

Ask me Anything: How to Prepare for a Financial Review

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Quick recap

Ashley Lucht conducted an "Ask Me Anything" training session on State Revolving Fund (SRF) financial documentation requirements for water and wastewater projects. She explained the complex process of applying for SRF loans, emphasizing that in most situations communities must first get ranked on a priority list before applying for funding, and discussed the various financial documents underwriters review including audited financial statements, debt information, budget projections, and asset management plans. The session covered budget considerations, capital improvement planning, and how to properly secure loans, with Ashley noting that every state's SRF program operates differently. During the Q&A portion, a participant asked about starting the SRF application process for a small California wastewater system without having completed preliminary engineering reports, and Ashley advised that while the system couldn't apply for construction funds yet, they could potentially get on the priority list for future funding cycles. Ashley committed to a follow-up conversation with this participant specifically about this situation.

Summary

State Revolving Funds Training Session

Ashley Lucht conducted a training session on State Revolving Funds (SRF), explaining their funding structure and purpose. She described how SRFs receive federal grants from EPA, which are matched by state governments at a 20% rate, creating a revolving fund that can lend money for drinking water and wastewater treatment projects. Ashley noted that while some programs use leveraging to obtain additional funding through municipal bond markets, this is relatively rare as most states struggle to spend the available funds annually.

SRF Program Federal Funding Requirements

Ashley discussed the SRF program's federal-level operations and requirements for securing financing. She explained that applying for funding involves multiple steps, starting with getting ranked on a priority list, which can take months to finalize. Ashley noted that states must submit an intended use plan and apply to the federal government for grant money before projects can apply for funding. She mentioned that most states now use

online applications, and provided an example of Arkansas's portal system, offering to share guidance materials with anyone needing assistance with the Arkansas application process.

Municipal Underwriting Socioeconomic Factors

Ashley discussed the socioeconomic factors considered in municipal underwriting, including debt levels, tax burden, industry threats, and affordability of utilities. She explained the importance of audited financial statements as a key source of information for underwriters, noting variations in requirements across different states. Ashley also covered the distinction between financial audits and single audits, highlighting that single audits are more comprehensive but can be costly and challenging for smaller utilities.

Financial Underwriter Policies and Procedures

Ashley discussed key policies and procedures that financial underwriters may review, including delinquency management, water service line ownership, and financial documentation. She emphasized the importance of regular financial statement reviews by boards and suggested generating financial statements before each board meeting. Ashley also highlighted the need for detailed budget analysis, including reviewing unspent and overexpended line items, to make informed decisions about revenue and expenses.

Utility Infrastructure Funding Methods

Ashley discussed four general ways utilities can pay for infrastructure: pay-as-you-go, using reserves, relying on subsidies/grants, and taking on debt. Ashley emphasized that subsidies ultimately come from federal tax revenue, meaning someone outside the community would be paying for the infrastructure upgrades.

Water Utility Financial Management Planning

Ashley presented on financial management and capital improvement planning for water utilities, covering budget projections, revenue sources, and asset management. She explained the importance of planning for both short-lived and long-lived assets, with debt financing being appropriate for long-lived assets to ensure intergenerational equity. Ashley outlined key financial metrics that underwriters evaluate, including debt service coverage ratio, debt ratio, and operating ratio. She announced upcoming training opportunities in Portland, Maine and Cheyenne, Wyoming focused on financial management, and mentioned additional Ask Me Anything sessions through July.

SRF Application Process Discussion

A participant asked Ashley about starting the SRF application process for a small wastewater system in California before completing the preliminary engineering report

(PER). Ashley explained that California requires being on a priority list before applying for funding, and while the community may qualify as a disadvantaged community, the project needs to be further developed through final design before applying for construction money through the SRF. Ashley agreed to review California's wastewater CWSRF requirements and schedule a separate meeting with the participant to provide more detailed guidance.

Disclaimer: this summary was generated using AI but was reviewed and edited by a Human.