Water Infrastructure
FINANCING PROGRAMS

Drinking Water State Revolving Fund (DWSRF)

Vermont DWSRF Guidance Document 10
General Loan Information and Procedures
Including Loan Amount, Rate, Repayment, and Loan Forgiveness

Contents

VERMONT
AGENCY OF NATURAL RESOURCES
Department of Environmental Conservation

1. Introduction
Guidance Document 10 provides information on loan amounts, loan interest, administrative fees, loan term, repayment, and loan forgiveness for loans under the Vermont Drinking Water State Revolving Loan Fund.

Please also see the federal DWSRF eligibility handbook and Vermont DWSRF Guidance Document 8 for information on eligible borrowers, projects, and costs. See the Intended Use Plan (IUP) for current loan program information. See the other guidance documents in this series, the DWSRF site, and Drinking Water & Groundwater Protection Division (DWGPD) site for more guidance.

2. Maximum and Final Loan Amount
A maximum loan amount, per project, may be set for some loan types in the annual Intended Use Plan (IUP). See the current IUP for details.

The final loan amount that goes into repayment is based on actual eligible costs incurred and reimbursed to the borrower based on approved payment requests. The final loan value will be less than or equal to the original, or amended, loan agreement value.

3. Administrative Fee Rates and Interest Rates
Annual administrative fees are calculated like loan interest over time rather than as a flat fee at the start. Any interest and administrative fee will start to accrue beginning with the loan repayment start date.

Annual Administrative Fee Rate:

- Municipalities: 0% to 2%, depending on the type of loan and water system details.
- Private Water Systems: 0% to 2.75%, depending on the type of loan and water system details.
- Manufactured Home Communities (MHCs): 0% to 1.5%, for all non-profit or cooperatively-owned MHCs.

Interest Rate:

- 0% all DWSRF loans

Interest rates are approved by the State Treasurer and are updated infrequently. The last major rate update was in a memo dated 9/9/2020.

4. Loan Term (Duration), Repayment, And Refinancing
Loan term refers to the number of years over which payments are made for each type of loan. Loan term may be shortened based on the applicant's preference. There is no penalty for early repayment of loans, and interest and/or fees due will be reduced accordingly.

The repayment timeline varies by project and loan type. In general, private loans are repaid monthly and municipal loans annually.

Municipal construction loans may be refinanced within two years of the start of construction.

4.1. Refinancing of Existing Facilities

The DWSRF construction loan program may be used to buy or refinance municipal debt including all obligations for DWSRF eligible projects. Under federal law, privately owned systems (both profit and nonprofit) are not eligible for refinancing. The use of DWSRF funds are intended to be first directed at proposed projects that address ongoing compliance problems or public health risks.

State legislation allows for loans to systems that incurred debt and initiated construction after April 5, 1997 at interest rates and terms comparable to those for new projects. Projects that have initiated or completed construction in accordance with DWSRF environmental and procurement requirements will receive priority ranking using the procedure described for new projects for the next two annual priority lists compiled following the initiation of construction. All other applications to refinance existing debt or fund completed construction will not be considered.

4.2. Purchasing or Refinancing Debt Obligations

A state DWSRF program may purchase or refinance a capital project debt obligation of a publicly-owned system, which may reduce a community's borrowing costs. The purchase of a system's debt must be through the direct state DWSRF acquisition of municipal bonds issued for project construction. Any project for which the state DWSRF purchases or refinances the system's debt obligations must be included in the state's project priority list and meet all eligibility criteria. The term of a DWSRF municipal debt obligation purchase or refinancing may be up to 30 years.

5. Loan Principal Forgiveness (Subsidy)

All or a portion of some loans may be forgiven. This loan forgiveness is a form of subsidy. The amount of loan forgiveness applicable to a given loan is based on the amount of federal funding available for specific eligibility categories, federal requirements, and Vermont DWSRF Program priorities. Subsidy eligibility categories, subsidy amounts, and associated requirements are described in each year's Intended Use Plan (IUP).

IUPs generally follow the State fiscal year but may deviate depending on the date of adoption. The availability of subsidy for a particular project will depend on the types and amounts of subsidy available at the time of loan application receipt. The maximum amount of loan forgiveness may be set by loan type or as a percentage of loan amount.

5.1. Disadvantaged Community Subsidy

Disadvantaged Community subsidy (DisSub) is a form of loan forgiveness for projects in locations meeting specific Disadvantaged Community eligibility criteria. Factors affecting whether a given project may be eligible for DisSub include project type, local median household income (MHI) and user rates. Additionally, projects meeting the Disadvantaged Community statutory definition (24 VSA §4752(12)) may also receive longer loan repayment terms and lower administrative fee rates.

5.2. Additional Subsidy

Additional subsidy (AddSub) is a form of loan forgiveness potentially available to projects irrespective of whether the project meets disadvantaged community criteria. The amount of AddSub available is based on loan and project type and annual IUP terms.

5.3. Subsidy for Older Municipal Planning Loans

Guidance Document 22 describes forgiveness for municipal planning loans funded out of the WPL account prior to July 2020 (loan number starting with WPL-). These planning loans should have rolled into a related construction loan under the RF3 account or started repayment by the end of 2025. If a planning loan funded via the WPL account was or will be rolled into a construction loan funded via the RF3 account, the portion expected to be forgiven remains in the WPL account, to be completely closed with no repayment when the RF3 construction loan enters repayment. The unforgiven portion of the WPL loan to be repaid is included in the RF3 total loan agreement and should be reflected in the project budget as a payoff line for the unforgiven portion of the planning loan. The unforgiven planning loan portion may receive subsidy under the overall construction loan terms according to its IUP cycle.

6. Planning Loans

"Planning loans" here and in the annual IUP is a broad term. There are several types of planning loans, as described below. See the eligibility documents linked from the top of this document including EPA handbook Table 3.11 for more information. Planning Loans are generally either a Step 1 or Step 2 loan. (Construction loans are Step 3).

- Step 1 Loan: Preliminary engineering costs, e.g., preparation of a preliminary engineering report (PER, under specific requirements); a hydraulic evaluation; Asset Management Plan for a private water system; service line inventory (SLI) development by a contractor.
- Step 2 Loan: Design engineering costs toward design of a construction project, e.g., final design; submission of a construction permit application; preparation of an environmental information document. A prior step 1 loan is not required.

Planning & Design Loan Summary:

- Repayment: begins five years after expected loan approval date.

- Loan Term: 5 years
- Interest Rate: 0%
- Administrative fee: 0%

6.1. Planning Loans Followed by Construction Loans

A planning loan may be rolled into a subsequent DWSRF construction loan within 5 years of execution of the planning loan rather than going into repayment. The subsequent construction must pay off the planning loan. Otherwise, planning loans go into repayment about 5 years after the original loan agreement, with repayment spread across equal payments the following 5 years (so ending 10 years after the original agreement). These loans have 0% interest and no administrative fee.

7. Asset Management Plan Loans

These loans are for development of an Asset Management Plan (AMP). Please note that Drinking Water and Groundwater Protection Division approval of a full AMP is required for construction priority list application points regardless of funding source.

This funding is available for municipal water system borrowers only for this special funding from the WPL account via set-asides. (Private water systems, please see Section 7 on planning loans.)

Eligibility for loan forgiveness is based on completion of the full AMP with approval by DWGPD and completion of training requirements as described in Guidance Document 26. If eligible for forgiveness, 100% forgiveness up to $50,000. If forgiveness requirements are not met, repayment begins 5 years after the original loan agreement, with repayment spread across equal payments the following 5 years (i.e. ending 10 years after the original agreement). 0% interest and no administrative fee.

8. Source Exploration and Development Loans

These may be Step 1, Step 2, or Step 3 loans. Step 1 loans are for engineering and contracting work toward a source permit including site exploration, drilling, and initial quantity and quality testing; Step 2 loans are for design of connection to a water system and any required treatment; and Step 3 loans are for installation of any treatment and connection of the new source to the system.

9. Construction Loans

A construction loan, referred to as a “Step 3” loan, is for construction and installation of physical assets. See the eligibility documents linked from the top of this document for examples. Prior Step 1 and Step 2 planning loans (planning and design loans, respectively) are not required although certain documents and permits may be prerequisites and may increase priority list ranking points for competitive construction funding.

9.1. Construction Loan Repayment Term

The loan repayment term cannot exceed the expected useful life of an asset being funded or the weighted average expected useful life of a combination of assets being funded. The default loan repayment term is 30 years and may be adjusted upon receipt of the useful life certification. A project in a disadvantaged community, as defined by state statute, may receive a term up to 40 years or the useful life, whichever is lower. See Section

Repayment begins one year after project completion as outlined in the balancing change order. If multiple contracts are being funded under one loan, all contracts, including small purchases, must be completed within one year of the initial contract completion.

9.2. Construction Loan Interest Rate

Construction loan interest rates are currently 0% for all borrowers.

9.3. Construction Loans: Certain School Water Systems

Municipally-owned non-transient, non-community (NTNC) school water systems are categorically disadvantaged per State statute and are eligible for up to $25,000 in construction loan principal forgiveness; no further subsidy is provided to these applicants except as required to meet EPA grant requirements, such as in the case of projects receiving funding under the Emerging Contaminants Grant which requires that these funds be fully forgiven. The administrative fee would be 2% and the maximum loan term is 30 years.

9.4. Construction Loans, Disadvantaged Communities: Subsidy, Term, and Administrative Fees

Projects that meet the statutory definition of disadvantaged municipality, below, may be eligible to receive disadvantaged community loan forgiveness (DisSub), extended loan repayment terms up to 40 years, and reduced administrative fees. A project may receive these loan conditions, pending the conditions of the current IUP, to the extent the annual household user rate would be reduce to 1% of MHI, post project completion, and not to exceed 50% principal forgiveness.

Per 24 VSA §4752(12) "Disadvantaged municipality" means a municipality or the served area of a municipality that:

> (A) has a MHI below the State average MHI as determined by the Secretary and that, after construction of the proposed water supply improvements, will have an annual household user cost greater than 1% of the MHI as determined by the Secretary; or
>
> (B) has a MHI equal to or greater than the State average MHI as determined by the Secretary and that, after construction of the proposed water supply improvements, will have an annual household user cost greater than 2.5 % of the MHI as determined by the Secretary.

9.4.1. Construction Loans: Defining Disadvantaged Municipality

The statutory definition of Disadvantaged Community includes municipal or service area Median Household Income (MHI) and user rate calculations as described below. Local MHI is based on data from the US Census American Community Survey (ACS) 5-year estimate (town, village, CDP, or a weighted average of municipalities bearing the debt) best aligned with the water system service area, or the water system can conduct a local income survey (see Guidance Document 11).

Annual household user cost is estimated for each borrower based on the following (see Guidance Document 13):

- Annual operations & maintenance (O&M) costs
- Annual dedicated reserve contribution
- Annual debt repayment estimate (not counting that to be paid off within next 5 years)
- Annual debt repayment due to the new construction project
- Equivalent residential units

9.4.1.1. Construction Loans: Determination of loan terms for Municipal Community water systems including fire districts

For municipalities with local MHI < the state MHI

If the annual household user cost estimate is ≤ 1% of the local MHI, the loan term is 30 years; annual administrative fee is 2%; and there is no DisSub principal forgiveness.

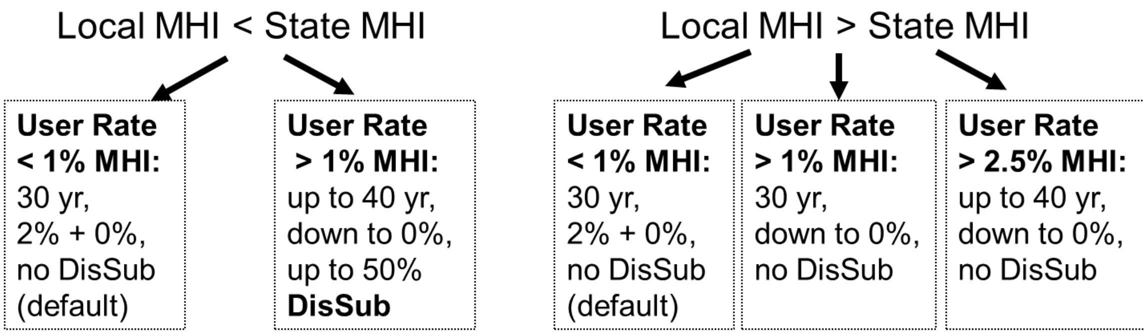
If the annual household user cost estimate is > 1% of the local MHI, it is "disadvantaged". The loan term is increased to 40 years (if useful asset life allows); then the annual administrative fee is reduced from 2% toward 0%; and then DisSub principal forgiveness is provided up to 50% of the total project cost (lower if the useful asset life is < 40 years). Each step is limited by the point where the annual user cost estimate is lowered to 1% of the local MHI.

For municipalities with local MHI ≥ the state MHI

If the annual household user cost estimate is ≤ 1% of the local MHI, the loan term is 30 years; annual administrative fee is 2%; and there is no DisSub principal forgiveness.

If the annual household user cost estimate is > 1% but ≤ 2.5% of the local MHI, the loan term is 30 years; annual administrative fee is reduced from 2% toward 0%, limited by the point where the annual user rate estimate is 1% of the local MHI; and there is no DisSub principal forgiveness.

If the annual household user cost estimate is > 2.5% of the local MHI, it is "disadvantaged". The loan term is increased to 40 years (if useful asset life allows), then the annual administrative fee is reduced from 2% toward 0%, limited by the point where the annual user rate estimate is 1% of the local MHI; and there is no DisSub principal forgiveness.



9.4.1.2. Construction Loans: Determination of loan terms for Private Community water systems and Private Non-profit NTNC or TNC water systems

For private systems with local MHI < the state MHI

If the annual household user cost estimate is ≤ 1% of the local MHI, the loan term is 30 years; annual administrative fee is 2.75%; and there is no DisSub principal forgiveness.

If the annual household user cost estimate is > 1% of the local MHI, it is "disadvantaged". The loan term is increased to 40 years (if useful asset life allows); then the annual administrative fee is reduced from 2.75% toward 0%; and then DisSub principal forgiveness is provided up to 50% of the total project cost (lower if the useful asset life is < 40 years). Each step is limited by the point where the annual user cost estimate is lowered to 1% of the local MHI.

For private systems with local MHI ≥ the state MHI

The loan term is 30 years; annual administrative fee is 2.75%; and there is no DisSub principal forgiveness.

Drinking Water State Revolving Fund (DWSRF)

Local MHI < State MHI

User Rate < 1% MHI:
30 yr,
2.75% + 0%,
no DisSub
(default)

User Rate > 1% MHI:
up to 40 yr,
down to 0%,
up to 50%
DisSub

Local MHI > State MHI

User Rate < 1% MHI:
30 yr,
2.75% + 0%,
no DisSub
(default)