

Systems will provide 1,400 hours of technical assistance to small systems.

CRITERIA AND METHOD OF FUND DISTRIBUTION

Projects will be funded based on their assigned priority as set forth on the Project Priority list. Projects with the highest ranking that have submitted a complete State Revolving Fund loan application and demonstrated adequate financial, managerial, and technical capacity to receive the loan shall be funded before any lower ranked projects. Projects on the priority list may be bypassed if they have not demonstrated readiness to proceed by submitting a loan application. “Readiness to Proceed” is defined by EPA as the applicant being prepared to begin construction and is immediately ready, or poised to be ready, to enter into assistance agreements. The next highest priority project that has submitted an application will be funded. The state shall exert reasonable effort to assure that the higher priority projects on the priority list are funded.

Interest rates are reviewed periodically in comparison to established bond rating indexes to assure rates are at or below market rates as required. The SRF rates are then set to be competitive with other funding agencies.

The interest rates for FFY 2019 are summarized in Table 1. Information regarding disadvantaged eligibility and subsidy level criteria can be found in the disadvantaged community subsidies section. The interest rates were adjusted in November 2018.

ADMINISTRATIVE SURCHARGE FEES

The interest rate includes an administrative surcharge as identified in Table 1. The

	Up to 5 Yrs	Up to 10 Yrs	Up to 20 Yrs	Up to 30 Yrs*
<u>Interim Rate</u>				
Interest Rate	2.00%			
Admin. Surcharge	0.00%			
Total	2.00%			
<u>Base Rate</u>				
Interest Rate	1.75%	2.00%	2.25%	
Admin. Surcharge	0.50%	0.50%	0.50%	
Total	2.25%	2.50%	2.75%**	
<u>Disadvantaged Rate – 80% to 100% of MHI</u>				
Interest Rate				2.00%
Admin. Surcharge				0.50%
Total				2.50%
<u>Disadvantaged Rate - 60% to 80% of MHI</u>				
Interest Rate	1.25%		1.75%	
Admin. Surcharge	0.00%		0.50%	
Total	1.25%		2.25%	
<u>Disadvantaged Rate – Less than 60% of MHI</u>				
Interest Rate				0.00%
Admin. Surcharge				0.00%
Total				0.00%
* Term cannot exceed useful life of the project				
** Non-profit borrowers are not eligible to receive this loan rate and term.				

primary purpose of the surcharge is to provide a pool of funds to be used for administrative purposes after the state ceases to receive capitalization grants. The administrative surcharge is also available for other purposes, as determined eligible by EPA and at the discretion of the Board of Water and Natural Resources and the department.

As of September 30, 2018, more than \$2.98 million of administrative surcharge funds are available.

Beginning in FFY 2005, administrative surcharge funds were provided to the planning districts to defray expenses resulting from SRF application preparation and project administration. Reimbursement is \$9,000 per approved loan with payments made in \$3,000 increments as certain milestones are met.

The American Recovery and Reinvestment Act (ARRA) of 2009 and subsequent capitalization grants have mandated implementation of Davis-Bacon prevailing wage rules. Under joint powers agreements between the planning districts and the department, the planning districts are to be reimbursed \$1,100 per project to oversee compliance with the Davis-Bacon wage rate verification and certification.

Administrative surcharge funds will again be provided to the planning districts to defray the cost of SRF application preparation and project administration, which includes Davis-Bacon wage rate verification and certification. The FFY 2019 allocation for these activities will be \$50,000.

In FFY 2019, \$75,000 of administrative surcharge funds will be allocated for operator certification training.

In FFY 2015, \$250,000 of administrative surcharge funds were allocated to provide grants to assist very small systems in violation of the Safe Drinking Water Act. These funds are limited to community systems with 50 or less connections and not-for-profit, non-transient non-community water systems. Funds will be provided for infrastructure projects as 100 percent grants up to a maximum of \$50,000 and for total project costs less than \$100,000. The authority to expend the 2015 allocation through the South Dakota budget process will end on June 30, 2019. To allow for additional projects to be funded \$200,000 will be allocated for these activities in FFY 2019.

SMALL SYSTEM FUNDING

A requirement of the program is that a minimum of 15 percent of all dollars credited to the fund be used to provide loan assistance to small systems that serve fewer than 10,000 persons. Since the inception of the program,

loans totaling over \$234.2 million have been made to systems meeting this population threshold, or 49.1 percent of the \$476.6 million of total funds available for loan. Attachment II – List of Projects to be funded in FFY 2019 identifies more than \$89.1 million in projects, of which nearly \$47.3 million is for systems serving less than 10,000; therefore, the state expects to continue to exceed the 15 percent threshold.

Water systems must demonstrate the technical, managerial, and financial capability to operate a water utility before it can receive a loan.

The distribution methods and criteria are designed to provide affordable assistance to the borrower with maximum flexibility while providing for the long-term viability of the fund.

AMOUNT OF FUNDS TRANSFERRED BETWEEN THE DRINKING WATER SRF AND THE CLEAN WATER SRF

The Safe Drinking Water Act Amendments of 1996 and subsequent Congressional action allows states to transfer an amount equal to 33 percent of its Drinking Water SRF capitalization grant to the Clean Water SRF or an equivalent amount from the Clean Water SRF to the Drinking Water SRF. States can also transfer state match, investment earnings, or principal and interest repayments between SRF programs and may transfer a previous year's allocation at any time.

South Dakota transferred \$15,574,320 from the Clean Water SRF to the Drinking Water SRF program in past years. In FFY 2006 and 2011, \$7.5 million of leveraged bond proceeds and \$10 million of repayments, respectively were transferred from the Drinking Water SRF program to the Clean Water SRF program. With the expected 2019 capitalization grant, the ability exists to

transfer more than \$52.0 million from the Clean Water SRF program to the Drinking Water SRF program. More than \$50.1 million could be transferred from the Drinking Water SRF Program to the Clean Water SRF program. Table 4 (page 11) itemizes the amount of funds transferred between the programs and the amount of funds available to be transferred.

No transfers are expected in FFY 2019.

FINANCIAL STATUS

Loan funds are derived from various sources and include federal capitalization grants, state match, leveraged bonds, borrowers' principal repayments, and interest earnings.

Capitalization Grants/State Match: Federal capitalization grants are provided to the state annually. These funds must be matched by the state at a ratio of 5 to 1. The FFY 2019 capitalization grant is expected to be \$11,107,000 which requires \$2,221,400 in state match. Bond proceeds will be used to match FFY 2019 capitalization grant funds.

For purposes of meeting FFY 2019 proportionality requirements, the South Dakota Drinking Water SRF program will document the expenditure of repayments and bond proceeds in an amount equivalent to the entire required state match.

Leveraged Bonds: The South Dakota Conservancy District has the ability to issue additional bonds above that required for state match, known as leveraged bonds. To date, \$78.7 million in leveraged bonds have been issued for the Drinking Water SRF program. It is anticipated that up to \$45.0 million in leveraged bonds will be required in FFY 2019.

Borrowers' Principal Repayments: The principal repaid by the loan borrowers is used to make semi-annual leveraged bond

payments. Any excess principal is available for loans. It is estimated that \$5.5 million in principal repayments will become available for loans in FFY 2019.

Interest Earnings: The interest repaid by the loan borrowers, as well as interest earned on investments, is dedicated to make semi-annual state match bond payments. Any excess interest is available for loans. It is estimated that \$2.5 million in interest earnings will become available for loans in FFY 2019.

As of September 30, 2018, 311 loans totaling \$467,393,262 have been made.

At the beginning of FFY 2019, \$9,220,644 is available to loan. With the 2019 capitalization grant, state match, leveraged bonds, excess interest earnings, and repayments, approximately \$74.2 million will be available to loan. This information is provided in Attachment III, Drinking Water SRF Funding Status.

Funds will be allocated to the set-aside activities in the amounts indicated below. All remaining funds will be used to fund projects on the project priority list. A more detailed description of the activities can be found in the section pertaining to set-asides and the attachments.

Administration	\$444,280
Small System Technical Assistance	\$222,140
Local Assistance	\$75,000
State Program Management	\$600,000
Total for set-asides	\$1,341,420

A conservative approach to set-asides has been taken to assure achieving the goals of developing a permanent, self-sustaining SRF program. Future demand on the program will influence the allocation of funds to set-asides and loan subsidies.

With the adoption of the amended and restated Master Indenture in 2004, the Clean Water and Drinking Water SRF programs are cross-collateralized. This allows the board to pledge excess revenues on deposit in the Drinking Water SRF program to act as additional security for bonds secured by excess revenues on deposit in the Clean Water SRF program, and vice versa.

The Safe Drinking Water Act included three provisions that call for a withholding of Drinking Water SRF grant funds where states fail to implement three necessary programmatic requirements. These provisions were assuring the technical, financial and managerial capacity of new water systems, developing a strategy to address the capacity of existing systems, and developing an operator certification program that complies with EPA guidelines. The State of South Dakota continues to meet the requirements of these provisions and will not be subject to withholding of funds.

Additional Subsidy - Principal Forgiveness

The 2010 and 2011 Drinking Water SRF appropriations mandated that not less than 30 percent of the funds made available for Drinking Water SRF capitalization grants shall be used by the state to provide additional subsidy to eligible recipients. The 2012 through 2015 capitalization grants mandated additional subsidy be provided in an amount not less than 20 percent, but not more than 30 percent, of the capitalization grants. The 2016 through 2018 capitalization grant mandated additional subsidy of exactly 20 percent of the total grant be provided to recipients. Additional subsidy may be in the form of forgiveness of principal, negative interest loans, or grants (or any combination of these).

Additional subsidy will be provided in the form of principal forgiveness. Municipalities and sanitary districts must have a minimum

rate of \$30 per month based on 5,000 gallons usage or to qualify for principal forgiveness. Other applicants must have a minimum rate of \$55 per month based on 7,000 gallons usage to qualify for principal forgiveness.

When determining the amount of principal forgiveness, the Board of Water and Natural Resources may consider the following decision-making factors, which are set forth in alphabetical order:

- (1) Annual utility operating budgets;
- (2) Available local cash and in-kind contributions;
- (3) Available program funds;
- (4) Compliance with permits and regulations;
- (5) Debt service capability;
- (6) Economic impact;
- (7) Other funding sources;
- (8) Readiness to proceed;
- (9) Regionalization or consolidation of facilities;
- (10) Technical feasibility;
- (11) Utility rates; and
- (12) Water quality benefits.

Table 2 summarizes the amounts of principal forgiveness provided to date.