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Local Finance Notice

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Environmental Infrastructure Trust: The "WISE" Act and Recent Program Changes

This Local Finance Notice, issued jointly by the Division of Local Government Services and the [New Jersey Environmental Infrastructure Trust \("EIT"\)](#), summarizes recent EIT-related legislation and discusses its impact on local governments.

Water Infrastructure Savings Enabling ("WISE") Act

The WISE Act ([P.L. 2017, c.71](#)), signed by Governor Christie on May 11, 2017, applies to all local government units financing an environmental infrastructure project (or project component) of \$1 million or greater **without** utilizing the New Jersey Environmental Infrastructure Program ("NJEIFP" or "Program"). The NJEIFP is the EIT and Department of Environmental Protection's (DEP) joint low-rate financing program.

Pursuant to the WISE Act, authorities and other local units seeking Local Finance Board ("Board") approval to finance such projects shall include an EIT Financial Cost Estimate ("Cost Estimate") with their Board applications. Municipalities and counties that do not require Board approval for such borrowing must include the Cost Estimate with the Supplemental Debt Statement ("SDS") submitted to DLGS. The Cost Estimate requirement becomes effective starting with environmental infrastructure projects the appropriation of which were approved by ordinance or resolution, as appropriate, **after November 7, 2017**.

The Cost Estimate, obtained via EIT's [WISE Calculator](#), compares the cost for financing environmental infrastructure projects through an independent bond issuance versus the NJEIFP. Information is entered into a short online questionnaire typically requiring less than five minutes to complete. Utilizing independent financial data and the borrower's submitted information, the Calculator immediately generates a Cost Estimate report detailing annual cash flow projections and total estimated debt savings over the life of the loan.

The WISE Act aims to enhance transparency and ensure local government units consider the NJEIFP when financing environmental infrastructure. NJEIFP financing is a cost-effective solution that not only facilitates more sustainable user rates, but also optimizes capital budgets by reducing annual loan repayments thus freeing up resources for additional projects.

Local Finance Board applications seeking approval for environmental infrastructure project financing outside of the NJEIFP, where the project or project component is \$1,000,000 or more and the appropriation for same was approved after November 7, 2017, must include the printed Cost Estimate before being considered complete. The Board reserves the right to request an EIT Cost Estimate for a project or project component below \$1,000,000, or for which the appropriation was approved on or prior to November 7th.

After November 7th but before implementation of the FAST automated system, municipalities and counties that are required to submit an EIT Cost Estimate along with their Supplemental Debt Statement shall attach a pdf of the Financial Cost Estimate to the email submission. Upon implementation of the FAST system, a pdf of the Estimate shall be uploaded and accompany the SDS submission.

For questions regarding the [WISE Calculator](#) or information contained in an EIT Financial Cost Estimate, please contact the EIT at 609-219-8600.

New Jersey Environmental Infrastructure Finance Program – Recent Updates

Several recent changes to the NJEIFP enhance the flexibility and attractiveness of EIT financing to local governments. Key process and programmatic changes include:

Extended Maturities for Long-Term Loans: Maximum loan terms have been extended to **30 years** (not to exceed the useful life of a project) thereby reducing annual debt service payments. For FY2018, the NJEIFP offers financing that consists of a 75% DEP interest-free loan and 25% Trust Loan at the AAA market rate. The Program now offers two annual opportunities for long-term financing (typically in May and November). By financing their project through the Program, an average borrower can save between 40% to 50% of their loan amount in lower interest costs over the life of a 30-year loan. Utilize the [WISE Calculator](#) on EIT's website for individual estimates.

Removal of Submission Deadlines (Rolling Applications): Participants can now apply for and receive short-term project financing from the EIT anytime throughout the year, subject to project certification by the DEP. The Program has the flexibility to address legislative requirements quarterly to facilitate the process.

Fully Automated Web-based Application Process: Online submission and review process (up to and including Construction Review) is now conducted through the [H2LOans](#) portal.

Expedited Review of Equipment Loan Applications: Equipment such as street sweepers, sewer flushing and cleaning equipment, dump trucks, crawler loaders, skimmer boats, aquatic weed harvesters, and outfall netting may be financed under the Program. The NJEIFP's objective is to complete review of equipment loan applications in under 60 days.

DLGS Director Approval of NJEIFP Loans: Section 32 of [P.L. 2015, c.95](#) amended [N.J.S.A. 58:11B-9](#) to have the Division Director approve local government applications for NJEIFP loans rather than the Local Finance Board. As discussed in [Local Finance Notice 2015-23](#), the EIT applications of municipalities, counties, and local authorities (notwithstanding the Fiscal Control Law) no longer come before the Board unless another law requires Board approval (e.g. Qualified Bond Act). This expedites the process as requests are handled directly through the Financial Addendum Form (FAF) process in [H2LOans](#), which are then submitted by EIT to the Director for approval.

Non-Conforming Maturity Schedules and Down Payment Waivers for NJEIFP Loans No Longer Require Local Finance Board Approval: Sections 12 and 33 of [P.L. 2015, c.95](#), respectively, amended the Local Bond Law to 1) eliminate the need for Local Finance Board to approve a non-conforming maturity schedule in connection with an NJEIFP loan; and 2) create an automatic statutory waiver of the 5% down payment requirement for municipal and county bond ordinances that exclusively fund EIT projects.

Short-Term Construction Loans Program: The NJEIFP also provides Short-Term Construction Loans (CLP) for terms up to three full fiscal years to allow for the completion of construction. A CLP acts like a line-of-credit wherein a borrower receives funds for eligible project expenses upon approval of submitted invoices, and as such, only pays interest, if applicable, on funds drawn. For FY2018, short-term financing is offered with 75%-100% funding from the DEP in the form of a zero-interest loan and 0%-25% funding from the Trust in the form of a AAA-rated short-term market rate loan. The construction loan amount can be quickly increased (or decreased) to efficiently cover the full cost of construction, thereby avoiding the additional expense of a supplemental loan, a defeasance, or federal arbitrage requirements. Upon completion of construction, CLPs are termed out through a traditional NJEIFP Loan. NJEIFP also offers Planning and Design (P&D) Loans for up to 100% of eligible costs (environmental docs, designs, specs, legal costs, etc.) at the beginning of the application process to facilitate such activities.

Note: For communities with combined sewer overflow systems (CSOs), P&D loans of up to 10 years are available for the completion and implementation of a Long-Term Control Plan.

Disaster Relief Emergency Financing Program (otherwise known as the Statewide Assistance Infrastructure Loan or "SAIL"): the NJEIFP provides quick access to short-term funding in the aftermath of a declared disaster. SAIL funding alleviates financial stress that could result from

delays in receipt of federal reimbursement. SAIL assists communities with financing as well as with the FEMA reimbursement and compliance processes.

Principal Forgiveness Offered Through FY2018 Set-Asides

Small System Programs: Principal forgiveness funds are available to small systems through a number of innovative programs for both Drinking Water and Clean Water projects:

- a) **Small System Nano-Loan Financing Program (NANO)**: 50% principal forgiveness is available for loans up to \$1 million for small Drinking Water systems (i.e. serving populations less than or equal to 10,000)
- b) **Small Water System Engineering Program** offers 100% principal forgiveness, up to \$500,000, to reimburse engineering and design expenses incurred to comply with the Safe Drinking Water Act; and
- c) **Asset Management Plans**: Small Clean Water and Drinking Water systems are eligible for 100% principal forgiveness, with a cap of \$100,000 per applicant, for the development and implementation of an asset management program that lead to a capital project financed through the NJEIFP.

Coastal Community Water Quality Restoration: 50% Principal Forgiveness, with a cap of \$5 million, is available for projects that eliminate, prevent, or reduce occurrences of shellfish bed and beach closings due to the presence of pathogens.

Lead Service Line Replacement: 90% Principal Forgiveness, with a cap of \$900K per applicant, is available to replace lead pipes and lead components, including mains and service lines in communities whose median household income (MHI) is less than their County's MHI.

CSO-Green and Gray Projects: Enhanced financing opportunities are being offered for both green and gray CSO projects: both eligible for 50% Principal Forgiveness.

Barnegat Bay projects: 50% Principal Forgiveness is available for eligible stormwater and non-point source pollution management projects in the watershed.

The New Jersey Infrastructure Bank

[P.L. 2017, c.144](#), signed by Governor Christie on July 21, 2017, places the Environmental Infrastructure Trust under the newly-created New Jersey Infrastructure Bank (NJIB). The new law creates a new sister agency for local transportation projects, the Transportation Infrastructure Bank, that will join EIT under the larger NJIB umbrella and is in the process of being established. Local governments will be updated on when transportation financing becomes available through the NJIB.

Approved: Timothy J. Cunningham, Director, Division of Local Government Services
David Zimmer, Executive Director, New Jersey Environmental Infrastructure Trust

Document	Internet Address
NJEIT Webpage	https://www.njeit.org/
P.L. 2017, c.71 (WISE Act)	http://www.njleg.state.nj.us/2016/Bills/PL17/71_.PDF
NJEIT WISE Calculator	https://wise.h2loans.com/
NJEIT Online Loan Portal	https://www.h2loans.com/
P.L. 2015, c.95	http://www.njleg.state.nj.us/2014/Bills/PL15/95_.PDF
Local Finance Notice 2015-23	http://www.nj.gov/dca/divisions/dlgs/lfns/15/2015-23.pdf
P.L. 2017, c.144	http://www.njleg.state.nj.us/2016/Bills/S3500/3242_I1.PDF