



Award Documents

USDA RUS ReConnect Program



Rural Development



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ReConnect Technical Support
Staff

Types of Award Documents

- Grant Agreement (1 type) plus NEPA qualification
- Loan Agreement (2 types) plus NEPA qualification
- Loan/Grant Agreement (2 types) plus NEPA qualification

Security Documentation

1. Grants

- a) For Grant and Security Agreement – UCC filing

2. Loans

- a) For Loan Agreement – UCC filing with Mortgage
- b) For Loan and Security Agreement – UCC filing without Mortgage; Intercreditor Agreement needed for borrowers with other existing lenders

3. Loan/Grant

- a) For Loan/Grant Agreement – UCC filing with Mortgage
- b) For Loan/Grant Agreement and Security Agreement – UCC filing without Mortgage; Intercreditor Agreement needed for borrowers with other existing lenders

Special Conditions – NEPA Condition

- For all types of awards:
 - *Pursuant to 7 CFR 1970.11(b), the Agency has determined that assurance of funding for this Project is necessary for economic rural development. As a result, this Agreement is subject to the completion of all necessary environmental procedures required by Federal law, and funds may not be disbursed until successful completion of such procedures. The Awardee acknowledges that it may not engage in any work on the Project until Awardee has received written notice from the Agency, except for work required to finalize the environmental reviews. Such environmental work, however, shall be done at the Awardee's own risk and may not be reimbursed if the environmental reviews cannot be completed as required by 7 CFR 1970.11(b). Awardee understands and acknowledges that unauthorized work will result in the termination of this Agreement. Awardee also acknowledges that any findings in the environmental reviews requiring significant changes to the Project will constitute an immediate deobligation of funding and termination of this Agreement, and will not result in an amended agreement until revised terms are agreed upon and funding is determined to be still available.*

Special Conditions – Service Obligations

Grants:

- “Service Obligation” shall mean the period in which grant assets must be placed into service to carry out the purposes of the ReConnect Program, and the time period in which grant assets must be secured as an exclusive, first lien on behalf of the government
- Section 5.7 Service Obligation:
 - The Awardee shall provide the level of broadband service described in the RUS approved Application commencing from the date of Project Completion until the end of the Composite Economic Life of the facilities financed by the Award as specified on Schedule 1. Awardee acknowledges that given the significant amount of government contribution to the Project in the form of a grant, the Service Obligation is a significant portion of the public benefit of the Award, and that a material breach of the Service Obligation shall be an Event of Default. Awardee also acknowledges that grant assets must be secured as an exclusive, first lien on behalf of the government, as required by the ReConnect Program

Special Conditions – Service Obligations Cont.

Loan and Security Agreement:

- “Service Obligation” shall mean the period in which assets purchased with federal assistance and subsidized by a federal grant to lower the interest rate, must be placed into service to carry out the purposes of the ReConnect Program
- Section 5.10 Service Obligation:
 - The Awardee shall provide the level of broadband service described in the RUS approved Application commencing from the date of Project Completion until the longer of (i) the Composite Economic Life of the facilities financed by the Award as specified on Schedule 1 or (ii) as long as the Note(s) is outstanding. Awardee acknowledges that given the significant amount of government contribution to the Project in the form of a federal grant, the Service Obligation is a significant portion of the public benefit of the Award, and that a material breach of the Service Obligation shall be an Event of Default

Special Conditions – Service Obligations Cont. 2

100% Loan with Mortgage:

- “Service Obligation” shall mean the period in which assets purchased with federal assistance and subsidized by a federal grant to lower the interest rate, must be placed into service to carry out the purposes of the ReConnect Program
- Section 5.10 Service Obligation:
 - The Awardee shall provide the level of broadband service described in the RUS approved Application commencing from the date of Project Completion until the longer of: (i) the Composite Economic Life of the facilities financed by the Award as specified on Schedule 1; or (ii) as long as the Note(s) is outstanding. Awardee acknowledges that given the significant amount of government contribution to the Project in the form of a subsidized interest rate through a federal grant, the Service Obligation is a significant portion of the public benefit of the Award, and that a material breach of the Service Obligation shall be an Event of Default

Special Conditions – Service Obligations Cont. 3

Loan/Grant:

- “Service Obligation” shall mean the period in which grant assets must be placed into service to carry out the purposes of the ReConnect Program, and the time period in which grant assets must be secured as an exclusive, first lien on behalf of the government
- Section 5.10 Service Obligation:
 - The Awardee shall provide the level of broadband service described in the RUS approved Application commencing from the date of Project Completion until the longer of (i) the Composite Economic Life of the facilities financed by the Award as specified on Schedule 1 or (ii) as long as the Note(s) is outstanding. The Awardee acknowledges that given the significant amount of government contribution to the Project in the form of a federal grant, the Service Obligation is a significant portion of the public benefit of the Award, and that a material breach of the Service Obligation shall be an Event of Default. The Awardee acknowledges and agrees that failure to provide the full Service Obligation shall give rise to the government’s claim for the return of all or part of the federal Grant, proportionate to number of years the grant assets were in service, as determined by RUS. Awardee also acknowledges that grant assets must be secured as an exclusive, first lien on behalf of the government, as required by the ReConnect Program

Financial Requirements

100% Loan with Mortgage:

- a) At least two of the three requirements on the Financial Requirements Commencement Date, as specified in Schedule 1 hereto, until the Loan is repaid in full:
 - (i) a minimum TIER requirement of 1.2;
 - (ii) a minimum DSCR requirement of 1.2; and
 - (iii) a minimum Current Ratio of 1.2
- b) Tangible equity to Total Assets must be at least 20 percent at the end of the calendar year starting in the third year and ending in the fifth year of the award
- c) Positive cash flow from operations at the end of the fifth year of the award; and
- d) Positive ending cash balance as reflected on the cash flow statement for each year of the forecast period

For Loan and Grant Combinations:

- Same less tangible equity requirement in paragraph (b)

Financial Requirements (Continued)

100% Loan and Security Agreement:

- a) At least two of the three requirements on the Financial Requirements Commencement Date, as specified in Schedule 1 hereto, until the Loan is repaid in full:
 - (i) a minimum TIER requirement of 1.2;
 - (ii) a minimum DSCR requirement of 1.2; and
 - (iii) a minimum Current Ratio of 1.2;
- b) Positive cash flow from operations at the end of the fifth year of the award

Promissory Note

- Three-year principal and interest deferral
- Unpaid interest and principal amortized over remaining activity
- Default maturity date is the composite economic life of all project assets (based on acceptable RUS depreciation rates) plus 3, otherwise applicants must request shorter repayment period

Modification for Matching Funds (Grants)

1. Paragraph (c) in Section 4.2 *General Conditions Precedent to RUS' Obligations to Release Funds for Advance* shall be amended and restated to read in its entirety as follows:

c) Deposited Funds. RUS has received from the Awardee evidence, satisfactory to RUS, that the Awardee has deposited into the Pledged Deposit Account all required matching funds and other necessary funds specified on Schedule 1 to complete the Project, and that such funds have been properly expended and accounted for on eligible Project purposes; and

2. Paragraph (k) in Section 4.3 *Conditions to Individual Advances* shall be amended and restated to read in its entirety as follows:

k) Deposited Funds. [This condition has been eliminated with the amendment to Section 4.2(c) above.]

3. The additional conditions referred to in Section 4.2(d) of Schedule 1 shall be deleted

Audit Requirements (for 100% Loans and Loan/Grant with Mortgage)

Section 6.3 Annual Audit:

- Non-Federal Entities, which include Awardees that are States, local governments, Indian tribes, institutions of higher education (IHE), or nonprofit organizations, shall provide RUS with an audit pursuant to 2 C.F.R. part 200, Subpart F (Audit Requirements). The Awardee must follow subsection .502 in determining federal awards expended. All RUS loans impose an ongoing compliance requirement for the purpose of determining federal awards expended during a fiscal year. In addition, the Awardee must include the value of new federal loans made along with any grant expenditures from all federal sources during the Awardee's fiscal year. Therefore, the audit submission requirement for this program begins in the Awardee's fiscal year that the loan is made and thereafter, based on the balance of federal loan(s) at the beginning of the audit period. All required audits must be submitted within the earlier of: (i) 30 calendar days after receipt of the auditor's report; or (ii) nine months after the end of the Awardee's audit period; and

Audit Requirements (for Grants)

Section 6.3 Annual Audit:

- Non-Federal Entities, which include Awardees that are States, local governments, Indian tribes, institutions of higher education, or nonprofit organizations, shall provide RUS with an audit pursuant to 2 C.F.R. part 200, Subpart F (Audit Requirements). The Awardee must follow subsection 200.502 in determining federal awards expended. All RUS loans impose an ongoing compliance requirement for the purpose of determining federal awards expended during a fiscal year. In addition, the Awardee must include the value of new federal loans made along with any grant expenditures from all federal sources during the Awardee's fiscal year. Therefore, the audit submission requirement for this program begins in the Awardee's fiscal year that the loan is made and thereafter, based on the balance of federal loan(s) at the beginning of the audit period. All required audits must be submitted within the earlier of: (i) 30 calendar days after receipt of the auditor's report; or (ii) nine months after the end of the Awardee's audit period

Audit Requirements (for Loan/Grant and Security Agreement)

Section 6.3 Annual Audit:

- Non-Federal Entities, which include Awardees that are States, local governments, Indian tribes, institutions of higher education, or nonprofit organizations, shall provide RUS with an audit pursuant to 2 C.F.R. part 200, Subpart F (Audit Requirements). The Awardee must follow subsection .502 in determining federal awards expended. All RUS loans impose an ongoing compliance requirement for the purpose of determining federal awards expended during a fiscal year. In addition, the Awardee must include the value of new federal loans made along with any grant expenditures from all federal sources during the Awardee's fiscal year. Therefore, the audit submission requirement for this program begins in the Awardee's fiscal year that the loan is made and thereafter, based on the balance of federal loan(s) at the beginning of the audit period. All required audits must be submitted within the earlier of: (i) 30 calendar days after receipt of the auditor's report; or (ii) nine months after the end of the Awardee's audit period

Audit Requirements Continued (for All Types)

- For all other entities, Awardees shall provide RUS with an audit within 120 days after the as of audit date in accordance with 7 C.F.R. part 1773, Policy on Audits of RUS Borrowers. Note that with respect to Advances that contain loan funds, the audit is required after an Advance has been made, and, thereafter, from the close of each subsequent fiscal year until the loan is repaid in full. With respect to Advances that only contain grant funds, the audit is required until all grants funds have been expended or rescinded. While an audit is required, Awardees must also submit a report on compliance and internal controls over financial reporting, as well as a report on compliance with aspects of contractual agreements and regulatory requirements

Reporting Requirements

- Quarterly and annually
- Failure to properly report, given the extreme national interest in understanding where federal dollars are going, may result in the suspension of advances

Advances

- All matching funds or cash provided in lieu of loan funds expended first, followed by loan funds, and then by grant funds, except for RUS approved pre-application expenses
- Easier for documenting lien of government for future collateral releases – More information supplied for advances, easier to get a future release

Switch from Loan/Grant Combinations to Purely Grant Agreements

- Awardees that prepay loan must have the agreement substituted with a standard grant-only agreement
- There are countless advantages to having the loan requirements eliminated when switching to the grant-only agreement





United States
Department of
Agriculture

Rural Development