PUBLIC WORKS ASSISTANCE ACCOUNT

Fund Management Strategy - Using the Accelerated Loan Commitment Model

Q: What is the Public Works Assistance Account (PWAA)?

A: The PWAA, more commonly known as the Public Works Trust Fund, was established in 1985 by RCW 43.155 to be used by the Public Works Board (Board) to finance local government infrastructure loans. The Board has made more than 2,000 loans to more than 780 jurisdictions totaling $2.6 billion. Annually, the PWAA receives more than $100 million in loan repayments and another $45 million from dedicated tax revenue.

Q: How has the PWAA been used in the past?

A: Historically, the Board has approached its lending responsibilities in a very conservative manner by basing loan awards solely on cash received during the biennium in which those loans are approved. On seven occasions, the Board broadened its lending practices by recommending "surging" the available funds in the PWAA to the Governor and Legislature. This surge is created by using the Accelerated Loan Commitment Model (ALCM).

Q: What is the Accelerated Loan Commitment Model (ALCM)?

A: Accelerated lending is the commitment of funds to projects based on the expected availability of funds and the demand for those funds (i.e. cash disbursements) over time.*

Accelerated lending is authorized by the U.S. Environmental Protection Agency for the Drinking Water State Revolving Fund and Clean Water State Revolving Fund. The states of Oregon and Nebraska have effectively used this method for several years to finance infrastructure projects.

The Board has utilized accelerated lending several times. As demonstrated in **Figure 1**, during the construction loan cycles for state fiscal years 1997, 2001, 2003, 2005, 2012, and 2013, the Board recommended projects for funding based on the use of the ALCM. The Board is recommending acceleration for the 2014 construction loan cycle as well.

Figure 1: Historic Use of the ALCM

State Fiscal Year	PWAA Cash Resources (in millions)	+	Accelerated Resources (in millions)	=	**Total (in millions)**
1997	$34.6		$25.0		**$59.6**
2001	$73.1		$93.6		**$166.7**
2003	$13.6		$58.1		**$71.7**
2005	$80.0		$75.0		**$155**
2012	$221.5		$87.0		**$308.5**
2013	$0		$176.8		**$176.8**
2014	$442.1		$159.5		****$601.6**

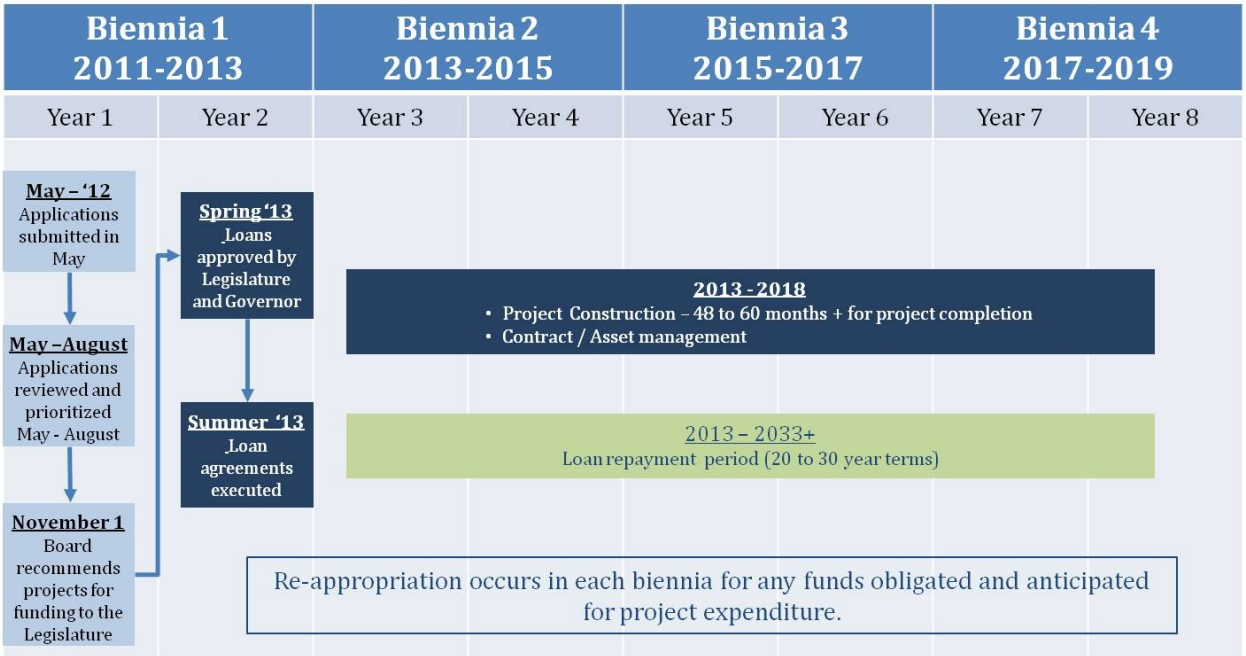
* Source: U.S. Environmental Protection Agency Office of Water, Document 4101

**Includes $350 million for the 2014 PWTF Loan List, $22 million for pre-construction, $5 million for Emergency Loans, $5 million for Energy/Water Efficiency Loans, $5 million for Water System Acquisition & Rehabilitation Grants, $207 million in transfers, and $3 million for administration.

Q: How does the ALCM work?

A: The interval between when a project is recommended for funding and when the project begins to draw loan funds is approximately 10 months. Contributing to this interval is the delay between the Board's recommendation and the Legislature's approval for funding, and seasonal construction considerations. Local governments may then take as long as five years to complete projects and make corresponding loan withdrawals. **Figure 2** illustrates an example timeline of fund withdrawal for a typical project.

Figure 2:
Life of a Public Works Trust Fund Construction Project



During this timeframe, interest earnings and loan repayments from previously issued loans continue to be deposited in the account, creating a healthy cash balance in the PWAA.

The ALCM resources are estimated by a Predictive Model, which uses more than 20 years of historical data to determine the level of funds available for the ALCM. The Predictive Model forecasts funds available based on three factors: expected loan repayments, interest earnings and the deposit of portions of the Real Estate Excise Tax and utility taxes into the PWAA. This Predictive Model was developed in 1994 by Board staff. Since 2007, the Predictive Model has been used by the Office of Financial Management, the Senate Ways & Means Committee, and the House of Representatives Capital Budget Committee. The Predictive Model is also reviewed by the Office of the State Treasurer.

Q: What are the ALCM "safety nets"?

A: The Board incorporates several "safety nets" in using the ALCM:

- Contractual limit in all borrowing agreements to the disbursement of funds contingent on availability
- Conservative design of the predictive model
- Limited disbursement of loan funds (based on reimbursement rather than advance payments)
- Careful monitoring of cash balances in the PWAA
- Enhanced underwriting of borrowers