



Clean Water State Revolving Fund

Major Financial Policies

FY 2023

SC Water Quality Revolving Fund Authority

SOUTH CAROLINA WATER QUALITY REVOLVING FUND AUTHORITY

Clean Water SRF

STATE WATER POLLUTION CONTROL REVOLVING FUND

MAJOR FINANCIAL POLICIES FOR FY 2023 LOANS

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Note: Inquiries should be directed to the Office of Local Government, SC Rural Infrastructure Authority, which administers the Fund for the SC Water Quality Revolving Fund Authority (the “*Authority*”).

October 1, 2022

Clean Water SRF

STATE WATER POLLUTION CONTROL REVOLVING FUND

MAJOR FINANCIAL POLICIES FOR FY 2023 LOANS

I. ELIGIBILITY

Loan applications may be submitted to the Authority in care of the Office of Local Government, Rural Infrastructure Authority, for any eligible project that appears on the DHEC Priority List. No loan application will be considered complete until DHEC approves a Clean Water SRF (CWSRF) preliminary engineering report and issues a construction permit for the project, or alternative approval, as appropriate to the type of project.

All eligible and reasonable costs associated with completing a project, including useful life reserve capacity, engineering expenses for the planning, design and construction phases, legal and appraisal fees, and land/right-of-way/easement acquisition may be included in a loan. See loan application instructions for more details. Specific determinations of eligibility will be made by DHEC, as needed.

Loans will only be approved by the Authority for creditworthy applicants that can adequately demonstrate the ability to repay the requested loan.

II. INTEREST RATES

Fixed rate financing for up to 100% of total eligible project costs is available according to the following interest rates and criteria for FY 2023 loans that have a complete loan application (requires DHEC issued construction permit) by July 31, 2023.

1. Standard Rate - 1.40%

Set below FY 2022 rate, in spite of rising market rates, for purposes of fully committing large cash balances from early loan payoffs and additional funding from the Infrastructure Investment and Jobs Act.

See Section III on page 3 for reductions or premiums to the Standard Rate based on term.

2. Small System Rate - .20 percentage point below Standard Rate

The Small System Rate is available to project sponsors according to the following criteria:

- (a) Total service area population less than 10,000, with total service area being defined as the project sponsor's legal boundaries plus all areas beyond such boundaries where the entity provides sewer service and water service, if applicable; and
- (b) Total service area median household income (MHI), not project area MHI, less than the state MHI (\$54,864) based on the 2016-2020 5-year American Community Survey (ACS) estimates; and
- (c) The borrower does not have an underlying revenue credit rating in at least the "A" category on the utility system to secure the loan.

The Authority will make population determinations based on the latest figures and estimates available from the SC Revenue and Fiscal Affairs Office (RFA), the ACS, the Department of Commerce and other sources, as appropriate. The service area population and MHI must be custom calculated for any county or special purpose district, and for any municipality with more than 25% of its customers outside of its incorporated area. When a loan is requested for a jointly owned facility (including purchasers of capacity in a facility) by the legal owner of the facility, population shall include all such joint owners.

The Small System Rate is also available to any project sponsor, regardless of size and MHI, that assumes legal ownership of an entire non-viable wastewater system serving residential customers. Such rate applies to the cost of replacing or upgrading infrastructure necessary to ensure compliance with the Clean Water Act, but only that portion of costs directly attributable to serving the existing population is eligible for this rate. Any purchase price involved in acquiring a system is not eligible.

3. Green Rate - .20 percentage point below Standard Rate

The Green Rate is available for portions of projects meeting EPA green criteria, but such rate is limited to a maximum of 25% of the total borrowed amount even if a higher amount meets the EPA green criteria, and the Standard Rate will be used for the balance of a loan. This rate will be available only to borrowers that do not have an underlying, revenue credit rating on the utility system securing the loan and only for equipment and construction costs.

III. LOAN TERM

The loan term may extend up to 30 years, not to exceed the useful life of a project, from the project completion date or the payment initiation date, whichever occurs first. A blended amortization schedule may be provided when the useful life is different for component parts of a project

When all or a portion of a project is eligible for a term of 30 years, a premium of 50 basis points will be added and applied to the 30-year amount for the entire 30-year term. If a portion of the same project has a term of 20 years, then separate 20-year and 30-year amortizations will be merged into a single repayment schedule. The premium of 50 basis points for any 30-year financing applies to all available rate types.

Shorter term loans are also available, with the interest rate lowered by .20% (20 basis points) for a term of 8 to 14 years, and by .40% (40 basis points) for a term of up to 7 years. Such further discounted interest rates apply only to an entire project using the Standard Interest Rate.

IV. REFINANCING EXISTING DEBT

For FY 2023, a maximum of \$5 million will be made available to refinance existing debt for one or more project sponsors according to the following criteria.

- (a) Refinancing may only occur in conjunction with a new SRF loan, is limited to no more than 25% of new project costs, does not apply to existing SRF loans or prior SRF loans that were refunded by bank or market issues, and is necessary for affordability of the new project.
- (b) Any debt to be refinanced must have been issued after March 7, 1985 and met federal requirements as if the project had received SRF funding at the time. Requirements governing

the use of Davis-Bacon and American Iron and Steel will be based on EPA guidance.

- (c) Any refinancing of Rural Development (RD) loans must constitute the entirety of a system's RD debt (existing and committed) and be within the above parameters. The CWSRF will not be used to partially refund RD debt.

V. LOAN FEE

A nonrefundable loan closing fee of thirty-five hundredths of a percentage point (0.35% of loan amount) will be assessed on all FY 2023 loans to support the costs of administering the CWSRF. This fee, which is due in full with the project sponsor's executed closing documents, compares very favorably to total costs associated with issuing revenue bonds in the market, but it can not be financed within the loan.

VI. SECURITY PROVISIONS

Loans may be secured by a pledge of user charge revenues, special assessments, general taxes, or, under limited circumstances, other revenues legally pledged to a system over the term of a loan. However, loans may not be secured by Special Source Revenue Bonds pursuant to Title 4, Chapter 29, Code of Laws of South Carolina, 1976, as amended.

Loans Secured by Revenues of a System.

A. Debt Service Coverage

The following policies represent minimum coverage requirements to be considered for a loan secured by system revenues and to be maintained over the life of the loan. Debt service coverage will serve as a key indicator in the financial analysis, but it will not be the sole determinant for loan approval. Various other factors which affect credit quality and ability to repay debt will be evaluated carefully in making loan decisions.

1. When a CWSRF loan is on a parity with existing revenue bonds, the additional bonds test and coverage requirements (rate covenant) of the governing bond ordinance/resolution shall apply to the CWSRF loan, except, in such cases where the rate covenant is less than 110% of all debt and calculated before transfers out of the system, the Authority may, as it deems appropriate to the particular circumstances, impose a higher coverage requirement.
2. When a CWSRF loan is not on a parity with existing revenue bonds either due to the absence of revenue debt or an inability to meet the financial requirements for issuance of parity debt, the following apply.
 - (a) The minimum debt service coverage level required to be considered for a loan is 110% of all debt secured by or paid from the revenues of the system.
 - (b) Once a loan has been approved, rates must be established, maintained and adjusted as frequently as necessary to produce net earnings each year equal to at least 110% of the annual principal and interest requirement on all debt paid from or secured by system revenues.
 - (c) In cases where a significant portion of the existing debt is paid from but not secured by system revenues and the CWSRF loan is secured by a first lien on the system revenues, the Authority may consider deviations from the eligibility and rate covenant requirements as it deems appropriate to the particular circumstances.

For purposes of determining debt service coverage in the CWSRF, net revenues available for debt service are defined as the system's gross operating revenues plus special assessments, impact fees, and interest income less OM&R expenses (exclusive of depreciation and bond interest expense). Interest income shall not include earnings that are restricted to a purpose inconsistent with the payment of operating expenses or debt service, such as earnings that accrue on any construction fund or account created with the proceeds of any borrowings.

B. Debt Service Reserve Funds

A debt service reserve fund is required for all loans secured by system revenues, except as provided in the following number 5.

1. Except as provided in the following number 5, the Debt Service Reserve Fund requirement (the "Reserve Requirement") equals the maximum amount due on the Promissory Note during any full calendar year.
2. The Debt Service Reserve Fund must be in the complete custody and control of a Trustee or Custodian approved by the Authority.
3. The time period available to meet the Reserve Requirement may range from immediate to no later than the end of the deferral period. The duration will be determined by the Authority based on the circumstances of each individual loan and the specific provisions identified in the Loan Agreement.
4. A surety bond, letter of credit or insurance policy may not be substituted initially, or at any time after loan closing, for cash funding of a debt service reserve fund without the prior written approval of the Authority.
5. A debt service reserve fund will not be required on a CWSRF loan if the following criteria of 5(a) and 5(b) are met and maintained.
 - (a) The project sponsor has a current public, underlying revenue bond rating, or reaffirmation thereof, on its utility system, the revenues of which are to be pledged for loan repayment, from S&P Global and/or Moody's and each such rating is in at least the "A" category and each such rating is still in effect at the time of loan closing. The project sponsor will be required to immediately notify, and submit to, the Authority any commentaries, updated outlooks, CreditWatch placements, rating downgrades or other actions issued by the rating agencies on the system or any of its revenue debt issues.
 - (b) The project sponsor's governing bond ordinance/resolution permits parity bonds to not have a debt service reserve fund.
 - (c) If there is no longer a current public, underlying rating or if a project sponsor receives any ratings downgrade on a revenue bond or on its utility system by S&P Global or Moody's below the level cited in 5(a) above, a debt service reserve fund will immediately be required and the Reserve Requirement amount shall equal the amount cited in B.1 above. The project sponsor will be required to meet such Reserve Requirement within 12 months, through equal monthly deposits, beginning in the month following any such downgrade or loss of rating.

C. Lien Position

The Authority requires the best lien position on the pledged revenue stream that is reasonably available from and affordable to the applicant; provided, however, if the project sponsor has any debt held by Rural Development, United States Department of Agriculture (RD) in an open lien position, then a CWSRF loan must be on a parity with such RD debt. Notwithstanding the forgoing provision, in the case of a project sponsor that has RD debt in an open lien position and also has been issued a credit rating of at least "A" by either S&P or Moody's, or both, the Authority may consider the lien position best suited to the particular situation and debt structure of the project sponsor. With respect to already existing CWSRF loans, if a project sponsor has a then current credit rating of at least "AA" by either S&P or Moody's, or both, and the project sponsor has restructured its debt and closed liens, the Authority may, under extraordinary circumstances, consider a change in lien position on an existing loan if no further debt can be issued with a higher lien position and it will be on a parity with existing and future market bond issues.

Loans Secured by Taxes

Loans may be secured by a general obligation pledge of the full faith, credit and taxing power of the applicant. Such general obligation loans do not require a debt service reserve fund or debt service coverage, but must be issued pursuant to applicable State law for this type of debt.

VII. LOAN AMOUNT CHANGES

A. After Issuance of a Conditional Loan Commitment Letter

The primary adjustment to the loan commitment amount involves the construction component. All construction parts of a project are required to be bid prior to loan closing. Based on bid results, the construction portion of the loan commitment may be adjusted downward to bid(s) plus contingency or increased by a maximum of 10% exclusive of contingency, depending on the availability of funds. In projects involving other sources of funding for construction, the potential 10% increase only applies to the amount financed by the CWSRF. Such adjustments will result in proportional changes to the loan fee prior to closing. Any bid amount exceeding 10% of the construction portion of the loan commitment is the sole responsibility of the project sponsor.

B. After Loan Closing

The total loan amount may be increased after closing only for capitalization of interest. Change orders that exceed the contingency allowance are not eligible for additional loan funds. The loan may be reduced at any time there is a determination of excess funds.

VIII. DISBURSEMENT POLICIES

Loan funds will be disbursed to project sponsors no more frequently than monthly and only after adequate documentation has been submitted to evidence obligation of the requested monies. No advances will be provided. Further details on disbursement requirements and procedures are contained in the loan agreement and the CWSRF disbursement information package.

IX. REPAYMENT POLICIES

A. Deferrals

1. The maximum duration for principal and interest deferral is limited to whichever of the following occurs first.
 - (a) The estimated date of DHEC's final permit to operate for the project.
 - (b) Thirty (30) months from the date of the loan agreement.

The payment initiation date is the first day of the month following the end of the deferral period. The first payment is due on the first day of the third month after the month of the payment initiation date.

2. The project sponsor will be offered the following two options for repaying interest that accrues during the deferral period.
 - (a) Lump sum payment of accrued interest on the payment initiation date.
 - (b) Addition of the accrued interest to the principal amount on the payment initiation date (capitalization of interest).

B. Payment Frequency

Payment of principal and interest will be due quarterly on the first day of the payment month, unless the Authority otherwise specifies monthly payments for certain loans.

C. Payment Provisions

The Project Sponsor is responsible for repaying the loan according to the payment schedule shown in the loan agreement. All disbursements made after the Payment Initiation Date will be considered to have been made on the Payment Initiation Date for purposes of repayment. If the final disbursement occurs after one or more payments have been made and the full loan amount is not used, the Authority will calculate a new repayment schedule based on the final loan amount retroactive to the Payment Initiation Date and apply a simple credit for any overpayment to the next payment or payments due on the revised repayment schedule.

D. Prepayments

There is no penalty for early pay-off of the full outstanding principal amount of a loan or for partial prepayments. Partial prepayments may be submitted based on the following conditions.

- (a) Partial prepayments will only be accepted once during a calendar year on one of the borrower's regular quarterly payment due dates and only in even multiples of \$5,000.
- (b) Advance notice of a partial prepayment with the amount and source of remittance is required to be provided to the Office of Local Government (and trustee, as applicable) at least 10 days prior to the due date of the regular payment.
- (c) All such partial prepayments shall be applied to the then current outstanding principal balance, but the level debt quarterly payment amount will not change.

Notwithstanding the above provisions, if a loan is for a regional facility where capacity is being purchased by one or more other entities and the project sponsor has included within the loan the financing of such purchased capacity, and if any such purchaser decides to refinance its entire remaining cost of such purchased capacity, the project sponsor may prepay to the

Authority the full refinanced amount and the loan will be re-amortized over the remaining term of the loan at the new outstanding principal balance after such prepayment.

E. Late Charge on Overdue Payments

A late charge of 3% of the payment amount will be assessed on, and due with, any payment that is not received in the Office of Local Government by the 10th calendar day of the payment month.

F. Payment Default

A payment default will be declared on any loan if the payment is not received within 30 days of the due date. If no payment has been received at the end of the 30th day, the Authority will activate procedures contained in state law which provide for withholding state appropriations and exercise other remedies available to it in the loan agreement, as may be needed.

X. LOAN CANCELLATION POLICIES

Since readiness to proceed is a dominant factor in securing a loan, substantial delays in initiating projects are not anticipated. However, with considerable needs for wastewater facilities and increased demand for CWSRF financing, loan monies should be utilized for their intended purpose expeditiously, or be provided to other projects. Consequently, if a loan has not been closed within three months of the date of a loan commitment letter, the loan commitment may be canceled, and if all construction contracts have not been executed within three months of the loan agreement date, the loan may be rescinded. Under extraordinary circumstances, the project sponsor may submit a written time extension request for consideration by the Authority.

XI. FINANCIAL REQUIREMENTS

The following identifies major financial requirements that apply to all loan recipients. Additional financial requirements and responsibilities governing loans from the CWSRF are defined in the loan application package, the loan agreement and other program materials.

1. Each loan applicant must establish one or more dedicated repayment sources that contain sufficient revenues to operate and maintain the system and cover debt service payments for the duration of the loan. Dedicated sources of revenue may be user charges, special assessments, general taxes, or other sources available to the project sponsor and allowable in the CWSRF.
2. All loan recipients must account for the project and the system, of which it is part, according to Generally Accepted Accounting Principles (GAAP) applying the provisions of the Governmental Accounting Standards Board (GASB).
3. Each loan recipient is required to conduct an annual audit and submit it to the Authority. Audit guidelines are set forth in the US Government Accountability Office's "Government Auditing Standards", as last amended, and in the OMB Uniform Guidance.
4. Each project sponsor must comply with all terms and conditions set forth in the legally binding loan agreement which shall be executed between the loan recipient and the Authority. Among other things, the loan agreement will require the loan recipient to impose, collect and, if necessary to ensure repayment of the obligation according to the terms of the agreement,

increase user charges, taxes or other dedicated revenue sources identified for loan repayment.

XII. NEW INITIATIVES

In FY 2023, the Office of Local Government may provide special initiatives to fund new and innovative pilot programs. As developed, these initiatives will be evaluated and incorporated, as appropriate, into the annual policies and procedures.