

Missouri Clean Water Commission Meeting
Department of Natural Resources
Lewis and Clark State Office Building
LaCharrette/Nightingale Creek Conference Rooms
1101 Riverside Drive
Jefferson City, Missouri

April 5, 2017

Clean Water State Revolving Fund (CWSRF) Loan Administrative Fee Proposal

Issue: The CWSRF program currently charges a one percent (1.0%) loan administrative fee annually on the outstanding loan balance of direct loans closed after July 1, 2010. Stakeholders have requested that the department and Commission reduce the loan administrative fee to one-half percent (0.5%) annually beginning on January 1, 2018.

Background: Federal regulations allow state CWSRF programs to charge an administrative fee. In accordance with federal requirements, generally CWSRF administrative fees may be used for the operation of the CWSRF program, CWSRF state match, eligible purposes of Clean Water Act Title VI, other water quality related purposes and the combined financial administration of the CWSRF and Drinking Water State Revolving Fund. Further restrictions may apply depending on if the administrative fees are considered program income or non-program income.

Historically, Missouri's CWSRF program charged an effective rate of one-half percent (0.5%) annually on the outstanding balance on the construction loan for both the leveraged loan and direct loan programs. In June 2010, staff were directed by a previous department director to increase the CWSRF loan administrative fee to one percent (1.0%) annually on a prospective basis (i.e. applied to new loans going forward). The loan administrative fee was raised and subsequently published in the annual CWSRF Intended Use Plan (IUP). The CWSRF IUP also contains information on the balance of the administrative fee fund and a summary of the categories of expected uses of the funds. The CWSRF IUP is placed on public notice for comment and approved by the Commission annually.

The loan administrative fee is separate and distinct from the interest rate. The loans issued under the CWSRF program have an interest rate that is thirty percent (30%) of the market index rate published for the week prior to the closing date of the loan. Between September 1, 2016 and February 28, 2017 the market index rate has ranged from 3.05% to 4.11% resulting in a CWSRF interest rate range of 0.92% to 1.24%. Interest begins accruing on direct loans as funds are drawn after the loan closing date. In contrast, the loan administrative fee does not start accruing until the first principal payment is due under the loan. By regulation the first principal payment is due within six months of the initiation of operations of the project or operable component of the project. As such the principal repayment typically does not start until one to two years after the loan closing date. Principal, interest and administrative fee payments on direct loans are typically due twice a year: January 1 and July 1.

The department has identified 52 CWSRF direct loans that have the one percent (1.0%) administrative fee requirement. All other CWSRF direct loans and leveraged loans have an effective administrative fee rate of one-half percent (0.5%). Bond counsel has advised the department that to implement the reduced administrative fee, modifications would need to be made to the 52 CWSRF direct loans. Specifically, borrowers would need to adopt revised bond ordinances/resolutions and in a few instances loan agreements would need to be modified. This will require legal documents to be drafted by bond counsel and each borrower will likely need to take formal action to adopt the revised documents. The department estimates it would incur approximately \$55,000 in external costs to make these modifications. In addition, department staff would incur approximately 200 man-hours in additional work.

Recommended Actions: The department has reviewed the request for the reduction in the administrative fee and is recommending that the reduced fee become effective immediately for new CWSRF loans. Implementing the change to be effective immediately will avoid borrowers potentially waiting to close on a loan until a future effective date. Further, it will reduce the cost to communities sooner and will avoid the need for department staff to modify these loans by January 1, 2018.

The department is also recommending that existing CWSRF direct loans that have a one percent (1.0%) administrative fee be modified such that beginning on January 1, 2018, and continuing through the repayment term of the loan, the administrative fee will be one-half percent (0.5%) annually on the outstanding principal balance. The department will be responsible for its costs to modify these agreements and individual borrowers will be responsible to cooperate, take necessary actions to approve the modification and for any cost they incur. The department is recommending this change be effective January 1, 2018 to allow adequate time for department staff, bond counsel, the paying agent, and the borrowers to take the necessary actions to implement these changes.

The proposed changes will reduce the amount of CWSRF loan administrative fees collected in future years. As recommended, the department estimates borrowers will pay approximately \$17 million less in CWSRF loan administrative fees cumulatively over the next five years. The reduction in CWSRF loan administrative fees is not expected to impact the administration of the CWSRF program, but is expected to reduce the amount of funds available for other eligible purposes.

Clean Water SRF Admin Fee Revenue Projections

	FY18	FY19	FY20	FY21	FY22	5-yr Total
Revenue Impact of Reducing New Clean Water Direct Loans from 1% to 0.5%	\$0	\$0	(\$636,440)	(\$1,258,575)	(\$1,866,275)	(\$3,761,290)
Revenue Impact of Reducing Existing Clean Water Direct Loans from 1% to 0.5%	(\$1,418,211)	(\$3,213,463)	(\$3,067,233)	(\$2,908,583)	(\$2,739,883)	(\$13,347,373)
Total Estimated Revenue Impact	(\$1,418,211)	(\$3,213,463)	(\$3,703,673)	(\$4,167,158)	(\$4,606,158)	(\$17,108,663)
Revised Projected Revenue	\$7,756,687	\$6,784,025	\$6,868,921	\$6,934,755	\$6,981,165	\$35,325,553

In summary, the department recommends that the Commission approve the implementation of a one-half percent (0.5%) annual loan administrative fee for all CWSRF direct loans closed on or after April 5, 2017. The department further recommends that the Commission approve the department to modify existing direct loans such that beginning on January 1, 2018, borrowers that had previously agreed to pay one percent (1.0%) annual loan administrative fee will be reduced to one-half (0.5%) annual loan administrative fee for the remainder of the existing terms.

Suggested Motion: “I move to approve setting the Clean Water State Revolving Fund annual loan administrative fee to one-half percent (0.5%) effective April 5, 2017 for all new direct loans and effective January 1, 2018 reducing the annual loan administrative fee to one-half percent (0.5%) for existing direct loans currently paying one percent (1.0%). The department is directed to take the administrative actions to implement this change in the Fiscal Year 2017 Clean Water State Revolving Fund Intended Use Plan and to modify existing direct loan documents for borrower’s currently being charged one percent (1.0%).”

Attachments: List of CWSRF Direct Loans with 1.0% Fee
January 9, 2017 Association of Missouri Cleanwater Agencies Letter Request

CLEAN WATER STATE REVOLVING FUND DIRECT LOANS WITH 1% ADMIN FEE

RECIPIENT PROJECT NAME	PROJECT #	MAXIMUM LOAN AMOUNT	AWARD DATE
MSD I/I REHAB & MO RIVER WWTP UPGRADE	C295564-01	\$37,000,000.00	12/21/2010
JOPLIN-02 TURKEY CRK & SHOAL CRK WWTF'S	C295548-02	\$26,000,000.00	01/26/2011
WENTZVILLE C295444-02	C295444-02	\$20,631,000.00	03/14/2011
LBVSD - MIDDLE BIG CREEK SUB-DISTRICT	C295525-01	\$37,850,000.00	03/16/2011
MACON-DISINFECTION FACILITIES	C295599-01	\$1,300,000.00	03/17/2011
WAYNESVILLE-WWTF IMPR. & COLL. REHAB	C295637-01	\$4,750,000.00	03/21/2011
BOONE CO. R. S. D. C295375-09 RTE. K WWT	C295375-09	\$438,000.00	06/14/2011
CUBA-WWTP & COLLECTION C295560-01	C295560-01	\$2,460,000.00	06/22/2011
TAOS	C295541-01	\$3,372,000.00	07/26/2011
STOCKTON-SEWER COLL. SYSTEM IMPR.	C295628-01	\$1,640,000.00	08/23/2011
MSD I/I REHAB & MO RIVER WWTP UPGRADE	C295564-02	\$39,769,300.00	11/30/2011
BOONE CRSD.- C295375-14 - RAY/N. GRINDST	C295375-14	\$1,360,000.00	05/09/2012
PERRY SEWER REHABILITATION	C295690-01	\$292,000.00	05/10/2012
NORTHEAST PSD OF JEFF CO- SALINE CREEK	C295684-01	\$12,000,000.00	06/05/2012
CAPE GIRARDEAU-NEW 11 MGD SBR WWTF+I/I	C295531-01	\$31,000,000.00	06/19/2012
LOUISIANA WWTP REPLACEMENT	C295686-01	\$5,980,000.00	09/12/2012
JEFFERSON CITY-06 COLE JUNCT. FM/RTE B	C295401-06	\$15,000,000.00	11/13/2012
ST. JOSEPH, CITY OF, WHITEHEAD CREEK CSO	C295699-02	\$14,660,000.00	03/26/2013
CAPE GIRARDEAU-NEW 11 MGD SBR WWTF+I/I	C295531-02	\$3,250,000.00	06/18/2013
CAPE GIRARDEAU-NEW 11 MGD SBR WWTF+I/I	C295531-03	\$35,750,000.00	06/18/2013
BOONE CO. RSD C295375-12 ROCKY FORK & HH	C295375-12	\$12,198,000.00	07/17/2013
CARL JUNCTION (PW)-WWTP EXPAN./I&I REHAB	C295650-01L	\$2,050,000.00	10/30/2013
MSD I/I REHAB & MO RIVER WWTP UPGRADE	C295564-03	\$52,000,000.00	10/31/2013
SUNRISE BEACH	C295540-01L	\$629,000.00	11/26/2013
ST. JOSEPH, CITY OF, WWTP UPGRADES	C295699-04	\$56,000,000.00	04/10/2014
ODESSA	C295675-01	\$8,000,000.00	08/26/2014
JOPLIN-03 SHOAL TP PHASE 2/LONE ELM INT.	C295548-03L	\$3,282,000.00	10/27/2014
ST. JOSEPH, CITY OF, EASTSIDE WW IMPROVE	C295699-01	\$28,585,000.00	11/05/2014
KIRKSVILLE-PHASE 8: CMP SEWER/BASIN F&G	C295250-10	\$1,485,000.00	12/10/2014
MASBDA #9	C295212-09	\$1,000,000.00	12/18/2014
BOONE CO. R.S.D.- C295375-10-SUNRISE EST	C295375-10	\$3,064,000.00	04/20/2015
NEVADA WW COLLECTION IMPROVEMENTS	C295698-01	\$2,722,000.00	05/05/2015
BELTON WWTP C295712-01	C295712-01	\$13,977,000.00	06/03/2015
ODESSA	C295675-02L	\$3,000,000.00	07/29/2015
MSD I/I REHAB & MO RIVER WWTP UPGRADE	C295023-37L	\$75,000,000.00	08/18/2015
MONETT WWTF IMPROV C295452-02	C295452-02L	\$1,895,000.00	10/13/2015
LIBERTY WWTF C295702-01	C295702-01	\$79,000,000.00	11/10/2015
PULASKI CO. S.D.#1-WEEKS HOLLOW WWTF	C295320-06	\$6,894,500.00	11/12/2015
MACON-SOLIDS DEWATERING IMPR.	C295725-01L	\$826,000.00	11/16/2015
WINDSOR PLACE, THE VILLAGE OF-WWTF IMPR.	C295721-01L	\$939,000.00	11/23/2015
FULTON WWTP C295714-01	C295714-01	\$13,000,000.00	12/03/2015
KIRKSVILLE-C295250-11 WWTP EXPANSION	C295250-11	\$18,000,000.00	02/22/2016
ALBA - WW SYSTEM IMPR.	C295709-01L	\$1,217,000.00	02/23/2016
BRASHEAR C295669-01	C295669-01L	\$486,000.00	02/25/2016
ST. JOSEPH, CITY OF, BLACKSNAKE CSO	C295699-03	\$10,000,000.00	10/06/2016
PIERCE CITY C295696-01 WW IMPR.	C295696-01L	\$496,000.00	11/10/2016
RENICK	C295806-01L	\$429,000.00	12/12/2016
MADISON	C295658-01L	\$1,616,000.00	12/20/2016
NEW LONDON WWTP & I/I	C295728-01L	\$879,000.00	12/21/2016
WELLSVILLE WWTP & CS	C295807-01L	\$595,000.00	12/21/2016
MSD I/I REHAB & MO RIVER WWTP UPGRADE	C295023-38	\$20,000,000.00	12/22/2016
MSD PUBLIC I/I RED PROGRAM PHASE V	C295023-39	\$75,500,000.00	12/22/2016
52	\$789,266,800.00		



ASSOCIATION OF MISSOURI CLEANWATER AGENCIES

January 9, 2017

Mr. Buddy Bennett
Chairman
Missouri Clean Water Commission
3545 Cinnamon Place
Springfield, MO 65809

RE: Request to Reduce Clean Water SRF Administrative Fee

Dear Chairman Bennett:

I am writing on behalf of the Association of Missouri Cleanwater Agencies to re-convey our request that the Commission return the Clean Water SRF Administrative fee to 0.5 percent from the increased level of one percent.

We understand that the CWC discussed this matter during a recent meeting and took our request under advisement, effectively deferring any change. Our members continue to believe that the fee should be changed back to 0.5 percent. However, given DNR's use of the excess funds for various unrelated activities, we have discussed providing an effective date for the change of January 1, 2018. This will give DNR time to either phase out the other uses of the funds or to secure alternative funding from the General Assembly to the extent the General Assembly believes these activities are appropriate for DNR to implement.

Thus, when the Commission takes up the CWSRF Intended Use Plan matter on their January 11, 2017 agenda, we ask the Commission to change the administration fee back to 0.5 percent - with an effective date of January 1, 2018. This will give DNR one full year to accommodate this change.

We also expect that a similar proposal will be made during the 2017 session of the General Assembly.

Thank you for considering AMCA's views on this issue. Please let me know if there are any questions or additional information which we can provide.

Sincerely,

F. Paul Calamita
General Counsel

C: Clean Water Commissioners (through Ms. Susan Borton)
Mr. David Lamb
AMCA Members