



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
WATER

JULY 3, 1990

SRF 90-23

MEMORANDUM

SUBJECT: Cash Draw Rules for Refinance Projects

FROM: James A. Hanlon, Director /s/
Municipal Construction Division (WH-547)

TO: Richard R. Long, Chief
Municipal Facilities Branch (8WM-MF)

This memorandum is in response to questions posed in several letters by Jack Rychecky regarding cash draw rules for refinance projects.

For grants awarded after March 19, 1990, the SRF Regulations provide that "the State may immediately draw cash for up to five percent of each fiscal year's capitalization grant or two million dollars, whichever is greater, to refinance or purchase local debt." Projects or portions of projects may take advantage of this provision up to the limit. NOTE: Under this provision cash draws can be made immediately prior to the refinance loan agreement so that the funds are available when the agreement is made -- this is not necessarily at the time of the grant.

The answers below are relevant to projects or portions of projects which do not, or cannot, take advantage of the provision described above. These answers are the same for refinancing assistance provided under all grant awards (both pre and post the SRF regulations).

Jack's queries can be formulated into four basic questions that are listed and answered below:

1) How do you determine the length of the period over which cash draws must be spread?

ANSWER The number of quarters over which cash draws must be made is determined by the number of quarters over which payments can be made at the time of the grant. If payments can be made over 8 quarters then cash draws for any refinanced project must be made over 8 quarters.

2) When does the above cash draw period begin?

ANSWER For refinance projects listed to be funded on the IUP that was submitted with the grant application, the cash draw period begins in the quarter in which the grant is made.

For refinance projects not listed on the IUP that was submitted with the grant application but, instead, are subsequently added through an amendment (change) to the IUP, the cash draw period begins in the quarter in which the IUP was amended (changed).

3) How is the dollar amount of each draw determined?

ANSWER Cash draw must be spread evenly over the number of quarters remaining in the cash draw period at the time cash draws begin.

4) When, within the cash draw period (see #2 above), can cash draws for refinance projects begin?

ANSWER Cash draws may begin once a binding commitment has been made for the project.

Example 1: Without Immediate Draw Provision

Background Facts:

- A grant was awarded in April 1989
- A project to be refinanced was listed on the IUP
- The period over which payments could be made was eight quarters
- The BC and the first cash draw for the project occurs in October 1989
- The Federal share of the amount refinanced is \$900,000

Since the first cash draw occurs in the 3rd quarter of the 8 quarter period the cash draws must be spread evenly over the six quarters remaining. The State may draw \$150,000 (\$900,000 / 6 quarters) in each of the six quarters.

Example 2: With Immediate Draw Provision

Background Facts:

- A grant was awarded in April 1990
- The amount of the exemption for immediate cash draw for refinancing is \$2,000,000.
- Two projects to be refinanced were listed on the IUP
- The period over which payments could be made was eight quarters
- The State entered into binding commitments to refinance both projects in October 1990.

The Federal share of the amount refinanced for project 1 is \$900,000

•

Project 1

The State may draw \$900,000 in October to refinance project 1. This leaves \$1,100,000 that is

Project 2

•

exemption it cannot all be drawn at once. \$400,000 of draws (\$1,500,000 minus \$1,100,000) may not be drawn under the exemption.

Draw for project 2 should be calculated as follows:

- Initially, the cash draw for the project should be calculated as though none of the cash will be drawn under the exemption. Since the first cash draw occurs in the 3rd quarter of the 8 quarter period the total project, \$1,500,000 must be spread evenly over the six quarters remaining. This results in a draw of \$250,000 ($\$1,500,000 / 6$ quarters) in each of the six quarters.
- Draws may proceed at this pace until the amount drawn plus the amount remaining in the exemption, \$1,100,000, equals the project cost, \$1,500,000.

In this case the State would draw \$250,000 in the 3rd quarter of the 8 quarter period and draw the remaining funds, \$1,250,000, in the 4th quarter of the 8 quarter period (the \$1,250,00 is made up of the remaining exemption funds, \$1,100,00, and the amount needed to finish the project of the 4th quarter draw, \$150,000).

Please note that this is only an example of how the exempted funds could be used. An equal portion of the exemption could have been used by both projects if the State wished to use the exemption in that manner.

If you have questions, please contact Bob Drake of my staff at FTS 382-7267.

cc: SRF Coordinators, Regions I -X
Municipal Construction Program Managers, Regions I - X