking water to approximately 2.7 million persons on a daily basis.

The Drinking Water SRF is managed by the Department of Public Health (DPH). The DPH Drinking Water Section, which is responsible for the administration of all state and federal drinking water regulations, is comprised of the following units: Compliance, Capacity Development, Information Systems, Enforcement and Operator Certification, Planning, Source Protection, and Office Support. The Drinking Water Section focuses on compliance with state and federal drinking water regulations, and the maintenance and improvement of water quality through sustainable public water systems. The Drinking Water Section provides technical assistance, education, regulatory enforcement and financing to over 2,600 public drinking water systems, which provide drinking water to approximately 2.7 million persons on a daily basis. Through the Drinking Water Section, the State maintains a continuing commitment to drinking water treatment, water monitoring, drinking water source protection, and consumer education. These efforts assure the availability of high quality drinking water to Connecticut’s citizens.

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

The primary sources of funding for the DWSRF financing program include revenue bonds and State contributions which are managed by the Office of the State Treasurer, and federal capitalization grants through the SDWA which is administered by the U.S. Environmental Protection Agency (EPA). The Drinking Water SRF also received federal economic stimulus funding under the American Recovery and Reinvestment Act of 2009 (ARRA) and continued to expend those funds through 2011.

Summary of Activities and Accomplishments

The Drinking Water Section uses the Drinking Water SRF federal capitalization grants and available resources to assist public water systems and water system operators to meet critical needs, reduce public health risk, and maintain safe high quality water resources for the State's citizens. As more fully discussed in this report, major accomplishments for the DWSRF program during FY 2011 include:

Loan commitments totaling \$1.84 million under the base DWSRF Program for projects that included a water main extension and water tank installation.

Closed on permanent loan obligations for 4 of the 12 subsidized loans totaling \$1.4 million under the ARRA program as detailed on www.ct.gov/dph/publicdrinkingwater.

Conducted 431 sanitary surveys inspections of public water systems, including evaluations of technical, financial, and managerial capacity and cross-connection control programs. The survey included:

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

Continued to compile and refine critical data for 80 public water systems serving more than 1,000 persons using a newly created statewide database for safe yield, available water, treatment restrictions, diversion permit restrictions, sale of excess water permits, and interconnections. This data is critical to the Minimum Stream Flow (MSF) regulations by the DEP (now DEEP).

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

Continued the Water Supply Planning Technical Advisory Committee (WSPTAC) comprised of water industry members and consulting firm engineers who regularly prepare water supply plans. A policy document for safe yield, available water, and margin of safety was drafted.

Provided training at the 2011 Annual Technical Conference and Vendor Exposition (ATCAVE) on February 23, 2011 with the Connecticut Section of the American Water Works Association (CT AWWA). There were more than 500 attendees. Approximately 250 attendees participated in a training session to earn water system operator training contact hours and/or continuing education credits for food inspectors.

The Drinking Water SRF depends on the State's continued willingness to commit financial resources to the program. In FY 2011, the State continued to demonstrate its commitment with annual authorizations, consistent staffing levels, and resources to meet existing and future program needs.

Also during the year, in December 2010, Governor Dannel P. Malloy announced his appointment of Dr. Jewel Mullen as Commissioner of the Connecticut Department of Public Health (DPH). Prior to joining the Department, Dr. Mullen was Director of the Bureau of Community Health and Prevention at the Massachusetts Department of Public Health. Dr. Mullen began her clinical career as a member of the National Health Service Corps at Bellevue Hospital in New York, after which she joined the medical faculty of the University of Virginia. A Connecticut resident since 1992, she has been a member of the medical staff at the Hospital of St. Raphael, the Yale University Health Services and Yale New Haven Hospital. Board certified in internal medicine, Dr. Mullen received her Bachelor and Master of Public Health degrees from Yale University, her medical degree from Mount Sinai School of Medicine, and a Master in Public Administration degree from the Harvard University John F. Kennedy School of Government.

DWSRF Program Loans and ARRA Subsidized Loans

There is significant coordination of efforts both within DPH and among the agencies of the State, including the Department of Environmental Protection (DEP), now the Department of Energy and Environmental Protection (DEEP); the Office of the State Treasurer; the Department of Public Utility Control (DPUC); now part of DEEP; and the Office of Policy and Management (OPM). DPH and the Office of the State Treasurer provide administrative, technical, or financial management and contribute to the success of the DWSRF program.

Since the program's inception, the DWSRF financing program has made 47 loan commitments totaling approximately \$118.4 million. This includes 12 subsidized loans made during FY 2010 utilizing \$17.2 million in funding provided by the American Recovery and Reinvestment Act (ARRA).

The State recognizes the need for construction funds to be available to borrowers year round. This need is addressed by making funds available to eligible projects through the execution of project loan agreements. Projects listed in the Intended Use Plan enter into a loan agreement with interim financing and the terms and conditions for permanent financing. After a project is completed, the loans bear interest rates set at half of the prevailing market rate in effect at the time the State makes the commitment. As of June 2011, the State had interim loans outstanding with loan agreements amounting to \$1.0 million. Cumulatively, the State disbursed \$92.4 million under the base DWSRF program and \$6.6 million under the ARRA funded program for drinking water projects to various public water system entities.

For the ARRA funded program, seven projects completed construction and five of those projects closed on permanent loan obligations. As a requirement of ARRA, these loans included subsidization of 56.5% of the total amount of the project. The State program provided approximately 2.06% interest funding to nine municipalities and one private public water system to assist in various infrastructure improvement projects. These loans will be permanently financed when fully drawn, generally within three years of closing.

2011 Projects



Town of Portland - Preparation of Water Main Installation

During FY 2011, the Drinking Water SRF made two interim loan commitments totaling \$1.84 million for the following projects:

Town of Portland/Portland Water Department – High Street Water Main Replacement

This project installed 4300 ft of class 52 ductile iron water main and appurtenances along High Street from Route 66 to the High Street water tank. The new main was installed on the east side of the street, across from the existing 10 inch main that has had several breaks.

The new main started out as 12 inches in diameter north of Route 66, and then was reduced to 10 inches past 41 High Street. New 6- and 8- inch iron pipe connected the new main to the existing distribution pipes. The existing main was abandoned in place, with valves to that main closed and the valve boxes removed.

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

This project consists of demolition and replacement of a structurally deficient 500,000 gallon concrete water storage tank on High Street, adjacent to the Portland Middle School. In addition, masonry repairs and painting will be done on the 1 million gallon concrete water storage tank at the same location.



Town of Portland DWSRF Project - installation of tank floor to wall to stabilize cables embedded in concrete. Concrete floor was mechanically floated during placement of concrete.



Town of Portland DWSRF Project - Pre-stressed concrete tank panel installation completed, ready for wire wound process to secure panels.



Town of Portland DWSRF Project - Water tank with shotcrete finish over wire wound pre-stressed concrete tank panels.



Town of Portland DWSRF Project - – Precast concrete water tank vertical panels being placed by crane.

ACTIVE PROJECTS

During 2011, active projects for the DWSRF included the following:

Town of Ridgefield – Barlow Mountain & Scotland Elementary Schools

The Town of Ridgefield entered into a loan agreement in FY 2010, funded by ARRA, to extend a water main and interconnect the Barlow Mountain & Scotland Elementary Schools to the Aquarion Water Company-Ridgefield Water Supply System. The on-site public water system supplying the school complex had incurred multiple water quality violations and a lead exceedence, and as a result, bottled water was being provided for drinking. This interconnection will provide the students and daycare facility with clean, potable drinking water and eliminate a public water system. This project completed construction in Spring 2011 and closed on the permanent loan on July 1, 2011.



Metropolitan District Commission (MDC) – Smart Metering and Water Main Replacement (ARRA Project)

The Metropolitan District completed construction on 2 projects initiated in 2010. The first project was for the purchase and installation of approximately 30,000 radio frequency automated meter reading devices and new water meters. The new meters replaced existing meters that are beyond their expected useful service life. The “smart” meter reading devices are designed to promote water efficiency. The DWSRF ARRA funded program provided the entire cost of the project, approximately \$5.95 million.

This project also satisfied the ARRA Green Project Reserve requirements. This project will close on the permanent loan during FY 2012.



The second project was for the replacement of a water main on several streets in the vicinity of Tower Avenue in Hartford. The water main in the area is beyond its useful service life. This main replacement was done in conjunction with MDC’s Clean Water Project for storm and sanitary sewer separation. The overall project is being completed under one construction contract in an effort to reduce overall project costs. The sewer portion of this project is being funded by Clean Water SRF ARRA funds through DEEP. DWSRF ARRA funds is covering a portion of the water main replacement costs, approximately \$1.77 million. This project is still under construction and will be completed and close on the permanent loan during FY2012.

Metropolitan District - Water Main Installation - Tower Avenue - Hartford

Woodlake Tax District (Town of Woodbury) – Drinking Water Wells (ARRA)



Woodlake Tax District – Installation of Water Main



Woodlake Tax District – Water Main Installed

The Woodlake Tax District entered into a loan agreement in FY 2010 for the development of new drinking water wells and associated work to connect the new wells to the existing water supply system. This project will allow the Woodlake Tax District to continue to provide an adequate water supply to its customers. DWSRF ARRA funds will cover the entire cost of this project, approximately \$580,000. This project is very close to completion and will close on the permanent loan during FY 2012.

Town of Manchester Water Department - Hercules Drive Booster Pump Station

The Town of Manchester entered into a loan agreement in FY 2010 for the construction of the new Hercules Drive Booster Pump Station. The new facility will provide redundancy to the Highland Street pump station. The station will be equipped with a pair of water booster pumps, disinfection treatment, and an emergency generator, and will be connected to the Town's automated operational system. DWSRF ARRA funds will cover the entire cost of the project, approximately \$697,500. This project is very close to completion and will close on the permanent loan during FY 2012.



Town of Putnam - Well
Yield Testing

Town of Putnam Water Pollution Control Authority –Wellfield Extension

The Town of Putnam entered into a loan agreement in FY 2010 to expand the existing Park Street wellfield with the drilling of several new drinking water wells and the construction of a new water treatment facility at the same location. The Town of Putnam has been experiencing increased water demands, and this project will allow the Authority to maintain adequate water service for its customers and maintain compliance with the DEEP minimum stream flow requirements. The total cost of this project is approximately \$3.2 million with the DWSRF ARRA funding covering approximately \$2.27 million. This project is very close to completion and will close on the permanent loan during FY 2012.

Local Assistance and Other State Set-Asides

There are several set-asides allowed from the federal grants that provide for critical work that is important to the programmatic success of the Drinking Water SRF. The following discussion focuses on the accomplishments achieved through the use of the set-aside funding.

Source Water / Wellhead Protection Program

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

The SWP Unit reviews and may approve all proposals for new sources of public water supply, and any proposed sale, or change in use of, water company owned land. These laws ensure that only the safest water is made available for public consumption through protection of the land that surrounds Connecticut’s public water supplies. The SWP Unit authorizes and issues permits for recreational activities on water company land, provided that the activities are adequately monitored and do not degrade the watershed. The SWP Unit continues to develop, enhance and adapt source water protection laws. In 2011, for example, several statutory changes, initiated by the SWP Unit, were passed that 1) emphasize the importance of maintaining Connecticut’s most pristine water bodies for public drinking water use, and 2) strengthen the authority to deny proposals for public water supply sources in locations threatened by pollution. Additional SWP Unit activities conducted in FY2011 are as follows:

<p>Reviewed and approved proposed sources of supply, including verification that the water system has ownership or control of the sanitary radius for proposed groundwater sources.</p> <ul style="list-style-type: none"> Received and reviewed 36 proposed sources of supply. Issued 20 approvals and four denials. The remainder are under active review. All of the approved sources had full ownership or control of sanitary radius for each groundwater source.
<p>Continued the development of drinking water source protection management plan policy. Reported to the State Legislature and the Water Planning Council that evaluates the drinking water quality management plan process implemented in Groton. Began developing recommendations to the Water Planning Council on tools to protect privately owned public water supply watershed lands.</p>
<p>Reviewed and evaluated approximately 342 required notifications of proposed projects in public water system watersheds and aquifer protection areas. The Source Water Protection Unit’s work helped to ensure the protection of public drinking water supply as evidenced by the Groton Wal-Mart expansion project. As a result of the review and comment, the existing property was redeveloped with an improved stormwater system and management plan rather than developing an additional site within the public water supply watershed. Reviewed and drafted reports for 25 watershed sanitary surveys, required to be submitted by public water systems pursuant to Regulations of Connecticut State Agencies 19-13-B102(b).</p>

Reviewed and approved: Sale of Excess Water Permits, Source Abandonment Permits, Water Company Land Change of Use Permits, Recreational Activity Permit proposals and renewals, and Department of Environmental Protection Diversion Permits of public water supplies.

- Issued one Sale of Excess Water Permit
- Reviewed and approved 12 Source Abandonment Permits
- Issued 15 Water Company Land Change of Use Permits
- Issued 2 Recreational Activity Permits
- Conducted 5 DEP Diversion Permit Reviews

Developed and modified permit application forms to streamline the permitting process including an application form for the sale, lease, assignment and change in use of water company land. Revised application form for endothall and dioxin monitoring waivers.

Initiated development of an upgraded drinking water Geographic Information System (GIS) was begun by upgrading software, attending training, developing a browser based GIS application, meeting with other state agencies to coordinate data sharing, and initiating plans for a real-time source water assessment application.

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

Reviewed Effects of New Sources for Public Water Systems on Nearby Wells. In accordance with CGS 25-33(b), required all proposed new sources for a public water supply to submit a description of potential effects that the proposed new source of water supply may have on nearby water supply systems including public and private wells. Issued Well Site Suitability Certificates with required monitoring for interference from any private or public wells nearby.

Educated and trained local officials and provided them linkages with related state and federal programs. The Source Water Protection Unit, along with the Environmental Protection Agency and the U.S. Geological Survey held a workshop on October 8, 2010 to address local source water protection issues. The featured speakers included representatives from the University of New Hampshire Center for Freshwater Biology, U.S.G.S., Aquarion Water Company, Groton Utilities and several national consulting firms. The presentations included topics such as vulnerability of public supply wells to contamination, cyanotoxins, low impact development, drinking water quality management plans, new techniques for water quality protection and management and local source water protection projects

Developed a statutory revision package which included changes to CGS 25-33(b) to provide DPH with additional authority to deny applications for new sources of supply for new water systems if the future purity and adequacy of the sources or neighboring sources may be adversely impacted. Also Began the process of developing regulations which will formalize the existing well use approval process.

Proposed legislation to link the sale of water company land with the sale and abandonment of the sources of supply. Streamlined source abandonment rules and began development of revisions to be proposed during the next legislative session.

Continued to work with multiple towns and the Departments of Transportation, Agriculture and Economic and Community Development as well as DEEP, Office of Policy and Management, the Environment Policy Review Team and the State Treasurer’s Office to emphasize source water protection. Examples include participation in a yearlong series of stormwater management workshops with DEEP and stakeholders, working with Office of Policy and Management to address SWP related interim change requests to the CT Plan of Conservation and Development, Issued 3 Stormwater Discharge permits, reviewed 147 Sewage Bypass reports and reviewed 74 DEP Aquatic Pesticide Permits.
The SWP unit began to draft a policy and regulations to standardize the process, review and activation of emergency and inactive sources.
Provided detailed technical reviews of municipal ordinance and regulation pertaining to wastewater management
For the Environmental Engineering Unit, establish hands-on training program to ensure proper siting of subsurface sewage disposal systems to prevent negative impacts to water quality and promote drinking water/source water protection, non-point source pollution and wellhead protection. The program is offered to local health departments, installers, professional engineers and other interested parties.
For the Environmental Engineering Unit, review and approval plans for large and small subsurface sewage disposal systems and provide direct contact with other state agencies such as DEEP or DPH’s Drinking Water Section when decisions may be affected by their program policies and procedures. 5 ordinances were developed and/or reviewed for the Town’s of : Clinton, Wallingford, Sherman, Killington and Darien
Assist municipalities in the development of wastewater management ordinances and regulations for the purposes of reducing potential wastewater impacts to environmentally sensitive areas, aquifer protection areas and reduce non-point source pollution
Conducted 28 central system reviews, 4 were denied Reviewed well exceptions, 2 were denied

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 takeover proceedings. Staff also assisted in the preparation of capitalization grants, workplans and reports. There were ten FTEs within the Capacity Development unit in FY 2011. Consistent with the EPA approved capacity development strategy, FY 2011 activities included:

<p>Staff funded under this set-aside conducted 307 public water systems sanitary surveys. Financial, managerial, and technical capacity assessments are conducted during each sanitary survey. Eighty-seven percent, or 267 sanitary survey reports, have been completed. Continued to update the standard operating procedures for sanitary survey inspections in order to promote consistency among field staff</p>
<p>Continued development of guidelines for operators and contractors during the planning, design, and construction of infrastructure projects. Completed reviews of 350 projects submitted by public water systems for permit approval, including infrastructure projects and water company land use</p>
<p>Held five planning technical assistance meetings for public water systems that were scheduled to prepare and resubmit water supply plans. Also held one planning technical assistance meeting for large public water systems with long histories of violations or infrastructure deficiencies that could pose a risk to public health protection</p>
<p>Continued the Water Utility Coordinating Committee (WUCC) process for the coordinated and orderly development of public water supply in Connecticut. Held four WUCC meetings across the State. The Housatonic WUCC held two meetings and the South Central WUCC and Upper Connecticut WUCC management areas held two joint meetings. Prepared and made available forms to applicants for new public water systems for submission to Exclusive Service Area providers and WUCCs.</p>
<p>Continued the integration of the Water Supply Planning process into sanitary survey process. Continued work on creating forms that will provide critical information for regional engineers prior to scheduled sanitary surveys for 80 of Connecticut's largest public water systems</p>
<p>Enforced, through technical review of the water supply plans the requirement for a Sale of Excess Water permit for public water systems that sell bulk water. Received and processed 11 applications</p>
<p>Completed reviews of 26 Water Company Screening Applications to determine potential status as a public water system and applicability of the Certificate of Public Convenience and Necessity (CPCN) process. Technical assistance meetings were held for public water system infrastructure projects, including proposed new systems going through the CPCN process</p>
<p>Held planning and technical assistance meetings for public water systems that are due to prepare and resubmit water supply plans. Conducted meetings with Groton Long Point, Noank Fire District, Groton Utilities and Hazzardville Water Company and Norwalk First Taxing District: The feedback from these meetings has been very positive</p>
<p>Provided technical assistance to public water systems facing sanctions at other State agencies and on violations and deficiencies noted during assessments. Also provided technical assistance to eight local health departments for maximum contaminant level violations, source water construction violations, and cross-connections identified at food service establishments</p>
<p>Assisted in the preparation of FFY 2009 and FFY 2010 DWSRF Capitalization Grants</p>
<p>Prepared and submitted to the EPA the annual Drink Water Nation Information Management Report</p>
<p>Assisted in the preparation of the DWSRF Annual Report</p>
<p>Reviewed and processed required documentation from DWSRF/ARRA loan applicants</p>
<p>Conducted site visits/reviews of DWSRF/ARRA applicants</p>
<p>Assisted in the processing of payment requests</p>

Capacity Development Coordinated Training Initiatives: ATCAVE

Working with the Connecticut Section – American Water Works Association, the Annual Technical Conference and Vendor Exposition (ATCAVE) was held on February 23, 2011, in Cromwell, Connecticut. Over 500 participants attended for educational purposes or to meet with vendors on drinking water related products and services. Many of the attendees participated in one or more concurrent all-day trainings geared toward local health officials and operator certification. Training participants received operator training contact hours and/or continuing education credits for food inspections. Drinking Water Section staff participated as instructors, and staffed the Drinking Water Section information booth. This workshop has become very successful and is one of the more important events in which the Drinking Water Section participates.



Annual Technical Conference and Vendor Exposition 2011 - Crown Plaza, Cromwell, Connecticut - February 23, 2011



Small Systems Technical Assistance Set-Aside

The Drinking Water Section uses this set-aside to provide assistance to small public water systems serving fewer than 10,000 people. In FY 2011, emphasis was placed on asset management and DWSRF loan assistance to small systems. The Small Systems Technical Assistance Set-Aside supported one FTE in FY 2011. Some of the small system activities performed by the Drinking Water Section for the year are listed below:

<p>Provided asset management and technical assistance to small public water systems targeting those small systems identified with weaknesses during sanitary surveys or compliance assessments.</p>
<p>Conducted 18 Sanitary Surveys at small public water systems and completed 15 Sanitary Survey reports. The surveys included extensive technical assistance and technical, managerial, and financial capacity evaluations.</p>
<p>Provided administrative support for small systems that received ARRA financial assistance and followed up on ARRA Open Forum and continued to assist in the development of an ARRA webpage to assist small systems in understanding ARRA provisions.</p>

Projects and Administrative Set-Aside

The State uses this set-aside for the financial administration of DWSRF. Funds are allowed to pay for support services provided by other state agencies. The total FTEs for the Project and Administrative Set-Aside was four (4) staff although two of these staff members are not funded 100%. Some of the activities accomplished during FY 2011 included:

Awarded FFY 2009 project funds (\$4.3 million) and Local Assistance & Technical Assistance Set-Asides funds (\$1.5 million). Awarded FFY 2010 funds \$13.4 million. Please note, original allotment for FFY 2010 was \$13.5 million but EPA withheld \$90,000 so that DPH could purchase the SRF Loans and Grants Tracking System.
Executed two loans under the base DWSRF Program for \$1.84 million Closed on permanent loans for four ARRA loans in the amount of \$1.4 million.
Reviewed and approved financial aspects of Financial Assistance Applications then drafted, finalized, and processed DWSRF loan agreements
Reviewed and processed five DWSRF project payment requests in the amount of \$2.45 million and thirty-three ARRA project payment requests in the amount of \$8.18 million
Provided required progress reports to EPA
Met with applicants and their representatives as needed or requested

Projects which received active support during during FY 2011 included:

City of Norwich/Norwich Public Utilities



City of Norwich - Fairview - New Generator

The City of Norwich entered into two loan agreements in FY 2010. The first loan agreement was for the repair and repainting of the Fitch Hill water storage tank. The second loan agreement was for the repair and repainting of the Fairview water storage tank and installation of two variable frequency pump drive and a new emergency generators at the Fairview pump station. Both tanks were nearing the end of their useful service life and needed repairs in order to maintain service. The pump station upgrades will allow for better operation and the ability to maintain water service in the event of a loss of power at the station. These projects completed construction during FY 2011.

Town of Brookfield

The Town of Brookfield entered into a loan agreement in FY 2010 to extend a water main along Silvermine Road and install a booster pump station for the purposes of supplying drinking water to five condominium complexes currently served by multiple on-site water supply systems. Each of these condominiums has incurred water quality violations and several were under state order to find a solution. This water main extension will provide the residents of these condominiums with clean, potable drinking water and eliminate multiple public water systems. The total cost of this project is approximately \$2.12 million with DWSRF ARRA funds covering approximately \$1.9 million.

The DWSRF is being used to fund the purchase of easements and administrative costs to supplement a water main and pump station project in which the construction is being funded under ARRA.

Town of Ledyard / Ledyard WPCA

The Town of Ledyard entered into a loan agreement in FY 2010 to replace the aging existing Highland System's water storage tank. The replacement of the water storage tank would resolve existing water pressure problems, increase the capability for the system in meeting the average daily water demand, and provide a margin of safe storage as required. The cost of the project was approximately \$1.74 million with the DWSRF loan portion covering \$1.63 million. This project closed on the permanent loan obligation during FY 2011.

Connecticut Water Company – Gallup Water Service, Inc. (Plainfield)

The Connecticut Water Company entered into a loan agreement in FY 2010 to extend a water main to provide water service to the Harrington Mobile Home Park to replace the on-site water supply system. The Harrington public water system had incurred numerous water quality violations and was under state order to find a solution. This interconnection provides the residents of the Harrington Mobile Home Park with clean, potable drinking water and eliminates a public water system. DWSRF ARRA funds will cover the entire cost of the project, approximately \$249,000. This project completed construction during FY 2011.

Town of Tolland/Tolland Water Department

The Town of Tolland entered into a loan agreement in FY 2010 to extend a water main along Old Cathole Road to provide water to the Tolland Middle School and replace the on-site water system at the school thus eliminating a public water system. DWSRF ARRA funds will cover the entire cost of the project, approximately \$178,000. This project completed construction and has repaid the loan in full.

Program Management Set-Aside

This set-aside is used to assist in the administration of the State's Public Water System Supervision (PWSS) Program. Six FTE's staff funded under the Drinking Water Section's FY 2011 Program Management set-aside. Activities included:

Initiated the upgrade to the new Safe Drinking Water System – loan and grant tracking system through coordination with the Department of Information Technology, the DPH Information Technology Unit and the State Treasurer's Office.
Staff funded under this set-aside conducted 212 sanitary surveys and reports.
Maintained a quality assurance system in cooperation with EPA - Region 1.
Assisted in security and emergency response initiatives.
Submitted grant applications, associated work plans, and progress reports to the EPA. Participated in conference calls regarding ARRA process.

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

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

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

Assisted in the software and hardware upgrades of the Drinking Water Section Geographic Information System to provide staff with new, more powerful tools and web applications to quickly and efficiently analyze data

Assisted in the software and hardware upgrades of the Drinking Water Section electronic document management system to make current and historical program information available to all Drinking Water Section staff

Project Financing

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

In the course of a day, almost every Connecticut resident and each visitor to the State comes in contact with the drinking water provided by a public water system. The State has worked diligently to recognize the water resources are not limitless and that responsible planning and conservation are essential elements to maintaining sufficient, safe drinking water.

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

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

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

Once a project is deemed eligible for funding, the applicant's capabilities are evaluated by the 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. The DPUC also uses its economic viability model to evaluate DPUC regulated water systems with more than 50 service connections.

Drinking Water Infrastructure Needs Survey

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

The Drinking Water Infrastructure Needs Survey documents and assesses the 20-year costs and types of capital investment needs of public water systems that are required to protect public health and ensure compliance with the SDWA throughout Connecticut and the U.S. The most recent completed survey was done in 2007, with the report to Congress produced in February 2009. The 2007 Survey for the years 2007 through 2027 was used to determine the federal Drinking Water SRF allocation for fiscal years 2010 through 2013. Connecticut is one of the many states that historically receives the minimum 1% allocations and the most recent allocation received was \$13.57 million for FY 2010. The results of the 2007 needs survey, which were released in February 2009, showed a nationwide need of \$334.8 billion. Of that, Connecticut's needs were in the following categories:

1. Transmission and Distribution	\$ 807.1 million
2. Treatment	\$ 280.6 million
3. Storage	\$ 151.6 million
4. Source	\$ 134.9 million
5. Other	\$ 19.7 million
Total	\$1,393.9 million

Compared with the other five New England States, 20-year needs in Connecticut were higher than New Hampshire (\$847.2 million), Rhode Island (\$428.4 million), Vermont (\$453.2 million), and Maine (\$539.8 million) but lower than Massachusetts (\$6.79 billion). Like Connecticut, New Hampshire, Rhode Island, Vermont, and Maine receive 1% of the total allocation, which is the minimum that a state can receive.

The 2011 Drinking Water Infrastructure Needs Survey will assess the cost and types of drinking water infrastructure needs throughout Connecticut and the nation for the years 2011 through 2031. The 2011 Survey, when completed, will be used to determine the federal Drinking Water SRF allocation for fiscal years 2014 through 2017. The Drinking Water Section is fully participating in the 2011 Survey and is currently in the midst of communicating with the selected Public Water Systems to complete the survey. The goal of fully participating in the 2011 Survey is to identify Connecticut's true need as accurately and completely as possible with the hope of increasing the allocation percentage that the DWSRF program receives. Activities associated with the survey will continue through February 2012. The next report to Congress will be released in February 2013.

Project Priority List

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

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

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

The priority ranking criteria is used to award points for situations in which water quality impairments, water quantity deficiencies, or water system imperfections may increase risk to public health or result in non-compliance. The resulting Project Priority List shows name of the public water system, project description, the projected dollar amount of the project, the points awarded to the project and other pertinent information. The highest points are assigned to projects that are designed to bring systems into compliance with quality and quantity regulations of the Connecticut public health code. Points are also awarded for the acquisition of an existing public water system and upgrades to emphasize the importance of supporting projects that achieve long-term solutions to existing or potential water quality or quantity deficiencies. Affordability points are given to projects located in communities where the median household income is less than 80% of the State's average, based on current data from the American Community Survey available at the time the Project Priority List is generated. The American Community Survey data is updated on an annual basis.

In each fiscal year, the DPH approves project loans to recipients on the project priority list to the extent of funds available. Each recipient may apply for and receive a project loan and subsidies in an amount up to 100% of the eligible project cost. In some cases, based on readiness to proceed, a project may be bypassed on the Project Priority List. In these situations, the DWS continues to provide support for a potential recipient so that eligible projects can proceed as soon as possible. The DWS uses its computer-based application to track and continually update programmatic information on all Drinking Water SRF loan applications. The most recent list available, the FFY 2010 Project Priority List, can be found on the DWS website and a truncated version is shown in Appendix VII.

Intended Use Plan Summary

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

The current Intended Use Plan covers the period October 1, 2009 to September 30, 2011 and is based on the use of anticipated FFY 2009 and 2010 capitalization grant monies, a state match of 20% of the FFY 2009 and 2010 capitalization grant awards, and unobligated funds carried forward from previous Intended Use Plans. Connecticut provided the 20% match of \$1.6 million and \$2.7 million of the FFY 2009 and FFY 2010 awards respectively.

Connecticut, at this time, intends to request the remaining portion of the banked FFY 2008 Program Management Set-Aside as part of the FFY 2012 capitalization grant application. The other set-asides have been requested at the maximum amount of set-asides allowed under the SDWA for administrative, technical assistance state program management and local assistance. A brief explanation of each is located on the set-aside projection sheets. Unused set-aside monies from prior capitalization grant awards will be utilized on a first-in first-out basis. If at any time the funds reserved for particular set-aside activities are not expended, the monies may be transferred to the DWSRF project fund after an amendment to the capitalization grant.

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

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

Projects are presently earmarked for funding based on the evaluation of eligibility applications. The State will be bypassing projects not ready to proceed. Funding is allocated as follows: approximately 23% of the available project funds for systems under 10,000 population and 77% of the available project funds for systems serving greater than 10,000 population. The goal is to provide at least 15% of the total funds to systems serving a population of less than 10,000 and Connecticut intends to meet or exceed this goal.

The most recent DWSRF Public Hearing and Open Forum was held on June 2, 2010. Applicants and interested parties participated at the hearing and gave testimony on several projects. The Drinking Water Section will schedule the DWSRF Public Hearing and Open Forum for the FFY 2011 project priority list in the near future.

SRF Leveraged Program

The State Treasurer is authorized to issue bonds and provide low-cost financing for water quality projects. The resources used for the bonds include federal grants, state matching funds and repayments from borrowers. The DWSRF program leverages these resources by issuing bonds to provide construction proceeds for loans. Loans made since 1996 have a borrower interest rate ranging from 2.0% to 4.6%. In FY 2011 the interest rate on the bonds is higher than the loan rate, borrowers receive a subsidy equal to the difference between marked ratio and the rates 2.06%. Debt service on the SRF bonds is paid from a combination of three sources: borrower loan repayments, interest earnings on the investment of SRF funds, and state match payments provided since the inception of the program.

Each borrower is obligated to repay the principal amount of its loan. In FY 2011, borrower repayments totaled \$6.0 million.

Program assets and reserve funds are held as security for all bonds. As of June 2011, the State held \$76.6 million in program assets invested in loans, the State's Short-Term Investment Fund, general obligation bonds and guaranteed investment contracts. Earnings on these investments are applied to pay a portion of the debt service on the related SRF bonds. In FY 2011, earnings totaled \$2.8 million.

State Support

Since 2001, the State has provided the required match through cash contributions to the Drinking Water SRF. To date, the SRF has received \$26.0 million as cash contributions for the required match. The State also provides revenue bond allocations for Drinking Water SRF projects and to date has provided over \$150 million in allocations.

Borrowers

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

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

Portfolio Credit Quality

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

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

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

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

Pending Projects

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

The table in Appendix V of this report shows a total of \$90.6 million in loans to borrowers with outstanding loans or undrawn loan commitments through June 30, 2011, and those with new loan commitments expected to be executed through June 30, 2012.

Program Funding

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

The State can request up to 31% of the federal capitalization grant as set-asides to administer the Drinking Water SRF, and provide managerial and technical assistance to public water systems. For FFY 2010, the state recipients of the federal capitalization grant must provide a minimum subsidization to program participants. For FFY 2011, the federal capitalization grant also includes a requirement to provide subsidization to program participants. The State will continue to use principal forgiveness as subsidization similar to the ARRA. There are no state-funded grant programs associated with the Drinking Water SRF.

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

Fund	Account Name	Purpose/Requirements
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

Appendix II and III shows the total amounts for the DWSRF project funds and set-aside accounts available to Connecticut based upon EPA approval of Connecticut's FFY 2009 and 2010 Capitalization Grant(s). It includes the 20% State match required by EPA, but does not reflect additional funds that may be obtained through leveraging.

Federal Capitalization Grants

The 1996 amendments to the SDWA established the State Drinking Water SRF, and the SDWA both authorized the Drinking Water SRF and continues to place legal constraints on each state program. Federal regulations limit the uses of the Drinking Water SRF equity to loans, support for bonds issued to make loans, loan guarantees or insurance, refinancing of prior debt, or administrative expenses associated with qualified projects. The Clean Water SRF and the Drinking Water SRF have many similarities. However, one major difference is that, unlike the Clean Water SRF, the Drinking Water SRF can make loans to private entities that own and operate public water systems. The initial federal authorizations ended in 2003 and as of June 30, 2011, the SDWA has not yet been reauthorized by Congress. However, in each subsequent year since 2002, Congress has appropriated funding for the DWSRF.

Each year Connecticut is allocated 1% of the federal funds available for federal capitalization grants to State Drinking Water SRF. The federal drinking water, non-ARRA, capitalization grants awarded to Connecticut from FFY 1997 through FFY 2010 totaled \$130.4 million. Since last year's report, the State was awarded the remainder of FFY 2009 funds, which consisted of project funds (\$4.3 million) and the remaining two set-asides (\$1.5 million) as well as FFY 2010 funds (\$13.4 million). The full allocation for FFY 2010 was \$13.5 million however, EPA withheld \$90,000 for the SRF Loan and Grant Tracking System. While the dates of award were September 15, 2010 and December 6, 2010 respectively, the Drinking Water SRF has up to two years to apply for an allocated grant. Connecticut's allocated grant award for 2011 is approximately \$9.4 million. The date that the Drinking Water Section will apply for those funds needs to be determined. While states have significant latitude in the creation of the SRF program, the federal capitalization grants and the required match for the Drinking Water SRF must be maintained by the SRF in perpetuity.

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

Set-asides are funds allocated for a range of specific activities including Drinking Water SRF program administration and management, technical assistance for small water systems, and operator education and support. As mentioned previously, these approved purposes can use as much as 31% of each capitalization grant 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 of this report.

State Authorizations – Projects & 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 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 bond authorizations of \$95 million for projects have been made available to the Drinking Water SRF. Connecticut's match has been made in the form of cash contributions and taxable State bonds deposited in the Drinking Water SRF for a total of \$26 million. At present, future match requirements will be provided with cash contributions from the State.

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 as additional grants are drawn by the State from the EPA.

Revenue Bonding Program

The DWSRF financing plan is consistent with the plan for the State's FFY Clean Water SRF program. This plan includes leveraging where project funding comes from the proceeds of revenue bonds supported by the capitalization grants. Connecticut initiated procedures for leveraging DWSRF projects with EPA approval in Federal Fiscal Year 2001 as more fully described in Sections V & W of the FFY 2001 Capitalization Grant Application. The leveraging process has evolved and portions of bonds issued in 2003, 2006, 2009, and 2011 were used for Drinking Water SRF projects.

Leveraged financing allows the State to maximize the available project funding because the revenue bond proceeds can be two times the amount of the available capitalization grants and the state match contributions. The leveraging process has been successful because it has allowed the State to fund large projects that would not be funded if the state used this strategy. Using federal funds only allows the Drinking Water SRF to maximize the available project funding more quickly than under a direct federal or state loan program.

Since 2001, revenue bond proceeds totaling \$150 million have been 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. 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. As of June 30, 2011, \$13 million of the 2011 bond proceeds for the Drinking Water SRF are available projects. The next bond issue is anticipated for Spring 2012.

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 DPH, the DEEP, 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 creates an interagency committee and details the roles and responsibilities of each agency. An overview of State agency participation and information on the roles and responsibilities of each state agency are available in Appendix VIII and Appendix IX of this report.

Compliance with Operating Agreement and Grant Conditions

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

- Attorney General Certification included with FFY 2009 & FFY 2010 grant application meets the requirement of the state having the authority to conduct the DWSRF program.
- State certification to comply with applicable state laws and procedures
- Deposit state matching funds. The State provided \$4.34 million as state match for the FFYs 2009 & 2010 capitalization grants. The state match for FFY 2011 funds will be \$1.88 million.
- Submit Biennial Report and annual audit. The EPA has agreed that the Annual Report will fulfill the requirements of the Biennial Report as of this year.
- Review technical, financial, and managerial capacity of assistance recipients
- Establish DWSRF loan account, set-aside account, and DWSRF administration account
- Deposit all funds in appropriate accounts
- Follow state accounting and auditing procedures
- Require DWSRF loan recipient to adhere to accounting and auditing procedures

- Submit Intended Use Plan and use all funds in accordance with the plan
- Complied with enforceable requirements of the Act
- Independent auditor has evaluated program on yearly basis
- Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- Developed and submitted project priority ranking system
- Submitted and obtained EPA approval for Drinking Water SRF Set-Aside Workplans
- Request approval from the EPA Project Officer as needed prior to any significant deviation to the approved workplans

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

- Applicant Credit Evaluation: Office of the State Treasurer staff conducts a credit review evaluation for all municipal public water systems. This evaluation determines whether an applicant has the ability to repay a loan. Office of the State Treasurer (DPUC when applicable) staff conducts a similar credit review for all private water systems. For all public water systems, the expected revenue stream from user fees must be sufficient to repay the loan, pay operation and maintenance costs, and pay for other necessary expenses.
- Use Funds in Timely and Expeditious Manner: Public water systems with binding commitments have moved in an expeditious and timely manner to start and complete construction. DPH monitors construction progress to ensure that operations are initiated according to schedule.
- Ensure Recipient Compliance with Applicable Federal Cross-Cutting Authorities: The State of Connecticut and all of its assistance recipients have complied with all applicable federal crosscutting authorities. Section 6.7 “Compliance with Federal and State Requirements” is stated in the executed loan agreements. In order to establish an overall fair-share objective for Minority and Women’s Business Enterprises (MBE/WBE), the DWSRF utilized the same percentages that were approved by the EPA for the Clean Water program of 3% for MBE participation and 5% for WBE participation. This objective was accepted by the EPA during FY 2011.
- Conduct Environmental Reviews: The two public water systems that received assistance during FY 2011 were reviewed and approved using the Drinking Water Section’s “Environmental Reviews of DWSRF Project” guidance document. To date there has not been any significant environmental impact associated with the projects, which has been classified as either a category 1 or 2. A brief description of the environmental review process, examples of project types by category and an environmental assessment checklist, for a funded project is located on the Drinking Water Section website. This environmental evaluation is conducted on all DWSRF projects prior to their approval.

DWSRF Program Activities and Initiatives

The DPH and the interagency committee develop goals for each program of the Drinking Water SRF and set-asides. The DWSRF short-term goals are focused on continued development and implementation of all facets of the DWSRF program. The DWSRF long-term goals, as outlined below and in the Official Agreement between the State of Connecticut and the EPA, express strategic principles for guiding the DWSRF into the future.

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

Short-Term Financial Goals

1. Approved and disbursed loans and financial assistance for projects and set-aside activities funded from the FFYs 2009 and 2010 capitalization grants in accordance with the Intended Use Plan and the DWSRF project priority list. Funds were disbursed in a timely manner
2. Continue to implement:
 - Effective and efficient fiscal management of DWSRF funds
 - Routine procedures for entering into project funding agreements with recipients
 - Communication and information connections between State agencies for fiscal components of the DWSRF program
3. Complete the annual review of DWSRF fiscal elements as required by the EPA
4. Maintain a financing plan that secures the perpetuity of the DWSRF and meets loan demand by utilizing the leveraging strategies. Actively support the capital budgeting process

Short-Term Programmatic Goals

1. Reviewed and approved applications for DWSRF assistance for projects, as ranked on the project priority list, with an overall goal of committing all available project funds during the current Intended Use Plan period
2. Draft the Intended Use Plan and develop the Project Priority List necessary to apply for the FFY 2011 Capitalization Grant
3. Change from an annual Intended Use Plan and Project Priority List to a biennial IUP and Project Priority List
4. Continue to implement the following existing DWSRF elements, include reevaluation and improvement when necessary:

- a. Technical review and approval of DWSRF projects
 - b. Monitoring, oversight and management of contract compliance of DWSRF set-aside projects
 - c. Collaboration between State agencies for programmatic components of the DWSRF
 - d. Evaluating technical and managerial capacity and sustainability aspects of proposed projects
5. Reviewed and revised the DWSRF Interagency Memorandum of Understanding to reflect modifications made with respect to each agency’s responsibilities to the DWSRF program to reflect statutory changes approved in 2010.
 6. Meet the provisions of the FFY 2010 DWSRF appropriation regarding:
 - a. Goal of utilizing at least 20% of the 2010 capitalization grant to fund projects that qualify under the Green Project Reserve as green infrastructure, water and energy efficiency, and other environmentally innovative activity
 - b. Continued compliance with Davis-Bacon Act wage requirements and the State’s current prevailing wage requirements
 - c. Providing a minimum of 30% of the 2010 capitalization grant as additional subsidization
 7. Input project information into the DWSRF PBR federal on-line database
 8. Review and revise the Operating Agreement as necessary
 9. Complete a review of the DWSRF programmatic elements as required by EPA
 10. Evaluate the needs of small public water systems and mechanisms for getting these types of projects through the DWSRF process. Staff had been participating in the EPA Small Systems Workgroup; however, this was suspended when it became necessary to focus efforts on implementing DWSRF provisions associated with ARRA, and the continued effort to implement the FY 2010 Intended Use Plan. This goal will be emphasized as staff availability allows.
 11. Improve public water system education and proficiency in sustainable infrastructure/asset management

The major activities planned for FY 2012 in order to meet these goals include:

Administrative Set-Aside and Projects

Four (4) staff will continue to be funded under this set-aside and will focus on the administrative aspects of the DWSRF. Activities planned for FY 2012 include:

Review and provide comments to the federal capitalization grant application
Review DWSRF Financial Assistance Applications
Evaluating financial assistance for eligible systems through the DWSRF Loan Program
Review, approve, and process payment requests

Participate in DWSRF Public Hearing / Open Forum on the project priority list
Evaluate ways to streamline the DWSRF loan process to improve program efficiency
Meet with stakeholders and applicants as needed
Evaluate and implement program to greater assist small systems
Draft, finalize, and process loan agreements and process payments
Development and utilization of effective accounting management reports
The remaining seven of the original twelve ARRA projects are scheduled to be completed by the end of FY 2012
Attend workshops and trainings to improve program's efficiency

2012 State and Local Program Set-Aside

Source Water Protection Unit

The DPH plans to continue its efforts to educate and train local land use officials, linking with related state and federal programs and where possible, involving stakeholders and developing partnerships to emphasize the importance of source water protection. The focus of the three (3) staff under this set-aside will continue the implementation of drinking water wellhead protection consistent with the Strategic Plan.

This unit works to meet the following objectives listed below by enacting the actions items as identified within this Strategic Plan:

Mission Statement: Promote, enhance, and protect public health through the active protection of all existing and future public drinking water sources of supply in Connecticut. Under the Strategic Plan, the SWP Unit will focus on two main objectives in FY2012:

Objective 1: Implement the comprehensive drinking water source protection strategic work plan by the DPH's Source Water Protection Unit, reframing, reformatting and revising existing public health law, with an emphasis on education and training, involvement of stakeholders and creation of linkages to all relevant programs.

Objective 2: By 2012, 100 percent of source water areas for community water systems (both surface and ground water) will achieve minimized risk to public health by substantial implementation of the source water protection actions as identified in the Strategic Plan. This is consistent with a source water protection sub-objective 2.1.1 under Goal 2: Clean and Safe Water within EPA Office of Water's National Water Program Guidance.

The plan's action items place an emphasis in five main areas: regulatory, management planning, education and training, cross program linkages, and stakeholder involvement. The program elements are to coordinate, manage, and regulate source protection through utilization of assessment report information to:

- Enhance, oversee, and enforce existing public health source protection laws and regulations,
- Integrate drinking water source protection with water supply management planning,
- Initiate the development of drinking water quality management plans,
- Educate and train local land use officials,
- Link to related programs to emphasize proactive public health protection through source water protection, and

- Involve stakeholders on a continuous basis.

The five areas emphasized have been identified by the Department of Public Health as critical to drinking water source protection, and achieving minimized risk to public health. Implementation of action items within this strategic plan is critical towards achieving substantial implementation for all sources of community public water supply sources.

Activities scheduled for FY 2012 include:

Review and approve of proposed sources of supply, including verification that the water system has ownership or control of the sanitary radius for proposed groundwater sources.
Develop and enhance Source Water Protection laws, including CGS Section 8-3 25-32, 25-37, 25-33k, 25-33l and associated regulations.
Investigate the redevelopment of source protection regulations, including incorporation of PA 08-137 (CGS 25-33(b)) into regulations, updating statutes and regulations concerning water company lands, developing statutes and / or regulations pertaining to the sale of a water company, CGS 25-33(l), updating RSCA 19-13-B51 and updating RSCA 19-13-B32 to include permitting requirements and enforcement mechanisms for non-compliance.
Review and evaluate potential impacts of proposed projects in public water system watersheds and aquifer protection areas.
Review and approve: Water Company Land Permits, recreational activity permit proposals and renewals, watershed surveys, and DEP Diversion Permits of public water supplies.
Continue to enhance drinking water Geographic Information System (GIS) capabilities and data, including continued interaction with state agencies to improve data sharing.
Review Effects of New Sources for Public Water Systems on Nearby Wells [CGS 25-33(b)].
Continue to link the protection of public water supplies with septic system approval, maintenance, training and repair.
Educate and provide guidance to local officials and link them with related state and federal programs.
Evaluate the disconnect between the permitting of a sale of water source and the permitting of the sale of the land surrounding the source.
Continue to work with multiple towns and the Departments of Transportation (DOT), the Department of Energy and Environmental Protection, Agriculture, and Economic and Community Development, as well as the Office of Policy and Management, Council on Environmental Quality, the Environmental Review Team and the Office of the Treasurer, to emphasize source water protection
Develop and compile literature on emerging source water topics, including cyanotoxins and invasive species, and post on the Drinking Water Section website.
Redevelop an aquatic pesticide memorandum of understanding with the Department of Energy and Environmental Protection (DEEP) to improve source protection through permit policy improvements. Evaluate toxicology and environmental effects of new pesticides proposed for water bodies tributary to public supplies.

Develop a program and policy for inspection of in-state bottled water sources of supply, to comply with new legislated charges.

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

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

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

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

Capacity Development

Nine (9) staff will continue to be funded under this set-aside and will continue working on the implementation of the Capacity Development strategy as well as improving the pace of processing DWSRF loans. Activities for FY 2012 will include:

Compile and update data 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 80 larger public water systems, and each of the geographical Water Utility Coordinating Council regions of the State.

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

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

Assist in the implementation of the DWSRF Program by:

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

Use database software to track actual amount of water available for each of the 80 large public water systems, and each of the geographical Water Utility Coordinating Council (WUCC) regions of the State
Continue support for the Water Utility Coordinating Committee and the coordinated and orderly development of public water supply in Connecticut
Hold Regional Water Supply forums. These forums provide information to local officials, developers, consultants, and public water systems to help ensure the orderly and proper construction of public water systems in the State. A forum was held in Ashford, Connecticut on July 14, 2011. Staff availability and resources will determine if there will be additional forums after the end of the fiscal year in 2012
Continue the integration of the Water Supply Planning process into sanitary survey process. Continued work on forms to provide critical information to regional engineers prior to scheduled sanitary surveys for the 80 largest public water systems in the State.
Hold planning technical assistance meetings for public water systems that are scheduled to prepare and resubmit water supply plans
Participate as necessary in training programs related to technical, managerial and financial capacity for public water system operators and local health officials. Continue participation as instructors at DPH water system operator classes and participate in other training sessions to enhance the financial, managerial, and technical capacity of public water systems
Review and approve Sale of Excess Water permits. Enforce the requirement for a SEW permit for public water systems that sell bulk water to neighboring public water systems. This requirement is a critical step in assuring the adequate capacity both of the public water system selling the water and the public water system purchasing the water
Complete reviews of Water Company Screening Applications to determine potential status as a public water system and applicability of the Certificate of Public Convenience and Necessity process
Provide technical assistance and enforcement referral to local health departments for maximum contaminant level violations, source water construction violations, and cross-connections identified at food service establishments
Contract with a qualified consultant to develop templates, tools and resources to be use by Capacity Development staff

Program Management Set-Aside

These funds are designated for the administration of the State Public Water Supply Supervision Program. Activities to be conducted by the seven (7) staff that will continue to be funded under this set-aside during FY 2012 include:

Prepare guidance documents, workplans, progress reports, standard operating procedures and long-term strategies for DWSRF program management and EPA required program management reports (e.g. Quality Management Plan, Quality Assurance Progress Plan, Performance Partnership Agreement) status reports and contracts related to technical assistance to public water system in capacity development efforts
Assist in the preparation of grant applications, associated work plans, and progress reports to the EPA
Continue to provide direct technical assistance to public water systems and laboratories regarding the required reporting of water quality and inventory/facility data in SDWIS and electronic data interchange, provide information and educational opportunities to public water systems via internet posting
Conduct outreach programs to educate public water system staff, certified operators, the general public and other stakeholders on capacity and State drinking water program administration issues as related to the Sanitary Survey process
Conduct outreach programs to educate public water system staff, certified operators, the general public and other stakeholders on capacity and State drinking water program administration issues as related to the sanitary survey process
Provide technical assistance to the Water Planning Council in the areas of the Water Utility Coordinating Committee water supply planning, and the Connecticut Drought Advisory Committee
Provide legal assistance to the Drinking Water Section
Coordinate activities with the Environmental Health Section's Laboratory Certification Program in assisting public water systems regarding water quality testing issues
Revise the approval process and other regulatory mechanisms and provide direct technical assistance to public water systems to better address capacity development concerns
Prepare standard operating procedures for all reviews (water supply plans, sale of excess water permits, diversion permits, water company lands) to ensure consistent reviews
Maintain a quality assurance system in cooperation with EPA – Region 1
Identify water systems that would most benefit from collaboration or regionalization and assisting in developing and evaluating processes to aide in the success of the Drinking Water Section's capacity development efforts
Coordinate staff activities to promote standardization of presentations and informational materials

Test and install the latest version of the SDWIS/State software (3.01) and related add-ons. Communicate new reporting requirements to laboratories and certified operators to provide a smooth transition
Further develop the data quality assurance/quality control application and procedures to continue maintaining high quality inventory and compliance data in SDWIS/State
Develop a section on the Drinking Water Section webpage to provide information and templates related to the Public Notification Rule
Continue the development of web applications and data maintenance related to the Geographic Information System (GIS) used by Drinking Water Section staff
Continue the enhancements, maintenance and organization of the Drinking Water Section electronic document management system (Laserfiche) to make current and historical program information available to all Drinking Water Section staff

Small System Technical Assistance Set-Aside

One (1) staff person will continue to be funded under this set-aside. Activities to be funded to assist small public water systems (fewer than 10,000 population) during FY 2012 include:

Conduct sanitary surveys of community, non-transient, non-community, and transient non-community public water systems serving fewer than 10,000 people (small systems)
Assess existing small public water system's technical, financial, and managerial capacity during sanitary surveys
Conduct regulatory compliance reviews of engineering plans and specifications for small public water system infrastructure improvements, including projects funded under the DWSRF
Conduct reviews of water quality and quantity of newly developed drinking water sources and review engineering plans and specifications for new water system designs in accordance with RCSA Section 16-262-m
Evaluate the adequacy and protection of the small distribution networks with emphasis on viability of the small systems-cross connection program as part of sanitary survey

Long-Term Projections

The Long Term Projects includes a discussion of the status of meeting long-term goals and the accomplishments thus far. 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 are shaping the program:

- 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.
- Offer, as effectively as possible, a low cost financing mechanism to eligible public water systems that possess self-sustaining technical, managerial and financial capabilities
- Encourage public water systems, in particular those serving populations less than or equal to 1,000 to engage in long-term planning for capital improvements and compliance
- Continuing outreach efforts to reach and assist small water systems in need of a high level of technical assistance and low cost financing.
- Maximizing the use of available resources through the project priority list of eligible projects, and monitoring the amount of money available for projects, and the number of potential loans.
- Continue improvement on the use of set-aside funds to maximize effectiveness as it relates to the State's public water systems and its customers with a focus on the small water systems

Condition of the Fund

Each year, the Department of Public Health 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. The amount is based on the remaining authorizations and the allocations approved through the State Bond Commission. Authorizations for Clean Water and Drinking Water projects have been provided for FY 2011 and FY 2012 and the DPH was able to initiate the project priority process and create the priority list for these years. The current Project Priority List for the base Drinking Water SRF Program is shown in Appendix VII and at the Department's web site www.ct.gov/dph.

Since the inception of the Program, the Drinking Water SRF has over \$116.2 million in completed projects and project commitments. Many of the borrowers have multiple loans and the largest number of loans and commitments continue to be with the MDC and the City of Norwich.

The listing in Appendix XI of water projects funded by the Drinking Water Fund as of June 30, 2011 shows the projects by borrower and the amounts of funding from each of the State's programs.

Since 2001, the State has issued revenue bonds to expand the Drinking Water SRF and its ability to fund critical water quality projects. State bond authorizations for the Drinking Water SRF have only been used for project purposes. Program capacity projections show that the program can sustain bond issuance of approximately \$10 to 12 million in revenue bonds per year through 2020 without additional State funded interest subsidy. Depending upon project spending needs, the State may provide additional support for higher levels of revenue bond issuance in the future. The receipt of the ARRA funding from EPA has only expanded possible capacity of the program.

DWSRF Glossary

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

APPENDIX I - State Match for Federal Capitalization Grants

State Funding Allocations

Fiscal Year	Revenue Allocations
1999 Total	\$8,832,429
2000 Total	\$25,235,756
2001 Total	\$2,773,790
2002 Total	\$27,260,500
2003 Total	\$4,039,735
2004 Total	\$987,000
2005 Total	\$26,965,165
2006 Total	\$4,643,030
2007 Total	\$8,309,000
2008 Total	\$20,653,900
2009 Total	\$7,000,000
2010 Total	\$13,600,000
2011 Total	\$1,790,400
<i>Grand Total</i>	<i>\$152,090,705</i>

The required State Match for FFY 2011 grant funds will be \$1,853,600

State Match for Federal Capitalization Grants

Fiscal Year	State 20% Match Requirement
1997	\$4,281,640
1998	\$1,424,260
1999	\$1,492,760
2000	\$1,551,400
2001	\$1,557,820
2002	\$1,610,500
2003	\$1,600,820
2004	\$1,660,620
2005	\$1,657,100
2006	\$1,645,860
2007	\$1,629,200
2008	\$1,645,800
2009	\$1,631,200
2010	\$2,696,600
2011	
<i>Total</i>	<i>\$26,085,580</i>

** Waiting notification of award. The required State Match for FFY 2011 grant funds is expected to be approximately \$1,853,600*

APPENDIX II - Federal Capitalization Grants Project Funds

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

* \$90,000 of FFY 2010 award (\$13,573,000) was withheld by EPA for the SRF Loan and Grant Tracking System. Total award was \$13,573,000. The amount of project funds is less than 71% because the State used previously banked funds from 2008.

** Awaiting notification of award.

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

APPENDIX III - Set-Aside Management

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

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

Administrative Set-Aside - (up to 4%)

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

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

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

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

- Delineation and assessment of source water protection areas;
- Review and approve: Water Company Land Change of Use permits, new Recreation permits, sewage bypass reports, and water supply plans
- Loans to systems to acquire land or conservation easements
- Loans to systems to assist in voluntary, incentive-based source water protection measures;
- Development and implementation of wellhead protection programs
- Technical assistance for systems as part of a capacity development strategy.

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

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

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

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

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

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

- Developing, tracking and submitting grant applications, workplans and progress reports to the Environmental Protection Agency
- Continue implementing electronic reporting by water systems.
- Managing State Drinking Water Information System (SDWIS)
- Web-page development and management.
- Develop and coordinate reports to the Environmental Protection Agency.
- Develop fact sheets, brochures pamphlets and electronic public informational services (e-mail, internet and DPH's Health Alert Network).
- Coordinate with public water systems, businesses, trade associations etc. to provide speakers to and/or initiate conferences and workshops.
- Prepare, review and submit formal enforcement actions on non-compliant water systems for processing.

- Staff has presented information on operator certification to various industry groups such as water system owners and operators, and well drillers.

Set-Aside Management

<i>As of 6/30/2011</i>	Administration	State Management	Small Systems Technical Assistance	Local Assistance	Total
Set-Aside percentage:	4%	10%	2%	15%	
1997 Award	\$ 856,328	\$ 2,140,820	\$ 428,164	\$ 3,211,230	\$ 6,636,542
Drawn thru 6/30/11	856,328	2,140,820	428,164	3,211,230	6,636,542
Balance	-	-	-	-	-
1998 Award	284,852	712,130	142,426	1,068,195	2,207,603
Drawn thru 6/30/11	284,852	712,130	142,426	1,068,195	2,207,603
Balance	-	-	-	-	-
1999 Award	298,552	746,380	149,276	1,119,570	2,313,778
Drawn thru 6/30/11	298,552	746,380	149,276	1,119,570	2,313,778
Balance	-	-	-	-	-
2000 Award	310,280	775,700	155,140	1,163,550	2,404,670
Drawn thru 6/30/11	310,280	775,700	155,140	1,163,550	2,404,670
Balance	-	-	-	-	-
2001 Award	311,564	778,910	155,782	1,168,365	2,414,621
Drawn thru 6/30/11	311,564	778,910	155,782	1,168,365	2,414,621
Balance	-	-	-	-	-
2002 Award	322,100	805,250	161,050	1,207,875	2,496,275
Drawn thru 6/30/11	322,100	805,250	161,050	1,207,875	2,496,275
Balance	-	-	-	-	-
2003 Award	320,164	800,410	160,082	1,200,615	2,481,271
Drawn thru 6/30/11	320,164	800,410	160,082	1,200,615	2,481,271
Balance	-	-	-	-	-
2004 Award	332,124	830,310	166,062	1,245,465	2,573,961
Drawn thru 6/30/11	332,124	830,310	166,062	1,245,465	2,573,961
Balance	-	-	-	-	-

<i>As of 6/30/2011</i>	Administration	State Management	Small Systems Technical Assistance	Local Assistance	Total
2005 Award	331,420	828,550	165,710	1,242,825	2,568,505
Drawn thru 6/30/11	331,420	828,550	165,710	1,242,825	2,568,505
Balance	-	-	-	-	-
2006 Award	329,172	822,930	164,586	1,234,395	2,551,083
Drawn thru 6/30/11	329,172	822,930		1,234,395	2,551,083
Balance	-	-	-	-	-
2007 Award	329,160		155,782	1,168,365	2,414,621
-	164,580	1,234,350	1,728,090	1,168,365	2,414,621
Drawn thru 6/30/11	329,160	-	164,580	885,222	1,378,962
2008 Award	-	-	-	1,221,900	1,221,900
Drawn thru 6/30/11	-	-	-	-	-
Balance	-	-	-	1,221,900	1,221,900
2009 Award	561,680	1,637,500	325,840	1,221,900	3,746,920
Drawn thru 6/30/11	398,296	1,637,500	175,842	-	2,211,638
Balance	163,384	-	149,998	1,221,900	1,535,282
2009 ARRA Award	780,000	1,170,000	292,500	-	2,242,500
Drawn thru 6/30/11	205,892	846,697	108,897	-	1,161,468
Balance	574,108	-323,303	183,621	-	1,081,032
2010 Award	780,000	1,170,000	292,500	-	2,242,500
Drawn thru 6/30/11	-	-	-	-	-
Balance (2010)	452,920	1,507,300	271,460	2,035,950	4,267,630
TOTAL Awarded:	\$5,820,316	\$13,556,190	\$2,902,658	\$19,576,185	\$41,855,349
Drawn thru 6/30/11:	\$4,629,905	\$11,725,587	\$2,297,579	\$14,747,307	\$33,400,378
TOTAL Balance:	\$1,190,411	\$1,830,603	\$605,079	\$4,828,878	\$8,454,971

APPENDIX IV - Closed Loans

Closing Date	Entity	Project Number	SCD	IFO/ PLO	Amount	New PLO Amount	New IFO Amount
9/30/2010	Portland	2010-7003	12/12/2010	IFO	\$816,000.00	-	\$816,000.00
12/17/2010	Ledyard	2010-7004	6/1/2010	PLO	\$1,629,000.00	\$1,629,000.00	-
12/29/2010	Point- O- Woods	200802-C	12/31/2010	PLO	\$800,000.00	\$800,000.00	-
12/30/2010	Brookfield	2010-7001	12/30/2010	IFO	\$71,000.00		\$71,000.00
6/30/2011	Portland	2010-7003	12/31/2010	PLO	\$816,000.00	\$816,000.00	
6/30/2011	Portland	2011-7002	12/31/2011	IFO	\$1,025,000.00		\$1,025,000.00
				Totals:	\$5,157,000	\$3,245,000	\$1,912,000

Total New IFO Loans/ Certificate

2

Total Dollar Value on New IFO Loans

\$1,912,000.00

Total New PLO Loans

3

Total Dollar Value on PLO Loans

\$3,245,000.00

Key:

SCD- Scheduled Completion Date (Based on Loan Agreement)

IFO- Interim Funding Obligations

PLO- Permanent Loan Obligations

ARRA Project Closing

Closing Date	Entity	Project Number	SCD	IFO/ PLO	IFO/PLO Loan Amount	New IFO Amount	New PLO Amount
6/30/2010	Norwich	2010-8005	12/31/2009	PLO	\$144,727.64		\$144,727.64
12/31/2010	Norwich	2010-8006	6/30/2011	PLO	\$326,250.00		\$326,250.00
12/29/2010	Ridgefield	2010-8004	1/1/2011	IFO	\$620,688.00	\$620,688.00	
12/30/2010	Brookfield	2010-8001-1	12/30/2010	IFO	\$827,361.00	\$827,361.00	
2/25/2011	MDC	2010-8008	2/28/2011	IFO	\$2,579,412.00	\$2,579,412.00	
2/25/2011	MDC	2010-8009	2/28/2011	IFO	\$772,079.00	\$772,079.00	
2/28/2011	Woodlake Tax Dist.	2010-8010	2/28/2011	IFO	\$252,176.00	\$252,176.00	
3/30/2011	CT Water Company	2010-8012	9/30/2010	PLO	\$104,010.50		\$104,010.50
6/30/2011	Putnam	2010-8011	6/30/2011	IFO	\$1,075,271.00	\$1,075,271.00	
6/30/2011	Brookfield	2010-8001-1	12/30/2010	PLO	\$827,361.00		\$827,361.00
				Totals:	\$7,529,336.14	\$6,128,987	\$1,402,349.14

Total New IFO Loans/ Certificate 6

Total Dollar Value on New IFO Loans 6,126,987.00

Total New PLO Loans 4

Total Dollar Value on New PLO Loans 1,402,349.14

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 6/30/2011	Undrawn Loan Commitments	Additional Loan Commitments Through 06/30/12	Total Commitments
DW	Aquarion Water(BHC)	9701-C	\$203,410			\$203,410
DW	Bethel				\$500,000	\$500,000
DW	Brookfield	2010-7001	-			-
DW	Brookfield	2010-8001	\$785,993			\$785,993
DW	Candlewood Trails Assoc.				\$526,290	\$526,290
DW	Colchester	200702-C	\$2,173,776			\$2,173,776
DW	CTWC Gallup Water Service Inc.	2010-8012	\$104,011			\$104,011
DW	Cook Willow	9706-C	\$424,506	\$1,073		\$425,579
DW	Crystal Lake	9711-C	\$132,669			\$132,669
DW	Crystal Lake	9711-C-D1	\$86,379			\$86,379
DW	East Hampton				\$2,693,460	\$2,693,460
DW	East Lyme	2010-8003	\$369,933	\$45,874	\$8,753,258	\$9,169,065
DW	Haddam				\$4,770,000	\$4,770,000
DW	Harrybrook Park Condo	9703-C	\$120,547			\$120,547
DW	Hillside Water Corp	2000b-DC	\$99,694			\$99,694
DW	Ledyard	200401-C	\$739,115			\$739,115
DW	Ledyard	2010-7004	\$1,547,550			\$1,547,550
DW	Manchester	2010-8013		\$290,340		\$290,340
DW	MDC	2010-8008	\$2,565,748	\$13,664		\$2,579,412
DW	MDC	2010-8009	\$528,746	\$243,333		\$772,079
DW	MDC	200105-C	\$1,416,007			\$1,416,007
DW	MDC	9704-C	\$408,900			\$408,900
DW	MDC	9704-DC-D1	\$1,243,576			\$1,243,576
DW	MDC	9709-C	\$94,828			\$94,828
DW	MDC	9709-C-D1	\$526,345			\$526,345
DW	MDC	9710-C	\$430,989			\$430,989
DW	New Britain	2000A-DC	\$14,700,000			\$14,700,000
DW	New Britain	9802 PDC	\$6,605,722			\$6,605,722
DW	Newtown	200101-C	\$331,876			\$331,876
DW	Newtown	200402-C	\$130,735			\$130,735
DW	Norwich	9714-C	\$1,112,269			\$1,112,269
DW	Norwich	200801-C	\$403,125			\$403,125
DW	Norwich	2010-8005	\$133,873			\$133,873

Loan		Project Number	Total IFO/PLO 6/30/2011	Undrawn Loan Commitments	Additional Loan Commitments Through 06/30/12	Total Commitments
DW	Norwich	2010-8006	\$309,938			\$309,938
DW	Point- o-Woods	200802-C	\$784,386			\$784,386
DW	Portland	9708-C	\$1,213,271			\$1,213,271
DW	Portland	2010-7003	\$816,000	-		\$816,000
DW	Portland	2011-7002	-	\$1,025,000		\$1,025,000
DW	Putnam Water Pollution Control	2010-8011	\$958,524	\$116,747		\$1,075,271
DW	Ridgefield	2010-8004	\$502,824	\$91,400		\$594,224
DW	Second Taxing District- City of Norwalk	200601-C	\$21,763,971			\$21,763,971
DW	Sharon	2000d-DC	\$294,593			\$294,593
DW	Sharon	9705-C	\$106,764			\$106,764
DW	Sharon	9713-C	\$424,122			\$424,122
DW	Sharon	9801-C	\$551,001			\$551,001
DW	Southington	200202-C	\$1,925,409			\$1,925,409
DW	Southington	200201-C	\$907,156			\$907,156
DW	Southington	200202-CD1	\$1,682,381			\$1,682,381
DW	Twin Hills	9707-C	\$99,287			\$99,287
DW	Waterbury				484,950	\$484,950
DW	Watertown Fire District	200104-C	\$301,219			\$301,219
DW	Watertown Fire District	9803-C	\$441,555			\$441,555
DW	Woodlake Taxing District	200602-C	\$339,479			\$339,479
DW	Woodlake Taxing District	2010-8010	\$207,290	\$44,886		\$252,176
			\$71,049,492	\$1,872,316	17,727,958	\$90,649,767

APPENDIX VI - Assistance by Bond Rating

Borrower	Total Commitment Amount	AAA	A and AA	B to Baa	Not Rated	Total Commitments
PUBLIC						
Bethel	\$500,000		\$ 500,000			\$500,000
Brookfield	\$785,993		\$785,993			\$785,993
Colchester	\$2,173,776		\$2,173,776			\$2,173,776
East Hampton	\$2,693,460		\$2,693,460			\$2,693,460
East Lyme	\$9,169,065		\$9,169,065			\$9,169,065
Haddam	\$4,770,000				\$4,770,000	\$4,770,000
Ledyard	\$2,286,665		\$2,286,665			\$2,286,665
Manchester	\$290,340		\$290,340			\$290,340
MDC	\$7,472,136		\$7,472,136			\$7,472,136
New Britain	\$21,305,722		\$21,305,722			\$21,305,722
Newtown	\$462,611		\$462,611			\$462,611
Norwich	\$1,959,205		\$1,959,205			\$1,959,205
Putnam Water Pollution Control	\$1,075,271				\$1,075,271	\$1,075,271
Portland	\$3,054,271		\$3,054,271			\$3,054,271
Ridgefield	\$594,224	\$594,224				\$594,224
2nd Taxing District- City of Norwalk	\$21,763,971		\$21,763,971			\$21,763,971
Sharon	\$1,376,480		\$1,376,480			\$1,376,480
Southington	\$4,514,946		\$4,514,946			\$4,514,946
Waterbury	\$484,950		\$484,950			\$484,950
Watertown Fire District	\$742,774		\$742,774			\$742,774
Subtotal	\$87,475,860	\$594,224	\$81,036,365		\$5,845,271	\$87,475,860

Borrower	Total Commitment Amount	AAA	A and AA	B to Baa	Not Rated	Total Commitments
PRIVATE						
Aquarion Water(BHC)	\$203,410				203,410	203,410
Candlewood Trails	\$526,290				526,290	526,290
CTWC Gallup Water Service Inc.	\$104,011				104,011	104,011
Cook Willow	\$425,579				425,579	425,579
Crystal Lake	\$219,048				219,048	219,048
Harrybrook Park Condo	\$120,547				120,547	120,547
Hillside Water Corp	\$99,694				99,694	99,694
Point-o-Woods	\$784,386				784,386	784,386
Twin Hills	\$99,287				99,287	99,287
Woodlake Taxing District	\$591,655				591,655	591,655
Subtotal:	\$3,173,907				3,173,907	3,173,907
Total:	\$90,649,767	\$594,224	\$81,036,365	-	\$9,019,178	\$90,649,767
Percentage:		1%	89%		10%	

APPENDIX VII - Project Priority List

ARRA Projects

Rank Pts (1)	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested	Estimated Subsidization Amount
				System	Project		
145	2010-0158	East Hampton WPCA - Village Ctr.	Water System Improvements	3,662	TBD	\$3,388,000	\$694,540
95	2010-0065	Brainard Memorial Library - Haddam	Water Main Ext. to Tylerville	252	200	\$6,000,000	\$1,230,000
90	2010-0092	Candlewood Trails - New Milford	Water System Improvements	3,122	312	\$662,000	\$135,710
60	2010-0141	Norwich Public Utilities	Deep River Res. Upgrades & 2 new tanks*	36,067	36,067	\$2,390,000	\$489,950
55	2010-0120	Waterbury Water Department	Pump Station Improvements - North Main St*	107,271	6,000	\$610,000	\$125,050
55	2010-0102	East Lyme Water & Sewer Comm.	Regional Interconnection2	15,245	15,245	\$10,192,000	\$1,438,742
FUNDING LINE – AVAILABLE FUNDS ARE ANTICIPATED FOR PROJECTS ABOVE THIS LINE							

Rank Pts (1)	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested
				System	Project	
145	2010-0158	East Hampton WPCA - Village Ctr.	Water System Improvements	3,662	TBD	\$3,388,000
95	2010-0065	Brainard Memorial Library - Haddam	Water Main Ext. to Tylerville	252	200	\$6,000,000
90	2010-0092	Candlewood Trails - New Milford	Water System Improvements	3,122	312	\$662,000
60	2010-0141	Norwich Public Utilities	Deep River Res. Upgrades & 2 new tanks*	36,067	36,067	\$2,390,000
55	2010-0120	Waterbury Water Department	Pump Station Improvements - North Main St*	107,271	6,000	\$610,000
55	2010-0102	East Lyme Water & Sewer Comm.	Regional Interconnection2	15,245	15,245	\$10,192,000

Rank Pts (1)	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested
				System	Project	
50	2010-0158	MDC - Hartford	RF Metering - Phase III*	388,700	72,000	\$3,034,000
50	2010-0142	Norwich Public Utilities	Deep River WTP Transmission Main Replacements*	36,067	36,067	\$1,570,000
45	2010-0140	Norwich Public Utilities	Stony Brook Backwash Filter Recycle*	36,067	36,067	\$1,780,000
40	2010-0111	SCWA Tower Ferry View Division	AMR Meter Installation - Ledyard*	2,567	3,017	\$176,225
35	2010-0117	Meriden Water Division	Broad Brook WTP & Pump Station Improvements3	58,441	36,500	\$1,400,000
35	2010-0090	Ledyard WPCA - Gales Ferry	Water Main Ext. to Aljen Heights	2,054	780	\$4,097,000
25	2010-0148	Regional Water Auth - New Haven	Lake Gaillard WTP Finished Water Reservoir Study	418,900	290,000	\$75,000
25	2010-0116	Middletown Water Department	Westfield Water Main Ext. & Pressure Zone Reconfiguration	41,019	n/a	\$3,300,000
22	2010-0118	Meriden Water Division	Improvements in Carpenter Ave. Pressure Zone	58,441	20,000	\$500,000
20	2010-0150	Regional Water Authority	North Cheshire Facility Automation Upgrades	418,900	23,000	\$190,000
20	2010-0112	Dorothy Heroy Recreation Complex	Water Main Ext. to Private Wells (AWC system)	25	104	\$1,350,000
20	2010-0089	Regional Water Auth - New Haven	Waterbury Rd. & Edge Comb Rd. Water Main Ext. - Cheshire	418,900	60	\$415,000
20	2010-0088	Regional Water Auth - New Haven	Moss Farm Rd. Water Main Ext.	418,900	12	\$165,000
17	2010-0093	Waterbury Water Department	Blackman Rd. Tank Rehabilitation	107,271	6,000	\$747,000

Rank Pts (1)	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested
				System	Project	
15	2010-0106	MDC - Hartford	Oak St. (south) - E Htfd to Glastonbury, Water Main Installation	388,700	388,700	\$3,000,000
15	2010-0155	Manchester Water Department	New State Road Disinfection Conversion	51,066	51,066	\$185,000
15	2010-0086	Norwalk First Taxing District	Pumphouse Bldg. Expansion & Chem. Equip. Modifications	40,256	40,256	\$150,000
15	2010-0146	Regional Water Auth - New Haven	Derby Well #1 Contact Time	418,900	21,000	\$33,000
15	2010-0094	Brookfield Municipal Buildings	Southern Federal Rd. - Water Main Ext.	60	5,800	\$3,600,000
15	2010-0099	Colchester Sewer & Water Comm.	Well #4 Treatment Plant Improvements	4,001	4,001	\$400,000
15	2010-0137	MDC - Hartford	Upper Albany Area Water Main Replacement	388,700	1,284	\$3,107,000
15	2010-0145	MDC - Hartford	Wethersfield Ave., Warner St. & Mannz St. - Water Main Replacement	388,700	550	\$1,788,000
15	2010-0139	MDC - Hartford	Cleveland Ave. Water Main Replacement	388,700	550	\$2,033,000
15	2010-0136	MDC - Hartford	Hudson St. Water Main Replacement	388,700	456	\$1,057,400
15	2010-0105	MDC - Hartford	Farmington Ave. 1A Main Replacement	388,700	420	\$3,750,000
15	2010-0135	MDC - Hartford	Park St. Water Main Replacement	388,700	300	\$2,416,000
15	2010-0138	MDC - Hartford	Farmington Ave. Water Main Replacement	388,700	240	\$2,330,000
15	2010-0143	MDC - Hartford	Cedar St. Water Main Replacement	388,700	144	\$578,875

Rank Pts (1)	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested
				System	Project	
15	2010-0123	MDC - Hartford	Design of 15 Water Main Replacements - East Hartford	388,700	TBD	\$419,000
15	2010-0121	MDC - Hartford	Design of 12 Water Main Replacements	388,700	TBD	\$538,000
12	2010-0115	Bristol Water Department	Grove St. Storage Tank Improvements	52,079	41,100	\$400,000
10	2010-0078	Norwalk First Taxing District	Security Enhancements	40,256	40,256	\$250,000
10	2010-0080	Norwalk First Taxing District	Spring Hill Pump Station Rehab & Tank Replacement	40,256	4,000	\$1,150,000
10	2010-0097	Woodlake Tax District - Woodbury	Atmospheric Storage Tank	912	912	\$718,000
10	2010-0109	MDC - Hartford	Uplands Way Pump Station Upgrade - Glastonbury	388,700	588	\$1,035,000
5	2010-0153	Manchester Water Department	Painting of Birch Mount & Rockledge Storage Tanks	51,066	51,066	\$245,000
5	2010-0154	Manchester Water Department	Village St. & Valley St. - Water Main Replacements	51,066	51,066	\$1,700,000
5	2010-0084	Norwalk First Taxing District	Filter Plant Secondary Generator	40,256	40,256	\$220,000
5	2010-0083	Norwalk First Taxing District	Transmission Pipe Cleaning & Lining	40,256	40,256	\$5,000,000
5	2010-0082	Norwalk First Taxing District	Transmission Main Valve Replacement	40,256	40,256	\$350,000
5	2010-0077	Norwalk First Taxing District	Mill Rd Water Main Ext.	40,256	40,256	\$600,000
5	2010-0147	Regional Water Auth - New Haven	Ansonia-Derby Water Tank Construction	418,900	21,000	\$4,400,000

Rank Pts (1)	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested
				System	Project	
5	2010-0149	Regional Water Auth - New Haven	Seymour Wellfield Chem. Transfer Automation Upgrade	418,900	21,000	\$250,000
5	2010-0081	Norwalk First Taxing District	Transite Pipe Water Main Replacement	40,256	20,000	\$6,700,000
5	2010-0085	Norwalk First Taxing District	Water Main Ext to Loop Piping	40,256	10,000	\$1,800,000
5	2010-0079	Norwalk First Taxing District	Silvermine Rd & Valley Rd New Transmission Pipeline	40,256	n/a	\$4,700,000
5	2010-0066	Norwalk First Taxing District	Undersized Water Main Replacements	40,256	4,000	\$4,450,000
5	2010-0119	Colchester Sewer & Water Comm.	Emergency Interconnection with Norwich	4,001	4,001	\$4,000,000
5	2010-0108	MDC - Hartford	Simsbury Rd Pump Station Upgrade - Bloomfield	388,700	950	\$1,035,000
5	2010-0133	MDC - Hartford	Canal Road Pump Station Replacement - West Hartford	388,700	800	\$1,100,000
5	2010-0134	MDC - Hartford	Farmstead Lane Pump Sta. Replacement - Glastonbury	388,700	740	\$1,100,000
5	2010-0107	MDC - Hartford	Cold Spring Dr Water Main Replacement - Bloomfield	388,700	258	\$1,152,888
5	2010-0104	MDC - Hartford	Farmington Ave. Water Main Replacement - West Hartford	388,700	168	\$1,359,400
5	2010-0132	MDC - Hartford	Bloomfield Bear Ridge Pump Station Replacement	388,700	160	\$1,100,000
5	2010-0114	Snug Harbor Development Corp.	Tank Replacement - Danbury	144	144	\$30,000

Rank Pts (1)	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested
				System	Project	
5	2010-0100	Colchester Sewer & Water Comm.	Rte. 637/Lake Hayward Rd Water Main Ext.	4,001	100	\$900,000
5	2010-0101	Colchester Sewer & Water Comm.	Rte. 85 Main Replace Hall Hill Rd	4,001	68	\$700,000
5	2010-0113	Bittersweet Ridge Water Assoc.	Tank Replacement - Middlefield	40	40	\$30,000
5	2010-0122	MDC - Hartford	Design of 4 Water Main Replacements - West Hartford	388,700	TBD	\$335,000
5	2010-0128	MDC - Hartford	Design of 3 Water Main Replacements - Windsor	388,700	TBD	4311,000
5	2010-0124	MDC - Hartford	Design of 2 Water Main Replacements - Rocky Hill	388,700	TBD	\$194,000
5	2010-0125	MDC - Hartford	Design of 8 Water Main Replacements - Wethersfield	388,700	TBD	\$220,000
5	2010-0129	MDC - Hartford	Design of 2 Water Main Replacements - South Windsor	388,700	TBD	\$103,000
5	2010-0126	MDC - Hartford	Design of 5 Water Main Replacements - Bloomfield	388,700	TBD	\$360,000
15	2010-0151	Regional Water Auth - New Haven	Advanced Metering Infrastructure Study4	418,900		\$140,000
0	2010-0127	MDC - Hartford	Design of 3 Water Main Replacements - Newington	388,700		\$388,000
0	2010-0130	MDC - Hartford	Design of 6 Water Main Replacements - Farmington	388,700		\$186,000
0	2010-0131	MDC - Hartford	Design of 2 Water Main Replacements - Glastonbury	388,700		\$200,000
0	2010-0095	Colchester Sewer & Water Comm.	Cabin Rd Water Main Ext.	4,001		\$575,000
0	2010-0152	Manchester Water Department	Lydall Dam Reservoir Spillway #1 Replacement	51,066		\$650,000
0	2010-0159	Regional Water Auth - New Haven	Woodbridge Bulk Fill Station	418,900		\$50,000
0	2010-0156	Manchester Water Department	Well 2A Remediation	51,066		\$1,150,000

Rank Pts(1)	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested
				System	Project	
0	2010-0087	Regional Water Auth - New Haven	Lake Gaillard WTP Fuel Cell	418,900		\$2,500,000
0	2010-0157	Regional Water Auth - New Haven	Sargent Dr. Facility Lighting Retrofits	418,900		\$130,000
55	2010-0091	United Water CT - Greenridge System	Brookfield Interconnection with Newtown System	912		\$3,400,000
52	2010-0045	East Haddam Elementary School	Water System Upgrades	485		\$200,000

*Green Project Reserve (GPR) Projects

Notes:

- 1 For projects below the “funding line” that are tied in the number of ranking points, ranking has been shown as the same for each with that number of points. Should funds become available, tiebreaker provisions will be implemented.
- 2 It is anticipated that this project will only receive partial funding of \$7,018,253 due to the availability of funds.
- 3 This project is anticipated to include Green Project Reserve (GPR) components; however, they will not be finalized until the design has been completed. GPR points may be awarded if/when the project is rolled over for construction activities.
- 4 This project can only be funded from Federal Capitalization Grant set-asides; none are available at this time.

Current list of projects to be funded after implementation of Bypass Procedures, as outlined in the IUP:

Rank Pts (1)	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested	Estimated Subsidization Amount
				System	Project		
90	2010-0092	Candlewood Trails - New Milford	Water System Improvements	3,122	312	\$662,000	\$135,710
60	2010-0141	Norwich Public Utilities	Deep River Res. Upgrades & 2 new tanks*	36,067	36,067	\$2,390,000	\$489,950
55	2010-0102	East Lyme Water & Sewer Comm.	Regional Interconnection2	15,245	15,245	\$10,192,000	\$2,089,360

Rank Pts (1)	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested	Estimated Subsidization Amount
				System	Project		
50	2010-0158	MDC - Hartford	RF Metering - Phase III*	388,700	72,000	\$3,034,000	\$621,970
50	2010-0142	Norwich Public Utilities	Deep River WTP Transmission Main Replacements*	36,067	36,067	\$1,570,000	\$321,850
45	2010-0140	Norwich Public Utilities	Stony Brook Backwash Filter Recycle*	36,067	36,067	\$1,780,000	\$375,150
40	2010-0111	SCWA Tower Ferry View Division	AMR Meter Installation - Ledyard*	2,567	3,017	\$176,225	\$39,201
35	2010-0117	Meriden Water Division	Broad Brook WTP & Pump Station Improvements ³	58,441	36,500	\$1,400,000	\$343,705
35	2010-0090	Ledyard WPCA - Gales Ferry	Water Main Ext. to Aljen Heights	2,054	780	\$4,097,000	\$839,885

APPENDIX VIII - Program Management

Department of Public Health(DPH)

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

DPH monitors approximately 4,000 public water systems in Connecticut. Of those, 1050 public water systems are eligible for Drinking Water SRF funding. Public water systems monitoring activities include:

- Emphasizing the importance of reaching these potential applicants through the implementation of its public outreach initiatives simultaneously with the development of the Drinking Water SRF program.
- Determining future needs and setting priorities with the preparation of an annual project priority list.
- Provide project information to the DEP for development of the biennial capital budget.
- Distributing applications and project information to the Office of the State Treasurer and when applicable, the DPUC, for review and approval. Once approved, the loans with the Drinking Water SRF borrowers are signed by the DPH. Due to a recent modification of legislation, the DEP is no longer be required to approve DWSRF loans after October 1, 2010.
- Establishing a compliance schedule for each step of the project, including planning, design and construction.
- Quarterly and Annual reporting on the details of these and other program activities to the EPA.
- Conducting the annual Public Hearing and Open Forum on the project priority list.

Department of Energy and Environmental Protection (DEEP) (Formerly DEP) and the Department of Public Utilities Control (DPUC – now part of DEEP)

The Connecticut Drinking Water SRF, was created and initially managed through the coordination of the DPH, the DEP, the DPUC and the Treasurer's Office. The State Clean Water Act gave the agencies certain statutory responsibilities for the Drinking Water SRF, and the agencies worked together through an Interagency Committee. As the program has evolved, by October 2010, the DPUC had an advisory role and the only role of the DEEP is to continue to coordinate the capital budget requests for entire Clean Water Fund, including the DWSRF.

The Department of Energy and Environmental Protection (DEEP) was created by Public Act 11-80. Effective July 1, 2011, DEEP brings together the former Departments of Environmental Protection (DEP) and Public Utility Control (DPUC) along with the energy policy group from the Office of Policy and Management (OPM).

APPENDIX IX - 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 receives all money belonging to the State, makes disbursements as directed by Statute, and manages, borrows, and invests all funds for the State. The State Bond Commission delegates to the State Treasurer the authority and responsibility for determining the State's financing plans including the terms and conditions of issuing State general obligation and revenue bonds. The State Treasurer also invests all funds in the State's General Fund as well as the assets of the State pension, trusts and other funds.

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

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

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

The program management goals and objectives of the 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 and after review by both offices, all loan and subsidy agreements have been approved by the Commissioners of the DPH and the DEEP. After October 1, 2010, the DEEP is no longer required to approve Drinking Water SRF agreements. The Office of 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. Although there is some flexibility with regard to the timing of approvals, in all cases funding is subject to a project being listed on the project priority list and State Bond Commission approval.

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.

Bond Debt Service

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

Cross-Collateralization

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

Investments and Reserve Account Information

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

APPENDIX X - Application Process

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

- **Evaluation and Enforcement and Project Administration (DPH):** The proposed project must address the needs cited by the DPH and comply with regulatory and statutory requirements for the project. All project costs requested in the application must be eligible for funding in accordance with state and federal regulations. Applicant's applying for Drinking Water State Revolving Fund loans for professional services are required to follow the Qualifications Based Selection, or QBS, process. QBS is an objective and fair process used to select architects, engineers and land surveyors based on the design professional's qualifications in relation to the project. Selecting design professionals is one of the keys to a successful project. The design will determine, among other things, the cost of the project.
- **Environmental Review (DPH):** Based on information received from the borrowers, the DPH prepares an environmental assessment of all activities to be undertaken in order to ensure that the project is consistent with the State Plan of Conservation and Development and the required environmental cross-cutter programs. DPH identifies those programs that need to evaluate and provide comment on the proposed project activities and sends a letter to each program requesting comment.

As of April 1, 2011, this process has been modified. DPH still prepares an initial environmental assessment. However, each project now has a Scoping Notice prepared and posted in the Council on Environmental Quality's Environmental Monitor. This notice is available for public and state agency review and comment, including OPM and all cross-cutters. A final assessment, incorporating all appropriate comments, is then completed. Applicants are provided with all comments received and must address any concerns or requirements identified by OPM or the cross-cutters.

- **Credit Review (Office of the State Treasurer, DPUC and the interagency committee):** The applicant must be creditworthy, and the Drinking Water SRF underwriting standards must be met. The Office of the State Treasurer reviews the financial information submitted with each application. The interagency committee determines whether, and on what general terms and conditions, financial assistance will be provided. The loan agreements are written to permit eventual financing through a revenue bonding program.

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

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

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

APPENDIX XI - Project Funding Agreements

In accordance with the State's SRF and as required by the Connecticut General Statutes, financial assistance is provided to the borrower pursuant to a project loan and subsidization funding agreement between the borrower and the State. Under each agreement, the State agrees to make loans and provide subsidy for eligible project costs as incurred by the borrower, upon the terms and in the maximum amount specified. Funds are disbursed to pay eligible project costs as incurred by the municipality, and the amounts of loan and subsidy are equal only to the aggregate of such disbursed amounts. Thus, the municipality is obligated to repay only that amount that it actually draws down as loan for the payment of project costs. The FFY 2010 (Public Law 111-85) federal capitalization grants required subsidization for eligible projects.

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

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

SECTION I	Definitions
SECTION II	The Project: Project Description and Eligible Project Costs
SECTION III	The Subsidization: The Project Subsidy, Increase in Project Subsidy, Required Repayment of the Subsidy, Disbursement of Project Subsidy, and Audit Requirements for Subsidy
SECTION IV	The Loan: The Loan Commitment, Increase in Loan Commitment, The Interim Funding Obligations and Project Loan, Disbursement of Project Loan and Project Subsidy, Required Repayment of Obligations, Optional Prepayment of Principal, Method of Payments, New Municipality, and Timing of Disbursement of Advance
SECTION V	Representations & Warranties: Existence and Power, Authority, No Litigation Pending, Expenditure of Project Loan and Project Subsidy 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, Procedures for Compliance with Davis-Bacon Act, Compliance with Federal Regulations Concerning Grants and Agreements, and Reporting Requirements

SECTION IX	Defaults: Events of Default and Remedies		
SECTION X	Miscellaneous: Waivers, Notices, Litigation, Connecticut Law, Interpretation, Severability, Survival of Representations, Warranties and Covenants, Successors and Assigns, Incorporation of Other Documents, Amendments, Cancellation, Effective Date, Other Provisions of State Contracts, and Public Records Disclosure		
Exhibit I	Form of Interim Funding Obligation	Exhibit VIII	Form of Request for Advance
Exhibit II	Form of Project Loan Obligation	Exhibit VIX	Closing Statement
Exhibit III	Form of Opinion of Bond Counsel	Exhibit X	Conditions Precedent
Exhibit IV	Form of Signature No Litigation Certificate	Exhibit XI	Insurance Requirements
Exhibit V	Continuing Disclosure Agreement	Exhibit XII	Disadvantaged Business Enterprise Payment Report-Contractor/Consultant
Exhibit VI	Budget	Exhibit XIII	Davis-Bacon Certification Form
Exhibit VII	Certification of System of Charges, Assessments and Other Revenues	Exhibit XIV	DWSRF Budget Revision Request Instructions and Form

APPENDIX XII - Cumulative DWSRF Projects

PWSNAME (Applicant)	ID#	TOWN	LOAN AMOUNT	INT RATE	TERM	BRIEF DESCRIPTION	POP. SERVED	CUMALATIVE DISBURSEMENTS
Metropolitan District (A)**	C 97 0640011a	Bloomfield	\$1,163,888	2.6%	20 YEARS	Filtration Plant Improvement	400,000	\$1,163,888
Metropolitan District (C)**	C 97 0640011c	Blmfd/ Htfd/W. Htfd	\$861,978	2.6%	20 YEARS	Water Main Replacement	400,000	\$861,978
Town Of Portland	C 97 1180081a	Portland	\$2,500,000	2.5%	20 YEARS	Interconnection With MDC	8,270	\$2,500,000 (State)
Harrybrooke Condominium**	PDC 97 0960131a	New Milford	\$231,327	4.11%	20 YEARS	Interconnection With United Water	110	\$231,327
Sharon Water & Sewer (B)Refin	DC 97 1250011b	Sharon	\$1,084,010	2.77%	20 YEARS	Refinance Intake &Pipeline Upgrades	1,288	\$1,084,010
Sharon Water & Sewer (A)	DC 98 1250011a	Sharon	\$1,100,000	2.77%	20 YEARS	Water Main Replacement	1,288	\$1,100,000 (State)
New Britain Water Dept.	PDC 98 1530011a	New Britain	\$12,682,987	2.77%	20 YEARS	New Water Treatment Plant -Phase I	85,000	\$12,682,987 \$11,189,038(Federal) \$1,493,949 (State)
Crystal Lake Condominium Association**	C 97 1210021/31a	Salem	\$359,902	4.68%	20 YEARS	Construct New System	40	\$359,902
Bridgeport Hydraulic Co. (Stamford) - Aquarion	PDC 97 1350011a	Stamford	\$391,038	4.11%	20 YEARS	Upgrade Pump Station	105,460	\$391,038
Cook Willow Realty**	DC 97 1110111a	Plymouth	\$704,259	4.11%	20 YEARS	Interconnection To Ct. Water Company	85	\$704,259
Norwich Water Dept.**	DC 97 1040011a	Norwich	\$1,898,651	2.77%	20 YEARS	Replacement Of Asbestos Cement Pipes With Ductile Iron Pipe	7,200	\$1,898,651
Watertown Fire District(a)**	DC 98 1530011a	Watertown	\$717,731	2.73%	20 YEARS	Construct Pump Station	35,000	\$717,731
Twin Hills Water District**	C 97 0340131a	Coventry	\$207,421	2.60%	20 YEARS	Distribution Source Improvements	156	\$207,421
Sharon Sewer & Water (a)	DC 97 0640011c	Sharon	\$210,000	2.60%	20 YEARS	Pump Station	1,288	\$210,000
Metropolitan District (b)**	C 97 0640011b	West Hartford	\$3,086,188	2.60%	20 YEARS	Facility Repairs	400,000	\$3,086,188
New Britain Water Phase II New	PDC 98 0890011a	New Britain	\$24,000,000	2.43%	20 YEARS	Continued Construction of Water Treatment Plant	74,400	\$24,000,000

PWSNAME (Applicant)	ID#	TOWN	LOAN AMOUNT	INT RATE	TERM	BRIEF DESCRIPTION	POP. SERVED	CUMALATIVE DISBURSEMENTS
Sharon Water & Sewer **	DC 01 1250011a	Sharon	\$438,153	2.40%	20 YEARS	Water Main Replacement	704	\$438,153
Hillside Corporation**	PDC 00 0790021a	Marlborough	\$149,052	3.84%	20 YEARS	Replace Water Main & Distribution System	136	\$149,052
Town Of Newtown High School **	C 02 0970442a	Newtown	\$516,000	2.10%	20 YEARS	Interconnect to Town Water	1173	\$516,000
Metropolitan District Commission (x)	C 01 0640011x	Bloomfield	\$2,343,735	2.10%	20 YEARS	Construction of Water Mains	381,000	\$2,343,735
Town of Newtown Elementary School**	D 03 0970422a	Newtown	\$171,738	2.03%	20 YEARS	Interconnect to Town Water	560	\$171,738
Unionville Water Company	C 97 0520011b	Farmington	\$1,646,970	3.60%	20 YEARS	Interconnection to MDC	13,400	\$1,646,970
Watertown Fire District (b)	DC 98 1530011b	Watertown	\$435,500	3.43%	20 YEARS	Upgrade Chemical Feed Equipment	35,000	\$435,500
Southington Water Department (a)	D 03 1310011a	Southington	\$4,359,916	2.32%	20 YEARS	Wellhead Protection Project	40,408	\$4,359,916
Second Taxing District – City of Norwalk	D 04 1030021a	Norwalk	\$24,715,165	2.04%	20 YEARS	Water Treatment Plant Upgrade	42,000	\$24,715,165
Town of Ledyard (a)**	DC 03 0727031a	Ledyard	\$926,006	2.14%	20 YEARS	Intercommunication to Elem. School	2,400	\$926,006
Southington Water** Department (b)	DC 03 0727031b	Southington	\$1,037,097	2.21%	20 YEARS	Water Main Extension	40,408	\$1,037,097
Woodlake Tax District**	PDC 03 1680031a	Woodbury	\$404,494	2.55%	20 YEARS	Land Purchase / Well Development	912	\$404,494
Town of Colchester**	C 04 0280111a	Colchester	\$2,496,990	2.12%	20 YEARS	Water Treatment Plant Upgrade	4001	\$2,496,990
CT Water Company – Shoreline Region – Point O' Woods	DC 07 1050752a	Old Lyme	\$800,000	2.44%	20 YEARS	Water Main Installation	928	\$800,000
City of Norwich / Norwich Water Department	DC 07 1040011d	Norwich	\$450,000	2.27%	20 YEARS	Water Storage Tank	36,067	\$450,000
Town of Brookfield**	D 06 0189043a	Brookfield	\$71,000	2.06%	20 YEARS		485	\$15,000

PWSNAME (Applicant)	ID#	TOWN	LOAN AMOUNT	INT RATE	TERM	BRIEF DESCRIPTION	POP. SERVED	CUMALATIVE DISBURSEMENTS
Town of Ledyard	C 05 0720031a	Ledyard	\$1,629,000	2.00%	20 YEARS	Water Storage Tank	4,134	\$1,629,000
Town of Portland	DC 08 1130011a	Portland	\$816,000	2.00%	20 YEARS	Water Main Installation	5,010	\$816,000
Town of Portland	DC 07 1130011b	Portland	\$1,025,000	2.00%	20 YEARS	Water Storage Tank	5,010	TBD

Add footnote regarding these designations?

* Based on population served being less than 10,000

** Final Loan Amount Less Than Initially Reported IFO Loan Amount

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

APPENDIX XIII - ARRA Projects

PWSNAME (Applicant)	ID#	TOWN	LOAN AMOUNT	INT RATE	TERM	BRIEF DESCRIPTION	POP. SERVED	CUMALATIVE DISBURSEMENTS
CT Water Co. & Gallup Water Service Inc. **	2010-8012	Plainfield	\$237,115	2.06%	20 YEARS	Interconnection to Harrington Mobile Home Park	2,538	\$104,010 (Loan) \$133,105 (Subsidy)
Barlow Mountain & Scotland Elementary Schools	2010-8004	Ridgefield	\$1,426,870	2.06%	20 YEARS	Water Main Extension for Consolidation	1,000	\$529,288 (Loan) \$687,466 (Subsidy)
Putnam Water Pollution Control Authority	2010-8011	Putnam	\$2,471,887	2.06%	20 YEARS	Park Street Wellfield Expansion	7,300	\$958,524 (Loan) \$1,244,979 (Subsidy)
Brookfield Municipal Bldgs	2010-8001	Brookfield	\$1,890,316	2.06%	20 YEARS	Water Main Extension – Silvermine Road	485	\$827,361 (Loan) \$1,062,955 (Subsidy)
East Lyme Water & Sewer Commission	2010-8003	East Lyme	\$955,879	2.06%	20 YEARS	System-wide Chlorine Disinfection	15,245	\$369,933 (Loan) \$480,487 (Subsidy)
Tolland Water Department	2010-8002	Tolland	\$170,336	2.06%	20 YEARS	Consolidation of Torrey Rd Public Water System	1,251	\$74,096 (Loan) \$96,240 (Subsidy)
Metropolitan District	2010-8008	Hartford	\$5,929,684	2.06%	20 YEARS	RF Automated Reading System & Meter Replacement – Phase II	388,700	\$2,579,412 (Loan) \$3,350,272 (Subsidy)
Woodlake Tax District	2010-8010	Woodbury	\$579,717	2.06%	20 YEARS	New Wells & Related Work	912	\$138,027 (Loan) \$179,276 (Subsidy)
Norwich Public Utilities	2010-8005	Norwich	\$750,000	2.06%	20 YEARS	Water Storage Tank Repairs/Painting – Fitch Hill	36,067	\$326,250 (Loan) \$423,750 (Subsidy)
Norwich Public Utilities	2010-8012	Norwich	\$330,189	2.06%	20 YEARS	Water Storage Tank Repairs/Painting Pump Station Upgrades – Fairview Reservoir	36,067	\$144,728 (Loan) \$185,461 (Subsidy)
Manchester Water Department	2010-8006	Manchester	\$667,449	2.06%	20 YEARS	Hercules Drive Booster Pump Station	51,066	\$290,340 (Loan) \$377,109 (Subsidy)
Metropolitan District	2010-8009	Hartford	\$1,774,895	2.06%	20 YEARS	Water main Replacement – Tower Ave.	35,000	\$772,079 (Loan) \$1,002,816 (Subsidy)

* Based on population served being less than 10,000

** Final Loan Amount Less Than Initially Reported IFO Loan Amount

Drinking Water Fund Audited Reports and Schedules



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

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

June 30, 2011 and 2010

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING
LOAN ACCOUNT (STATE REVOLVING FUND)
June 30, 2011 and 2010**

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SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS
296 STATE STREET
NORTH HAVEN, CONNECTICUT 06473-2165
(203) 248-9341
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INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, Treasurer

Dr. Jewel Mullen, Commissioner,
Department of Public Health

Mr. Daniel C. Esty, Commissioner,
Department of Energy and 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, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the SRF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the Clean Water Fund - Drinking Water Federal Revolving Loan Account and do not purport to, and do not, present fairly the financial position of the State of Connecticut, as of June 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account - SRF as of June 30, 2011 and 2010, 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 26, 2011 on our consideration of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account - SRF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Seward and Monde

September 26, 2011

**OFFICE OF THE TREASURER
STATE OF CONNECTICUT
DRINKING WATER FUND
FISCAL YEAR ENDED JUNE 30, 2011**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) of the State of Connecticut Drinking Water Fund provides an introduction to the major activities affecting the operation of the state revolving fund. This is a narrative overview and analysis of the activities of the State of Connecticut Drinking Water Fund for the fiscal year ended June 30, 2011. The information contained in this discussion should be considered in conjunction with the Fund's financial statements and the notes that follow.

Financial Highlights

Changes in Net Assets - Net assets under management in the Drinking Water Fund at the close of the fiscal year 2011 were \$125,142,069 including assets of \$189,568,047 offset by liabilities of \$64,425,978 compared to fiscal year 2010 Fund net assets of \$109,728,894 including assets of \$166,742,532 offset by liabilities of \$57,013,638. Fund net assets increased by \$15,413,175 or 14.0% primarily due to loans resulting from federal capitalization grants and a \$7,000,000 transfer from the Clean Water Fund. Of these amounts, restricted fund net assets were \$99,665,334, an increase of \$4,639,489 or 4.9% above the 2010 balance.

Operating Revenues - The Fund's gross operating income decreased \$24,652 or 1.5% to \$1,653,204.

Cash Flows - The Statement of Cash Flows shows an increase in cash for the year of \$7,795,064 primarily due to the \$7,000,000 transfer from the Clean Water Fund.

Bonds Outstanding - The outstanding debt increased by \$5,954,908 to \$60,086,827, a net result of bonds issued during the year to fund new projects (\$16,464,150) less principal paydowns (\$4,055,406) and a cash defeasance (\$6,453,836).

Loans Receivable - Total loans receivable increased by \$1,572,913 from \$69,485,454 to \$71,058,367 due to the net of new loans (\$6,026,395) and principal repayments (\$4,453,482).

Capitalization Grants - During the year, \$15,764,103 was drawn from the EPA for projects, compared to \$11,568,734 in 2010. To date, the State has drawn a cumulative total of \$118,829,370. To date, cumulative federal drinking water capitalization grant awards totaled \$149.9 million.

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). The Treasurer is responsible for reporting the detailed financial information in the Drinking Water Fund financial statements.

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

The 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:

Operating Activities, including the Drinking Water Loan program; and

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 Connecticut Clean Water Fund issues revenue bonds and uses the proceeds to provide financing for Clean Water and Drinking Water projects. Where necessary, due to the issuance of bonds and investment activities for both the Clean Water Fund and Drinking Water Fund, bond proceeds, interest income and expenses may be allocated between the Clean Water Fund and the Drinking Water Fund.

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.

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

The Connecticut 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. The currently outstanding bonds were issued under the 2002 general bond resolution as further described in the financial statements. Of the accounts established under the 2002 general bond resolution, 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

Loans are made to public water systems, owned by both municipalities and private entities, for project funding. There are two categories of loans, construction loans or interim funding obligations (IFOs) and the long-term permanent financing obligations (PLOs) which are signed after projects are completed. The PLOs have 20 year repayment terms and can be prepaid at any time. Although there are no state grants available to participants in this program, portions of the federal capitalization grant and the 2009 ARRA funding are used to subsidize the projects.

Construction loan draws totaled \$6,026,395. There were two loan originations during the year.

At year-end there are no delinquent loans in the Drinking Water loan program.

Further details about the loans can be found in the Notes to the Financial Statements.

Loan repayment collection services are provided by the Trustee, US Bank. Repayments on all loans made by the DPH and Department of Energy and Environmental Protection (DEEP) 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, permitted investments, or State general obligation bonds in accordance with the federal capitalization grant agreements, federal law, state law and the bond resolutions of the Fund.

The State currently invests in the State's Short Term Investment Fund (STIF) and certain moneys held in the Fund are invested pursuant to investment agreements with providers rated AA or higher 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 investment of bond proceeds and other accounts within the Fund is controlled by the 2002 bond resolution which 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.

The Bond Program

The Connecticut Clean Water Fund has issued long-term debt obligations backed by the pledge of specific assets including loans, reserve funds and other program assets and currently, bonds are outstanding under the 2002 General Revenue Bond Resolution. Pursuant to the 2002 bond resolution and the State Act, the Long-term debt obligations of the Fund are special obligations of the State which are payable only from the revenues or monies available in the Fund. The proceeds of bonds issued by the Fund were used for program purposes including the funding of loans to Drinking Water Fund borrowers. During the year, the state issued bonds for new projects. Further information about outstanding bonds can be found in the notes to the financial statements.

The program's advisors are:

Bond Counsel - Edwards, Angell, Palmer and Dodge
Trustee - US Bank
Bond Counsel - Hardwick Law Firm, LLC
Loan Repayment Collection Services - US Bank
Financial Advisors - Lamont Financial Services Corporation
Verification Agent – AMTEC
Financial Advisors - First Southwest
Arbitrage Rebate Calculation Services – AMTEC
Auditor - Seward & Monde CPAs
General Counsel - Attorney General of the State of Connecticut

Credit Ratings

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

SELECTED FINANCIAL INFORMATION

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Change in Net Assets	\$15,413,175	\$ 7,617,052	\$7,796,123
Operating Revenues	\$ 1,653,204	\$ 1,677,856	(\$ 24,652)
Federal Capitalization Grants	\$ 5,661,602	\$ 4,491,247	\$1,170,355
Federal Capitalization Grants - American Recovery and Reconciliation Act (ARRA)	\$ 9,184,058	\$ 7,203,909	\$1,980,149
Loans Outstanding - current and long-term portions	\$71,058,367	\$69,485,454	\$1,572,913
Interest on Loans	\$ 1,653,204	\$ 1,677,856	(\$ 24,652)
Interest on Investments	\$ 1,220,142	\$ 1,128,616	\$ 91,526
Operating Expenses - Less ARRA grants to recipients	\$ 4,176,175	\$ 3,091,468	\$1,084,707
Interest Expense	\$ 2,438,374	\$ 2,649,423	(\$ 211,049)

ECONOMIC CONDITIONS AND OUTLOOK

As the nation continues to grapple with the aftermath of the 2008 and 2009 financial crisis, economic growth during the past two years has been weak and erratic. Connecticut has experienced very modest recovery and like other states, has dealt with budget deficits with various strategies of cost cutting and deficit mitigation. Some recovery continued during fiscal year 2011 and tax revenue was up in most major tax categories including the income tax and insurance company's tax. However economic growth was not sufficient enough to achieve sustainable reductions in the unemployment rate, now at the national rate of 9.1 percent, an historical high for Connecticut. Additional economic indicators, both nationally and statewide, have been mixed in FY 2011. Most notably, foreclosures continue to grow as more homes are on the verge of foreclosure and more homeowners face foreclosure following unexpected job loss. Furthermore, existing home sales have declined and home prices have dropped.

Connecticut began to address the level of its spending and the liabilities in the State employee's Retirement Plan for both current and future retirees through the recent labor concession agreements. By the end of the fiscal year, the State's economic and financial situation continued to slowly improve, as indicated by modest surplus generated.

The State continues to enjoy the highest per capita income in the nation, while challenged with relatively high costs (fuel, housing, health care and electricity), traffic congestion, an aging population and a widening disparity in economic prosperity between our urban and suburban residents. While Connecticut's economy seems sufficiently diversified, economic growth is expected to be slow in the coming year at a time when there are significant needs for transportation and water infrastructure upgrades and improvements. Local, state and federal budget constraints which resulted in a slowdown in the initiation of water quality and pollution control projects in recent years will continue to mean greater pressure on the Fund to provide critical financial assistance for major projects in the future. Connecticut's outlook this year is more uncertain in light of economic volatility and cutbacks in federal assistance. The year-end surplus notwithstanding, while the State's AA/Aa2/AA ratings were maintained, one of the State's three credit rating agencies revised its outlook to negative. With a balanced budget in place, Connecticut has begun to focus on economic development and job creation as the number one priority. All of these factors impact how Connecticut public water systems plan and implement the capital projects funded by the Drinking Water Fund.

The major focus for the Drinking Water Fund will be to work with the state's legislators to set priorities and provide financing for critical work, especially for small water systems. DPH and the Office of the Treasurer, working together, will continue to assist the legislators and the public water systems in determining the most cost effective and efficient way to meet their water quality needs.

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

CONTACTS

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

Drinking Water Fund Financial Administrator

Connecticut State Treasurer's Office
Debt Management Division
55 Elm Street
Hartford, CT 06106-1773
Telephone (860) 702-3134
www.state.ct.us/ott

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

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

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT
(STATE REVOLVING FUND)
BALANCE SHEETS
June 30, 2011 and 2010**

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,209,400	\$ 414,336
Interest receivable - investments	252,452	266,475
Interest receivable - loans	117,327	47,212
Grant receivable	-	442,055
Loans receivable	9,800,511	8,020,686
Total current assets	18,379,690	9,190,764
Noncurrent assets:		
Loans receivable	61,257,856	61,464,768
Revolving fund	40,338,420	43,147,948
Deferred loss on early retirement of bonds	1,404,148	1,211,679
Restricted assets:		
Bond proceeds fund	12,953,961	974,528
Revolving fund	16,498,805	17,609,431
Debt service fund	28,539,381	24,973,722
Support fund	10,195,786	8,169,692
Total restricted assets	68,187,933	51,727,373
Total noncurrent assets	171,188,357	157,551,768
Total assets	\$ 189,568,047	\$ 166,742,532
LIABILITIES		
Current liabilities:		
Interest payable on revenue bonds	\$ 700,891	\$ 731,067
Deferred grant revenue	476,388	-
Revenue bonds payable	4,358,124	3,646,329
Refunding bonds payable	285,144	409,077
Total current liabilities	5,820,547	4,786,473
Noncurrent liabilities:		
Premium on revenue and refunding bonds	3,161,872	2,150,652
Revenue bonds payable	50,794,273	45,142,083
Refunding bonds payable	4,649,286	4,934,430
Total noncurrent liabilities	58,605,431	52,227,165
Total liabilities	64,425,978	57,013,638
FUND NET ASSETS		
Unrestricted	25,476,735	14,703,049
Restricted for loans	99,665,334	95,025,845
Total fund net assets	125,142,069	109,728,894
Total liabilities and fund net assets	\$ 189,568,047	\$ 166,742,532

See notes 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, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Interest on loans	\$ 1,653,204	\$ 1,677,856
OPERATING EXPENSES		
Salaries	1,978,007	1,305,239
Employee benefits	1,308,890	865,577
Other	889,278	920,652
Project grants	4,626,212	3,976,757
Total operating expenses	<u>8,802,387</u>	<u>7,068,225</u>
Operating loss	(7,149,183)	(5,390,369)
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	1,220,142	1,128,616
Amortization of bond premium	217,017	212,602
Interest expense	(2,438,374)	(2,649,423)
Total nonoperating revenues (expenses)	<u>(1,001,215)</u>	<u>(1,308,205)</u>
Loss before federal capitalization grants and transfers	<u>(8,150,398)</u>	<u>(6,698,574)</u>
FEDERAL CAPITALIZATION GRANTS		
Project funds - loans	6,050,344	4,632,431
Project funds - grants	4,626,212	3,976,757
Set-aside activities	4,169,104	3,085,968
Total federal capitalization grants	<u>14,845,660</u>	<u>11,695,156</u>
OPERATING TRANSFERS	<u>8,717,913</u>	<u>2,620,470</u>
Change in fund net assets	<u>15,413,175</u>	<u>7,617,052</u>
FUND NET ASSETS, beginning	<u>109,728,894</u>	<u>102,111,842</u>
FUND NET ASSETS, ending	<u>\$ 125,142,069</u>	<u>\$ 109,728,894</u>

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, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on loans	\$ 1,583,089	\$ 1,753,785
Loan originations	(6,026,395)	(4,119,147)
Principal paid on loans receivable	4,453,482	5,307,728
Payments to employees for salaries and benefits	(3,286,897)	(2,170,816)
Payments on project grants	(4,626,212)	(3,976,757)
Other payments	(889,278)	(920,652)
Net cash used by operating activities	<u>(8,792,211)</u>	<u>(4,125,859)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal capitalization grants	<u>15,764,103</u>	<u>11,568,734</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of revenue bonds payable	(3,646,329)	(3,443,013)
Repayment of refunding bonds payable	(409,077)	(521,565)
Proceeds from revenue bonds payable	16,464,150	-
Premium on revenue bonds payable	1,535,850	-
Payment to refunded revenue bond escrow agent	(7,281,610)	-
Interest paid on revenue and refunding bonds	(2,140,858)	(2,404,621)
Operating transfers	<u>8,717,913</u>	<u>1,472,459</u>
Net cash provided (used) by noncapital financing activities	<u>13,240,039</u>	<u>(4,896,740)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	1,234,165	1,141,104
Decrease (increase) in revolving fund	2,809,528	(4,779,550)
Decrease (increase) in restricted assets	(16,460,560)	1,506,647
Net cash used by investing activities	<u>(12,416,867)</u>	<u>(2,131,799)</u>
Net change in cash and cash equivalents	7,795,064	414,336
CASH AND CASH EQUIVALENTS, beginning	<u>414,336</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 8,209,400</u>	<u>\$ 414,336</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	(\$ 7,149,183)	(\$ 5,390,369)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Decrease (increase) in interest receivable - loans	(70,115)	75,929
Decrease (increase) in loans receivable	<u>(1,572,913)</u>	<u>1,188,581</u>
Net cash used by operating activities	<u>(\$ 8,792,211)</u>	<u>(\$ 4,125,859)</u>

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, 2011 and 2010

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

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

Revenue Recognition

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

Cash and Cash Equivalents

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

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, 2011 and 2010.

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 expended 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 expended 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.

Subsequent Events

The SRF has evaluated subsequent events for the period after June 30, 2011 through September 26, 2011, the date the financial statements were available to be issued.

3 - CASH DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

Cash and cash equivalents

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

As of June 30, 2011 and 2010 funds held by the State Comptroller were \$7,733,047 and \$856,426, 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, 2011 and 2010, cash included in restricted assets was \$12,000 and \$65,827, respectively.

As of June 30, 2011 funds held in Connecticut Short Term Investment Funds (STIF) were \$81,243,827, of which \$12,953,961 is included in the bond proceeds fund, \$40,338,420 is included in the revolving fund and \$27,951,446 is included in the debt service fund on the Balance Sheet. As of June 30, 2010 funds held in STIF were \$68,274,156, of which \$974,528 is included in the bond proceeds fund, \$42,914,868 is included in the revolving fund and \$24,384,760 is included in the debt service 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.

As of June 30, 2011 funds held in Fidelity Institutional Government Money Market (FIGMM) were \$575,935 which is included in the debt service fund on the Balance Sheet. As of June 30, 2010 funds held in FIGMM were \$756,215 of which \$233,080 is included in the revolving fund and \$523,135 is included in the debt service fund on the Balance Sheet. FIGMM is a money market investment pool, managed by Fidelity Investments, normally investing at least 80% of assets in U.S. Government securities and repurchase agreements for those securities and generally maintaining a dollar-weighted average maturity of 60 days or less.

Investments

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

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

As of June 30, 2010, the SRF had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Guaranteed Investment Contracts	\$ 7,785,063	\$ -	\$ -	\$ 7,785,063	\$ -	Aaa
Guaranteed Investment Contracts	6,078,662	-	-	-	6,078,662	AA+
Guaranteed Investment Contracts	769,133	-	-	-	769,133	A+
U.S. Treasury State & Local Governments	3,895,264	110,630	2,566,716	1,148,539	69,379	Unrated
Connecticut General Obligation Bonds	7,251,000	489,260	2,608,522	2,902,286	1,250,932	AA
	<u>\$ 25,779,122</u>	<u>\$ 599,890</u>	<u>\$ 5,175,238</u>	<u>\$ 11,835,888</u>	<u>\$ 8,168,106</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 minimizes exposure to this risk by investing in Investment Obligations as defined by the Resolution.

Concentration of Credit Risk

The SRF currently invests approximately 52% and 57%, at June 30, 2011 and 2010, respectively, in long-term investment agreements with Natixis Funding Corp., Trinity Plus Funding and Bank of America.

4 - LOANS RECEIVABLE

The SRF loans funds to qualified public water systems. Principal and interest payments on loans are payable over a 20 year period in equal monthly installments commencing one month after the scheduled completion date, or in a single annual installment representing the first year's principal and interest not later than one year after the scheduled completion date and thereafter in monthly installments. Loans receivable by type are as follows as of June 30:

	<u>2011</u>	<u>2010</u>
Construction in process	\$ 5,224,771	\$ 3,854,599
Completed projects	<u>65,833,596</u>	<u>65,630,855</u>
	<u>\$ 71,058,367</u>	<u>\$ 69,485,454</u>

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

<u>Year ending June 30</u>	
2012	\$ 4,575,740
2013	4,571,147
2014	4,620,632
2015	4,671,308
2016	4,723,206
Thereafter	<u>42,671,563</u>
	<u>\$ 65,833,596</u>

5 - FEDERAL LETTER OF CREDIT

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

	<u>2011</u>	<u>2010</u>
Awarded	\$ 130,417,900	\$ 110,988,080
Drawn	<u>102,415,716</u>	<u>95,878,034</u>
Available federal letter of credit	<u>\$ 28,002,184</u>	<u>\$ 15,110,046</u>

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

	<u>2011</u>	<u>2010</u>
Awarded	\$ 19,500,000	\$ 19,500,000
Drawn	<u>16,413,654</u>	<u>7,188,169</u>
Available federal letter of credit	<u>\$ 3,086,346</u>	<u>\$ 12,311,831</u>

6 - RESTRICTED ASSETS

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

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents:		
Money market funds	\$ 41,481,342	\$ 25,882,423
Cash	12,000	65,828
Investments:		
Guaranteed Investment Contracts	13,790,642	14,632,858
U.S. Treasury State and Local Governments	6,142,209	3,895,264
Connecticut General Obligation Bonds	<u>6,761,740</u>	<u>7,251,000</u>
	<u>\$ 68,187,933</u>	<u>\$ 51,727,373</u>

7 - RELATED PARTY TRANSACTIONS

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

Investments

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

Allocation of Expenses

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended June 30, 2011 and 2010, the actual rates were 66.17% and 66.32%, respectively, of the SRF wages and the amounts charged aggregated \$1,308,890 and \$865,577, respectively.

8 - BONDS PAYABLE

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

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

A summary of changes in bonds payable during the year ended June 30, 2010 is as follows:

	Balance June 30, 2009	Issued	Principal Paydown/ Transfers	Balance June 30, 2010
Revenue bonds payable	\$ 52,231,425	-	\$ 3,443,013	\$ 48,788,412
Refunding bonds payable	5,865,072	-	521,565	5,343,507
	<u>\$ 58,096,497</u>	<u>-</u>	<u>\$ 3,964,578</u>	<u>\$ 54,131,919</u>

Revenue Bonds

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

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

<u>Issue Date</u>	<u>Issue Name</u>	<u>Original Allocated Par Amount</u>	<u>Balance Outstanding June 30, 2011</u>
6/1/2001	Clean Water Fund Revenue Bonds, 2001 Series	\$ 29,614,747	\$ -
7/10/2003	State Revolving Fund General Revenue Bonds, 2003 Series A	33,063,800	10,758,581
7/10/2003	State Revolving Fund Refunding General Revenue Bonds, 2003 Series B	7,572,339	4,934,430
7/27/2006	State Revolving Fund General Revenue Bonds, 2006 Series A	5,000,000	4,234,666
8/6/2008	State Revolving Fund General Revenue Bonds, 2008 Series A	25,000,000	19,150,000
6/25/2009	State Revolving Fund General Revenue Bonds, 2009 Series A	4,675,000	4,545,000
3/24/2011	State Revolving Fund General Revenue Bonds, 2011 Series A	16,464,150	16,464,150
		<u>\$ 121,390,036</u>	<u>\$ 60,086,827</u>

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2003 Series dated July 10, 2003 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2003 Series Plan of Finance, the State allocated the proceeds of 2003 Series Bonds between the SRF and the Clean Water Fund with \$33,063,800 allocated to the SRF and \$85,021,200 allocated to the Clean Water Fund. Debt service on the 2003 Series Bonds is paid from any available monies in the SRF and the Clean Water Fund. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution. After a review of the total expenditures from both programs since 2003, as of July 1, 2006, the State transferred \$10,210,105 in 2003 bond proceeds from the Drinking Water Fund to the Clean Water Fund. An equal principal amount of 2003 bonds will now be designated Clean Water bonds and will be payable from Clean Water revenues for their remaining term. 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 State of Connecticut issued State Revolving Fund General Revenue Bonds 2008 Series dated August 6, 2008 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2008 Series Plan of Finance, the State allocated the proceeds of 2008 Series Bonds between the Clean Water Fund and the SRF with \$171,195,000 allocated to the Clean Water Fund and \$25,000,000 allocated to the SRF. Debt service on the 2008 Series Bonds is to be paid from any available monies in the Clean Water Fund and the SRF. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution.

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

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

The SRF's revenue bonds payable are serial bonds, of which \$55,152,397 and \$48,788,412 was outstanding as of June 30, 2011 and 2010, respectively. The serial bonds mature through June 1, 2027 and have interest rates ranging from 1.0% to 5.0%.

Refunding Bonds - 2003 Series

On July 10, 2003 the State issued \$115,785,000 of State Revolving Fund Refunding General Revenue Bonds, 2003 Series B (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, 2011 and 2010, 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, 2011 and 2010 totaled \$293,129 and \$271,940, 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, 2011 and 2010, the outstanding principal balance of the Refunded Bonds was \$2,816,339.

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. Amortization of the deferred loss for the years ended June 30, 2011 and 2010 totaled \$841.

Cash Defeasance - 2011

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

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

The difference of \$521,185 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense over the life of the Refunded Bonds using the outstanding bond method. Amortization of the deferred loss for the year ended June 30, 2011 totaled \$34,746.

Bond Maturities

Requirements at June 30, 2011 to retire the SRF's revenue and refunding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 4,643,268	\$ 2,390,567
2013	4,951,563	2,335,346
2014	5,726,569	2,138,872
2015	5,917,154	1,909,990
2016	6,017,534	1,687,912
2017-2021	18,822,922	5,380,578
2022-2026	12,654,951	1,688,424
2027-2028	1,352,866	71,648
	<u>\$ 60,086,827</u>	<u>\$ 17,603,337</u>

9 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended June 30, 2011 and 2010:

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</u>
Balance at June 30, 2009	\$ 10,648,669	\$ 91,463,173	\$ 102,111,842
Change in fund net assets	<u>4,054,380</u>	<u>3,562,672</u>	<u>7,617,052</u>
Balance at June 30, 2010	14,703,049	95,025,845	109,728,894
Change in fund net assets	<u>10,773,686</u>	<u>4,639,489</u>	<u>15,413,175</u>
Balance at June 30, 2011	<u>\$ 25,476,735</u>	<u>\$ 99,665,334</u>	<u>\$ 125,142,069</u>

10 - OPERATING TRANSFERS

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

	<u>2011</u>	<u>2010</u>
Transfers related to CWF debt service	(\$ 109,774)	(\$ 273,939)
Interest subsidy transfer	1,827,687	1,956,020
Reallocation of deferred loss on 2003 refunding bond	-	938,389
Reallocation of funds from CWF	<u>7,000,000</u>	<u>-</u>
	<u>\$ 8,717,913</u>	<u>\$ 2,620,470</u>

11 - LOAN FUNDING COMMITMENTS

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

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

	<u>2011</u>	<u>2010</u>
Total funds committed to public water systems	\$ 90,658,642	\$ 95,168,159
Loan amount outstanding to public water systems	<u>71,058,367</u>	<u>69,485,454</u>
Loan commitments outstanding	<u>\$ 19,600,275</u>	<u>\$ 25,682,705</u>

In addition, the SRF has ARRA project grant commitments of \$1,168,705 and \$5,773,732 as of June 30, 2011 and 2010, respectively.

12 - RISK MANAGEMENT

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

SEWARD AND MONDE

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

Ms. Denise L. Nappier, Treasurer

Dr. Jewel Mullen, Commissioner,
Department of Public Health

Mr. Daniel C. Esty, Commissioner,
Department of Energy and 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, 2011, and have issued our report thereon dated September 26, 2011. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

COMPLIANCE AND OTHER MATTERS

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

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

Seward and Monde

September 26, 2011

SEWARD AND MONDE

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

Ms. Denise L. Nappier, Treasurer

Dr. Jewel Mullen, Commissioner,
Department of Public Health

Mr. Daniel C. Esty, Commissioner,
Department of Energy and 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 could have a direct and material effect on each of the SRF's major federal programs for the year ended June 30, 2011. The SRF's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of SRF's management. Our responsibility is to express an opinion on SRF's compliance based on our audit.

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

In our opinion, the SRF complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2011.

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Seward and Monde

September 26, 2011

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, 2011

<u>Federal Grantor; Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
ENVIRONMENTAL PROTECTION AGENCY		
Direct:		
Capitalization Grants for State Revolving Fund	66.468	\$ 5,661,602
Capitalization Grants for State Revolving Fund	ARRA - 66.468	9,184,058
		\$ 14,845,660

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, 2011

A - ACCOUNTING BASIS

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

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

B - MUNICIPAL LOAN BALANCES

The balance of outstanding loans to municipalities totaled \$71,058,367 as of June 30, 2011.

STATE OF CONNECTICUT CLEAN WATER FUND - DRINKING WATER
 FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the year ended June 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

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

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

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

Identification of Major Programs:

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

Dollar threshold used to distinguish between type A and type B programs \$ 445,370

Auditee qualified as low risk auditee? X Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings are reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported.