

**State of Idaho**  
**Drinking Water State Revolving Fund**  
**State Fiscal Year 2017**  
**Draft Intended Use Plan**

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**IDAHO DRINKING WATER STATE REVOLVING FUND**

**INTENDED USE PLAN**

**MAY 11 AND 12, 2016 – BOARD PROPOSAL**

**I. Introduction**

On August 6, 1996, the Safe Drinking Water Act (SDWA) Amendments of 1996 (Public Law 104-182) were signed into law. SDWA, Section 1452 authorized the Administrator of the United States Environmental Protection Agency (EPA) to establish a Drinking Water State Revolving Fund (DWSRF) program to assist public water systems in financing the costs of infrastructure needed to achieve or maintain compliance with the SDWA requirements and to protect public health. The DWSRF is administered by the DEQ Water Quality Division Loan Program, which also administers the Clean Water State Revolving Fund (CWSRF).

Section 1452(b) requires each state to annually prepare an Intended Use Plan (IUP) identifying the use of funds in the DWSRF and describing how those uses support the goal of protecting public health.

The State of Idaho, Department of Environmental Quality (DEQ) proposes to adopt the following IUP for state fiscal year 2017 (SFY 2017 is from July 1, 2016 through June 30, 2017). The source of federal funding identified in this IUP is the federal fiscal year (FFY) 2016 and 2015 capitalization grants.

The IUP includes the following:

- A list of prospective loan projects, ranked in priority order, including size of systems, estimated project cost, and a project description Note: projects are technically funded via the purchase of debt but are referred to, for ease of reading, as “loans”
- The criteria and methods for distribution of funds
- Short-term and long-term goals of the DWSRF
- DWSRF set-aside activities
- Assurances and specific proposals

<b>Cash and Investments</b>	\$44,528,309
<b>Transfer From DWSRF into CWSRF</b>	(10,000,000)
<b>EPA Capitalization Grant FFY 2015 (remainder)</b>	5,102,988
<b>State Match</b>	1,484,339
<b>EPA Capitalization Grant FFY 2016 (estimated)</b>	5,735,280
<b>State Match</b>	1,662,400

<b>Loans Receivable:</b>		
SFY 2016 (3/1/16–6/30/16)	1,862,855	
SFY 2017	5,959,891	
SFY 2018	5,959,891	
<b>Interest on Cash/Investments:</b>		
SFY 2016 (3/1/16–6/30/16)	253,053	
SFY 2017	754,020	
SFY 2018	794,700	
<b>Total Resources:</b>		\$64,151,727
<b>Current Remaining Loan Obligations:</b>	(\$33,296,295)	
(Loans in construction less disbursements)		
		<hr/>
Add back: 5% project shrinkage	1,664,815	
(Some projects will self-finance and reduce disbursement requests from the DWSRF)		<hr/>
		(31,631,480)
<b>NET RESOURCES AVAILABLE TO PROVIDE ASSISTANCE:</b>		<b>\$32,520,247</b>

Key Assumptions:

Projects take an average of 28 months to construct and close from date of loan signing. New loan obligations cannot exceed **NET RESOURCES AVAILABLE TO PROVIDE ASSISTANCE**. Next projection will be made on July 1, 2016.

## II. List of Projects

Attachment I is the SFY 2017 Drinking Water Loan Fundable/Priority List (Priority List). Upon completion of the public comment period, a final Priority List will be submitted for approval by the Board of Environmental Quality on May 11 and 12, 2016. Projects are arranged on the Priority List in priority order. The method for determining the priority rating for projects and the public involvement process are described in the latter parts of this document.

## III. Program Goals

DEQ's long-term, basic SRF Loan Program goals are as follows:

1. Protect the public health of citizens served by drinking water systems by offering financial assistance to construct the most cost-effective drinking water facilities. Financial assistance includes below-market-rate loans, longer loan terms, and may include principal forgiveness for disadvantaged communities under limited circumstances.
2. Assist public water systems in achieving and maintaining statewide compliance with federal and state drinking water standards. DEQ will provide information

and technical assistance in the form of brochures and the electronic DEQ Blog, which contains articles on such topics as the DWSRF, operator training and certification, and treatment technology.

3. Implement a capacity development strategy. The goal of the capacity development program is to ensure that a public water system's current capacity to deliver safe, reliable water is not only maintained but is expanded to meet future needs. This goal is facilitated by supporting public water systems in maintaining and expanding their technical, financial, and managerial capacity.
4. Implement a source water assessment and protection strategy. A source water assessment provides information on the potential threats to public drinking water sources. In Idaho, 95% of the drinking water comes from ground water sources.
5. Manage the Idaho DWSRF to ensure its financial integrity, viability, and revolving nature in perpetuity.
6. Manage the imbalance between the demand upon DWSRF and CWSRF resources. Entering into SFY 2017, there continues to be an imbalance in the DWSRF and CWSRF loan funds' ability to serve the state's needs. See Attachment VI for further discussion of interfund transfers.

DEQ's short-term, basic SRF Loan Program goals are as follows

1. Ensure that all appropriate loan assistance requested is provided in a timely manner.
2. Maintain the on-line DWSRF loan handbook, by making technical corrections and providing timely, up-to-date guidance. Implement changes to guidance to reflect changes to State Environmental Review Process.
3. Direct a minimum of approximately 10% of the capitalization grant to sustainability efforts (i.e., Green Project Reserve) and ensure that a minimum of 20% of the capitalization grant award is provided as a loan subsidy (i.e., principal forgiveness). See Section IV.A. Allocation of Funds.
4. Make necessary changes to the FFY 2017 EPA capitalization grant application.
5. Work with software developers and stakeholders to develop and implement a new loan servicing software application. The software is expected to achieve reporting efficiencies, better serve DEQ project managers in their day-to-day administration of loan projects, allow DEQ State Office staff to better manage the loan fund with long-term forecasting and reduce duplicate data entry. The software is being purchased with an equal mix of DWSRF and CWSRF loan fees.
6. Dedicate a portion of the additional subsidization to improve corrosion treatment in systems that are influenced by aggressive water (see Fundable List, Attachment I).
7. Monitor and take necessary actions to ensure annual capitalization grant is spent within two years. Set-aside funds may be transferred into the loan fund, if it appears that the set-aside funds will not be disbursed within two years.

## **IV. Information on the Activities to be Supported**

### **A. Allocation of Funds**

The primary type of assistance provided by the DWSRF is expected to be in the form of low-interest loans for up to 100% of project costs. The rate of interest will be a ceiling of 3.00% and a floor of 1.50%. A floor is established to help offset the effects of inflation and to encourage communities to complete their projects in a timely manner.

In some instances 0.00% loans will be considered if the community's annual drinking water cost per household exceeds 1.50% of the median household income. The current policy is stated in DEQ Policy Memorandum 14-01. Principal and interest repayments must begin no later than 1 year after the date the constructed facility initiates operations.

All loans will be paid back over a period not to exceed 30 years. Disadvantaged loans may have lower interest rates, and principal forgiveness (see Attachment III for an explanation of the Disadvantaged Loans program). The average design life of the project must equal or exceed the repayment term.

The FFY 2016 capitalization grant funding requires that \$1,662,400 (20% of the \$8,312,000 capitalization grant, or the "floor") be distributed as a subsidy or principal forgiveness; however, Idaho can allow up to 50% of the capitalization grant to be provided as principal forgiveness for disadvantaged communities (the "ceiling" which equals \$4,156,000). Idaho will accomplish the principal forgiveness requirement through compliance with the "Rules for Administration of Drinking Water Loan Program" (IDAPA 58.01.20.021) requirements for disadvantaged communities and will document the proposed funding terms on Attachment I, Fundable List.

The proposed funding terms, on Attachment I, will reflect a principal forgiveness provision of 20% of the FFY 2016 capitalization grant (\$1,662,400) for regular loan projects. Another ten percent (\$831,200) will be reserved for projects that have corrosive water or lead pipes, and have been identified by DEQ as at risk. To the extent that entities on the Fundable List qualify as disadvantaged, they will share equally, on a project cost pro-rata basis, in the \$1,662,400 that is available for principal forgiveness. The proposed funding terms first adjust the length of the loan term and second adjust the interest rate to reduce the monthly user rate to 1.50% of median household income. After these steps are taken, the remaining projects in disadvantaged communities will be provided principal forgiveness based on a percentage of the overall remaining project costs. Principal forgiveness is capped (on an individual loan basis) at the amount necessary to get to 1.50% of median household income. Should there be unused principal forgiveness that was set aside for corrosive water projects, the unused principal forgiveness will be allocated to regular drinking water projects that entered into funding agreements with DEQ during SFY 2017.

**B. Loan-Eligible Activities**

DWSRF loans will provide for construction of water supply, treatment, storage, and distribution facilities. DWSRF loan assistance will be provided to local communities, counties, water districts, and nonprofit associations. To the extent that growth or fire flow is funded they cannot constitute the primary purpose for the loan.

DEQ may award any combination of planning, design, and construction loans from the DWSRF.

**C. Use of Set-Asides**

The following set-asides are based on a federal grant award of \$8,312,000; if the grant is less or more, the set-aside amounts will be proportionately reduced or increased.

DEQ plans to reserve 4% or \$332,480 of the FFY 2016 capitalization grant for administrative expenses of the DWSRF. Such activities include, but are not limited to preparation of project lists; project application, review and monitoring; review of environmental documents; disbursement of loan funds; receipting of loan repayments; and administering activities funded from the DWSRF set-asides.

DEQ plans to reserve 2% or \$166,240 of the FFY 2016 capitalization grant to provide technical assistance to small public water systems. None of these funds will be spent until EPA has approved a work plan that identifies tasks for which the funds will be used.

DEQ plans to reserve 10% or \$831,200 of the FFY 2016 capitalization grant to supplement the Drinking Water program. None of these funds will be spent until EPA has approved a work plan that identifies tasks for which the funds will be used.

DEQ plans to reserve 10% or \$831,200 of the FFY 2016 capitalization grant for wellhead (drinking water) protection. These funds will be used for conducting hydrologic, geotechnical, and contaminant susceptibility studies supporting the design and development of drinking water protection plans. In areas where surface or subsurface drinking water has been identified as contaminated or has been determined to have a high potential for future contamination, DEQ will conduct or oversee the implementation of projects designed to mitigate or reduce the potential for contamination of identified waters. In addition, DEQ will use a portion of this set-aside to provide technical assistance to public water supply systems and local government entities on all aspects of drinking water protection plan development and implementation. None of these funds will be spent until EPA approves a work plan that identifies tasks for which the funds will be used.

DEQ plans to reserve 5% or \$415,600 of the FFY 2016 capitalization grant for development and implementation of the capacity development strategy. These monies will fund the several capacity development tasks as detailed in the approved work plan. None of these funds will be spent until EPA has approved a work plan that identifies tasks for which the funds will be used.

If the amount of funds reserved for the set-asides are not projected to be used by the end of the second year, the excess will be transferred into the loan corpus. When 2%, 4% and 10% set-asides are transferred to the loan corpus, the amounts transferred may be considered as “banked” and if additional set-aside funds are needed in the future, the set-

aside programs may draw upon these “banked” funds. The 15% set-asides (used for Source Water Protection and for Capacity Development) cannot be “banked.”

#### **D. Assistance Agreement Fees**

To support administrative costs associated with operating the Drinking Water State Revolving Fund (DWSRF) program or to otherwise facilitate the operation of the DWSRF effort, a fee program has been instituted. The fee will be 1% of the unpaid balance of the assistance agreement (unless the grand total of the interest rate and fee is less than 1%, in which case the fee will be reduced), payable when the regular repayments are made. Herein the term *effective interest* will be the sum of the fee and the true interest. The interest rate will be reduced by the corresponding percentage of the fee, so there is no net effect on borrowers. Fees are only being charged on new assistance agreements or on projects in progress for which an assistance agreement offer amendment is required.

For SFY 2015, the fee revenues were \$357,882, and for SFY 2016 the expected fee revenue should increase to about \$436,000. The fee revenue account balance, at the end of SFY 2015, was \$1,530,838. In the second half of SFY 2016, approximately \$217,000 of fee revenues will be used to fund DWSRF administrative and technical support costs incurred beyond the federal capitalization grant support level, drinking water planning grant support.

For SFY 2017, DEQ expects to expend approximately \$325,000 of fee revenues. Costs of approximately \$225,000 will be charged to support DWSRF administration. Costs of approximately \$575,000 will be charged to support drinking water planning grant efforts.

Support for drinking water planning grants will include direct support to municipalities for their plan development and the DEQ staff time to administer the grant support. The DEQ personnel costs will be drawn from each regional office and the state office in Boise. In each regional office, the personnel charging against the fee account will be engineering staff to support drinking water planning grants. In the state office, the personnel time will consist of financial and environmental review staff.

Surplus fee revenues will be transferred into the assistance agreement repayment account, to increase *available resources* for assistance agreements. Surplus fees will earn the same interest as regular repayment idle monies and will be periodically transferred to the fund corpus. Should a cash flow deficiency arise in the fund corpus, surplus fees would be transferred ad hoc.

### **V. Assurances and Specific Proposals**

#### **A. Environmental Reviews**

DEQ certifies that it will conduct environmental reviews of each project receiving assistance from the DWSRF. DEQ will follow the EPA-approved, State Environmental Review Process (SERP) for conducting environmental reviews.

The rules are outlined in IDAPA 58.01.20.

A more detailed procedural description is found in the *Drinking Water Loan Account Handbook* (Chapter 5, Forms B and C), located at [http://www.deq.idaho.gov/media/651373-dw\\_loan\\_handbook.pdf](http://www.deq.idaho.gov/media/651373-dw_loan_handbook.pdf)

**B. Binding Commitments**

DEQ will enter into binding commitments in an amount equal to each quarterly grant payment and proportional state match within 1 year of receipt of that payment. Payment dates are listed in Attachment II of this document.

**C. Expeditious and Timely Expenditures**

DEQ will strive to expend all funds in the DWSRF in a timely and expeditious manner. Should additional funds be made available to the Idaho DWSRF during the course of SFY 2017, the Idaho DWSRF will use the existing Priority List to allocate and commit those additional funds.

**D. State Matching Funds**

DEQ agrees to deposit state monies into the DWSRF in an amount equal to 20% of the federal capitalization grant on or before the date by which the State of Idaho receives the cash draw from EPA. These funds will be transferred from the state's Water Pollution Control Account and from the loan fee account.

**E. State Laws and Procedures**

DEQ agrees to expend each quarterly grant payment according to applicable state laws and procedures.

**F. National Reporting Needs**

DEQ agrees to provide data or information to EPA as may be required for national reports and public or congressional inquiries. Capitalization grant-funded recipients will be monitored (by DEQ's Fiscal Section) for Single Audit Act compliance. Many federal requirements apply in an amount equal to the capitalization grant. These requirements include Disadvantaged Business Enterprise (DBE) compliance, and Federal Funding Accountability and Transparency Act (FFATA) reporting. American Iron and Steel compliance applies to all funds (not just the capitalization grant funds) in the DWSRF and carries reporting and compliance requirements.

To minimize administrative complexity and the burden on borrowers, the DWSRF program will select projects with a dollar value equaling or marginally exceeding the most recent federal capitalization grant award, to comply with the FFATA requirements. Additionally, FFATA reporting will be conducted for set-aside single transactions that equal or exceed \$25,000.

**G. Transfers Between State Revolving Fund Loan Funds**

Should transfers become needed, DEQ reserves the right to transfer surplus funds originating back to FFY 1997 capitalization grant awards. See Attachment VI for listings of capitalization grants and related narrative. Per 40 CFR 35.3550 a state may reserve the authority to transfer funds in future years. Funds may be transferred on a net basis, provided that the 33% transfer allowance associated with the DWSRF program

capitalization grants received is not exceeded. Only repayments will be used for transfers. DEQ intends to transfer \$10 million from the DWSRF to the CWSRF in SFY 2017.

## VI. Criteria and Method for Distribution of Funds

Idaho drinking water systems will be queried regularly to obtain information regarding projects for which loan monies could be used. Additional information about potential projects will be obtained from DEQ regional office engineers, privately retained consulting engineers, and other state and federal agencies. DWSRF monies will be distributed according to the methods, criteria, and eligible activities as identified and described in IDAPA 58.01.20.

The criteria and methods for distribution of funds are designed to allow maximum flexibility in providing assistance, thereby enhancing the long-term viability and revolving loan aspect of the DWSRF program.

DEQ will use the priority rating system outlined here for managing the DWSRF program. Only projects on the joint Fundable/Priority List are eligible for funding.

DEQ reserves the right to fund lower priority projects over higher priority projects that are not ready or willing to proceed. In such instances, DEQ will comply with established bypass procedures. DEQ may add projects to the Fundable List due to emergencies such as an unanticipated system failure or a project that is needed to prevent an imminent health threat.

No funding commitment will be made to a project until an engineering report, environmental review, and a financial, managerial, and technical assessment have been completed, although any project without a repayment obligation would not require underwriting.

The rating criteria used for the SFY 2017 Fundable/Priority List are as follows:

	Maximum Points
<b>PUBLIC HEALTH HAZARD (Maximum section points is 100)</b>	
❖ Microbiological violations	35
❖ Chemical violations	11
❖ Surface water treatment technique	12
❖ Low pressure events	25
❖ Reduction in source capacity	20
❖ Significant system deficiencies	20
<b>GENERAL CONDITIONS OF EXISTING FACILITY (Maximum section points = 60)</b>	
❖ Treatment deficiencies	21
❖ Source deficiencies	20

❖ Distribution deficiencies	14
❖ Redundancy and standby power	5
<b>SUSTAINABILITY EFFORTS (Maximum section points = 50)</b>	
❖ Management-based efforts	50
❖ Technology-based efforts	50
❖ Construction practices	30
<b>CONSENT ORDER, COMPLIANCE AGREEMENT SCHEDULE, OR COURT ORDER (Maximum section points = 30)</b>	
❖ Funding solves technical issues	30
<b>INCENTIVES (Maximum section points = 10)</b>	
❖ Current source water protection plan	2
❖ Capital replacement fund	2
❖ Cross-connection control program	2
❖ Conservation-oriented rate structure	2
❖ Using properly licensed Substitute Responsible Charge Operator	1
❖ Current on monitoring	1
<b>AFFORDABILITY (Maximum section points = 10)</b>	
❖ Project user charge exceeds affordable criteria	10

## **VII. Additional Information Requirements**

### **A. Public Review and Comment**

The IUP contents, including the Priority List, are subject to a thorough public participation process. Regional office staff made personal contact with drinking water systems in their respective areas that had indicated interest and rated the projects. Priority Lists were also disseminated to all state and federal agencies involved in infrastructure financing. Those agencies, including United States Department of Agriculture-Rural Development, Rural Community Assistance Corporation, and Idaho Department of Commerce (Community Development Block Grants) meet periodically to discuss potential projects.

In addition to the above, the IUP, including the Fundable List and the Priority List, was posted on the DEQ website, and notices inviting comment were published in the state's major newspapers during the comment period.

A summary of the public participation process is included as Attachment IV.

Projects from the SFY 2017 Priority List for which DEQ intends to provide loan funding are identified in Attachment I. These projects will go before the DEQ Board at the May 11 and 12, 2016, meeting.

**B. Bypass Procedures**

A project that does not or will not meet the project target date or a DEQ schedule that allows for timely use of loan funds may be bypassed, substituting the next highest ranking project(s) that is ready to proceed, as identified and described in IDAPA 58.01.20. DEQ intends to use Priority List ranking as much as possible when preparing the list of fundable projects. However, a lack of adequate funding, changes in project scope, failure to pass a bond election, or other unforeseen circumstances may require that a project on the IUP Fundable List be bypassed. If a project is bypassed, DEQ will offer loan funds to the highest ranked, ready-to-proceed project from the most current approved Priority List. Bypassed projects will be listed in the Annual Report.

## ATTACHMENT I. Fundable and Priority List of Drinking Water Loan Projects

State of Idaho, Drinking Water State Revolving Loan Fund  
for the Period of July 1, 2016 through June 30, 2017

Rank	Project	Rating Points	Regional Office	System Type	Green Infrastructure Cost	System Number	Proposed Funding Terms	Loan Amt. & Est. Loan Date	Project Description
1	City of Spirit Lake	62	Coeur d'Alene	Public	\$105,000 (meters, advanced lighting, Categorical exemption)	ID1280177	20 years at 2.75%	\$490,000 November 2016	Add new source and telemetry equipment
2	City of Georgetown	61	Pocatello	Public	\$15,000 (asset management and source water protection, Business Case required)	ID6040013	30 years at 1.75%, with \$289,226 of principal forgiveness	\$2,200,000 May 2017	Improvements to distribution system, new valves, treatment enhancements, and source water protection
3	City of Rupert	59	Twin Falls	Public	\$60,000 (asset management, metering, SCADA and energy efficient pumps and motors, Business Case required)	ID5340017	20 years at 2.75%	\$5,700,000 June 2017	Add new well and treatment at well site, finish metering the city with improved devices
4	Southside Water and Sewer District	46	Coeur d'Alene	Public	Unknown (meters, Categorical exemption)	ID1090131	30 years at 3.00%	\$931,000 March 2017	Add new source and new storage
5	City of Coeur d'Alene	35	Coeur d'Alene	Public	Unknown (energy and water conservation measures, Business Case required)	ID1280053	20 years at 2.75%	\$1,750,000 December 2016	Add new storage facility and potentially a land purchase

**ATTACHMENT I (CONT.)**

Rank	Project	Rating Points	Regional Office	System Type	Green Infrastructure Cost	System Number	Proposed Funding Terms	Loan Amt. & Est. Loan Date	Project Description
6	Groveland Water and Sewer District	31	Pocatello	Public		ID6060075	20 years at 2.75%	\$200,000 July 2016	Add a new well
7	City of Glenn's Ferry	31	Boise	Public		ID4200022	30 years at 1.75% with \$480,509 of principal forgiveness	\$3,655,000 November 2016	Improve fire flow, add new storage tank, add new generators and make upgrades to distribution and treatment systems
8	City of Filer	31	Twin Falls	Public		ID542002	30 years at 1.75%, with \$753,302 of principal forgiveness	\$5,730,000 May 2017	Improve treatment system and distribution system, new generators and miscellaneous system repairs.
9	Teton Reserve Subdivision and Golf Course	29	Idaho Falls	Non-Profit		ID741029	30 years at 1.75%, with \$129,363 of principal forgiveness	\$984,000 July 2016	Add two new wells, well houses and ancillary equipment
10	City of Bloomington	28	Pocatello	Public		ID604007	30 years at 1.75%, with \$10,000 of principal forgiveness	\$1,100,000 May 2017	Upgrade distribution system and add storage.
11	Systems Remediating Corrosive Water That Presents a Public Health Hazard	20	All	All		All	\$831,200 of principal forgiveness	\$831,200	Fund Planning, Design and Construction to remediate corrosive/aggressive water situations that present a clear threat to public health.
							<b>Total Principal Forgiveness = \$2,493,600</b>	<b><u>\$23,571,200</u></b>	

\*NOTE: Coeur d'Alene, Filer, Georgetown and Rupert are expected to meet the state's cross-cutting and reporting requirements which are required of loans that equal the state's annual capitalization grant award amount.

## ATTACHMENT II. FFY 2016 Payment Schedule

### IDAHO DRINKING WATER STATE REVOLVING LOAN FUND

<b>Payment #</b>	<b>Quarter Ending</b>	<b>Project Fund Payments</b>	<b>Set-Aside Payments</b>	<b>Total Payments</b>
1	September 2016	\$2,867,640	\$ 644,180	\$3,511,820
2	December 2016	2,867,640	644,180	3,511,820
3	March 2017	0	644,180	644,180
4	June 2017	0	644,180	644,180
Total		<u>\$5,735,280</u>	<u>\$2,576,720</u>	<u>\$8,312,000</u>

A payment is defined as an increase to the ceiling in the Automated Clearinghouse Payment System. Commitments cannot be made until the ceiling on the letter of credit is adequate to cover that commitment.

Each payment is for the beginning of each quarter with planned commitments to be made through the end of that quarter. Each payment must be committed within 1 year of the payment date, in accordance with the Safe Drinking Water Act of 1996.

## **ATTACHMENT III. Description of Disadvantaged Loans**

### **IDAHO DRINKING WATER REVOLVING LOAN FUND**

In conjunction with the standard loans, DEQ shall award loans to applicants deemed disadvantaged using the following criteria, to the extent required by the most recent federal capitalization grant. To qualify for a disadvantaged loan, a loan applicant must have an annual cost of drinking water service for residential customers that exceeds 1.50% of the median household income. The annual cost includes all operating, maintenance, replacement, and debt service costs, both for the existing system and upgrades being financed with state revolving funds. If the applicant's service area is not within the boundaries of a municipality, the applicant may use census data for the county in which it is located, or may use a DEQ-approved income survey (which details the community's median household income).

First, the loan interest rate will be reduced from the rate established by the DEQ director for standard loans to a rate that results in an annual charge equal to 1.50% of median household income. The interest rate reduction may result in a loan interest rate of as low as 1.50% for a 20-year loan (in rare instances the rate may be set at 0.00%). Loans for 30 years have a 0.25% higher interest rate than a 20-year loan but will result in lower annual repayments.

Second, if a 1.50% interest rate and 20-year repayment loan terms and conditions result in the annual user charge exceeding 1.50% of median household income, then the length of the loan repayment will be extended in yearly increments up to a maximum of 30 years until the annual user charges equals 1.50% of median household income. Thirty-year loans will be charged a 0.25% higher interest rate than otherwise comparable 20-year loans.

Last, (assuming that a 30 year repayment period is acceptable to the applicant) if at 1.75% interest and a 30-year repayment, the annual user charge still exceeds 1.50% of median household income, the principal which causes the user charge to exceed 1.50% may be reduced. The amount of principal reduction for all projects will be capped at 30% of the capitalization grant or \$2,493,600. The principal reduction will be based on the pool of qualifying disadvantaged communities (projects) receiving an equal share in the amount available for principal reduction and communities in need of emergency assistance to address corrosivity. If the principal forgiveness allocated to corrosivity is not fully utilized for emergency assistance it will be allocated to disadvantaged loan recipients. Principal forgiveness is for disadvantaged communities and is to be spread out amongst those communities and may not be provided in excess to lower a community status to below 1.50% of the median household income.

- When the federal capitalization grant is ready to be closed out (that is associated with the principal forgiveness allocated for SFY 2017) any unallocated principal forgiveness (identified in the Fundable List – Attachment I), will be allocated to those disadvantaged entities that signed loans with DEQ during state fiscal year 2017 and still qualify as disadvantaged. If a project's budget increases after the Fundable List is established, any year-end reallocation of unused principal forgiveness will take into account the project's new cost.
- If a disadvantaged community accepts principal forgiveness and their project is completed under budget, their remaining principal forgiveness will be allocated to those

disadvantaged entities that signed loans with DEQ during the state fiscal year and still qualify as disadvantaged.

- If a project that has a claim to disadvantaged assistance (on the Fundable List) opts out of the loan process and the funding thereby goes to a lower rated project, that lower rated project (if the community is disadvantaged) can lay claim to the disadvantaged assistance (however, the ratio of principal forgiveness to dollars loaned will remain consistent).

## **ATTACHMENT IV. Public Notification and Involvement Strategy**

### **FOR SFY 2017 CLEAN WATER AND DRINKING WATER PRIORITY LISTS**

The public will be involved in the SFY 2017 priority list development at several points in the process. Involvement for the drinking water and clean water lists are the same. Needs were solicited directly from the systems through a letter of interest mailed out by the DEQ early in the priority list process. Information on the completed letter of interest forms were used in part by the state and regional office staff in preparing draft lists. DEQ found that combining information obtained directly from eligible entities with that provided by our engineering staff results in the most accurate listing of infrastructure needs.

Notification that all four SFY 2017 priority lists are available for public review were given in Idaho's six major (regional) newspapers for four weeks. Notices were published three times in each of the newspapers. Copies of proofs of publication will be included as attachments to the final IUP.

Notification of availability of the lists was also placed on DEQ's website from March 22 to April 19, 2016.

Approval packages related to the four lists will be sent to the Board of Environmental Quality prior to its meeting on May 11 and 12, 2016. Copies of the issue analyses for the DWSRF lists and the Board agenda will be included as attachments upon Board action. DEQ staff will make presentations at the Board meeting and answer questions about the lists. The Board will be asked to approve all lists on May 11 and 12, 2016.

## **ATTACHMENT V. Documentation of Matching Requirement for Program Management (10%) Set-Aside Public Notification and Involvement Strategy**

### IDAHO DRINKING WATER REVOLVING LOAN FUND

The following list illustrates how DEQ obtains its required match for the Safe Drinking Water Act Section 1452(g) set-aside. For the Program Management Set-Aside grant (\$831,200), DEQ must provide a 50% match above and beyond the 20% match that is required for the annual DWSRF capitalization grant. To meet this match, the following applies:

- ❖ Lines 1 through 3—DEQ applies any over-match that it supplied for the previous year’s Public Water System Supervision (PWSS) grant.
- ❖ Line 4—As allowed in the Safe Drinking Water Act, the initial state match provided in 1993 serves as a perennial credit when computing the state’s effort at meeting the PWSS 50% match requirement. The match provided in 1993 was \$892,674.
- ❖ Line 5—The sum of adding lines 3 and 4, representing the match that the state can provide against the upcoming year’s 50% requirement.
- ❖ A limiting factor in how much the state can provide as match results from the requirement that individually lines 3 and 4 can only provide 50% of the required match amount, so that lower of the two figures is mirrored in the other figure (i.e., line 3 is less than line 4 could be and so line 4 is reduced to equal line 3).

1. Federal fiscal year 2015 state funds applied towards Public Water System Supervision (PWSS) program	\$1,738,120
2. Required match for PWSS grant	<u>(401,333)</u>
3. Over-match available from Federal fiscal year 2015 funds	1,336,787
4. Amount available from the state fiscal year 1993 credit (can claim up to 50% of the match requirement)	<u>892,674</u>
5. State match available for the 1452(g) set-asides	<u>\$1,785,348</u>

Half of the required match (\$415,600) for the Program Management set-aside will come from the Federal fiscal year 2015 over-match (\$1,336,787) and the remaining match (\$415,600) will come from the state fiscal year 1993 match credit (\$892,674). Expenditure of Federal fiscal year 2015 over-match will be documented in the Federal financial reports submitted for the PWSS program.

## ATTACHMENT VI. Listing of Capitalization Grants—Reference for Potential Transfers Between Funds

### Drinking Water SRF

Federal Fiscal Year	Capitalization Grant Amount
1997	\$14,157,800
1998	7,121,300
1999	7,463,800
2000	7,757,000
2001	7,789,100
2002	8,052,500
2003	8,004,100
2004	8,303,100
2005	8,285,500
2006	8,229,300
2007	8,229,000
2008	8,146,000
ARRA	19,500,000
2009	8,146,000
2010	13,573,000
2011	9,418,000
2012	8,975,000
2013	8,421,000
2014	8,845,000
2015	8,845,000
2016	8,312,000
<b>Total</b>	<u><u>\$195,573,500</u></u>

*Note: The Drinking Water SRF fund is used to measure how much in transfers may be made, between the two loan funds, because the Drinking Water loan fund has received the lesser of capitalization grants and is therefore the limiting factor.*

Only one transfer may be made each year. For SFY 2017 \$10 million will be transferred from the Drinking Water SRF to the Clean Water SRF. Per 40 CFR 35.3550 a state may reserve the authority to transfer funds in future years. Funds may be transferred on a net basis, provided that the 33% transfer allowance associated with the DWSRF program capitalization grants received is not exceeded. Only repayments will be used for transfers.

The recent past has highlighted an imbalance in demand between the two loan funds, with the CWSRF having a much higher demand than the DWSRF:

- Demand in SFY 2012 for DWSRF \$68m vs. CWSRF \$117m
- Demand in SFY 2013 for DWSRF \$27m vs. CWSRF \$149m
- Demand in SFY 2014 for DWSRF \$37m vs. CWSRF \$162m
- Demand in SFY 2015 for DWSRF \$45m vs. CWSRF \$69m
- Demand in SFY 2016 for DWSRF \$46m vs. CWSRF \$67m
- Demand in SFY 2017 for DWSRF \$23.6m vs. CWSRF \$92m

The two types of projects (DW vs. CW) have the same funding sources to apply to, so there is no offsetting relief for the CW entities to seek additional funds from. Typically CW projects are more expensive than DW projects (this year the ratio is \$6.6m:\$2.4m per project). The current expectation is that the transferred funds into the CWSRF will reside there for some period of years; however, the transfer may be reversed in the future if the relative needs change.

The total amount of authority being reserved is 33% of \$195,573,500 or \$64,539,255. With the actual transfers of \$10,000,000 in both SFYs 2015 and 2016, and the proposed transfer of an additional \$10,000,000 in SFY 2017 there will remain \$34,539,255 of reserve that could be transferred from the Drinking Water SRF to the Clean Water SRF, until the reserve is increased by new Federal grants. The transfer will be taken from the fund corpus and will not affect set-asides. The potential for long-term diminution of DWSRF fund resources will be known as future, relative needs become known. DEQ will continue to monitor and conduct financial assessment/modeling to determine potential long-term impacts to the DWSRF fund.