

Drinking Water State Revolving Fund (DWSRF)

DWSRF Guidance Document Number 13

Annual Operation and Maintenance Costs, Reserve Contribution, Equivalent Units, and Existing Debt

Four primary elements in determining a loan rate and term are annual operation and maintenance costs, reserve contribution, equivalent units, and existing debt. These figures are used as a basis for determining user rate post project and are integral in determining if an applicant qualifies as disadvantaged under Title 24 Chapter 120 Section 4752(12). Please see GD#10 for user rate and loan rate and term calculations.

- A. Operation and Maintenance Costs
 - (1) Actual expenses from the applicants' approved budget will be used.
- B. Reserve Contribution
 - (1) Capital Improvement Plan reserve contribution
 - (a) The applicant must have a Capital Improvement Plan (CIP) or similar infrastructure investment planning document (asset management plan (AMP), for example)
 - (b) The applicant must have a Reserve or CIP budget line item and must show contribution to that line item in preceding budget years. Budget overages or cash accrual are not considered active reserve contributions and will not count toward loan rate and term calculations.
 - (2) If a CIP or similar does not exist, a Short-Term Asset Reserve Table (START), AMP, or CIP must be created. The applicant must then create a reserve fund and actively contribute to the reserve fund in accordance with the START, AMP, or CIP.
 - (3) Depreciation does not qualify as a basis for reserve contribution.
- C. Equivalent Residential Unit (ERU) Determinations
 - (1) Each independent living unit served by the water system must be counted as one unit. This number may be different than the number of customers, water meters, or service connections. Examples are: 1) a duplex is 2 residential units; 2) a house with two apartments is 3 residential units; and, 3) an apartment building with ten apartments would be 10 residential units.
 - (2) The annual water use of the commercial, industrial, institutional, and other non-residential users shall be determined from existing metered data or estimated (refer to the WSR, Appendix A, Table A2-1, Unitized Average Day Flows). Water use information will be used when available for customers with meters and estimates made for non-metered customers. The estimate is to be made for projected future use following project completion and it may not be appropriate to use data from any one specific year. The engineer is expected to justify the estimate of non-residential water use.

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- (a) The annual water use determined above shall be divided by 76,650 gallons per year to determine the number of commercial, industrial, institutional and other equivalent units. The 76,650 gallons per year is based on 210 gallons per 3-bedroom household unit.
 - (3) The number of ERUs is the sum of numbers 1 and 2 above (residential units plus non-residential water use equivalent residential units).
 - (4) In no instance shall the number of equivalent units be less than the total number of service connections (residential plus all other connections) as indicated in SDWIS.
 - (5) It is expected that the procedures outlined above will not be appropriate for all loan applicants. The DWSRF Project Lead makes the final determination on the number of equivalent units to use in making loan interest rate and term determinations.
- D. Prior Drinking Water Project Debt
- (1) Existing water system debt equals annual debt payments for prior water system improvement projects (documentation may be required) and will not include debt accumulated for the current project.
 - (2) Existing debt payment(s) that are due to retire within five (5) years of the estimated start of the current project's debt is not considered existing debt with respect to determining loan rates and terms.
 - (3) In the event an applicant's existing debt payment(s) will be retiring within five years of new debt starting and the applicant's written policy is to place that debt payment in the O&M budget as capital investment or reserves, the DWSRF will recognize the decrease in debt and increase in O&M or reserves for purposes of evaluating preliminary loan rate and term. Implementation of the applicant's policy will be verified prior to loan repayment; adjustments to the loan rate and term may be made prior to loan repayment if the policy is not followed. If no policy exists and the applicant desires to perform this function, a policy must be in place prior to Step III loan approval.
 - (4) Debt incurred by the purchase of the water system by a new owner will be evaluated on a case by case basis. The purchase must be part of the most cost-effective solution to correcting a public health or compliance problem and eligible purchase price is in accordance with GD#8. Impact on long term financial, managerial and technical capability will also be a determination.

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