



ACTIVITY UPDATE

States Use Innovative Programmatic Financing Approach to Maintain Stable CWSRF Demand

In a recent meeting between state CWSRF program staff and the director of a large metropolitan utility, the utility director posed the question, “Why can’t the CWSRF fund my entire capital improvement program, rather than individual projects, the way a municipal bond does?” As it turns out, a few forward-thinking CWSRF state programs have successfully used this “Programmatic Financing” approach with their largest borrowers for several years.

Programmatic Financing (or “Pro-Fi” for short) offers mutual benefits for CWSRF programs and their largest customers. For the utility, Pro-Fi provides a stable, predictable funding source to incorporate into the annual budget process, as well as a simplified CWSRF application process. For CWSRF state programs, Pro-Fi provides a guaranteed source of regular disbursements that allows for reliable cash flow planning and reduces the risk that unliquidated obligations will grow out of control. Here’s how it works:

- SRF managers evaluate their cash flow and lending projections for the upcoming year to pinpoint the amount of funds available for the Pro-Fi customer. For this example, we’ll say \$20 million.
- Decision-makers at the community or utility review their capital improvement plans for the upcoming year and identify all CWSRF-eligible activities that they expect to move forward soon.
- The community or utility submits a CWSRF application listing all of the eligible activities. The activities could span dozens of different projects in various stages of planning, design, and construction. For this example, we’ll say the utility has identified \$60 million in activities expected to proceed in the upcoming year.
- The CWSRF state program issues a loan agreement for \$20 million to the Pro-Fi borrower. The loan agreement states that the money may be disbursed for any of the eligible activities identified in the loan agreement as long as they have complied with applicable CWSRF requirements, and specifies that all funds must be disbursed within the upcoming fiscal year. The loan agreement might also require invoices to be submitted on a regular basis, often monthly.
- The borrower continues work on its \$60 million capital improvement plan for the year. As design and construction occur, the borrower periodically submits invoices to the CWSRF for any of the activities included in the loan agreement. Since the CWSRF loan agreement encompasses such a broad array of eligible activities, the program is guaranteed to disburse the full \$20 million in CWSRF funds during the

course of the year. If one of the projects in the loan agreement is delayed, there are many other ongoing activities to receive disbursements in its place.

- As the year comes to a close, the utility has received \$20 million in CWSRF disbursements and still has many ongoing projects. Those projects can be rolled into a new CWSRF loan agreement providing another hefty sum to cover capital improvement activities for the upcoming year.
- Certain CWSRF requirements are “bundled” to incorporate all of the activities listed in the loan agreement.

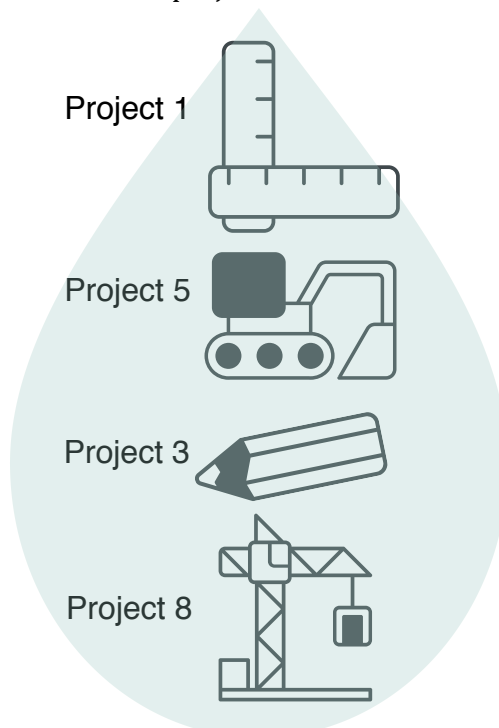
For instance, a single CWSRF application is used for all of the Pro-Fi activities and the borrower can submit a single authorizing resolution, although separate plans and specifications should still be submitted for each activity. A weighted average scoring process can be used for priority ranking, or the activities may be ranked separately. A single loan agreement is signed, and the activities can be treated as a single loan for the purposes of Disadvantaged Business Enterprise (DBE), CWSRF Benefits Reporting (CBR), Single Audit Act compliance, and potentially others.

Figure 1: Programmatic Financing Illustration

Step 1: Borrower signs a \$20M CWSRF loan agreement encompassing all eligible near-term activities on the current CIP

CWSRF Loan Agreement
Planning Project 1
Planning Project 2
Design Project 3
Design Project 4
Construction Project 5
Construction Project 6
Construction Project 7
Construction Project 8
Construction Project 9
Construction Project 10
Total Loan Amount: \$20,000,000

Step 2: Borrower completes \$60M in work on a variety of CIP project activities



**Total Work Completed:
\$60,000,000**

Step 3: Borrower submits invoices on a regular basis until the full \$20M CWSRF loan amount is disbursed within one year

Invoice Project 1	Invoice Project 5
Total Completed: \$5,000,000 SRF Request: \$500,000	Total Completed: \$20,000,000 SRF Request: \$9,000,000
Invoice Project 3	Invoice Project 8
Total Completed: \$5,000,000 SRF Request: \$500,000	Total Completed: \$30,000,000 SRF Request: \$10,000,000
Total SRF Disbursements: \$20,000,000	

Although this concept may be new to many in the CWSRF world, it's routine for the Rhode Island and Minnesota CWSRF programs. These two states have been using variations on the Pro-Fi concept for years with their largest borrowers.

The Minnesota CWSRF Benefits from a Long-Term Programmatic Financing Relationship with the Twin Cities Utility

The Minnesota CWSRF, operated by the Minnesota Public Facilities Authority (MPFA) and Minnesota Pollution Control Agency (MPCA), has maintained a “cash flow financing” arrangement with the largest borrower in the state since the first CWSRF loans were signed in 1989. Each year, the MPFA signs a programmatic financing agreement with Metropolitan Council (Met Council), the regional wastewater utility for the Twin Cities metropolitan region.

Features of Minnesota's Pro-Fi Arrangement

There is one loan agreement each fiscal year for the list of all of Met Council's projects on the Intended Use Plan. The loan agreement may also include “pending” projects that will not receive funding until they have been reviewed and approved by the CWSRF agencies. Met Council's Pro-Fi loan agreement includes an exhibit listing 30-40 individual sub-projects that are eligible to receive funding from the loan.

Priority ranking is based on the “main” projects on the list, each of which covers a variety of subsequent sub-project activities.

MPFA offers a CWSRF “base discount” to all of its borrowers. The base discount offered to Met Council is capped at \$45M. If Met Council wants to borrow more than \$45M, they have to pay a slightly higher interest rate for every million borrowed over \$45M.

Pro-Fi allows some federal requirements to be consolidated. Met Council does annual Disadvantaged Business Enterprise reporting for the entire loan, rather than each sub-project.

Tracking of disbursements occurs on a sub-project basis.

Plans and specifications for sub-projects must be submitted to MPCA to allow the project to be certified for funding by MPFA.

The Pro-Fi loan agreement is similar to standard loan agreement, but includes a list of all the sub-projects to be funded.

The amount of CWSRF funding that MPFA commits to Met Council changes every year based on the amount that Met Council anticipates using during the 12-month period covered by the loan agreement. In 2016, Met Council's Pro-Fi loan was approximately \$70M.

Rhode Island's Programmatic Financing Arrangement with the Narragansett Bay Commission Brings Flexibility and Certainty to Both Parties

The Narragansett Bay Commission (NBC), which is headquartered in Providence and operates Rhode Island's two largest wastewater treatment facilities, has historically received about half of the available funds each year from the state's CWSRF, operated by the Rhode Island Department of Environmental Management (RIDEM) and Rhode Island Infrastructure Bank. The stability and predictability of this funding pattern has allowed the Rhode Island CWSRF to adopt a Programmatic Financing-type arrangement with NBC.

NBC's application to the CWSRF and resolution authorizing the loan each include a lengthy, all-encompassing list of 20-30 projects eligible to receive the funds. To allow maximum flexibility, the list also specifies that funds may be used for acquisition, design, evaluation, inspection, construction, improvement, installation, rehabilitation, furnishing, and equipping. Each sub-project is named in the loan agreement and receives a Certificate of Approval from the environmental agency. Individual disbursement requests are submitted for each project within the loan.

For priority scoring, RIDEM scores each project individually and any projects below the amount of available resources cannot receive CWSRF funds. However, the Rhode Island CWSRF typically has enough funds to cover all ready-to-proceed projects, so it has almost always been able to fund every sub-project submitted by NBC.



Providence, Rhode Island

The Hawaii CWSRF Adapts Standard Procedures to Accommodate Programmatic Financing

In Hawaii, SRF managers were searching for a strategy that would lend more certainty to their cash flow. After one of the CWSRF's frequent borrowers expressed interest in the Pro-Fi concept, the Hawaii CWSRF manager adapted several SRF processes and materials to accommodate Pro-Fi.

The mechanics of Pro-Fi are a natural fit for Hawaii's CWSRF program. A Pro-Fi arrangement generally works best with large, municipal borrowers who are continually implementing a multi-million dollar capital improvement program. The Hawaii CWSRF program has traditionally had only four borrowers; the four island counties of Honolulu, Maui, Kauai, and Hawaii (Big Island). The larger counties of Honolulu, Maui, and Big Island each have multi-million dollar capital improvement plans being implemented through a continual yearly process of budgeting, planning, design and construction, meaning a Pro-Fi loan for a portion of the annual capital improvement budget (covering a variety of projects) would be easily disbursed during the year.



Honolulu's Sand Island Treatment Plant. Photo Source: American Infrastructure

The Pro-Fi concept required a paradigm shift for the Hawaii CWSRF program and its customers. For that reason, in 2015 the Hawaii SRF held a webinar with the four counties to explain the ProFi concept, followed by face-to-face meetings to work through the logistics together.

Hawaii's CWSRF standard loan agreement has been revised with language that can accommodate a Pro-Fi loan. One of the key points of debate was how to handle the CWSRF statutory requirement that loan repayment begin within one year of project completion, since some projects covered by a single Pro-Fi loan may be completed years before other projects funded by the same loan. The solution was to set the repayment period for each annual Pro-Fi loan to commence one year from the date of loan signing.

Perhaps the most important part of preparing for a successful Pro-Fi loan has been the ongoing financial modeling that allows the CWSRF manager to track the amount of funds available for Pro-Fi loans each year. Using a financial modeling tool, the Hawaii CWSRF program is able to update financial projections on a monthly basis using real-time commitment and disbursement data. This allows them to pinpoint the exact amount of funds that could be available for a Pro-Fi loan agreement at any time, while ensuring that a healthy working capital balance remains.

Although the Hawaii CWSRF program has not yet signed a Pro-Fi loan with the county borrowers, the changes to CWSRF processes and materials ensure that the program is poised to work with any borrower seeking the flexibility and reliability of a Pro-Fi loan in the future.

Did You Know...?

Pro-Fi Can be Used for Integrated Water Quality Solutions

A growing number of municipalities and utilities are incorporating low-impact green infrastructure solutions into their capital improvement plans.

A Pro-Fi loan allows green infrastructure projects to be bundled along with traditional "gray" pipe and plant infrastructure improvements into a single CWSRF loan secured by user charges.

Summary: Key Considerations for Implementing Programmatic Financing

Programmatic Financing is an alternative to project-by-project funding that has allowed a few CWSRF programs and their large borrowers to maintain a simpler, more reliable funding relationship. However, Pro-Fi requires commitment and planning from both parties, and may not work for every CWSRF program. Below are some factors that create ideal conditions for a state CWSRF program to offer Programmatic Financing:

- A large, reliable borrower that has continuous CIP construction, a flexible budget process, and is responsive to the CWSRF process (i.e, submits disbursement requests and invoices in a timely manner)
- Strong financial modeling capabilities
- Ability to allow a more flexible application process (i.e., bundling certain requirements, reports, and certifications)
- Ability to execute a loan agreement on a set schedule each year



Clean Water
State Revolving Fund