

IMPORTANT

PLEASE READ

THIS MEMO ADDRESSES:

- 1. REDUCTION OF SPONSORED PROJECT FUNDING, and**
- 2. INCREASED PROJECT COSTS**

We want your project to succeed and we are here to assist you throughout this Sponsored Project (SP). This short memo was prepared to address a couple of points we believe critical to the success of your project.

1. REDUCTION OF SPONSORED PROJECT FUNDING.

The amount of funding that is available for the SP depends on many moving parts. First, the amount available for the sponsored project will be a maximum of **the lowest of** the following amounts:

- *10% of the requested wastewater loan amount on the Intended Use Plan at the time of sponsored project application (Scenario A);*
- *10% of the final amount drawn on the wastewater loan (Scenario B);*
- *The amount requested by the applicant on the sponsored project application (Scenario C).*

We start with an estimated dollar amount usually based on the wastewater IUP amount, but that gets narrowed down as we work through the planning process and loan scheduling for both projects. The amount available is ultimately dependent on final amount drawn on the underlying infrastructure project, not the loan amount.

Scenario A: **Wastewater IUP amount ≈ \$1,000,000.
Sponsored project amount requested ≈ \$100,000.*

- Executed loan and final amount drawn ≈ \$1,200,000.**
Maximum sponsored project funding available ≈ \$100,000.
- Scenario B:** **Wastewater IUP amount ≈ \$1,000,000.**
Sponsored project amount requested ≈ \$100,000.
***Final amount drawn ≈ \$900,000.**
Maximum sponsored project funding available ≈ \$90,000.
- Scenario C:** **Wastewater IUP amount ≈ \$1,000,000.**
***Sponsored project amount requested ≈ \$80,000.**
Final amount drawn ≈ \$900,000.
Maximum sponsored project funding available ≈ \$80,000.

Additionally, the amount of funding that is available for the SP depends on other factors. Like scenario A and C, above, while the amount of available SP funding can go down following application approval, it cannot go up.

TIMING IS EVERYTHING. It is ideal, if not critical, that your SP approaches design approval/construction readiness as the infrastructure project nears substantial completion. This is because the funding is made available with the amendment by reducing interest costs that would have been paid with new principal for the SP. As more of the scheduled interest and principal is paid prior to the amendment being executed, the amount available for the SP can be reduced. The example below illustrates this point.

- Scenario D:** **Wastewater IUP amount ≈ \$1,000,000.**
Final amount drawn \$900,000.
Interest payments and the first principal payment on infrastructure loan already made.
Current amount available for sponsored project ≈ \$80,000.
Amount available if sponsored project loan amendment is not signed until after another year of interest payments and the next principal payment is made ≈ \$70,000.

Since we can only estimate available SP funds until all funds on the underlying infrastructure loan are drawn, we propose applicants remain flexible with design plans and specs to accommodate this aspect unique to SP funding, in order to avoid budgeting issues, delays in construction, and/or redesign fees associated with the SP.

Applicants should first decide if they are willing and/or able to pay for additional costs that may not be covered by available SP funds. If additional funding sources are not an option,

applicants are encouraged to design the project to be **scalable** so that selected practice(s) can be modified to stay within budget and still meet the desired water quality improvement and treatment requirements.

2.INCREASED PROJECT (CONSTRUCTION OR DESIGN) COST.

There are several reasons an applicant can encounter increased project costs. The most obvious includes an applicant moving on to the next **SRF Project Milestone Checklist** (enclosed) without SRF SP coordinator's knowledge or approval. This situation has resulted in additional redesign costs if an applicant submits plans and specs (step #4) before getting SRF's approval on their design concept (step #3). In another situation, we've seen construction begin without a pre-construction meeting (step #13) resulting in work not performed to plan and/or spec subjecting the applicant to additional construction costs in excess of approved project funding. The amount available may also be affected by the construction schedules of both projects and the need for additional bond counsel fees to prepare the loan amendment.

The COMBINED EFFECT of both of #1 & 2 means that an applicant receives *LESS FUNDING* to pay for a *MORE COSTLY* project.

Our experience has taught us one thing above all else: **COMMUNICATION IS THE KEY.** Applicants and their consultants must strive to maintain regular and frequent communication with their assigned SRF SP coordinator. While our expectation (and experience) is that applicants are typically proactive about ensuring the progress of their SP, from time to time your SRF SP coordinator will contact you and your consultant for status checks, and if necessary, clear up any confusion about what step we are at in the process, and what needs to be done next on the **SRF Project Milestone Checklist.**

Reach out to your SRF SP coordinator. Get used to dropping us a line or sending a quick email letting us know what's going on, what you're considering doing and when you're considering doing it! And of course, if you have any questions either about this process, or about your specific SP, do not hesitate to ask.

-The SRF Sponsored Project Team