

# **SUBLEVEL REVOLVING LOAN PROGRAM GUIDANCE**

## **PROGRAM DESCRIPTION, GOALS AND INTENT**

In an effort to expand access to funding for clean water projects across the Commonwealth, PENNVEST staff has been working with interested funding recipients to develop a sublevel revolving loan program (SLRLP) using the Federal Clean Water State Revolving Fund (CWSRF) to directly address smaller projects focused on local water quality priorities. Under the SLRLP, funding recipients will be able to enter into loan agreements with sub recipients to fund eligible water quality related projects and use loan repayments, plus additional interest charges and fees assessed by the funding recipient, to fund additional water quality projects, as set forth herein. The SLRLP recipient may combine the PENNVEST funding with other sources of funds to complete larger capital improvement projects, or use the PENNVEST funding as matching funds for programs where it is required. The United States Environmental Protection Agency (EPA) allows the States to utilize this tool as an option to implement the CWSRF.

## **ELIGIBLE APPLICANTS**

Under the SLRLP, PENNVEST will provide ‘seed’ funding to a county or other regional entity that has the capacity to manage and administer a revolving loan program to address water quality projects at the sub-state level. Conceivably this would work well at the county level, by affording more local control over resource allocation to priority areas, and allow a more even flow of funding to some of the lower cost construction ready projects with minimum overhead costs. In addition, council of governments, municipal authorities, or other entities that can meet the standards to implement a more localized revolving loan program to provide the benefits of subsidized interest rate loan funding may also apply for consideration to establish a SLRLP.

## **ELIGIBLE PROJECTS**

Smaller projects that have a water quality impact and are otherwise eligible under the PENNVEST CWSRF program, will be eligible for the receipt of funding through the SLRLP. The sublevel entity will compile a group of eligible water quality projects within its jurisdiction that are ready to proceed and submit a request to PENNVEST for an investment award. The sublevel entity will be able to use the investment funds to make loans to eligible entities within its jurisdiction to provide financing that supports the implementation of eligible water quality related projects, including:

- Construction, expansion or repair of municipal wastewater collection, treatment or disposal facilities,
- Control of nonpoint sources of pollution, including agricultural best management practices,
- Creation of green infrastructure projects,
- Management of stormwater, or
- Implementation of other water quality projects eligible under PENNVEST’s Clean Water State Revolving Fund, [Clean Water State Revolving Fund \(pa.gov\)](http://www.pa.gov).

## APPLICATION PROCEDURE

Because the original PENNVEST investment may not be used to cover administrative costs incurred by the SLRLP recipient to establish and operate the SLRLP, the applicant will be required to describe in the SLRLP application the other sources of funds expected to be included in their proposed program to cover such administrative costs. In addition, the SLRLP applicant will be required to submit an Intended Use Plan (IUP) detailing how they would implement a revolving loan program within the parameters of the SLRLP Guidance. The plan must show how projects will be identified and developed and must include cost estimates for all water quality projects expected to be funded within one year of submission of the application. The SLRLP applicant will also be asked to provide a description of how they plan to evaluate the credit worthiness of project funding sub recipients and provide adequate security to ensure the eventual payment to PENNVEST of its original investment and the 1% rate of return which shall be earned by PENNVEST on the amount of the investment drawn to date, commencing on the date funds are drawn by the SLRLP recipient.

## INVESTMENT TERMS

The SLRLP recipient or its agents will enter into loan agreements with eligible project funding sub recipients for those eligible water quality projects identified in their IUP. The loans must carry a minimum interest rate of 1% and may carry up to a maximum interest rate that does not exceed the levels set forth in 35 P.S. § 751.10(f) for the applicable county (County Maximum Interest Rate). The repayment of principal and interest under such loan agreements must be returned to the funding recipient's SLRLP and may be used to provide future funding for eligible water quality projects or to pay PENNVEST as set forth herein. Any fees or interest charged to the sub recipient in excess of 1% may be used by the SLRLP recipient to fund administrative costs. All subsequent water quality projects funded under the SLRLP must comply with SLRLP requirements, as well as the terms of the PENNVEST SLRLP Agreement.

Under the PENNVEST SLRLP Agreement, the SLRLP recipient will be required to repay the original investment, over a ten (10) year term, beginning no later than ten (10) years after the date of execution of the PENNVEST SLRLP Agreement and ending no later than twenty (20) years after the date of execution of the PENNVEST SLRLP Agreement, unless otherwise agreed to by the parties. The SLRLP recipient will be required to pay PENNVEST a one percent (1%) return on its investment, remitted to PENNVEST annually, unless otherwise agreed to by the parties.

## PROGRAM OVERSIGHT

SLRLP recipients will be required to deliver to PENNVEST an annual update to their PENNVEST approved IUP. PENNVEST staff will conduct a review of the sublevel entity to evaluate their progress as compared to their IUP, the strength of the sublevel revolving loan fund and ensure compliance with the terms of the PENNVEST SLRLP Agreement.

## SUMMARY OF THE SLRLP PROGRAM

- The SLRLP will be funded with the investment capacity granted to PENNVEST in accordance with 35 P.S. § 751.5(b) and will be subject to the approval of the State Treasurer and EPA.
- PENNVEST staff will develop a list of general requirements necessary to receive funding under the SLRLP.
- Interested parties will be required to submit a proposal to staff that will include:
  - Administrative structure and capacity of the applicant to set up a revolving loan program,
  - Overall program management, measurable goals and objectives, and long range plans for the fund,
  - Proposed outreach efforts,
  - Proposed project review, prioritization, evaluation of benefits and compliance with environmental standards,
  - Proposed loan origination process, including credit worthiness review and collateral requirements,
  - Proposed interest rate structure and repayment terms, and
  - List of eligible water quality projects:
    - Name and location / watershed
    - Description of the project
    - Benefits of the project / water quality
    - Cost estimates
    - Identification of projects servicing disadvantaged communities
    - Implementation and funding draw schedule
      - Design
      - Construction
        - Start
        - Inspection schedule
        - Completion
      - Repayment

## BOARD APPROVAL

PENNVEST staff will make a funding recommendation to the PENNVEST Board for approval of an “up to” amount when the SLRLP applicant’s proposal is complete and staff is confident that the SLRLP applicant will be in a position to succeed in the implementation of their program including the ability to return the original investment and the 1% rate of return to PENNVEST.

After obtaining PENNVEST Board approval of an application for funding under the SLRLP, PENNVEST staff will execute the PENNVEST SLRLP Agreement with the SLRLP recipient which will include, among the other requirements set forth in this Guidance, the “up to” value equal to the number and estimated cost of water quality projects that can be implemented by the SLRLP recipient within 12 months of approval. SLRLP recipients may substitute or add additional eligible water quality projects with prior approval from PENNVEST staff as long as the projects are able to comply with the requirements of the SLRLP and the PENNVEST SLRLP Agreement, including the requirement that the project would ensure adequate water quality benefits. SLRLP recipients may be considered for subsequent funding by the Board after each 12 month period subsequent to the original Board approval. Staff will provide a status update for each approved SLRLP recipient to the Board at each quarterly meeting of the members.