



**NEW JERSEY DEPARTMENT OF
ENVIRONMENTAL PROTECTION**

**DRINKING WATER
STATE REVOLVING FUND**

**FINAL FFY2005 PRIORITY SYSTEM,
INTENDED USE PLAN,
PROJECT PRIORITY LIST,
RESPONSE DOCUMENT, AND
FINAL CHANGES TO FFY2004
PRIORITY SYSTEM,
INTENDED USE PLAN AND
PROJECT PRIORITY LIST**

July 2004

James E. McGreevey
Governor

Bradley M. Campbell
Commissioner



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MEMORANDUM

TO: Community Water Supply Systems
Nonprofit Noncommunity Water Supply Systems
County and Municipal Health Authorities
Environmental Groups
Engineering Consultants

FROM: Michele M. Putnam, Administrator
Water Supply Administration

SUBJECT: Drinking Water State Revolving Fund Final Priority System,
Intended Use Plan, Project Priority List, and Response Document,
for Federal Fiscal Year 2005, and Final Changes to FFY2004
Priority System, Intended Use Plan and Project Priority List

DATE: July 16, 2004

The Drinking Water State Revolving Fund Proposed Priority System, Intended Use Plan, Project Priority List for Federal Fiscal Year 2005, and Proposed Changes to FFY2004 Priority System, Intended Use Plan and Project Priority List was proposed in February 2004. A public hearing was held in Trenton, New Jersey on March 24, 2004 and public comments were due by March 31, 2004. Although no written comments were received, five individuals attended the hearing. The attached document provides the Final Priority System.

The Safe Drinking Water Act (SDWA) Amendments of 1996 authorized a Drinking Water State Revolving Fund (DWSRF) to assist publicly and privately owned community water systems and nonprofit noncommunity water systems to achieve or maintain compliance with SDWA requirements and to further the public health objectives of the SDWA. The DWSRF is administered as a component of the Environmental Infrastructure Financing Program that also administers the State's Clean Water State Revolving Loan Fund (CWSRF).

States must file capitalization grant applications each year with the United States Environmental Protection Agency (USEPA) to secure an allotment of federal funds needed to initialize and to

continue the DWSRF at the State level. The central component of the State's application to the USEPA is the IUP. The IUP describes how the State intends to spend the federal grant moneys, including eligible projects and non-project set-aside expenditures. The non-project set-asides are allowed by the DWSRF for activities that are not construction related, e.g., administration, technical assistance for small systems, State public water system supervision (PWSS), source water program administration, capacity development, and operator certification. Project expenditures typically involve loans by the DWSRF to water systems for planning, design, and construction of drinking water facilities.

The IUP also contains the FFY2005 and the FFY2004 schedules. Project sponsors must meet these schedules with all applicable deadlines in order to be considered for financing in November 2004 or 2005. Applicants are given priority in order of the ranking, except that projects for small systems will be financed first with up to 15% of the DWSRF funds, in accordance with Section III - Small Systems, of the IUP.

Amendments to the New Jersey Environmental Infrastructure Trust's (Trust) enabling legislation authorized the establishment of a short-term financing program. It is proposed to channel CWSRF and DWSRF loan repayments to the Trust for this purpose. The interim loans will provide funds to project sponsors that are eligible for financing in the current fiscal year to cover project costs anticipated to be incurred prior to the award of the permanent long-term loans from the New Jersey Department of Environmental Protection (NJDEP) and the Trust, which are typically awarded in November. As part of the development and implementation of the interim financing program, the Trust, in consultation with the NJDEP, adopted amendments to the Trust's rule to further define the application and award procedures. A rule adoption was published in the August 5, 2002 *New Jersey Register* (34 NJR 2803(a)).

Please note that several significant changes were made to the IUP and set forth in the Proposed IUP published in February 2004. In the Project Priority System, two project elements (Element 6 and 15) were added to Category A, Compliance with Safe Drinking Water Act and Protection of Public Health (see page 7 and 8). For Element 6, one hundred sixty points is awarded for systems that are proposing improvements for drought or other related water supply management initiatives, as identified or designated by the State. This will promote water purveyors to construct State identified or designated improvements needed to manage the water supply during, or in an effort to avert, drought emergency situations. For Element 15, thirty-five points are now awarded for the installation of new water meters and/or water conservation devices, including but not limited to retrofit of plumbing fixtures. Also, Category C was revised to award twenty points to Urban Centers, Endorsed Strategic Plans or Urban Complexes (see page 9). Appendix A was revised to include a list of other sources of funding for informational purposes (see page 53) and a summary of the Drinking Water Infrastructure Needs Survey (see page 54). These changes are discussed in detail in the IUP.

There were also several changes to the Project Priority List that were documented in the Proposed IUP that published in February 2004. These changes are summarized by the following: Changes to the FFY2004 Project Priority List include the addition of projects for: Consumers NJ-Phillipsburg,

New Brunswick City, Camden City, Mount Laurel Township MUA, West Paterson Borough, Greenwich Township, Maple Shade Township, Hightstown Borough, Winslow Township, Perth Amboy City, Garfield City, West Deptford Township, Franklin Township, South Jersey Water Supply Company, Allamuchy Township, Verona Township, Brigantine City, Florham Park Borough and NJ American Water Company – Short Hills. A revision was made to the ranking calculation for: 1) Stafford Township based on additional information received, thereby decreasing the total points 2) NJ American Water Company-Frenchtown to increase the total points since the Federal maximum contaminant level (MCL) for arsenic will be lowered in January 2006 and the facility levels exceed that Federal MCL 3) Middlesex Water Company since the points were mistakenly assigned and are thereby decreased and 4) East Hanover Township based on an additional review of the data, the points are decreased.

There is one change to the FFY2004 Project Priority List since the Proposed IUP was published in February 2004. The points assigned to and the population served by the Berkeley Township MUA project were adjusted.

In an effort to better promote Smart Growth Initiatives, the NJDEP will continue to provide 75% of the project costs at 0% interest while the Trust will provide 25% of the project costs at market rate to projects that serve urban centers or complexes (see page 17). In addition, adopted amendments to the financing program rules allows the NJDEP to fund reserve capacity for projects in Urban Centers and Complexes at 0% interest (previously eligible only for a Trust loan).

By virtue of presenting these changes in the FFY05 IUP, the FFY2004 IUP is hereby amended to reflect these changes. No written comments were received in reference to the proposal set forth in the February 2004 IUP. A summary of the hearing can be found on page 55.

Should you have any questions regarding the IUP or the DWSRF program, please contact Philip Royer, Josephine Craver, or Roger Tsao at the Bureau of Safe Drinking Water at (609) 292-5550, or fax (609) 292-1654. If you would like a copy of the IUP, you may contact the DWSRF program or obtain a copy from our website, www.nj.us/dep/watersupply/loandata.htm.

Attachments

c: USEPA Region II, Bruce Kiselica, Chief, Drinking Water Section
USEPA Region II, Alicia Suarez, SRF Contact
Drinking Water Quality Institute, Mark Robson, Chairman
USDA, NJ Rural Development, Mike Kelsey, Director, Community and Business Programs
NJAWWA, Larry Merk, Section Chair
NJ Water Association, Rick Howlett, Executive Director
Water Supply Advisory Council
Water Supply Advisory Committee
NJ Office of Smart Growth, Adam Zellner, Executive Director
NJ Dept. of Community Affairs, Joseph Valenti, Bureau Chief, Local Government Services

Board of Public Utilities, Mike Gallagher, Director, Division of Water and Wastewater
NJ Economic Development Authority, Lawrence G. Cier, Director, Bond Finance Division
NJ Housing and Mortgage Finance Agency, Jerome Keelen, Director, Single Family Programs
Gary Sondermeyer, Chief of Staff, NJDEP
Assistant Commissioner Samuel A. Wolfe, NJDEP, Environmental Regulation
Assistant Commissioner Ernest Hahn, NJDEP, Land Use Management and Compliance
Director E. David Barth, NJDEP, Management and Budget
Director Narinder K. Ahuja, NJDEP, Division of Water Quality
Stan Cach, Assistant Director, Municipal Finance and Construction Element, NJDEP
Dennis Hart, Executive Director, NJEIT
Chief Barker Hamill, NJDEP, Bureau of Safe Drinking Water

OVERVIEW

The Safe Drinking Water Act (SDWA) Amendments of 1996 authorized a Drinking Water State Revolving Fund (DWSRF) to assist publicly owned and privately owned community water systems and nonprofit noncommunity water systems to finance the costs of infrastructure needed to achieve or maintain compliance with SDWA requirements and to protect the public health in conformance with the objectives of the SDWA. The DWSRF is administered as a component of the Environmental Infrastructure Financing Program (EIFP) which also administers the state's Clean Water State Revolving Fund (CWSRF). The Clean Water component of New Jersey's EIFP provides low interest loans to publicly owned systems for planning, design and construction of wastewater treatment facilities and other water quality improvement projects under the federal Clean Water Act and state law. The CWSRF program is covered under a separate Intended Use Plan (IUP). Prospective project sponsors must complete a ranking form for each program to be included in the respective Priority Lists and to be eligible for financing under each program.

The SDWA initially authorized a total of \$9.6 billion nationally for the DWSRF through Federal Fiscal Year (FFY) 2003. The United States Environmental Protection Agency (USEPA) has appropriated \$830,310,200 for the Drinking Water SRF for FFY2004. This IUP also includes an estimate of the New Jersey share of the FFY2005 appropriation. The results of the 1999 Drinking Water Infrastructure Needs Survey, which was published in February 2001, determines the allotment to New Jersey. Funds available to the State for future appropriations will be allotted according to a formula that is reflected in the most recent Needs Survey conducted pursuant to Section 1452(h) of the SDWA. Therefore, it is important to have the continued involvement of the water systems in New Jersey as their participation in future Needs Surveys directly impacts future DWSRF allotments. The data collection for the 2003 Needs Survey began January 2003 and was completed in November 2003. The next cycle of data collection will begin in January 2007. Please see Appendix A for a detailed discussion of the Needs Survey.

This document serves as the New Jersey Department of Environmental Protection's (NJDEP) DWSRF Priority System, Intended Use Plan (IUP), and Project Priority List, and has several purposes regarding the use of anticipated federal funds, including:

- 1- the establishment of the ranking criteria under which DWSRF projects will be ranked and placed on the FFY2005 Priority List;
- 2- the summary of program requirements and document submittal deadlines for award of DWSRF loans in State Fiscal Year (SFY) 2005 (specifically, November 2004) using FFY2004 federal capitalization grant funds and any remaining funds from previous federal capitalization grant funds;
- 3- the establishment of program requirements and document submittal deadlines for award of DWSRF loans in SFY2006 (specifically, November 2005) using FFY2005 federal capitalization grant funds and any remaining funds from previous federal capitalization grant funds; and
- 4- the establishment of the proposed uses of the set-asides using FFY2005 federal capitalization grant funds.

The Priority System includes the project ranking criteria. Section 1452 (b) of the SDWA requires each State to prepare an Intended Use Plan annually to identify the use of funds in the DWSRF and describe New Jersey's planned use of its allotment of federal moneys authorized by the SDWA Amendment. The IUP details how the State of New Jersey proposes to finance projects to be included in New Jersey's program and which are to be managed by NJDEP, with respect to the FFY 2005 capitalization grant. The NJDEP intends to apply for the DWSRF capitalization grant including both project and nonproject set-aside expenditures. The nonproject set-asides provide for DWSRF activities that are not construction related and include administration of the DWSRF, technical assistance for small systems, State public water system supervision (PWSS) programs, source water program administration, capacity development, and operator certification. Project expenditures involve loans made by the DWSRF to water systems for the planning, design and construction of drinking water facilities.

The Bureau of Safe Drinking Water will jointly manage the DWSRF program with the Municipal Finance and Construction Element of the NJDEP and the New Jersey Environmental Infrastructure Trust (the Trust).

Through leveraging by the Trust (that is, the sale of revenue bonds, the proceeds of which are loaned to project sponsors), the State is able to provide low interest loans to far more projects than if leveraging was not done. It should be noted that the 1981 Water Supply Bond Act authorized financing only to publicly owned systems, and the amendments did not change this. The State utilizes the 1981 Water Supply Bond Act to provide the 20 percent match to the federal capitalization grant funds, a condition under both the Clean Water and the Drinking Water SRF programs. Federal funds can be used to fund both privately owned and publicly owned water systems.

Legislative appropriation and authorization bills will be introduced each spring for each funding cycle. The DWSRF program closed in escrow on eighty-three loans (\$356 million) over the past six funding cycles in 1998 to 2003 with loans being fully executed in November of each year.

The Safe Drinking Water Act Amendments of 1996 offer NJDEP the flexibility to meet the funding needs for drinking water and wastewater facilities by transferring funds from one SRF program to the other. An amount up to 33% of the Drinking Water SRF Capitalization Grant may be transferred from the CWSRF program to the DWSRF program, or vice versa. The USEPA has issued guidance that would allow utilization of transfer credits and transfer of funds on a net basis (i.e., funds could be moved in both directions), provided that the final transferred amount does not exceed the authorized ceiling. NJDEP is proposing to transfer up to the maximum amount authorized from the CWSRF loan repayments to the DWSRF, as needed, as long as the transfer doesn't jeopardize the ability to fund clean water projects. In accordance with approved procedures, five transfers of funds from CWSRF repayments to DWSRF were approved by USEPA on October 13, 1999 (\$9,222,609), October 19, 2000 (\$11,724,933), August 28, 2001 (\$12,497,562), September 27, 2002 (\$6,117,738), and September 17, 2003 (\$6,080,976). The NJDEP fully supports efforts to enact legislation to continue to allow the transfer of funds. If adopted, the NJDEP proposes to transfer funds from the CWSRF to the DWSRF each fiscal year to the extent allowed by law. Currently any eligible project

under the CWSRF program that meets the program requirements and is ready to proceed will be able to receive a CWSRF loan.

The EIFP has received USEPA's approval to utilize cross-collateralization in its financing structure for both the Drinking Water and Clean Water SRF Programs. Under the cross-collateralization option, repayments of loans from either fund MAY be used to cover any default in loan repayments. The ability to use this feature between the clean water and drinking water programs will result in significant savings to the project sponsors, particularly the drinking water project sponsors since there is not a large pool of loan repayments available for this new program. However, the State's cross-collateralization would involve only a temporary use of funds from the CWSRF to the DWSRF or vice versa if a default in loan repayment did occur (which, to date, has not occurred under either program). Further, the Trust and NJDEP would take steps to collect the defaulted loan repayments, and the appropriate drinking water or clean water fund would be reimbursed.

Under the current EIFP structure, all three of the bond rating agencies (Fitch, Moody's, Standard and Poor's) have given the Trust's bonds the highest rating possible. The higher the bond rating, the lower the interest rate on the bonds and, therefore, the lower the cost to the loan recipients. For example, for the last funding cycle of the DWSRF, the Trust successfully sold bonds at 4.23% for the 2003A series bonds. There were no 2003B bonds sold as no private water purveyors were funded in November 2003. The EIFP reduces the costs that must be passed on to a project's users, because project funding is provided at half the typical market interest rate. By funding projects through the EIFP, project sponsors (and in turn users) can expect to save up to 30% on the financing of the total eligible costs of a project.

In an effort to promote Smart Growth Initiatives, the NJDEP will retain the changes previously adopted in the FFY04 IUP in both the FY04 and FY05 IUPs. The first change involved modifying the percentage of project costs the NJDEP and the Trust provide to project sponsors. Usually, project sponsors received a loan for half of the project costs from the Trust at market rate and a loan for the remaining project costs from the NJDEP at 0% interest. Under this change, for projects that serve smart growth areas, the NJDEP will provide 75% of the project costs at 0% interest, while the Trust will provide 25% of the project costs at market rate. The NJDEP has determined to make the "75/25" funding package immediately available to projects that serve Urban Centers and Urban Complexes designated by the State Planning Commission. To date, the State Planning Commission has designated Atlantic City, Camden, Elizabeth, Jersey City, New Brunswick, Newark, Paterson and Trenton as Urban Centers and one Urban Complex, the Hudson County Urban Complex, which includes the following municipalities: Bayonne, East Newark, Guttenberg, Harrison, Hoboken, Jersey City, Kearny, North Bergen, Secaucus, Union, Weehawken, and West New York. The NJDEP plans to pursue regulatory changes to implement its smart growth policies to advance a tiered approach to natural resource protection, including defining areas determined to be suitable for growth, in subsequent rulemaking. Upon adoption of these rules, the NJDEP will also provide the enhanced "75/25" funding package for projects that serve these areas that are determined to be suitable for growth.

For those projects that have the potential to facilitate substantial growth or cause significant adverse environmental impacts, the NJDEP will thoroughly evaluate the planning submitted by the project

sponsor with respect to the water quality/quantity impacts, location in the State, impacts to riparian corridors, the existing pollution control needs, assessment of the resulting environment, detailed assessment of proposed alternatives and cost-effectiveness of the proposal. The NJDEP's funding decisions will take into account the project's growth potential, the location of the project in the State and the projects' aggregate impacts as determined through such evaluations.

The second change is related to funding for reserve capacity. The NJDEP will fully fund its share of reserve capacity costs at 0% interest for projects that serve smart growth areas. The adopted rule amendments allow the NJDEP to fully fund its share of reserve capacity costs for designated Urban Centers and Complexes. In addition, the NJDEP will fully fund reserve capacity in growth areas as will be defined in NJDEP's subsequent tiered rulemaking.

In accordance with the USEPA Policy on Fees Charged on Assistance Provided Under the SRF Programs, states must disclose information regarding the assessment and use of any fees associated with SRF activities that are passed on to the program participants. In New Jersey, each SRF project is financed with two loans, one from the NJDEP which utilizes federal SRF capitalization grants and one from the NJ Environmental Infrastructure Trust, which utilizes bond proceeds from the Trust bond sale. Each year, the NJDEP evaluates the need to assess a loan origination fee and/or an annual administrative fee to cover the NJDEP portion of the program's administrative costs. The amount of the fee (if any) is established in conjunction with the annual budget process for the particular State fiscal year and borrowers are notified in advance of escrow closing as to the estimated cost of the fee that will be charged on their loan to be closed in November.

In the past, adequate resources were available to cover the NJDEP's costs for administration of the project without levying a fee. Given tight fiscal constraints, the SFY2003 Appropriations Act required the NJDEP to collect an amount not less than \$1 million from the November 2002 borrowers. Rather than require cash payment from the project sponsors, the Trust included the NJDEP loan origination fee in the borrowers' Trust loan (and secured that portion of the bond issue with non-SRF funds) to cover \$1 million of NJDEP's costs in administering the Financing Program. The SFY2004 Appropriations Act required the NJDEP to collect \$5 million from November 2003 CWSRF and DWSRF project sponsors to cover program administration costs. The amount of the NJDEP loan origination fee was proportionally allocated among the participants in the FFY2003/SFY2004 Program. The NJDEP anticipates that a similar fee will be collected from November 2004 borrowers. There is no SRF funding involved in the NJDEP loan origination fee.

The Trust's loan is issued at the same market interest rate as the Trust obtains from the sale of its bonds. Rather than bonding for all of the eligible closing costs associated with each financing, the Trust charges the borrowers a one-time surcharge of up to 0.4% of the principal Trust loan amount to partially cover the costs associated with that particular year's bond sale. These issuance costs include such activities as: bond counsel, financial advisor, rating agencies, printing and publishing of the Notice of Sale, the Preliminary Official Statement, the Official Statement, and other costs related to the Trust's bond sale. In addition, the Trust charges an annual administrative fee of up to 0.3% of the Trust's bond principal loan amount to cover the balance of the closing cost and the annual operating expenses associated with the operations of the Trust and the on-going costs associated with the Loan Servicer and Trustees. The Trust Annual Fee is not included in the principal amount

of the loan. The annual fees collected by the Trust are held in an account outside of the SRF. In SFY2006, the Trust anticipates collecting administrative fees associated with the DWSRF and CWSRF programs of approximately \$3 million.

NJDEP is considering developing funding procedures for emergency infrastructure repairs under the DW and CWSRF programs.

SRF recipients that expend \$500,000 or more in a year of DWSRF funds, shall have a single audit conducted in conformance with the Single Audit Act.

PRIORITY SYSTEM

I. Priority List - General

Placement on the Project Priority List is a prerequisite to be considered eligible for financial

assistance. The “Call for Projects” for all funding cycles will be continuous and projects can be added to the list during the time period between the publication of the proposed IUP and the public hearing date. This will still allow for public review prior to the loans being issued. The Project Priority List will be created using the Project Ranking Form (see Appendix A) submitted by potential applicants. The prospective applicant has the responsibility of submitting all the required application material in a timely manner and in accordance with the deadlines published in this IUP. As indicated on page 13, the FFY2004 schedule projects were required to submit planning documents and commitment letters by October 6, 2003 and all design documents and loan applications by March 1, 2004, in order to be considered for funding in the SFY2005 funding cycle (November 2004).

In general, failure of a prospective applicant to submit complete planning, design and application documents within the time periods specified by this IUP will result in NJDEP bypassing the project in favor of other priority project(s) which are ready to proceed.

Presently there are 186 projects totaling \$586,344,083 on the Project Priority List. There are 40 projects totaling \$187,478,237 on the proposed project priority list for November 2004.

II. Ranking Methodology

NJDEP will rank all eligible projects according to the total number of points each project receives and will subsequently place the projects on the Project Priority List (see Appendix B) according to their ranking. The projects with the higher number of points rank above those with lesser points. Due to annual addition of new projects to the Project Priority List, or to periodic revisions to the Priority System, individual project rankings may change annually. Projects that include multiple elements, as listed in priority Category A, will be separately listed by the elements involved and priority points will be assigned for each element.

Priority points will be assigned only if the project scope includes actual repair, rehabilitation, or correction of a problem or improvement clearly related to priority Category A. A project must be assigned points from Category A to be eligible for ranking; points assigned from the remaining categories are in addition to the points received in Category A.

The prospective applicant must notify NJDEP of any changes to project scope or any other circumstance which may affect the calculation of priority points. NJDEP shall then recalculate, if appropriate, the prospective applicant’s ranking utilizing the new information submitted and revise the priority ranking accordingly.

The principal elements of the Priority System are: A) Compliance and Public Health Criteria, B) Approved Drinking Water Infrastructure Plan, C) Conformance with State Development and Redevelopment Plan, D) Affordability, and E) Population. Points are assigned for each of the five priority categories discussed below, as applicable:

A. Compliance with SDWA and Protection of Public Health

DWSRF funds are to be utilized to address contamination problems and to ensure compliance with the SDWA requirements. Priority is given to water systems in non-compliance with the surface water treatment requirements and those incurring acute, primary, or action level violations as defined in the SDWA and the NJSDWA rules (N.J.A.C. 7:10). Table 1 describes the nineteen project elements that are eligible for DWSRF funds:

Table 1

1. Systems which utilize surface water, that are not in compliance with the surface water treatment requirements or have had any acute violations (either fecal coliform or nitrates) and have been issued an administrative order or directive by NJDEP requiring the correction of any noncompliance of its treatment facilities to address an immediate public health threat	500 pts
2. Systems which utilize groundwater under the direct influence of surface water, that are not in compliance with the surface water treatment requirements or have had any acute violations (either fecal coliform or nitrates) and have been issued an administrative order or directive by NJDEP requiring the correction of any noncompliance of its treatment facilities to address an immediate public health threat	350 pts
3. Systems which utilize groundwater that have had any acute violation (either fecal coliform or nitrates)	300 pts
4. Systems which have had any maximum contaminant level violations (except acute violations) or exceedance of action levels (lead and copper rule)	200 pts
5. Systems that have lost well capacity due to cutbacks in Critical Area #1 or #2 or due to saltwater intrusion and a solution is needed to preserve the aquifer as a viable aquifer	175 pts
6. Systems that are proposing improvements for drought or other related water supply management initiatives, as identified or designated by the State.	160 pts
7. Purchase of a water system to comply with the SDWA for capacity development	150 pts
8. Extension of water mains, including associated appurtenances and water system facilities, to private wells that have had any maximum contaminant level violations or	

exceeded lead and copper action levels	125 pts
9. Existing treatment facilities that need to be rehabilitated, replaced or repaired to ensure compliance with the SDWA	100 pts
10. Existing transmission or distribution mains with appurtenances that need to be rehabilitated, replaced, repaired or looped to prevent contamination caused by leaks or breaks in the pipe or improve water pressures to maintain safe levels or to ensure compliance with the SDWA	75 pts
11. Existing pump stations or finished water storage facilities that need to be rehabilitated or replaced to maintain compliance with the SDWA	60 pts
12. New finished water storage facilities or pump stations that are needed to maintain pressure in the system and/or prevent contamination	50 pts
13. Addition or enhancement of security measures at drinking water facilities, including fencing, lighting, motion detectors, and cameras	45 pts
14. Systems which have had any exceedance of any secondary drinking water regulations that have received notification issued by NJDEP that exceedance of a secondary drinking water regulation causes adverse effects on the public welfare, and for which the system has received a directive issued by the NJDEP requiring correction of the exceedance	40 pts
15. Installation of new water meters and/or other water conservation devices, including but not limited to retrofit plumbing fixtures	35 pts
16. Construction of new or rehabilitation of existing interconnections between water systems to improve water pressures to maintain safe levels or to ensure compliance with the SDWA	30 pts
17. Replacement of water meters	25 pts
18. Redevelop wells or construct new wells with associated treatment facilities to meet the New Jersey SDWA rules for required pumping capacity	15 pts
19. Other project elements, not including items 1 through 18 above, that ensure compliance with the SDWA and protect public health, as	

B. Approved Drinking Water Infrastructure Plan

Planning water system improvements that advance comprehensive water supply concepts can facilitate cost effective drinking water system improvements. To provide an incentive to plan in this way, priority points will be given to each project that implements the actual repair, rehabilitation or correction of a problem, improvement clearly identified in a five year master plan or five year capital improvement plan acceptable to NJDEP, or that is linked to a comprehensive water supply plan for a particular region or watershed acceptable to NJDEP. Points are assigned as follows:

1. 50 priority points will be assigned to a water system that connects to a regional solution that is contained in a comprehensive water supply plan for a particular region or watershed acceptable to NJDEP.
2. 25 priority points will be assigned to a water system that has a local five year master plan or five year capital improvement plan or that is linked to a comprehensive water supply plan for a particular region or watershed acceptable to NJDEP. The plan should contain a description of the components of the system, population growth estimates, testing done, current deficiencies, immediate recommendations, recommendations for the next five years, and a map of the distribution system (not just a capital budget).

Please note that that a revision has been made to Category C. Urban Centers and Complexes will get the same amount of points, twenty, as endorsed strategic plans.

C. State Development and Redevelopment Plan

NJDEP seeks to coordinate with and implement the State Development and Redevelopment Plan. NJDEP assigns points to projects in municipalities that the State Planning Commission has approved under the Plan Endorsement or Center Designation Process. Please note, that if a local entity has not received designation by the State Planning Commission, projects within that entity would receive zero (0) points for this element. Points are assigned as shown in Table 2.

Table 2

1. Endorsed Strategic Plans or Urban Complexes or Urban Centers	20 pts
2. Regional Centers	5 pts

- 3. Towns 3 pts
- 4. Villages 2 pts
- 5. Hamlets 1 pt

Contact the N.J. Office of Smart Growth, Department of Community Affairs, 101 South Broad Street, 7th floor, P.O. Box 204, Trenton, N.J. 08625-0204 or call (609) 292-7156 for further information on the State Development and Redevelopment Plan.

Please note for water systems that service more than one municipality, the municipality that has the highest population will be counted for this category.

D. Affordability

The purpose of the affordability criteria is to determine which project sponsors' water systems are eligible for additional points under the Affordability Category.

Affordability is the degree of need for financial assistance based upon the New Jersey median household income compared to the municipal median household income (MHI). Affordability is determined by the following formula:

$$(\text{Municipal MHI} / \text{Statewide MHI}) \times 100 = \text{Affordability Factor}$$

Points are assigned as shown in Table 3.

Table 3

- 1. Affordability factor of 100 or greater 0 pts
- 2. Affordability factor from 85 through 99 15 pts
- 3. Affordability factor from 66 through 84 30 pts
- 4. Affordability factor less than or equal to 65 80 pts

The median household income of the municipality which the water system serves and the Statewide median household income will be determined from income data in the most recent United States census, which is currently the 2000 census.

The NJDEP has determined that for the purposes of the DWSRF Program, a municipality whose median household income is 35% or more below the State's MHI shall be considered a Disadvantaged Community, and will receive 80 priority points which is proportionately greater than the other affordability factor points. (New Jersey's MHI is \$55,146 from the 2000 Census.)

A weighted MHI will be calculated for a project sponsor whose water system serves more than one

municipality, as shown in the example below.

Example

Municipalities served	MHI	Population served	Fraction of total population served	Weighted municipal MHI
Lancaster	30,000	5,000	.167	5,000
Mayberry	20,000	10,000	.333	6,660
Holmeville	25,000	15,000	.500	12,500
Total		30,000	1.00	24,160

Please note for water systems that service more than ten municipalities, the ten municipalities that have the highest populations served will be considered in the above table for the affordability factor.

E. Population

As a tie breaker, projects will be assigned points based on the permanent population of the water system service area. In the instance of a resort community where the summer and winter populations vary greatly, the permanent population will be calculated by taking the sum of twice the winter population and once the summer population and dividing by three (see below). For water systems that service more than one municipality, total all the permanent population served in the multiple service areas. Priority points will be calculated as the permanent population served by the water system divided by 100,000, expressed as a decimal. In the event that projects remain tied, the project which serves a greater proportionate population in the water system’s area will be given higher priority.

Population served for resort communities will be calculated by the following equation:

$$[(2 \times \text{Winter Population}) + \text{Summer Population}] / 3 = \text{Weighted Permanent Population}$$

III. Supplemental Project Priority

All projects which have received loans to date which require additional funds due to the award of all

project related contracts or for increased costs due to differing site conditions will be given priority over new projects eligible for funding. Priority between projects that are eligible to receive supplemental loans and that received their original loans in the same funding cycle will be determined according to each project's ranking on the respective funding year's priority list. In summary, the order of project priority is as follows:

1. Supplemental Projects,
2. Small Systems (as defined in this document on page 23, Section III, Small Systems) up to 15% of DWSRF Funds, and
3. Current Year's Schedule Projects.

INTENDED USE PLAN

This IUP provides information on funds available through the Drinking Water SRF Program to provide financial assistance for projects using FFY2005 capitalization grants, state match, and Trust bond proceeds. Placement on the Project Priority List is a prerequisite to be considered eligible for financial assistance. Projects will be certified for funding based on the Project Priority List rank, amount of available funds, and compliance with the Program's requirements and deadlines for completion of planning, design, and loan application. Any projects that are not ready to proceed during the funding year will be bypassed, but will remain on the Project Priority List and thus be eligible to pursue loan awards in a future funding cycle. This IUP provides an opportunity for those interested to be on the FFY2005 priority list. Project sponsors must meet the program schedule established below in order to be funded in November 2004:

FFY2004 Schedule

Commitment Letter and Planning Documents	October 6, 2003
Design Document and Loan Application	March 1, 2004
Loan Award	November 2004

The FFY2004 Schedule (i.e., for loan awards in November 2004) was previously published in the NJDEP's last IUP for the DWSRF Program finalized in July 2003. Please note that the prospective applicants that meet the deadlines in the FFY2004 Schedule will be given priority in order of ranking. The exception is that NJDEP will first finance projects for the small systems with up to 15% of the DWSRF funds, in accordance with Section III - Small Systems, of this IUP. Also, refer to Section III- Supplemental Project Priority, in the Priority System section of this IUP.

The schedule for FFY2005 is as established below:

Commitment Letter and Planning Document	October 4, 2004
Design Document and Loan Application	March 7, 2005
Loan Award	November 2005

These deadlines must be adhered to or this could result in NJDEP bypassing the project in favor of other priority project(s) which are ready to proceed.

It is highly recommended that all prospective applicants attend a preplanning meeting with the Bureau of Safe Drinking Water (BSDW) and Municipal Finance and Construction Element of NJDEP and the Trust prior to the prospective applicant's submission of a Commitment Letter. The purpose of the preplanning meeting includes discussion of DWSRF Program requirements and schedules and the prospective applicant's project(s) and schedules. After the preplanning meeting, those prospective applicants wishing to pursue project financing through the DWSRF Program should submit a Commitment Letter to the NJDEP and proceed according to the applicable schedule.

An acceptable planning submittal must consist of a complete project report, the appropriate environmental planning documentation for the level of environmental review determined applicable

by NJDEP, cultural resources information, documentation of completed public participation activities, and the results of preliminary coordination activities with lead agencies regarding environmental and permit reviews. The requirements for the planning submittal can be found in N.J.A.C. 7:22, Subchapter 10.3 to 10.6, Financial Assistance Programs for Environmental Infrastructure Facilities. Three copies of the planning document must be submitted by the deadline to:

Philip Royer, Section Chief
Bureau of Safe Drinking Water
NJ Department of Environmental Protection
PO Box 426
Trenton, NJ 08625-0426

For those projects that have the potential to facilitate substantive growth or cause significant adverse environmental impacts, the NJDEP will place increased emphasis on the evaluation of the planning submitted by the project sponsor with respect to the water quality/quantity impacts, impacts to riparian corridors, the existing pollution control needs, assessment of the resulting environment, detailed assessment of proposed alternatives and cost-effectiveness of the proposal. The NJDEP's funding decisions will be based upon the projects' aggregate impacts as determined through such evaluations.

I. Eligible Systems and Projects

A. Eligible Systems

Drinking water systems that are eligible for DWSRF assistance are community water systems, both privately and publicly owned, and nonprofit noncommunity water systems. Federally owned systems and State owned systems (State agencies, such as state police, parks and forestry, and corrections) are not eligible to receive DWSRF assistance. However, State authorized systems (water commissions, water supply authorities, and water districts) are eligible to receive DWSRF assistance.

B. Eligible Projects

1. Compliance and public health

The DWSRF may only provide assistance for expenditures (not including monitoring, operation, and maintenance expenditures) which will facilitate compliance with national primary drinking water regulations applicable to the system or otherwise significantly further the health protection objectives of the SDWA.

Projects to address SDWA health standards that have been exceeded or to prevent future violations of the rules are eligible for funding. These include projects to maintain compliance with existing regulations for contaminants with acute health effects (e.g., the Surface Water Treatment Rule, the Total Coliform Rule, and nitrate standard) and regulations for contaminants with chronic health

effects (e.g., Lead and Copper Rule, regulated inorganics, volatile organics and synthetic organics, total trihalomethanes, and radiological contaminants).

Projects to replace aging infrastructure are also eligible if they are needed to maintain compliance or further the public health protection goals of the SDWA. Examples of these include projects to:

- rehabilitate or develop sources (excluding reservoirs, dams, dam rehabilitation, and water rights) to replace contaminated sources;
- install or upgrade treatment facilities, if the project would improve the quality of drinking water to comply with primary or secondary drinking water standards;
- install or upgrade storage facilities, including finished water reservoirs, to prevent microbiological contaminants from entering the water system;
- install or replace transmission and distribution pipes to prevent contamination caused by leaks or breaks in the pipe, or improve water pressure to safe levels; and
- install and enhance security at drinking water systems, including fencing, lighting, motion detectors, and cameras.

Projects to consolidate water supplies as follows are eligible for DWSRF assistance: A) extension of water mains by a community water supply system to individual homes whose wells are contaminated; or B) purchase of a water system that is unable to maintain compliance for technical, financial, or managerial reasons.

Please note for projects seeking funding for the addition of new wells that the funding and permit process will take place over multiple years. This is due to the extended length of time required to satisfy all permit requirements and obtain permit approvals. This unique type of loan takes the appearance of a reimbursement as the sponsor must utilize its own money to initially finance the addition of the new well before the DWSRF loan is issued. An overview that details the process and duration of the new well funding process, such as the steps to construct the facility BSDW and Bureau of Water Allocation permits, obtain pre-award approvals, and submit all required DWSRF loan documents is summarized in a timetable. A copy of the timetable is available by contacting the DWSRF staff in the BSDW at (609) 292-5550. Also note that in order to maintain eligibility under the DWSRF program, a project sponsor cannot advertise for bids before executing a loan unless the Department and the Trust issue written pre-award approval. Therefore, written pre-award approval is needed before the project sponsor advertises for bids.

An amendment to the existing Financial Assistance Programs for Environmental Infrastructure Facilities Rules, adopted in the *New Jersey Register* dated October 6, 2003 (35 NJR 1475(a)), added a requirement for mandatory connection ordinances for water main extension projects to ensure that the public health issue is addressed, to assure the cost-effectiveness of the project, and to ensure adequate operation of the system to be built. This amendment also required project sponsors to adopt or obtain a mandatory well sealing ordinance if the NJDEP determines that it is warranted to prevent usage of contaminated water, prevent cross-connections, and/or the migration of contaminants.

2. Restructuring of systems that are in noncompliance or that lack the technical, managerial or financial capability to maintain the system

The DWSRF may provide assistance to an eligible public water system to consolidate (i.e., restructure) with other public water system(s) only if the assistance will ensure that the system returns to and maintains compliance with SDWA requirements and the owner or operator of the water system agrees to undertake feasible and appropriate changes in operations necessary to ensure the system has the technical, managerial, and financial capability to comply with the SDWA requirements over the long term.

3. Allowable costs

i. Land acquisition

Land acquisition is eligible only if it is integral to a project that is needed to meet or maintain compliance and further public health protection. In this instance, land that is integral to a project is only that land needed to locate eligible treatment or distribution projects. In addition, the acquisition has to be from a willing seller.

ii. Planning and design of a drinking water project

NJDEP has adopted rules at N.J.A.C. 7:22, entitled “Financial Assistance Programs for Environmental Infrastructure Facilities.” N.J.A.C. 7:22-5.12 establishes the eligible allowance to defray the cost of planning and design.

iii. Construction related cost of a drinking water project

The Financing Program rules (N.J.A.C. 7:22) provide eligible costs of 3% of the construction contract costs for administrative expenses, 5% of the construction contract costs for construction contingencies, and the actual cost of engineering/construction management services (NJDEP will use 12% to estimate the cost of engineering/construction management services for the purposes of developing the project priority list).

iv. Growth

Assistance may be provided to address population growth expected to occur by the date of initiation of operation of any improvements to be funded by DWSRF assistance, but not solely in anticipation of future population growth. In determining whether or not a project is eligible for assistance, NJDEP must determine the primary purpose of the project. If the primary purpose is to supply water to or to attract new population growth, the project is not eligible to receive DWSRF funds. If the primary purpose is to address a compliance or public health problem, the entire project, including the portion necessary to accommodate a reasonable amount of growth to the date of initiation of operation of any improvements to be funded by DWSRF assistance from the NJDEP, is eligible. The remaining capacity related to growth has, until this time, been eligible for funding by the Trust.

v. Smart Growth

In an effort to promote Smart Growth Initiatives, the NJDEP implemented two significant changes to the Financing Program. The first change involves modifying the percentage of project costs the NJDEP and the Trust provide to project sponsors. Usually, project sponsors receive a loan for half of the project costs from the Trust at market rate and a loan for the remaining project costs from the NJDEP at 0% interest. Now, the NJDEP will provide 75% of the project costs at 0% interest, while the Trust will provide 25% of the project costs at market rate to projects that serve smart growth areas. In response to the NJDEP's extensive discussions throughout New Jersey regarding this significant environmental initiative, the NJDEP intends to propose program-specific regulatory changes (i.e., for various permits and/or approvals) to advance a tiered approach to natural resource protection. This rulemaking would also identify areas of the state that are suitable for development. Until these Rules are adopted, the NJDEP has determined to make the "75/25" funding package immediately available to projects that serve Urban Centers and Urban Complexes designated by the State Planning Commission. To date, the State Planning Commission has designated Atlantic City, Camden, Elizabeth, Jersey City, New Brunswick, Newark, Paterson and Trenton as Urban Centers and one Urban Complex, the Hudson County Urban Complex, which includes the following municipalities: Bayonne, East Newark, Guttenberg, Harrison, Hoboken, Jersey City, Kearny, North Bergen, Secaucus, Union, Weehawken, and West New York.

The NJDEP's funding decisions will take into account the project's growth potential, the location in the state and the projects' aggregate impacts as determined through such evaluations.

For those projects that have the potential to facilitate substantial growth or cause significant adverse environmental impacts, the NJDEP will thoroughly evaluate the planning submitted by the project sponsor with respect to the water quality/quantity impacts, location in the State, impacts to riparian corridors, the existing pollution control needs, assessment of the resulting environment, detailed assessment of proposed alternatives and cost-effectiveness of the proposal.

The second change relates to funding for reserve capacity. The NJDEP will fully fund its share of reserve capacity costs at 0% interest for projects in the smart growth areas. The rule amendments as adopted will allow the NJDEP to fully fund its share of reserve capacity costs for designated Urban Centers and Complexes. In the future, this funding will be made available to areas identified as suitable for growth in subsequent rulemaking.

C. Projects not Eligible for Funding

The DWSRF cannot provide funding assistance for the following projects and activities:

- Dams, or rehabilitation of dams;
- Water rights, except if the water rights are owned by a system that is being purchased through consolidation as part of a capacity development strategy;
- Reservoirs, except for finished water reservoirs and those reservoirs that are part of the treatment process and are located on the property where the treatment facility is located;
- Laboratory fees for monitoring;

- Operation and maintenance expenses;
- Projects needed mainly for fire protection;
- Projects for systems that lack adequate technical, managerial, and financial capability, unless assistance will ensure compliance;
- Projects for systems in significant noncompliance, unless funding will ensure compliance; and
- Projects primarily intended to serve future growth.

1. Lack of technical, managerial, and financial capability

The DWSRF may not provide any type of assistance to a system that lacks the technical, managerial, or financial capability to maintain SDWA compliance, unless the owner or operator of the system agrees to undertake feasible and appropriate changes in operation or if the use of the financial assistance from the DWSRF will ensure compliance over the long term. A capacity development program was created to evaluate each system to be funded to ensure each meets the capacity development requirements (see Appendix A).

2. Significant noncompliance

The DWSRF may not provide assistance to any system that is in significant noncompliance with any national drinking water regulation or variance unless NJDEP determines that the project will enable the system to return to compliance and the system will maintain an adequate level of technical, managerial and financial capability to maintain compliance.

D. Compliance Without DWSRF Funding

The inability or failure of any public water system to receive assistance from the DWSRF or any other funding agency shall not alter the obligation of a drinking water system to comply in a timely manner with all applicable drinking water standards.

E. Administrative Fees

In accordance with the USEPA Policy on Fees Charged on Assistance Provided Under the SRF Programs, states must disclose information regarding the assessment and use of any fees associated with SRF activities that are passed on to the program participants. In New Jersey, each SRF project is financed with two loans, one from the NJDEP which utilizes federal SRF capitalization grants and one from the NJ Environmental Infrastructure Trust, which utilizes bond proceeds from the Trust bond sale. Each year, the NJDEP evaluates the need to assess a loan origination fee and/or an annual administrative fee to cover the NJDEP portion of the program's administrative costs. The amount of the fee (if any) is established in conjunction with the annual budget process for the particular State fiscal year and borrowers are notified in advance of escrow closing as to the estimated cost of the fee that will be charged on their loan to be closed in November.

In the past, adequate resources were available to cover the NJDEP's costs for administration of the project without levying a fee. Given tight fiscal constraints, the SFY2003 Appropriations Act required the NJDEP to collect an amount not less than \$1 million from the November 2002

borrowers. Rather than require cash payment from the project sponsors, the Trust included the NJDEP loan origination fee in the borrowers' Trust loan (and secured that portion of the bond issue with non-SRF funds) to cover \$1 million of NJDEP's costs in administering the Financing Program. The SFY2004 Appropriations Act required the NJDEP to collect \$5 million from CWSRF and DWSRF November 2003 project sponsors to cover program administration costs. The amount of the NJDEP loan origination fee was proportionally allocated among the participants in the FFY2003/SFY2004 Program. The NJDEP anticipates that a similar fee will be collected from November 2004 borrowers. There is no SRF funding involved in the NJDEP loan origination fee.

The Trust's loan is issued at the same market interest rate as the Trust obtains from the sale of its bonds. Rather than bonding for all of the eligible closing costs associated with each financing, the Trust charges the borrowers a one-time surcharge of up to 0.4% of the principal Trust loan amount to partially cover the costs associated with that particular year's bond sale. These issuance costs include such activities as: bond counsel, financial advisor, rating agencies, printing and publishing of the Notice of Sale, the Preliminary Official Statement, the Official Statement, and other costs related to the Trust's bond sale. In addition, the Trust charges an annual administrative fee of up to 0.3% of the Trust's bond principal loan amount to cover the balance of the closing cost and the annual operating expenses associated with the operations of the Trust and the on-going costs associated with the Loan Servicer and Trustees. The Trust Annual Fee is not included in the principal amount of the loan. The annual fees collected by the Trust are held in an account outside of the SRF. In SFY2006, the Trust anticipates collecting administrative fees associated with the CWSRF and DWSRF programs at approximately \$3 million.

II. Description of DWSRF Financing Uses

In addition to the USEPA's capitalization grant, funds are also available from two other sources, the New Jersey Water Supply Bond Fund created under the Water Supply Bond Act of 1981 and the Trust. The 1981 Bond Act authorized the creation of a general obligation debt in the amount of \$350,000,000 for the purpose of providing loans for State or local projects to rehabilitate, repair, or consolidate antiquated, damaged, or inadequately operating water supply facilities and to plan, design, acquire, and construct various State water supply facilities. The Trust has the authority to issue bonds and to reserve any funds necessary to make loans to applicants for environmental infrastructure projects. NJDEP intends to continue to provide loans through the capitalization grant in combination with leveraging state match funds by the Trust to maximize the Program's cash flow. The Fund provides loans at 0% interest for a maximum of 20-year repayment terms, not to exceed the useful life, for one half of the allowable project costs. For Smart Growth Initiative projects, the NJDEP would provide 75% of the project costs at 0% interest, while the Trust would provide 25% of the project cost at market rate (rather than the traditional "50/50" NJDEP/Trust split) to projects that serve Urban Centers and Urban Complexes. After subsequent rulemaking for a tiered approach to natural resource management, this funding would be available to projects identified as suitable for growth. The Trust offers market rate loans for the remaining allowable project costs, also for a 20-year term. Table 4 illustrates the NJDEP's intended use of the FFY2005 funds. Table 5 outlines the distribution of FFY2005 non-project set-aside funds. Nonproject set-aside funds identified in Table 5 will be used for the activities shown or reserved for use in future fiscal years use, in accordance with USEPA guidance. Funds not used for nonproject set-aside activities will be

returned to the project fund for DWSRF use. NJDEP may move funds among set-aside activities or from the set-aside account(s) to the Fund after receiving an approved amendment to the capitalization grant, where permissible.

Table 4 - DWSRF Uses

<u>Funds Available</u>	<u>FFY2005*</u>
Federal Capitalization Grant	\$18,500,000
State Match	\$ 3,700,000
Funds Available	\$22,200,000
<u>Projected Expenditures</u>	
Nonproject Set-asides (see Table 5)	\$ 3,360,000
Funds Available for Projects	\$18,840,000
Trust Reserve Fund	\$ 1,695,600
NJDEP \$\$ Available	\$17,144,400
Trust Bond Proceeds	\$17,144,400
Funds Available for Projects** (NJDEP & Trust)	\$34,288,800

*The federal funds are estimated at \$18,500,000 for FFY2005 for planning purposes, actual amounts will be proportionally equal.

**In addition, some funds from previous DWSRF capitalization grants, previous transfers from CWSRF repayments, and state matching funds are anticipated to be available for funding the November 2005 funding cycle projects.

Table 5 - Non-Project Set-Aside Fund Uses
\$3,360,000 (See Table 4)

	<u>FFY2005*</u>
<u>Program Administration of DWSRF Projects (4%)</u>	\$ 740,000
<u>Small System Technical Assistance (2%) **</u>	\$ 370,000
Banked Monies***	\$ 200,000
<u>State Program Management (10%)**</u>	\$2,050,000
State PWSS Program***	\$ 656,850
Banked Monies***	\$ 200,000
Source Water Program Administration	\$ 583,950
Capacity Development	\$ 341,600
Operator Certification	\$ 267,600

*The federal funds are estimated at \$18,500,000 for FFY2005 for planning purposes.

**These figures are approximate, and are subject to a workplan submittal to USEPA.

***NJDEP intends to utilize monies banked under previous Capitalization Grants to fund various set-aside activities. For example, a contract with NJWA to provide engineering services to small systems will be funded with \$200,000 of set-aside monies banked from previous capitalization grants. State PWSS Program, which includes Sampling, Data Management, Program Rules Development, and Radon Multi-Media Mitigation Program (MMMP), will utilize \$200,000 of banked monies for Radon MMMP.

Currently NJDEP's IUP does not call for providing additional funds for disadvantaged communities. However, disadvantaged communities, as identified in the Project Priority System- Category D, Affordability Criteria, will receive more ranking points. Thus disadvantaged communities will receive a higher priority to qualify for the low interest loans available under the DWSRF financing program.

Under the provisions of the SDWA of 1996, Section 1452(e), each State is required to deposit in the DWSRF an amount equal to at least 20% of the total amount of the capitalization grant. It is expected that the funding source of the State Match for New Jersey will be secured from the 1981 Water Supply Bond Fund.

Each State must also agree to deposit into the set-aside account where the Section 1452(g)(2) funds will be deposited, a dollar for dollar match, not to exceed an amount of 10% of the capitalization grant. Thus, the State Match for the State Program Management set-aside for FFY2005 is \$2,050,000. The dollar to dollar state match is anticipated to be met by half of the funds coming from the SFY1993 PWSS Program overmatch and A-280 Safe Drinking Water Tax Fund and half from the SFY2005 PWSS Program overmatch and A-280 Safe Drinking Water Tax Fund, as

applicable.

III. Small Systems

The Federal SDWA amendments of 1996 had a goal for states to provide at least 15% of all funds credited to the DWSRF project account to provide loan assistance to systems serving fewer than 10,000 persons. Therefore, a fund of 15% of the DWSRF fund will be reserved to provide financing for small systems serving fewer than 10,000 residents. However, if there are not enough small systems serving fewer than 10,000 that would be eligible for the 15% reserve fund, then the moneys would be utilized for eligible projects, in priority order, that have met program requirements.

NJDEP's most important short-term goal is to provide loan assistance to systems serving fewer than 10,000 persons, to the extent that there are a sufficient number of eligible projects to fund. New Jersey will continue to strive to meet these criteria, however it has proven to be a difficult goal to reach despite the best efforts and intentions of the NJDEP. For the last six funding cycles, the New Jersey has not met the 15% goal. In the last funding cycle, one small system for 2.39% of DWSRF funds was financed in November 2003. Only those small systems ready to proceed were issued loans.

A limited universe of viable applicants in New Jersey compounds this situation. Despite NJDEP's outreach efforts aimed specifically at small systems, there are simply not many small systems eligible for the DWSRF in need of assistance or that have an interest in pursuing the DWSRF loan program. Since New Jersey leverages its DWSRF program with a joint funding program with the NJ Environmental Infrastructure Trust, the larger amount of dollars that are subsequently available make it difficult to meet the 15% criteria. The NJDEP sponsored a state loan program under the 1981 Water Supply Bond that provided funding to many small systems in New Jersey throughout the twenty plus years the program was in effect. This effort significantly reduced the universe of small systems in need of infrastructure upgrades. Additionally, New Jersey's list of systems that are in significant non-compliance (SNC) contains only a few small systems that are DWSRF eligible. Also, NJDEP has actively promoted the Small Water Company Takeover Act and pushed small water companies that need help in meeting the SDWA requirements to merge with larger systems that are better equipped to handle all the SDWA requirements. Therefore, it is the larger systems, that bought out the smaller systems, that are borrowing the funds and the credit does not get applied to small systems.

The NJDEP continues to reach out to small systems. The NJDEP distributes informational pamphlets, makes presentations, and provides small systems with an informational sheet tailored to small system concerns. NJDEP staff also target small systems for informational site visits. With the help of the 2% set-aside for technical assistance to small systems and a contract executed with New Jersey Water Association (NJWA), New Jersey will continue to strive to reach the goal of 15% in future funding cycles. The NJDEP has developed a contract with NJWA to provide engineering services to small systems under the Small System Technical Assistance set aside. Under this contract, small systems serving less than 3,300 customers will access a pre-approved list of consulting engineers that will provide assistance completing DWSRF applications and submittals for systems. The engineers will be reimbursed through this contract instead of the project sponsor

receiving a planning and design allowance. This will eliminate the need for small systems to utilize their own resources to pay for the engineering planning and design costs. NJDEP will continue to reevaluate the program to see what changes can be made to better achieve this 15% goal.

IV. Nonproject Set-asides

Section 1452 of the Federal SDWA authorizes the states to provide funding for certain nonproject activities, as long as the amounts do not exceed ceilings specified in the statute. Required workplans will be submitted to the USEPA with the capitalization grant application for the nonproject set-aside activities. The workplans will provide a task, output, and budget breakdown for the set-asides. Any costs that are not covered by the workplans will be used to finance construction projects; where allowed, the NJDEP reserves the authority to apply for these set-aside funds for nonproject activities under future capitalization grant applications.

A. Utilizing Reserved Funds

Funds for the Small Systems Technical Assistance and the State Program Management categories of the set-asides have been reserved from the previous seven capitalization grants awarded to NJDEP by USEPA. Portions of the total amount requested from the FFY97, FFY98, FFY01, FFY02 and FFY2003 Small Systems Technical Assistance and the State Program Management set-asides and all of the FFY99 and FFY00 Small Systems Technical Assistance and the State Program Management set-asides were reserved for future capitalization grant applications and those funds were utilized for construction loans at that time.

B. Administration (4%)

These funds will be used to administer the DWSRF in New Jersey. These administrative costs may include expenses such as development of the Project Priority System, the IUP and Project Priority List, the capitalization grant application, and other program documents. In addition, NJDEP's costs for project management for planning, design, construction, loan payment/repayment, annual reporting activities, infrastructure needs survey, etc., are also eligible. These costs include endeavors to market the DWSRF program in New Jersey, such as creating websites and publishing informational brochures. If this entire amount is not obligated in one year, the NJDEP will retain these funds to cover administrative costs in subsequent years. However, the NJDEP has expended the entire 4.0% administrative set-aside each year.

C. Small System Technical Assistance (2%)

On July 11, 2000, the NJDEP entered into a fee-for-service agreement with NJWA to provide group training sessions and outreach site visits to small public water systems serving a population less than 10,000. As of the end of 2003, NJDEP has compensated NJWA for 55 outreach site visits conducted and for all 42 of the group training sessions provided under this agreement.

Group training sessions are targeted in the Northern, Central and Southern regions of New Jersey.

Training topics include Basic Accounting, Consumer Outreach, Distribution Planning and Safe Drinking Water Act Requirements. Other topics are included as needed. On June 12, 2003, NJDEP initiated a new agreement with NJWA to provide for an additional 62 group training sessions to be conducted under this program. Conditions of the original agreement concerning the topics and locations of the training sessions remained intact. However, the new agreement reduces the cost from approximately \$3000 to \$2000 per training session.

One-on-one site visits are given priority to public community water systems with 1) acute violations, 2) monitoring and reporting problems or other Maximum Contaminant Level (MCL) violations (including all SNCs), and 3) the smallest and/or poorest communities or Non-Transient, Non-Community (NTNC) water systems.

Site visits should include the following:

- a) Review of system operation and maintenance,
- b) Review of certified operator status and provision of information on certified operator training,
- c) Review of system sampling schedule and sampling techniques,
- d) Guidance on specific compliance related water quality or treatment problems,
- e) Review and recommendations on financial records,
- f) Review of system's source and distribution system protection,
- g) Review of data required for issuing a Consumer Confidence report,
- h) Guidance in selecting appropriate technologies for small system needs,
- i) Guidance on SRF and other available financial assistance, and
- j) Review of recordkeeping.

Previously, NJDEP compensated NJWA for one-on-one site visits on a fee-for-service basis. However, NJDEP has modified its agreement with NJWA to instead compensate for site visits on a per-hour basis. This approach is more equitable since time needed to provide assistance varies significantly from system to system. It is believed that this approach will allow more adequately for the targeting of those systems with the most severe compliance issues. In addition, the NJWA has recently utilized this approach to target those water systems that need assistance in complying with New Jersey's new licensed operator requirements. The Small Water System Technical Assistance agreement also provides for the development of a small system technical assistance web site.

BSDW will continue field-sampling efforts to evaluate water quality at small noncommunity water systems that have either monitoring/reporting or MCL violations. The effort allows us to get a wide snapshot of water quality problems that affect noncommunity water systems throughout New Jersey. In 2003, approximately \$200,000 was spent to sample approximately 266 water systems. These samples were outside the normal compliance sampling required for those water supplies.

NJDEP has also contracted with the NJWA to aid in marketing the DWSRF program to small systems. The NJDEP is pursuing a contract with NJWA to provide engineering services to small systems under the Small System Technical Assistance set aside. Under this contract, small systems serving less than 3,300 customers will access a pre-approved list of consulting engineers that will provide assistance completing DWSRF applications and submittals for systems. The engineers will

be reimbursed through this contract instead of the project sponsor receiving a planning and design allowance. This will eliminate the need for small water systems to utilize their own resources to pay for the engineering planning and design costs.

D. State Program Management (10%)

NJDEP intends to use this set-aside to provide support for: (1) PWSS programs such as the radon multi-media mitigation program, data management, development of program rules including administration of the consumer confidence report program, and sampling; (2) source water protection program; (3) development and implementation of a capacity development program and strategy to generate adequate technical, financial, and managerial capacity for water systems; (4) and the management of an operator certification program.

1. State PWSS Program

a) Radon Multi-Media Mitigation Program

The State of New Jersey is presented with a unique opportunity to develop and promote an innovative radon risk-trading program through implementation of a Multimedia Mitigation (MMM) Program. Radon poses a risk from both the air pathway and the water pathway. Radon is present in soil gas that enters homes and exposes the residents through the air pathway. It is also present in groundwater, and drinking the water and using it for showering exposes people. Although the radon in water risk is high relative to other drinking water contaminants, it is low compared to the risk of radon exposure from the air pathway.

The amendments to the SDWA in 1996 changed the approach that USEPA uses to set drinking water standards. Congress mandated a National Academy of Sciences (NAS) risk assessment to guide the setting of the MCL for radon. Congress further stated that if USEPA promulgates an MCL “more stringent than necessary to reduce the contribution to radon in indoor air from drinking water to a concentration of radon in outdoor air,” then the USEPA must establish an Alternate Maximum Contaminant Level (AMCL). Based on the determination by the NAS Committee that the national average outdoor radon level is 0.4 pCi/l and the transfer factor from radon in water to air is 10,000:1, the NAS Committee recommended that the AMCL be set at 4,000 pCi/l.

On November 2, 1999, the USEPA proposed a new Radon in Drinking Water regulation. The unique nature of radon and the comparison of the risk from both water and indoor air set the stage for USEPA to propose an innovative multimedia approach for radon. The proposed regulation provides States with the flexibility in how to best limit the public’s exposure to radon. States can focus their efforts on the greatest public health risks from radon – those in indoor air – while also reducing the highest risks from radon in drinking water. USEPA strongly encourages States to take full advantage of the flexibility and risk reduction opportunities in the regulation.

The proposed National Primary Drinking Water Regulations; Radon-222 in the Federal Register primarily focuses on public health protection. A Maximum Contaminant Level Goal (MCLG) is set at the level at which no known or anticipated adverse effects occur and for radon, the Administrator

set the MCLG at zero. Then a MCL is set, as close to the goal as feasible, but taking into account a cost/benefit analysis, as well as consideration of affordable treatment technologies for small water systems. In the proposed rule, the MCL for radon is set at 300 pCi/l. In addition to the promulgation of a MCL, USEPA proposed an AMCL of 4000 pCi/l for radon. The AMCL must be accompanied by a MMM Program to address risks from radon in indoor air.

The proposed rule applies to all community water systems (CWSs) that use ground water or mixed ground and surface water. USEPA plans to publish the final rule by December 2004. Under the proposed rule, CWSs would be required to begin their initial monitoring requirements for radon by three years after publication of the final rule. As an incentive for states to focus their program on the pathway that gives the greatest risk to its citizens, states that submit a letter from their Governor to the Administrator committing to develop a MMM Program plan within 90 days of publication of the final regulation in the Federal Register, are required to begin monitoring 4.5 years after publication of the final rule.

New Jersey is one of the states where the unique provisions of the SDWA for radon could have a dramatic cost savings for purveyors and an equally dramatic risk savings in terms of lung cancer deaths averted. The strong radon in air program that has been in place in New Jersey for over 10 years furnishes the building blocks necessary to provide substantive input into the development of a MMM Program as well as perform a quantitative comparison of the risk trading.

It is estimated that about 50% of New Jersey public water systems, serving about 25% of New Jersey's population, have radon in water levels between 300 pCi/l (MCL) and 4,000 pCi/l (AMCL). Some of these systems may have or will install treatment prior to the promulgation of the radon standard. The number of systems that might be eligible for participation in the MMM Program is between 250 and 350.

Goals

Multimedia Mitigation Programs

The MMM Program is intended to provide a more cost-effective alternative to achieve radon risk reduction, by allowing States (or CWS) to address radon in indoor air from soil, while reducing the highest levels of radon in drinking water. The MMM Program is modeled on the National Indoor Radon Program implemented by USEPA and States to address radon in indoor air. The program has been successful in achieving indoor radon risk reduction through a variety of program strategies, which form the basis for USEPA's proposed MMM Program plan criteria. USEPA has identified four criteria that a State MMM Program plan is required to meet to be approved by USEPA. The four criteria are:

1. Public involvement in development of the MMM Program plan,
2. Quantitative goals for existing homes fixed and new homes built radon-resistant,
3. Strategies for achieving goals, and
4. Plan to track and report results.

The Radon Section will schedule a meeting with the Radon in Water work group. This group of government and regulated community representatives is instrumental in developing a draft Radon MMM Program. Upon completion, the draft will be circulated for comment. The Radon Section database will continue to be enhanced and outreach efforts will continue. As previously identified, a new position has been approved to work on the MMM Program.

The following items will be addressed during FFY05:

- 1) Research groups will gather information on how to effectively communicate the risk-trading concept behind the MMM program. Interpretation of the information gathered from these groups will be ongoing through FFY2005.
- 2) Plan (with the assistance of the Division of Science, Research and Technology) for the elicitation of public opinion phase following adoption of the proposed MMMP rule (currently scheduled for December 2004.) Tasks will include preparation of appropriate surveys and their administration to various stakeholder groups.
- 3) Compile and interpret results of public opinion surveys.
- 4) Contact CWS in an effort to provide assistance to the Bureau of Safe Drinking Water.
- 5) Develop and implement course outlines, material, instructors and logistics for a certification program for radon in water professionals.
- 6) Maintain technical reference materials for radon in water mitigation.
- 7) Begin efforts with the Radon Section to develop quantitative goals for (a) the development of new construction that is radon resistant and (b) the mitigation of radon in air at existing homes.

b) Data Management

The New Jersey Safe Drinking Water program utilizes an existing data management system to facilitate the program's efforts to ensure that water systems meet the requirements of the Safe Drinking Water Act, and to meet its obligations to the USEPA. The data management system maintains drinking water system inventory data and monitoring analytical data that is used to determine compliance with both monitoring requirements and drinking water standards. The existing system is more than 10 years old and needs to be replaced to meet both the existing and the new requirements under the Safe Drinking Water Act, and to improve reporting and compliance determination capabilities.

NJDEP is in the process of implementing an enterprise data management system, New Jersey Environmental Management System (NJEMS). NJDEP seeks to consolidate many of its existing individual data management systems across the department and across many media (e.g., air, water, and land) into NJEMS. This represents a significant step toward an integrated department-wide data management system to be used primarily for permit, reporting, and enforcement activities. The Water Supply Administration has completed its development and initial implementation phases of NJEMS. During calendar year 2003, the Water Supply Administration has begun issuing various permit decision actions through NJEMS, including water allocation resource management and drinking water construction permits. The Water Supply Administration is continuing to perform additional development and implementation work in order to more fully utilize the available functionality built into NJEMS, to enhance drinking water system inventory data management, and

to facilitate environmental decision making as required under the SDWA. However, implementation of NJEMS alone will not fully address the needs of the Safe Drinking Water program concerning compliance determinations and the corresponding reporting of these determinations to USEPA.

NJDEP considered alternatives to meet the Safe Drinking Water program's particular electronic data management, reporting, and compliance determination needs necessary to meet the Federal and State rules and regulations. The selected alternative is to implement NJEMS, and to concurrently implement the USEPA Safe Drinking Water Information System (SDWIS/State). SDWIS/State will assist in providing compliance decision support and federal reporting.

The Water Supply Administration is currently migrating drinking water monitoring analytical and related data from the existing data management system to SDWIS/State. As of July 1, 2004, the existing drinking water data management system has been retired, and SDWIS/ State will be operational for use in compliance decision support and federal reporting to the USEPA. Similarly, the Water Supply Administration will continue to perform additional development and implementation work in order to more fully utilize the available functionality built into SDWIS/State, to enhance drinking water system monitoring analytical data management, and to facilitate environmental decision making as required under the Safe Drinking Water Act.

Also, the Water Supply Administration will include as a new effort in the future, the development and implementation of an electronic data interface between NJEMS and SDWIS/State, to maintain data integrity between these two data systems.

The Water Supply Administration continues to actively participate in other USEPA initiatives, including the development of an XML schema to enable drinking water system or laboratory-to-State electronic data exchange in the future. Such schema, if implemented, would provide drinking water systems or laboratories an option to electronically report drinking water monitoring analytical data to the NJDEP, in lieu of the current paper-to-data system process. NJDEP may determine to pilot this schema development in calendar year 2004.

The data management system improvements envisioned will require additional resources to accomplish the current goals of data management system upgrades and future enhancements. This set-aside will provide partial funding to assist in this process, as identified in previous IUPs. NJDEP is currently seeking to supplement its existing Safe Drinking Water program data management unit in calendar year 2004 with two positions to provide additional professional and technical capabilities to assist in the enhancement of the current program, concurrent with the NJDEP initiative to implement both NJEMS and SDWIS/State.

c) Development of Program Rules

In planning for the implementation of additional SDWA Regulations, the NJDEP anticipates that additional Program Management set-aside funding is needed. The NJDEP anticipates the need to fund up to three additional positions and the associated administrative costs to develop primacy submittal applications and to handle additional implementation activities associated with the following rules: Groundwater Rule, Arsenic Rule, Radon Rule, Radionuclide Rule, the

microbiological/disinfection by products (M/DBP) cluster of rules including Stage I DBP and Interim Enhanced Surface Water Treatment Rule (IESWTR), Filter Backwash Rule, Public Notification Rule, and the LTI applying the IESWTR to systems less than 10,000 population. These positions would supplement existing positions in the BSDW currently handling the existing rules and activities.

In addition, revisions to the SDWA rules were proposed in the January 20, 2004 New Jersey Register, which include a new more, stringent State MCL for arsenic of 5 mg/l, an implementation schedule for the Radionuclide Rule and a requirement that all gross alpha analyses be performed using the 48-hour Rapid Gross Alpha Test will require additional staff attention. A copy of the proposal can be found at NJDEP's website, www.nj.gov/dep/rules/proposals/20040120_7_10.pdf

Additionally under this set-aside fund, the NJDEP anticipates funding the administration of the consumer confidence report (CCR) program in New Jersey. This includes one position and the associated administrative costs to monitor the submission of CCRs to the NJDEP, advising community water systems on completing some aspects of the reports, and identify water systems that are missing CCRs.

d) Sampling

NJDEP receives funding for special purpose monitoring and laboratory analytical services, under the annual PWSS grant authorized by the USEPA, for state administration of the SDWA. Funding for these services is eligible under the PWSS grant and also under the DWSRF, State Program Management Set-Aside for PWSS State Program.

PWSS and Set-Aside PWSS funds may not be used for routine sampling and analyses which are otherwise required of a PWS as part of its normal compliance monitoring requirements under the SDWA rules and regulations. However, PWSS and Set-Aside PWSS funds may be used for State sampling and analyses of special purpose monitoring, surveillance monitoring, and/ or other discrete special one-time monitoring.

NJDEP proposes to use these additional funds for special purpose monitoring and laboratory analytical services as it determines necessary and appropriate. A few examples include monitoring NTNC water systems for radiological contaminants, currently not required under SDWA, and monitoring synthetic organic compounds (SOC waiver program), and monitoring transient noncommunity systems for inorganic (except nitrate) and volatile organic compounds, currently not required under the SDWA.

Accordingly, the NJDEP seeks additional PWSS grant funding of monitoring and laboratory analytical services, estimated at \$100,000, in accordance with section 1452(g)(2)(A) of the SDWA.

2. Source Water Protection Program Management

The source water program set-aside is the primary source of funding for continuing Source Water Assessments activities. Under the provisions of the SDWA of 1996, NJDEP will issue Source Water

Assessments in the fall of 2004. These source water assessments are based on the Source Water Assessment Program (SWAP) Plan approved by USEPA in November 1999. Source Water Assessments will be issued for all CWS (606), nontransient noncommunity water systems (884) and transient noncommunity water systems (2,650). NJDEP will develop and implement a comprehensive source water protection initiative to better safeguard current and future drinking water resources. NJDEP will establish new and build upon existing strategies for protection of source waters by establishing a wellhead protection program, establishing new surface water intake protections, enhancing existing surface and ground water protection programs that regulate threats to drinking water, and support local well head protection ordinances.

The SWAP staff will continue to work with water systems in New Jersey and the interested public to assure the accuracy of the source water assessments. These changes may result in reissuing updated source water assessments. This will include such activities as updating the BSDW source inventory and processing changes to the locational data, coordinating with the New Jersey Geological Survey regarding changes to well delineations, updating contaminant source inventories, re-running models, and re-issuing updated SWAP reports.

In addition, any new sources of public water will need to be evaluated and assessed. It is anticipated that 50 new community water system wells will be placed into service each year. However, the number of new noncommunity water systems that will become active each year and will require source water assessments is not known. Performing Source Water Assessments for new sources of water will continue to be an ongoing activity.

Continuing public participation activities for SWAP include participation in training sponsored by other agencies such as the NJWA, Rutgers Continuing Education, and other groups upon request. The NJDEP anticipates sponsoring several meetings throughout the state with health agencies and municipal government agencies to explain the significance of the source water assessments. During FFY05, the Source Water Assessment Advisory Committee will continue to meet on a more limited basis because the scope of activities will change. As the NJDEP builds upon regulatory programs for the protection of drinking water, the NJDEP may reconvene the Source Water Assessment Advisory Committee. Coordination with watershed protection activities and ground water protection activities within the NJDEP will continue.

3. System Capacity Development

In accordance with Section 1420 (a) of the federal regulations each State shall have the legal authority to assure that all new community and NTNC water systems demonstrate adequate technical, managerial and financial capacity (TMF). In New Jersey, Assembly Bill No. 2615 was signed into law on August 2, 1999 (P.L.1999 Chapter 176). This legislation amended the New Jersey SDWA (N.J.S.A. 58:12A) to give New Jersey explicit legal authority to require new public water systems to demonstrate capacity. Consequently, on July 31, 2000, New Jersey adopted a new rule at N.J.A.C. 7:10-13 that establishes the requirements to assure that all new public community and NTNC water systems have adequate capacity. The effective date of the rule was the date of

publication in the August 21, 2000 *New Jersey Register* (32 NJR 3106(a)). Prior to the effective date of the rule New Jersey adopted an interim policy, effective on October 1, 1999, to implement capacity requirements for new water systems.

In accordance with Section 1420 (c) of the Federal regulations each State is required to develop and implement a strategy to assist existing systems in acquiring and maintaining capacity. The USEPA approved New Jersey's Capacity Development Strategy on September 28, 2000.

Under Section 1420 of the SDWA, New Jersey has developed a capacity development program. The goals of New Jersey's Capacity Development Program are to prevent the formation and approval of new nonviable public water systems and to assist existing water systems in achieving and maintain compliance with the Federal and State SDWA regulations. States failing to comply with Section 1420 are subject to lose up to 10% of the DWSRF funds in FFY2001, 15% in FFY2002, and 20% in each fiscal year thereafter.

This IUP will review the future activities planned to implement the Capacity Development Program. In order to comply with the federal SDWA requirements for capacity development, New Jersey intends to accomplish the following tasks:

- a. Prepare a Strategy List of public water systems requiring capacity development during FFY2005. This list is prepared annually each December and identifies the number of TMF evaluations to be performed.
- b. Perform TMF evaluations and provide technical assistance as necessary to promote capacity development of those water systems that fail to demonstrate TMF capacity. Capacity evaluations are performed and technical assistance is provided by the NJDEP and/or by third party contracted services.
- c. Prepare and issue approximately 1,500 monitoring schedules to all community and NTNC water systems.
- d. Prepare and submit by August 15 of each year an annual report to the USEPA-Region II on the ongoing implementation of the NJDEP's Capacity Development Strategy.
- e. Prepare and submit a report to the Governor and USEPA on the efficacy of the Capacity Development Strategy and progress made towards improving the TMF capacity of public water systems in New Jersey. This report is due every three years. The first report of this kind was completed during September 2002.

4. Operator Certification

In the October 2, 2000 *New Jersey Register* (32 NJR 3585(a)), the NJDEP readopted its regulations, N.J.A.C. 7:10A, "The Licensing of Water Supply and Wastewater Treatment Operators" in order to comply with USEPA's February 5, 1999 "Final Guidelines for the Certification and Recertification of the Operators of Community and Nontransient Noncommunity Public Water Systems."

The above regulations require all public community and NTNC water systems to employ a licensed operator by October 1, 2003. These regulations imposed the new requirement on approximately 1,000 NTNC and community public water systems in New Jersey. To assist with compliance, the BSDW notified affected facilities and created the Very Small Water System (VSWS) license classification, which covers approximately 85% of the systems required to employ a licensed operator for the first time. NJDEP, with the assistance of its stakeholder group, the Advisory Committee on Water Supply and Wastewater Licensed Operator Training and New Jersey's educational institutions, have trained and certified over 300 VSWS licensed operators. NJDEP will continue its efforts to certify VSWS operators in FFY05.

In December 2003, BSDW identified approximately 140 systems that do not comply with these regulations. BSDW intends to coordinate with local and county health department agencies and NJDEP regional field offices to assist with noncompliance issues for those systems which do not have a licensed operator. BSDW anticipates that once small systems have a licensed operator in place, many of their noncompliance issues will be alleviated and will result in a significant reduction of SDWA violations. NJDEP will continue efforts to ensure systems' compliance with the licensed operator requirement.

In order to comply with Federal guidelines, there was also a regulatory requirement for licensees to obtain continuing education credits, called Training Contact Hours (TCH), for operator license renewal. The first period for obtaining the credits ran from October 1, 2000 through September 30, 2003. NJDEP has recognized the State Operator Training Center (SOTC) at Rutgers University, New Jersey Section of the American Water Works Association, the New Jersey Water Environment Association, the NJWA, and the American Water Works Service Company as qualified course providers. NJDEP has also approved approximately 154 continuing education courses given by independent course providers for TCHs and continues to review requests for TCH approval from training providers. The Examinations and Licensing Unit of NJDEP is tracking licensee compliance with this requirement.

NJDEP has developed several funding initiatives to subsidize training for water licensees. They are as follows:

- 1) Contract with the SOTC at Rutgers University to provide a 25% tuition cost reimbursement for qualified water licensed operators. The reduced costs have made this training more accessible to operators. On March 12, 2003, NJDEP provided additional funding to extend this subsidy through FY2004. Future agreements will investigate the feasibility of increasing the course subsidy to 50%.
- 2) NJDEP initiated an agreement to subsidize operator continuing education courses provided by the New Jersey Section of the American Water Works Association.
- 3) NJDEP has initiated a program to provide tuition reimbursement to any persons who are taking the introductory or advanced courses needed to obtain a drinking water operator license.

NJDEP intends to continue these efforts in FFY05 and seeks to develop alternative approaches to

provide additional funding for operator training and continuing education.

The Office of Examinations and Licensing is still coordinating with the NJEMS team to determine the best electronic method to track training course approvals and TCHs obtained by individual operators. NJEMS is NJDEP's effort to integrate all of its departmental databases in order to streamline the collection and management of information. The tracking process has not been implemented to date.

BSDW has hired another individual to assist with the operator certification program. This individual will have contact with onsite licensed operators to assure that facilities are effectively operated and maintained and assist in providing direct technical assistance and developing training for public water system operators throughout the State of New Jersey.

V. Short and Long-Term Goal Statements

Continuing to provide a minimum of 15% of project funds to help finance improvements to small water systems and providing assistance to eligible projects of the highest priority on the Project Priority List are the most imminent short-term goals. Other short-term goals include securing NJDEP's FFY2005 drinking water capitalization grant from the USEPA so that funds will be available for water supply systems to comply with the SDWA. The NJDEP will continue to meet all USEPA deadlines for DWSRF submittals and have all submittals approved by the USEPA. Also, the NJDEP will provide opportunities for the funding of security projects to protect New Jersey's water supply facilities.

The primary long-term goal is to continue to use all available and appropriated funds to assist New Jersey water systems to achieve and maintain drinking water quality to eliminate violations of the SDWA. In addition, NJDEP desires to maintain the fiscal integrity of the DWSRF and to assure a self-sustaining loan fund for future generations. The NJDEP will manage the DWSRF in a fiscally prudent manner such that the fund is available to eligible New Jersey water systems after federal capitalization ends and will also continue to leverage the funds to extend the State's ability to finance projects. NJDEP will periodically review the program to ensure it meets the needs of New Jersey water systems and continues to address the needs of the water systems and customers. The NJDEP will assure that the DWSRF and projects receiving funds comply with all federal "cross-cutting" regulations and will continue to encourage project sponsors to meet all socially and economically disadvantaged (SED) business requirements. The NJDEP will promote New Jersey's Smart Growth initiatives. The NJDEP will continue to implement all set-aside programs.

VI. Summary of Outreach Efforts

Federal DWSRF rules requires that States' DWSRF programs include public participation activities. The NJDEP distributes this proposed Project Priority System to all community and nonprofit noncommunity water systems, county and local health authorities, selected environmental groups, selected engineering consultants, water associations, and assorted State agencies to be included in the comprehensive DWSRF Project Priority List and nonproject set-aside expenditures. The State has developed its program to make low-interest loans available to both community (both publicly

and privately owned) and nonprofit noncommunity water systems. This document serves as a “Call for Projects” because the “Call for Projects” for this and future funding cycles will be continuous and projects can be added to the list during the time period between the publication of the proposed IUP and the public hearing date; this will still allow for public review prior to the loans being issued.

This document, along with other DWSRF documents, is available at the NJDEP Public Access Center and other NJDEP informational centers. Information about this program and essential contact information is available on the NJDEP home page, <http://www.nj.gov/dep>, which can be accessed from the State of New Jersey home page, <http://www.nj.gov>. This IUP is also available by accessing ENDEX, the New Jersey Digital Environmental Library maintained by Rutgers, the State University of New Jersey. Public Access to ENDEX is available directly via <http://njenv.rutgers.edu/njdlb>.

The catalogue of loans and grants is available on the State of New Jersey page, <http://www.nj.gov/dep/grantandloanprograms>. The NJDEP has enhanced its website and the new site will include a link to this site from the new Water Supply homepage.

NJDEP has an informational pamphlet that is distributed at various professional meetings. Additionally, the CWSRF staff has generated several new pamphlets, including a DWSRF pamphlet, for distribution. NJDEP has also contracted with the NJWA to aid in marketing the DWSRF program to small systems. The NJDEP has completed a contract with NJWA to provide engineering services to small systems under the Small System Technical Assistance set aside. Under this contract, small systems serving less than 3,300 customers will access a pre-approved list of consulting engineers that will provide assistance completing DWSRF applications and submittals for systems. The engineers will be reimbursed through this contract instead of the project sponsor receiving a planning and design allowance. This will eliminate the need for small water systems to utilize their own resources to pay for the engineering planning and design costs and promote small systems to utilize the DWSRF monies.

The NJDEP and the Trust make periodic presentations to groups, such as the NJWA, explaining and answering questions about the DWSRF program. NJDEP staff visits small systems to directly promote the DWSRF program. The capacity development staff is well versed in the opportunities afforded small systems through the DWSRF program and actively promotes the DWSRF during site visits and presentations. DWSRF staff will interact with the Technical Evaluations staff to ensure that any systems identified by this section to be in need of loan monies are aware of the DWSRF program. The NJDEP will specifically target systems identified in the annual Safe Drinking Water Act Violations report for participation in the DWSRF. The DWSRF staff has also participated in presentations at events sponsored by Rutgers, the State University of New Jersey, the New Jersey chapter of the American Waterworks Association (NJAWWA) and the North Jersey Water Conference. Also, an informational sheet was sent to community water systems serving less than 10,000 residents to ensure they are aware of the availability of loan funds and NJDEP staff make presentations to interest groups that represent small systems.

During the 2003 Needs Survey, DWSRF staff conducted two regional help sessions to assist systems selected to participate in the Needs Survey. A total of fourteen systems were represented at these sessions and DWSRF staff stressed the impact of the Needs Survey on the DWSRF and promoted

participation in the DWSRF. DWSRF staff also visited individual systems during the Needs Survey and reminded systems that the DWSRF was available.

The NJDEP anticipates sponsoring several meetings throughout the state with health agencies and municipal government agencies for SWAP activities to explain the significance of the source water assessments. Also, continuing public participation activities for SWAP, and other set-asides, include participation in training sponsored by other agencies such as the NJWA, Rutgers Continuing Education, and other groups upon request.

In addition, the Trust has conducted outreach efforts targeted to both public and privately owned purveyors. The Trust includes in its periodic newsletter articles pertaining to the DWSRF. This newsletter is mailed to public and privately owned water purveyors, municipal and county officials, and licensed professionals such as engineers and attorneys. Also, the Trust conducts its annual seminar each April for borrowers to review the financial requirements, deadlines and obligations associated with the program.

VII. Project Priority Lists and Nonproject Set-aside List

NJDEP developed a proposed Project Priority System which was sent to community and nonprofit noncommunity water supply systems, county and municipal health authorities, selected environmental groups, selected engineering consultants, water associations and assorted State agencies requesting their input on the drinking water financing program. A Construction Project Ranking and Nonproject Set-aside Expenditure Input Form, included in the proposed Project Priority System, was used to solicit interested project sponsors to place proposed infrastructure projects on the Project Priority List and to solicit interested sponsors to provide input on nonproject set-aside expenditures. Appendix B lists all construction projects on the current project list (comprehensive list), projects funded in November 2003, projects expected to be funded in November 2004 under the fundable list, and a summary of projects already funded in November 1998 through November 2002.

APPENDIX A

- 1) Critical Steps for DWSRF Loans
- 2) FFY2004/SFY2005 Drinking Water Financing Program Schedule
- 3) FFY2005/SFY2006 Drinking Water Financing Program Schedule
- 4) Construction Project Ranking and Nonproject Set-Aside Expenditure Input Form
- 5) Sample Commitment Letter
- 6) Capacity Development Evaluation Procedure for DWSRF Project Sponsors
- 7) Chronological Summary of Capitalization Grants
- 8) Other Sources of Funding
- 9) Drinking Water Infrastructure Needs Survey
- 10) Summary of Public Hearing, Comments, and Response

Critical Steps for DWSRF Loans

1. Identify Project on the Priority List:

- Submit a Construction Project Ranking and Nonproject Set-Aside Expenditure Input form
- Forms are available in the current Intended Use Plan (IUP)
- IUP can be located at <http://www.state.nj.us/dep/watersupply/loandata.htm>

2. Attend a Pre-Planning Meeting:

- Although this step is not required, it is highly recommended
- Discuss program requirements and schedules
- DWSRF staff is also available to make site visits to provide additional information and answer questions before a formal pre-planning meeting

3. Submit Commitment Letter and Planning Document:

- The SFY05 cycle deadline is October 4, 2004
- Planning document is a general summary of project scope and environmental concerns (must include a map)
- Sample commitment letter is available in Appendix A of IUP
- IUP can be located at <http://www.state.nj.us/dep/watersupply/loandata.htm>

4. Submit Design Document and Loan Application:

- Plans, specifications, loan application and all permit applications must be submitted
- The SFY05 cycle deadline is March 7, 2005

5. Submit Financial Documents:

- The deadline is the end of May each year
- The NJEIT financial seminars are held in April

6. Loan Award:

- Loans are closed in escrow in August and September of each year
- Loans are awarded November of each year
- Must have all applicable permits and approvals in place and be certified by NJDEP
- Projects that are certified are funded in order of placement on the Priority List

FFY2004/SFY 2005 Drinking Water Financing Program Schedule

(Using FFY 2004 and Other Available Federal Monies)

<u>DATE</u>	<u>ACTION</u>
Before April 16, 2003	-Project Ranking Forms are due from prospective project sponsors for projects not already on the Project List
April 16, 2003	-Public hearing on FFY2004 Priority System, Intended Use Plan and Project Priority List proposal
Before October 6, 2003	-Prospective project sponsors attend preplanning meeting with NJDEP prior to submitting Commitment Letter
October 6, 2003	-Project Commitment Letters due -Applicants submit all planning documents to NJDEP
On or before January 15, 2004	-NJDEP/Trust submit list of projects (based on Priority System ranking methodology) to Legislature for forthcoming State Fiscal Year
March 1, 2004	-Applicants submit all design documents to NJDEP -Applicants submit complete loan application to NJDEP
On or before May 17, 2004	-Financial Plan for forthcoming State Fiscal Year submitted by Trust to Legislature
May 2004	-Applicants submit financial addendum form to the Trust
July 1, 2004	-Legislature acts on Financial Plan -Trust transmits both draft loan agreements to qualifying applicants
Late August through mid-September 2004	-Execute NJDEP/Trust loan agreements in escrow
November 2004	-Loan award

FFY2005/SFY 2006 Drinking Water Financing Program Schedule

(Using FFY 2005 and Other Available Federal Monies)

DATE

ACTION

Before March 24, 2004	-Project Ranking Forms are due from prospective project sponsors for projects not already on the Project List
March 24, 2004	-Public hearing on FFY2004 and FFY2005 Priority System, Intended Use Plan and Project Priority List proposal
Before October 4, 2004	-Prospective project sponsors attend preplanning meeting with NJDEP prior to submitting Commitment Letter
October 4, 2004	-Project Commitment Letters due -Applicants submit all planning documents to NJDEP
On or before January 15, 2005	-NJDEP/Trust submit list of projects (based on Priority System ranking methodology) to Legislature for forthcoming State Fiscal Year
March 7, 2005	-Applicants submit all design documents to NJDEP -Applicants submit complete loan application to NJDEP
On or before May 15, 2005	-Financial Plan for forthcoming State Fiscal Year submitted by Trust to Legislature
May 2005	-Applicants submit financial addendum form to the Trust
July 1, 2005	-Legislature acts on Financial Plan -Trust transmits both draft loan agreements to qualifying applicants
Late August through mid-September 2005	-Execute NJDEP/Trust loan agreements in escrow
November 2005	-Loan award

New Jersey Department of Environmental Protection
Drinking Water State Revolving Fund Program
Bureau of Safe Drinking Water
P.O. Box 426, Trenton, NJ 08625-0426
Tel. No.: (609) 292-5550 Fax No.: (609) 292-1654

CONSTRUCTION PROJECT RANKING AND
NONPROJECT SET-ASIDE EXPENDITURE INPUT FORM

January 2004

Please complete this form for each construction project or nonproject set-aside activity to be included in the proposed DWSRF program. Provide the basic information **for each project element** so the project can be given priority points and ranked on the proposed priority list, or **for each set-aside activity** so the activity may be considered for inclusion in the nonproject set-aside expenditures, as applicable. (Refer to the attached Guidance)

1. Project or Activity Sponsor: _____
2. Contact Person: _____
3. PWS ID# (required): _____ County: _____
4. Mailing Address: _____
Municipality: _____ State: _____ Zip: _____
Telephone No.: () _____ Fax No.: () _____
5. Engineering Consultant (as applicable): _____
6. Mailing Address: _____
Municipality: _____ State: _____ Zip: _____
Telephone No.: () _____ Fax No.: () _____

Please check one or more of the following to indicate your areas of interest in the DWSRF program:

___ DWSRF Construction Projects (Please also complete Page 2 only)

When are you interested in receiving construction project financing?

___ November 2005; ___ November 2006; ___ Beyond 2006

Interested in Pre-Award Approval? ___ Yes ___ No

___ DWSRF Nonproject Set-Asides Expenditures (Please also complete Page 3 only)

When are you interested in receiving nonproject set-aside activity funding?

___ November 2005; ___ November 2006; ___ Beyond 2006

Page 2 of 3

DWSRF CONSTRUCTION PROJECTS

7. Project Description: (list by element; attach additional sheets, if necessary)

8. Need for Project (list by project element): _____

9. Estimated construction contract cost by element: \$ _____

10. Copy of acceptable drinking water infrastructure plan or comprehensive regional water plan attached: _____yes _____no _____will follow _____not available

11. Median Household Income (2000 Census): \$ _____
weighted for multiple municipalities: _____yes _____no

12. Applicable State Planning Commission center designation (please see NJ State Development and Redevelopment Plan): _____

13. Population currently served by drinking water system: _____

Are there seasonal variations in population? _____Yes _____No

If so, list populations separately: _____ Winter
_____ Summer

DWSRF NONPROJECT SET-ASIDES EXPENDITURES

14. Activity Description: (attach additional sheets, if

necessary) _____

15. Estimated Cost for the proposed activity: \$ _____

16. The NJDEP may approve expenditures for the following activities in accordance with Section 1452 (k) of the SDWA. Please check one or more of the following categories in which you are interested, and provide a description to support your needs:

LOANS:

_____ For water systems to acquire land or a conservation easement from a willing seller or grantor, for source water protection purposes and to ensure compliance with national primary drinking water regulations.

_____ For community water systems to implement local voluntary source water protection measures to protect source water in areas delineated under a source water assessment program.

_____ For community water systems to provide funding for the development of a source water quality protection partnership petition (optional program under consideration by NJDEP).

TECHNICAL AND FINANCIAL ASSISTANCE:

_____ For water systems as part of a capacity development strategy developed and implemented under Section 1420 (c) of the SDWA.

STATE EXPENDITURES:

_____ For the State to make expenditures for the establishment and implementation of wellhead protection programs under Section 1428 of the SDWA.

17. The NJDEP may approve expenditures for providing technical assistance to water systems serving 10,000 or fewer persons. Please indicate your interest in participating, and provide a description to support your proposal.

_____ Small System Technical Assistance.

GUIDANCE FOR CONSTRUCTION PROJECT RANKING AND NONPROJECT SET-ASIDE EXPENDITURE INPUT FORM

Items 1 through 4: Please complete for the project or activity sponsor that may be applying for a loan or

other assistance, and identify the appropriate contact person who will represent the project or activity sponsor.

Items 5 and 6: Please complete for the engineering consultant that will be working with the project or activity sponsor and identify the appropriate contact person, as applicable.

DWSRF CONSTRUCTION PROJECTS (complete page 1 and 2 only):

Items 7 and 8: Describe the proposed project and the corresponding need. Each project element must be submitted on separate forms. Points will be awarded for each project element, as applicable. Attach additional sheets as necessary.

Item 9: Estimate the construction cost per element based on the construction contract(s) that the project sponsor anticipates will be advertised for bids. The NJDEP will estimate the support costs.

Item 10: Attach, as applicable, a copy of the water supply master plan, capital improvement plan or comprehensive regional water supply plan, acceptable to NJDEP.

Item 11: Indicate the Median Household Income from the 2000 Census that is applicable to the service area of the water system. If multiple municipalities are served, provide the weighted median household income for the service area (please see page 12 of the NJDEP Intended Use Plan). Show calculations. If you do not know the Median Household Income, the NJDEP will complete this information for you.

Item 12: Indicate the appropriate municipal designation under the State Development and Redevelopment Plan (urban center, town, regional center, village or hamlet). If you do not know the appropriate municipal designation, the NJDEP will complete this information for you.

Item 13: Indicate the population currently served by the drinking water system based on the most recent data available. Also indicate any seasonal fluctuations in population.

DWSRF NONPROJECT SET-ASIDE EXPENDITURES (complete page 1 and 3 only):

Items 14 and 15: The information provided by participants will assist the NJDEP in its efforts to identify needs and to develop a priority system for the nonproject set-aside activities. Describe the proposed activity and the corresponding need. Each activity must be submitted on separate forms. Attach additional sheets as necessary.

Items 16 and 17: Such assistance should include, but is not limited to, an outreach program to explain and assist in the DWSRF program, provide practical assistance to water systems in significant noncompliance, and conduct operator training seminars.

Sample Commitment Letter
FFY2005/SFY2006 Funding Cycle
Schedule

This letter, on official stationery, must be received or postmarked by October 4, 2004 to be given consideration by the New Jersey Department of Environmental Protection (NJDEP) and the New Jersey Environmental Infrastructure Trust (Trust) for inclusion in the 2005 Financing Program (for loan awards scheduled to be made in November 2005).

Michele M. Putnam, Administrator
Water Supply Administration
New Jersey Department of Environmental Protection
PO Box 426
Trenton, New Jersey 08625-0426

Dear Ms. Putnam:

Subject: Project No.
 (Project Name)
 (Project Sponsor)
 (County)

In accordance with the provisions of the Priority System, Intended Use Plan and Project Priority List for FFY2005 and N.J.A.C. 7:22-3.7(a), I, _____, as
(Project Representative)

authorized representative for the above-referenced project, do hereby commit to meet the project document submittal deadlines identified below and the financial application deadline to be established by the Trust and the NJDEP for participation in the SFY2006 Financing Program (November 2005 scheduled financing):

Commitment Letter and Planning Documents	October 4, 2004
Design Documents and Loan Application	March 7, 2005

I understand that failure to comply with the submittal requirements and deadlines will result in the project being deemed ineligible for the 2005 Financing Program.

Enclosed please find a project ranking form, including any proposed modifications to the information represented in the Priority List.

Very truly yours,

(Authorized Representative)

Enclosure

c: Dennis Hart, Executive Director
New Jersey Environmental Infrastructure Trust (w/enclosure)
P.O. Box 440
Trenton, New Jersey 08625-0440

Stan Cach, Assistant Director (w/enclosure)
Municipal Finance and Construction Element
P.O. Box 425, 401 East State Street
Trenton, New Jersey 08625-0425

NOTE: If a project sponsor fails to submit the proper documentation in accordance with the above deadlines, the sponsor's project(s) remain(s) on the Project Priority List and is (are) eligible for future funding based on that year's Priority System.

New Jersey Capacity Development Program for Projects Financed through the Drinking Water State Revolving Fund

Background

The Safe Drinking Water Act (SDWA) Amendments of 1996 (Pub. L. 104-182) authorize a Drinking Water State Revolving Fund (DWSRF). The DWSRF is designed to assist publicly owned and privately owned community water systems and nonprofit noncommunity water systems in financing the costs of infrastructure needed to achieve or maintain compliance with SDWA requirements, and to meet the public health objectives of the SDWA.

Section 1452(a)(3) of the SDWA prohibits a state from providing DWSRF assistance to a system that lacks technical, managerial, and financial capacity or is in significant noncompliance with any requirement of a national primary drinking water regulation or variance, unless: 1) the use of the financial assistance will ensure SDWA compliance, or 2) the owner or operator of the system agrees to undertake feasible and appropriate changes to assure that adequate capabilities will be put in place, and agrees to implement such changes.

The following is a screening process that will be used to assess the technical, managerial, and financial capacity of any DWSRF project sponsors.

I. Technical Capacity

Technical capacity refers to the adequacy, operation, and maintenance of a water system's infrastructure. To assure adequate technical capacity, a project sponsor must demonstrate that its water system has adequate source water and adequate infrastructure, and must demonstrate that personnel operate its water system with technical knowledge about applicable standards. The project sponsor must demonstrate adequate technical capacity as follows:

1. The project sponsor and its water system are not in significant noncompliance as defined by the United States Environmental Protection Agency;
2. The project sponsor and its water system has no continuing violations of New Jersey's SDWA rules (N.J.A.C. 7:10) and Water Supply Allocation Permit rules (N.J.A.C. 7:19); and
3. The project sponsor is operating its water system under a licensed operator, of the appropriate license pursuant to N.J.A.C. 7:10A, 'Licensing of Water Supply and Wastewater Treatment System Operators.'

In addition to the above, the New Jersey Department of Environmental Protection may review any of the following items for technical capacity:

1. *SDWA Compliance data and inspection reports (Sanitary Surveys)* to identify actual and potential

problems that might lead to noncompliance or degradation of drinking water quality.

2. *Operator Certification* to evaluate if the water system is being operated by an operator licensed by the State of New Jersey, with the appropriate license classifications.

3. *Vulnerability assessments* to determine potential source water contamination.

4. *Enforcement actions, administrative consent orders, or directives* issued to the water system, requiring corrective actions to ensure compliance with the SDWA.

5. *Comprehensive Performance Evaluations (CPE's)* to analyze a surface water treatment plant's performance.

6. *Consumer Complaint Records* to identify technical problems with the water system (e.g., odor, taste, or low pressure).

7. *Engineering reports, design plans, project and long-term planning documents, for improvements* to ensure compliance with Federal and New Jersey's SDWA regulations, rules, and statutes.

Note: Significant noncompliance refers to long term repeated violations that constitute a threat to public health. A detailed summary of significant noncompliance is available by contacting the NJDEP, Bureau of Safe Drinking Water, either by telephone at (609) 292-5550, or by writing NJDEP, Bureau of Safe Drinking Water, P.O. Box 426, Trenton, N.J. 08625-0426.

II. Managerial Capacity

Managerial capacity refers to the personnel expertise required to administer the overall water system operations. To assure adequate managerial capacity, the project sponsor must demonstrate that relative to its water system it has clear ownership, proper and organized staffing, and effective interaction with regulators and customers. In assessing the managerial capacity of the water system, the New Jersey Department of Environmental Protection or the New Jersey Environmental Infrastructure Trust, shall consult with the Board of Public Utilities (in regards to investor-owned BPU-regulated water systems) or the Department of Community Affairs, Division of Local Government Services, as appropriate. The project sponsor must demonstrate adequate managerial capacity as follows:

1. A project sponsor or its water system is not in receivership;
2. The project sponsor demonstrates to the NJDEP's satisfaction that it has clear ownership of the water system or that other arrangements are in place to satisfy the Federal Safe Drinking Water Act managerial capacity requirements; and
3. The project sponsor and its water system do not have any continuing violations of requirements, rules or statutes of the New Jersey Department of Environmental Protection, the Board of Public

Utilities, or the Department of Community Affairs, Division of Local Government Services, as applicable.

In addition to the above, the NJDEP may review any of the following items for managerial capacity especially when the project sponsor's water system is not regulated by the Board of Public Utilities or the Department of Community Affairs, Division of Local Government Services:

1. *A summary of biographies, resumes, and other related material from the previous five years to determine the training, expertise and education of personnel.*
2. *Business or Water System Plan to evaluate management's overall practices and ownership accountabilities to assist in evaluating the owner's understanding of current New Jersey's SDWA regulations and professional practice.*
3. *A summary of billing and collection procedures used for the water system from the previous five years.*
4. *A summary of consumer complaint records within the previous five years to identify the water system's responses to customer complaints.*

III. Financial Capacity

Financial capacity refers to the monetary resources available to a project sponsor for its water system to support the cost of operating, maintaining, and improving the water system. To assure adequate financial capacity, the project sponsor must demonstrate that relative to its water system it has sufficient revenues, fiscal controls and credit worthiness. In assessing the financial capacity of the water system, the New Jersey Department of Environmental Protection or the New Jersey Environmental Infrastructure Trust, shall consult with the Department of Treasury, the Department of Community Affairs, Division of Local Government Services, or the Board of Public Utilities (in regards to investor-owned BPU-regulated water systems), as appropriate, or may use the services of a financial consultant, to evaluate the financial capacity of the project sponsor. The project sponsor's water system meets the minimum standards for adequate financial capacity if the following is met:

1. A project sponsor regulated by the Board of Public Utilities (BPU) has obtained BPU approval of a financing petition for the project(s) to be financed through the DWSRF.
2. A project sponsor regulated by the Department of Community Affairs, Division of Local Government Services (DLGS), has obtained approval by the Local Finance Board in the DLGS for the project(s) to be financed through the DWSRF.
3. The NJDEP shall rely on the New Jersey Environmental Infrastructure Trust, with or without the assistance of a financial consultant for a project sponsor or water system not regulated by the Board of Public Utilities or the Department of Community Affairs, Division of Local Government Services, to evaluate any financial information, including, where available, but not limited to the

following:

- a. Financial statements or annual audit reports for the previous three years.
- b. Current and proposed rate schedules, as applicable; or if rate schedules are unavailable, then documents indicating the project sponsor's access to credit for operations and contingencies to demonstrate the project sponsor's capability to repay debt.
- c. A summary of any pending litigation regarding current or proposed rates.
- d. Federal and state income tax returns of the project sponsor for the previous three years.
- e. Current operating budget and projected budget, for a five year period, including debt service on the loan and any rate schedule adjustments:
 - i. Revenue projections including any assumptions on which the projections are based. Total annual percentage of budgetary increases, annual percentage increases to meet loan repayment and other non-loan project costs, and time when same shall take effect should be identified and included.
 - ii. Expense projections including a copy of the Capital Budget and assumptions on which the projections are based.
 - iii. Plans for rate increases.
 - iv. Security for the proposed loans
- f. Composition of customer base.

IV. Long Term Capacity

The NJDEP, where appropriate, will assess whether a project sponsor and its water system has a long term plan to undertake feasible and appropriate changes in operations necessary to develop adequate capacity. Information such as engineering reports, inspection reports, and other available information will be used in making these assessments. The NJDEP will encourage consolidation of water systems in an effort to improve capacity. The Small Water Utility Take Over Act (N.J.S.A. 58:11-59) and companion regulation (N.J.A.C. 7:19-5) may need to be reviewed and modified if necessary to address existing systems in significant noncompliance.

V. Systems with Inadequate Capacity

A water system that requires improvements to obtain adequate capacity can apply to the DWSRF provided that the improvements will ensure SDWA compliance. The NJDEP in consultation with the New Jersey Board of Public Utilities and the Department of Community Affairs, as applicable, will

make this assessment on a case-by-case basis, with emphasis on compliance with all applicable requirements, rules or statutes of the respective agencies. The project sponsor must agree and demonstrate to the agencies' satisfaction the implementation of any required technical, managerial or financial changes necessary to obtain approval by the agencies.

VI. Systems in Significant Noncompliance

The SDWA prohibits a state from providing DWSRF assistance to a system in significant noncompliance with any requirement of a national primary drinking water regulation or variance, unless: 1) the use of the financial assistance will ensure SDWA compliance, or 2) the owner or operator of the system agrees to undertake feasible and appropriate changes to assure that adequate capabilities will be put in place, and agrees to implement such changes.

The following are procedures to evaluate systems in significant noncompliance;

1. Evaluate the project(s) in significant noncompliance;
2. Evaluate the reasons for significant noncompliance; and
3. Evaluate if the project sponsor's request for DWSRF assistance will resolve the significant noncompliance issue to the NJDEP'S satisfaction.

This Capacity Development Program is dated November 19, 1999 and approved by USEPA.

**Chronological Summary of DWSRF Program
Capitalization Grants**

<i>Federal Fiscal Years</i>	<i>National Appropriation (\$)</i>	<i>Allotment Formula (%)</i>	<i>New Jersey's Appropriation (\$)</i>	<i>Date Awarded</i>
FFY97	1,275,000,000	2.23	27,947,300	September 11, 1998
FFY98	725,000,000	2.44	17,347,900	September 11, 1998
FFY99	775,000,000	2.44	18,182,200	September 23, 1999
FFY00	820,000,000	2.44	18,896,600	July 13, 2000
FFY01	823,185,000	2.44	18,974,800	August 9, 2001
FFY02	850,000,000	2.30	18,538,600	September 19, 2002
FFY03	850,000,000	2.30	18,427,200	September 30, 2003
FFY04	830,310,200	2.30	19,115,600	Pending

Funds Transferred to the DWSRF from the CWSRF

<i>Transfer Based on Capitalization Grant</i>	<i>Funds Transferred (\$)</i>	<i>Date</i>
FFY 97	9,222,609	October 13, 1999
FFY98 and FFY99	11,724,933	October 19, 2000
FFY00 and FFY01	12,497,562	August 28, 2001
FFY02	6,117,738	September 27, 2002
FFY03	6,080,976	September 17, 2003
FFY04	6,308,148	Pending

Other Sources of Funding

- 1) NJDEP - Green Acres
www.nj.gov/dep/greenacres/trust.htm
609-984-0570
- 2) NJDEP – Clean Water SRF
Municipal Finance and Construction
www.state.nj.us/dep/dwq/mface.htm
609-292-8961
- 3) NJDEP - SRP
Environmental Claims Administration
www.nj.gov/dep/srp/finance
- 4) NJDEP – ISRA Office of Accountability
609-633-0743
www.nj.gov/dep/srp/isra/rfsguide.htm
- 5) NJ Department of Community Affairs
www.nj.gov/dca/dhcr/programsandstaff.shtml
609-633-6303
Potable water loans for individual homeowners: www.nj.gov/dca/hmfa/singfam/potable.htm
- 6) NJ Department of Community Affairs – Office of Smart Growth
www.nj.gov/dca/osg/docs/techassist110102.pdf
Listing of various funding programs starting at page 26 of document
- 7) NJ Economic Development Authority
www.njeda.com
609-292-1800
- 8) US Department of Agriculture
Rural Utilities Services
www.usda.gov/rus/water/index.htm
In New Jersey, contact Michael Kelsey: Michael.kelsey@nj.usda.gov or 609-265-3640
- 9) CoBank – for private water companies
www.cobank.com/services/index.html
1-800-542-8072

The NJDEP and the Bureau of Safe Drinking Water do not recommend or support any specific loan programs. Citation here does not equate to official endorsement and none should be inferred. The above list is not meant to be a comprehensive list of funding programs.

Drinking Water Infrastructure Needs Survey

The 1996 amendments to the SDWA requires the USEPA to conduct an assessment every four years of capital improvements that are needed by community and nonprofit noncommunity water systems. Therefore, every four years a Drinking Water Infrastructure Needs Survey (Survey) is conducted to meet the above requirements. A Report to Congress is then issued by USEPA.

The Survey is used to determine the total national need and identify the proportional need for each state. Based on this proportional need, the yearly appropriations of the DWSRF are allotted among the 50 states and Puerto Rico. The SDWA directs that States with 1% or less of the total need, as reported in the most recent Survey, will receive a minimum of 1% of the funds as an allotment. Also, the Virgin Islands, District of Columbia, Pacific Island territories, American Indian Tribes and Alaska Native Villages receive a portion of the allotment.

Currently, the 1999 Survey determines the allotment formula for New Jersey. The allotment percentage for New Jersey from that Survey is 2.30%. That was a decrease from the 1995 Survey where the allotment percentage was 2.44%. Therefore, it is very important for the drinking water systems in New Jersey to complete the surveys and analyze their needs over a twenty-year period. The 2003 Survey started in January 2003 and data was collected until November 2003. Seventy-five water systems were surveyed in New Jersey. All water systems that have 40,001 or more residents served were sent a copy of the survey to complete (35 systems). A random sampling of the systems that serve 3,301 to 40,000 residents served were sent a copy of the survey to complete (40 systems). Systems serving less than 3,301 residents were not sampled in this Survey due to budgetary restraints at USEPA. USEPA will issue a Report to Congress in February 2005.

Summary of Public Hearing on March 24, 2004 and Comments and Response

A memorandum dated February 17, 2004, from Michele M. Putnam, Administrator of the Water supply Administration, publicly advertised the DWSRF hearing. The Hearing Officer, Josephine Craver of the Bureau of Safe Drinking Water, commenced the meeting by summarizing the Proposed Priority System, Intended Use Plan, and Project Priority List highlighting pertinent changes.

Since the publication of the Proposed IUP in February 2004, six water main extension projects were added to the list for Stafford Township. Projects were also added to the list for Aqua New Jersey, which was formerly Consumers New Jersey-Phillipsburg, New Brunswick City, Camden City, Mount Laurel Township MUA, West Paterson Borough, Greenwich Township, Maple Shade Township, Hightstown Borough, Winslow Township, Perth Amboy City, Garfield City, West Deptford Township, Franklin Township, South Jersey Water Supply Company, Allamuchy Township, Verona Township, Brigantine City, Florham Park Borough, and New Jersey American Water Company, Short Hills.

Please note that changes were presented in the Proposed Project Priority System of February 2004, and have been incorporated into the Final IUP. In the Project Priority System, two new project elements were added to Category A, Compliance with Safe Drinking Water Act and Protection of Public Health. Under new element 6, 160 points will now be awarded for systems that are proposing improvements for drought or other related water supply management initiatives, as identified or designated by the State. This will promote the construction of improvements identified or designated by the State that will manage water supply during, or assist in an effort to avert drought emergency situations. Under new element 15, 35 points will now be awarded for the installation of new water meters and/or water conservation devices, including but not limited to the retrofit of plumbing fixtures. Also in the Project Priority System, a new project element was added to Category C, State Development and Redevelopment Plan. Under this revision, 20 points are now awarded to urban centers, endorsed strategic plans, or urban complexes.

Appendix A of the IUP was revised to include a list of other sources of funding, which was included for informational purposes, and a summary of the Drinking Water Needs Survey. In an effort to better promote the smart growth initiatives of the State, the NJDEP will continue to provide loans to eligible project sponsors for costs up to 75 percent of the project costs at 0 percent interest while the Trust provides 25 percent of the project costs at market rate to projects serving urban centers or complexes. Additionally, newly adopted amendments to the financing program rules allow the NJDEP to fund reserve capacity for projects at 0 percent interest. Previously, reserve capacity was funded by the Trust at market rate. These additions were discussed in detail in the FFY2004 IUP and reiterated here, represent significant changes to the DWSRF program.

There were five members of the public in attendance at the public hearing. Some questions concerning specific projects on the project priority list were posed but no comments or questions about the DWSRF system were posed. A project representative asked if sufficient funds would be available for the project he represented and if the rank of the project he represented had changed. It

was confirmed that the project in question had increased in rank and that in the past, if there was not sufficient DWSRF funds for construction projects, the NJDEP accessed monies from other sources, such as the 81 Bond Fund, to supplement construction project costs. No written comments were received prior to the submittal deadline, March 31, 2004.

Appendix B
Construction Project Priority Lists

Appendix C
Nonproject Set-aside List

The NJDEP may approve expenditures for the following activities in accordance with Section 1452(k) of the SDWA.

LOANS:

_____ for water systems to acquire land or a conservation easement from a willing seller or grantor, for source water protection purposes and to ensure compliance with national primary drinking water regulations.

_____ for community water systems to implement local voluntary, incentive based source water protection measures delineated under a source water protection program.

_____ for community water systems to provide funding for the development of a source water quality protection partnership petition (optional program under consideration by NJDEP).

TECHNICAL AND FINANCIAL ASSISTANCE:

_____ for water systems as part of a capacity development strategy developed and implemented under Section 1420 (c) of the SDWA.

STATE EXPENDITURES:

_____ for the State to make expenditures for the establishment and implementation of wellhead protection programs under Section 1428 of the SDWA.

The NJDEP received no responses indicating any interest in these items at this time.

Although the information in this document will be funded wholly or in part by the United States Environmental Protection Agency under an assistance agreement to NJDEP's DWSRF program, it may not necessarily reflect the views of the Agency and no official endorsement should be inferred.