OHIO WATER DEVELOPMENT AUTHORITY

LOCAL GOVERNMENT AGENCY PROGRAM

The Ohio Water Development Authority offers local government agencies ("LGAs") in Ohio a means of financing the local share of the costs of water and waste water projects. The LGAs that may borrow from the OWDA include all political subdivisions of the State that have the authority to acquire, construct or operate water or waste water facilities. The OWDA loans are revenue obligations (not general obligations) of the LGAs, payable from the revenues of the systems that are improved with the OWDA loans and from LGA special assessments that relate to those improvements.

Advantages of OWDA Financing

The following are some of the advantages of OWDA loans compared to other forms of financing potentially available to LGAs for water and waste water projects:

- OWDA loans are not general obligations of the LGAs and do not count against the LGAs' debt limits, so they do not diminish the amount of general obligation bonds and notes that LGAs can issue for other purposes.
- LGAs' obligations to repay OWDA loans are subordinate to their obligations to pay any LGA revenue bonds that are secured by a pledge of the system revenues, so they do not diminish LGAs' ability to secure revenue bonds for their water or waste water systems.
- The OWDA does not require that LGAs generate "coverage" (i.e., system revenues in excess of the amount needed for system operations and loan payments) as revenue bond financing ordinarily does, so its loans do not require that the rates charged to the system's users be higher than necessary to meet the system's current operating and maintenance needs and loan payment obligations.
- The OWDA does not require the creation or funding of any reserve funds to secure the LGAs' payment obligations, as revenue bond financing ordinarily does.
- The documentation for OWDA loans is standardized, and the process for obtaining an OWDA loan is expeditious and relatively inexpensive. Obtaining an OWDA does not require the LGA to engage underwriters, bond counsel, trustees, bond registrars, or printers or to incur other costs of issuance typically involved in bond issues.
- The OWDA does not require the preparation of official statements or other disclosure documents generally required by federal securities laws for bond issues.
- OWDA loans do not count against the amount of tax-exempt obligations that an LGA may issue annually under the "small issuer" exemptions from IRS rebate requirements, nor do they count against the amount of tax-exempt obligations an LGA may issue annually and still have its debt obligations be "bank qualified" under the Internal Revenue Code.

The Terms of OWDA Loans

The OWDA approves loans to LGAs at its meetings each month (other than November). Promptly after approving a loan to an LGA, the OWDA enters into a standard loan agreement called a Cooperative Agreement. The OWDA bases the interest rates for its loans on the 20-Bond Index published by The Bond Buyer, which is the most widely accepted measure of current municipal bond interest rates. The OWDA recomputes its rate every three months by adding 50 basis points (i.e., one-half of one percent) to the average of the 20-Bond Index interest rate for the preceding eight weeks. The OWDA then applies that rate to all the loans it approves during the following three-month period. The rate assigned to a loan at the time of its approval remains fixed for the term of the loan, which may be from 5 to 30 years. In the Cooperative Agreement, the LGA agrees to make semiannual repayments of the principal of the loan, with payments to begin on a date specified in the Cooperative Agreement. That first payment must occur on the January 1 or July 1 next following the expected completion date of the project to be financed with the loan, but in any event not more than 29 months from the date of the Cooperative Agreement; a longer period may be permitted for loans for which special assessments are to provide a source of repayment. The loan money that is advanced during the construction period accrues interest at the applicable loan rate. At the time it enters into the Cooperative Agreement, the LGA can elect to make the amount of each of its semiannual payments equal through the term of the loan or to make the principal amount of each of its semiannual payments equal, in which case loan payments decrease over the term of the loan. OWDA loans may not be prepaid or refinanced, but OWDA loans must be prepaid with one-time cash payments of special assessments for the financed project.

When the OWDA approves a loan and enters into a Cooperative Agreement, it certifies the availability of the loan funds to the LGA so that the LGA can in turn enter into construction contracts and attach to each contract the requisite fiscal officer’s certificate regarding the availability of funds for the contract.

The Cooperative Agreements provide for the OWDA to disburse the loan proceeds by making direct payment to the LGAs’ construction contractor for eligible project costs that the LGA has approved for payment. The OWDA disburses directly to the LGA eligible project costs that the LGA has paid directly (e.g., for engineering, legal and inspection costs). The OWDA charges a one-time administrative fee of .35% (.0035) of the total estimated loan amount; the OWDA includes that administrative fee in the loan principal. The final amount of the OWDA loan is determined once the OWDA has made all disbursement for the project. The loan amount equals the total of the disbursements plus the interest that accrued on the disbursements made until six months preceding the first principal payment date.

The OWDA can structure its loans to accommodate the needs of LGAs that are financing projects with multiple funding sources, including the Ohio Public Works Commission.

The OWDA also offers planning loans for a term of up to five years to assist LGAs in financing preliminary engineering and design costs for a proposed water or waste water project.

Eligibility for OWDA Loans

To be eligible for OWDA financing for a water or waste water project, an LGA must show that it has obtained Ohio EPA approval of its plans for the project and that it has enacted legislation to charge rates for the system that will generate sufficient revenues to cover the OWDA loan payments after the LGA has paid the system's operating expenses and the debt service due on any bonds issued for the system. In addition, prior to the OWDA's approval of an LGA's loan application, the LGA must demonstrate to the OWDA that it has done all the following:

1. Received bids for the project contracts and tentatively approved contract award.
2. Adopted legislation authorizing the LGA's execution and delivery of the Cooperative Agreement.
3. Adopted any necessary assessment, tap-in or rate legislation.
4. Prepared financial projections showing projected revenues, operation and maintenance costs, debt service on other debt obligations payable from system revenues, and loan payments on the proposed OWDA loan over the loan's proposed term.

In addition, if the LGA is a regional water and sewer district, it must demonstrate to the OWDA that (i) prior to the filing of a petition for organization, it held a public meeting at which a preliminary study of the reasons for the proposed establishment of the district was presented; (ii) it prepared an additional feasibility study if ordered by the court; and (iii) it received a final order from the court declaring the district to be finally and completely organized and to be, or to be empowered to continue as, a political subdivision.

Contacting the OWDA

For further information regarding the Ohio Water Development Authority and its available loan programs, contact either Steven J. Grossman, Executive Director, or Kim Killian, Loan Analyst, at 480 South High Street, Columbus, Ohio 43215, telephone 614-466-5822.