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Julia S. Moore, P.E.
Agency Secretary

**State of Vermont
Agency of Natural Resources**

MEMORANDUM

To: Beth Pearce, State Treasurer

From: Neil Kamman, Director, Water Investment Division
Cassie Polhemus, CEO, Vermont Economic Development Authority (VEDA)
Michael Gaughan, Executive Director, Vermont Bond Bank (VBB)

Through: Julia S. Moore, P.E., Secretary, Agency of Natural Resources
Peter Walke, Commissioner, Department of Environmental Conservation (DEC)

Cc: Kim Greenwood, Deputy Commissioner, DEC

Date: September 9, 2020

Re: Revising Loan Interest Rates for the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Funds (DWSRF)

RECOMMENDED INTEREST RATE CHANGE FOR CWSRF LOANS

With the recent adoption of the FFY2020 CWSRF Intended Use Plan (IUP), ANR and VEDA are recommending that interest rates be revised for CWSRF loans to private borrowers. Last year, interest rates for CWSRF loans to private borrowers were established for the first time, following enactment of Act 185 of 2018; the Act expanded the State's authority to provide CWSRF loans to private borrowers for clean water projects. Rates for municipal CWSRF loans did not change last year, and we are not recommending any changes at this time for those loans, which are set at 0% interest plus an administrative fee of 2%.

In accordance with 24 VSA §4782(a)(3), ANR and VEDA hereby recommend the following interest rates be established for loans to private entities for clean water projects authorized at 24 VSA Subchapter 4 from the CWSRF.

- For all clean water projects, authorized under 24 VSA Subchapter 4, except Brownfield Economic Revitalization Alliance (BERA) projects, the rate of interest to be charged shall be set at 0% plus an administrative fee of 2.75%.
- For BERA projects the rate of interest to be charged shall be 0% plus an administrative fee of 2.25%. The lower rate for BERA projects is recommended because the DEC considers BERA projects to be high priority for the State of Vermont and, as such, should be incentivized by offering a lower interest rate than other privately-owned clean water projects.

It should be noted that the administrative fee rate charged on loans to private entities is expected to offset reduced administrative fees for project loans awarded under the Water Infrastructure Sponsorship Program (WISPr). WISPr pairs natural resource projects with municipal infrastructure projects and discounts the administrative fee of the loan so that the cost of the natural infrastructure project is forgiven over the life of the loan. This discounted municipal administrative fee intends to be recovered by the higher administrative fee charged to private entities. This ensures a robust capitalization of the CWSRF administrative fee fund, while simultaneously providing funding for projects that help meet the state's water quality goals.

RECOMMENDED INTEREST RATE CHANGE FOR DWSRF LOANS

In accordance with 24 VSA §4755(a)(5), effective with the FFY2019 DWSRF IUP, ANR in consultation with VBB recommends herein that the rate of interest charged for municipal borrowers be reduced from the current 1% to 0%. Municipalities are charged an administrative fee that can range from 0% to a statutory maximum of 2%, depending on a municipality's annual user rate and median household income (MHI). The fee is reduced to achieve a target annual user rate of 1% of the municipality's MHI. The method for determining the administrative fee remains unchanged.

In accordance with 24 VSA §4771(a)(4), effective with the FFY2019 DWSRF IUP, ANR in consultation with VEDA recommends herein that the rate of interest charged for private borrowers remain at the current rate of 0%. Additionally, the maximum administrative fee charged on loans to private borrowers will be reduced from the current 3% to 2.75%. The administrative fee is adjusted downward for privately owned nonprofit community water systems meeting the State's disadvantaged community criteria, which is based on income level and annual household user costs of the system users. The fee is reduced to achieve a target annual user rate of 1% of the system's MHI for qualifying systems. The method for determining the administrative fee remains unchanged.