

IMPORTANT INFORMATION FOR LOAN APPLICANTS

Loan Repayment Reductions

Over the past several years, a portion of loans awarded to State Revolving Fund borrowers have had their repayment obligation reduced. To DEQ's knowledge, this practice will be continued by the EPA. To better assist loan recipients' planning efforts we would like to briefly describe how the loan reductions are made.

- The amount that DEQ can provide for loan reductions is set at a specific amount by the EPA. This total amount is committed on the Fundable List. Therefore, any project cost increases identified after the Fundable List is finalized will not be "matched" with proportional increases.
- The amount of the repayment reduction identified on the Fundable List is based upon the cost of the project identified on the Fundable List, so if a project cost decreases the repayment reduction will also proportionately decrease.
- If any of the systems identified on the annual Fundable List do not accept the loans during the year, the amount of repayment reduction associated with those systems will be reallocated to those systems that did accept the loans during the year.
- The repayment reductions are only available to loans that are active (i.e. loans that are in repayment are not eligible for retroactive repayment reductions).
- Reallocations of repayment reductions are only available to those entities that entered into loans during the year the annual reduction amount was offered.
- If a loan closes under budget, the principal forgiveness will be reduced proportionately and will be reallocated to the remaining loan recipients.
- If a loan recipient's project cost is reduced to the extent that rates no longer exceed the "disadvantaged community" threshold of 1.5% of median household income, than the loan recipient will not enjoy any repayment reduction.

New Wastewater Loan Requirements

On June 10, 2014 the President signed into law amendments to the Clean Water Act. Some of the amendments revised DEQ's wastewater loan requirements.

- Facility plans must include an analysis of, and the loan recipient must select to the maximum extent practicable, a project or activity that maximizes the potential for efficient water use, reuse, recapture, conservation and energy conservation taking into account cost.
- Principal forgiveness is allowable for municipal entities and non-profit corporations at the discretion of the State. Plans for principal forgiveness will be included in the Intended Use Plan,

available in draft form each March and will be reflected on the Fundable List after Board adoption in May of each year.

Green Project Reserve Requirements

The “Sustainability” portion of the Letter of Interest reflects the loan applicant’s commitment to make efforts to reduce energy and water consumption, and to make the operation of the facility more supportable over time. DEQ is continuing this effort to encourage system owners to improve the long-term sustainability of their facilities. The results of this effort are reported on the Department’s website and in annual reports to the Environmental Protection Agency. This overall effort is also known as the “Green Project Reserve,” reflecting the original terminology adopted by Congress during the Stimulus funding effort of 2010.

The Department also supports a precursor to the SRF loan Green Project Reserve effort by providing Letter of Interest rating points for initial, sustainability efforts made during the planning stage.

Below are basics of supporting the Letter of Interest rating points earned because of claiming sustainability efforts by loan and grant applicants:

Letter of Interest (LOI):

- Initial LOI submittals elicit sustainability information. That information is used by the Department to help rate the projects for placement on the Intended Use Plan’s Priority List and Fundable List. This information includes a brief description of the Green Project Reserve (GPR) component, cost estimate, applicable EPA GPR Guidance Section, and indication whether Business or Categorically GPR-eligible.
- Website address: <<http://www.deq.idaho.gov/water-quality/grants-loans/green-project-reserve.aspx>>
- The LOI forms provide examples of system sustainability efforts. These examples do not constitute an exhaustive/comprehensive listing.
- Ratings of the Letters of Interest are submitted to the DEQ State Office by the DEQ Regional Offices. The initial rating should include fact checking to ensure that sustainability claims are reasonable.
- The initial ratings are peer reviewed in the State Office and the sustainability claims are once again vetted. (see attachments)

Intended Use Plan: Sustainability claims are included on the draft Intended Use Plan and public comment is sought.

Loan Agreement: The Loan Agreement will contain a condition, which specifies that a Technical Memorandum (TM) shall be developed for each item identified and accepted in the LOI as a GPR component. The TM will essentially be either a Business Case or a Categorical Case justification of the GPR component. The condition will also specify that as part of project closeout, the loan recipient will update the TMs to reflect actual final GPR conditions and costs.

- A “Categorical” case means that making the effort, in and of itself, qualifies the cost for GPR.
- A “Business” case means that the effort requires a written rationale explaining how the effort will result in enhanced system sustainability.

Engineering Design Report: The TMs shall be included in the Engineering Design Report which is submitted as part of (or in advance of) the draft contract documents (per IDAPA 58.01.16.411 for wastewater projects, and IDAPA 58.01.08.551.01 for drinking water projects). Consultants will be directed to the SRF website for example cases on which to base GPR justifications.

Plan and Specification (P&S) Review Checklist: The P&S Checklist will contain a provision for the Regional Engineers to ensure that the appropriate TMs have been submitted and that the GPR components have been included in the final design drawings and specifications. The Regional Engineers will consult with the State Office in the review and acceptance of the TMs.

Posting on Website: The State Office will acquire any additional information required and convert the TMs to a standard format. Upon substantial completion of the GPR justifications, the TM will be posted to the Department’s website.

Project Closeout: Prior to final loan disbursement, the loan recipient will update the TMs to reflect final GPR conditions, e.g. actual hardware installed and final GPR costs incurred. The Loan Closeout Checklist will contain a provision to ensure the Regional DEQ Engineer obtains this information.

Updating Website Postings: The GPR justifications posted on the website will be updated with any final GPR clarifications received from the Regional Engineers at the time the Bond Counsel advises of financial closeout.

Protocol for Funding Nonpoint Source Projects with the State Revolving Fund

Each year the Department of Environmental Quality (DEQ) receives more funding requests for nonpoint source (NPS) water quality projects than it can support with available NPS grant funds. There now exists an opportunity for nonpoint source water quality sponsors to obtain funding for projects that might otherwise go unfunded.

THE STATE REVOLVING FUND LOAN PROGRAM

It is now possible for DEQ to fund NPS projects by partnering its State Revolving Fund (SRF) loan program projects with neighboring NPS projects.

The SRF loan program provides funding for municipal wastewater treatment facility improvements. These SRF loans come with low interest rates.

For more information on the SRF loan program please visit <http://www.deq.idaho.gov/water-quality/grants-loans/>.

THE "319" GRANT PROGRAM

DEQ's nonpoint source projects are funded through the "§319" grant program (i.e. section 319 of the Clean Water Act). This is a grant program that receives its funds from the Environmental Protection Agency. The 319 program has been in operation for many years with the objective of improving surface and ground water quality by implementing best management practices to control nonpoint sources (NPS) of pollution. The §319 program, with assistance from the Basin Advisory Groups, ranks and rates NPS project applications. Not all NPS project grant applications receive §319 grant funding. The SRF may be able to provide funding for the NPS projects that apply through the §319 process, but are not awarded grant funding.

For more information on the 319 grant program please visit:

<http://www.deq.idaho.gov/water-quality/grants-loans/nps-319-subgrants/>

HOW THE SPONSORSHIP PROCESS WILL WORK

The sponsorship process would combine the funding for a neighboring municipal wastewater facility project with a NPS effort.

If a NPS project is within the same watershed (8 digit hydrologic unit code) as an SRF project that is under construction or is about to go under construction, and if the SRF funded municipality is willing to partner with the NPS project, then DEQ can lower the basic interest rate so that the interest repayment savings equal the cost of the NPS project. In this way, the municipality's rate payers do not bear any additional rate burden and the SRF is able to help fund additional NPS projects. A short, formal

partnership agreement would be entered into between the municipality, the NPS project sponsor and DEQ.

- Initially the Sponsorship agreement would be sent to the NPS Project Sponsor for their signature and returned to DEQ;
- Next DEQ would prepare the municipal loan offer or loan offer amendment, sign the Sponsorship agreement and then mail both documents to the municipality;
- Upon the municipality’s signature/approval costs could be incurred for both the NPS project and the sewer project. The municipality will need to ensure that taking on the additional debt of the NPS project will not force them beyond their legal debt capacity.

This protocol is aimed at §319 grant applicants that may not score high enough on the §319 grant ratings to have their projects funded with §319 grant monies. For those entities there is an alternative source of funding for the lower rated §319 grant applicants: they can work in partnership with a local (i.e. same watershed, 8th digit hydrologic unit code (HUC)) wastewater facility that is seeking a loan through the State Revolving Fund program (SRF). Working within a local HUC helps ensure that there is a common interest between the municipal wastewater facility and the NPS project. When the SRF loan recipients take out a loan they are generally charged an interest rate. That interest rate may be lowered to allow for the funding of a NPS project. When the SRF interest rate is lowered the funds for the NPS project can then be made available through the SRF loan, without the wastewater facility customers paying a higher user rate (i.e. the reduction in the interest rate allows the SRF loan recipient to repay a higher debt, while not impacting monthly user rates for wastewater facility customers.

Example: SRF Interest Rate Adjustment				
	Total Cost	Interest Rate and Term of Loan	Interest Cost on SRF Loan	Wastewater Facility Monthly User Rates (100 Billing Connections)
SRF project alone	\$1,000,000	1.75% for 20 Years	\$189,512	\$49.56
NPS Project	\$100,000			
SRF project and NPS project	\$1,100,000	0.77 % for 20 Years	\$ 88,985	\$49.54
<i>Interest savings remaining to pay for NPS project</i>			<i>\$100,527</i>	<i>Users see no noticeable impact to their monthly billings</i>

While this effort is primarily aimed at lower scoring §319 grant applicants, there is no reason that high scoring §319 grant applicants should not proactively opt for SRF funding assistance by entering into a sponsorship arrangement. In this way the maximum amount of NPS projects could get funded.

For information on the §319 grant program please refer to:

<http://www.deq.idaho.gov/water-quality/grants-loans/nps-319-subgrants/>

For information on the SRF loan program please refer to:

<http://www.deq.idaho.gov/water-quality/grants-loans/>

Nonpoint Source (NPS) Project Sponsors

Each May, the SRF loan program issues an Intended Use Plan (IUP) in which it lays out its funding plan for the upcoming state fiscal year (which begins on July 1st and ends on June 30th). Each IUP remains in effect for a single state fiscal year. The IUP is reviewed and approved by the Board of Environmental Quality.

For a NPS project to receive SRF funding the NPS project must be included in the IUP. Input for each year's IUP is accepted by the Department of Environmental Quality's SRF staff from early January through the first week of March of each year. Please contact Tim Wendland at (208) 373-0439 with your questions on the SRF process.

Nonpoint Source (NPS) Project Development Steps for SRF Funding

In order for a NPS project to be considered for SRF funding it must meet the following requirements:

- Submit a §319 grant application to the Department of Environmental Quality's (DEQ) §319 grant program that has been determined to be technically complete. In order for a §319 grant application to be judged as technically complete the application must meet the DEQ's §319 grant application requirements. Please contact Dave Pisarski at (208) 373-0464 for information on the §319 grant program. Dave Pisarski can approve edits to the §319 grant application and workplan to ensure that the Sponsorship funded project's application is current.
- Establish contact with a potential SRF point source loan recipient, or be connected with a potential SRF point source loan recipient by DEQ. To establish contact the §319 grant applicant can call the DEQ Regional Office in their area and set up a conference call with the NPS program contact and the SRF engineer, to see what potential point source projects are taking place in their HUC. The potential SRF loan recipient must express willingness to sponsor the NPS project ("willingness to sponsor" can be documented either in the form of a letter or an email). The primary concern for the point source sponsor is that their debt authority must be high enough to encompass the additional cost of the NPS project. DEQ will be soliciting interest by the potential SRF point source loan recipients in November and December. If DEQ gets a positive response from the potential SRF point source loan recipients it may be able to present the interested NPS entities with Sponsorship partners (saving the NPS entities from having to search

for a Sponsor). **If the SRF loan recipient will not be paying any interest on their loan, than there is no excess capacity to amend loan terms to finance the §319 project.**

- SRF project and the §319 project are in the same 8th level HUC.
- Nonpoint source funding applicants are encouraged to explore SRF funding coordination opportunities at an early stage in their §319 grant funding process.
- Agreed to comply with established §319 grant project administrative procedures (e.g. same staff contacts, same oversight responsibilities). Sponsored NPS projects must agree to be completed within the same period as the point source projects.

WHEN SHOULD A NONFUNDED §319 PROJECT APPLICANT PURSUE THE SRF FUNDING OPTION?		
TIME FRAME	DEQ PROCESS	§319/SRF APPLICANT ACTION ITEM
Mid-December	The SRF staff begin to receive letters from potential SRF point source loan recipients that are interested in becoming Sponsors and begin to match up volunteer Sponsors to lower ranked §319 applicants.	SRF applicants submit their Letters of Interest for loans and indicate on the Letters of Interest if they are willing to become Sponsors.
Mid-December	Basin Advisory Group (BAG) Chairmen-make their recommendations to DEQ of the §319 projects to fund in the coming year.	If your §319 project’s funding through the §319 grant program is questionable, check with the DEQ State Office (Dave Pisarski at 373-0464 or Tim Wendland at 373-0439) to discuss funding through the State Revolving Fund. Also, contact the DEQ Regional Office in your area and speak to the Regional Office SRF Engineer to see if there are any municipal sewer projects that will be seeking SRF funding.
Early-January	The SRF Letters of Interest for the upcoming year’s funding are due (see attached Letter of Interest form). Early volunteer Sponsors will receive additional points in	

	<p>the competitive funding priority process. From early-January to early February the SRF regional and state office staff will be rating and ranking the various projects. The NPS projects seeking SRF funding assistance must be included in the DEQ annual funding plan, which must be completed by early-March. If the NPS project is not included in the annual funding plan (IUP), the project will not be funded.</p>	
<p>First Week of March</p>	<p>Final stages of preparing the annual SRF Intended Use Plan</p>	<p>Contact the SRF Loan Manager (Tim Wendland at (208) 373-0439) with your sponsorship proposal and he will set up a conference call with the various stakeholders..</p>

SRF Project Sponsors

The SRF loan recipient must have:

- **Debt capacity:** either obtained via a revenue bond or judicial confirmation to absorb the NPS project cost, or the debt capacity may be obtained via cost savings for the point source SRF project. Since the SRF loan recipient is increasing the amount of the loan by taking on a Sponsorship, it must ensure it has enough debt capacity to “afford” the §319 project.
- **Scope capacity:** (obtained via a revenue bond or judicial confirmation) to absorb the NPS project into the point source loan project (i.e. the SRF loan recipient’s debt authority must be written broadly enough to encompass not only the work on the SRF loan recipient’s project but also the work on the sponsored NPS project).
- Their legal staff review and approve the partnership effort. The SRF loan recipient should talk to the SRF Loan Program Manager to clarify any questions relating to the timeliness of these efforts.

DEQ Staff

Generally DEQ will manage these SRF funded NPS projects in the same manner as if they were traditional §319 funded grant projects, with certain exceptions, as noted below:

- **State Office:** Invoices which have been reviewed by §319 staff and approved for payment shall be routed to the SRF Loan Coordinator rather than to the Fiscal Office. The SRF Loan Coordinator shall TRIM the invoice and any relevant documents and provide the Fiscal Office with approval to make the payment. Reimbursement requests funded through the SRF have a more rigorous audit process and will therefore require more substantive documentation (as noted earlier in the protocol).
- The NPS aspect of the joint project shall be completed within six months of municipal SRF project completion.
- The personnel and operating related costs for the DEQ staff assistance will be paid by the SRF program.
- **Regional Offices:** Project oversight for the NPS aspect of these SRF funded projects will be conducted by regional office NPS program staff.
- The personnel and operating related costs for the DEQ staff assistance will be paid by the SRF program. The §319 program will include these efforts in its annual report but will clearly indicate the funding source.
- Staff time spent working on the SRF funded NPS projects will be coded to the SRF program cost codes normally used by the individual offices.
- Loan closure will occur in two stages if the wastewater facility loan portion is completed before the NPS project:
 - The Bond Counsel will be informed that the legal closure will need to await the completion of the NPS effort. The repayment period would start after the legal closure (with the Bond Counsel) as normal.
 - Interest accrual will be stopped when the wastewater facility portion is completed (i.e. when the final inspection is done, the rate ordinance is passed and the O&M manual is completed).