

Memorandum

March 21, 2019

TO: Infrastructure Finance Authority Board
FROM: Chris Cummings, Assistant Director
SUBJ: Safe Drinking Water Revolving Loan Fund – Extended Loan Term Length

Requested Action

Informational Only For Board Input For Board Action (see Recommended Motion)

Introduction

During this agenda item, the IFA Board will consider adoption of extended loan term length of up to 40 years for the Safe Drinking Water Revolving Loan Fund (SDWRLF) program consistent with recent amendments to the Safe Drinking Water Act §1452 (42 U.S.C. 300j-12).

Background

The SDWRLF program is a federal-state partnership to help ensure safe drinking water by providing financial support to water systems including infrastructure funding. The program is jointly implemented by the Oregon Health Authority Drinking Water Services (OHA) and Business Oregon. The agencies work together to approve projects, administer the revolving loans and undertake related activities. Since 1997, the state of Oregon has received an annual capitalization grant from the United States Environmental Protection Agency (EPA). The program is known nationally as the Drinking Water State Revolving Fund (DWSRF).

On October 23, 2018, America’s Water Infrastructure Act of 2018 (AWIA) was signed into law. Among its provisions are amendments to the Safe Drinking Water Act [§1452 (42 U.S.C. 300j-12)] that resulted in changes to the DWSRF program. One amendment [AWIA §2015(d): Types of Assistance] allows for up to a 40-year loan term length for disadvantaged borrowers, and 30-year loan term length for all other borrowers. Business Oregon and OHA jointly presented the loan term length amendment to OHA’s Drinking Water Advisory Committee. OHA has expressed support for utilizing the new loan term length options to support those water systems defined as disadvantaged.

Discussion

A. Loan Term Length and Disadvantaged Designation

In the past, the standard loan term length for the DWSRF was 20 years. For those communities designated as “disadvantaged,” a 30-year loan term length was offered. The change to the Safe Drinking Water Act results in 30-year loan term length being available to all communities with disadvantaged communities being eligible for 40-year loan term length. Communities are already commonly presented with 40-year loan term options from our federal partners USDA Rural Development during Business Oregon facilitated one-stop meetings.

EPA allows the states to develop the criteria for disadvantaged designation. In 2018, Business Oregon modified the criteria to provide more communities the option of a 30-year loan term length. In 2019, as a result of the amendments to the Safe Drinking Water Act, Business Oregon reverted back to its pre-2018 disadvantaged designation approach, defining disadvantaged as a community with a Median Household Income (MHI) below the state average or a community with a MHI above the state average, if water rates at project completion would exceed 150% of the affordability rate.

To calculate the affordability rate, the community's Median Household Income (MHI) is multiplied by 1.25% and divided by 12. The affordability rate is then compared to the average monthly residential water charge taking into account future loan repayment for the proposed project.

B. Proposed Approach to SDWRLF Loan Term Length

Business Oregon seeks a careful approach in implemented the new federal 40-year loan term length with a focus on exhausting all other incentive options prior to considering an extended term and ensuring the infrastructure investment has a design life of 40 years or more. The proposed approach to loan term length is as follows.

- For communities with a Median Household Income (MHI) below the state average, a 40-year loan term length may be offered if after 1% interest rate subsidization and all available forgivable loan allocation, the community would still have water rates in excess of what is affordable (i.e. affordability rate).
- For communities with an MHI above the state average, a 40-year loan term length may be offered if after project completion water rates would exceed 150% of what is determined to be affordable (i.e. affordability rate).
- A 30-year loan term length could be offered to those communities that do not meet the criteria listed above.
- In all cases, the loan term length must not exceed the design life (i.e., useful life) of the infrastructure investment.

C. Design Life

A communication from EPA describing the impacts of AWIA was recently provided to the States. EPA describes the States as being responsible for making the determination for "design life" of a project using best professional engineering judgement. EPA commented that when the major water system components being financed have various design lives, applying a weighted average is a simple way to derive the maturity of the loan or the debt obligation.

Business Oregon's SDWRLF funding application includes a question about useful life (i.e. design life) and the source of the useful life estimate. The licensed engineer responsible for the drinking water system improvement typically provides the useful life estimates of the various improvements. If information contained within the application is not adequate to verify that the weighted useful life of the infrastructure improvement exceeds the proposed loan term length, then the Business Oregon Public Finance Officer works with the Regional Project Manager to ask for any additional information needed to determine the loan term length Business Oregon can offer.

Recommended Program Modifications

Recommended program modification include:

1. For communities with a Median Household Income (MHI) below the state average, a 40-year loan term length may be offered if after 1% interest rate subsidization and all available forgivable loan allocation, the community would still have water rates in excess of what is affordable (i.e. affordability rate).
2. For communities with an MHI above the state average, a 40-year loan term length may be offered if after project completion water rates would exceed 150% of what is determined to be affordable (i.e., affordability rate).
3. An up to 30-year loan term length could be offered to those communities that do not meet the criteria listed in items 1 and 2 above.

Recommended Motion

Move to adopt program modifications, including consideration of a 40-year loan term length consistent with recent amendments to the federal Safe Drinking Water Act.