



**Washington State  
Public Works Board  
Construction Loans**

**Fiscal Year 2017  
Application Guidelines**

July 1, 2016

# Construction Loan Guidelines

---

## Contents

Where to go for help: .....	5
What is a Construction Loan?.....	5
Who is eligible for construction funding?.....	5
What can be paid for with a construction loan?.....	5
Why is there an * after domestic water systems and sanitary sewer systems?.....	5
Threshold Requirements .....	6
Real Estate Excise Tax (REET).....	6
Growth Management Act (GMA) Conformance – <i>AT TIME OF CONTRACT EXECUTION!</i> .....	6
Capital Facilities Plan Standards (Counties and Cities Not Planning under GMA) .....	6
Sanitary Sewer Projects—Side Service Sewer Connections .....	6
HOW TO APPLY FOR A CONSTRUCTION LOAN .....	7
Hardcopy Application .....	7
Relevant documentation:.....	7
APPLICATION QUESTIONS AND INSTRUCTIONS .....	7
SECTION 1: GENERAL APPLICANT INFORMATION .....	8
General applicant information section .....	8
Other system(s) included with this project .....	8
Project Title .....	8
Loan Request.....	8
Total Project Cost.....	8
Applicant Legal Name .....	8
GPS Coordinates: .....	8
Latitude, longitude in degrees, minutes, seconds .....	8
Project Description .....	8
Project's Scope of Work .....	9
Project Schedule .....	9
Project Costs.....	9
Project Funding .....	9
SECTION 2: FINANCIAL AND SYSTEM MANAGEMENT EFFORTS .....	11
Financial management section.....	11
Number of people in jurisdiction.....	11
Number of people served by the system in 2015.....	11
Percentage of people in the system affected by this project. ....	11
• Adopted annual budget with year-to-date expenditures.....	11
• Debt service schedule(s) (if any) .....	11
• 2015 annual financial statement.....	11

- OPTIONAL: Income survey ..... 11
- RATE BASED ONLY SYSTEMS ..... 11

Local Management Effort ..... 11

SECTION 3: Project Need and Solution ..... 13

Readiness-to-proceed..... 13

Project category ..... 13

System specific questions..... 13

Project need questions – Problem..... 14

How will the problem be fixed ..... 15

Public Works Board Funding Considerations..... 17

Eligibility Requirements For Drinking Water And Sanitary Sewer Projects [RCW 43.155.070(14)(a)]:..... 17

How much money can my jurisdiction borrow? ..... 18

What is the interest rate being charged? ..... 18

How is the interest rate determined?..... 18

How is financial hardship eligibility determined? ..... 18

How is the affordability index determined? ..... 19

\*How is MHI calculated?..... 19

How is the Debt Service Coverage Ratio calculated? ..... 20

Are there other types of hardship? ..... 20



# *Special Considerations for Drinking Water and Sanitary Sewer Projects!*

## ELIGIBILITY ISSUES:

WHAT: The Legislature changed the [Construction Loan eligibility criteria](#) when it passed the 2015-2017 Biennial Capital Budget.

WHO: Sanitary sewer and drinking water projects that are eligible for the *clean water state revolving fund loan program* (CWSRF) or the *drinking water state revolving fund loan program* (DWSRF) are not eligible for public works board construction loans.

HOW: “Eligible” is defined as projects that have:

- applied to the CWSRF or DWSRF programs and are waiting for a decision;
- applied for funding but were rejected due to not meeting readiness requirements;
- or
- not applied, but would be eligible if the project applied and met readiness requirements.

WHY: By modifying the Public Works Board’s statutory authority, the Legislature has rendered these projects ineligible for this funding program at this time.

### Options:

A. Sanitary sewer and drinking water projects may be ineligible for CWSRF or DWSRF programs.

*Examples:*

- Painting the outside of a finished water reservoir (DWSRF),
- Meter only projects (DWSRF),

B. Sanitary sewer and drinking water projects may contain construction elements that are necessary for the project’s success, but are not eligible for CWSRF or DWSRF funding.

- Culvert installation, repair or replacement (CWSRF)
- Land acquisition to site wastewater treatment plants, sewer rights-of-way and easements (CWSRF)

C. Sanitary sewer and drinking water elements may be a secondary part of a larger project and would not be considered the project’s “system type.” *Example:*

- Separating a CSO system where the majority of the project is focused on managing the storm water portion (e.g., redirect the stormwater lines to a treatment site and looping the sewer lines into the sewer system).

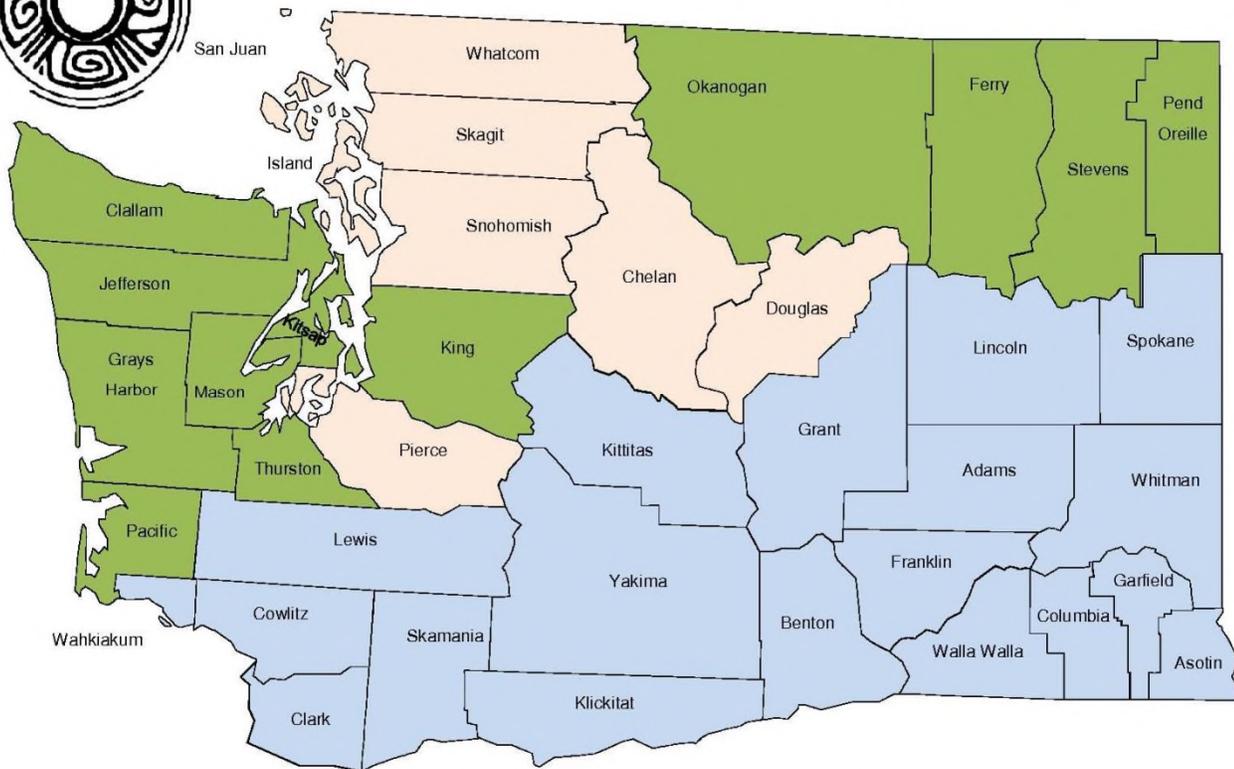
## Where to go for help:

Ann Campbell, Programs Manager - [ann.campbell@commerce.wa.gov](mailto:ann.campbell@commerce.wa.gov) Office: 360-725-3153

After hours: 360-259-4260



## Washington State Department of Commerce Public Works Board – Programs Staff



Jacque Andresen  
(360) 725-3089  
[Jacque.Andresen@commerce.wa.gov](mailto:Jacque.Andresen@commerce.wa.gov)

Carrie Calleja  
(360) 725-3015  
[Carrie.Calleja@commerce.wa.gov](mailto:Carrie.Calleja@commerce.wa.gov)

Isaac Huang  
(360) 725-3162  
[Isaac.Huang@commerce.wa.gov](mailto:Isaac.Huang@commerce.wa.gov)

## What is a Construction Loan?

Construction activities focus on the activities that repair, replace, or create a facility. Preconstruction activities include but are not limited to right-of-way acquisition, design work, engineering, permit acquisition, environmental review, cultural and historic resources, and public notification. *A construction loan project may comprise any combination of pre-construction and construction elements. RCW 43.155.020(6)*

## Who is eligible for construction funding?

The Board is authorized by state statute to loan money to counties, cities, and special purpose districts. *RCW 43.155.020(5)*

## What can be paid for with a construction loan?

The repair, replacement, or creation of *domestic water systems\**, *sanitary sewer systems\**, storm sewer systems, roads, streets, solid waste and recycling facilities, and bridges can be funded using a Public Works Board construction loan. *RCW 43.155.020(6)*

## Why is there an \* after domestic water systems and sanitary sewer systems?

The 2015 Legislature *temporarily* amended the Public Works Board's authorizing statute to exclude water and sewer system projects from eligibility under specific terms. [SEE HERE FOR DETAILS](#) *RCW 43.155.070(14)(a)*.

## Threshold Requirements

The following are threshold requirements necessary to qualify for funding under the Construction Loan program. Failure to meet all threshold requirements will disqualify your application.

### Real Estate Excise Tax (REET)

For counties, cities, and towns, the applicant must impose the one-quarter of one-percent REET as allowed by RCW 82.46.010(2) at the time of application. To check your jurisdiction's status, go to:

<http://dor.wa.gov/Docs/forms/RealEstExcsTx/RealEstExTxRates.pdf>

### Growth Management Act (GMA) Conformance – AT TIME OF CONTRACT EXECUTION!

Applicants planning under GMA must have adopted the Comprehensive Plan and Development Regulations by July 1, 2017, or prior to contract execution\*, whichever is later. The applicant must not have any Findings of Non-Compliance or Invalidity Orders pending. Compliance will be verified by Board staff. For questions, contact the Growth Management Services (GMS ) unit within the Department of Commerce at (360) 725-3000.

#### GMA Exception

*Counties, cities, and towns planning under the GMA that are not in conformance with the Act may request an exception to this requirement when the project is necessary to address a public health need or a substantial environmental degradation issue. To qualify for the exception, the jurisdiction must have a letter from the appropriate agency stating that the exception has been granted. The letter must be postmarked prior to the Construction Loan contract offer (July 1, 2017, or later).*

For Growth Management assistance, contact the Regional Planners Technical Assistance team:

<http://www.commerce.wa.gov/Documents/GMS-TA-Region-Map-Final2sidedweb.pdf>

### Capital Facilities Plan Standards (Counties and Cities Not Planning under GMA)

Jurisdictions not planning under the GMA must have adopted a Capital Facilities Plan for all systems they own on or before the application deadline. The following standards are the minimum requirements for a Capital Facilities Plan (CFP):

- A. Inventory major system components, show locations and capabilities, and assess the overall capital needs for the specific system(s) involved;
- B. Forecast future needs for the capital facilities, show location, and capabilities of expanded or new capital facilities;
- C. Identify, prioritize and coordinate major capital improvement projects over a six-year period;
- D. Estimate capital project costs; identify financing alternatives for each project identified. Transportation projects and funding must be consistent with locally-established service standards;
- E. Must be updated on a regular basis. We recommend at least once every two (2) years. In no case will a plan over six (6) years old be accepted;
- F. Must be consistent with the comprehensive plans of neighboring jurisdictions\*\*;
- G. Must have provided opportunity for early and continuous public participation; and
- H. Must be consistent with, and is an element of, the comprehensive plan formally adopted by the governing body of the local jurisdiction.

\*\*For letter "F" above, special purpose districts need to show consistency with the Comprehensive Land Use Plan of the counties and/or cities in which they provide services.

### Sanitary Sewer Projects—Side Service Sewer Connections

Jurisdictions must adopt an ordinance or resolution declaring such repair and/or replacement that will enhance conservation or more efficient use of sanitary sewer systems. Also, the jurisdiction must have a mechanism in place to meet the charge back provisions of RCW 35.67.360. The ordinance or resolution must be in place at the time of loan agreement or loan amendment. The ordinance must be related specifically to the area affected by the project being applied for. A copy of the ordinance or resolution must accompany the loan agreement or loan amendment

# HOW TO APPLY FOR A CONSTRUCTION LOAN

## Hardcopy Application

You can download the Construction Loan Application form (Microsoft Word file) at <http://www.pwb.wa.gov/financial-assistance/Construction/Pages/default.aspx>. Type your answers in the provided fields and boxes and then print the entire application. You will need to submit one signed original to the Public Works Board office. Ensure that you attach all relevant documentation, as instructed in the application. The signed original application and attachments need to be delivered or postmarked on or before AUGUST 18, 2016.

Relevant documentation:

- Grant/loan award letter(s);
- Application received letter(s);
- Proof of Executive Order 05-05 process completion;
- Regulatory orders;
- Negotiated letters or agreements;
- Moratoria;
- Resolutions;
- Etc.

## APPLICATION QUESTIONS AND INSTRUCTIONS

The application is divided into three main sections. The following tables list each application question and the intent of the question (the type of information needed, etc.).

We recommend that you have someone who has not participated in preparing the application review it prior to submittal to the Board.

- *Answer all questions completely.*
- *Do not leave questions unanswered.*
- *Indicate "n/a" in the space provided if a question is not applicable to your project or system.*
- *Be specific in your answers.*
- *Attach relevant documentation to support your answers if applicable*

## SECTION 1: GENERAL APPLICANT INFORMATION

General applicant information section is not scored.

Question	Intent / Instructions
Other system(s) included with this project	Identify all other systems being modified or constructed as a part of this project.
Project Title	A brief descriptive title of the project for which you are applying.
Loan Request	This is the loan amount for which you are applying.
Total Project Cost	This is the total amount the project will cost to complete, including the loan request.
Applicant Legal Name	The legal name of the applicant seeking funding.
Administrative Office—Street Address	The physical address of the applicant's administrative offices.
Mailing Address (if different from street)	The address at which the applicant receives mail.
City	City in which applicant is located.
State/Zip Code	Washington State and Zip Code.
County	County in which applicant is located.
Legislative District/Congressional Districts	Please identify the Legislative District in which the project is located. Legislative districts are 1 – 49; Congressional districts are 1 – 9. State Legislative District and Congressional District finder: <a href="http://app.leg.wa.gov/districtfinder/">http://app.leg.wa.gov/districtfinder/</a>
Contact Person for Project, Title Mailing address City / State / zip code Telephone & Email	Please identify the person within the applicant jurisdiction who is familiar with the application and the project. Include title, phone number, mailing, and email address.
Website	Applicant's website address
GPS Coordinates: Latitude, longitude in degrees, minutes, seconds	Obtain the GPS coordinates for the project site. If a large project area (roads/streets; pipes, etc.), pick a spot and use it as the GPS location. <a href="http://www.gps-coordinates.net">http://www.gps-coordinates.net</a>
Project Description	In 150 words or less, describe the project to be constructed; e.g., "Replace Main Street bridge"; "Commercial Traffic Calmer – Apple Street Roundabout".

Question	Intent / Instructions
Project's Scope of Work	<p>Identify the project components that this loan will fund:</p> <ul style="list-style-type: none"> <li>• Pipe – type, size, approximate length</li> <li>• Fill</li> <li>• Concrete</li> <li>• Pumps</li> <li>• Site acquisition</li> <li>• Pre-construction activities</li> <li>• Environmental and / or Cultural Review</li> <li>• Permitting</li> <li>• Etcetera</li> </ul> <p>Do not use this section to explain the problem. Use a maximum of 4,000 characters including letters, spaces, and punctuation –1 page with 1 inch margins and 61 lines is approximately 4,000 characters.</p>
Project Schedule	<p>Fill out the table by indicating the month and year when each activity was or will be completed. Schedule should clearly correspond to the Readiness-to-Proceed question.</p> <p>Applicant is responsible to ensure that the Scope of Work can be completed within 60 months of contract execution.</p>
Project Costs	<ul style="list-style-type: none"> <li>• All project costs, not just those associated with this loan.</li> <li>• Double-check the calculations and ensure that the Total Estimated Project Cost equals the Total Project Funding.</li> </ul>
Project Funding	<ul style="list-style-type: none"> <li>• All funding to complete the project. Not Scored.</li> <li>• Identify the status of the funding: <ul style="list-style-type: none"> <li>○ Planned for funding is anticipated, but hasn't been sought (applied for) or received.</li> <li>○ Applied for funding is funding that an application has been submitted for, but a decision on granting funds has not yet been made.</li> <li>○ Secured funds are monies that have been awarded by a funding entity (bank, credit union, state agency, federal agency, non-profit organization, etc.) or are local revenues of the Applicant.*</li> </ul> </li> </ul> <p>*Attachments: ~Attach a copy of the award letter received from the funder when labeling funds as "Secured." OR ~Identify location in an adopted budget where the revenues being used for this project are identified when labeling local revenues as "Secured."</p>
Are there any constraints on the funding sources identified in Project Funding?	<p>Your answer will help identify stability and certainty of project funding for ready-to-proceed purposes.</p>

Question	Intent / Instructions
<p>Indicate with a Y / N / NA which of the following financing options have been attempted for this project and provide dates of those attempts.</p> <p>Describe whether the attempt was successful; if not, why not. If an option was not attempted, please explain why not.</p>	<p>Identify each (if any) type of attempt at financing this project the applicant has made.</p> <ul style="list-style-type: none"> <li>• Bond issuance – <i>if not attempted, why not. Some projects are not a good fit for bonding. Some systems do not have bonding capacity. BE SPECIFIC.</i></li> <li>• Local Improvement District – <i>Some applicants do not have this option. Some projects are not a good fit. Some applicants are in the process of creating a (U)LID and the vote is in November 2016, e.g., outcome TBD- to be determined.</i></li> <li>• State / Federal Funding – <i>The funding options have become increasingly competitive. If funding is available, but not sought, explain. BE SPECIFIC.</i></li> <li>• Private Funding - <i>Some applicants do not have this option. Some projects are not a good fit.</i></li> </ul> <p>The Board may take this information into consideration as a balancing factor when deliberating funding selection.</p>

## SECTION 2: FINANCIAL AND SYSTEM MANAGEMENT EFFORTS

### Financial management section is scored as a whole:

How expensive the system is to individual households (rate based systems) and / or the community (non-rate based systems); what percentage of the population is served by the system, and of that percentage, how many will benefit from the project outcomes.

*Maximum of 30 points possible.*

Question	Intent / Instructions
Number of people in jurisdiction.	Total population served by the applicant in total, not just those served by the project system.
Number of people served by the system in 2015.	Number of people served by the project system.
Percentage of people in the system affected by this project.	<u>Percentage</u> of people served by the system impacted by this project (between 0% and 100%)
	<ul style="list-style-type: none"> <li>• Adopted annual budget with year-to-date expenditures</li> <li>• Debt service schedule(s) (if any)</li> <li>• 2015 annual financial statement (does not need to be audited)</li> <li>• OPTIONAL: Income survey – <i>American Community Survey data will be used for demographic information unless approved income survey data is submitted with the application – see <a href="#">HOW IS MHI CALCULATED</a></i></li> <li>• RATE BASED ONLY SYSTEMS INCLUDE:               <ul style="list-style-type: none"> <li>○ Estimated per connection rate increase for debt service coverage. OR, if no rate increase is planned, clarify how the debt service will be met while maintaining optimal fund reserves.</li> <li>○ The applicant system’s adopted rate structure.</li> <li>○ Number and type of connections-                   <ul style="list-style-type: none"> <li>▪ Residential – <i>active and inactive, if available</i></li> <li>▪ Commercial / Non-Residential</li> <li>▪ Vacant lot (or inactive) connections</li> </ul> </li> </ul> </li> </ul>
Describe the financial management approaches used to finance the applicant system.	Examples would be establishment of policies and procedures to routinely re-evaluate the manner in which the system is financed, including the establishment of reserve funds, adoption of rate structures, etc.
<b>Local Management Effort (In the last 5 years): 10 points total</b>	
How do you link the asset management plan to the funds needed to enact it? <i>2 points</i>	Identify how the applicant is maximizing the use of its asset management plan. Looking towards funding future needs, funding ongoing maintenance (routine and preventative). <i>If there is no asset management plan and the project is recommended for funding, the applicant will be given an opportunity with the resources necessary to create and maintain an asset management plan.</i>
How do you get the system’s governing body to support following the asset management plan? <i>2 points</i>	Identify how the system operator communicates the need to maintain infrastructure assets to the community’s governing body? <i>If there is no strategy in place to communicate the value of ongoing system maintenance, the applicant will be given training opportunities to create a system that works for their community.</i>
How is the system’s maintenance schedule established? <i>2 points</i>	Identify how the system operators set up the system’s maintenance schedule. Include how the operators include unique circumstances to manufacturer’s guidelines (if any) such as changing filters more frequently; reviewing roadways more frequently when subject to greater load stresses (commercial vehicles, school buses) or environmental stressors (high water tables), etc.

Question	Intent / Instructions
How frequently is the system's maintenance schedule reviewed and updated? <i>2 points</i>	How often do the system operators review the existing maintenance schedules to ensure they meet the system's needs, especially for older or higher use systems?
Has the applicant adopted a disaster resiliency plan? If yes, when was it adopted and how frequently is it reviewed and updated? Is it available on your website? <i>2 points</i>	If the applicant has adopted a disaster resiliency plan (e.g., what to do in case of a catastrophic emergency: earthquake, flood, fire, landslide, etc.) when was it adopted? How frequently is it (or will it be) reviewed and updated? Is it available on your website for the community to access as needed? <i>If there is no disaster resiliency plan and the project is recommended for funding, the applicant will be given training opportunities to create a plan that works for their community.</i>

## SECTION 3: Project Need and Solution

### Readiness-to-proceed: 5 points total

Question	Intent / Instructions
Applicant certifies that the status of engineering and design is complete. Include the name of the engineer and their license number.	The question demonstrates that the applicant has dedicated an engineer's time and resources to creating the project. The engineer may be the applicant's employee. The engineer does not need to be a consultant or a hired by bid contractor.
Applicant certifies that the right-of-way / easement for project is acquired.	The question demonstrates that the applicant has site control. The sole purpose of the project may be site acquisition.
Applicant certifies that cultural and historic consultation and environmental reviews are complete.	This question demonstrates that the applicant has completed, started, or is at least planning on executing the steps necessary to do tribal consultations, environmental review processes, and / or other steps needed prior to beginning any construction projects.
Project category	
Identify the sub-category that is most affected by the proposed project. <i>Check only one.</i>	For the applicant's primary system, as selected at the top of this application, identify the sub-category that is most affected by the proposed project. Project elements that impact the largest population receive the highest consideration.
System specific questions	
These are system-specific questions regarding the system's current operating standards.	These questions focus on the technical and operational aspects of the system. Answers should identify existing situations or events that have occurred over the last five years. Answers should <u>not</u> include speculation on what may happen if the project is not completed. Identifying the results if the project does not occur should be included in the following questions.

## Project need questions – Problem:

The Project need section is scored as a whole. No one question has a specific point value. The responses should clearly indicate what the problem is, how it will be solved, and how it will be avoided in the future.

*Maximum of 55 points possible.*

Question	Intent / Instructions
What is the problem to be fixed?	<p>Clearly identify the problem to be fixed by this project.</p> <ol style="list-style-type: none"><li>1. Explain:<ul style="list-style-type: none"><li>• What is the problem?<ul style="list-style-type: none"><li>○ Old, undersized bridge with a weight restriction;</li><li>○ Insufficient water pressure for building code fire flow requirements that caused a building moratorium;</li><li>○ Overloaded combined storm/sewer system causes unacceptable number of CSO events.</li><li>○ Etc.</li></ul></li><li>• How the problem was created<ul style="list-style-type: none"><li>○ Age?</li><li>○ Unforeseen environmental impacts?</li><li>○ External pressures [a project by Washington Dept. of Transportation (DOT) requires updating infrastructure in the DOT project area]?</li><li>○ Need project in order to fully utilize funding (grant or loan) from a federal program or private foundation?</li><li>○ Etc.</li></ul></li></ul></li><li>2. Be thorough and complete in the response.</li><li>3. Include backup data such as regulatory orders, negotiated letters of agreement, resolutions, ordinances, moratoria, etc.</li></ol>
<ul style="list-style-type: none"><li>• How old are the components being corrected by the project?</li><li>• What are the component materials and what are they made of?</li><li>• What is the condition of the system components being corrected by the project?</li></ul>	<p>Precisely describe the composition, condition, and age of the system's component pieces.</p> <p>Do NOT describe the solution's impact.</p> <p>Example: 30-year old lift station with a 20-year useful life; 100-year old wooden pipes.</p>
How are the system's operations and expenses impacted by the situation?	<p>Explain how the problem impacts the system's operations and expenses.</p> <p>Do NOT describe the solution's impact.</p> <p>Example: 47 line breaks in one month equals \$5,000 in unbudgeted overtime expenses.</p>

Question	Intent / Instructions
<p>What are the environmental impacts the existing situation has, or will have, if this project is not completed?</p>	<p>Precisely describe the current situation's impact (if any) on the environment – <i>the opportunity cost of not moving forward with the project.</i></p> <p>Examples: The closed landfill is located right next to the Straits of Juan de Fuca. The landfill's exterior earth wall is failing. When it fails, landfill waste will fall directly into the Straits of Juan de Fuca; or</p> <ul style="list-style-type: none"> <li>• The 9<sup>th</sup> Circuit Court of Appeals has ruled that undersized fish blocking culverts must be replaced. Failure to do so will result in fines and other court ordered restitutions, which the community cannot afford; or</li> <li>• Multiple CSOs during the winter months have caused shellfish bed closures, resulting in \$x millions of lost revenues to ABC Shellfish company.</li> </ul>
<p>Has any other action been taken to address the situation this project will fix? If yes, describe what has been done. If no, explain why nothing has been done to fix the problem.</p>	<p>Identify any other measures taken to manage or fix the problem.</p> <p>Examples: lowering pressure to reduce pipe stress, enacting load limits, site closures, etc.</p>
<p>Is this project being done in partnership with any other organizations/agencies? If Yes, please identify the partner(s) and describe the roles of each partner.</p>	<p>Identify project partners who have committed funding or other resources to this project.</p> <p>Identify who the partner is and their role.</p> <p>Provide an estimate of the number of hours the partner will contribute to the project. If the partner will be with the project from start to finish, it is okay to state "from start to finish".</p>
<p>How will the problem be fixed? How will this solution prevent the problem from happening again?</p>	<p>Clearly identify the solution being created by the construction of this project.</p> <p>Specify how this project will solve the problem that was explained earlier.</p> <p>If specific issues were itemized in the problem, clearly explain how each specific item will be solved.</p> <p>Specify how this project will keep the problem from re-occurring.</p>
<p><b>FOR SEWER AND STORM WATER PROJECTS ONLY:</b> Is the completion of any portion of the project specifically required to meet NPDES or SWDP permit or administrative order requirements or stormwater management program requirements? If yes, describe any elements that may exceed the requirements and estimate the water quality benefits.</p>	<p>Identify which, if any, parts of the project are required to meet NPDES or SWDP requirements.</p> <p>If yes, identify the parts that exceed these requirements and estimate the outcome benefits.</p>

Question	Intent / Instructions
Has the proposed project been demonstrated to be the lowest cost solution to the problem?	<p>If the answer is no, it's not the cheapest solution, clarify how the community determined that the more expensive solution was a better fit.</p> <p>Example: Future plans, connected to other projects, or community plans, etc.</p>
In 500 words or less identify any other consideration the Public Works Board should know when evaluating this project for funding?	<p>Is there anything else the Board should know that you haven't already included? If yes, put it here.</p>
Has the applicant experienced severe fiscal distress resulting from a natural disaster (e.g., Governor declared emergency) or emergency public works need in the past 12 months? If Yes, describe below.	<p>Describe the event(s) (what, when, and impacts). Explain how the natural disaster / emergency public works need caused fiscal distress.</p> <p>Example: The culvert under the main route into town collapsed and washed out due to excessive rains after a wildfire came through last summer. All public works and roadway funds were used to create a temporary bypass.</p>

## Public Works Board Funding Considerations

The following considerations are taken from the Public Works Board's Authorizing statute: RCW 43.155.070(5)(a):

- Whether the project is critical in nature and would affect the health and safety of many people;
- The extent to which the project leverages nonstate funds;
- The extent to which the project is ready to proceed to construction;
- Whether the project is located in an area of high unemployment, compared to the average state unemployment;
- Whether the project promotes the sustainable use of resources and environmental quality;
- Whether the project consolidates or regionalizes systems;
- Whether the project encourages economic development through mixed-use and mixed income development consistent with the Growth Management Act;
- Whether the system is being well-managed in the present and for long-term sustainability;
- Achieving equitable distribution of funds by geography and population;
- The extent to which the project meets the following state policy objectives:
  - Efficient use of state resources;
  - Preservation and enhancement of health and safety;
  - Abatement of pollution and protection of the environment;
  - Creation of new, family-wage jobs, and avoidance of shifting existing jobs from one Washington state community to another;
  - Foster economic development consistent with the Growth Management Act;
  - Efficiency in delivery of goods and services, public transit, and transportation;'
  - Avoidance of additional costs to state and local governments that adversely impact local residents and small businesses; and
  - Reduction of the overall cost of public infrastructure; and
- Other criteria considered necessary to achieve the outcomes of the Board's authorizing statute.

## Eligibility Requirements For Drinking Water And Sanitary Sewer Projects [RCW 43.155.070(14)(a)]:

*For application rounds conducted during the 2015-17 fiscal biennium, the board must implement policies and procedures designed to maximize local government use of federal funds to finance local infrastructure including, but not limited to, drinking water and clean water state revolving funds operated by the state departments of health and ecology. Projects that are eligible for the drinking water and clean water state revolving funds may receive public works board preconstruction loans. Projects that are eligible for the drinking water and clean water state revolving funds are not eligible for public works board construction loans. For purposes of this subsection "eligible for drinking water and clean water state revolving funds" means:*

- *Projects that have applied to the state revolving funds and are awaiting a funding decision;*
- *Projects that have been rejected for funding solely due to not meeting readiness requirements; and Projects that have not applied, but would likely be eligible if the project applied and met the project readiness requirements.*

## How much money can my jurisdiction borrow?

Jurisdictions may request up to \$10 million for their construction project. *RCW 43.155.070(5)(b)*

## What is the interest rate being charged?

Construction Loans - Fiscal Year 2017					
<b>Applications:</b>	Due 6PM August 18, 2016				
<b>Loan Limit:</b>	\$10,000,000 per jurisdiction per biennium				
Loan Rates / Terms					
<i>Non-Financially Distressed Communities</i>					
		Term	Rate		
		<5 years or less	0.83%		
		5 – 20 years	1.66%		
<i>Financially Distressed Communities</i>					
		Rate Based System		Non-Rate Based System	
		Rate	Term	<i>Affordability Index:</i>	<i>Debt Service Coverage Ratio:</i>
<b>Distressed:</b>	1.0%	Up to 25 years*	2.0% to 2.5%	1.26% to 1.49%	
<b>Severely Distressed:</b>	0.80%	Up to 30 years*	2.6% or higher**	1.25% or less**	
<b>Local Match Funding:</b>	NONE				
<b>Loan Fee:</b>	NONE				
<b>Scoring:</b>	Maximum 100 points				
*The loan term cannot exceed the life of the asset being financed.					
**Applicants with system affordability issues will be offered additional technical assistance regarding sustainable financial management options unique to their community's needs.					

## How is the interest rate determined?

During this loan cycle, interest rates are dictated by a temporary revision to the Public Works Board's statute. Interest rates for non-hardship projects are based on the average market interest rate for tax-exempt municipal bonds. The average 11-Bond GO Index rates for the 30-60 day period prior to the application cycle sets the rate based on length of loan term. 30% of the average rate is awarded for loan terms of 5 years or less. 60% of the average rate is awarded for loan terms between 5-20 years. *RCW 43.155.070(14)(b)*.

## How is financial hardship eligibility determined?

The Board evaluates the financial situation of each applicant: their affordability index (cost to consumer for services) and their debt service coverage ratio (community indebtedness).

### How is the affordability index determined?

The Board has a distinct standard to determine Affordability Index:

“New Average Utility Rate” x 12 (months)

Median Household Income (MHI)\*

“New average utility rate” =

Current average monthly utility rate per Equivalent Residential Unit (ERU);

+ Current and projected debt service expenses per ERU (only if the debt service is excluded from the current average monthly utility rate);

+ Projected additional annual operating, maintenance, and replacement expenses (OM & R).

#### **EXAMPLE:**

\$50.00	(Average monthly utility rate per ERU/connection)
+ 5.00	(Additional operations. Maintenance & Replacement – if applicable)
<u>+10.00</u>	(Debt service and reserve requirements)
= \$65.00	(New Average Utility Rate)
x <u>12 months</u>	(ONE YEAR)
= \$780	(Annual Average Utility Rate)
<u>÷ \$45,000</u>	(MHI of the service area/jurisdiction)
= 0.0173	
x <u>100</u>	(Used to create a percentage)
<b><u>= Affordability Index of 1.73% - Would not qualify for a reduced interest rate or longer term.</u></b>	

STEP 1 Calculate New Average Utility Rate:	STEP 2 Calculate Average Annual Utility Rate per ERU:	STEP 3 Determine Affordability Index (AI)	STEP 4 Convert AI to a percentage
\$50 (Avg monthly rate) + \$ 5 (Ops, Main, & Replace) + <u>\$10 (Debt Service &amp; Reserve Req.)</u>	\$65 NAUR <u>x 12 months</u>	\$780 (AAUR) <u>÷ \$45,000</u> (MHI)	0.0173 (AI) <u>x 100</u>
<b>New Average Utility Rate (NAUR): \$65</b>	<b>Average Annual Utility Rate (AAUR)= \$780</b>	<b>Affordability Index (AI): 0.0173</b>	<b>Affordability Index as a Percentage: <u>1.73%</u></b>

### \*How is MHI calculated?

The Median Household Income (MHI) represents the middle value in a list of numbers if the list contains an odd number of entries; or the average of the two middle values in a list of numbers containing an even number of entries.

There are three methods the Board may use to determine the MHI of the jurisdiction or service area:

- 1) MHI of the applicant/or the project service area based on the US 2010 Census Data. Please visit: <http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml>
- 2) MHI data through income surveys of the applicant, or the applicant's project service area (if the project area is outside the applicant's jurisdiction), conducted within the last 5 years by Rural Community Assistance Corporation (RCAC), the Public Works Board, or third parties which meet the Board's Income Survey Guidelines: [http://www.infracore.com/2014IACC\\_Income\\_Survey\\_Guidance.pdf](http://www.infracore.com/2014IACC_Income_Survey_Guidance.pdf)
- 3) MHI data from the latest income survey conducted for other state agencies within the last 3 years, which meets the Board's Income Survey Guidelines.

### How is the Debt Service Coverage Ratio calculated?

Debt service coverage ratio (DSCR) is the applicant's amount of cash available to meet annual principal and interest payments on all debt:

$$\text{DSCR} = \frac{\text{Net operating income}}{(\text{principal repayments} + \text{interest payments})}$$

*Net operating income = Total Operating Revenue – Total Operating Expenses*

**Example:**

\$ 1,000,000	Total operating revenue
(\$735,000)	Total operating expenses
<u>\$ 265,000</u>	<u>Net operating income (NOI)</u>

Scenario A: Annual loan payments (ALP) are \$125,000  
 $\$265,000 / \$125,000 = \underline{2.12\% \text{ DSCR}}$  = No interest rate or term changes.  
[(NOI) / (ALP)]

Scenario B: Annual Loan payments are \$215,000  
 $\$265,000 / \$215,000 = \underline{1.23\% \text{ DSCR}}$  = Interest rate reduction to 0.80% and a possible term of 30 years, depending on the life of the asset.  
[(NOI) / (ALP)]

### Are there other types of hardship?

Yes. The Board is in the process of adopting a policy that allows for special consideration of:

- Projects that are a direct result of a gubernatorial or presidential declared disaster,
- Projects that are a secondary result a gubernatorial or presidential declared disaster, and
- Applicants in gubernatorial or presidential declared disaster areas whose projects are in no way related to the disaster.

These special considerations can be a lower interest rate, longer repayment period, deferral period, or another option to be determined. *The Board will decide at its August 12, 2016, meeting what these options will be. This section will be updated at that point.*