

# *The Massachusetts Clean Water Trust*

## GUIDE TO SRF FINANCING

MAY 2022

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# Overview *of The Trust*

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## Overview of the Massachusetts Clean Water Trust

*The Massachusetts Clean Water Trust (Trust) was established in 1989 to finance projects to:*



**IMPROVE** water quality



**PROTECT** the environment



**PROTECT** public health



in the **Commonwealth** through the provision of **low-cost capital financing** to cities, towns, and other eligible entities.

- Loans are funded by **annual grants** from the U.S. Environmental Protection Agency (EPA) and state matching funds.
- The **Trust and MassDEP** operate the Clean Water (CW) and Drinking Water (DW) State Revolving Funds (SRFs) which assist communities in complying with the Clean Water and Safe Drinking Water Acts.
- To date, the Trust has financed approximately **\$8.1 billion** in loans for nearly **300** communities, serving **97%** of the Commonwealth's population.

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# Overview of the Massachusetts Clean Water 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) SRFs**.

## Clean Water SRF (CWSRF) Annual Funding: Almost \$963 Million for 2022

*Established in 1987 as an amendment to the Federal Water Pollution Control Act of 1972 (aka Clean Water Act).*

### PROJECTS INCLUDE:

- Wastewater Treatment Improvements
- Collection Systems
- Combined Sewer Overflow (CSO) Correction
- Stormwater Management
- Infiltration/Inflow (I/I) Remediation
- Sewer System Rehabilitation Projects
- Non-Point Source (NPS) and Nutrient Enrichment Mitigation
- Planning Projects

## Drinking Water SRF (DWSRF) Annual Funding: Almost \$363 Million in 2022

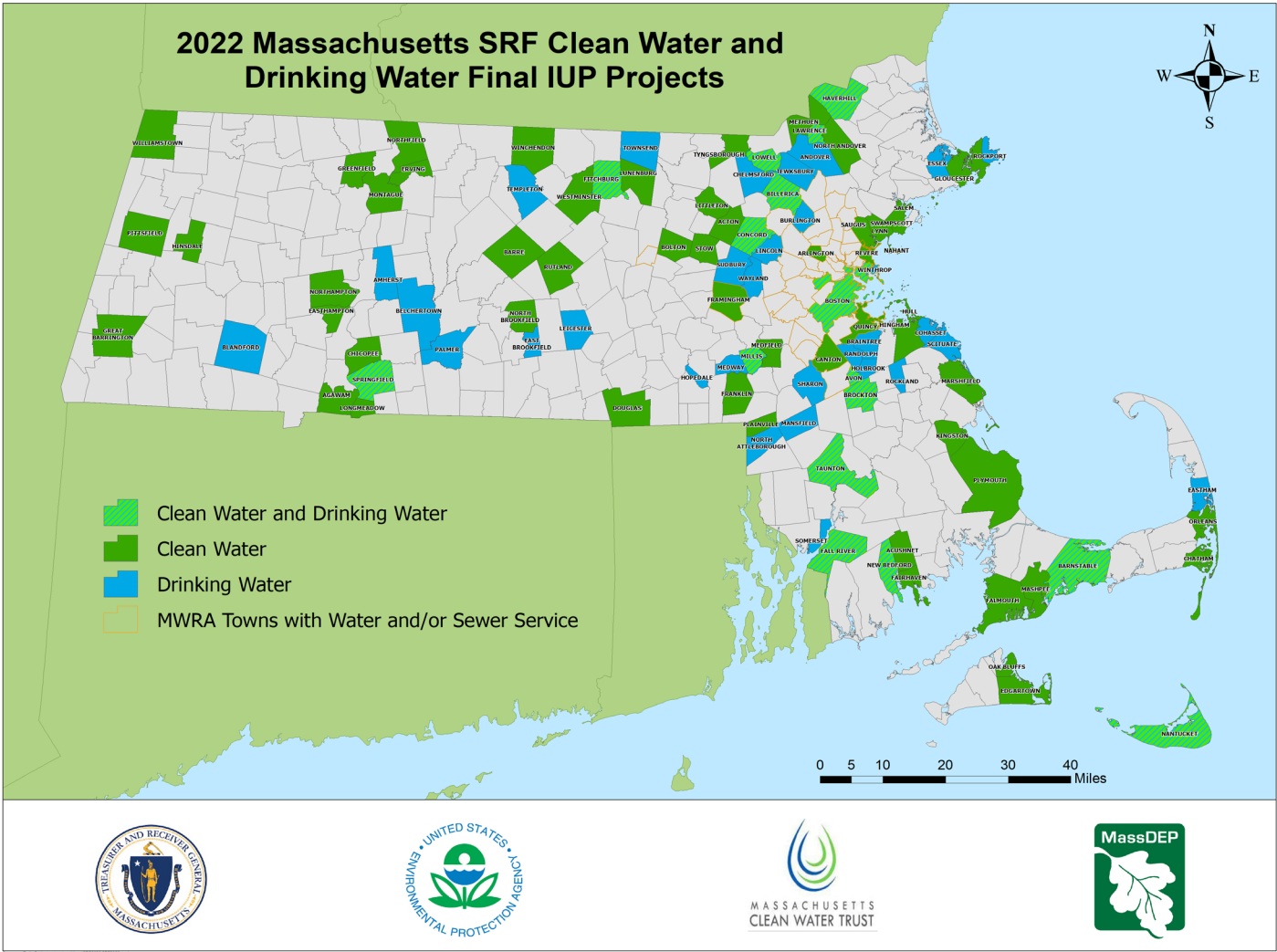
*Established in 1996 as amendments to the Federal Safe Drinking Water Act.*

### PROJECTS INCLUDE:

- Drinking Water Treatment Improvements
- Transmission and Distribution Projects
- Source Protection and Storage Improvements
- Planning and Design Projects




# 2022 Intended Use Plan Projects



## 2022 Intended Use Plan Construction Projects

	2022 CWSRF			2022 DWSRF		
Mass DEP Region	# of Projects	IUP Cost	Project Costs	# of Projects	IUP Cost	Project Costs
CENTRAL	18	\$125,418,693	\$126,139,376	10	\$50,755,100	\$57,215,100
NORTHEASTERN	45	\$362,566,930	\$869,707,027	23	\$106,259,069	\$233,641,822
SOUTHEASTERN	37	\$377,673,519	\$497,966,565	28	\$173,197,040	\$294,065,916
WESTERN	15	\$92,005,257	\$92,447,652	7	\$28,421,200	\$28,421,200



# *ARPA Funding and the Infrastructure Investment and Jobs Act (IIJA)*

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# ARPA Grant Funds

## American Rescue Plan Act (ARPA) Funding

- Chapter 102 of the Acts of 2021 appropriated **\$100 million** in ARPA funding to the Trust
- **\$12.9 million** was earmarked to specific projects, \$66.8 million has been committed as loan forgiveness for 2021 construction Project Approval Certificates (PACs) based on percentages indicated in the chart below
- Please visit the dedicated [FAQ section](#) on the Trust's ARPA webpage

Loan Categories	2021 Subsidy Percentage
PFAS Remediation Projects	20%
Loans to Small Drinking Water Systems (Less than 10,000 Users)	15%
All Other Drinking Water Projects	10%
Combined Sewer Overflow (CSO) Projects	15%
All Other Wastewater Projects	7.5%

- The Trust anticipates providing similar subsidy percentages for projects listed on the 2022 IUPs. Loan forgiveness will be disbursed over construction contracts that are executed by June 30, 2023, and maybe limited to the lesser of executed contracts or the IUP Cost, subject to availability of funds



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# The Infrastructure Investment and Jobs Act (IIJA)

- President Biden signed into law the **\$1.2 trillion** IIJA of 2021 (H.R. 3694) aka Bipartisan Infrastructure Law (**BIL**)
- Provides **\$1.18 billion to Massachusetts** in funding for the Clean Water and Drinking Water State Revolving Funds (SRFs) over the next five years (2022 – 2026) – this funding is in addition to the annual SRF capitalization grants

**The funding will be available to the SRFs in the following grant categories:**

## CLEAN WATER GRANTS



**Supplemental Grant** - these funds are available for all eligible projects

- **49%** of the grant must be given away as loan forgiveness to disadvantaged communities

**Emerging Contaminants Grant**- these funds focus specifically on emerging contaminants such as PFAS

- **100%** of the grant must be given away as loan forgiveness and at least 25% of the CWSRF grant be directed to disadvantaged communities

## DRINKING WATER GRANTS



**Supplemental Grant** - these funds are available for all eligible projects

- **49%** of the grant must be given away as loan forgiveness to disadvantaged communities

**Emerging Contaminants Grant**- these funds focus specifically on emerging contaminants such as PFAS

- **100%** of the grant must be given away as loan forgiveness

**Lead Service Line Replacement Grant** - These funds will go towards identifying, planning and removing lead service lines

- **49%** of the grant must be given away as loan forgiveness to disadvantaged communities

## BIL Investment in Massachusetts\*

Year	CW Supplemental	CW PFAS	CW State Match	DW Supplemental	DW PFAS	DW Lead	DW State Match	Total
2022	\$60,925,000	\$3,198,000	\$6,092,500	\$41,662,000	\$17,495,733	\$65,610,000	\$4,166,200	<b>\$199,149,433</b>
2023	\$70,534,621	\$7,195,500	\$7,053,462	\$48,233,293	\$17,495,733	\$65,610,000	\$4,823,329	<b>\$ 220,945,940</b>
2024	\$76,973,068	\$7,195,500	\$15,394,614	\$52,636,060	\$17,495,733	\$65,610,000	\$10,527,212	<b>\$245,832,187</b>
2025	\$83,379,482	\$7,195,500	\$16,675,896	\$57,016,922	\$17,495,733	\$65,610,000	\$11,403,384	<b>\$258,776,919</b>
2026	\$83,379,482	\$7,195,500	\$16,675,896	\$57,016,922	\$17,495,733	\$65,610,000	\$11,403,384	<b>\$258,776,919</b>
<b>Total</b>	<b>\$375,191,654</b>	<b>\$31,980,000</b>	<b>\$61,892,369</b>	<b>\$256,565,198</b>	<b>\$87,478,667</b>	<b>\$328,050,000</b>	<b>\$42,323,510</b>	<b>\$1,183,481,397</b>

\*Numbers based on preliminary figures from EPA.



## *Borrowing Through The Trust*

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## **Advantages of Borrowing through the Trust**

### **Fixed Low-Interest Rates**

- These rates are established by law and offer a stable planning tool for communities
- Loans with a 20-year term will have an interest rate of 2%
- Loans with a term over 20 years will generally have an interest rate of 2.4%
- Certain projects qualify for reduced or 0% interest

### **Interim Loans (Construction Loans)**

- The Trust offers interim loans with no fees or interest. These loans allow for one-stop financing through the Trust

### **Flexible Repayment Terms**

- Loans can be financed up to 30 years

### **Subsidy and Grant Programs**

- The Trust offers programs targeted to assist communities with priority issues affecting water infrastructure in the Commonwealth.

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## Grant and Subsidy Programs Offered by the Trust



- **Asset Management Planning Grants**

The program provides grants up to 60% of the project costs or **\$150,000**, whichever is less. These grants are to assist communities with completing or updating asset management plans for wastewater, drinking water, stormwater utilities, or any combination of the three to ensure the operational integrity of the water utility.

- **Cape Cod & Islands Water Protection Trust Fund**

This fund was created to help communities on Cape Cod utilize the tourist economy to raise revenue to pay for a portion of their wastewater loans from the Trust. Currently, the fund is providing **25%** loan forgiveness for qualifying projects.

- **Housing Choice Loan Program**

Communities that have achieved the “Housing Choice” designation under the Housing Choice Initiative will be eligible for an interest rate reduction up to **.50%** from the standard below market rate of 2% offered by the Trust.

- **0% Nutrient Enrichment Reduction Loans**

This loan program is for CWSRF loans that are primarily intended to **remediate** or prevent nutrient enrichment of a surface water body or water supply which can cause environmental degradation of the surrounding water bodies.

- **0% Interest PFAS Remediation Loans**

Per- and polyfluoroalkyl substances (PFAS) are a family of chemicals that are classified as emerging contaminants and are known to cause health issues when found in drinking water. Projects that have the purpose of reducing PFAS in water below the established Maximum Contamination Level of 20 parts per trillion, are eligible for **0%** interest loans.

## Loan Forgiveness

- An additional subsidy provided by reducing the principal amount of the loan
- Determined by an annual affordability calculation ranking communities into affordability tiers
- A fixed percentage of forgiveness is provided based on the tier and program
- These percentages are for the 2022 IUP and may be different in future years

Program Tier	% of Forgiveness	Example: Applied to \$10,000,000 Loan
		Forgiveness Amount
CWSRF Tier 1	3.3%	\$330,000
CWSRF Tier 2	6.6%	\$660,000
CWSRF Tier 3	9.9%	\$990,000
DWSRF Tier 1	6.6%	\$660,000
DWSRF Tier 2	13.2%	\$1,320,000
DWSRF Tier 3	19.8%	\$1,980,000

*The adoption of an enterprise or restricted utility account is a prerequisite for the receipt of any enhanced SRF subsidy.*



# Two Agencies, One Service

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## Massachusetts Clean Water Trust

*In charge of the financial aspects*

- Sends and Receives Loan Commitment Package Documents
- Sends and Receives Financing Agreement Package Documents
- Processes Interim Loan Documents
- Final Payment Requisition Approval and Disbursing Proceeds
- Loan Repayment (Permanent Financing)



## Massachusetts Department of Environmental Protection (MassDEP)

*In charge of the program aspects*

- Administers the Annual SRF Solicitation and Project Selections
- Develops the IUP Project Lists
- Receives and Approves Loan and Grant Applications
- Oversees Project Bidding and Awarding
- Issues Final Project Approvals
- Processes and Approves Payment Requisitions
- Project Closeout

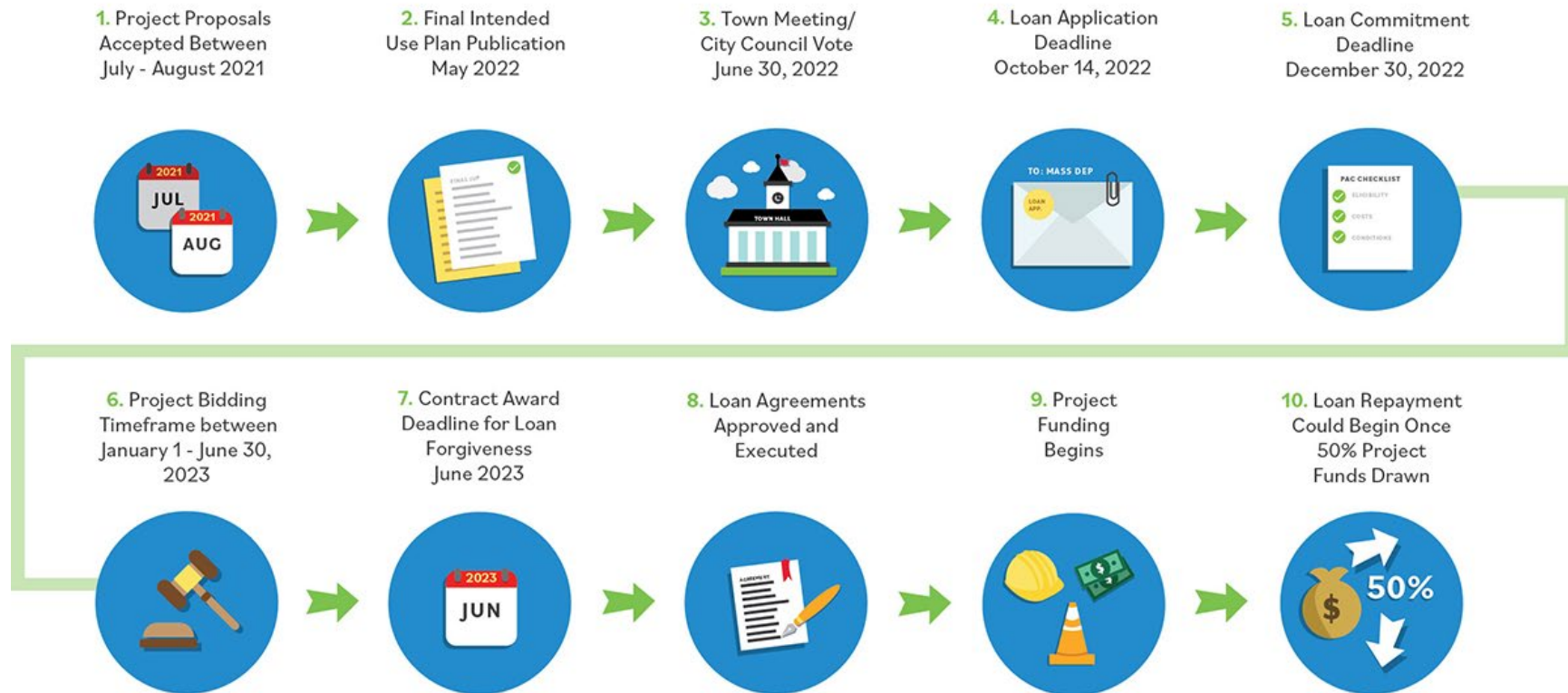


# *The SRF Loan Process*

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# State Revolving Fund Loan Process

The SRF financing process can take up to two years, depending on the community and project, from the initial project proposal to funding being disbursed. MassDEP staff will provide assistance to the community from application submission to project completion.





# READINESS TO PROCEED

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## Readiness to Proceed

- A major component of the SRF process is the “Readiness to Proceed”
- EPA requires deadlines for SRF financing
- There is some flexibility, but a consistent set of deadlines
- Communities on the published Intended Use Plan (IUP) must adhere to an application schedule
- A list of deadlines can be found at the end of this presentation
- The most **imminent** deadline is the vote for Local Authorization by **June 30, 2022**

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## Local Authorization

- A community vote at town meeting or equivalent is needed for an authorization to borrow debt
- The borrowed debt is a general obligation pledged as security
- Authorization needs to account for:
  - Eligible and ineligible costs
  - Construction management fees & 10% contingency
  - Police details
  - Inflation
- Better to overestimate than underestimate costs
- Required for the Loan Application



# DEADLINE:

**LOCAL AUTHORIZATION MUST BE  
VOTED BY JUNE 30, 2022.**

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## Loan Application

*After appearing on the IUP, a community must complete an application for financial assistance.*

### > DEADLINE

Due to MassDEP on or before **October 14, 2022**

### > CONSTRUCTION PROJECT REQUIREMENTS

- Plans and specifications
- Local debt authorization
- Required SRF documentation
- Construction schedules
- Permits for construction

### > PLANNING PROJECT REQUIREMENTS

- Scope of services/Plan of study
- Local debt authorization
- Required SRF documentation



**MASSDEP WILL  
ISSUE A PAC AFTER  
A COMPLETE LOAN  
APPLICATION  
PACKAGE HAS  
BEEN SUBMITTED**

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## Project Approval Certificate (PAC)

### DEADLINE

- MassDEP must issue a PAC by **December 30, 2022**
- If any requirements are not met by December 30, 2022, the PAC will be **“restricted”**
- Once all PAC requirements have been met, the Board of Trustees will vote on a **Loan Commitment**



# Loan Commitment Package

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*After the Board of Trustees approves a Loan Commitment, the Trust sends a Loan Commitment Package.*

- Commitment information and conditions outlined
- Instructions on obtaining a Green Light Letter from local bond counsel and completing the Loan Questionnaire

## > LOAN QUESTIONNAIRE

- Ensures the Trust is complying with laws and regulations for issuing tax-exempt bonds
- Contact information for community
- Select loan terms and amortization
- Other relevant financial information (Credit rating, sources of repayment, etc.)

## > GREEN LIGHT LETTER

- Issued by local bond counsel and submitted to the Trust
- Certifies that the local vote to authorize is legal
- **Note:** Loan proceeds **cannot** finance local bond counsel costs

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## Project Bidding & Authorization to Award

### DEADLINE

- For loan forgiveness eligible projects, the first executed construction contract must be awarded by **June 30, 2023**
- Construction projects financed through the SRF are owned and managed by the community
- MassDEP ensures that the project and procurement processes adhere to SRF requirements

### MASSDEP REQUIREMENTS

- Give the community “Permission to Advertise” for bidding to begin
- Bidding generally occurs once the Board of Trustees approves a PAC
- MassDEP will review the procurement document and identify any ineligible costs

### UPON RECEIVING ACCEPTABLE BIDS

- MassDEP Procurements Section reviews and approves Disadvantaged Business Enterprise (DBE) participation
- "Authorization to Award" issued upon review and approval of bids
- The Project Regulatory Agreement (PRA) amount for Board of Trustees vote is based on the construction and services contracts plus a 5% contingency

# PROJECT REGULATORY AGREEMENT (PRA)

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## Project Regulatory Agreement

- Usually issued at the same time as the "Authorization to Award"
- States that the community agrees to follow the terms and conditions of MassDEP
- Details the scope of the project
- Outlines the project timeline
- Lists estimated disbursements
- Lists eligible costs

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## Financing Agreement Package

*The Trust sends a **Financing Agreement Package** after the Board of Trustees approves the Project Regulatory Agreement (PRA) and the Trust has received a **Green Light Letter** and a completed **Loan Questionnaire***

### > The Trust will create a Financing Agreement

- States that the community agrees to follow the terms and conditions of the Trust
- Outlines loan information
- Contains a draft repayment schedule
- This package contains instructions, the PRA, and the Financing Agreement
- Communities are to follow the instructions on electronically signing the PRA and the Financing Agreement **for each loan**

### > Interim Loan Closing

- Loans during construction at **0% interest and no fees**
- Makes loan proceeds available during construction and before the Trust issues bonds
- Interim loan closing instructions are part of the Financing Agreement Package
- Eliminates the need to issue interest accruing, additional fee bearing BANs



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## Loan Repayment (Permanent Financing)

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

### > WHEN SHOULD COMMUNITIES EXPECT TO HAVE THEIR LOANS PUT INTO REPAYMENT?

Loans are generally selected for permanent financing when:

- Half or more of the loan proceeds have been drawn; or
- The project is expected to be completed within a year

### > WHAT IS THE PROCESS FOR PERMANENT FINANCING?

- Communities are contacted by the Trust months ahead of loan closing
- The Trust sends verification forms to communities, bond counsels and financial advisors
- Verification forms ask similar questions to the Loan Questionnaire
- After loan closing, a final repayment schedule is sent to the community and posted on the Trust's website

### > WHEN ARE PAYMENTS DUE?

- January 15<sup>th</sup> and July 15<sup>th</sup>
- Due dates will be listed on final repayment schedules
- Invoices are sent to communities a month in advance of due dates

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

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# Disbursements & Project Closeout

## DISBURSEMENTS

- “Payment requisitions” are completed by the community and forwarded to MassDEP once a month with the appropriate supporting documentation (receipts, invoices, signed change orders, etc.)
- MassDEP reviews requests and approves appropriately documented eligible costs within a week
- MassDEP forwards approved requests to the Trust
- The Trust will conduct a final review and wire funds typically within a week

## PROJECT CLOSEOUT

- Process Initiated when the project is 90% complete
- Prior to receiving the final disbursement, the community shall file a Project Completion Certificate with MassDEP

**MassDEP** has set up a dedicated email account to facilitate electronic submittal of the payment request packages [DMSDEP.General@mass.gov](mailto:DMSDEP.General@mass.gov)

## Loan Terms and Fees

	Permanent Financing	Interim Financing
Standard Loan Rate	2% (20 Years) Calculated (30 Years) <sup>1</sup>	0%
Housing Choice Loan Rate	1.5% (20 Years) <sup>2</sup>	0%
Nutrient Enrichment Reduction Rate	0%	0%
PFAS Remediation Rate	0%	0%
Maximum Term	30 Years <sup>3</sup>	3 Years
Administrative Fee	0.15%	NA
Origination Fee (One Time)	Approx. \$5.00/\$1,000	NA
Effective Loan Rate	2.15% (20 Years)	0%

<sup>1</sup> Rate calculated at time of bond sale, estimated between 2.4-2.9%

<sup>2</sup> Communities designated as housing choice communities on the 2019-2021 IUPs are eligible for an interest rate discount up to 0.5% for permanent financing.

<sup>3</sup> Requires useful life certificate certifying useful life will match or exceed the life of the loan

## Debt Service Schedule (Schedule C)

### Draft Schedule C

Prepared by MCWT

May, 16 2022 - 2:42 PM

**Massachusetts Clean Water Trust  
Preliminary Structuring Analysis  
Your Community  
CW-22-00**

Initial Obligation Amount	1,000,000.00
Loan Forgiveness*	
Net Loan Obligation	1,000,000.00

Loan Origination Fee (\$5.5/1000)	5,500.00
Loan Term (in years)	20
Loan Rate	2.00%
Closing Date	10/15/2024
First Interest	1/15/2025
First Principal	7/15/2025

Date	Principal	Interest	Total Debt Service	Admin Fee (0.15%)	Loan Origination Fee	Total Payments	Total Annual Payments
10/15/2024							
1/15/2025		5,000.00	5,000.00	750.00	5,500.00	11,250.00	11,250.00
7/15/2025	40,451.00	10,000.00	50,451.00	750.00		51,201.00	
1/15/2026		9,595.49	9,595.49	719.66		10,315.15	61,516.15
7/15/2026	41,330.00	9,595.49	50,925.49	719.66		51,645.15	
1/15/2027		9,182.19	9,182.19	688.66		9,870.85	61,516.01



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## Important Dates and Deadlines

<b>Final IUP Publication</b>	MAY 2022
<b>Town Meeting/City Council Vote Deadline</b>	JUNE 30, 2022
<b>Loan Application to MassDEP</b>	ON OR BEFORE OCTOBER 14, 2022
<b>MassDEP is to Issue a PAC</b>	ON OR BEFORE DECEMBER 30, 2022
<b>Project Contract Award/Notice to Proceed</b>	WITHIN 6 MONTHS OF PAC ISSUANCE
<b>Project Bidding General Timeframe</b>	BETWEEN JANUARY 1 AND JUNE 30, 2023
<b>Loan Forgiveness, Executed Construction Contracts</b>	JUNE 30, 2023
<b>Loans in Repayment, Payments are Due to the Trust</b>	JANUARY 15 <sup>TH</sup> AND JULY 15 <sup>TH</sup>

# CONTACT INFORMATION

## THE TRUST

**Sue Perez** | *Executive Director*  
617-367-9333 x816 | [sperez@tre.state.ma.us](mailto:sperez@tre.state.ma.us)

**Nate Keenan** | *Deputy Director*  
617-367-9333 x508 | [nkeenan@tre.state.ma.us](mailto:nkeenan@tre.state.ma.us)

**Josh Derouen** | *Senior Program Associate*  
617-367-9333 x515 | [jderouen@tre.state.ma.us](mailto:jderouen@tre.state.ma.us)

**Jonathan Maple** | *Senior Policy Analyst*  
617-367-9333 x546 | [jmaple@tre.state.ma.us](mailto:jmaple@tre.state.ma.us)

**Kailyn Fellmeth** | *Program Associate*  
617-367-9333 x580 | [kailyn.n.fellmeth@tre.state.ma.us](mailto:kailyn.n.fellmeth@tre.state.ma.us)

**Julian Honey** | *Program Associate*  
617-367-9333 x493 | [julian.honey@tre.state.ma.us](mailto:julian.honey@tre.state.ma.us)

## MASSDEP

**Maria Pinaud** | *Director*  
617-292-5808 | [maria.pinaud@mass.gov](mailto:maria.pinaud@mass.gov)

**Robin McNamara** | *Deputy Director*  
617-292-5529 | [robin.mcnamara@mass.gov](mailto:robin.mcnamara@mass.gov)

**Ashraf Gabour** | *Program Manager*  
617-556-1076 | [ashraf.gabour@mass.gov](mailto:ashraf.gabour@mass.gov)

**Michele Higgins** | *Section Chief*  
*Southeastern and Central Regions*  
617-292-5658 | [michele.higgins@mass.gov](mailto:michele.higgins@mass.gov)

**Greg Devine** | *Section Chief*  
*Northeastern and Western Regions*  
617-292-5883 | [gregory.d.devine@mass.gov](mailto:gregory.d.devine@mass.gov)