

SOUTH DAKOTA DEPARTMENT OF WATER AND NATURAL RESOURCES
STATE REVOLVING FUND ANNUAL REPORT
Federal Fiscal Year 1989

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SOUTH DAKOTA DEPARTMENT OF WATER AND NATURAL RESOURCES

STATE REVOLVING FUND ANNUAL REPORT

FEDERAL FISCAL YEAR 1989

I. INTRODUCTION

The State of South Dakota, hereby referred to as the State, respectfully submits its first State Revolving Fund (SRF) Annual Report, hereafter referred to as the Annual Report. The Annual Report is prepared pursuant to the operating agreement for the federal capitalization grant. The Annual Report describes how the State of South Dakota has met the goals of the State Revolving Loan Program, as identified in the Intended Use Plan (IUP), for federal fiscal year (FFY) 1989.

II. EXECUTIVE SUMMARY

South Dakota's SRF FFY 1989 program was based upon an assumed federal appropriation of \$5.9 million, however, the actual appropriation was only \$4.6 million. The decrease did not have any immediate effect on the State's program since requests for funds did not exceed the amount available. However, in the long term, this decrease will have a significant, negative affect because the State's

capitalized amount at the end of FY 1994 will be decreased by \$1,300,000 accordingly.

The State did not make any binding commitments during FFY 1989, primarily due to the fact the State match was not fully in place until mid-August. Another factor prohibitive to the municipalities ability to readily accessing SRF was that the State Statute on bonding is fairly restrictive. The State is currently pursuing legislative changes, that if passed, will enable the communities to access SRF more effectively. The legislative changes, if enacted, could become statute as early as next March.

The Fund is scheduled to be used in FFY 1990 to partially fund two "first use" requirements of the Clean Water Act. The "first use" requirements are those projects that will result in communities meeting their federal NPDES discharge permit requirements. These two communities are Huron and Mobridge and they are expected to borrow \$1,656,000 and \$1,038,600 respectively. The State is currently planning to fund the remainder of the state's "first use" requirements with Title II grant funds.

III. GOALS AND ACCOMPLISHMENTS

A. Short Term Goals And Accomplishments

The IUP for the State described one short term goal and four short term objectives to be implemented in FFY 1989. The State has made significant progress toward successful completion of its short term goal and objectives.

The short term goal of the State fund is to fully capitalize SRF. The State received its full FFY 1989 allocated capitalization grant of \$4,600,000 on March 6, 1989.

The short term objectives are as follows:

1. Develop a SRF program that provides low interest financing (up to 100 percent loans) for municipal wastewater treatment facilities and systems.

The State has fully developed the SRF that will provide low interest loans (3% for 1990 and 1991) to municipal wastewater treatment facilities/nonpoint source pollution control projects.

2. Ensure the technical integrity of the SRF projects through the review of planning, design plans and specifications and construction activities.

The State has completed the Handbook of Procedures (HOP) checksheets to be used by the State project engineers in the review of planning documents, plans and specifications, and construction activities. The State will use the same staff as it has employed for management of the EPA Construction Grants Program activities.

In addition, the State support group will include two financial specialists to ensure that the financial aspects of the individual projects, as well as the SRF, are protected and enhanced.

4. Obtain maximum capitalization of the SRF for the State in the shortest time possible.

The State received the federal FFY 1989 capitalization grant on March 6, 1989. Although the grant award was received later than anticipated, it was as fast as could be expected because of the time required for the Board of Water and Natural Resources (BWNR) to bond for the State match. The State did receive the full amount of SRF funds available from EPA.

B. Long Term Goals And Accomplishments

In its IUP, the State identified the following long term goals:

The long term goals of the SRF are to capitalize it to the fullest, maintain or restore and enhance the chemical, physical and biological integrity of the State's waters for the benefit of the overall environment, the protection of public health, and the promotion of economic well-being.

The State was able to fully capitalize the SRF, to the maximum extent possible in FFY 1989. Although no loans were committed, the State expects to meet this long term goal by FFY 1994.

The long term strategies are as follows:

1. Maintain a permanent, self-sustaining SRF program that will serve in perpetuity as a source of financing for wastewater treatment facilities and water pollution control activities including nonpoint source pollution control and where applicable groundwater protection projects.

The State made initial progress toward the establishment of a permanent, self-sustaining SRF

by the capitalization of the FFY 1989 grant in the amount of \$4,577,200. Assuming that these monies will be committed within the required time-frame, the SRF will be capitalized as planned. The interest rate is currently established to maximize the attractiveness of the SRF. The BWNR may, at its descretion, change the rate annually to account for changes in inflation and other factors.

2. Fulfill the requirements of pertinent federal, State, and local laws and regulations governing water pollution control activities, while providing the State and local project sponsors with maximum flexibility and decision making authority regarding such activities.

The State has tailored the Handbook of Procedures to reflect a minimum of State oversight and maximum recipient leeway in the affected activities of the SRF. Certain activities such as a Plan of Operation and an Operation and Maintenance Manual will not normally be required. Also, activities such as change order review for cost negotiation has been deleted since the funding source is now loans.

IV. DETAILS OF ACCOMPLISHMENTS

A. SRF Financial Status

1. Binding Commitments

The DWR did not enter into any binding commitments during FFY 1989. Although DWR received the FFY 1989 capitalization grant on March 6, 1989, the State match bond issue was delayed until August 10, 1989. The State was unable to commit any SRF funds between August 10, 1989, and September 30, 1989.

2. Sources of Funds

Exhibit 1 shows the sources of SRF funds for FFY 1989. During FFY 1989, the State was awarded a \$4,577,200 federal capitalization grant that was matched by \$915,440 in State funds. There were no Title II transfers to the SRF during FFY 1989.

The State provided its match by issuing Conservancy District revenue bonds (\$5,785,000) for the first 3 years of the required State match. Exhibit 2 provides a breakdown of where the

\$5,785,000 was deposited. Exhibit 3 provides a statement of revenue, expenses, and changes in fund balances.

3. Disbursements and Guarantees

No disbursements were made from the SRF nor were there any guarantees issued during FFY 1989.

4. Financial Statement(s)

Exhibit 4 shows the unaudited use and balance of funds during FFY 1989. The period preceding July 1, 1989, was considered a development period for the SRF and as such, was billed to the Construction Management Assistance (205(g)) account.

Exhibit 2 shows the current balances in all accounts related to the SRF program.

5. Credit Risk of the SRF

The State has employed a credit insurer for the revenue bond issuance. The Capitol Guaranty

Insurance Company has been employed as the credit insurer and, has established its own set of program guidelines to be used, in conjunction with federal, State, and local regulations and statutes, in issuing loans to applicants.

The summarized rules of the credit insurer are:

- a.) If the loan applicant has a population of less than 1,000, the loan agreement must be secured by both its wastewater system revenues and the full faith and credit of the applicant,
- b.) If the loan applicant's outstanding wastewater debt is \$1,000 per capita or more, the loan may only be made with the written consent of the insurer,
- c.) If the loan applicant's outstanding wastewater debt in between \$500 and \$1,000 per capita or greater than \$1,500 per hookup, the issuer must deposit an amount equal to 8% on the outstanding principal into the Loan Loss Reserve Fund, which will make the approval by the credit insurer automatic, and

- d.) If the loan applicant's outstanding wastewater debt is less than \$500 per capita, approval by the credit insurer is automatic.

In addition to the credit insurer criteria, the State will follow the review procedures contained in the HOP and Attachment 6 (Loan Program Policies and Guidelines).

With the credit insurer's criteria and the State's in-house review process, the SRF loans that will be issued in FFY 1990 will be well protected from default. The State repayments on its revenue series issuance will also be protected. In addition, as a general indication of the fiscal responsibility of the municipalities that will be receiving loans; there has never been a municipal bond default in the State's history.

B. Capitalization Grant Conditions

The State of South Dakota agreed to a number of conditions in the capitalization grant agreement. A list of the applicable conditions and their respective status are described below:

1. Transfer of Funds - the grant stated that no transfer of FFY 1989 Title II funds were allowed.

The State did not transfer any Title II funds during FFY 1989.

2. Establishment of Minority Business Enterprise (MBE)/Womans Business Enterprise (WBE) Goals and Submittal of MBE/WBE Utilization Report.

The State and EPA have agreed on "fair-share" goals of 5% and 2% for MBE and WBE firms, respectively. The State did not submit a completed MBE/WBE Utilization Report within 30 days after the end of each federal fiscal quarter, but will be submitted quarterly in FFY 1990.

3. The State agrees to accept all payments from the federal Letter-of-Credit (LOC).

The State has agreed to a payment schedule with EPA.

4. Each request for a cash draw on behalf of the State Water Pollution Control Revolving Fund (SWPCRF), shall be separate from any other cash draws from EPA.

There have been no cash draws from the federal LOC to date.

5. The State will not claim prior funds or prior projects' costs as match.

The State has not claimed prior incurred costs as State match.

6. Loan recipients must establish a dedicated source of revenue for loan repayment.

The State has not made any loans to date.

7. Prior to executing binding commitments on SRF projects, the Regional Administrator must certify project compliance with Title VI of the Civil Rights Act.

There were no loans during FFY 1989.

8. No assistance from 120% of the funds made available by the capitalization grant awarded in FFY 1989 shall be used for storm sewers.

No SRF funds were awarded to any storm sewer projects during FFY 1989.

9. Each disbursement from the SWPCRF for activities shall be composed of a 83.33% share of cash draws on the federal LOC and a 16.67% share of State match.

No disbursements were made from the SWPCRF during FFY 1989.

10. For all procurement actions after award of this capitalization grant, the State assures 40 CFR Parts 31 and 32 will be followed.

There have not been any procurement actions during FFY 1989 that involved the SRF administrative funds nor the associated State match.

11. The revised pages 8, 9, and 10 (Project Specific Information), FFY 1989 Disbursement Schedule and Payment Schedule dated January 17, 1989, are hereby incorporated into the IUP.

These were incorporated as requested.

12. Any administrative surcharge imposed on SWPCRF loan recipients as a program administrative fee must be billed outside the SWPCRF.

No administrative surcharges have been billed since no loans were made during FFY 1989.

13. The State shall derive its match from the bonded debt issued by the South Dakota Conservancy District.

The South Dakota Conservancy District issued \$5,785,000 in revenue bonds on August 10, 1989. These funds will be used to provide the first three years of the State match.

14. On the FFY 1989 Disbursement Schedule in the IUP, the City of Box Elder shall not receive refinancing assistance.

The City of Box Elder was not awarded a refinancing assistance loan during FFY 1989, because they were inadvertently left off the public hearing IUP.

15. The changes described in the EPA letter dated March 2, 1989, shall be incorporated into the documents pertaining to the grant award.

These referenced changes as described have been completed.

16. The State shall provide an estimate for future cash draws on the federal LOC no later than the third quarter of each federal fiscal year.

The State provided the cash draw schedule as requested.

17. Any references to "contractual relationship" are deleted and the words "grantor and grantee" are substituted.

The State has made these changes.

18. Intended Use Plan payments to the LOC are synopsized below:

The grant was amended (Amendment No. 2) on May 26, 1989, which amended the payment schedule in the LOC as follows:

| | | |
|----------|-------------------|------------------|
| FFY 1989 | 3rd Qtr. - | \$ 85,000 |
| | 4th Qtr. - | 2,952,963 |
| | <u>1st Qtr. -</u> | <u>1,539,237</u> |
| | Total | \$4,577,200 |

V. PROGRAM CHANGES

A. Comparison With The Intended Use Plan

The Annual Report reflects the following changes from the original IUP. The communities of Lake Cochrane and Dakota Dunes were added to the IUP by BWNR action during FFY 1989. The community of Box Elder was left on the Intended Use Plan, although it was not eligible for funding, because it did not appear on the FFY 1989 IUP that was presented at the public hearing.

B. Modifications of the Program

The State of South Dakota has not identified any significant changes to be made to the Operating Agreement or IUP for FY 1990.

Exhibit 1: Source And Allocation of SRF Funds for fiscal Year
FFY 1989

| | |
|--|-------------------|
| FFY-1989 Capitalization Grant Payments | \$4,577,200.00 |
| FY-1989 State Match | <u>915,440.00</u> |
| Totals | \$5,492,640.00 |

Exhibit 2
 State of South Dakota
 Balance Sheet
 Year Ending September 30, 1989
 \$ (000)

| <u>Assets</u> | <u>1989</u> | <u>1988</u> |
|--|------------------|-------------|
| Investments (Note 1) | \$ 5,143 | \$ 0 |
| Cash | 7 | 0 |
| Accrued Interest | 64 | 0 |
| Federal LOC Commitment less Cash Draws | 4,577 | 0 |
| Loan Less Reserve Fund (Note 2) | 571 | 0 |
| Loans Outstanding | 0 | 0 |
| Capitalized Interest Fund (Note 3) | 505 | 0 |
| | <hr/> | <hr/> |
| Total Assets | <u>\$ 10,867</u> | <u>\$ 0</u> |

Liabilities and Fund Equity

Liabilities

| | | |
|---|----------|-------|
| Accounts Payable-Interest on Bonds (Note 4) | \$ 67 | \$ 0 |
| Bonds Payable (Note 4) | 5,785 | 0 |
| | <hr/> | <hr/> |
| Total Liabilities | \$ 5,852 | \$ 0 |

Fund Equity

| | | |
|--------------------------------|----------|-------|
| Contribution from EPA (Note 5) | \$ 4,577 | \$ 0 |
| Contribution from State | 1,234 | 0 |
| Fund Balance | - <796> | 0 |
| | <hr/> | <hr/> |
| Total Fund Equity | \$ 5,015 | \$ 0 |

| | | |
|-----------------------------------|------------------|-------------|
| Total Liabilities and Fund Equity | <u>\$ 10,867</u> | <u>\$ 0</u> |
|-----------------------------------|------------------|-------------|

Exhibit 3
 State of South Dakota
 Statement of Revenues, Expenses, and
 Changes in Fund Balances
 Year Ending September 30, 1989

| <u>Revenues</u> | <u>1989</u> | <u>1988</u> |
|---|-----------------------|---------------|
| Interest Earned on: (Note 6) | | |
| Loans to Communities | \$ 0 | \$ 0 |
| Investments | 52 | 0 |
| Loan Loss Reserve Fund | 7 | 0 |
| Capitalized Interest Fund | 5 | 0 |
| | <hr/> | <hr/> |
| Total Revenues | \$ 64 | \$ 0 |
| <u>Expenses</u> | | |
| Program Administration | \$ 0 | \$ 0 |
| Interest on Bonds and Notes | 67 | 0 |
| Purchase Bond Insurance | 405 | 0 |
| Other Expenses - Bond Closing | 388 | 0 |
| | <hr/> | <hr/> |
| Total Expenses | \$ 860 | \$ 0 |
| Excess (Deficit) of Revenues Over Expenses | <hr/> \$ <796> | <hr/> \$ 0 |
| Fund Balance (Deficit) as beginning of year | 0 | 0 |
| | <hr/> | <hr/> |
| Fund Balance (Deficit) at end of year (Note 7) | <u>\$ <796></u> | <u>\$ 0</u> |

Exhibit 4
 State of South Dakota
 Statement of Changes in Financial Position
 Year Ending September 30, 1989

| <u>Sources of Working Capital</u> | <u>1989</u> | <u>1988</u> |
|---|------------------|-------------|
| Excess of (Deficit) of Revenues over Expenditures | \$ <796> | \$ 0 |
| Capitalization Grant Payments | 4,577 | 0 |
| State Appropriations | 1,234 | 0 |
| Bond Proceeds | 5,785 | |
| Accrued Interest on Bonds | 67 | 0 |
| Loan Principal Repayments | 0 | 0 |
| | <hr/> | <hr/> |
| Total Sources of Working Capital | <u>\$ 10,867</u> | <u>\$ 0</u> |
| <u>Uses of Working Capital</u> | | |
| Loan Disbursements | \$ 0 | \$ 0 |
| Loan Refinancing | 0 | 0 |
| Repayment of Principal of Bonds | 0 | 0 |
| | <hr/> | <hr/> |
| Total Uses of Working Capital | <u>\$ 0</u> | <u>\$ 0</u> |
| <u>Working Capital Balances</u> | | |
| Beginning of Year | \$ 0 | \$ 0 |
| End of Year | <u>\$ 10,867</u> | <u>\$ 0</u> |

NOTES TO FINANCIAL STATEMENTS

1. Investments consist substantially of two 7.55% Investment Agreements with Citibank due 7/25/92 totalling \$5,111,700. The remaining funds are held in a Federated Investors Inc. money market fund rated "AAA" by Standard and Poors.
2. The loan loss reserve fund has two major investments: \$280,000 par value United States Treasury Notes due 4/30/90 and \$280,000 par value Federated Home Loan Bank Notes due 7/25/94. The remaining funds are held in a Federated Investors Inc. money market fund rated "AAA" by Standard and Poors.
3. A portion of bond proceeds has been used to purchase two United States Treasury Notes \$200,000 due 1/31/90; the \$305,000 due 7/31/90 to provide for future debt service.
4. The following principal and interest payment on the bonds are due as follows:

| | <u>February 1, 1990</u> | <u>August 1, 1990</u> |
|-----------|-------------------------|-----------------------|
| Principal | \$ -0- | \$ 145,000 |
| Interest | <u>201,365</u> | <u>201,365</u> |
| Total | <u>\$ 201,365</u> | <u>\$ 346,365</u> |

5. The contribution from the EPA is the full amount authorized for the period which ends October 30, 1989.
6. Revenue derived from interest earnings includes actual amounts received and amounts earned but not collected.
7. The fund balance at the end of this initial year of operation is negative due to limited revenues relative to the expenses of the fund. Positive additions to the fund balance are expected in future years.