

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO DEPARTMENT OF HEALTH**

**INTENDED USE PLAN 2023
DWSRF Base Allotment**

August 5, 2024

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1.0 INTRODUCTION

The Department of Health (“DOH”) is the lead Agency responsible for the administration of the Drinking Water State Revolving Fund (DWSRF) Program in Puerto Rico. DOH submitted for approval the FY 2023 base allotment on March 9, 2023, in the amount of \$7,008,000, using FY-2022’s final allotment, since there was no final allotment indicated for FY-2023.

However, through memorandum dated April 3, 2023, EPA indicated that the final allotment for FY-2023 was \$4,938,000, in accordance with the Consolidated Appropriations Act, 2023 (Public Law 117-328) (hereinafter referred to as “Consolidated, 2023”) passed by the Congress on January 3, 2023. EPA also submitted through the previously mentioned memorandum, the availability of additional funds for FY-2023 under the Bipartisan Infrastructure Law (“BIL”) directed to attend three main purposes: general supplemental, emerging contaminants and lead service lines replacement. The funds originally assigned under the BIL for FY-2023 have slightly increased. *For more information, refer to **Attachment VII-A** that includes memorandum dated April 3, 2023 regarding the DWSRF final allotments for fiscal year 2023.*

Regarding the implementation on the SRFs, under the BIL memorandum, there will be flexibility provided to states and borrowers to address a wide variety of local water quality and public health challenges. Thus, for borrowers, the SRFs remain a flexible source of capital that can be used in combination with additional funding sources to finance water infrastructure projects. “Drinking water projects eligible for financing include a wide variety of drinking water treatment, including projects to address lead exposure in drinking water, violations of the maximum contaminant levels unregulated contaminants, acute health effects (e.g. Surface Water Treatment Rule requirements)”. Following are the flexibilities for the BIL SRF funding, including,

but not limited to (1) program administration and processes, (2) additional subsidy, and (3) emerging contaminants.

As it relates to program administration and processes, states have the flexibility to:

- Determine priorities and select projects.
- Combine Intended Use Plans (IUPs) and Project Priority Lists (PPLs) for both the BIL and base funding or submit separate IUPs and PPLs for both base and BIL funding.
- Apply for conditional or partial grants for BIL funds.
- Craft single assistance agreements (e.g., loans or grants) that contain multiple types of construction components and activities funded by multiple pots if the funds are tracked separately.
- Design and manage the application process.
- Take administrative funds from each funding stream.
- Transfer funds between programs to address state needs.
- Use recycled funds for any eligible purpose.
- Set interest rates and repayment terms.

As it relates to the additional subsidy, states have the flexibility to:

- Define disadvantaged community and affordability criteria in a manner that is consistent with Safe Drinking Water Act (SDWA).
- Determine the amount of additional subsidization provided in each assistance agreement.

A total of \$43,426,000,000 are assigned to all the SRF programs in partnership with EPA beginning FY-2022 through FY-2026.

This Department is preparing the Intended Use Plan for fiscal year 2023 Base regular funds based on the requirements and conditions set for in the “Consolidated, 2023” for the fiscal year 2023 funds and the BIL 2021.

It is important to indicate that, besides the SDWA that creates the DWSRF, as amended, changes to the SDWA by the BIL, and the Consolidated 2023, there are other amendments incorporated by the American Water Infrastructure Act of 2018 (AWIA):

- two additional options to identify the maximum allowable Administration and Technical Assistance (4%) set aside that can be reserved for capitalization grants awarded after December 16, 2016. States may take up to 400,000, 1/5 of a percent of the current valuation of the fund, or 4% of capitalization grants awarded whichever is greater.
- When referencing the 10% of the State Program Management (SPM) set-aside, States are no longer required to provide the additional match to receive this set-aside.

Also, we must mention that, as indicated in EPA’s memorandum of March 25, 2019 of the Office of Water, among the provisions of the America’s Water Infrastructure Act of 2018, or AWIA, enacted on October 23, 2018 provided changes to the DWSRF program.

- extended infrastructure loan terms,
- requires the provision of additional subsidy to state-defined disadvantaged communities, and

- expands source water protection-related eligibilities under the Local Assistance set-aside.

Sources of Funds

This Intended Use Plan (IUP) is the planning document explaining how all DWSRF funds, including the federal fiscal year (FFY) 2023 Base allotment will be used. The IUP considers the use of grant funds in the amount of \$4,938,000, the corresponding twenty percent (20%) match requirement in the amount of \$987,600 and \$6,500,000 as repayment funds.

We need to emphasize that DOH was able to continue with the implementation of the ULO's Reduction Strategy up to April 2016, when the federal funds transfer mechanism cut-off was imposed and then riddled. Now that DOH has been able to disburse the funds pending as identified in the restructuring agreement, this Department has moved to continue with the Strategy.

Monies appropriated by the Commonwealth will be used to provide federally mandated state matching funds of at least 20% as required by law-Consolidated Appropriation Act, 2023. DOH will undertake the public participation process as required by the SDWA in an effort to encourage the public in the application process. The IUP will include a list of projects including, but not limited to, disadvantaged systems/communities, their priority setting, and an explanation of the set-asides established in administrative funds, technical assistance, and State Program Management.

American Iron and Steel (AIS)

The BIL established the AIS requirement permanent for all DWSRF funded projects, by inserting the American iron and steel (AIS), provision into the SDWA, requiring that all of the iron

and steel products used permanently for the construction, alteration, or repair of a public water system be produced in the USA, unless a waiver has been approved by EPA.

This requirement shall not apply in any case or category of cases in which the Administrator of the Environmental Protection Agency finds that: (i) applying the requirement would be inconsistent with the public interest; (ii) iron and steel products are not produced in the United States in sufficient and reasonably available quantities and of a satisfactory quality; or (iii) inclusion of iron and steel products produced in the United States will increase the cost of the overall project by more than 25 percent.

For more information, we have included in **Attachment VII** the *EPA’s memorandum of March 2014 on the Implementation of AIS Provisions of P. L. 113-76, Consolidated Appropriations, 2014; Questions and Answers (Q&A) Part I – Valves, Hydrants (May 2014); Questions and Answers (Q&A) Part II – Product, Project and Process (Sept. 2014); Questions and Answers (Q&A) Part III – Plans Specifications Dates... (March 2015); Memorandum of November 2018 on the “Application of American Iron and Steel Requirements for Drinking Water State Revolving Fund Projects”*.

1.1 Ongoing Program Initiatives:

1.1.1 “14% Mandatory Congressional Additional Subsidy”

The Consolidated, 2023 requires that: “States must use 14 percent of the funds made available in the base 2023 DWSRF capitalization grant to provide additional subsidization to eligible recipients in the form of forgiveness of principal, negative interest loans, or grants (or any combination of these) and shall be so used by the State only where:

- such funds are provided as initial financing for an eligible recipient or to buy, refinance, or restructure the debt obligations of eligible recipients only where such debt was incurred on or after the date of enactment of this Act, or
- such debt was incurred prior to the date of enactment of this Act if the State, with concurrence from the Administrator, determines that such funds could be used to help address a threat to public health from heightened exposure to lead in drinking water, or
- if a Federal or State emergency declaration has been issued due to a threat to public health from heightened exposure to lead in a municipal drinking water supply before the date of enactment of this Act:

In a State in which such an emergency declaration has been issued, the State may use more than 14 percent of the funds made available under this title to the State for Drinking Water State Revolving Fund capitalization grants to provide additional subsidy to eligible recipients.

For more details see Section 8.2.4 of this IUP. **Attachment VII** includes Memorandum of March 25, 2019 – *Implementations of Drinking Water State Revolving Funds (DWSRF) – related Safe Drinking Water Act (SDWA) Amendments in America’s Water Infrastructure Act (AWIA) of 2018.*

Below is a table showing the cumulative subsidy awarded under regular annual appropriations since the inception of the Program:

CONGRESSIONAL SUBSIDY AWARDED (in millions) UP TO FY 2023	
<i>Up to FY 2022</i>	<i>FY 2023</i>
\$44.5	\$0.69

1.1.2 “Limited¹ 12-35% SDWA Disadvantaged Communities Subsidy”

To the extent that there are sufficient applications for loans to disadvantaged communities this percent will be no less than 12 but not greater than 35. The funds will be distributed among the projects that satisfies the hardship criteria, starting with the project with the highest priority and until funds or the corresponding percent is totally assigned. For detailed information see Section 8.0 of this IUP.

1.2 Green Project Reserve (GPR)

As established in the AWIA of 2018 and the Consolidated, 2023, “funds under this title to each State for Drinking Water State Revolving Fund capitalization grants may, at the discretion of each State, be used at the discretion of each State, for projects to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities”.

During this year Puerto Rico has not been able to identify green infrastructure within the projects that will be funded from the FY-2023. Notwithstanding, in the

¹ DOH named “limited” this subsidy to differentiate it from the other congressional subsidy.

Attachment V - System Criteria and Ranking Methodology (Summary), H, Green Portion (only for Green Projects), provisions are established to rank green projects, if there may emerge any such projects.

1.3 Davis-Bacon Requirements

In order to comply with the Davis-Bacon requirements, the Commonwealth will include in all assistance agreements, whether in the form of a loan, bond purchase, grant, or any other vehicle to provide financing for a project the provisions in the Consolidated 2015, a term and condition requiring compliance with the requirements of section 1450(e) of the Safe Drinking Water Act (42 U.S.C.300j-9(e)) in all procurement contracts and sub-grants, and it will require that loan recipients, procurement contractors and sub-grantees include such a term and condition in subcontracts and other lower tiered transactions. All contracts and subcontracts for any construction project carried out in whole or in part with assistance made available as stated herein shall insert in full in any contract in excess of \$2,000 the contract clauses as stated in the Consolidated, 2023 and the AWIA 2018, §2015(b): Prevailing Wages or any grant condition referencing Contract and Subcontract provisions. Please refer to **Attachment VII – Interim Davis Bacon Act Guidance** (EPA) March 2010 (<https://www.epa.gov/drinkingwatersrf/interim-davis-bacon-act-guidance>);

1.4 Reporting Requirements

The SDWA requires in general a series of reports that need to be provided as part of the administration of the Program. With the AWIA enactment, new information needs to be provided as part of mandatory reports. Such as the following:

- of the new limit established for the disadvantaged communities' projects, where it is necessary to explain in their Intended Use Plan (IUP) and Annual/Biennial Report why the provision was not met and what the Program is doing to ensure that this provision is met in future years (e.g., marketing, outreach, technical assistance).
- in the Report to the Governor on the efficacy of the strategy and progress made toward improving the technical, managerial, and financial capacity of public water systems in the State is necessary to demonstrate *"efforts of the State to encourage development by public water systems of asset management plans and to assist public water systems in training relevant and appropriate persons in implementing such asset management plans"*.

"States shall report quarterly in the DWSRF Project and Benefits Reporting (PBR) systems on the use of all SRF funds. This information will also need to be included in the Annual Report. Quarterly reporting shall include use of the funds for the GPR, and Additional Subsidization as described in paragraph below, as well as information on the environmental and public health benefits of SRF assistance agreements, as described in paragraph below."

1.4.1 Data Elements

The following data elements must be entered quarterly into CBR/PBR starting with the first quarter in which the assistance agreement is made and a list containing the following information must be included in State Annual Reports. (Additional clarification on the items listed below is provided in CBR/PBR.)

- a. Assistance Recipient Name
- b. Total amount of SRF assistance provided
- c. Project name and identification number
- d. Project Location
- e. Type of additional subsidy (grant, principal forgiveness, negative interest).
- f. Amount of additional subsidy
- g. Y/N – Would the recipient have been able to afford a loan without the additional subsidy (using the States' own criteria for making this determination, such as use of their SRF loan evaluation criteria)?

For projects that receive funding as green projects at the State's discretion for the DWSRF, the following additional data elements must be entered quarterly into CBR/PBR and a list containing the following additional information must be included in State Annual Reports. (Additional clarification on the items below is provided in CBR/PBR.)

- a. Type of project (green infrastructure, water efficiency, energy efficiency, environmentally innovative).
- b. Amount of SRF funding for GPR portion of the project.
- c. Of the total amount of GPR funding, the amount of subsidy provided (if any).
- d. A brief description of the project (i.e., rain garden, renewable energy at POTW, water efficient fixtures).

- e. Population served by the project (not required for CWSRF nonpoint source projects).

1.4.2 Environmental/Public Health Benefits Reporting/NIMS

The Project Benefits Reporting System (PBR) collects project-level data elements to assist the State in meeting reporting requirements and better gather and report information for internal and external reports line the NIMS. It is a tool where the State can demonstrate measurable contributions of the DWSRF program to supporting Safe Water Act goals. It is a communication conduit between State and EPA Regions. Informative data can be gathered at a state, regional and national level for overview purposes.

The data elements identified above must be reported in the Annual Report. Summary reports, compiling the quarterly data, can be generated by PBR and may be included as an attachment to the Annual Report to meet this reporting requirement.

Puerto Rico will be reporting quarterly in the DWSRF Project Benefits Reporting (PBR) system on the use of all SRF funds.

1.4.3 Needs Survey

(1) The Administrator shall conduct an assessment of water system capital improvement needs of all eligible public water systems in the United States and submit a report to the Congress containing the results of the assessment within 180 days after August 6, 1996, and every 4 years thereafter.

(2) Any assessment conducted under paragraph (1) after October 23, 2018, shall include an assessment of costs to replace all lead service lines (as defined in section 300j- 19b(a)(4) of this title) of all eligible public water systems in the United States, and such assessment shall describe separately the costs associated with replacing the portions of such lead service lines that are owned by an eligible public water system and the costs associated with replacing any remaining portions of such lead service lines, to the extent practicable.”

DOH will keep assisting systems in order to provide the information needed for Needs Surveys, and the estimate final number of lead service lines to be replaced will be included in the next survey.

1.5 Unliquidated Obligations

DOH will continue implementing to the extent possible the grants policy issuance 12-06 *“Timely Obligations, Award and Expenditure of EPA Grant Funds”* and the memorandum dated Sept. 12, 2013 for *“Maximizing the Benefits of the DWSRF through efficient federal funds management practices”* and the memorandum dated April 14, 2014 for *“DWSRF ULO’s Reduction Strategy”*.

EPA continues encouraging the reduction of the ULO’s, using several practices that are detailed on the above-mentioned memoranda to accelerate the use of the ULOs.

- Using the federal funds in a first-in-first-out (FIFO) basis. As of today, the last grant closed with final FFR submitted is that of fiscal year 2015, submitted on March 31, 2023 and the corresponding close out notification was received on April 17, 2023. Drawdowns will be directed towards the oldest

grant open FY2017 and subsequent opened ones. For this fiscal year 2023, the current Project Priority List was revised to include any additional funds/projects that are eligible. We must clarify that most of the projects remain in the list as “overruns” due their high cost and or due to the limitation in the annual allotment, and thus, they required more funds in order to enable their completion. Nevertheless, as mentioned above, these projects will also be examined to determine changes due to resiliency actions that are still ongoing resulting from the hit of the hurricanes and or the earthquakes.

- Current in-house requests and subsequent new ones will be processed from the federal portion of the oldest grant and subsequent grants, being the 2017 grant the oldest one.
- DOH will focus on the ready-to-proceed projects and/or with the projects bypass procedures for projects not yet ready-to-proceed.
- DOH is in coordination/notification of these initiatives to the current and up to date sole “loanee” PRASA and, as of today, DOH is coordinating these activities directly with PRIFA.
- DOH will be monitoring how the ULO’s diminish and will evaluate the implementation of other alternatives and/or suggestions made by EPA to DOH as an ULO’s reduction plan.

It is important to know that now that the Program is fully restarted, DOH has continued the implementation of the ULO’s Reduction Strategy.

This Intended Use Plan (IUP) includes:

- an anticipated financing schedule for this IUP period;
- specifics on how DOH proposes to use available DWSRF funds as well as any ULO's that may be pending;
- a description of the goals (short and long term) of the DWSRF program;
- a description of the state DWSRF program's coordination of funding priorities with the state drinking water enforcement agency;
- a Project Readiness Priority List of eligible projects to receive DWSRF financing;
- a "Determination of Hardship Loan Subsidies to Projects" list including eligible drinking water disadvantaged communities and hardship projects to receive DWSRF financing;
- cost estimates for listed projects;
- an estimate of funds anticipated to be available for financial assistance;
- criteria for selecting projects to receive financial assistance;
- criteria for determining which communities qualify for hardship loan;
- criteria for determining systems qualifying for the additional subsidization if applicable;
- criteria for determining equivalency projects;
- the project scoring, ranking and selection system;
- a response to comments on the proposed ranking system;
- a discussion regarding the state's strategy to responsibly and expeditiously make use of set-asides un-liquidated funds from capitalization grants open;

- indication if the state is designating green projects and the method-criteria used for designating, if applicable;
- indication if the state accomplished all the previous Work Plan enumerated goals;

Concerning the activities as detailed in the work plan, most of them have been accomplished; others require additional time and as such was detailed in the corresponding work plan.

2.0 SHORT AND LONG-TERM GOALS

The DWSRF will help ensure that the Commonwealth's drinking water supply remain safe and affordable and that drinking water systems that receive funding will be properly operated and maintained. The objectives of the DWSRF program include achieving compliance with the SDWA, addressing public health priorities, assisting systems to ensure affordable water and maintaining the long-term viability of the Fund. It is also DOH's goal to maximize the amendments to the law and regulations in order to provide more benefits when undertaking drinking water infrastructure construction. As an example of this, DOH has been able to provide additional subsidies in order to avail the construction of infrastructure and thus provide the means to counteract the global economic distress/rescission.

Having received the approval of the revision of the Capacity Development Strategy to include the promotion of asset management in drinking water systems, DOH has proceeded to revise its priority ranking systems to include asset management by awarding additional points to those projects that are developing or using asset management plans.

2.1 Short-Term Goals

- Strengthen, establish and maintain a continuous technical assistance support process available to drinking water systems for availing compliance.
- Provide technical assistance to community water systems in their process of establishing asset management plans.
- Identify and determine feasible and affordable general compliance action plans available for systems implementation.
- Coordinate a mechanism or process for consolidating and/or eliminating existing non-viable small public drinking water systems.
- Use funds under the set-asides to establish a mechanism to assist and evaluate systems in order to improve their compliance and assure public health protection.
- Establish a technical and/or financial assistance mechanism to provide small systems that are in non-compliance, due to technical, financial and managerial reasons, with the necessary tools to foster compliance and access to funds and subsidies.
- Evaluate alternative solutions by assessing Best Management Practices (BMP) and Best Available Technology (BAT) to avail systems compliance.
- Promote in systems their development and use of asset management plans
- Maximize the use of funds under the BIL
- Increase investment in disadvantaged communities

- Increase low-cost financing for strengthening the existing drinking water infrastructure
- Promote resilience in drinking water systems
- Facilitate/promote the Construction of resilient infrastructure
- Provide feasible means of financing resilient infrastructure
- Address new and urgent water challenges.

2.2 Long-Term Goals

- Focus on providing assistance to systems that are in the process of attaining and maintaining capacity.
- Promote and maintain an infrastructure construction program for the drinking water facilities of the Commonwealth.
- Evaluate the DWSRF operating structure to ensure the program is administered in a manner that assures its revolving nature in perpetuity.
- Assist PRASA in their quest to improve drinking water quality and dependability in the Commonwealth.
- Improve and strengthen the drinking water systems of the island
- Promote construction of drinking water systems which are energy efficient and all weather resilient.

3.0 FINANCIAL STATUS/TOTAL DWSRF MONIES

As of today, after three years of cut-off, PRASA's debt restructure agreement was undertaken as of July 2019, and all pending cash draws then were executed restarting the program in full in this way. PRIFA is now the entity that will be executing these fund transfers for

projects, as well as for the set-asides. Since fiscal year 2018-19 there is a Trustee that is also participating in the payment, disbursement and flow of funds process. Therefore, after having restarted, the flow of funds the construction of drinking water infrastructure projects was resumed.

We must emphasize that notwithstanding the above, since the beginning of 2020 Puerto Rico and this Department has encountered serious and overwhelming challenges out of our control, including PRIFA's cash draw non-compliance and the reduced/slow participation of the construction industry.

Loans/Financial Agreements

PRIFA executed the Financial Agreement document for the use of the 2019 through 2021 grant funds on June 12, 2023. DOH prepared and submitted to PRIFA the financial agreement document for the use of the FY 2022 Base and BIL General Supplemental grant funds during the third quarter of FY 2023-24 and is still waiting for its execution. **Appendix I** – *“Tracking of Use of Federal Portion of Grants for Projects”* provides all the information related to available funds under each grant and detail tracking of its use.

The cash draw proportionality for FY 2023 funds will be 82.46% federal and 17.54% state match. Nonetheless, according to the [“Approval of Class Exception from the Clean Water and Drinking Water State Revolving Fund the Cash Draw Rules”](#) US EPA Memorandum dated November 2022, the requirement for states to draw SRF disbursement requests at a proportional federal to state ratio was eliminated. Thus, allowing States to draw federal funds at a ratio of 100% for disbursement to assistance recipients to cover incurred project costs, after States have deposited the appropriate state match into the fund. It is important to note that the funds

corresponding to the 20% state match in the amount of \$987,600 will be provided by the Office of Management and Budget of the Government of Puerto Rico.

Sources of Funds

Thus, in summary, during this fiscal year DOH's intention is to use funds as following:

SOURCES OF FUNDS	CAP. GRANT 2023	TOTAL
Grant Funds ^v	\$4,938,000	\$4,938,000
State Match	987,600	987,600
Repayment	6,500,000	6,500,000
Total Resources	\$12,425,600	\$12,425,600
USES SET-ASIDES** (ref. to Sec. 7, Set Asides, for detailed description of allocations)		
Administration (4%)	\$197,520	\$197,520
Technical Assistance (2%)	98,760	98,760
State Program Management (10%)	(BANKED) 493,800	(BANKED) 493,800
Total Set Asides	\$296,280	\$296,280
Amount available for Projects Financial Agreement		\$12,129,320
FINANCIAL AGREEMENT DISCLOSURE		
Mandatory 14% Congressional <u>Subsidy</u>		\$ 691,320
12-35% SDWA Disadvantage Communities Additional Subsidy		\$ 1,728,300
TOTAL AMOUNT FOR LOAN BY THE NOTE		\$ 9,709,700
^v Of the capitalization grant amount, the following two subsidies may be established as subsidized loan: the mandatory congressional (14%), and the limited 35%/disadvantage communities (no less than 12%, but no more than 35%, as per the AWIA 2018 and the Consolidated, 2022, 2023 amendments to the SDWA 1452(d)). [*] The 20% state matching funds in the amount of \$987,600 will be provided by the Office of Management and Budget of the Government of Puerto Rico. ^{**} The set-asides monies from FY 2023 were established as follows: 4% or \$197,520 for the Administration of the Program; 2% or \$98,760 for the Technical Assistance set-aside. ^{vv} The 10% or \$493,800 corresponding to the State Program Management set-aside was banked- DOH reserves the authority to take from future capitalization grants funds not requested under the State Program Management set-aside of the FYs 2020, 2021 and 2023.		

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Assistance to Small Systems (15%)

A state must annually use at least 15% of all funds credited to the fund account to provide loan assistance to systems serving fewer than 10,000 persons (Section 1452(a)(2)), to the extent that there is a sufficient number of eligible projects to fund. It is the Commonwealth's strategy to award loans to systems that eliminate or consolidate small systems serving a population of 10,000 or less. The following table presents a summary of the loan assistance provided by the Commonwealth to small systems since the inception of the Program.

ASSISTANCE TO SMALL SYSTEMS WITH POPULATION < 10,000				
Federal Fiscal Years	Executed Project Financial Assistance	Executed Project Financial Assistance to > 10,000	Executed Project Financial Assistance to < 10,000	Per cents
1997 – 2022 Base/BIL	\$ 451,599,621¹	\$390,232,506¹	\$46,886,079¹	10.38%¹
Base 2023	Cerro Marquez WDS	\$1,200,000		
	La Pepsi PS to Bayamon tanks		\$1,800,000	
	Pipe inst. & Tank elim. Dorado	\$1,000,000		
	Emerg. Gen. Almirante Sur WTP		\$1,322,500	
	Ponce Nueva WTP – II	\$1,806,820		
	La Piedra & Pasto Viejo WDS	\$1,000,000		
	Guajataca WTP Rehab.	\$3,000,000		
	Cidra Urbano WTP Rehab.	\$1,000,000		
SUBTOTAL	\$ 12,129,320	\$9,006,820	\$3,122,500	25.74%
TOTAL Accumulated	\$ 463,728,941	\$399,239,326	\$50,008,579	10.78%
Note: ARRA 2009 funds are not included. 1- Includes financial assistance awarded since program inception				

There are small systems that will not have the capacity to enter into a loan, thus, 15% will be limited. Notwithstanding, it is the strategy of the Commonwealth to fund those projects that eliminate or consolidate small systems that do not have the capacity to enter into a loan. Meanwhile, DOH is taking steps to capacitate small systems in order to enable them to have

technical, financial and managerial capacity to avail their ability to finance the construction of needed infrastructure that will warrant and provide compliance.

4.0 TYPES OF PROJECTS TO BE FUNDED

Projects eligible for DWSRF financing includes investments to upgrade or replace infrastructure, address exceeding federal or state health standards, prevent future violations of standards, and provide the public with safe drinking water. With the Bipartisan Act, 2018 implementation in fiscal year 2020, also resiliency projects may be eligible, particularly if these are related to the lead and copper rule. Examples of such projects are:

- green infrastructure projects to address water and energy efficiency improvements or other environmentally innovative activities;
- rehabilitation or development of new drinking water sources to replace contaminated supplies;
- installation or upgrading of facilities to improve the quality of drinking water in order to comply with primary or secondary standards and/or treatment/performance criteria;
- installation or upgrading of storage facilities, including finished water reservoirs to prevent microbiological contamination or to provide adequate delivery pressure;
- installation or replacement of transmission and distribution mains to prevent contamination caused by leaks or breaks;
- projects that promote the consolidation of water supply services, particularly in circumstances where generally the water supply is contaminated, or the system is unable to maintain adequate compliance for financial or managerial reasons;

- the purchase of a portion of another system's capacity, if the purchase is part of a consolidation plan to bring the system(s) into compliance;
- refinancing of any of the above listed project types which are publicly owned and were previously financed subsequent to July 1, 1993; and
- any eligible system or part of a system in conformance with the SDWA.

With the enactment of the AWIA two “possible” eligibilities have emerged:

- a. “to help address a threat to public health from heightened exposure to lead in drinking water or if a Federal or State emergency declaration has been issued due to a threat to public health from heightened exposure to lead in a municipal drinking water supply, (i.e., Complete service line replacement is defined by replacing pipes up to the point of premise plumbing. Service lines consist of a publicly owned section and a privately-owned section. The publicly owned portion of a service line is the section connected to the water main and running up to the property line. The privately-owned portion is the section running from the property line to connection to the premise plumbing (generally at an isolation valve). Replacement of the entire service line is DWSRF-eligible); and
- b. to assist areas affected by natural disasters where the definition of community water systems meaning is given in accordance to section 1401(15) of the SDWA (42U.S.C. 300f(15)) an eligible state means a state as defined by section 1401(13)(B) of the SDWA(42U.S.C. 300f(13)(B)) and eligible system means a community water system.” It is important to know that “replacing or rehabilitating aging treatment, storage or distribution facilities of public water

systems are DWSRF-eligible”. As indicated, “these activities were DWSRF-eligible prior to the AWIA amendments and are now spelled out in the SDWA.”

Outputs and Outcomes

The anticipated outputs and outcomes of the projects included in this Intended Use Plan are:

Outputs	Outcomes
Four (4) financial agreements *	Improve compliance for systems receiving DWSRF assistance
Increase the cumulative disbursement rate to 50% **	Increase the speed at which projects are proceeding towards completion
Increase cumulative projects completion to 50% **	Improve compliance with SDWA by increasing number of projects initiating operations
<p>* The loans corresponding to fiscal year capitalization grants 2022 for regular funds and BIL Supplemental are pending execution by PRIFA. The consolidated loan document corresponding to fiscal year 2022 for BIL Lead Service Line Replacement and Emerging Contaminants funds was drafted by DOH and submitted to PRASA for evaluation and processing. Other financial agreements will be drafted for BIL 2023 funds and SAHFI funds.</p> <p>**This FY reporting includes a <u>significant</u> increase in non-regular funds availability for PRDWSRF of approximately \$277M, reducing substantially the disbursement rate, which funds approximately 46 new projects, also lowering the project completion rate.</p>	

Following is the Priority List detailing all types of projects to be funded under this Intended Use Plan. The proposed project fund disbursement schedules are also presented.

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**Puerto Rico Department of Health
Drinking Water State Revolving Fund Program**

**PROJECT READINES LIST FISCAL YEAR 2023
(LIST AS PER ULO'S STRATEGY IMPLEMENTATION)
MAY 2024**

Name of Public Water System/ PWS I.D.	Priority		Project Description	Pop.	Read. date	Estimated Assistance (\$)	Estimated Project Cost	GPR Amt (\$) ^[1]	Additional Subsidy ^[2] (\$)
	Rank	Points							14% Congress Limited 35%
New CT / Distribution Tank FP Corozal (Termination), Corozal/ I.D. 5487(a)	1	241.17	Termination of New CT / Distribution Tank	6,363	2-21	3,680,000 ^[3]	3,895,360	0	0
Termination Juncos - Valenciano, Juncos I.D. 5166 (a)	2	240	Improvement to FP 7 MGD expansible to 15 MGD including 2 MGD tank	52,500	12-23	24,947,820 ^[3]	39,164,687	0	0
Coto Laurel WTP, Ponce/ I.D. 4524 (a)	3	155	Improv. to Coto Laurel Water Treatment Plant	14,060	10-20	14,343,911 ^[3]	12,489,930	0	0
Ponce Vieja WTP, Ponce/ I.D. 3824 (a)	4	120	Transfer line from Ponce Nueva FP to 4 MG tank (Elim. of Ponce Vieja FP)	170,075	12-24	23,364,479 ^[3]	29,383,079	0	0
Ponce Nueva WTP, Ponce/ I.D. 3824 (b)	4	120	Improvements to Ponce Nueva WTP	170,075	1-20	20,946,999 ^[3]	18,718,600	0	Δ
Guajataca WTP/ Isabela I.D. 3772	6	65.12	Rehabil. to Guajataca WTP	11,623	10-24	3,000,000	7,300,000	0	219,620
Culebrinas WTP, Ph I, Aguadilla/ I.D. 3293 (a)	7	65.00	Improv. to Raw Water Intake-WTP Culebrinas	142,486	9-20	6,164,240 ^[3]	8,969,228	0	0
Hatillo Raw Water Intake, Hatillo /I.D. 2662 (d)	8	60.04	Improvements-WFP - Raw Water Intake	39,200	10-20	8,068,894 ^[3]	8,433,688	Δ	0
Cidra Urbano, Cidra / I.D. 4695	9	55.31	Rehabil. to Cidra Urbano WTP	30,758	9-25	1,000,000	4,500,000	0	0
Ponce Nueva WTP (II), Ponce / I.D. 3824 (g)	10	35.69	Improvements to Ponce Nueva WTP (Phase II)	68,900	2-26	1,806,820	17,500,000	0	0

**Puerto Rico Department of Health
Drinking Water State Revolving Fund Program**

**PROJECT READINES LIST FISCAL YEAR 2023
(LIST AS PER ULO'S STRATEGY IMPLEMENTATION)
MAY 2024**

Name of Public Water System/ PWS I.D.	Priority		Project Description	Pop.	Read. date	Estimated Assistance (\$)	Estimated Project Cost	GPR Amt (\$) ^[1]	Additional Subsidy ^[2] (\$)
	Rank	Points							14% Congress Limited 35%
Cayey Urbano WDS, Cayey / I.D. 4635	11	35.00	Improv. To La Piedra & Pasto Viejo wards WDS	352	10-24	1,000,000	6,471,227	0	471,700 528,300
Toa Baja WDS, Toa Baja / I.D. 2591 (h)	12	30.08	Pepsi PS connection to Bayamon tanks	8,220	3-25	1,800,000	1,828,582	0	0
Cerro Márquez WDS, Arecibo/ I.D. 2652	11	30.00	Improv. To Cerro Márquez PS & Tank	81,548	3-23	5,200,000	5,223,063	0	1,200,000
Almirante Sur WTP, Vega Baja / I.D. 2982	12	20.02	New Emerg. Gener. at Almirante Sur WTP	2,554	3-25	1,322,500	1,322,544	0	0
Cerro Gordo Raw Water Intake, San Lorenzo / I.D. 5106 (a)	13	10.28	Improvements to Cerro Gordo Raw Water Intake	28,000	12-24	9,848,302 ^[3]	11,969,409	0	0
Cerro Gordo WTP, San Lorenzo/ I.D. 5106 (a)	14	15.00	Improvements to Cerro Gordo WTP	28,000	3-21	10,000,000 ^[3]	9,285,057	0	0
Termination of Toa Vaca WTP, Villalba / I.D. 3924	15	10.40	Improvements to new pre- sedimentation tank	40,000	6-20	7,014,108 ^{[3]+}	6,585,545	0	0

Puerto Rico Department of Health
Drinking Water State Revolving Fund Program

PROJECT READINES LIST FISCAL YEAR 2023
(LIST AS PER ULO'S STRATEGY IMPLEMENTATION)
MAY 2024

Name of Public Water System/ PWS I.D.	Priority		Project Description	Pop.	Read. date	Estimated Assistance (\$)	Estimated Project Cost	GPR Amt (\$) ^[1]	Additional Subsidy ^[2] (\$)
	Rank	Points							14% Congress Limited 35%
Dorado Urbano WDS, Dorado/ I.D. 5607	16	10.40	Pipe installation & Campo Traviesa Tank elimination, Dorado	39,962	11-25	1,000,000	8,963,202	0	0
					TOTAL	\$144,508,073^[4]	\$247,715,232	0	\$ 691,320
									\$1,728,300

^[1] No projects were identified for the use of the Green Projects Reserve of fiscal year **2023**.

^[2] The Consolidated, **2023** established the Additional Disadvantage Comm. Subsidy or Limited 35% Subsidy range as follows: not less than 12% or \$1,728,300 but not be more than 35% or \$1,728,300 to be awarded to the extent that there are sufficient loan applications. DOH will be establishing the maximum of 35% or \$1,728,300. A 14% Mandatory Congressional Subsidy or \$691,320 will be awarded with zero percent (0.0%) of interest rate and principal forgiveness.

^[3] *Project delayed with previous assistance assigned.*

^[4] Of this amount, \$12,129,320 is the only amount available for financing for FY 2023. This includes repayment monies in the amount of \$6,500,000. Projects to be financed with the FY 2023 funds are shown highlighted in **orange** and **bold** letters.

^Δ Projects that previously received assistance under the Green Project Reserve (GPR) or additional subsidization.

Puerto Rico Department of Health Drinking Water State Revolving Fund Program MULTI YEAR LIST - FISCAL YEAR 2023 BASE ALLOTMENT May 2024							
Name of Public Water System	PWS I.D.	Priority		Project Description	Pop.	Read. date	Estimated Project Cost
		Rank	Points				
Corozal Urbana WTP, Corozal ^[1]	5487	1	241	New CT / Distribution Tank Corozal	6,363	2-21	\$ 3,434,376
Las Marías, Phase IIB, Las Marías/ I.D.	3363 (c)	2	115	Improvements to Las Marías Water Distr. System	7,871	6-12	12,500,000
Aguadilla Urbano WTP Montaña Reservoir Dredging	3293	3	90	Sediment removal from the reservoir ponds of Montaña WTP- Aguadilla	124,044	1-21	3,000,000
Pugnado Adentro WDS	3882	4	55	Improvements to Pugnado Adentro WDS- Vega Baja	300	7-24	3,710,256
Salinas Fortunas WDS	3343 (a)	5	30	Replacement Salinas Fortunas WDS pipe- Lajas	400	4-29	486,210
Isabela Urbano WTP	2672	6	25.2	Rehabilitation of Isabela Urbano WTP- Isabela	20,550	4-29	7,192,058
Metro WDS - Hollywood Hills	2591 (l)	7	25.07	Diseño, Construcción y Mejoras Sistema Distribución AP Hollywood Hills, San Juan	6,625	2-27	2,382,925
Arecibo Urbano WDS	2652 (e)	8	20.6	Improvements to Matadero y Ojo de Agua wells, Arecibo	59,000	12-24	6,398,500
Cubuy WTP - PS	2611	9	20.27	Construcción de Estación de Bombas en la PF Cubuy, Canovanas	2,096	10-30	809,383
Central Roig and Guayanes dam	5196 (b)	10	20.15	Interconnection of Central Roig and Guayanes dam for Redundancy in Yabucoa Urbano WTP, Yabucoa	14,995	8-31	670,500
Jacanas 3 PS	5196 (c)	11	20.07	Rehabilitation and improvements to Jacanas PS (stage 3)- Yabucoa	662.5	12-33	916,830
Delfin Rivera Tank	3062	12	20.02	Rehabilitacion parcela Delfin Rivera tank, Utuado	2,120	4-30	241,330
Mercedita WDS	3824 (i)	13	20	D/B of hydropneumatic system and installation pipe in Mercedita ward, Ponce	66	10-29	240,550
Atalaya PS	3293 (d)	14	20	D/B PS with hydropneumatics in Atalaya ward, Aguada	47	5-29	201,731
Metro WDS - Bucarabones PS	2591 (k)	15	15.58	Diseño y Construcción Estación Bombas Bucarabones, Bayamón	58,000	5-32	479,800
Asomante	4545 (f)	16	15	Pipeline from La Plata WTP to Asomante ward, Aibonito	530	4-25	670,356

**Puerto Rico Department of Health
Drinking Water State Revolving Fund Program**

**MULTI YEAR LIST - FISCAL YEAR 2023 BASE ALLOTMENT
May 2024**

Name of Public Water System	PWS I.D.	Priority		Project Description	Pop.	Read. date	Estimated Project Cost
		Rank	Points				
Las Palmas tank	3373 (a)	17	10.1	D/B pipeline from Las Palmas tank to inters. PR-303 and PR-301, Cabo Rojo	10,000	3-25	344,226
Canta Sapo PS	2591 (j)	18	10.02	Elimination of Canta Sapo PS, Carolina	2501	5-29	802,281
Cidra Urbano Raw Water Intake Rincón Ward, PS (Rincon, Cidra) ^[2]	4695 (a)	19	10	Improvements to water intake PS at Rincón Ward	37,262	7-14	4,263,252
Toa Vaca RWI	3284	20	5.13	Repair pipes Toa Vaca RWI, Villalba	12,871	4-29	6,259,466
Vieques-Culebra WDS	5386 (c)	21	5.01	Inspection point rehabilitation, Naguabo	1,325	4-30	337,567
Río Añasco Raw Water Intake/ Pumping Station (emergency generator)	3283	22	5	Emergency generator facilities to the Río Añasco Raw Water Pumps Station that supply the Miradero WTP	88,144	1-22	3,000,000
						TOTAL	\$247,715,232

[1] The Corozal Urbano WTP project was eliminated from the funding list since PRASA declined from receiving funds from this closed contract so the money can be redistributed in projects that are ready to construct. Therefore, its previous assistance from FY 2019 and its reallocation funds available for projects, was distributed equally among the remaining projects.

[2] Previously known as Rincon-Cidra.

DISBURSEMENT SCHEDULES - PROJECTS DATA - BASE IUP FY 2023								
Project PWSID:	Project Name 2 + 3	Design Date	Construct. Starts	Construct. Ends	Operation Starts	Subsidy	Loan	Estimate Assistance ^[1]
2652	Cerro Márquez WDS, Arecibo	12-24	4-24	4-26	6-26	\$1,200,000	\$	\$ 1,200,000
2591h	Toa Baja WDS, Toa Baja	4-24	3-25	1-26	3-26	-	1,800,000	\$ 1,800,000
5607	Dorado Urbano WDS	11-24	11-25	7-27	9-27	-	1,000,000	\$ 1,000,000
2982	Almirante Sur WTP	1-24	3-25	5-26	7-26	-	1,322,500	\$ 1,322,500
3824 (g)	Ponce Nueva WTP- II	1-25	2-26	8-27	9-27	-	1,806,820	\$ 1,806,820
4635	Cayey Urbano WDS	10-22	10-24	2-26	4-26	1,000,000	-	\$ 1,000,000
3772	Guajataca WTP	9-23	5-25	8-27	10-27	219,620	2,780,380	\$ 3,000,000
4695	Cidra Urbano WTP	11-24	2-26	10-27	12-27	276,462	723,538	\$ 1,000,000
						\$ 2,696,082	\$9,433,238	\$ 12,129,320

ANTICIPATED DISBURSEMENT BASE IUP FY 2023											
Project Name	FY2025			FY 2026				FY 2027			TOTAL
	2 QTR	3 QTR	4 QTR	1 QTR	2 QTR	3 QTR	4 QTR	1 QTR	2 QTR	3 QTR	
Cerro Márquez WDS	\$250,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 50,000						\$ 1,200,000
Toa Baja WDS		\$ 350,000	\$ 450,000	\$ 450,000	\$ 350,000	\$ 200,000					\$ 1,800,000
Dorado Urbano WDS		\$ 250,000	\$ 300,000	\$ 300,000	\$ 150,000						\$ 1,000,000
Almirante Sur WTP		\$ 250,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 172,500					\$ 1,322,500
Ponce Nueva WTP- II						\$ 250,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 656,820	\$ 1,806,820
Cayey Urbano WDS	\$100,000	\$ 300,000	\$ 300,000	\$ 300,000							\$ 1,000,000
Guajataca WTP			\$ 300,000	\$ 350,000	\$ 350,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 3,000,000
Cidra Urbano WTP						\$ 250,000	\$ 300,000	\$ 300,000	\$ 150,000		\$ 1,000,000
	\$350,000	\$1,450,000	\$ 1,950,000	\$ 2,000,000	\$1,200,000	\$ 1,272,500	\$ 1,000,000	\$ 1,000,000	\$ 850,000	\$ 1,056,820	\$ 12,129,320

5.0 FINANCIAL PLANNING PROCESS

Projects can be submitted for listing at any time. A new IUP will be issued at least once a year and may be amended during the period that the IUP is in effect, providing that sufficient funds are available. Projects submitted for financing will be screened for eligibility, ranked, scored and listed. All eligible projects for which pre-application forms have been submitted and reviewed will be included on the Project Priority List. Projects ready for financing will be listed on the project Readiness List. Direct loans will be originated throughout the year. Concerning the grant payments schedule, it will be discussed/agreed with EPA.

Section 1452 (e) and (g)(2) provides for the establishment of program administrative fees which may be assessed on a recipient of a loan, and these must be deposited into the Fund or into an account outside the Fund. DOH may determine to establish this fee, and may be requesting PRIFA to establish it and may be requesting to the Puerto Rico Finance Advisory Authority and Fiscal Agency (PRFAAFA) to assess borrowers' financial capacity to pay it. Currently PRASA has been the only borrower to the DWSRF. In addition, should DOH determine its establishment, this Department will be requesting that such fee shall be deposited into an account outside the Fund for its use only for the purposes for which the capitalization grant is awarded under Section 1452 (e) of the SDWA or for state match. Thus, should it be DOH's determination to such establishment, then, in addition to the payments required in the Financial Agreement, borrower shall pay an administration fee payable at the closing date of the Agreement. For this current fiscal year funds (FY 2023) this fee is one-half (0.5%) percent of the loan amount for a total of \$48,548 which will be deposited by the PRIFA, outside the Fund, in a separate Interest-Bearing Account. It is the intention of this Department to use these funds

together with the interests earned, within other purposes, for state match. The establishment of this fee is subject to PRIFA and PRFAFAA financial evaluation and determination.

6.0 TYPES OF ASSISTANCE AND FINANCIAL TERMS

DOH certified that only the types of assistance, Terms and Conditions authorized under the SDWA as amended, will be awarded from the DWSRF. The amounts deposited into a State loan fund under this section may be used only:

- (1) to make loans, on the condition that
 - (A) the interest rate for each loan is less than or equal to the market interest rate, including an interest free loan;
 - (B) principal and interest payments on each loan will commence not later than *18 months* after completion of the project for which the loan was made;
 - (C) each loan will be fully *amortized* not later than 30 years after the completion of the project, except that in the case of a disadvantaged community (as defined in subsection (d)(3)) a State may provide an extended term for a loan, if the extended term
 - (i) terminates not later than the date that is 40 years after the date of project completion; and
 - (ii) does not exceed the expected design life of the project;
 - (D) the recipient of each loan will establish a dedicated source of revenue (or, in the case of a privately owned system, demonstrate that there is adequate security) for the repayment of the loan; and

- (E) the State loan fund will be credited with all payments of principal and interest on each loan;
- (2) to buy or refinance the debt obligation of a municipality or an inter-municipal or interstate agency within the State at an interest rate that is less than or equal to the market interest rate in any case in which a debt obligation is incurred after July 1, 1993;
- (3) to guarantee, or purchase insurance for, a local obligation (all of the proceeds of which finance a project eligible for assistance under this section) if the guarantee or purchase would improve credit market access or reduce the interest rate applicable to the obligation;
- (4) as a source of revenue or security for the payment of principal and interest on revenue or general obligation bonds issued by the State if the proceeds of the sale of the bonds will be deposited into the State loan fund; and
- (5) to earn interest on the amounts deposited into the State loan fund.”

In summary, this section “extends the maximum-authorized DWSRF loan amortization period up to 30 years for any DWSRF-eligible recipient or up to 40 years for state-defined disadvantaged communities, or design life, whichever is shorter. This section also extends the authorized loan repayment initiation up to 18 months after project completion, an increase from the AWIA pre-authorization of 12 months.” DOH will determine the financing term according to the design life/useful life of the infrastructure of the project and/or an average of the design/useful life of the project’s components.

The amendments to the laws have changed the loan terms to 30 years or useful life of the project’s components and changes also the loan terms when using the Hardship

Loans/Affordability Criteria for Disadvantaged Systems. Thus, due to the above-mentioned it cannot be disregarded that financial terms may vary for the loans that will be executed and that are impacted by the different year's applicable laws. Therefore, for these years there might be a change in the terms and conditions of the Financial Agreements that will be executed, and these also may consider grant condition established by EPA.

Capitalization Grants will be used to provide the following types of financial assistance:

6.1 Direct Loans

Based on an economic and financial analysis conducted on behalf of DOH by Puerto Rico Infrastructure Financing Authority (PRIFA), in coordination with PRFAFAA, loan agreements will be executed with qualified borrower at a negotiated interest rate. Historically, the direct loan interest rate has been 2% and the financing term has been 20 years. This changed for PRASA with PRASA 's debt restructure. Additionally, the AWIA provided for a change in the financing term to 30 years, in the case of the disadvantaged communities, to 40 years and/or design life of the project's components. These may vary as a result of a financial analysis to be undertaken. As previously stated, the financial agreement corresponding to the FY-2019 through 2021 funds was executed in June 12, 2023. Currently the financial agreement for the funds of fiscal year 2022 is being prepared and the expectation for execution is on or before June 2024. It must be noted that it has to be approved by several agencies and by PROMESA.

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6.2 Refinancing

In accordance with Section 1452 (f)(2) of the SDWA, local debt obligations may be purchased or refinanced at or below market rates, where the initial debt was incurred, and construction initiated after July 1, 1993.

6.3 Hardship Loans/Affordability Criteria for Disadvantaged Systems

The Commonwealth may determine if hardship loans will be made available to borrowers and the rate at which (below the regular reduced rate) these will be executed. Affordability criteria (*refer to section 8.0*) will help to determine the hardship loan rate, which may be as low as zero percent.

6.4 Additional Subsidization

DOH has determined to provide in this Intended Use Plan the additional Congressional subsidy of fourteen percent (14%) (\$691,320) of the FY 2023 capitalization grant to provide additional subsidization (mandatory congressional 14% subsidy) with zero percent (0.0%) of interest rate and principal forgiveness.

The recipient of the grant must identify projects within at least one of the following qualifying categories in order to receive points under the additional mandatory congressional_14% subsidy criterion:

- a) projects that will eliminate or consolidate small system – 3 points
- b) projects that support sustainable systems and help build or maintain the technical, financial and managerial capacity of the recipient – 2 points

c) systems related to communities or directly serving a community that could not otherwise afford the DWSRF loan including disadvantaged communities as defined by the Commonwealth – 1 point

When applicable, if the Act provides for a range in the percent to be established, and if there are more projects that could be identified under one or more of the above-mentioned categories, for each additional remaining category the percent will increase by 5%.

The mandatory congressional 14% subsidy will be distributed until the subsidized amount is completely used and among the eligible projects See **Appendix II** - Additional Mandatory Congressional Subsidy and Limited 35% Subsidy/Disadvantaged Community Calculation and Ranking Methodology) as follows:

- to project(s) by priority order and the qualifying category and until the subsidized amount is completely used.

Please note that, notwithstanding the distributed amount by the above priorities, the subsidized amount could be re-awarded due to unforeseen circumstances (i.e. projects delayed, among others). The re-award may be in any of the following manners and until the subsidized amount is used:

- to project(s) by priority order and the qualifying category,
- directly to the project(s) identified within the qualifying categories,
- the project(s) first received and ready to go,
- the most expensive project(s).

6.5 Leveraging

The Commonwealth of Puerto Rico may consider leveraging in order to increase the amount of funds available to finance infrastructure projects. If leveraging is undertaken, it will be indicated in the IUP and the applicable grant application and will be structured in accordance with the requirement of the Act and the DWSRF final guidelines.

6.6 Repayments

It is important to note that since the Program began to receive repayments of loans awarded these have been included in the loans approved and awarded annually in loans and or financial agreements. During the years of the cut-off, these funds were not available for disbursement for drinking water infrastructure. Nevertheless, since fiscal year 2018, these repayment monies have been available and have been awarded under financial agreements.

6.7 Other Authorized Activities and Clean, Safe, Reliable Water Infrastructure

Section 1452(k) of the SDWA authorizes states to use up to 15% of the annual federal capitalization grant for land acquisition, capacity development projects, wellhead protection, and source water petition. No more than 10% of the federal capitalization grant can be allotted to any one of these activities. At the time of this IUP, Puerto Rico is not proposing to take or use any of the set-aside funds from this current FFY funding cycle's DWSRF capitalization grant for these programs.

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7.0 SET-ASIDE ACTIVITIES

Section 1452 of the SDWA authorizes states to use a portion (set-asides) of the federal Capitalization Grant to support various drinking water programs. Section 1452 allows as much as 31% of a State's Federal Capitalization Grant to be used for administrative assistance, technical assistance, public water supply supervision and special activities.

7.1 Administrative Assistance

The SDWA authorizes states to take up to 4% of the total annual Federal Capitalization Grant (as provided in Section 130 of the SDWA amendments of 1996) to support the cost of administering the DWSRF program. Nonetheless, WIIN §2103 provides the following: “providing states with two additional options to identify the maximum allowable Administration and Technical Assistance (4%) set aside that can be reserved for capitalization grants awarded after December 16, 2016. States may take up to 400,000, 1/5 of a percent of the current valuation of the fund, or 4% of capitalization grants awarded whichever is greater.” The Commonwealth of Puerto Rico will be using the 4% or \$197,520 of the FY 2023 Capitalization Grant corresponding to the Administrative Set-aside. Administrative tasks are undertaken, mainly on an annual basis, and include, but are not limited to:

- implementing the Operating Agreement between DOH and the United States Environmental Protection Agency (EPA);
- developing and finalizing a Capitalization Grant application package to secure federal funds;
- performing project technical reviews; ranking project proposals in priority order;

- preparing an IUP which identifies available funding resources and expenditures and establishes a readiness fundable priority list (current year) and multi-year project priority list;
- implementing a State Environmental Review Process (SERP)² as required; reviewing and approving engineering reports, construction plans and specifications; conducting project inspections;
- evaluating and determining project affordability (hardship); conducting public participation efforts and hearings;
- tracking systems; directing the investment of DWSRF funds; preparing project financing and loan agreements (including cost summaries and project financing schedules);
- preparing necessary financial documents; originating loans; processing disbursement request and conducting associated document review; collecting and managing loan repayments;
- establishing and collecting loan fees; ensuring that program and fiscal audits are conducted; preparing necessary cash draw requests and preparing technical and financial reports to meet federal and state mandates;

² Delegated by Law of the Commonwealth, the Office of Permits Management (OGPe) will be undertaking certain activities that were undertaken by the Environmental Quality Board. We have to point out that The Commonwealth of Puerto Rico through “Puerto Rico Permit Process Reform Act, Act No. 161 of December 01, 2009, as amended,” the process included in REPED (“Environmental Quality Board Regulation for the Presentation, Evaluation and Transmittal Process of Environmental Documents” (REPED)) states that the Permit Management Office (PMO) will undertake the assessment of the environmental compliance process. This regulation as approved provides an assessment process pursuant to Environmental Policy Act (NEPA), performing substantially similar to Puerto Rico Regulation for Environmental Impact Statements. The process was design in accordance with the Environmental Public Policy Act of Puerto Rico, Act No. 416 of September 22, 2004, as amended.

- preparing reports for the compliance with program requirements and grant conditions; and
- initiating the implementation of the asset management promotion in community drinking water systems and assisting them in their development of the asset management plan.

7.2 Technical Assistance

Section 1452 (g)(2)(D) of the SDWA authorizes states to take up to 2% of the total annual Capitalization Grant to provide technical assistance to small water systems (those with population of 10,000 or less). The Commonwealth of Puerto Rico will be using the 2% or \$98,760 of the FY 2023 Capitalization Grant corresponding to the technical set-aside. The technical assistance may include assistance to potential loan recipients complying with national and state drinking water regulations. It is essential to continue expanding the technical assistance provided and explore new mechanisms and programs to address the needs of small systems. With the collaboration of public and private entities these activities may be undertaken to provide direct assistance to selected or specific communities. DOH will also use the resources under the technical assistance set aside to assist drinking water systems in their process of developing their asset management plan.

As stated, the Technical Assistance Support (TAS) (See ***Attachment I***) established by DOH as part of Puerto Rico's Drinking Water Program will provide, in an organized manner, the assistance that drinking water systems need in concert with other

Commonwealth assistance initiatives. The purpose of the TAS is to use the DWSRF and set asides limited resources effectively and efficiently. Though the TAS has the following priorities:

- Capacity Development Program,
- Area–Wide Optimization Program,
- Circuit Rider Program.

During this year, DOH will continue directing its exertions towards activities on Capacity Development and Circuit Rider in an effort to cope and to certain extent harmonize DOH’s TAS with the Sustainability Policy (the Policy). Also, DOH understands that it is necessary to continue the implementation of the TAS and in this process evaluate/revise it or undertake minor changes that will take into consideration the Policy to the extent of the availability of funds.

DOH will also, under the TAS, direct its exertions toward the promotion on the drinking water systems of the use and establishment of asset management plans. Under this form of providing assistance, we have revised the Capacity Development Strategy, and we incorporated the promotion of the use of asset management plans by the system. We will be providing assistance simultaneously to the systems in the understanding of the benefits of asset management.

We will use also the small systems CPE or the “Adapted CPE” to assist systems with the asset management.

Concerning the Circuit Riders Program, the programming of the implementation in other systems is expected in order to continue expanding it. DOH will continue the

expansion of the two concepts of Capacity and Circuit Rider to other systems, where these concepts are mingled in order to provide technical assistance. DOH will be using also this concept during the promotion and assistance to systems in their implementation of asset management.

It is the Commonwealth's intention to increase the number of available sources or providers of technical assistance to small systems in order to outreach a greater number of systems, increase the number of systems that are in the process of attaining compliance, increase the number of systems/communities that are benefited through the targeting of subsidies; improve systems compliance and operation, increase knowledge of the need to comply with the SDWA, improve and maintain the quality of water served, and thus, ultimately, protect the public health.

The following table presents the funds available from previous grants, the funds certified for cash draws by the Department of Health and cash draws executed for the technical set-aside as of September 30, 2023.

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Set-aside*	Previous Awards ^Δ	Cash Draw as of September 30, 2023	Obligations	Available
Technical**	\$5,023,724	+ \$4,417,574.18	\$606,209.82	\$0.00
State Program Management ^{Δ Δ}	\$921,020	∞\$59,047.42	\$863,972.58	\$0.00

* There is no work plan required for administrative set-aside. The Commonwealth of Puerto Rico will be using the amount of \$280,320 or 4% of the \$7,008,000 allotment corresponding to the FFY 2022 Capitalization Grant for the administrative set aside.

^Δ This amount includes FY 2019 capitalization grant technical set-aside. FY 2020 and 2021 funds for the TA set- aside were banked. **

** The Commonwealth of Puerto Rico will establish the amount of \$140,160 or 2% of the \$7,008,000 allotment corresponding to the FFY 2022 Base Capitalization Grant for the technical assistance set aside.

^{ΔΔ} Also, a 10% or \$700,800 will be established for the State Program Management set-aside during FY 2022. DOH reserves the authority to take from future capitalization grants funds not requested at this time from this capitalization grant.

+This amount includes cash draws in process before September 30, 2023.

∞ As of September 30, 2023, cash draws in the amount of \$67,545.40 for the State Program Management have been evaluated and certified. It must be noted that the cash draw execution was possible after October 2022 when certain difficulties with the grant were resolved. Of this, \$57,047.42 have been executed by PRIFA.

The following notes corresponds to the set-asides determination for the FY 2023 Base Allotment:

* There is no work plan required for administrative set-aside. The Commonwealth of Puerto Rico will be using the amount of \$197,520 or 4% of the \$4,938,000 allotment corresponding to the FFY 2023 Capitalization Grant for the administrative set aside.

^Δ This amount includes FY 2021 capitalization grant technical set-aside.

** The Commonwealth of Puerto Rico will establish the amount of \$98,760 or 2% of the \$4,938,000 allotment corresponding to the FFY 2023 Capitalization Grant for the Technical Assistance set aside.

^{ΔΔ} The State Program Management set-aside 10% or \$493,800 corresponding to the FY 2023 capitalization grant will be banked. DOH reserves the authority to take from future capitalization grants funds corresponding to funds not requested at this time from this capitalization grant for the State Program Management set-aside.

7.3 Small Water Systems (Non-PRASA)

DOH has an existing a small water systems program (Non-PRASA). The DOH Non-PRASA Program provides technical assistance and guidance to communities by considering project alternatives, determining project priorities, and advising communities on selecting the simplest project, using volunteers and avoiding duplication of services.

The activities to be undertaken include:

- acquiring, training and orienting new program staff;

- holding community meetings to explain the Non-PRASA program and its advantages;
- upgrading the record keeping system to facilitate periodic status reports;
- train and certify if necessary existing staff as certified operators;
- making equipment available when needed,
- holding at least one workshop per year on troubleshooting techniques will be necessary.
- assignment of existing staff to provide training and orientation to systems owners or operators;
- assist systems' owners in order to facilitate the certification of the operator; and
- now with the revision of the capacity strategy for the inclusion and promotion of asset management in the drinking water systems, this Department will undertake said revision for the inclusion of said promotion in the systems for the development and use of asset management plan and will provide assistance to them in their process of undertaking the preparation and the implementation of their asset management plan.

This highly successful Program needs to be expanded to service more systems and to provide uniform coverage within the Commonwealth in their process of attaining compliance. For this reason, other private or Commonwealth agencies may be used to

provide technical assistance for aspects of management and coordination of small community drinking water projects, in accordance with the existing Non-PRASA Program.

It is necessary to continue expanding and outreaching the number of communities that are being evaluated and are receiving technical assistance for financial and managerial aspects of capacity development, in order to improve the quality of the water served by the Non-PRASA systems and, thus, attain compliance. Now with the new tool of asset management available to the systems DOH will engage in the promotion in the systems as an enhancement to the assistance that is provided to them.

As it has been stated, since the inception of the Program, the goal of the technical assistance initiative is to provide assistance to small public water systems to enable such systems to achieve and maintain compliance with applicable national and state drinking water regulations.

The Commonwealth has used this set-aside to provide technical assistance, among other things, by performing Comprehensive Performance Evaluations (CPE)³ and by implementing the Small Systems Strategy, in order to provide the drinking water systems with different assistance mechanism to bring into compliance. This assistance will be directed towards addressing the technical, financial, and managerial issues necessary to attain compliance. DOH will continue using it as a tool in the Area Wide Optimization Program. The optimization of systems is also considered in their evaluation. Moreover,

³ Including the adapted CPE for small systems.

DOH will expand the outreach to other systems and will continue implementing the use of the small systems CPE methodology previously validated.

Nevertheless, we cannot disregard the fact that currently we are still under resiliency actions as the result of hurricane Fiona that hit the Island in FY 2022. The promotion of asset management will be a very difficult process because the systems are still recovering from the hit of the hurricane Fiona. Their recovery is the first priority and possibly asset management implementation will be in a second or third position. Technical assistance using CPEs will also be undertaken during this year to the extent possible. Thus, it is the intention of DOH to continue with a private entity the use of the CPE and their enhancement by performing Sanitary Surveys together with surveillance monitoring where these three approaches will be combined.

DOH will continue this oversight to the systems that were subject to sanitary survey and were evaluated taking into account within others the optimization of the system and will continue providing follow-up and guidance in the implementation of their compliance action plans in order to provide the tools for optimizing them and re-enforce the maintenance and/or attainment of capacity. DOH in an effort to provide technical assistance and determine specific factors that may cause or will end in the potential non-compliance of a system, will direct its exertions to enter into contracts with private entities that will be undertaking sanitary surveys. DOH initiated this process a few years ago by coordinating with the PWSS program and providing support to them while assistance is also given to the systems by using the adapted CPE. This process and

assistance have been affected and/or delayed by all the factors previously discussed. Due to the fragile electric power infrastructure:

The primary goal of the CPE is to review and evaluate the capabilities of an existing treatment facility to determine if it is meeting current standards and performance goals. In addition, the CPEs will assess whether the optimization of facilities will assure compliance with current and future standards and regulations.

PRASA's systems are more complex but DOH will also engage in promoting the use of asset management in them but we must emphasize that after the hit of hurricane Fiona the priority is to rehabilitate the infrastructure and provide potable water, something that has not been possible as fast as needed due to the damage to main intakes and the lack of electric power and generators.

7.4 State Program Management

The SDWA authorizes states to take up to 10% of the total annual Capitalization Grant to support State Program Management activities, including implementation of an Operator Certification Program and a Capacity Development Strategy. For this fiscal year this set-aside will not be established. Thus, this Department reserves the authority to take from future capitalization grants the funds not requested at this time. DOH's expectation is to complete the activities started and give support to the PWSS in the assistance provided to the drinking water systems. DOH may also use these funds to promote asset management in the community water systems.

The amounts estimated were revised in order to use the funds in three phases, thus, using the remaining balances of funds of previous years under the technical

assistance set-aside, mainly. Details are provided in the Set-aside Work Plan submitted in June 2021, June 2022, and June 2023. The use of funds assigned for fiscal year 2023 is as follows:

- the first phase will continue with the use of remaining funds from fiscal years 2014, 2015 and 2016, thus, an estimate of \$313,272 will be cash drawn based on activities undertaken. We must note that development of activities is also delayed and may continue as such due to the coronavirus pandemic, the general fiscal situation of the government, thus, the use of funds is also delayed due to the prevailing situation. As of June 30, 2023, *\$87,448.92 remains to be cash drawn.*
- the second phase will continue with the use of remaining funds from fiscal years 2017 and 2018, thus, an estimate of \$229,737–will be cash drawn based on activities undertaken. As of June 30, 2023, *\$158,420 remains to be cash drawn.*
- the third phase will continue with the use of remaining funds from fiscal year 2019, thus, an estate of \$294,893 will be cash drawn based on activities undertaken. *As of June 30, 2023, this total amount remains to be cash drawn.*

It is important to emphasize that the use of funds may vary based on activities undertaken during the project period. Monthly visits will be undertaken to each system during the project period, at least one visit during the project period.

7.4.1 Operator Certification Program

The Commonwealth of Puerto Rico, through DOH and the Puerto Rico Department of State, State Drinking Water Treatment Plant Operator Certification Board (the Board) established the Operator Certification Program for Drinking

Water Systems, in accordance with the SDWA, which was approved by EPA on September 2002. Puerto Rico has been implementing this Program since its approval. The federal law also authorizes \$30 million nationally, annually, to support reimbursement of expenses for the training of non-salaried operators at water systems with populations of 3,300 or less people. EPA approved the reimbursement grant on September 30, 2003.

DOH will continue promoting awareness of upcoming regulations in order to ensure adequate operation, reduce system's non-compliance, and expand the training resources available in an effort to improve pass/fail rates of operators taking licensing tests, thus, fostering systems' compliance by implementing the OCP. Meetings with the Existing Board on Operators Certification will continue. Orientation, training and certification of new technical staff concerning operation certification requirements and compliance with the SDWA will provide continuous support/assistance to systems subject to the training plan.

DOH goals for the Operator Certification Program are: to review the adequacy of existing training programs as to the geographic distribution and quality of the training provided; to address the training needs of the operators who will need to be certified in the next few years by outreaching systems and making them available the trainings and compliance requirements and to implement the reimbursement grant to assist systems operators in their training certification process, in order to attain compliance and train and certify staff as

operators which in turn that can continue providing oversight for future operators' compliance with the license requirements.

Also, through technical assistance DOH will, to the extent possible, continue providing funds for the certification and examination of operators of small drinking water systems. To this effect DOH has undertaken a pilot project for this purpose partially financed with the 2% or \$220,220 established during FY 2020 for the State Program Management and for FY 2022, a 10% of \$700,800 to be used, among others, to provide assistance and promote the use of asset management plan from the operator certification standpoint.

7.4.2 Capacity Development Program

The goals of the Capacity Development Strategy are to discourage the formation of new, small, non-viable public water systems, and to assist and encourage the consolidation, collaboration and regionalization of existing non-viable systems. **Attachment II** (*Capacity Development Program*) summarizes the Capacity Development elements considered when assessing Capacity.

In order to continue meeting federal capacity development requirements, the DOH, has established certain strategies and is undertaking activities such as, the evaluation of new public water systems with the capacity development checklist developed by DOH (See **Attachment III** - Checklist Capacity Development Program New Drinking Water System Capacity Assurance Plan), and the economic assessment of viability of proposed systems. Also, DOH continues the search and identification of those agencies and institutions whether private or public

including non-profit organizations that would have an interest in the development and implementation of a capacity development strategy.

As stated previously, DOH will, to the extent possible, continue providing assistance with the intention of conducting systems towards compliance with the Capacity Development Program and increase the number of systems in compliance with the SDWA. This will be undertaken, through several approaches and contract undertakings, as well as through the regular compliance assistance.

Annually in a feedback process DOH and EPA coordinate and revise the status of certain systems as requested by EPA where their status is examined as well as the assistance activities, and efforts provided in order to return them to compliance. Thus, last year the capacity development strategy was revised to incorporate the promotion of asset management in drinking water systems. The approval of the Strategy was received in March 2023.

7.5 Special Activities Local Assistance and Other State Program Up to 15% No More Than 10% Activity

Section 1452(k) of the SDWA authorizes states to take up to 15% of the annual Capitalization Grant to assist in the development and implementation of local drinking water protection initiatives by providing assistance in the form of loans for land acquisition and source water petitions projects. No more than 10% of the Capitalization Grant can be allotted to any one of these special activities. The Commonwealth is not proposing to take or use any of the allotted set-aside funds from the FY 2022 DWSRF Capitalization Grant for the following programs.

7.5.1 Land Acquisition

Funds in the DWSRF can be used to purchase land integral to the construction of facilities, but not for other purposes such as watershed protection. A separate 10% set-aside could be used to establish a separate low-interest loan fund for land acquisition, particularly for watershed protection. The Commonwealth is not proposing to create such a loan fund at this time. There may be other existing programs that may be used to purchase sensitive watershed lands.

7.5.2 Capacity Strategy

The Commonwealth has used a portion of the allotted State Program Management set-aside to develop a Commonwealth Capacity Development Strategy. DOH, based on information available from other Commonwealth agencies, developed the necessary strategies of capacity development in the Commonwealth, including, without limitation, legislative, regulatory and program changes to prevent the creation of non-viable public water supplies and address existing non-viable public water supplies in the Commonwealth.

We have to point out that the amendments to the DWSRF Act provide new insight to the Capacity Development Strategy as a mean to assist systems in their compliance and sustainability process. To this effect the following amendments were enacted:

AWIA, §2012: Asset Management

This section amends the SDWA § 1420, which requires the EPA and states to help water systems develop financial, managerial, and technical capacity. It is the understanding that States may not provide DWSRF loan assistance to systems that lack these capabilities, unless such assistance will help them achieve capacity in accordance to SDWA §1452(a)(3)(A) the subsection changed were §1420 (c) and (d). Under 1420(c)(2) a new section was added: *(F) a description of how the State will, as appropriate-*

- (i) encourage development by public water systems of asset management plans that include best practices for asset management; and*
- (ii) assist, including through the provision of technical assistance, public water systems in training operators or other relevant and appropriate persons in implementing such asset management plans.”*

Understanding the importance of asset management with drinking water systems, this Department revised the Strategy and proposed mechanism of compliance with the asset management promotion. We have detailed in several occasions and discussed with EPA how DOH intends to and is undertaking this revision. The revision was provided in a separate self-sustaining document based on the fact that Puerto Rico’s Strategy is composed of two separate strategies: one for addressing PRASA systems under a court order consent decree and one for addressing non PRASA systems which was revised few years ago.

Also, under section (3) the following related to the reporting must be included in the Report to the Governor *“efforts of the State to encourage development by public water systems of asset management plans and to assist public water systems in training relevant and appropriate persons in implementing such asset management plans.”*⁴

In regard to section (d) Federal Assistance a number 5 is added reading as follows:

“(5) Information on asset management practices

Not later than 5 years after October 23, 2018, and not less often than every 5 years thereafter, the Administrator shall review and, if appropriate, update educational materials, including handbooks, training materials, and technical information, made available by the Administrator to owners, managers, and operators of public water systems, local officials, technical assistance providers (including nonprofit water associations), and State personnel concerning best practices for asset management strategies that may be used by public water systems.”

Note that asset management plans (as part of planning and design) and related system software are eligible capital expenses as part of a DWSRF infrastructure loan. The development and implementation of asset management plans for communities are also eligible expenses under

⁴ DOH complied with these requirements in 2023 in the Report to the Governor.

the 15% Local Assistance and Other State Programs set-aside (for Capacity Development).

7.5.3 Source Water Petitions

As part of the State's Source Water Assessment and Delineation Program, the Commonwealth will assess variety of options for improving source water protection throughout the Commonwealth. The source water petition program outline in the SDWA is one such option. It would be premature to develop a loan program to fund source water petition partnerships before this assessment is completed and released to the public.

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SET-ASIDES STATE REVOLVING FUND				
SET-ASIDES	SDWA	FFY 2023 MAXIMUM ALLOCATION	COMMONWEALTH of Puerto Rico	FFY 2023*
Administration**	4%	\$197,520	4%	\$197,520
DOH & PRIFA				
Technical Assistance ***	2%	98,760	2%	98,760
Management Programs ∞ (No Dollar-to-Dollar Match requirement)† BANKED	10%	493,800	10%	493,800
Capacity Development	0%	0	0%	0
Operator Certification	0%	0	0%	0
Special Activity Set-Asides (No banking allowed. No more than 10% for any individual component under this set- aside)	15%	740,700	0%	0
Land Acquisition	(10%)	(493,800)	(0%)	0
Capacity Strategy	(10%)	(493,800)	(0%)	0
SW Petition Programs	(10%)	(493,800)	(0%)	0
Total Set Asides Established	31%	\$1,530,780	16 %	\$296,280
<p>* Based on an appropriation of \$4,938,000.</p> <p>** DOH will use 4% for the administrative set-aside.</p> <p>*** DOH will establish 2% or \$98,760 of the Technical Assistance set aside from the 2023 capitalization grant.</p> <p>∞ DOH will banked the available 10% of the State Program Management set aside in the amount of \$493,800 from the 2023 capitalization grant. DOH reserves the right to take from future capitalization grants the remaining amount from FY 2023 Capitalization Grant under the set-aside.</p> <p>† It is important to emphasize that since fiscal year 2017, match for the State Program Management set aside was eliminated for capitalization grants awarded after the WIIN Act's passage (December 6, 2016).</p>				

8.0 DISADVANTAGED COMMUNITY PROGRAM

8.1 Definition of Disadvantaged Community

“Pursuant to 40 CFR § 35.3555 the IUP must describe how a state’s disadvantaged community program will operate including the state’s definition of a disadvantaged community, a description of affordability criteria used to determine the amount of disadvantage assistance, the amount and type of loan subsidies that may be made available to disadvantaged communities and an identification of projects that will receive disadvantaged assistance and their respective amounts”. Thus, as defined by 1452(d)(3) of the SDWA, a disadvantaged community is one in which the service area of a public water system meets affordability criteria established after public review and comment by the State in which the public water system is located. In the Commonwealth, drinking water projects will be reviewed to determine funding eligibility and scored based on an established priority ranking system.

DOH will consider a disadvantaged system those systems are serving 25 or more persons or 15 or more connections for more than 60 consecutive days and may or may not be connected to a PRASA system whether or not in the next 5 years and may or may not be considered isolated due to their topographic condition. Thus, a disadvantaged system are those systems that meet the affordability criteria. The Project may not be segmented. Refinancing is eligible through the regular subsidized DWSRF Program if qualified as stated in the DWSRF. However, hardship financial assistance is only available for new Drinking Water Projects for which the notice of construction was given on or after July 1, 1993.

In the Commonwealth, drinking water projects will be reviewed to determine funding eligibility and scored based on an established priority ranking system. Communities whose water projects are ranked high enough will be evaluated for hardship based upon a comparison of projected and programmed service charges (total debt service plus operation and maintenance costs) for a typical household expressed as percentage of Median Household Income Levels (MHIL) for the service area. The DWSRF may provide additional financial assistance to water systems serving communities experiencing economic hardship. Additional financial assistance will be accomplished by first reducing the interest rate as necessary to lower the projected service charge to the Proposed Service Charge (PSC). Other financial mechanisms such as principal subsidy or forty (40) years loan terms (or design life/useful life (or design life), may be available to provide increased financial benefits. For this FY 2023 year, we established it considering that by law this benefit for disadvantage communities have increased.

- Projects which qualify for financial hardship assistance will be provided with written confirmation letters and in future IUP periods placed on the Multi-Year priority list as Hardship Loans.
- Written hardship confirmation will be limited to projects that have a total numerical score greater than (or equal to) the project with the lowest score (excluding bonus points) eligible to be funded from the current multi-year list.
- Hardship projects with this score or higher will be selected from the Multi-Year List.

- Written qualification for financial hardship assistance will remain valid for two consecutive annual federal funding cycles.
- If a project has not been selected for funding during this period, it will be removed from the fundable portion or readiness list identified as Hardship (and re-listed on the Multi-Year List) unless is re-qualified as a Hardship Loan project.

Confirmation that a project qualifies for hardship assistance will help facilitate funding coordination with other agencies such as Rural Development, and Housing and Urban Development (HUD). Coordination of joint funding of projects will be done on a project by project-basis.

It is important to note that with the BIL, 2021, it is required a minimum twelve (12) percent as additional subsidization floor, and the ceiling remains as thirty (35) percent.

Also, the Consolidated, 2023 and the BIL, 2021 requires the additional subsidization must be awarded in the form of forgiveness of principal, negative interest loans, or grants (or any combination of these).

Moreover, the loan term for disadvantage communities increased with the AWIA from 30 years to 40 years. However, the loan term should not exceed the expected design/useful life of the projects.

For fiscal year 2023 this subsidy is set in the amount of \$1,728,300 or 35% as the maximum amount and may be awarded to the extent that there are sufficient loan applications. The expectation of a loan amortization period up to forty (40) years or its

design life, whichever is shorter and with a loan repayment initiation of up to eighteen (18) months after the project completion.

8.2 Affordability (Hardship/Disadvantage System) Criteria

The purpose of the affordability criteria is to determine which public water systems are eligible for financial assistance beyond the ordinary benefits available through the DWSRF. The additional benefits will assist economically disadvantaged water systems in the construction of eligible drinking water projects. Currently, a hardship loan determination may be applied and may be dependent upon the debt restructure terms approval in particular to the PRASA. We must indicate that the debt restructure agreement as executed on July 26, 2019, did not use this benefit. See table “Determination of Hardship Loan Subsidies to Projects”.

8.2.1 Affordability Criteria

This Criterion is designed to assist systems most in need on a household basis. The points awarded for this Category are documented by the latest census information. For those systems, identified as disadvantaged, priority points will be awarded based on the Median Household Income Levels (MHIL) (See ***Attachment IV***).

8.2.2 Hardship Financial Assistance Criteria

Projects must meet the definition of hardship under this criterion. The determination will be made using the *Systems Criteria and Ranking Methodology* (***Attachment V***) and as follows:

- Projects may not be segmented in order to qualify for hardship assistance.
- Refinancing is eligible through the regular subsidized DWSRF program if qualified or eligible as required and stated in the DWSRF. However, hardship financial assistance is only available for new drinking water projects for which the notice for construction to proceed was given on or after July 1, 1993.
- The applicant for a DWSRF hardship loan must demonstrate that it can repay its debt obligation, has a satisfactory O&M procedure and can comply with DOH/DWSRF Capacity Development Program.
- Projects that are determined eligible for hardship assistance will receive a written confirmation of eligibility.
- Confirmation of funding availability will be valid for two consecutive annual federal funding cycles provided that the projected service charge does not change significantly.
- Confirmation of funding availability may be withdrawn if: the applicant fails to demonstrate satisfactory progress towards project implementation; the information on which the determination was made changes prior to loan closing; or the applicant fails to demonstrate that it can repay the loan.
- Median Household Income Levels based on the latest Census data, which for this fiscal year is as follows:

<u>Median Household Income (MHIL)</u>	<u>Points</u>
less than \$9,813	30
between \$9,813 and \$14,719	15
between \$14,720 and \$19,626	5
above \$19,626	0

8.2.3 Projects Likely to Receive Additional Assistance Payments (Hardship List)

Systems with projects eligible for funding in this IUP will be required to submit the financial information listed above, as well as any additional information requested by DOH. Hardship determinations will be made as project information becomes available. Eligible systems/projects must meet hardship criterion.

For the application of this criterion, DOH will proceed as follows:

- The initial range will be established with a minimum of 12 percent and a maximum of 35 percent. For this fiscal year the minimum is \$592,560 and the maximum is \$1,728,300.
- The funds will be distributed among the projects that satisfies the hardship criteria. Funds will be distributed starting with the project with the highest priority and until funds or the corresponding percent is totally assigned.
- The priority points under this criterion will be those awarded based on the Median Household Income (MHIL) (i.e.: 30, 15, 5, 0 points awarded) to the qualifying projects.

- Additional points will be awarded the project based on population to the points obtained based on the MHIL:
 - ❖ one (1) point will be added to the priority obtained by project with the lowest population; and
 - ❖ subsequently the number will increase by one (1) point and added to the project as they increase in population.

To the extent that there are sufficient applications for loans to disadvantaged communities this percent will be no less than 12 but not greater than 35. If there are no loan applications for disadvantage communities, the minimum 12 percent will not be established. Following is the list of projects that are qualified to receive FY 2023 12-35% SDWA disadvantaged communities' subsidy, based on DOH's determination of hardship loan subsidies:

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DETERMINATION OF HARDSHIP LOAN SUBSIDIES TO PROJECTS FY 2023- 2024										
PROJECTS ^{[1][2]}	Ready to go	Cumulative Assistance cost (based on Readiness List)	Balance to finance	Affordability (2022 US Census)	Pop.	RANKING POINTS according to:		TOTAL HARDSHIP PRIORITY POINTS ^[3]	Ranking	Disadv commun Subsidy ^[4] <i>Fed and State</i>
						Affordability/ Hardship Financial Criteria ^[2]	Additional points based on population (assign 1 point to lowest adding 1 point subsequently)			
Elimin. Ponce Vieja WTP	1-2024	23,364,479	5,747,243	17,747	170,075	5	8	13	1 ^[6]	
Improv. Ponce Nueva WTP- II	2-2026	0	17,500,000	19,311	170,075	5	8	13	2 ^[6]	
D/B Cerro Márquez PS & Tank ^[7]	3-2023	5,223,000	1,223,000	19,311	81,548	5	7	12	3	\$1,200,000
Cerro Gordo WTP	7-2021	10,000,000	0	19,339	28,000	5	6	11	4 ^[5]	
Cerro Gordo RWI	6-2021	9,848,302	2,121,108	19,339	28,000	5	6	11	5 ^[6]	
La Piedra and Pasto Viejo, Cayey	10-2024	0	6,471,200	19,311	18,685	5	5	10	6	\$ 528,300
Coto Laurel WTP	10-2020	14,343,911	0	17,747	14,060	5	4	9	7	
Guajataca WTP Rehabilitation	5-2025	0	7,300,000	19,311	11,623	5	3	8	8	
Termin. Corozal Urbano WTP	9-2021	\$ 3,680,000	0	\$ 19,285	6,363	5	2	7	9	
Almirante Sur RWI	3-2025	0	1,322,500	19,311	2,352	5	1	6	10	
Below this line are projects in Multi Year List										
Delfin Rivera tank	4-2030	0	241,330	13,474	2,120	15	4	19	1	
Pugnado Adentro WDS	7-2024	0	3,710,256	13,080	300	15	2	17	2	
Bo. Atalaya, Matias Ward PS	5-2029	0	201,731	13,732	47	15	1	16	3	
Salinas Fortunas WDS	4-2029	0	486,210	16,607	400	5	3	8	4	
									TOTAL	\$1,728,300
[1] Information taken from Project Readiness Priority List [2] Systems related to communities or serving directly a community that meet affordability criteria of MHI as defined by the Commonwealth. [3] Projects that are determined eligible for hardship assistance will receive a written confirmation of eligibility. Confirmation of funding availability will be valid for two consecutive annual federal funding cycles provided that the projected service charge does not change significantly. Confirmation of funding availability may be withdrawn.				[4] For this IUP 2023 Reg. Base DAC Subsidy 12% floor is \$592,560 and 35% ceiling is \$1,728,300 [5] No balance to finance to date. [6] Under design. [7] This project received subsidy previously. [8] This project has received						

Based on DOH's evaluation, the maximum of 35% or \$1,728,300 has been awarded to projects as shown in the previous table. DOH has determined to award it as a subsidy with zero percent (0.0%) of interest rate and 100% principal forgiveness.

8.2.4 Additional Subsidies

In targeting additional subsidies, as established in the Consolidated, 2023 and the AWIA, Puerto Rico will provide 14% (\$691,320) of the FY 2023 capitalization grant to provide 100% principal forgiveness and zero percent interest to the Cayey Urbano WDS project.

The recipient of the grant must identify projects within at least one of the following qualifying categories in order to receive points under the additional mandatory congressional subsidy criterion:

- a) projects that will eliminate or consolidate small system.... 3 points
- b) projects that support sustainable systems and help build
or maintain the technical, financial and managerial
capacity of the recipient 2 points
- c) systems related to communities or serving directly a
community that could not otherwise afford the DWSRF
loan including disadvantaged communities as defined
by the Commonwealth 1 point

When applicable, if the Act provides for a range in the percent to be established, and if the recipient has projects that could be identified under one or

more of the above-mentioned categories, for each additional remaining category the percent will increase by 5%.

The mandatory congressional 14% subsidy will be distributed until the subsidized amount is completely used and among the eligible recipients (See ***Appendix II***) as follows:

- to project(s) by priority order and the qualifying category and until the subsidized amount is completely used.

In the case that there is only one recipient the subsidized amount could be awarded in any of the following manners and until the subsidized amount is completely used.

- to project(s) by priority order and the qualifying category,
- directly to the project(s) identified within the qualifying categories,
- the project(s) first received and ready to go,
- the most expensive project(s).

9.0 PROJECT PRIORITY LIST

9.1 Project Selection Process

Federal law requires the Commonwealth to develop a Project Priority Ranking System. The priority ranking system establishes a list of eligible projects to be funded in a manner consistent with the SDWA such that compliance is given the highest priority. The DOH proposed that priority will be given to water systems in non-compliance with the surface water treatment requirements, and those incurring acute, primary or action

level violations as defined in the SDWA. Addressing these problems will protect the public health of the water users and will bring water systems into compliance with the SDWA.

The next priority has been given to systems that address the most serious risks to public health, therefore the highest priority will be given to acute public health risks, particularly those related to microbiological organism. Situations that pose chronic and longer-term risks to consumers, such as organic chemical contamination, are also considered.

The scoring criteria also considers issues related to infrastructure upgrading or replacement. The project ranking system also considers, as mandated by the SDWA, special allocations and restrictions on the use of DWSRF monies for disadvantaged and small systems. A detailed description of the Project Priority Ranking Systems is included as ***Attachment V (Systems Criteria and Ranking Methodology (Summary))*** to this IUP. A checklist as to the information to be provided by the proponent is included as ***Attachment VI (Check List for Priority Ranking/Project Fact Sheet)***.

9.2 Description and Use of Project List

Projects must be included in the IUP to receive DWSRF financing. This IUP includes the following prioritized lists of eligible projects being considered for financing from the DWSRF.

- The Project Readiness List or Fundable List includes projects which have completed construction or will submit plans and specifications for review and approval and are expected to be ready for long-term financing during the effective period of this IUP. DOH will review the projected readiness

date and the project proposal for all eligible projects and put together the fundable and planning portions of the list.

- The Project Multi-Year List will also include the project readiness list which includes all those projects expected to qualify for long provisions are made in the Project Priority Ranking System to bypass project which may not progress as expected. The Multi-Year List includes projects that may be ready during the current IUP period and, in the case where additional funds are available or a project on the fundable or readiness portion is not ready to proceed, these projects may substitute the ones not ready upon a formal request of the proponent. Both Lists may include projects for small systems serving less than 10,000 people, as well as projects related to Disadvantaged Communities.

9.3 Hardship List

This IUP includes a preliminary Hardship List. Final hardship determinations/evaluations will be completed once DOH received all the necessary information related to project that were initially qualified for hardship status. For FY 2022 and FY 2023, this Preliminary Hardship List was established, and the projects are included in section 8.2.3 (*Projects Likely to Receive Additional Assistance Payments (Hardship List)*).

9.4 State Environmental Review Process/Determination of Equivalency Projects

To be consistent with federal guidelines, the State Environmental Review Process (SERP) applies to all projects receiving financial assistance from the DWSRF. The SERP incorporates environmental review requirements of the National Environmental Policy

Act (NEPA) and its implementing regulations, and the Puerto Rico Environmental Quality Board (EQB) (Act No. 416 of September 22, 2004, known as the Environmental Public Policy Act derogated Law No. 9 of June 18, 1970, as amended). The DWSRF loan applicant must comply with the SERP in order to receive DWSRF financing.

In accordance with the SERP, all DWSRF financed projects are classified as either Tier I or Tier II projects. Tier I projects, also referred to as "equivalency" projects, refer to those DWSRF projects that are financed by loans whose cumulative total is an amount equal to the federal Capitalization Grant to the State. Tier II projects, ("non-equivalency" projects), refer to all other projects that receive DWSRF financial assistance.

Tier I projects must undergo an environmental review consistent with the National Environmental Policy Act (NEPA). For the DWSRF program, Tier I projects will include:

- projects for which an environmental review consistent with NEPA has already been completed; and
- projects that meet the definition of a NEPA categorical exclusion.

If necessary, additional Tier I Projects will include:

- projects for which applicants have voluntarily undertaken to complete a NEPA equivalent environmental review;
- projects that have a particular environmental significance, due to the nature and scope of the projects; and
- projects for which the environmental review can be considered functionally equivalent to NEPA environmental review, with some minor additional elements.

Tier II projects refer to the environmental review requirements of EQB with additional requirements that may be imposed by the SERP for the DWSRF program. Applicants will be notified by DOH and EQB whether their project(s) proposed for financing through the DWSRF program fall under the category Tier I ("equivalency") of Tier II. Since the enabling Commonwealth law that created the Office of Permits and Management (or OGPe in Spanish) the state environmental review process that is been undertaken is through this agency. DOH in its level of review has always required an environmental review process that complies with the NEPA or is a NEPA-like process as established by or required by the DWSRF program.

10.0 ATTACHMENTS AND APPENDIXES

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