

Annual Report 2002



Rhode Isl and
Clean Water
Finance Agency

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ANNUAL REPORT MESSAGE

October, 2002

Dear Governor Almond, 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 2002 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 State Revolving 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; to 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 12th year anniversary, the CWSRF Program that we administer, along with the Rhode Island Department of Environmental Management (DEM) as our regulatory partner, has issued 53 subsidized loans totaling \$240,279,555 to Rhode Island communities and the Narragansett Bay Commission (NBC) as of June 30, 2002. These loans have funded over 165 design and construction projects for the upgrade and improvement of wastewater infrastructure around the State. The Rhode Island Water Pollution Control Revolving Fund (RIWPCRF), the "State Program", is a direct loan program estab-

lished 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 also



Bucklin Point Waste Water Treatment Facility

lished 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 also conducted two conduit financings totaling \$40,495,000. In addition, the Agency created a program to provide loans for septic system repair or replacement to residents in communities not served by centralized wastewater treatment facilities. The Agency, in conjunction with the RI Department of Health (DOH) as our regulatory partner, administers the DWSRF Program and has issued subsidized loans to two public water systems: Providence Water Supply

Board and the Pascoag Utility District, and Shady Acres which is a privately owned supplier. In total, the Agency has issued DWSRF loans totaling \$12,710,000.

Financing mechanisms 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

Fitch - IBCA	AAA
Standard & Poor's	AAA
Moody's	Aaa

These high ratings are unequaled 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 1/3 off the CWSRF borrowers' market rate and 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 CWSRF 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 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.

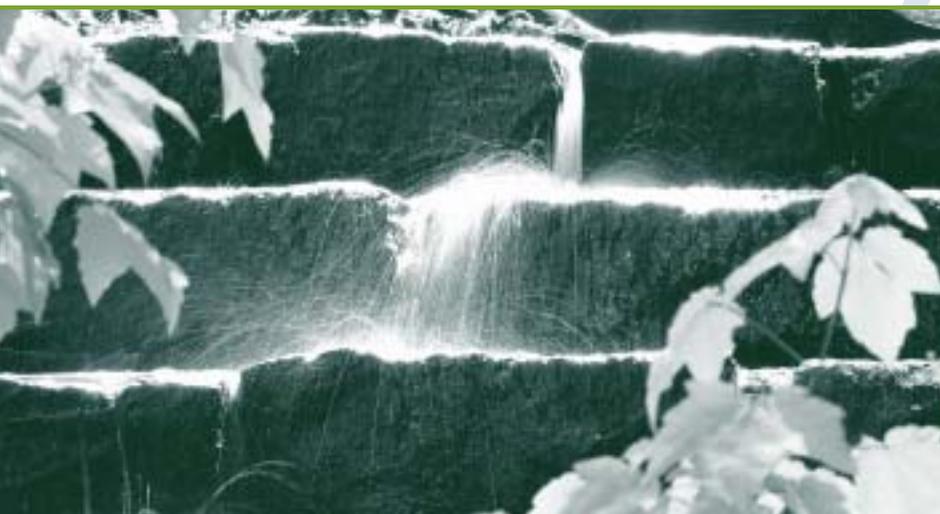
Sincerely,



James M. Hagerty, Chairman



Anthony B. Simeone, Executive Director



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. To date, the Agency has issued direct loans for its DWSRF. As the frequency of loan applications and loan amounts increase, the Agency is moving toward a leveraged financial structure so as to maximize the dollar amount available for loans.

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:

Agency Operations, Fiscal Year 2002

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 \$423 million in assets, an increase of \$111 million over fiscal year 2001. The Agency's revenues for the year were \$15 million, an increase of 19% over fiscal year 2001 (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.

Agency Programs

Clean Water SRF - The CWSRF is a subsidized loan program for local government 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 \$240,279,555 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 Grants 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 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.

Community Septic System Loan Program (CSSLP) - The Agency, in cooperation with DEM and the Rhode Island Housing & Mortgage Finance Corporation (RIHMFC), successfully launched its CSSLP as part of the CWSRF in the spring of 1999. The Agency has engaged RIHMFC to be the homeowner loan administrator for the CSSLP. The CSSLP allows communities without wastewater treatment facilities to access low-interest cost SRF funds. Communities are able to access these funds after completing an On-Site Wastewater Management Plan approved by DEM. Once the plan appears on DEM's PPL and the CA is obtained, the community will negotiate a loan with the Agency. The amount requested should be sufficient to repair or replace failing, failed or sub-standard septic systems. Once the loan is negotiated, the community may then allow residents to access the funds. The borrowing cost for the homeowner will be 4% for a term up to ten years.

The Agency uses federal dollars recycled from previous CWSRF loans to provide the source of funds for the CSSLP. To date, the Agency has made CSSLP loans to the Town of Charlestown in the amount of \$250,000, to the Town of Glocester in the amount of \$250,000, to the Town of New Shoreham in the amount of \$250,000 and to the Town of North Kingstown in the amount of \$300,000.

The Agency anticipates that future loans addressing non-point source pollution problems, when combined with other pollution abatement loans made by the Agency, will further assist the State of Rhode Island in meeting its long-term water quality improvement goals.

Drinking Water SRF - The DWSRF was created in 1996 by the Safe Drinking Water Act Amendments to finance public drinking water projects. The DWSRF provides low-interest loans to local government units and publicly and privately organized water suppliers. Projects relate to the planning, design and construction of safe drinking water supply, treatment and transmission infrastructure. The DOH has prepared a Project Priority List to rank potential projects according to several health and economic criteria prior to eligibility for DWSRF financing. The focus of the program, as mandated by the federal government, is toward small water suppliers and disadvantaged systems. A small water supplier is defined as one serving fewer than 10,000 persons. A disadvantaged system is defined as one whose system improvements would dramatically increase water rates paid by consumers as it relates to median household income.

The DWSRF receives federal funding under Section 1452 of the Safe Drinking Water Act Amendment of 1996 with the state providing a 20% state match. Initially, the program provided direct loans with an interest rate subsidy of 25% off a water suppliers' market rate of borrowing. As the frequency of loan applications and loan amounts increase, the

Agency is moving toward a leveraged financial structure so as to maximize the dollar amount available for loans. Funds will be used to:

Assist small systems in preparing applications for revolving fund assistance;

Assist all public water supply systems in maintaining financial, managerial and technical abilities and maintain compliance with the Safe Drinking Water Act Amendments of 1996; and,

Assist small systems in meeting compliance with the act.

To date, the Agency has made a total of \$12,710,000 in Drinking Water Loans.

What's New?

Rhode Island Zero Interest Loan Fund –

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 1/2 of the loan will be at zero percent interest and 1/2 of the loan will be at the subsidized interest cost (the "Subsidized Interest Cost"). The RIZILF will be used to pay the difference between the Subsidized Interest Cost and the zero subsidized interest cost (the "Zero Subsidized Interest Cost"). The Subsidized Interest Cost is 66 2/3% of the Borrower's Market Rate. The Zero Subsidized Interest Cost will be 50% of the Subsidized Interest Cost. The Zero Subsidized Interest Cost is calculated based on the Agency's provision of 1/2 of the loan at zero percent interest and 1/2 of the loan at the Subsidized Interest Cost. Notwithstanding the above, the Zero Subsidized Interest Cost for non-investment grade borrowers will be zero percent (0%) interest. Non-investment grade borrowers, including those borrowers which were non-investment grade within the twelve months prior to filing a loan application with the Agency, may receive 100% of their loan (up to \$25,000,000) at zero percent interest.

The Agency will provide loans at the Zero Subsidized Interest Cost for as long as funds are available. Borrowers will be contractually liable for the Market Rate on the loan but will be billed only for the Zero Subsidized Interest Cost as long as funds are available in the RIZILF. In the event the RIZILF is wholly or partially depleted, the Agency may require the borrower to pay up to the Subsidized Interest Cost. In the event of a default by the borrower or other borrowers, the Agency may bill the borrower for the Market Rate.

How Does the State Revolving Fund Work for Rhode Island?

Step 1

The EPA and the State of Rhode Island commit capital to the fund.

Step 2

Construction money is raised by one or both of the following methods:

A. Federal and State capital is used as collateral to raise funds in the bond market by a process called leveraging. This method is used when there is a great need for construction dollars.

B. Federal and State capital is loaned directly to the borrowers without accessing the bond market. This method is used when project demand is low and/or when credit conditions warrant.

Step 3

Borrowers pay back their loan to the Fund, usually over 20 years. The loans carry an interest rate of 1/3 off the borrower's market rate for the CWSRF and 1/4 off the borrower's market rate for the DWSRF. These subsidized interest rates allow communities to save millions of dollars in interest costs over the life of the loan.

Step 4

The repayment stream from earlier borrowers becomes the source of funds for later borrowers. In this way, the State Revolving Fund is perpetual and will always be available to local governmental units in Rhode Island.



Fiscal Year 2002 Agency Highlights

- **FY02:** \$32,245,000 in construction loans to five communities (Series 02A), \$500,000 bridge loan to the Town of Jamestown out of the CWSRF, \$1,000,000 direct loan to the Town of Middletown out of the CWSRF, a \$250,000 loan to the Town of New Shoreham and \$300,000 loan to the Town of North Kingstown out of the CSSLP and a \$57,000,000 loan to NBC out of the RIWPCRF.
- **FY02:** \$2.5 million to the Providence Water Supply Board out of the DWSRF.



Aeration Facility at the Scituate Water Treatment Plant

Previous Fiscal Years' Highlights

- **FY01:** \$28.2 million in construction loans to two communities (Series 00A), \$250,000 to the Town of Glocester out of the CSSLP and an \$800,000 bridge loan to the City of Newport out of the CWSRF.
 - **FY01:** \$5.2 million to the Providence Water Supply Board and Pascoag Utility District out of the DWSRF.
 - **FY00:** \$28.5 million in construction loans to six communities (Series 99C) and a \$255,000 loan to the Town of Westerly as part of the CWSRF.
 - **FY00:** \$5.01 million to the Providence Water Supply Board and Shady Acres as part of the CWSRF.
 - **FY99:** \$27.4 million in construction loans to the Town of Narragansett and NBC as part of the CWSRF. In addition, the Agency loaned \$75,000 to the Town of Smithfield for a Facility Plan Loan out of the RIWPCRF. The Agency also made its first CSSLP Loan to the Town of Charlestown in the amount of \$250,000 and a \$16.8 million Water Pollution Control Subordinated Refunding Revenue Bonds Series 1999B. As an added benefit to our borrowers, the Agency, along with its advisors, reviewed its outstanding Bond Issues to determine which bonds, if any could be advanced refunded to create debt service savings to be passed on to the Agency's borrowers. In FY99, the Agency sold \$16.8 million in clean water bonds to refinance portions of the Series 92 and Series 94 outstanding bonds. The interest savings will be passed on to the borrowers in those series, based on borrowers' allocable share of amount refunded. The savings will be applied as credits against the original debt service schedule of each original loan.
 - **FY98:** \$11.4 million in construction loans to two communities as part of the CWSRF and \$100,000 to the Town of Bristol for a Facility Plan Loan out of RIWPCRF. The Agency also had a \$28,495,000 conduit financing for the Privatization of the City of Cranston Wastewater Treatment Facility.
 - **FY97:** \$18.57 million in construction loans to two communities and NBC as part of the CWSRF.
 - **FY96:** \$7.1 million in construction loans to four communities.
 - **FY95:** A \$12 million conduit financing for the Providence Water Supply Board.
 - **FY94:** \$24.56 million in construction loans to four communities and the NBC.
 - **FY93:** \$36.61 million in construction loans to six communities and the NBC.
 - **FY92:** \$23.58 million to seven communities and the NBC.
- 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).

Loan Activity, Fiscal Year 2002



2002 Clean Water Projects



Clean Water Projects



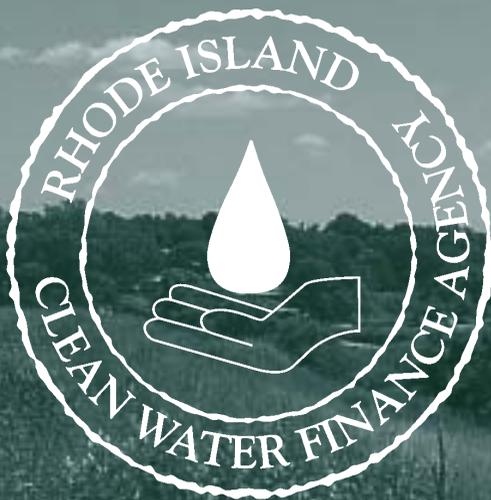
2002 Drinking Water Projects



Drinking Water Projects

Summary of Loan Activity

BORROWER	PROJECT TYPE	ORIGINAL LOAN AMOUNT	LOAN TERM	LOAN SUBSIDIZED INTEREST RATE	ORIGINATION YEAR
CLEAN WATER PROJECTS					
BRISTOL	Solids handling facility and wastewater treatment plant improvements	\$4,000,000	20 yrs.	4.290%	FY92
		780,000	20 yrs.	4.290%	FY92
		1,200,000	20 yrs.	3.552%	FY98
		3,700,000	20 yrs.	3.523%	FY00
		4,695,000	20 yrs.	3.145%	FY02
BURRILLVILLE	Extension of sewers and wastewater treatment plant improvements	2,900,000	20 yrs.	4.25%	FY92
		425,000	10 yrs.	4.09%	FY97
CRANSTON	Pump station construction and improvements	3,242,000	20 yrs.	4.010%	FY93
		700,000	15 yrs.	3.626%	FY00
CUMBERLAND	Design and construction of sewers	3,000,000	20 yrs.	4.040%	FY93
		1,000,000	20 yrs.	3.598%	FY96
EAST GREENWICH	Construction of sewers	8,500,000	19 yrs.	3.391%	FY00
EAST PROVIDENCE	Secondary clarifier design, construction, and treatment plant improvements	3,300,000	20 yrs.	4.010%	FY93
HOPKINTON	Landfill closure	1,597,000	20 yrs.	4.020%	FY94
JAMESTOWN	Bridge Loan	500,000	1 yr. 5 mo.	1.025%	FY02
JOHNSTON	Preparation of a Facility Plan	83,500	6 yrs.	4.267%	FY92
		750,000	20 yrs.	3.502%	FY02
MIDDLETOWN	Sewerage replacement	1,996,000	20 yrs.	3.98%	FY94
		1,000,000	20 yrs.	3.1286%	FY02
NARRAGANSETT	Construction of solids handling facility; extension and replacement of sewers; facility plan update; pump stations rehabilitation	4,187,022	20 yrs.	4.220%	FY92
		2,100,000	20 yrs.	3.970%	FY94
		3,500,000	20 yrs.	3.194%	FY99
		780,000	20 yrs.	3.617%	FY00
NARRAGANSETT BAY COMMISSION	Design and construction of pump station upgrade and addition clarifiers; Interceptor repair and replacement; wastewater treatment plant improvements; planning updates; sewer separations; planning and design of CSO abatement project	1,662,055	20 yrs.	4.320%	FY92
		2,647,977	20 yrs.	4.300%	FY92
		3,694,678	20 yrs.	3.830%	FY93
		14,781,000	20 yrs.	4.150%	FY93
		17,279,000	20 yrs.	3.930%	FY94
		8,150,000	20 yrs.	3.880%	FY97
NEWPORT	Wastewater Treatment Plant Improvements	23,955,000	19 yrs.	3.212%	FY99
		13,000,000	20 yrs.	3.193%	FY02
NORTH PROVIDENCE	Landfill closure	1,597,000	20 yrs.	4.030%	FY94
		300,000	7 yrs.	3.380%	FY96
NORTH SMITHFIELD	Facility plan update; sewer design and construction; pump station improvements	2,900,000	20 yrs.	4.24%	FY92
		4,500,000	20 yrs.	4.09%	FY93
SMITHFIELD	Pump station improvements	150,000	5 yrs	4.444%	FY00
WARREN		1,800,000	20 yrs.	3.203%	FY02
WARWICK	Design and construction of sewers	3,500,000	20 yrs.	4.220%	FY92
		3,100,000	20 yrs.	4.090%	FY93
		3,996,000	20 yrs.	3.578%	FY96
		10,000,000	19 yrs.	3.779%	FY97
		10,200,000	21 yrs.	3.348%	FY98
		14,750,000	18 yrs.	3.500%	FY00
		20,232,323	20 yrs.	3.5258%	FY01
		12,000,000	20 yrs.	3.131%	FY02
		1,849,000	20 yrs.	3.563%	FY96
		255,000	20 yrs.	3.984%	FY00
7,995,000	20 yrs.	3.5418%	FY01		
WOONSOCKET	Design and extension of sewers; Design and rehabilitation of pump station	1,000,000	20 yrs.	3.650%	FY93
COMMUNITY SEPTIC SYSTEM LOANS					
CHARLESTOWN		\$250,000	10 yrs.	N/A	FY99
GLOCESTER		\$250,000	10 yrs.	N/A	FY01
NEW SHOREHAM		\$250,000	10 yrs.	N/A	FY02
NORTH KINGSTOWN		\$300,000	10 yrs.	N/A	FY02
	TOTAL CLEAN WATER LOANS	\$240,279,555			
RIWPCRF PROJECTS					
SOUTH KINGSTOWN	Extension of sewers	\$920,000	20 yrs.	3.920%	FY92
NARRAGANSETT BAY COMMISSION	Wastewater treatment plant improvements; planning updates; sewer separations; planning and design of CSO abatement project	\$57,000,000	20 yrs.	3.30%	FY02
	TOTAL RIWPCRF LOANS	\$57,920,000			
FACILITY PLAN LOANS					
BRISTOL	Facility Plan Update	\$100,000	3 yrs.	N/A	FY98
SMITHFIELD	Facility Plan Update	75,000	3 yrs.	N/A	FY99
	TOTAL FACILITY PLAN LOANS	\$175,000			
DRINKING WATER PROJECTS					
PROVIDENCE WATER SUPPLY BOARD	Rehabilitation of Aqueducts, Treatment Works and Effluent Yard	5,000,000	5 yrs.	3.80%	FY00
SUPPLY BOARD		5,000,000	5 yrs.	3.144%	FY01
SHADY AGRES	Well Reactivation and Storage Enhancement	2,500,000	20 yrs.	3.605%	FY02
PASCOAG	Well Rehabilitation, Water Line Exetnsion, Emergency Generator	10,000	5 yrs.	6.00%	FY99
		200,000	20 yrs.	3.00%	FY01
	TOTAL DRINKING WATER LOANS	12,710,000			
CONDUIT FINANCINGS					
BORROWER	PROJECT TYPE	LOAN AMOUNT	LOAN TERM	LOAN SUBSIDIZED INTEREST RATE	ORIGINATION YEAR
PROVIDENCE WATER SUPPLY BOARD	Upgrade treatment facilities and pump stations, protection of water sources, replacement of antiquated distribution mains	12,000,000	20 yrs.	Serial, 5.1% - 6.8%	FY95
CITY OF CRANSTON	Privatization of Wastewater Treatment Facility	28,495,000	25 yrs.	N/A	FY97
	TOTAL CONDUIT FINANCINGS	\$40,495,000			



Panorama of Bucklin Point Waste Water Treatment Facility Project Front: Scituate Reservoir Top: Map of Providence Water Supply System

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