

RHODE ISLAND CLEAN WATER FINANCE AGENCY



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The Rhode Island Clean Water Finance Agency is an Equal Opportunity Employer and monitors the adoption and implementation of affirmative action policies by its loan recipients. Such policies include compliance with all Federal and State employment regulations and maximum utilization of
Minority and Women Owned Business Enterprises (MBE/WBE).

RHODE ISLAND CLEAN WATER FINANCE AGENCY



ANNUAL REPORT 2006





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Dear Governor Carcieri, Members of the General Assembly and fellow Rhode Islanders:

The Rhode Island Clean Water Finance Agency (the Agency) is pleased to submit its Fiscal Year 2006 Annual Report. The Agency, established in 1989 by the Rhode Island General Assembly, was created as a body politic and corporate; a public instrumentality of the State to administer certain federal and state programs relating to municipal or community wastewater and drinking water financial assistance. The Agency administers the Water Pollution Control and the Rhode Island Water Pollution Control revolving loan funds created under Title VI of the Federal Clean Water Act and its State counterpart which is known as the Clean Water State Revolving Fund (CWSRF). The Agency also administers the Drinking Water Revolving Loan Fund (DWSRF) created under the Federal Safe Drinking Water Act amendments of 1996. The Agency has established a Community Septic System Loan Program (CSSLP) as part of the Federal Clean Water State Revolving Fund. The Agency also provides conduit loans to municipalities for various water and wastewater systems improvements.

A revolving fund allows for the perpetual availability of funds to assist local governmental units in meeting water quality goals by providing loans and other forms of financial assistance. Our primary goals are to provide low-cost means to reduce pollution caused by wastewater; help provide safe drinking water; and to provide low-interest loans to cities and towns to help citizens repair failed, failing or sub-standard septic systems.

On this, the Agency's 16th anniversary, the CWSRF program that we administer, along with the Rhode Island Department of Environmental Management (DEM) as our regulatory partner, has issued 90 subsidized loans totaling \$566.9 million to Rhode Island communities and the Narragansett Bay Commission (NBC) as of June 30, 2006. These loans have funded over 250 design and construction projects for the upgrade and improvement of wastewater infrastructure around the State. The Agency also created a program to provide loans for septic system repair or replacement to residents in communities not served by centralized wastewater treatment facilities. The Rhode Island Water Pollution Control Revolving Fund (RIW-PCRF), the "State Program", is a direct loan program established to finance water pollution abatement projects that do not qualify for the Federal Revolving Fund. The State Program is also used to make loans to municipalities and wastewater service providers for the update of facility plans as part of the Agency's Facility Plan Loan Program (FPLP). The Agency, in conjunction with the RI Department of Health (DOH) as our regulatory partner, administers the DWSRF Program and has issued 19 subsidized loans totaling \$115.6 million, and to Shady Acres and Camp Jori which are privately owned suppliers. The Agency also conducted four conduit financings two for Clean Water Projects totaling \$36.2 and two for Drinking Water Projects totaling \$38.9 million.

Financing strategies such as leveraged loans, direct loans, and conduit financings help to meet the unique needs of the Agency's borrowers. Bonding for leveraged loans can be conducted on either a competitive or negotiated basis, as the situation requires. Direct loans can be made with new or recycled capital. Conduit financings enable local governmental units to access the bond market.



For the CWSRF, the Agency utilizes capitalization grants from US Environmental Protection Agency (EPA) along with an irrevocable commitment from the State of Rhode Island of 20% State Match dollars to form the corpus of its financial structure.

For the DWSRF, the Agency utilizes capitalization grants from EPA coupled with State Match monies and other financing mechanisms to form the corpus of its financial structure. During this fiscal year, the Agency has issued Direct Loans totaling \$1.58 million in new loans to 2 borrowers.

The Agency Board of Directors and staff are committed to maintaining a strong programmatic and financial structure as is evidenced by the confidence placed in the Agency by the three nationally recognized rating services who continue to rate Agency Bonds as follows:

Fitch - Ibc	AAA
Standard & Poor's	AAA
Moody's	AAA

These high ratings are unequalled in Rhode Island State Government and allow the Agency to issue bonds without insurance costs that are usually borne by the borrowers; thereby saving Agency borrowers additional monies. The Agency continues to provide a one-third (1/3) off the CWSRF borrowers' market rate subsidy and a one-quarter (1/4) off the DWSRF borrowers' market rate making it the most cost-effective provider of infrastructure capital.

Chapter 55 of the 2000 Public Laws, as approved by the voters in the form of Referendum Question #2 at the 2000 general election, provided the Agency with \$57,000,000 to provide loans at a subsidized interest rate of zero percent and \$3,000,000 to be used by the Agency to provide state match monies for federal drinking water grants. To administer loans in accordance with this Act, the Agency has caused there to be created a fund known as the Rhode Island Zero Interest Loan Fund (the "RIZILF").

In conclusion, on behalf of the Board of Directors and the Staff of the Rhode Island Clean Water Finance Agency, we thank you for your support and guidance during the past years of the Agency's existence. The Agency will continue to be a major source of subsidized and/or low-cost loans for clean water and drinking water infrastructure projects in the State. We look forward to working with those who participate in governing, and all the citizens of Rhode Island in improving the quality of our most necessary resource: clean water.

Sincerely,

James M. Hagerty,
Chairman

Anthony B. Simeone,
Executive Director



AGENCY OPERATIONS, FISCAL YEAR 2006

In keeping with the Agency's motto, "Clean Water for Rhode Island is Our Only Business", the Agency continues to operate on a fiscally sound basis with a goal of continuing to function as an efficient entity and maximizing the use of Agency funds for low-interest loans and assistance. The Agency ended the year with \$879 million in assets, an increase of \$52 million over fiscal year 2005. The Agency's revenues for the year were \$30.9 million, an increase of 14% over fiscal year 2005 (unaudited).

The Agency's operating expenses are funded solely from loan service fees generated from managing its programs. Agency staff consists of an Executive Director, an Accounting Manager, a Clean Water SRF Program Manager, a Drinking Water SRF Program Manager, an Accountant, and an Administrative Assistant. The SRF program is a definitive example of cooperation among Federal, State and local governments.



NBC-BUCKLIN POINT WWTF CLARIFIERS

AGENCY PROGRAMS:

Clean Water SRF - The CWSRF is a subsidized loan program for local governmental units to finance wastewater infrastructure projects. In order for a project to be eligible for funding, the project must be on DEM's Project Priority List (PPL) and have a Certificate of Approval (CA) from DEM. The PPL is updated on an annual basis. Since the inception of the CWSRF, loans totaling \$566 million have been made to municipalities and NBC.

Funding for the program is available from four sources: federal capitalization grants, state match monies, Agency revenue bonds, and revolved capital. The program works as follows:

Federal Capitalization Funds - Federal funds are made available under Title VI of the Federal Clean Water Act that established the loan program. A state match of 20% of the total grant award is required. The annual grant award to the State of Rhode



Island is based on a specific percentage of the total made available by Congress for the program. It is not based on project needs in any given year. The Agency has two years to apply for a federal grant after the funds have been appropriated. The funds can be drawn down over a ten-year period of time.

RI Water Pollution Control Revolving Fund - Established under the authority of Section 46-12.2-6© of the Rhode Island General Laws, this fund receives state capital contribution before the funds are transferred to the CWSRF. The Agency has the authority to use the fund to make loans, issue bonds and receive interest earnings or other capital from public or private sources. The fund has been used to finance projects not meeting the requirements of federal programs. For instance, the Agency made a loan to the Town of South Kingstown in 1992. The loan totaled \$920,000 and is being repaid over a 20 year time period.

Facility Plan Loan Program (FPLP) - As part of the RIWPCRF, this program allows



WARWICK-WASTEWATER TREATMENT FACILITY

the Agency to make low-interest loans to municipalities so facility plan documents, amendments, or updates can be completed. These facility plans are a prerequisite for funding from the CWSRF. Loans are capped at \$150,000 with an interest rate of 1%. The repayment is over a three-year period. To date, the Agency has made FPLP loans to the Town of Bristol in the amount of \$100,000 and the Town of Smithfield in the amount of \$75,000.

Rhode Island Zero Interest Loan Fund – As part of the RIWPCRF, The Rhode Island Zero Interest Loan Fund (“RIZILF”) was established under the authority of Chapter 55 of the 2000 Public Laws of Rhode Island. The RIZILF was structured by the Agency, along with its consultants and input from the cities and towns of Rhode Island, to maximize the number of loans made utilizing the RIZILF. The Agency has determined that one-half (1/2) of the loan will be at zero percent interest and one-half (1/2) of the loan will be at the subsidized interest rate (the “Subsidized Interest Rate”). The RIZILF is used to pay the difference between the Subsidized Interest Rate and the zero subsidized interest rate (the “Zero Subsidized Interest Rate”). The Subsidized Interest Rate is 66 2/3% of the Borrower’s Market Rate.