

DWSRF Guidance Document Number 10
Loan Term, Interest Rate, Administrative Fee Determination and Loan Repayments

- I. Interest Accrual Date - Interest will start to accrue on the Repayment Start Date.
- II. Repayment Start Date - The 1st payment will be due one year after project completion unless the loan is or will be consolidated with another loan, or if the loan is a planning loan that is potentially eligible for principal forgiveness. Generally, planning loans will have a repayment start date five years after the project step is completed to allow sufficient time for completion of construction and final audit. Loan forgiveness cannot be determined until after the project is built and the actual construction cost is known. Project completion dates will be established by DEC utilizing the following guidelines:
 - A. Planning Loans - One year after date of last loan disbursement or approval of preliminary engineering report by the Water Supply Division, whichever occurs first
 - B. Final Design Loans - One year after date of last loan disbursement or approval of plans and specifications by the Water Supply Division, whichever occurs first
 - C. Construction Loans – End of warranty period, which is one year after final completion
 - D. Source Protection Conservation/Land Purchase Loans - Date of last loan disbursement

Note: Privately-owned water systems make monthly payments starting on the project completion date, whereas municipally-owned water systems make a single annual payment starting one year after the project completion date.

- III. Interest Rate Plus Administrative Fee Determination Date

Interest rates and administrative fees will be established at the time of loan award. All other determinations are considered preliminary estimates. Interest rates and administrative fees will be modified when loan amendments are issued or at the time of project completion if final project cost or project cost estimates change.
- IV. Key Factors Used In Determining Loan Term and Interest Rate Plus Administrative Fee
 - A. Prior Drinking Water Project Debt – The method for determining existing water system debt is established in DWSRF Guidance Document #13.
 - B. Annual O&M Costs – Allowable annual O&M costs are established in DWSRF Guidance Document #13.
 - C. Equivalent Units – The method for establishing equivalent units is described in DWSRF Guidance Document #13.
 - D. Community MHI – The method for establishing the community MHI is described in DWSRF Guidance Document #11.
 - E. Disadvantaged System Determination – Systems qualifying as a *Disadvantaged Municipality* under the DWSRF loan program are potentially eligible for extended loan terms (up to 30

years) and loan subsidy (negative interest) or principal forgiveness. *Disadvantaged Municipality* is defined in state statute at 10 VSA §1571(9) and is described more fully in DWSRF Guidance Document #32.

- V. Interest Rate Plus Administrative Fee and Term for Construction Loans
- A. The base interest rate plus administrative fee is 3%.
 - B. The base term is 20 years.
 - C. Adjustment to base rate and term is available for qualifying systems. Systems meeting the State's DWSRF Program definition of *Disadvantaged* can qualify for loan terms up to 30 years and a negative interest rate as low as -3%. For those systems with a user rate that exceeds 1% of the community's MHI and where the community's MHI is less than the statewide average of community MHIs, the term can be extended and interest rate plus administrative fee reduced as follows:
 - (1) The term is first extended to 30 years in one year increments until the user rate does not exceed the 1% target rate
 - (2) If necessary, interest rate plus administrative fee is then reduced in 0.10% increments until the user rate does not exceed the 1% target
 - (3) The minimum interest rate plus administrative fee is -3%

Note: The interest rate plus administrative fee for systems qualifying under this section may also be determined in accordance with Section D below if requested by the water system.
 - D. For systems that qualify for reduced rates because projected user rates exceed 1% of the MHI and the MHI is greater than the statewide average of community MHIs the following applies:
 - (1) The interest rate plus administrative fee is reduced in 0.10% increments until user rates do not exceed the 1% target.
 - (2) The minimum interest rate plus administrative fee is 0%.
 - (3) The maximum term is 20 years.
 - E. For systems that qualify for reduced rates because projected user rates exceed 2.5% of the community MHI, but the community MHI is greater than the statewide average of community MHIs the following applies:
 - (1) The interest rate plus administrative fee is reduced in 0.10% increments until user rates do not exceed a 1% target.
 - (2) The minimum interest rate plus administrative fee is 0%.
 - (3) If adjustment of the interest rate to 0% does not reduce the projected user cost to 1%, the term can be extended by 1 year increments to reduce the rate to the 1% target up to a maximum term of 30 years.
 - F. The DWSRF Program Manager will approve interest rates plus administrative fees based on recommendations from the DWSRF Program and Project Development Specialists.
 - G. Preliminary interest rate plus administrative fee determinations for priority lists and other purposes shall be rounded to the nearest 0.25%.

H. The loan agreement must specify the interest rate and the administrative fee rate.

(1) Administrative fee plus interest rate determination - 0% or less

The interest rate will be equal to the administrative fee plus interest rate determination.
The administrative fee will be 0%.

(2) Administrative fee plus interest rate determination - greater than zero

(a) Loans to private borrowers - interest rate will be 0%. The administrative fee will be equal to the administrative fee plus interest determination.

(b) Loans to municipalities - up to the first 2% of the administrative fee plus interest will be administrative fee. Amounts above 2% will be interest.

VI. Loan Rates and Terms

LOAN TYPE ^[1]	ORGANIZATION TYPE	INTEREST RATE PLUS ADMINISTRATIVE FEE	MAX TERM ^[2]
Planning	All	0%	5 yrs.
Construction	Municipal Community ^[3] Non-disadvantaged	(3%) - (0%) ^[7]	20 yrs.
Construction	Municipal/Disadvantaged ^[4]	(3%) - (-3%) ^[7]	30 yrs.
Construction	Private-Profit Community	3% ^[8]	20 yrs.
Construction	Private-Non-Profit Community (Disadvantaged) ^[4]	(3%) - (-3%) ^[10]	30 yrs.
Construction	Private-Non-Profit Community (Non-disadvantaged)	3% ^[8]	20 yrs.
Construction	Private-Non-Profit Non-Community	3% ^[8]	20 yrs.
Construction	Municipal (Non-Community)	3% ^[9]	20 yrs.
Refinancing	Municipal (Debt incurred July 1, 1993 - April 5, 1997)	4.376% ^[5]	20 yrs.
Refinancing	Municipal (Debt incurred after April 5, 1997)	New loan rates ^[6]	New loan ^[6] terms

Notes for above table:

[1] Planning loans may include feasibility studies, preliminary engineering, engineering design etc., and will be rolled over into a long term loan if a loan is obtained for the proposed facilities. Construction loans include all system improvement type loans.

[2] Loan durations are for maximum terms but may be for a shorter time based on loan amount and other considerations.

[3] Municipal includes city, town, village, fire district, school district, etc. Interest rate plus administrative fee will not be less than necessary to achieve an annual household user cost of 1.00% of median household income (MHI).

[4] A disadvantaged municipality has a MHI below the state average community MHI ($\$40,368 \times 1.04^a$) or the user cost exceeds 2.5% of the MHI. Interest rate plus administrative fee and term will not be less than necessary to achieve an annual household user cost of 1.0% of MHI, and final adjustments will be made when loan is finalized after construction completion.

[5] Interest rate set by State Treasurer.

[6] Interest rate plus administrative fee and term will be the same as for new loans if funded within 2 years of the initiation of construction.

[7] Administrative fee will be from 0% to 2%.

[8] Administrative fee will be 3%.

[9] Administrative fee will be 2%.

[10] Administrative fee will be from 0% to 3%

Note: The exponent 'a' in the formula in [4] above accounts for a 4% annual inflation of MHI. The exponent is increased by a value of 1 each year to adjust for inflation, where a=0 for the base year (FFY02) and the state average community MHI = \$40,368.

Honorable Jim Douglas, Governor George Crombie, ANR Secretary Jeffrey Wennberg, DEC Commissioner

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