



Funding Alternative Analysis

While the State Revolving Fund (SRF) program is authorized to lend to private non-profits (PNPs) for drinking water projects, the complexity of lending to a non-government entity adds substantial time and cost to these projects. The increased time and costs are felt by both the borrower and the SRF program. Note: The SRF program is not authorized to lend to PNPs for wastewater projects.

Recommended: We are strongly encouraging PNP's to examine a number of funding options in addition to the SRF program.

Required: Prospective PNP borrowers must complete and submit this form with their Project Needs Assessment, and must provide a comparison of costs that shows the impact on a per ratepayer basis with at least one alternate funding source, or one alternative funding mechanism (governmental formation).

Alternative analyzed (select at least one)

Alternate funding source

Funding mechanism/government formation

SRF Cost Considerations

The SRF program carries a number of requirements that may increase the cost of a project, such as:

- General counsel and bond counsel opinions and the related work to be able to provide an opinion. Costs ranged from \$60,000 - \$120,000 for recent PNP projects.
- Federal Requirements: Davis Bacon, American Iron & Steel, Build America Buy America Act. Complying with these requirements is complex, time-intensive, and expensive, though the impacts may vary substantially from project to project.
- Upfront loan administration fee of 1% of the total loan request for PNPs (not for local governments).
- A full audit (full financial statements audited by a CPA) of the PNP's most recent fiscal year must be submitted with the loan application. Additionally, annual audits of the PNP's financials are required for the duration of the loan



term (20 to 30 years). Audit costs vary, but may be around \$10,000 - \$20,000 annually.

- SRF PNP borrowers will have higher interest rates than standard governmental borrowers (interest rates for the SRF can be found here).
- Timing considerations are detailed in the SRF section below. Typically, the longer it takes to execute a loan, the more expensive the project and its components can become due to inflation.
- Increased administrative time and expense to secure and administer the loan and maintain program requirements (record keeping, accounting, etc.).
- Loan Limits - The current maximum individual loan limit for non-Arkansas Valley Conduit (“AVC”) PNP loans is \$1.5 million, in addition to a maximum annual (calendar year) lending limit of \$5 million combined for non-AVC PNPs. These limits are good to keep in mind if you have a larger project and are subject to change per the Authority Board.

Alternate Funding Sources

Have you looked at other funders (private banks, other public funding sources) for this project?

- Which funders?
- What is the monthly cost difference to ratepayers on a per-ratepayer basis through these other funders compared to coming through the SRF program as a PNP borrower?
- These calculations should incorporate the interest rate and loan term, any fees the borrower may need to pay, and other costs of complying with the terms of the financing.
- There must be one calculation included that compares an SRF program PNP borrower vs. an SRF Governmental Entity borrower. This will generally show the potential cost savings available for governmental borrowers.
- In order to calculate the monthly per-ratepayer burden, take the estimated annual costs, including debt service, and divide them by the number of ratepayers, and then divide that number by 12. Some costs may be one-time costs, and others may be annual for the duration of the loan. Please indicate whether or not the expenses are one-time expenses in the per-ratepayer calculation.



Alternative funding source(s) or funding mechanism(s) examined from above, extra space here if needed for additional detail:

Are grants or loan forgiveness available if this alternative is pursued? If yes, please provide an estimate, if available.

Relevant notes:

Cost (annual)	SRF	Alternative
Debt Service		
Administration		
Legal Costs		
Accounting costs (including annual audits, etc.)		
Estimated grant or loan forgiveness		



One-Time Costs	SRF	Alternative

Estimated monthly cost per ratepayer- SRF program:

Estimated monthly cost per ratepayer- Alternative:

Other Funding Mechanisms

Governmental entities are generally eligible for better terms and more funding options, including grants, than PNPs. Have you explored the formation of a governmental entity to finance this project?

- Which types of entities did you examine?
- What is the monthly cost difference to ratepayers on a per ratepayer basis through these other funding mechanisms compared to coming through the SRF program as a PNP borrower?
 - These calculations should incorporate the interest rate and loan term, any fees the borrower may need to pay, and other costs of complying with the terms of the financing, as well as the costs of forming a



governmental entity (elections, legal fees, etc.), and the ongoing costs of meeting statutory requirements.

- To calculate the per ratepayer burden, take the estimated annual debt service, divide it by the number of ratepayers, and then divide that number by 12. Some costs may be one-time costs, and others may be annual for the duration of the loan. Please indicate whether or not the expenses you include are one-time costs in the per ratepayer calculation.

Alternative(s) examined from above, extra space here if needed for additional detail:

Are grants or loan forgiveness available if this alternative is pursued?

Relevant notes:

Cost (annual)	SRF	Alternative
Debt Service		
Administration		
Legal Costs		
Accounting costs (including annual audits, etc.)		
Estimated grant or loan forgiveness		



One-Time Costs	SRF	Alternative

Estimated monthly cost per ratepayer- SRF program:

Estimated monthly cost per ratepayer- Alternative:

SRF Timing Considerations

It takes most borrowers 12 to 18 months to move from the pre-qualification meeting to the loan application. Closing an SRF loan after loan approval usually takes more time for PNP borrowers. It has taken recent PNP borrowers between 12 and 24 months to close an SRF loan after loan approval.

To reduce the amount of time between loan approval and loan execution, we are requiring you to engage a bond attorney who will review the following items and attest that the borrower will be ready to move through the execution process in a timely fashion prior to loan application: bylaws, covenants, articles of incorporation, requirements for voter authorization of debt, water rights, and board member make up (we require a minimum of 3 board members).



At **loan application**, bond counsel will be required to attest that the borrower will be able to meet the requirements listed above and will be ready to execute a loan promptly after loan

application and potential approval. We can refer you to a bond counsel that has worked on numerous PNP loans.

- Have you retained bond counsel? If yes, name of bond counsel
 Yes
 Name of bond counsel:
 No

I have read/understand that a bond attorney must complete the review described above before a loan application is submitted, and understand that a successful review does not guarantee loan approval.

Signature

Date

I have read/understand the unique and challenging requirements for PNP.

Signature

Date

I understand this Funding Alternatives Analysis must be presented at the required public meeting.

Signature

Date



If you need assistance with any elements of the Funding Alternatives Analysis, please let us know.