

INTRODUCTION TO THE MASSACHUSETTS CLEAN WATER TRUST



May 14, 2019

MASSACHUSETTS CLEAN WATER TRUST (TRUST) OVERVIEW

Established in 1989, the Trust improves the water quality in the Commonwealth through the provision of low-cost capital financing to cities, towns, and other eligible entities. It is administered by a three-member board, chaired by the Treasurer of the Commonwealth, and includes the Secretary of the Executive Office for Administration and Finance, and the Commissioner of the Department of Environmental Protection.

The Trust oversees financing for the Clean Water (CW) and Drinking Water (DW) state revolving funds (SRF) in partnership with MassDEP. The Trust receives significant federal and Commonwealth support — over \$2.4 billion in federal capitalization grants and state matching funds through FY 2018.

- CW received \$54 million from the federal grant and \$10.8 million in state match.
- DW received \$25.7 million from the federal grant and \$5.1 million in state match.

The Trust provides subsidized loans to local governmental units for CW and DW infrastructure development. Projects financed are those ranked by engineers at MassDEP on a priority basis, based on responses to a series of questions intended to identify the most relevant public health and environmental related projects.

The Trust has provided over \$7 billion in loans to nearly 300 borrowers to improve and maintain the quality of water in the Commonwealth – an estimated 97% of Massachusetts residents have benefited from these essential projects.

PROJECTS OFFERED FINANCING BY THE TRUST

Each year MassDEP develops the Intended Use Plan (IUP), committing funding to projects throughout the state for both Clean Water (CW) and Drinking Water (DW).

CW has consistently offered approximately \$400 million annually to finance clean water projects, examples include:

- Replacement of aged infrastructure components
- Installation of advanced water treatment technologies
- Reduction to the carbon footprint of treatment facilities by installing more energy efficient equipment
- Address stormwater management issues
- Septic system replacements – including 3,815 systems upgraded in Barnstable County

DW has consistently offered over \$100 million annually to finance drinking water projects, examples include:

- Construction or upgrade of a municipal water treatment facility
- Replacement or rehabilitation of water mains and pump stations to address deficiencies in the water supply distribution system
- Construction or rehabilitation of water storage tanks to ensure a reliable water supply

PROJECTS OFFERED FINANCING BY THE TRUST

(Continued)

With the amount of CW financing available, it is anticipated that traditional project applications from Cape Cod communities would qualify for financing each year.

Year	Clean Water SRF IUP	Drinking Water SRF IUP
2019	\$500MM	\$147MM
2018	\$484MM	\$127MM
2017	\$545MM	\$125MM
2016	\$414MM	\$124MM
2015	\$400MM	\$107MM

PROJECTS FINANCED BY THE TRUST

Once borrowers are notified that they qualified for financing on the IUP, they can decide if they will continue with the project. The chart below shows a five-year average of projects that were approved, the total dollar amount of those projects, and the amounts disbursed. Funds disbursed are from both the interim financing (construction financing) available to projects and projects that have been put into repayment.

		5-Year Average
CWSRF	Projects	37
	Total Dollar Amount	\$189.3MM
	Amount Disbursed *	\$193.7MM
DWSRF	Projects	20
	Total Dollar Amount	\$99.8MM
	Amount Disbursed *	\$80.5MM

* Includes both Interim Project Financing and Loan in Repayment

ADVANTAGES OF BORROWING THROUGH THE TRUST

Fixed Low-Interest Rates

These rates are established by law and offer a stable planning tool for communities.

- Projects primarily addressing nitrogen should qualify for 0% interest rate financing

Interim Loans

Construction Loans

The Trust offers interim loans with no fees and 0% interest rate. These loans allow for one-stop financing through the Trust.

Additional Subsidy

Loan Forgiveness

The Trust uses a percentage of its annual grant as additional subsidy each year. This subsidy generally comes in the form of loan forgiveness to qualifying communities.

Flexible Repayment Terms

Loans can be financed up to 30 years at a 0% interest rate, if primarily addressing nitrogen.

LOAN TERMS AND FEES

	Permanent Financing	Interim Financing
Standard Loan Rate	2% (20 years) Calculated (30 years) ¹	0%
Nutrient Enrichment Reduction Loan Rate	0%	0%
Housing Choice Loan Rate	1.5% (20 years) ²	0%
Maximum Term	30 years ³	Up to 3 years ⁴
Administrative Fee	0.15%	0%
Origination Fee (One Time)	Approximately \$5.00 per \$1,000	\$0

¹ Rate Calculated at time of bond sale, estimated between 2.4-2.9%.

² Communities designated as Housing Choice Communities on the 2019 IUPs are eligible for an interest rate discount of 0.5%. Interest rate on loans cannot be reduced to less than 0% interest.

³ Requires useful life certificate certifying useful life will exceed the life of the loan.

⁴ Interim loans are put into repayment based upon percentage of loan drawn and estimated project completion date.

THE LOAN PROCESS

The process of financing a project through the Trust can take approximately two years from the initial project solicitation to financing being provided to start the project. The Trust and MassDEP can move as quickly as the towns can complete the steps. The below process would be for projects appearing on the 2020 IUP.

1

June 2019
Project Solicitation

2

January 2020
Final IUP
publication

3

June 30, 2020
Town meeting /
city council vote

4

October 15, 2020
Loan application to
MassDEP

5

**December 31,
2020**
MassDEP is to
issue a PAC

6

**Six Months after
PAC Issuance**
Project contract
award / notice to
proceed

7

**January 1 –
June 30, 2021**
Project bidding
general timeframe

8

June 30, 2021
Loan forgiveness on
executed
construction
contracts

9

Loans in Repayment
Approximately
1-2 years after
construction begins,
first payment interest
only

PROJECT SOLICITATION / SELECTION PROCESS

for the Clean Water SRF Program

In June of each year, MassDEP sends out a solicitation to each city, town, and public water supplier in the state requesting project applications. The applications received are then ranked based on the following criteria by MassDEP on their CW SRF Intended Use Plan (IUP):

- What is the cause of the environmental/public health problem?
- What areas are affected? Any critical environmental receptors?
- How effectively will the project eliminate or mitigate the problem?
- Is the project consistent with MassDEP watershed management plans and priorities?
- Does the project include innovative/alternative technologies to mitigate the problem?
- Does this project include elements that provide energy efficiencies or on-site renewable energy generation?
- Consistent with the Cape Cod 208 plan.

It is the problem being addressed by the project, not the size or the location that drives the scoring criteria. The most compelling environmental and public health problems receive the highest ranking.

Readiness to Proceed

A major component of the SRF process is the readiness to proceed.

There are deadlines associated with SRF financing that are mandated by EPA grant agreements. Communities on the published Intended Use Plan (IUP) must adhere to an application schedule to receive financing. Although there is some flexibility, the Trust and MassDEP look to adhere to a consistent set of deadlines.

Local Authorization is general obligation pledged as a security requiring authorization to borrow. It is required to complete the loan application. Local Authorization must be voted by **June 30, 2020**, following the release of the IUP.

Appropriation that accounts for the following:

- Eligible and ineligible costs
- Construction management fees
- Police details
- Inflation



LOAN APPLICATION

Deadline

Application for financial assistance due to MassDEP no later than **October 15, 2020**.

After appearing on the IUP, a community must complete the application for financial assistance. Application for financial assistance requires the following:

Construction Projects

- Plans and specifications of your project
- Local debt authorization
- SRF required documentation (Mass Historic Commission, MEPA, etc)
- Construction schedules
- Permits for construction

Planning Projects

- Scope of services / plan of study
- Local debt authorization
- SRF required documentation

Ineligible Costs

- Bond counsel and financial advisor fees cannot be financed
- Design costs are not eligible for financing

PROJECT APPROVAL CERTIFICATE (PAC)

Deadline

MassDEP must issue a PAC by **December 31, 2020**.

When the **application for financial assistance is accepted**, MassDEP will issue a PAC after a complete loan application package has been submitted.

- If any requirements have not been met by December 31, 2020, the PAC will be issued as “restricted.”
- Once all PAC requirements to receive financial assistance have been met, the PAC is sent to the Trust’s Board of Trustees for a vote to create a loan commitment.

The Trust will then send the community a **Loan Commitment Package** that outlines commitment information and conditions. The package also gives instructions on completing the loan questionnaire and how to submit a Green Light Letter.



The **loan questionnaire** ensures that the Trust is complying with the laws and regulations that apply to issuing tax-exempt bonds. It includes key contact information and loan terms, including:

- Relevant financial information needed by the Trust
- The Trust requests information regarding credit ratings, sources of repayment and estimated cash flows.

The **Green Light Letter** is submitted by the borrower’s bond counsel to the Trust in order to certify that the local vote to authorize the loan is legal.

PROJECT BIDDING AND AUTHORIZATION TO AWARD

Deadline

If your community is eligible for loan forgiveness, then the first executed construction contract must be awarded by **June 30, 2021**.

Construction projects financed with SRF funds are owned and managed by the borrower. Before the borrower can initiate bidding, MassDEP must issue a “Permission to Advertise” that includes all the requirements for an authorization to award.

- Project Bidding generally occurs as soon as the PAC has been approved and the permission to advertise is issued by MassDEP (within six months of issuance of the PAC).
- MassDEP’s role is to ensure that the project and procurement processes adhere to SRF requirements. MassDEP will review the procurement and notify the borrower of any ineligible costs.

Once the borrower receives acceptable bids, MassDEP Civil Rights Section reviews and approves Disadvantaged Business Enterprise (DBE) participation.

- MassDEP will then review the bids and issue the “Authorization to Award.”
- The construction and services contracts, plus a 5% contingency, will establish the loan amount.

LOAN AGREEMENTS

After the authorization to award is received:

- MassDEP will issue a Project Regulatory Agreement (PRA)
- The PRA is sent to the Trust's Board of Trustees for a vote
- Once approved, the Trust will send a Financing Agreement Package to the borrower containing two copies of the PRA and Financing Agreement

Project Regulatory Agreement	Financing Agreement
Borrower agrees to follow the terms and conditions of MassDEP	Borrower agrees to follow the terms and conditions of the Trust
Lists estimated disbursements	Outlines loan information
Lists eligible costs	Contains a draft repayment schedule

Borrowers sign and return the Project Regulatory Agreement (PRA) and Financing Agreement to the Trust for each loan and retain one copy for their records.

INTERIM LOANS

Interim loans are construction loans offered to borrowers with no fees and at 0% interest. These loans bridge the gap between project construction and when the Trust issues bonds. Instructions for interim loans are part of the Financing Agreement Package.

Added Value

Interim loans eliminate the need for issuing bond anticipation notes (BANs), which accrue interest and come with additional fees.

Interim Loans	BANs
No fees	Fees
0% interest	Interest expense

PERMANENT FINANCING AND REPAYMENT

Permanent financing is the term used by the Trust when loans are put into repayment.

The Trust is available throughout this process to help with forms, verify loan amounts, and to answer any questions.

Deadline

There are 2 repayment dates for Trust loans — **January and July 15th**. Due dates will be listed on final repayment schedules. First payment generally occurs within six months of closing. The first payment includes interest, admin fee and loan origination only. Second payment includes principal, interest and admin fee.

When should borrowers expect to have their loans put into repayment? Loans are generally selected for permanent financing when:

1. Half or more funds have been drawn; or
2. The project is expected to be completed within a year

Process for Permanent Financing

- Borrowers are contacted by the Trust six months ahead of a bond sale
- The Trust sends verification forms, like the Loan Questionnaire, to borrowers, bond counsels and financial advisors
- After loan closing, a final repayment schedule is sent to the borrower and posted to the Trust's website

PROJECT DISBURSEMENTS

1. Payment requisitions are completed by the borrower and forwarded to MassDEP with the appropriate documentation (receipts, invoices, etc.)
2. MassDEP then reviews requests and approves eligible costs
3. MassDEP will forward approved requests to the Trust
4. The Trust wires funds to borrowers every Thursday. Funds are often available the next day.

PROJECT CLOSEOUT

MassDEP will initiate the closeout process when the project reaches 90% completion. Prior to receiving final payment for the project, the borrower shall file a Project Completion Certificate with MassDEP.

DISBURSEMENTS & CLOSEOUTS

AVAILABLE SUBSIDIES

Type	Subsidy	Provided By
Nutrient Enrichment Reduction Loans	0% Interest Rate Loan	The Trust
Loan Forgiveness (Affordability Communities) *	Tier 1 – 3.33% Tier 2 – 6.66% Tier 3 – 9.99%	The Trust
Housing Choice	0.5% Interest Rate Reduction **	The Trust
Cape Cod Trust Fund Subsidy	?	Cape Cod Trust Fund

* Estimates using the 2019 Clean Water forgiveness percentages

** Interest rate cannot be below 0%

CONCLUSION

There is already in place a clearly defined process that effectively completes millions of dollars' worth of water infrastructure projects each year and saves communities money, the SRF program.

The new Cape Cod Trust Fund provides the potential for additional subsidy to a project that qualified for a loan through the Clean Water SRF. The new Cape Cod Trust Fund will “bolt” onto this existing process and follow the same requirements as all SRF borrowers in the Commonwealth, albeit with a deeper subsidy provided from Cape Cod funds.

We look forward to working with the Cape communities to solve the Nutrient issue in order to protect the environment on the Cape, while keeping costs as low as possible.