

# Guide to Projects with 20- & 30-yr Debt Service Terms



## S.C. Department of Environmental Services

This guide provides information for developing and evaluating projects that have both 20- and 30-yr debt service terms. Such projects, whether they are Clean Water or Drinking Water, are referred to as having a "20/30-yr split." A 20/30-yr split consists of some items being financed through a 20-yr debt service term and other items being financed through a 30-yr debt service term based on the life expectancy of the construction task.

As outlined below, the development of projects with both 20- and 30-yr debt service terms is initiated during the Preliminary Engineering Report (PER) phase of the project and is finalized once bid prices are received and the contractor is selected.

1. **Initial Cost Estimate:** The sponsor's consultant prepares an initial cost estimate for debt service. The initial cost estimate clarifies whether the sponsor is seeking approval for a 20-yr debt service term, a 30-yr debt service term, or a 20/30-yr split.

If the initial cost estimate is for a 20/30-yr split, the sponsor's consultant should follow Tables 1-3 below as general guidance.

### **Table 1: Items that are only eligible for a 20-yr debt service term<sup>1</sup>**

- *Planning and design engineering costs*
- *Legal and appraisal costs*
- *Construction engineering costs*
- *All testing costs—e.g., pressure testing, smoke testing*
- *Construction costs—based on the useful life of the project materials/components*
  - *Drinking water/wastewater treatment plants—mechanical, electrical, and general*
  - *Drinking water/wastewater pumping stations—mechanical, electrical, and general*
  - *All pumping equipment*
  - *Water meters*
  - *Valves—check, butterfly, relief, etc.*
  - *De-rooting for new/relocated line*
  - *All wells, well drilling, and well pumps*
  - *All fencing*

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<sup>1</sup>Note that if a unit cost line item consists of both 20-yr and 30-yr types of tasks, the line item will be considered a 20-yr task. Separating the single line item into two separate line items may allow for some items to be considered 20-yr tasks and other items to be considered 30-yr tasks. See examples below:

**Example #1:** If a line item is for replacing a 12" water line and butterfly valve, the line item will be considered a 20-yr task. However, if the line item is separated into two separate line items, replacing the 12" water line would be a 30-yr task and replacing the butterfly valve would be a 20-yr task.

**Example #2:** If a line item is for a hoist system consisting of a fixed steel structure with mechanical components, the line item will be considered a 20-yr task. However, if the line item is separated into two separate line items, the fixed steel structure would be a 30-yr task, and the mechanical components would be a 20-yr task.

- Roads and sidewalks—gravel and asphalt (new or repairs); concrete (repairs)
- Portable structures—framed and metal
- Chemical feed/storage structures

**Table 2: Items that may be eligible for a 30-yr debt service term**

- Land
- Construction costs—based on the useful life of the project materials/components
  - Drinking water/wastewater treatment plants—structures
  - Drinking water/wastewater pumping stations—structures
  - Drinking water intake structures
  - Drinking water/wastewater concrete and metal storage tanks/basins
  - Drinking water distribution systems
  - Wastewater collection systems—including force/gravity mains, interceptors
  - Stormwater systems—collection lines, catch basins, outfalls, detention ponds, etc.
  - Hydrants and fire protection
  - All piping and fittings (unless temporary)—not including valves
  - Miscellaneous metals
  - Roads or sidewalks—concrete (new only, not repairs)
  - Permanent structures—framed, concrete, masonry, or metal (unless storing chemicals)

**Table 3: The items below will follow either 20- or 30-yr terms based on the higher overall percentage of 20- versus 30-yr costs of the project<sup>2</sup>**

- Mobilization
- Earthwork and grading
- Erosion control
- Landscaping, irrigation, and lighting
- Signage
- Traffic control

Additionally, the 20/30-yr split for construction contingency should follow the 20/30-yr split for the project as a whole.<sup>3</sup>

Once the initial cost estimate is received, S.C. Department of Environmental Services (SCDES) will review the cost estimate per the guidance in the tables listed above. SCDES understands that the initial cost estimate may lack the specificity of a comprehensive cost estimate, especially if it is a lump sum contract. However, the sponsor should put forth a good initial cost

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<sup>2</sup>Example: The overall cost of a project is estimated at \$800,000. Table 1 (20-yr) costs are \$500,000, Table 2 (30-yr) costs are \$200,000, and Table 3 costs are \$100,000. In this situation, Table 3 costs would be considered 20-yr expenses since the estimated Table 1 costs are higher than the Table 2 costs. The result would be \$600,000 in 20-yr costs and \$200,000 in 30-yr costs.

<sup>3</sup>Example: The overall cost of a project is estimated at \$1,200,000. The 20-yr costs are \$432,000, the 30-yr costs are \$648,000, and there is a 10% construction contingency of \$120,000. The overall project cost (not including contingency) is comprised of 20-yr costs at 40% and 30-yr costs at 60%. Therefore, the construction contingency will follow the same percentage breakdown as the rest of the project: 40% of the contingency (\$48,000) will be considered 20-yr costs and 60% of the contingency (\$72,000) will be considered 30-yr costs.

estimate in terms of the percentage of items that will be either 20- or 30-yr tasks. Keep in mind that the default assumption for SCDES is that tasks are considered as 20-yr tasks unless demonstrated otherwise. Comments will be sent to the sponsor if corrections or clarifications need to be made.

2. **Final Cost Estimate Loan Agreement:** Once bid prices are received and the contractor is selected, the sponsor’s consultant, in coordination with the contractor, prepares a final cost estimate for debt service based on the unit cost breakdown that will appear on the contractor’s pay application. The final 20/30-yr split determinations will be made using Tables 1-3 above. This final cost estimate will lock in the 20/30-yr split. Specifically, the percentage of 20-yr costs and 30-yr costs are set at this time. Line items may still be changed through the approval of change orders; however, no adjustments to the 20/30-yr split may be made once the final cost estimate is approved. Once the 20/30-yr split has been determined based on the approved final cost estimate, draw requests will be paid this way throughout the duration of the project.
3. **Draw Requests:** For projects with 20/30-yr splits, 20- and 30-yr items should be listed separately when completing page 3 of the “Draw Request Form” (DES Form 3585). If there are multiple contractors, each contractor and 20- and/or 30-yr costs should be indicated on separate lines.

Below is an example of a final draw request for a project. This project has three contractors: ABC Contractor, XYZ Contractor, and MN Construction. The first two contractors have both 20- and 30-yr items; the last contractor only has 20-yr items. The total construction amount incurred/requested is \$4,500,000 and the final draw request is for \$750,000 construction (Column H below) and \$75,000 construction contingency (Column C below).

<u>ABC Contractor</u>	<u>XYZ Contractor</u>	<u>MN Construction</u>
Contract amount: \$1,000,000	Contract amount: \$3,000,000	Contract amount: \$500,000
20-yr amount: \$750,000 (75%)	20-yr amount: \$1,500,000 (50%)	20-yr amount: \$500,000 (100%)
30-yr amount: \$250,000 (25%)	30-yr amount: \$1,500,000 (50%)	30-yr amount: None
20-yr request amount: \$150,000	20-yr request amount: \$200,000	20-yr request amount: \$100,000
30-yr request amount: \$50,000	30-yr request amount: \$250,000	30-yr request amount: None
	30-yr contingency request: \$75,000	

Example from Page 3 of “Draw Request Form” (DES Form 3585):

SRF DRAW REQUEST FORM							
1. CONSTRUCTION & CONSTRUCTION CONTINGENCY:							
	A	C	D	E	F	G	H
	Contract / Division Contractor 20-year / 30-year (if applicable)	Construction Contingency Amount This Request	Percentage Funded by SRF Loan (C/B on Page 1)	Total Cumulative Eligible Project Costs Incurred to Date	Total Cumulative Loan Amounts Requested to Date (E'D)	Actual Cumulative Loan Amounts Received to Date	Amount of This Request (F-G)
A.	ABC Contractor (20 year)		100	750,000	750,000	600,000	150,000
B.	ABC Contractor (30 year)		100	250,000	250,000	200,000	50,000
C.	XYZ Contractor (20 year)		100	1,500,000	1,500,000	1,300,000	200,000
D.	XYZ Contractor (30 year)	75,000	100	1,500,000	1,500,000	1,250,000	250,000
E.	MN Construction (20 year)		100	500,000	500,000	400,000	100,000
F.							
	<b>Construction Totals:</b>	75,000		4,500,000	4,500,000	3,750,000	750,000