

- CLEAN WATER FINANCING -

PRIORITY SYSTEM, INTENDED USE PLAN, PROJECT PRIORITY LIST AND RESPONSE
DOCUMENT FOR FEDERAL FISCAL YEAR 2005

TABLE OF CONTENTS

LIBRARY INFORMATION CENTERS

OVERVIEW Page 1

PRIORITY SYSTEM

- I - Priority List - General Page 7
- II - Ranking Methodology Page 8
- III - Construction Grants Program Policies Page 13

INTENDED USE PLAN Page 13

- A. Financial Relationships between the CWSRF and the DWSRF Page 14
- B. Document Submittal Schedules Page 15
- C. Loan Awards Page 16
- D. Preaward Approvals/Emergency Projects Page 17
- E. Socially and Economically Disadvantaged (SED) Business Participation Page 18
- F. Stormwater/Nonpoint Source (NPS) Management Projects Page 19
- G. Combined Sewer Overflows Page 21
- H. Short-Term and Long-Term Goals; Miscellaneous Items Page 21

RESPONSE DOCUMENT (Initial Proposal)

RESPONSE DOCUMENT (Priority List Update)

PROJECT PRIORITY LIST

PROJECT NARRATIVES

LIST OF PROJECTS AWARDED LOANS IN STATE FISCAL YEAR 2005

EPA DISCLAIMER

LIBRARY INFORMATION CENTERS

ATLANTIC COUNTY

ATLANTIC COUNTY LIBRARY
2 SOUTH FARRAGUT ROAD
MAYS LANDING NJ 08330

BERGEN COUNTY

JOHNSON FREE PUBLIC LIBRARY
275 MOORE STREET
HACKENSACK NJ 07601

BURLINGTON COUNTY

BURLINGTON COUNTY LIBRARY
WOODLANE ROAD
MT HOLLY NJ 08060

CAMDEN COUNTY

CAMDEN COUNTY LIBRARY
ECHELON URBAN CENTER
LAUREL ROAD, VOORHEES NJ 08043

CAPE MAY COUNTY

CAPE MAY COUNTY LIBRARY
BOYD & MECHANIC STREET
CAPE MAY COURT HOUSE NJ 08210

CUMBERLAND COUNTY

CUMBERLAND COUNTY LIBRARY
800 EAST COMMERCE STREET
BRIDGETON NJ 08302

ESSEX COUNTY

NEWARK PUBLIC LIBRARY
5 WASHINGTON STREET
NEWARK NJ 07102

GLOUCESTER COUNTY

WEST DEPTFORD PUBLIC LIBRARY
GROVE AVE & CROWNPOINT RD
THOROFARE NJ 08086

HUDSON COUNTY

JERSEY CITY PUBLIC LIBRARY
472 JERSEY AVENUE
JERSEY CITY NJ 07302

HUNTERDON COUNTY

HUNTERDON COUNTY LIBRARY
ROUTE 12, FLEMINGTON NJ 08822

MERCER COUNTY

TRENTON PUBLIC LIBRARY
120 ACADEMY STREET
TRENTON NJ 08625

MIDDLESEX COUNTY

WOODBIDGE PUBLIC LIBRARY
GEORGE FREDERICK PLAZA
WOODBIDGE NJ 07095

MONMOUTH COUNTY

MONMOUTH COUNTY LIBRARY
HIGHWAY 35 EASTERN BRANCH
SHREWSBURY NJ 07701

MORRIS COUNTY

MORRIS COUNTY PUBLIC LIBRARY
30 EAST HANOVER STREET
WHIPPANY NJ 07901

OCEAN COUNTY

OCEAN COUNTY LIBRARY
101 WASHINGTON STREET
TOMS RIVER NJ 08753

PASSAIC COUNTY

PATERSON PUBLIC LIBRARY
250 BROADWAY
PATERSON NJ 07501

SALEM COUNTY

SALEM COUNTY PUBLIC LIBRARY
112 WEST BROADWAY
SALEM NJ 08079

SOMERSET COUNTY

SOMERSET COUNTY LIBRARY
NORTH BRIDGE ST & VOGT DR
BOX 6700
BRIDGEWATER NJ 08807

SUSSEX COUNTY

SUSSEX COUNTY LIBRARY
RD #3 BOX 76
NEWTON NJ 07860

UNION COUNTY

ELIZABETH CITY LIBRARY
11 SOUTH BROAD STREET
ELIZABETH NJ 07202

WARREN COUNTY

PHILLIPSBURG PUBLIC LIBRARY
200 FROST AVENUE
PHILLIPSBURG NJ 08865

Financing Clean Water Projects through the Environmental Infrastructure Financing Program

Priority System, Intended Use Plan, Project Priority List and Response Document for Federal Fiscal Year 2005 (FFY2005)

OVERVIEW¹

In the Water Quality Act of 1987, which amended the Clean Water Act (CWA), Congress required states to establish a Clean Water State Revolving Fund (CWSRF) program to qualify for federal capitalization grants. The CWSRF provides financial assistance for the construction of projects that protect, maintain and improve water quality. It is a self-perpetuating program, in that loan repayments are used to finance future projects. Established in 1988, New Jersey's CWSRF program is included in the Environmental Infrastructure Financing Program (EIFP). The EIFP is a partnership between the New Jersey Department of Environmental Protection (DEP) and the New Jersey Environmental Infrastructure Trust (Trust) providing low-interest loans for infrastructure projects. The DEP and the Trust also administer New Jersey's Drinking Water SRF (DWSRF) under the Safe Drinking Water Act; its priorities and policies are established in a separate Priority System document. Together, since 1988 the clean water and drinking water components of the EIFP have awarded approximately \$2.1 billion throughout the State. As of October 29, 2004, 251 of the 442 total projects totaling almost \$1.4 billion have been completed, have initiated operations, and have been administratively closed out; 191 projects totaling approximately \$1.0 billion are actively contracting or under construction.

Every year the DEP develops a "Proposed Priority System, Intended Use Plan, and Project Priority List" as required by federal and State law. After the public has had an opportunity to comment on the DEP's proposal, the DEP submits a final "Priority System, Intended Use Plan, Project Priority List, and Response Document" to USEPA for its approval. The Priority System (PS) describes the ranking methodology for the municipal water pollution control projects that are eligible for financial assistance through the EIFP. The ranking system gives higher priority to projects that address discharges of raw, diluted, or inadequately treated sewage to the State's waters during rain events, including projects to abate combined sewer overflows (CSOs) and projects to reduce infiltration and inflow (I/I) from sanitary sewer systems that overflow. CSO abatement projects are expensive and are usually located in financially distressed urban areas, making cost a serious concern. Discharges from combined sewer systems impair water uses, and can lead to the closing of beaches and shellfish beds. Projects to remediate overflows of sanitary sewage contribute to water quality improvements and result in improvements to the health, safety, aesthetic value, and recreational attributes of the State's waters.

The State's comprehensive Smart Growth Initiative focuses the DEP and all other agencies of New Jersey State government on three central objectives:

- Make developed areas healthier, more appealing places – with cleaner air, cleaner water, and more parks and open space;

¹ Please note that a list of acronyms and "short" names used in this document appears on page 20 of this document.

- Reduce the rate at which forests, open space, farmland and other undeveloped areas are being lost to development; and,
- Promote and accelerate development in urban and suburban areas or other growth areas identified through sound planning.

To that end, the DEP is making significant regulatory changes that will strengthen protection of New Jersey's drinking water supplies and other vital natural resources by imposing stricter standards for development in environmentally sensitive areas. The regulatory changes will also streamline and expedite the permitting process and dedicate funding for infrastructure and parks in Smart Growth areas that are considered appropriate for development.

To advance the State's efforts to incorporate Smart Growth objectives into State policies and financing programs, the DEP initially made two significant changes to the Financing Program in FFY2003 which are being continued in the current Priority System. The first change involves modified the percentage of project costs the DEP and the Trust provide to project sponsors. Traditionally, 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 DEP at 0% interest. Under the Smart Growth Financing Package, the DEP provides 75% of the project costs at 0% interest, while the Trust provides 25% of the project costs at market rate to that portion of a project that serves Urban Centers and Complexes as 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.

In addition, the DEP offers projects located in an Urban Center/Complex the "75/25" Funding Package provided the project has direct quality of life implications for the Urban Center/Complex. An example of such a project would be odor controls for sludge management facilities (that serve areas beyond the Urban Center/Complex) located in an Urban Center that would reduce odors generated from the sludge management facilities and improve the air quality in the urban area. In addition, CSO abatement and land acquisition projects also qualified for the "75/25" Funding Package in the 2004 program.

The second change relates to funding for reserve capacity. The DEP and the Trust adopted amendments to the Financing Program rules that allow the DEP to fully fund its share of reserve capacity costs at 0% interest for projects serving areas appropriate for growth. At this time, the DEP can fully fund its share of reserve capacity costs for projects that serve designated Urban Centers and Complexes. When DEP rulemaking is adopted that advances a tiered approach to natural resources protection, DEP will fund reserve capacity in all Smart Growth areas.

The following changes from the DEP's FFY2004 Priority System, Intended Use Plan and Project Priority List have been included in the FFY2005 Priority System.

1. The Smart Growth Financing Package (i.e., the "75/25" funding), whereby qualifying projects receive financing at one-quarter the market rate (rather than the traditional program's half-market rate loans), has been expanded to include three additional project categories: (a)

wastewater and/or stormwater infrastructure projects to serve increased populations in Transit Villages designated as such by the inter-agency Transit Village Task Force, (b) brownfields remediation projects located in DEP-designated Brownfields Development Areas (BDAs) and (c) projects that involve the repair and/or replacement of individual septic systems through a Septic Management District. In addition, the DEP awards 10 additional priority points to projects in BDAs and Transit Villages so that these projects will rank higher than similar projects that are not located in these areas.

2. The Priority System includes the second chance option to accommodate project sponsors that miss the initial application deadline of October 4, 2004. Such projects will be given a second opportunity to participate in the 2005 Financing Program. Sponsors were strongly encouraged to submit the required documentation by the October deadline if at all possible. Projects that met the October deadline will be given higher priority for eligibility for long-term funding than second chance projects, and will have a better opportunity to participate in the Trust's interim financing program in the current funding cycle. Sponsors of second chance projects must submit, on or before March 7, 2005, complete planning and design documents, a loan application and proof that all applicable DEP permits/approvals have been applied for in order to be considered for the second chance option.
3. The DEP has added provisions aimed at preserving the funding eligibility of construction costs that are incurred to undertake emergency repairs of existing infrastructure. These provisions will enable the Financing Program to provide preaward approval, and in some cases Trust interim financing for wastewater and stormwater infrastructure that is in need of immediate repair due to the unforeseen failure of the collection, conveyance and/or treatment components of the system. Such emergency projects would not need to be listed individually on an approved Priority List for the Trust to use CWSRF monies for its interim financing program. While the DEP has progressed in this direction, federal requirements, such as Davis-Bacon wage rates and others, continue to apply to these projects. Since timing is of the essence in addressing these situations, an expeditious approval process is being established. Sponsors are encouraged to contact MF&CE as soon as practical in the event of such emergency situations for guidance regarding applicable requirements to insure funding eligibility of the project.
4. The FFY2005 Proposal also establishes a process through which the DEP will be updating the FFY2005 Priority List. The List put forth for public comment will include projects meeting the October commitment letter/planning document submittal deadline. Thus, a comprehensive list of projects pursuing financing under the traditional schedule will be available. In addition, those projects that commit to the traditional schedule will be able to receive interim financing from the Trust as early as January.

Beginning with the FFY2005 proposal, the DEP no longer routinely distributes hard copies of the Priority System document for public review. The new format for routine distribution of the Priority System documents is via compact discs (CDs). The Priority System documents will also be posted on the DEP's web site at <http://www.nj.gov/dep/dwq/cwpl.htm>. In addition to the complete Priority System, Intended Use Plan and Project Priority List, the Priority System CDs include a project description and project ranking worksheet for each listed project (historically

available only at DEP's offices and in the Library Information Centers). Copies of the CD will continue to be available for review at any of the Library Information Centers (see the list in the Priority System document for these locations).

As indicated above, for the FFY2005 Financing Program, the DEP has expanded the universe of projects eligible for the "75/25" Smart Growth Financing Package to include the following three categories as well:

On-Site Rehabilitation of Septic Systems - Under the Financing Program, a local government unit may apply for funding to upgrade or replace failing on-site systems. The nature and extent of failures would be documented during planning and a Septic Management District (SMD) would have to be established in order to assure on-going operation and maintenance (typically, this involves implementing a system to assure regular, usually once every three years, pump out and/or inspection of the on-site systems). While some SMDs have formed in New Jersey (so there is institutional precedent on which to advance this option), none have tackled the costly job of system rehabilitation as yet.

By providing the Smart Growth Financing Package to such projects, the Program:

- corrects existing wastewater problems in a way that is appropriate to a rural environment;
- the correction does not result in inappropriate growth-inducement that could potentially occur with construction of a centralized collection and conveyance system;
- the on-going operation of the SMD results in pollution control benefits and reduced water supply impacts; and
- the funding enhancement may entice additional municipalities to establish their own SMD and address long-standing failing septic system problems.

Designated Brownfields Development Areas - These are areas that have applied for and have received formal designation by the DEP under the BDA Initiative. Applications for such designation are accepted two times per year and the list of potential applicants can be expected to grow over time. The sites within the BDA will be handled by a single project manager, who will coordinate with partnering state agencies to direct targeted technical and financial assistance to sites within the BDA neighborhoods.

Currently, eight BDAs have been designated: Trenton, Elizabeth, two areas in Camden, Palmyra, Irvington, Newark and Hillside. It is anticipated that the municipality will most often serve as the loan recipient under this option to effect remediation at multiple sites in the designated BDA, although county improvement authorities or similar entities could also participate and provide assistance in this environmental improvement effort.

By providing the Smart Growth Financing Package to such projects, the Program:

- provides a financial incentive that could encourage other municipalities to seek BDA designation to qualify for the EIFP's "75/25" funds;
- provides an alternative source of financing, and at a lower cost than is currently available to correct the water quality related aspects of brownfields remediation projects; and

- may enable more efficient use of available State funding, in which EDA funds can be directed to support the redevelopment aspects of such projects, as these costs are not eligible under the Financing Program.

Designated Transit Villages - The New Jersey Department of Transportation (NJDOT) and NJ TRANSIT spearhead a multi-agency Smart Growth partnership known as the Transit Village Initiative. The Transit Village Initiative helps to redevelop and revitalize communities around transit facilities to make them an appealing choice for people to live, work and play, thereby reducing reliance on the automobile. The Transit Village Initiative is an excellent model for Smart Growth because it encourages growth in New Jersey where infrastructure and public transit already exist.

Studies have shown that an increase in residential housing options within walking distance of a transit facility, typically a one quarter to one half mile radius, does more to increase transit ridership than any other type of development. Therefore, it is a goal of the Transit Village Initiative to bring more housing, more businesses and more people into communities with transit facilities.

Municipalities that have been designated a Transit Village by the inter-agency Transit Village Task Force must have an adopted land-use strategy for achieving compact, transit-supportive, mixed-use development within walking distance of transit. This can be in the form of a redevelopment plan, zoning ordinance, master plan or overlay zone. There are currently 14 designated Transit Villages. They are Pleasantville (1999), Morristown (1999), Rutherford (1999), South Amboy (1999), South Orange (1999), Riverside (2001), Rahway (2002), Metuchen (2003), Belmar (2003), Bloomfield (2003), Bound Brook (2003), Collingswood (2003), Cranford (2003) and Matawan (2003).

By providing the Smart Growth Financing Package to such projects, the Program:

- provides enhanced financing to enable municipalities to address the increased need for wastewater and/or stormwater infrastructure to serve population increases in the designated Transit Village;
- provides a financial incentive that could encourage other municipalities to seek approval for the Transit Village designation to qualify for the EIFP's "75/25" funds; and
- advances the Smart Growth goals inherent in the Transit Village Area Initiative, including not only the community revitalization, but two other goals of the Transit Village Initiative, to reduce traffic congestion and improve air quality by increasing transit riders.

In addition to these initiatives, the DEP will continue, for those projects that have the potential to facilitate growth or cause significant adverse environmental impacts, to evaluate thoroughly the planning submitted by the project sponsor which may include but not be limited 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 DEP's funding decisions will take into account the project's growth potential, the location of the project in the State and the project's aggregate impacts as determined through such evaluations.

Collectively, these initiatives will enhance the DEP's and the Trust's ability to promote Smart Growth and will also allow the Environmental Infrastructure Financing Program to provide funds to make it a reality. Further changes are likely as the DEP adopts additional regulatory changes to its permitting and approval processes to implement Smart Growth in order to more effectively guide future growth and development in the State.

Several years ago, the DEP and the Trust expanded the eligible categories for nonpoint source (NPS) pollution abatement measures in an effort to help communities address such pollution. Regulatory amendments were adopted to identify the new eligible areas and specified the requirements for projects to receive financial assistance. The broader categories include funding for landfills (for closure activities and new cell construction), open space land acquisition and conservation, remedial action activities and well sealing. Both landfill closure and new cell construction projects became eligible for financing in 2000. Financing for the other nonpoint source areas commenced in 2001. The DEP and the Trust are continuing to allocate a minimum of \$10 million in program funds to promote financing for stormwater and other NPS management projects.

The Intended Use Plan (IUP) provides information on funds available through the clean water component of the EIFP, including all federal funds allotted to the State under the CWA and available to the CWSRF in FFY2005, and also deobligated construction grant funds, which may be available to the DEP-administered Clean Water Fund (Fund). An interest-free loan from the Fund provides a portion of the individual project's allowable project cost, and a market rate loan from the Trust provides the remaining allowable cost. Allowable project costs are either shared equally between the DEP and the Trust or, for projects eligible for the Smart Growth Financing Package, at a reduced interest rate applying the "75/25" level of funding. The Trust finances its SRF loan through the issuance of bonds secured with CWSRF funds.

The Priority List identifies projects targeted for financial assistance from the CWSRF in State Fiscal Year 2006 (SFY2006). Other than the items noted above, no significant changes have been made to the FFY2005 PS document from the policies and provisions of the FFY2004 PS.

The DEP's Priority System for FFY2005 includes two items that deal with the financial relationship between the CWSRF and the DWSRF. First, the DEP continues to extend to the DWSRF the same cross-collateralization coverage process used by the CWSRF that results in AAA ratings for the Trust bonds. Second, the DEP continues to reserve the right to transfer funds between the CWSRF and the DWSRF (up to the amount allowed by the federal Safe Drinking Water Act or other federal legislation) to provide greater flexibility to the Financing Program in addressing changing clean water or drinking water needs in the State. More details on these relationships can be found in section A of the IUP.

Although Congress provided funds to the CWSRF in FFY2004, the receipt of additional federal funding in FFY2005 and beyond is uncertain since the CWA has not yet been reauthorized. Loan repayments and State bond proceeds will still be available to address some wastewater treatment needs but to fully address the overall water quality improvement needs of the State, additional federal funding will be required. Several legislative initiatives to reauthorize the CWA and to provide funding for wastewater projects and other water quality improvements have

been proposed. It is not expected that reauthorization of the CWA will necessitate significant changes to the CWSRF and the State's FFY2005 PS document. As such, the DEP issued this document to maintain the financing program schedule. The DEP will provide opportunities for public participation if the reauthorization requires substantial revisions to the program.

Recent amendments to the Trust's enabling legislation authorized the establishment of a short-term financing program. CWSRF loan repayments would be channeled 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 DEP and the Trust, which are typically awarded in November. The Trust, in consultation with the DEP, has adopted amendments to the Trust's rule to make the short-term financing option available to prospective borrowers that receive preaward approval from the DEP and the Trust.

PRIORITY SYSTEM

I. Project Priority List — General Information

Clean water projects must be listed on the Project Priority List in order to be considered eligible for financial assistance under the EIFP. The applicant must also submit all the required application material in a timely manner.

The Priority List identifies the estimated total eligible building costs under the appropriate project category. Except for open space land acquisition projects, the figure under the "Total Eligible Project Cost" includes the estimated total eligible building costs, the related costs for construction services (i.e., administrative, legal, engineering, inspection, one year start-up services, etc.), the allowance for planning and/or design, three percent for the recipient's administrative costs, and a five percent contingency cost. The figure under the "Total State Amount" column represents 100 percent of the estimated total eligible project costs. Justified revised costs submitted by project sponsors in response to the public participation process will be included on the final FFY2005 List.

Any significant revisions to the Priority List during the fiscal year will be subject to a public hearing. The DEP does not, however, consider the following revisions to the Priority List to be significant:

1. Bypassing (i.e., deferring the funding of) a project to a future fiscal year if all requirements (including commitment to and compliance with the project document submittal schedule) of the CWSRF are not satisfied on schedule.
2. Increases or decreases in allowable project costs that may change the fundable range of the Priority List.
3. The addition of a project or projects to the fundable range as a result of their qualifying under the Public Health Hazard (PHH) bypass, emergency project criteria or the second chance provisions.

4. The revision of the fundable range of the Priority List as a result of a change in (1) the allocation that New Jersey receives (if any), (2) the State's contribution to the CWSRF, and/or (3) the total amount of monies made available for clean water projects from the EIFP.
5. The revision of the fundable range of the Priority List as a result of ensuring the proper dollar amount is obligated to eligible project categories (if limitations are included under the CWA's reauthorization).
6. The replacement of a project sponsor identified on the Project Priority List with another eligible project sponsor that willingly assumes the role of loan applicant for the project.

The DEP plans to prepare an update of the FFY2005 Priority List which will be subject to a public comment period. The DEP will notify interested parties and prospective applicants and have the updated list available for public review at least 30 days prior to the close of comments on the modified list. With completion of the public participation process, a comprehensive list of projects pursuing financing under the traditional schedule (including any previously unlisted project that submits a commitment letter and planning on or before the October 4, 2004 deadline) will be available to the public, and those projects that meet the traditional schedule will be able to receive interim financing from the Trust as early as January.

II. Ranking Methodology

The DEP ranks all projects on the basis of the total number of ranking points each project receives and places the projects on the Priority List according to their ranking. Projects receive points under five categories. These are: Approved Watershed Plan, Project Discharge Category, Water Use/Water Quality, State Planning Commission (SPC) Approvals, and Population. The categories are consistent with the ranking methodology of the FFY2004 PS document and are discussed in sections A through E below.

A. Approved Watershed Plan Points

Prudent watershed planning will achieve cost-effective and environmentally sound water quality improvement within the watershed. To provide an incentive for project sponsors to complete watershed planning and to promote implementation of point and nonpoint source management projects, a project that is part of a DEP-approved watershed management plan receives 200 ranking points.

B. Project Discharge Category Points

All projects receive ranking points based on the project discharge category. In case of multiple purpose proposals, projects qualify for the discharge category that represents the major scope of the project. If a project has aspects that can be described by more than one category, the project may be broken into separate projects. Tables IA and IB show the project discharge categories and their ranking points.

Table IA. Ranking Points Related to Project Discharge Category For Wastewater Treatment Facilities		
Project Discharge Category	Description	Points
Combined Sewer Overflow (CSO)	Correction of combined sewer systems and discharge points. Includes elimination, relocation or consolidation of discharge points and construction of facilities or purchase of equipment to remove solids and floatables.	250
Overflowing Sewers Via Infiltration/Inflow (I/I) Correction	Correction of overloaded conveyance systems that experience intermittent overflows, resulting in discharges of raw or inadequately treated sewage. Projects include rehabilitation, repair, and/or replacement of the conveyance system. Also includes Interconnection/Cross-Connection abatement projects that address documented water quality impairments.	250
Treatment Plant Improvements	Upgrade of a treatment facility or elimination of an existing facility and connection to an alternative treatment facility to meet applicable treatment levels. Also includes I/I correction within the conveyance system, if cost-effective, to allow the treatment plant to meet applicable treatment levels.	150
Sludge Treatment/Disposal Facilities	Construction of sludge management facilities such as those for dewatering, land application, composting, and incinerator repair/improvements; includes wastewater and water supply sludges.	100
Corrective Systems	Construction of facilities to promote wastewater reuse or provide collection and/or conveyance, on-site management, treatment plants, or septage treatment to improve existing wastewater management systems.	50
Overloaded Sewers Via Infiltration/Inflow (I/I) Correction	Correction of overloaded conveyance systems that do not experience intermittent overflows as well as correction of Interconnections/Cross-Connections. Includes rehabilitation, repair, or replacement, as appropriate for the system.	50

Table IB. Ranking Points Related to Project Category for Stormwater and Nonpoint Source Pollution Management Facilities		
Project Category	Description	Points
Landfill Closure, Open Space Land Acquisition and Conservation and Well Sealing	Construction of measures to prevent and control pollutants from entering groundwater at non-operating municipal landfill sites and for wells (supply and monitoring). Also included in this category are open space land acquisition and conservation projects that are associated with water quality benefits.	100
Landfill Construction and Remedial Action Activities	Construction of facilities to collect, convey and/or treat leachate and runoff from new publicly owned landfill cells or from sites that are known to contain contaminated or hazardous materials.	75

Stormwater Management and other NPS activities	Construction or rehabilitation of stormwater basins, sewer systems and storm drains, extension of outfall pipes, purchase of maintenance equipment (such as street sweepers, beach cleaning equipment, aquatic weed harvesters and skimmer boats). Also included in this category are projects that stabilize streambanks, restore lakes or address runoff from salt storage facilities and the implementation of measures to reduce and/or control runoff from agricultural cropland activities and to address pollution concerns associated with manure runoff and feedlot operations.	50
--	--	----

C. Water Use/Water Quality Points

Points for water uses (present and potential) and for existing water quality conditions are given to projects that will improve discharges that adversely impact surface waters. The assignment of points for “public nuisance” is given to on-site system projects where failures have been identified. Table II below shows the breakdown of the ranking points for water use; in general, the highest values are given for projects that discharge to water bodies with potable, recreational, and fishing uses.

Table II. Ranking Points Related to Water Use (Existing and Potential)		
Water Use	Basis/Description	Points
Public Potable Water Supply	Public and nonpublic community surface supply for water companies or municipalities based on NJ Statewide Water Supply Master Plan.	200
Recreation (“Primary Contact”)	Waters with bathing areas monitored routinely as public beaches as well as the Delaware River upstream of Trenton.	125
Fishing	Shellfish State water bodies that are designated as shellfish growing waters by <i>N.J.A.C. 7:12</i> .	125
	Trout State freshwater bodies designated for trout production or maintenance by the NJ Water Quality Standards (<i>N.J.A.C. 7:9B</i>).	75
	Non-trout State freshwater classifications not designated trout production or maintenance by <i>N.J.A.C. 7:9B</i> (see Trout description above), including all Delaware River freshwater zones above mile-point 85 as defined by the Delaware River Basin Commission.	25
Public Nuisance	Indirect water use impacts; applies to areas with identified on-site wastewater treatment system failures.	50
Agriculture	Surface water for agricultural use, such as irrigation and farm ponds, based on DEP diversion permit (permits required for >70 gal/min diversion).	25
Industry	Surface water known to be used for industrial use such as cooling.	25

Table III shows the points for not meeting or marginally meeting certain water quality parameters. The points reflect the impact the parameters have on meeting the State’s goal to protect and enhance surface water resources, quality criteria, and designated water uses. The magnitude of the contribution that municipal sewerage facilities have on each of the conditions is reflected in the points awarded under these categories. Dissolved oxygen and fecal coliform

have the highest points because of their direct impact on the fishable/swimmable water use, coupled with the fact that municipal treatment facilities are a major cause of contravening water quality standards.

Nutrients reflect the presence of phosphorus/phosphates and nitrates/nitrites in a water body. Nutrients were given lower points because, although they may cause conditions that interfere with many water uses, the resulting conditions will usually not significantly affect the established water use of the site. Points were given to nutrients only if the surface waters involved significantly impact potable water reservoirs, surface water impoundments or lakes, public bathing areas, or shellfish growing waters.

Points for toxics indicate the relative magnitude of ammonia, metals, pesticides, and organic chemicals in the water body. Toxics were also given lower points since in most cases the significant contributions of toxic substances come from industrial sources and are not significantly abated by municipal treatment facilities. While NPS pollution also contributes to toxicity levels, the project types most likely to involve higher levels of toxic contaminants (such as landfills and contaminated sites) receive higher ranking than other NPS management projects in the project type category (see Table IB). In the case of the toxicity of ammonia, municipal facilities are usually the main source, but the most significant impact is associated with streams designated for trout production/maintenance, which already receive a high number of points under the water use category.

Table III. Ranking Points Related to Water Quality				
Water Quality		Points for Water Quality that		
		Meet	Marginally Meet	Do Not Meet
The Water Quality Standard*				
Parameter	Dissolved Oxygen	0	50	100
	Fecal Coliform	0	50	100
Parameter Category	Nutrients	0	25	50
	Toxics	0	25	50

*The Water Quality Standard for the applicable parameter or category.

D. Smart Growth Approvals

The DEP seeks to coordinate and enhance the State Planning Commission's (SPC) efforts to encourage Smart Growth through the implementation of the State Development and Redevelopment Plan. The DEP assigns ranking points to projects that serve municipalities that the SPC has approved under the Center Designation or Plan Endorsement Process.

For a project serving more than one municipality, the SPC points were included for ranking purposes if the designated center or the endorsed plan is a significant component of the overall project. For further information regarding the State Development and Redevelopment Plan, contact the NJ Office of Smart Growth, Department of Community Affairs, 101 South Broad Street, 7th floor, PO Box 204, Trenton NJ 08625-0204 or call (609) 292-7156.

Table IV. Ranking Points Related to State Planning Commission Approvals	
Community Type	Points
Urban Centers and Complexes	50
Regional Centers	25
Existing Designated Towns	15
Existing Villages	10
Hamlets	5

In addition to SPC approvals, site remediation projects located in BDAs and infrastructure projects located in designated Transit Villages also receive 10 points, so that these projects will rank higher than similar projects that are not located in these Smart Growth areas.

E. Population Points

Projects are also assigned points based on the population of the project area. One point is given for every million people living in the project area on a year-round basis. Projects that are sponsored by local units with population less than one million people are assigned a proportionate point value (i.e., a population of 250,000, would receive an additional 0.25 points to its project score). Thus, if projects have the same number of ranking points after having received all eligible points, population points become the tie breaker, with higher priority given to the project serving the higher population.

F. Public Health Hazard (PHH) and Emergency Repair Projects

In instances where project conditions are determined to constitute a PHH by the Commissioner of the DEP in consultation with the Commissioner of the Department of Health, the project will receive funding priority over other projects on the Priority List. The review procedure involves a survey of the extent of wastewater problems such as: incidences of sewage-borne disease, contaminated wells, and homes or buildings with sewage back up. Details of the PHH procedure are available in the FFY96 PS document and are incorporated in the FFY2005 PS document by reference. Copies of the FFY96 PS document may be requested by calling the Bureau of Program Development and Technical Services at (609) 292-3859.

The DEP recognizes that wastewater, stormwater and drinking water infrastructure may be subject to catastrophic, unanticipated events that pose a substantial threat to the public health, safety and welfare. However, failure to complete technical and environmental review procedures in accordance with the Financing Program rules adopted at *N.J.A.C. 7:22* has up to now rendered these projects ineligible under the EIFP. The DEP has reviewed this issue in detail and believes that rapid correction of emergencies while preserving the eligibility of these costs is in the public interest. Therefore, the DEP is in the process of developing a process and specific eligibility criteria to accomplish these purposes while assuring environmental protection.

Additional information regarding this new provision is contained in section D. of the Intended Use Plan that follows. It is anticipated that applicable requirements will be satisfactorily

addressed and will receive public support, and that the provisions will be retained within future Priority System documents.

Projects that qualify as emergency projects will receive funding priority over all projects on the Project Priority List.

III. Construction Grants Program Policies

The delegation of authority for the Federal Construction Grants Program from the U.S. Environmental Protection Agency to the New Jersey Department of Environmental Protection expired on June 30, 2000. As of July 1, 2000, USEPA Region II has assumed full responsibility for the program. Any questions on outstanding Federal Construction Grants projects or issues should be directed to Mr. Michael Hajducek, P.E., USEPA Region II, Water Programs Branch, 290 Broadway, New York, New York 10007, (212) 637-3858.

INTENDED USE PLAN

USEPA requires the DEP to develop an Intended Use Plan (IUP) annually to qualify for CWSRF capitalization grants to support the program and the project loans. This IUP provides information on funds available through the EIFP to provide financial assistance for clean water projects in SFY2006 and identifies State policies governing loan awards. It includes information on the following:

1. The list of projects to be used for funding purposes.
2. The long and short-term goals of the state's program.
3. The programmatic activities to be supported with the anticipated funds.
4. The timing and use of such funds.
5. The criteria and method of distribution of the funds.
6. Provisions for interim reporting (as required by the Regional Administrator at the time of a capitalization grant award).

Programmatic requirements imposed by the Water Quality Act of 1987 include 1 through 5 below. It is anticipated that these provisions will be maintained in a subsequent federal reauthorization act or federal policy. If substantial changes in the Act necessitate the DEP's revision of the FFY2005 PS document, additional public participation efforts will be conducted.

1. The schedule of state capitalization grant payments, jointly agreed upon by the Administrator of the EPA and each state, is based upon the state's IUP.
2. States are required to deposit in the CWSRF, from state monies, an amount equal to at least 20 percent of the total amount of all capitalization grants made to the state.
3. The fund created with federal capitalization grants can only be used to provide assistance for (a) the construction of publicly owned treatment works, (b) the implementation of a NPS (nonpoint source) management program, which includes construction of stormwater/NPS management facilities, and (c) the development and implementation of an estuary conservation and management plan. Although CWSRF

loans may only be provided for publicly owned systems, if a government unit assumes ownership of a wastewater treatment system previously privately owned, a loan may be provided under the authority of section 603(c) of the federal CWA. A state may also deem the public ownership requirement as being met for small/on-site systems if adequate inspections and operations are ensured through the establishment of a septic management district or use of service easements. Privately owned stormwater/NPS management projects may also qualify for CWSRF loans provided the project is sponsored by the local government unit.

4. Monies in the CWSRF may be used to provide loans at or below market interest rate, for terms not greater than 20 years (after completion of construction). Repayments must begin no later than one year after completion of the project and must be credited to the CWSRF (principal and interest) for Title VI purposes. The recipient of a loan must establish a dedicated source of repayments. The CWA also authorized the use of federal CWSRF monies to refinance local debt obligations, provide guarantees, or purchase insurance.
5. Through FFY94, states were required to reserve the greater of \$100,000 or one percent of their annual allotment for the development and implementation of NPS management programs. This reserve may be re-enacted or otherwise modified for FFY2005 as a result of reauthorization of the CWA or subsequent federal guidance.

A. Financial Relationships between the CWSRF and the DWSRF

Section 302 of the amendments to the federal Safe Drinking Water Act (which established the DWSRF Program) includes authorization for states to transfer up to 33 percent of its DWSRF capitalization grant to the CWSRF or an equivalent amount from the CWSRF to the DWSRF. This transfer is at the Governor's discretion and cannot occur until at least one year after the state has received its first DWSRF capitalization grant. In New Jersey, the first DWSRF capitalization grant was awarded by USEPA on September 18, 1998.

For FFY2005, the DEP reserves the right to transfer CWSRF loan repayments to the DWSRF. While the original Safe Drinking Water Act limited the ability of the state to transfer funds after September 30, 2001, the DEP continues to reserve this option as authorized by federal legislation.

In addition to the potential transfer of funds between the CWSRF and DWSRF, the DEP is continuing its policy to cross-collateralize the DWSRF with the CWSRF. This feature results in significant savings to project sponsors and, in particular, the drinking water project sponsors since there is a large source of revenue available to cover possible loan defaults. Under the EPA-approved procedures associated with cross-collateralization, a temporary transfer of funds between the two SRFs may occur as may be necessary to cover the default of a loan repayment or other financial obligation. The DEP and the Trust would take steps to collect any obligations resulting from a loan default and reimburse the appropriate drinking water or clean water account.

B. Document Submittal Schedules

All local government units that have a project or projects listed or eligible for listing on the FFY2005 Priority List were required to commit to one of the following schedules by the appropriate date to be considered for FFY2005 funding. The commitment is made in writing to the **Assistant Director, Municipal Finance and Construction Element (MF&CE)** with a copy to the Executive Director, New Jersey Environmental Infrastructure Trust. Prior to the submission of a commitment letter, all applicants are encouraged to attend a pre-planning meeting with the Municipal Finance and Construction Element representatives.

2005 Loan Program -Traditional Schedule	
Activity	Deadline
Commitment Letter and Planning Documents	October 4, 2004
Design Documents and Loan Application	March 7, 2005
Loan Award	November 2005

2005 Loan Program - Second Chance Schedule	
Activity	Deadline
Commitment Letter, Planning Documents, Design Documents, Loan Application and Proof of Permit/Approval Application submittals	March 7, 2005
Loan Award	November 2005

Sponsors were encouraged to comply with the October deadline if at all possible, and will have several important benefits over second chance participants. Projects that met the October deadline will be of higher priority for eligibility for long-term funding than second chance projects. In addition, project sponsors pursuing the traditional schedule will have a better opportunity to participate in the Trust's interim financing program in the current funding cycle.

Notwithstanding the advantages of the traditional project schedule, there may be incidences in which a project sponsor that has been unable to meet the traditional schedule can expedite the completion of the planning, design and loan application documents to qualify for funding under the current funding cycle. However, in order to provide adequate opportunity to process permits and approvals needed for projects in a timely manner, all second chance projects must submit, on or before March 7, 2005, proof that all applicable DEP permits and approvals have been applied for. Failure to do so will render the project ineligible to pursue the second chance option. Further, if any of the permits and/or approvals required for the project require a long lead time, such as the need for a Water Quality Management Plan amendment or a major modification to the NJPDES permit, such projects will not be eligible to proceed under the expedited schedule and the project sponsor will be notified accordingly.

The planning and design documents for clean water projects must consist of:

1. A complete project report.
2. The environmental assessment report (level 1, level 2 or level 3, as determined by the DEP). For those projects that have the potential to facilitate growth or cause significant adverse environmental impacts, the DEP will evaluate thoroughly the planning submitted by the project sponsor which may include but not be limited 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 DEP's funding decisions will take into account the project's growth potential, the project's location and the project's aggregate impacts as determined through such evaluations.
3. Complete cultural resources survey documentation.
4. Long-term sludge management plan for projects involving a treatment plant upgrade or expansion.
5. Documentation of completed public participation activities.
6. The results of preliminary coordination activities with lead agencies regarding environmental and permit concerns.
7. Plans and specifications for the project, including appropriate environmental mitigation/restoration components.
8. For open space land acquisition projects, an evaluation of the land to be acquired, including the water quality basis for the proposed land purchase.
9. For any stormwater/NPS management project, the water quality basis intended to be accomplished by the proposed work (since this is the basis that allows such projects to be eligible under the Financing Program).

Projects with unacceptable planning documentation will be bypassed (removed from the current funding period). If the local government unit does not commit to one of the document submittal schedules, the DEP will interpret this as a decision to not pursue funding in FFY2005/SFY2006 and will result in a "BEYOND 05" designation under the estimated State certification date column on the Priority List.

C. Loan Awards

Loan awards for new projects will be made in FFY2005/SFY2006 for up to 100 percent of the allowable project costs to cover the low bid building costs and other allowable project costs that are identified in the program rules at *N.J.A.C. 7:22-3, 4, and 5*. The loan term will generally be 20 years but can not exceed the useful life of the facility. The initial loan amount will be limited to the certified project cost, which may reflect (1) the estimated allowable project cost based on the project sponsor's loan application or (2) the low bid building cost. The adjustment to provide funding based on the low bid building cost will be made only after all project-related contracts have been awarded.

Adjustments to provide warranted loan increases for differing site conditions will be made only after all allowable project costs have been incurred. Consideration will be given to providing warranted loan increases, subject to: the DEP's and the Trust's approval, legislative approval in

the form of an appropriations bill(s) providing such monies, and the availability of funds. Any dollar changes in cost estimates for projects on the Priority List may result in the DEP requesting the municipality to provide a third-party concurrence on the cost change. Should cost underruns occur after a low bid building cost adjustment and the completion of construction, budget line item changes may be approved for allowable cost overruns. In these cases, administrative/legal/fiscal costs will not be subject to the three percent limit as specified in the rules. A greater amount could be approved should sufficient funds remain and if sufficient justification and documentation for the higher costs are submitted and approved. If a recipient receives DEP approval to reduce the project scope through the elimination of a contract (or portion thereof), the eligible project cost (and therefore the financial assistance amount) will be reduced through the DEP's and the Trust's "deobligation". The amount to be deobligated will be equal to the estimated cost of the scope of work included in the original loan award.

Local government units are required to meet the technical, administrative, and environmental provisions of the rules of the DEP and the Trust (*N.J.A.C. 7:22-3, 4, 5, 8, 9, and 10*). Disbursement and loan repayment provisions must also be consistent with the rules.

Planning and design costs alone are not directly eligible for financial assistance from the EIFP. However, an allowance to assist in defraying planning and design expenses will be included in the financial assistance agreement for the construction of the project, if State funding for planning and design has not otherwise been awarded, such as through the Sewage Infrastructure Improvement Act Grants Program.

Financial assistance will only be awarded to a distinct project segment that will result, in itself, in an operable treatment works (i.e., not relying on award of funds for additional portions of the project). Financial assistance awards will not be made to projects that are under an enforcement action unless a federal or State court-sanctioned order or State administrative order (only accepted in certain cases) specifying a compliance schedule has been established. A copy of the judicial or administrative order will be required at the time of submittal of the project application.

All wastewater treatment projects must be sized in accordance with a cost-effective analysis to accommodate existing needs as well as 20-year reserve capacity. Historically, the recipient's financial assistance from DEP was limited to the cost of the project with a capacity based upon flow records and flows anticipated prior to the date of initiation of operation as established in the Fund loan agreement. In order to advance the State's Smart Growth initiatives, the DEP and the Trust adopted amendments to the Financing Program rule that allow the DEP to fully fund its share of project costs related to reserve capacity for projects that serve areas determined to be suitable for growth upon promulgation of DEP rules. In the interim, the rule amendments allow the DEP to fully fund its share of reserve capacity costs for designated Urban Centers and Complexes as approved by the State Planning Commission.

D. Preaward Approvals and Emergency Projects

Eligible projects can qualify to receive preaward approvals if the requirements of the rules (*N.J.A.C. 7:22-3.32 and 4.32*) are met. This is a significant difference from the federal grants

program, since project sponsors may maintain the eligibility of project costs incurred prior to the execution of formal State agreements. However, to maintain the eligibility of such costs, project planning (including the issuance and expiration of an Environmental Assessment prepared by the DEP) and design and contract documents (including issuance of authorization to advertise and award contracts for which reimbursement is sought) must be reviewed and approved by the Municipal Finance and Construction Element. Further, all permits and approvals for the construction of the project must be secured. It should be noted that federal policy limits the amount of funds the States may withdraw from capitalization grants for “refinancings.” Since federal policy defines any costs incurred prior to loan award to be “refinanced,” there is a possibility that reimbursement for all preaward costs may not be feasible at the time of loan award.

The DEP recognizes that wastewater, stormwater and drinking water infrastructure may be faced with unanticipated emergency situations that pose a substantial threat to the public health, safety and welfare. However, failure to complete technical and environmental review procedures in accordance with the Financing Program rules adopted at *N.J.A.C. 7:22* has up to now rendered these projects ineligible under the EIFP. The DEP has reviewed this issue in detail and believes that immediate correction of such emergencies while preserving the eligibility of these costs is in the public interest. Therefore, the DEP is in the process of developing a process and specific eligibility criteria to accomplish these purposes while assuring environmental protection.

The DEP expects to complete the assessment of technical (such as the applicability of minority business participation requirements, federally mandated Davis-Bacon wage rates, etc.) and environmental program requirements shortly. The proposed process, eligibility criteria, and limitations, as well as the qualifications for a Level 1 environmental review, will be summarized within an Environmental Decision Document, and will be distributed on a statewide basis in an effort to solicit public comment prior to finalization of emergency funding proposal.

Qualifying emergency conditions would include those which **are currently resulting in** substantial pollution of the environment (such as collapse of a wastewater line) and/or substantial curtailment of the functions of the infrastructure (such as delivery of drinking water). It is anticipated that applicable requirements will be satisfactorily addressed and will receive public support, and that the provisions will be retained in future Priority System documents.

As indicated in the Priority System section of this document, emergency projects will receive funding priority over all other projects on the Project Priority List, both for interim as well as long-term financing.

E. Socially and Economically Disadvantaged (SED) Business Participation

Project sponsors are required to set a goal of awarding at least 10 percent of a project’s costs for construction, materials, or services to small business concerns owned and controlled by SED individuals as defined in the Small Business Act (15 *U.S.C.* 637(a) and (d)) and any rules promulgated pursuant thereto. The DEP and the Trust have adopted the SED rules (at *N.J.A.C.* 7:22-9), that identify the SED utilization requirements that project sponsors will have to meet.

F. Stormwater/Nonpoint Source (NPS) Management Projects

Because of the increasing water quality concerns related to stormwater runoff, the DEP and the Trust have expanded the scope of the Financing Program to include construction costs for a wide variety of stormwater/NPS management projects. The EIFP will allocate a minimum of \$10 million in clean water funds to this category in FFY2005. The DEP's general view, after consultation with local and regional planners and stormwater managers, is that expensive structural retrofits should not be implemented before completion of regional analysis and planning. Thus, if the project will impact the capacity, hydrology, or hydraulics of existing stormwater management facilities, systems, or downstream waterbodies, a watershed management plan appropriate to the project's location should be prepared. Watershed management planning, a key component of the watershed approach, assesses the overall needs of an area to ensure that proposed projects will improve/maintain water quality, water quantity and ecosystem health in a cost-effective manner. Watershed management planning differs from the individual project planning which is site-specific and which is a routine requirement of funding under the EIFP. Although the EIFP does not fund watershed management planning, the EIFP does provide an allowance for a project's site-specific planning and design. The allowance is based on a percentage of the building costs. Stormwater/NPS management projects must support efforts to achieve and/or maintain water quality, compatible with designated uses of the water body.

Implementation of USEPA's Phase II Municipal Stormwater Program requires municipalities, counties and other public entities to control stormwater discharges from new and existing developments. In New Jersey, the program is being implemented through the issuance of NJPDES general permits. Program implementation will require capital expenditures for equipment acquisition, additional personnel to implement best management practices, and expenses for public education (an innovative component, to change the behavior of people to reduce environmental impacts). Low-cost funding for the equipment procurement and construction of needed facilities is available through the EIFP, and is described in more detail below. The DEP is also exploring additional sources of funds to provide increased levels of financial support to local governments to help defray the costs for achieving compliance with the requirements of the NJPDES Permits. For SFY2004, the DEP is in the process of awarding \$6 million in grants to municipalities and counties to implement the NJPDES permit requirements. The Governor's proposed SFY2005 budget includes an additional \$6 million to continue such grants to municipalities and counties. The DEP is also pursuing other options to provide additional funding as well, and anticipates availability of additional grant funds for capital projects to be combined with SRF loans (up to 20% grants and 80% SRF loans). In anticipation of this, DEP encourages project sponsors to proceed with submitting construction-related projects for the Priority List.

The stormwater/NPS management projects that are eligible for EIFP loans include both new or modifications of stormwater management systems, facilities, basins, or other stormwater/NPS management facilities (including land acquisition to site the eligible facilities). Stormwater/NPS management projects also include, but are not limited to: installation of packed media filters, replacement of existing storm drains with newer designs that incorporate features to remove solids, floatables, oil and grease, and/or other pollutants; purchase or replacement of equipment

