Illinois Water Revolving Loan Program

Illinois Environmental Protection Agency

11/25/2023

Clean Water Initiative

* Governor Quinn announced in the fall of 2012 a $1 Billion initiative to expand funding for wastewater and drinking water projects in Illinois. Commitment was expanded to $2 Billion in January 2014 and storm water added.

* Money was made available through the two existing IEPA SRF loan programs in partnership with the Illinois Finance Authority

Clean Water Initiative - Why??

* Infrastructure needs staggering
* SRF loan program interest/demand strong and growing
* Attractive financing through established loan programs
* Provide funding to communities at reduced interest rates
* Reducing financial impact to citizens while improving infrastructure and environment while creating jobs

Clean Water Initiative - Why??

* Current "Pipeline" projects
  * Drinking Water Loan Program - $825 million
  * Wastewater Loan Program - $1.732 billion
* Current "Planned" projects
  * Drinking Water Loan Program - $1.903 billion
  * Wastewater Loan Program - $1.578 billion

Historical Funding - Combined WPCLP & PWSLP Loan Programs

- 2013-2016 – Average - $547M
- 2017 – 79 Loans - $914 M
- 2018 – 67 Loans - $733 M
- 2019 – 95 Loans - $684 M
- 2020 – 89 Loans - $429 M
- 2021 – 121 Loans - $567 M
- 2022 – 104 Loans - $558 M
- 2023 – 110 Loans - $857 M

Loan Program Funding Sources Example FY2019 Wastewater Loan Program

Federal Cap Grant	$	64,000,000
State Match (20% of Grant)	$	12,800,000
Future Bond Proceeds	$	343,200,000
Fund Equity	$	80,000,000

Total: $500,000,000

Loan Program Funding Sources
FY2023 Wastewater Loan Program

Base Cap Grant:	$	33,926,000
State Match (20%):	$	6,785,200
Future Bond Proceeds:	$	0
BIL Supplemental:	$	94,270,000
BIL Supplemental Match (10%):	$	9,472,000
Repayments/Reimb/Investment Income:	$	284,013,005
Total Available Funds:	$	459,793,006

Previous Bond Issuance(s)

2002 - $150 Million
2004 - $130 Million
2013 - $461 Million
2016 - $560 Million
2017 - $400 Million
2019 - $450 Million
2020 - $500 Million

- **2002 and 2004 issuances "refinanced" with 2013 issuance (which was paid off this year)**
- **All Issuances sold at a premium which resulted in both loan programs seeing significantly more funding that Par amount**
- **Due to the strength of the SRF program and Illinois' pledged pool, the State has seen 20% of the overall PAR amount as premium on the issuances. 1.9 billion – 405 million**

2020 Bond Issuance

* Issued through Illinois Finance Authority
  * $450 million CW
  * $50 million DW
* FOCUS - Cash Flow Model
* Use of a Pledged Equity Fund
* Allows for Cross-Collateralization between Clean Water and Drinking Water Bonds

2020 Bond Issuance

- Quality of our Loan Programs
- Large Diverse Pool of Pledged Loans
  - At time of issuance, 3.07 Billion in Receivables across over 400 unique borrowers)
  - Added nearly $1 billion in Receivables to the pool
- Top 20 Borrowers represent less than 50% of the Pledged Loans
- All resulted in AAA ratings from both Fitch Ratings and Standard and Poor's
- $500,000,000 Issuance
- Premium of $137,306,169

IEPA SRF Loan Program Funding

- Without proceeds from the sale of revenue bonds, pursuant to cash flow modeling to support loan commitments, future levels of available funding would be vastly reduced.

  - Increased user charges to citizens of Illinois
  - Continued decline in infrastructure
  - Negative impacts to environment

Illinois Leveraging Looking Into the Future

* The program implemented a new accounting system and an Excel Cash Flow Tool both developed by Northbridge Environmental Management Consultants
* Loan Grant Tracking System (LGTS) -Microsoft Access Data Base full General Ledger Accounting System
* FOCUS Cash Flow used to help Agency management with Financial Planning and Leveraging Decisions

When to Consider Bond Leveraging

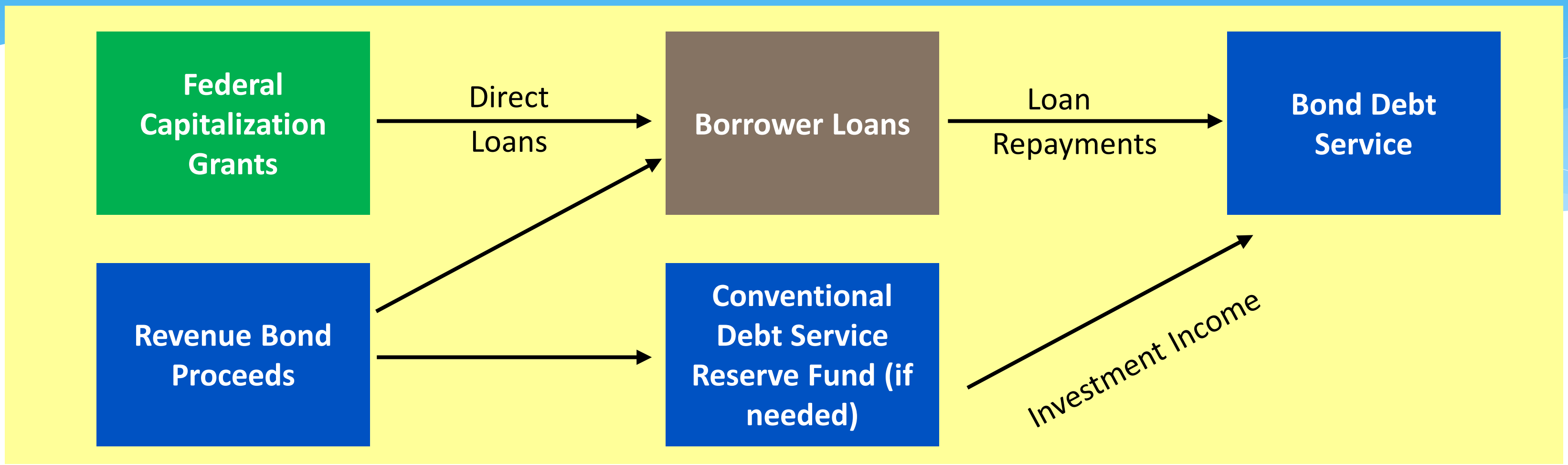
Current Scenarios	Strategy
Borrower Demand is Less than Available Monies	Direct Loan Funding Program
Borrower Demand is Equal to Available Monies	Direct Loan Funding Program or Leveraging Program
Borrower Demand is Greater than Available Monies	Leveraging Program

Leveraging Structure Alternatives

Cashflow Model	Reserve Fund Model	"Hybrid" Model

- There are generally three leveraging models used by SRF programs to finance borrower needs
  - **Cashflow Model**: relies upon using borrower loan repayments as the primary source of security for the underlying bonds
  - **Reserve Model**: relies upon an overfunded reserve and the bond-funded borrower loan repayments as the primary source of security for the underlying bonds
  - **Hybrid Model**: relies upon the combination of borrower loan repayments (from direct loans and bond-funded loans) as well as an overfunded reserve as the primary source of security for the bonds

Cash Flow Model



- The Cashflow Model leverages borrower loan repayments funded from federal capitalization grants and bonding as the primary source of monies for borrower loans
  - First, the SRF makes direct loans with federal capitalization grants
  - Second, additional loans (i.e., leveraged loans) are funded from a revenue bond issue; the revenue bond issue is secured from the borrower loan repayments from both the direct loans as well as the leveraged loans. All or a portion of principal and interest repayments from the existing direct loans can be pledged to debt service of a bond issue
- Revenue available for debt service payment include:
  - Pledged borrower loan repayments from existing and new direct loans (which can result in excess coverage)
  - Interest income from a conventional debt service reserve fund, if necessary
- Loan subsidy made up by over-collateralization of loan repayments – loans rate(s) can be lower than bond rate or a blend of market rate loans and zero percent loans

Structure Comparison

	ADVANTAGES	DISADVANTAGES
CASHFLOW MODEL	◆ Decreases current bonding needs; federal capitalization monies currently disbursed as loans to borrowers ◆ Maximizes use of federal capitalization monies (if loan demand is large and/or predictable) ◆ Flow of funds can be relatively simpler	◆ Increases future bonding needs since loan repayments are the only source of future funding ◆ May require immediate disbursement of federal capitalization grants as loans to maintain coverage levels ◆ Requires additional non-bond equity (i.e. federal cap grants or state match appropriations) to create loan over collateralization to make up loan subsidy ◆ In default scenarios, can only access “excess coverage” from pledged monies over time
RESERVE FUND MODEL	◆ Decreases future bond needs (future funding achieved through reserve fund de-allocations and loan repayments) ◆ In default scenarios, can access entire reserve balance immediately ◆ Achieves most liquid form of security (large reserves) with rating agencies and bondholders	◆ Requires monies (such as federal capitalization grants, etc.) to fund the debt service reserve fund ◆ Requires more bonding upfront since bond proceeds fund loans ◆ Requires more oversight of SRF investments which help make up the subsidy ◆ Flow of funds can be relatively more complex

Programmatic and Financing Issues Checklist

* Source of State Match
* Loan Repayment Obligation and Enforcement Mechanisms
* Legal Requirements – reserve fund requirements, debt service coverage, additional bonds test
* Number of Borrowers, Credit Composition, program managemnet
* Flow of Funds
* Amount and Timing of Federal Cap/BIL Grant Monies – amount needed for leveraging verses set asides, federal transfer provisions
* Cross-Collateralization Provisions
* Loan Rate Policies
* Leveraging Capacity Analysis… .Focus, Focus, FOCUS!