



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

OFFICE OF  
WATER

November 30, 1990

**SRF 91-05**

MEMORANDUM

SUBJECT: Clarification of Refinance Cash Draw Rules

FROM: Elaine Greening, Acting Chief /s/  
Delegation Management Branch

TO: Conny Chandler, Chief  
Program Support Unit, Region IV

This is in reply to your telephone request of November 28, 1990, to Bob Drake regarding the use of the \$2 Million immediate cash draw provision for refinance projects, Section 35.3160(b)(2) of the State Revolving Fund (SRF) Regulations, in the State of Alabama's leveraged SRF program.

It is my understanding that Alabama plans to use the "all project" method to draw cash from the Federal grant into the debt service reserve account for the "leveraging" bonds in the SRF. The cash draw rules for the "all project" method are set forth in section 35.3160(d)(2)(i) of the regulations as follows:

The State can draw cash up to the amount of the LOC dedicated for the guarantee or security in accordance with a schedule based on ...actual construction cost ... the amount of the cash draw would be the actual construction costs multiplied by the Federal share of the reserve multiplied by the ratio of the reserve to either the amount guaranteed or the proceeds of the bond issue.

Please note that under this section of the regulation, cash draw is based on "construction costs" (disbursement needs) multiplied by a calculated ratio. All cash draws based on disbursements for leveraged loans are subject to the ratio.

Section 35.3160(b)(1) and (2) of the regulations explains the basis for calculating cash draws for refinance projects:

(1)... Cash draws shall be made at a rate no greater than equal amounts over the maximum number of quarters that payments can be made, pursuant to §35.3155(c) of this subpart, and up to the portion of the LOC committed to the refinancing or purchase of the local debt...

- (2) 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.

To determine how much of the refinance project cost can be drawn under the immediate cash draw provision in Section 35.3160(b)(2), the draw schedule for the refinance projects must be multiplied by the ratio discussed in Section 35.3160(d)(2)(i). If the resulting draw amount is \$2 million or less, the entire draw associated with a project may be made immediately at the time the refinancing takes place on that project. If the refinance project costs multiplied by the ratio result in a draw that exceeds \$2 million, up to \$2 million in draws may be made immediately at the time the refinancing takes place on associated project(s). The remaining draws (those above \$2 million) must be taken on a calculated schedule.

In Alabama, it is my understanding that the entire draw for the refinance projects will not exceed \$2 million. If this is correct, the entire draw associated with each refinance projects may be drawn at the time of the refinance.

I should also point out that the ratio formula listed in section 35.3160(b)(2) only works correctly when both the capitalization grant and the State match are used to fund the reserve. Because of this, I have attached our memo to John Ong of Region IX clarifying how to calculate the ratio for the Nevada leveraging program. Please note that, since Alabama is planning to make direct loans from the State Match funds, none of the State Match should be included in the ratio. This means that in the example, on page two of the memo the "State Match amount for Loans (SML)" should be zero.

It is my understanding that, for Alabama, the grant, minus four percent, will be used as the debt service reserve for the bonds (\$10.47 M), that the net bond proceeds will be used to fund leveraged loan projects (\$28.48 M) and that the State match will be used to fund direct (unleveraged) loans. If this is correct, the correct ratio for the Alabama program is .367, the amount of the grant dedicated to the reserve divided by the net bond proceeds (10.47 divided by 28.48). The attached spreadsheet shows our estimated cash draws for Alabama's program in more detail.

If you have further questions please contact me at FTS 382-7359 or Bob Drake of my staff at FTS 382-7267.

## Attachments

cc: Mr. David Hutchinson  
Alabama Department of Environmental Management  
SRF Coordinators, Regions I-X  
Municipal Construction Program Managers, Regions I-X

June 28, 1990

MEMORANDUM

SUBJECT: Use of the All Projects Cash Draw Method in Nevada

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

TO: John Ong, Chief  
Municipal Facilities Branch

In our review of proposed cash draw schedules for the Nevada SRF program, we have determined that the structure of Nevada's proposed leveraging program is slightly different than assumed in the formula used for cash draw in Section 35.3160(d)(2)(i) of the SRF regulation. Because of this change Nevada must either make an adjustment to the cash draw formula or change the structure of the SRF to conform to that anticipated by the regulation.

Section 325.3160(d)(2)(i) describes the cash draw rules for use of SRF grant funds to secure bonds using the "all projects" method of proportionality:

The State can draw cash up to the amount of the LOC dedicated for the guarantee or security in accordance with a schedule based on the national title II annual outlay rate, or actual construction costs. In the latter case, the amount of the cash draw would be the actual construction costs multiplied by the ratio of the reserve to . . . the proceeds of the bond issue.

The formula described in the regulation can be expressed mathematically as:

$$\text{Cash Draw} = \frac{\text{Actual Construction Costs (ACC)} \times \text{Federal Share of the Reserve (FSR)}}{\text{Total Reserve (TR)} \div \text{Proceeds of the Bond Issue (PBI)}}$$

The SRF regulations intended that funds from the LOC would be drawn into the SRF at a proportional rate such that at the time all the SRF funds available for construction were disbursed, all the LOC reserve funds would be drawn into the SRF. The formula was constructed assuming that the reserve would include both grant and match funds.

Since the Nevada proposal does not include both grant and match funds in the reserve but, instead, uses the State match to fund loans, the cash draw formula must be adjusted in order to conform to the intent of the regulation. The State match funds that will be used to provide loan assistance (SML) must be added to the proceeds of the bond issue to arrive at the correct cash draw pace.

Example

ASSUMPTIONS:

Federal amount in reserve	\$10
State amount in reserve	0
Federal share of the reserve (FSR)	1 (100%)
Total reserve (TR)	\$10
State Match amount for Loans (SML)	\$ 2
Net Proceeds of Leverage Bonds (PBI)	\$30

CALCULATIONS:

$$\begin{aligned}\text{Cash Draw} &= \text{ACC} \times \text{FSR} \times \text{TR} \div [(\text{PBI}) + (\text{SML})] \\ &= \text{ACC} \times 1 \times 10 \div [(30) + (2)] \\ &= \text{ACC} \times .3125\end{aligned}$$

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

cc: SRF Coordinators  
Municipal Construction Program Managers