



Crafting Optimal Financial Solutions

MEMORANDUM

TO: WASTEWATER MANAGEMENT WORKING GROUP
FROM: JEFFREY SMALL AND CATHY DOMINICO
RE: PRINCIPAL FORGIVENESS OF STATE REVOLVING FUND LOAN
DATE: DECEMBER 1, 2011

Tom,

New information came to our attention this week regarding the State Revolving Fund (SRF) loan program and the County's ability to receive principal forgiveness on the loan for the SMD 1 Upgrade and Expansion Project. Yesterday afternoon we held a conference call with Christopher Stevens, Bob Pontureri, and Jennifer Toney of SRF as well as Jenine Windeshausen, Will Dickenson and Kathy Kane from the County.

For the purposes of the SRF loan, the SMD 1 service area qualified as a small, economically disadvantaged community, which enables the SMD 1 Upgrade and Expansion project to obtain extended term financing of up to 30 years and principal forgiveness of up to \$6 million.

As you may know, the County has a loan approval for \$58,376,044, which includes up to \$6 million of principal forgiveness on the first \$12 million of eligible project costs. Eligible project costs that are not covered by loan forgiveness accrue interest at ½ of the State's most recent sale of general obligation bonds. Currently, this rate is 2.2%.

We have been informed by SRF staff, that the availability of the principal forgiveness allocation is based on the availability of federal funds, which are annually approved through the federal government's budgeting process. Currently, \$22 million is available for the 2011-12 fiscal year. We understand from SRF that other entities have Projects that are on the cusp of approval, and additional funding for 2012 has not been approved. The County has the greatest chance of securing loan forgiveness funding by executing SRF's Preliminary Funding Commitment (PFC) by December 31, 2011. We understand that the County has until March 20, 2012 to execute the PFC although Staff may approve 120 day extension for good cause.

SRF staff indicated that it may be possible for the County to receive principal forgiveness for a regional project, but that would depend on several factors along with the availability of funding. SRF staff indicated that regional projects have larger maximum limits of up to \$7.5 million of loan forgiveness. SRF is looking into the possibility of allowing additional loan forgiveness if separate applications from the City of Auburn and County of Placer are submitted.

In addition to the \$6 million of principal forgiveness there would be an additional reduction of approximately \$2.64 million in overall financing costs. This would reduce annual debt service by approximately \$375,000 per year and could enable the County to reduce the rates to SMD 1 customers by over \$2 per EDU per month.

Please feel free to let us know if you have any questions about the feedback we received from SRF or if there are additional questions that you think are important to the County making a decision on the two proposed projects.

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