

# **APPENDIX A**

## **PA Infrastructure Investment Authority**

### **Programmatic Financing White Paper**

**July 17, 2019**

Many large government owned and private drinking water and wastewater utilities, use the tax exempt market to fund infrastructure projects identified in their comprehensive capital improvement plans (CIP). A CIP includes projects the utility intends to implement over the next few years. Governmental utilities sell general obligation or revenue bonds to fund their projects whereas the private utilities use an asset backed security. In all cases the cost of borrowing at market interest rates is passed on to the customer through the rate structure. Project by project funding through either PENNVEST or the market often results in a sudden spike to the user rate to accommodate the debt repayment.

There is an innovative financing vehicle known as programmatic financing (“Pro Fi”) that could better align PENNVEST funding with the needs of the utilities. In brief, Pro Fi shifts the traditional project-specific lending strategy to one that is more congruent with the utility planning model, matching the funding approval to the annual (or multi-year) cash flow needs of the utility. Instead of issuing a binding commitment for a certain amount of dollars for a single project, a Pro Fi funding package would fund a CIP (in entirety or in part) for a group of drinking water or wastewater projects so long as each individual project is eligible and prepared in compliance with program requirements. This would help develop strong lasting relationships with the larger private and government owned utilities as repeat borrowers, allow PENNVEST to extend the subsidies of the program to the benefit of the residential customers, and ensure funding is available to facilitate timely replacement of deteriorating infrastructure. In addition to funding traditional drinking water or wastewater arrangements through Pro Fi, we could fund stormwater, green infrastructure applications, conservation easements and other types of restoration projects for wetlands, streambanks, and watersheds through a non-point source Pro Fi.

We will keep the utility types separate, meaning a drinking water Pro Fi will not be mixed with a wastewater or non-point source Pro Fi. We will use the Federal Funds under the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund to finance each Pro Fi. The Pro Fi provides a multiyear funding commitment for a scope of projects as part of a CIP to be carried out over multiple years. Staff review of each Pro Fi will be based upon the CIP components provided with the funding request. Only eligible activities may be included in a recommendation for approval, and an implementation schedule must be part of the application. While permits for all phases will not have to be “in hand” in order to receive approval for funding, we would seek permits for the first phase and sufficient technical and financial information for the balance of the CIP to allow staff to complete a technical ranking, a financial capacity review

and produce an overall recommendation which we will take to the Board of Directors, (the “Board”) for consideration.

Each Pro Fi request needs to be submitted by application cutoff prior to a board meeting. The request will be reviewed by PENNVEST and each project in the CIP will be reviewed for eligibility and consistency with program requirements.

A Pro Fi request needs to contain the following items:

- Total dollar amount requested, the maximum dollar value per year, and the number of years the request covers. Example 1: \$150M over 3 years with a maximum of \$50M per year. Example 2: \$100 M over 3 years with \$50M year 1, \$25M year 2, and \$25M year 3.
- The adopted CIP.
- Identification of the projects in the CIP for which they are requesting funding.
- A Pro Fi timeline including when each project will be bid, documented and ready for funding within 3-years from the date of original settlement.
- Submission of an adopted resolution or Board action authorizing the Pro Fi request being submitted to PENNVEST.

Once a submission is deemed complete, a Pro Fi will be ranked and if applicable, it will be brought to the Board for consideration of award.

As with all financial assistance, the interest rates and terms of a Pro Fi will be established by the Board and will remain in place for the duration and implementation of the programmatic funding package.

After it receives Board approval, the Pro Fi Funding Recipient can begin to implement the approved projects in accordance with the schedule. A Pro Fi will have one master settlement that includes the predetermined implementation phases for each project in the CIP. Each phase will require a modification to the original documents to provide the necessary permits and real property and to disclose any litigation or changes in scope from the time the CIP was approved to the present date, as well as to provide information on the actual bid costs and budget for the particular project. Each phase or project will result in an amendment to the original settlement documents to allow the release of funds.

All projects approved for a Pro Fi funding must be documented and ready for draw down within 3 years from the date of the original Settlement. If an amendment has not occurred within three years of the original settlement, the funds remaining under the Pro Fi for any remaining projects will be disencumbered without prejudice.