



2015 PWTF CONSTRUCTION LOAN **INTEREST RATE REDUCTION CRITERIA &** **Median Household Income (MHI) GUIDELINES**

BACKGROUND:

The 2015 Public Works Trust Fund (PWTF) loan cycle will be using affordability and debt service capacity criteria, for rate based systems and non-rate based systems, respectively, to determine the reduction in loan interest rate for a PWTF applicant.

1. AFFORDABILITY INDEX (AI) CRITERIA FOR RATE BASED SYSTEMS

The affordability index (AI) is calculated using the 2013 projected annual average utility rate per equivalent residential unit (ERU) (i.e., monthly average rate per ERU multiplied by 12) divided by the annual median household income (MHI) of the system service area.

1.1. HOW WE DETERMINE PROJECTED MONTHLY AVERAGE RATE PER ERU:

Public Works Board (PWB) staff considers the following factors in determining the projected monthly average rate per ERU:

- Current (application year) average monthly rate per ERU;
- Projected additional annual operating, maintenance and replacement (OM&R) expenses per ERU; and,
- New PWTF debt service using a straight line amortization at 1.0% interest rate and 20-year term per ERU.
- New debt service from other funding source for the same project the 2015 PWTF loan request is to be used for, per ERU.

1.2. MHI DETERMINATION CRITERIA:

PWB will accept four sources of MHI data:

- MHI data of the applicant or the project service area based on the American Community Survey (ACS) (<http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml>);
- Department of Ecology's 2012 Estimated Median Household Income for Communities in Washington State if ACS MHI data has a margin of error greater than 10% (www.ecy.wa.gov/programs/wq/funding/cycles/2012/MHIdata.pdf);
- MHI data from past income surveys of the applicant or the applicant's project service area (if the applicant is a city or town and the service area does not match city/town limits), conducted by RCAC, PWB, other state agencies, or third parties since March 1, 2009, which meets PWB Income Survey Guidelines; or
- MHI data from a new income survey of the applicant or the applicant's project service area (if the applicant is a city or town and the service area does not match city/town limits), which meets the IACC Income Survey Guidance (<http://www.infracfunding.wa.gov/>).

2. DEBT SERVICE COVERAGE RATIO (DSCR) CRITERIA FOR NON-RATE BASED SYSTEMS

The DSCR is calculated using the 2013 net operating income (NOI) divided by 2013 short term debt which includes the anticipated 2015 PWTF debt service.

2.1. 2012 NET OPERATING INCOME (NOI) DETERMINATION CRITERIA:

PWB staff will use the generally accepted formula for calculating **2013 net operating income**:
 2013 Total Operating Revenue
 - 2013 Total Operating Expenses
 = **2013 Net Operating Income**

2.2. 2012 TOTAL OPERATING REVENUE AND EXPENSES CRITERIA:

PWB will use the applicant's adopted budget for fiscal year 2013 to determine the 2013 total operating revenue and 2013 total operating expenses.

2.3. 2012 SHORT TERM DEBT DETERMINATION CRITERIA:

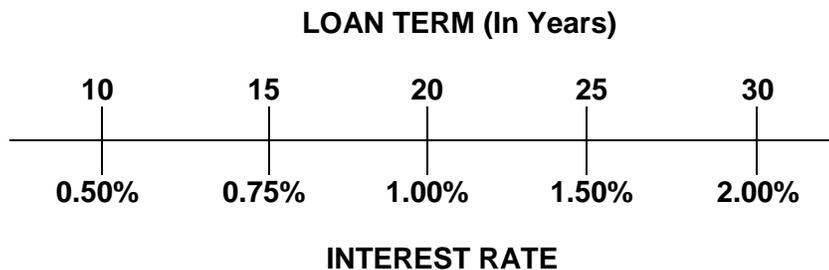
PWB staff considers the following factors in determining the **2013 short term debt**:

- o Current portion of long term debt due in 2013;
- o Anticipated 2015 PWTF debt service at 1.0% interest rate and 20-year term using straight line amortization; and,
- o Anticipated debt service from other funding source for the same project the 2015 PWTF loan request is to be used for.

IMPORTANT: MHI, NOI, and short-term debt data will be reviewed by PWB staff for validity and accuracy before the calculation and determination of the Affordability Index (AI) and Debt Service Coverage Ratio (DSCR).

3. 2014 PUBLIC WORKS TRUST FUND CONSTRUCTION LOAN TERMS

The Public Works Board adopted the following terms and rates on January 16, 2013:



4. INTEREST RATE REDUCTION OPTION

Rate Based Systems		Non-Rate Based Systems	
AI Between	Interest rate reduction option	DSCR is between	
2% or less	← Not Applicable →	1.26% or higher	
2.01% to 2.5%	← 0.25% →	1.00% to 1.25%	
2.6% or higher	← 0.50% →	Less than 1.00%	

IMPORTANT: Qualifying for a reduced interest rate DOES NOT GUARANTEE funding.

5. OTHER PARAMETERS:

- o No loan may have an interest rate of less than 0.25%.
- o Local match is not required.
- o Loan recipients may qualify for further loan interest rate reduction or a longer loan term if the project completes within 36 or 48 months of the contract execution date.
- o The loan repayment period cannot exceed the life of the asset being financed.

For more information, please contact:

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