

# CIFA 2014 SRF Workshop

## Cash Flow Modeling & Leveraging



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# Using Cash Flow Modeling and Leveraging to Achieve SRF Goals

- Minnesota uses both cash flow modeling and leveraging for its CWSRF and DWSRF
- Goals:
  - Maximize current lending based on loan demand while maintaining capacity to address future needs
  - Make SRF loans available to cities of all sizes
  - Make SRF funding predictable for cities planning future projects

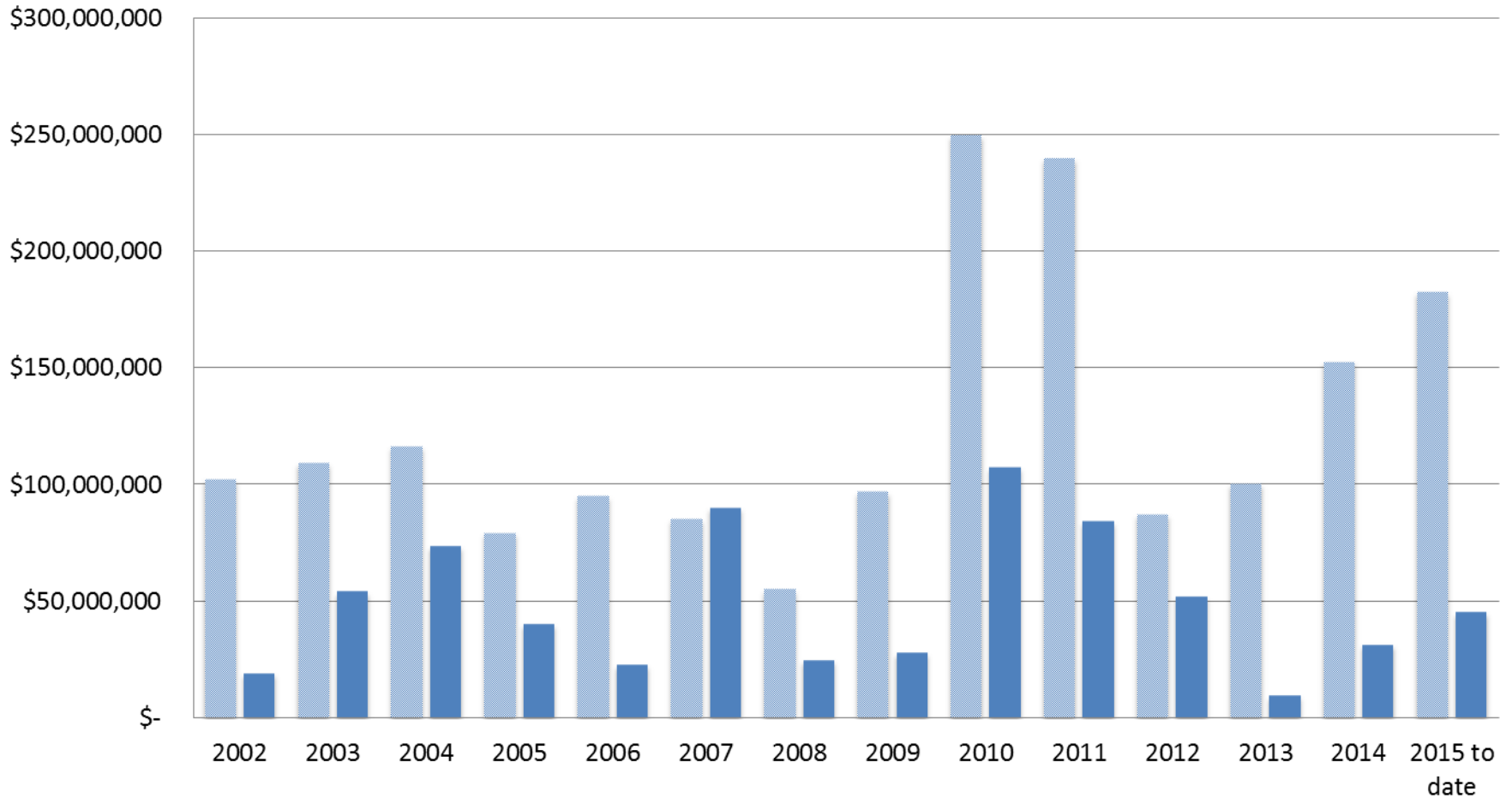
# Cash Flow Analysis

- Revenues and expenditures from existing loans
  - Expenditures: loan disbursements (1-3 years)
  - Revenues: predictable loan repayment stream
- Other assets and liabilities
  - Interest earnings
  - Bond debt service payments (leveraged programs)
- Cash flows from projected future activity based on certain assumptions, including:
  - Annual lending level
  - Future capital contributions,
    - i.e., cap grants and state match (be conservative)
  - Market rates and loan subsidy levels

# Cash Flow Modeling

- We have developed a financial model that uses cash flow data to test the impact of various assumptions
- Determine the level of annual lending (CAPACITY) that could be supported long-term (in perpetuity) under these assumptions
  - Baseline capacity – no new capital contributions
  - Target capacity – reasonable lending level assuming continued federal and state support
- Evaluate lending capacity vs. demand and test various funding scenarios to inform program management decisions, such as IUP sizing

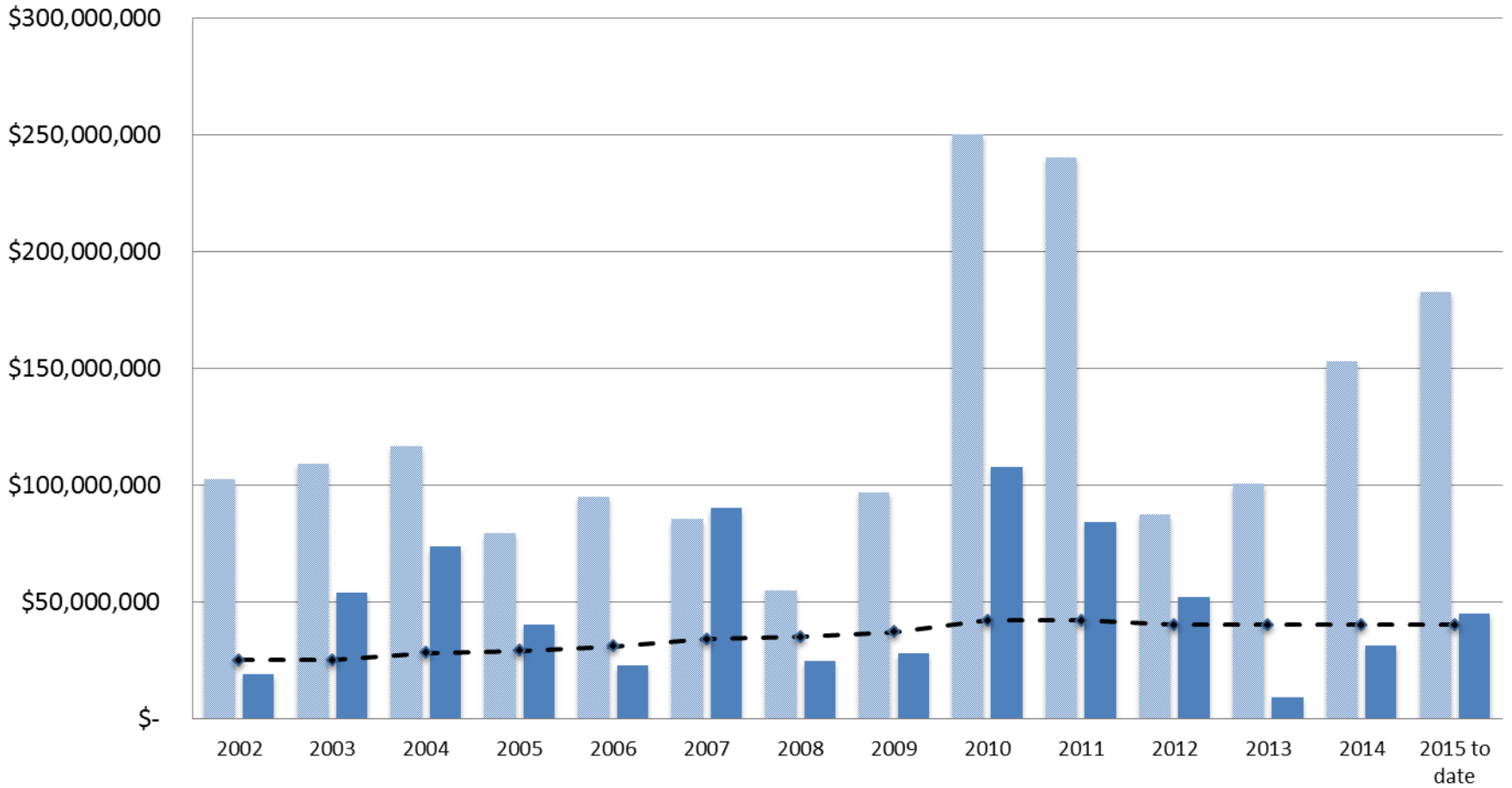
## DWSRF Loan Demand vs. Loan Commitments



IUP Fundable Range (loan requests)

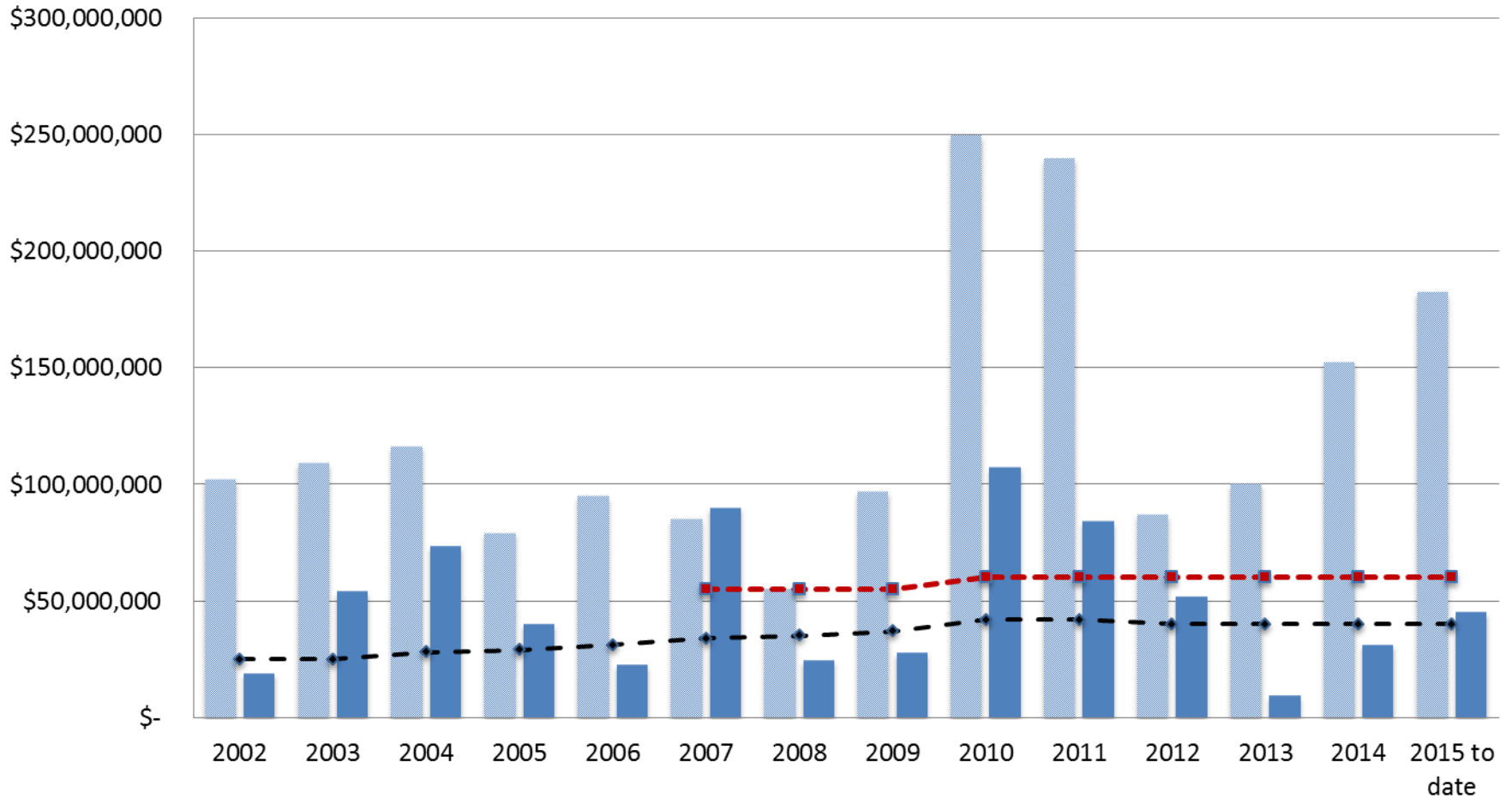
Loan Commitments

# DWSRF Loans vs. Lending Capacity



IUP Fundable Range (loan requests)    Loan Commitments    Baseline Lending Capacity

# DWSRF Loans vs. Lending Capacity



IUP Fundable Range (loan requests)

Loan Commitments

Baseline Lending Capacity

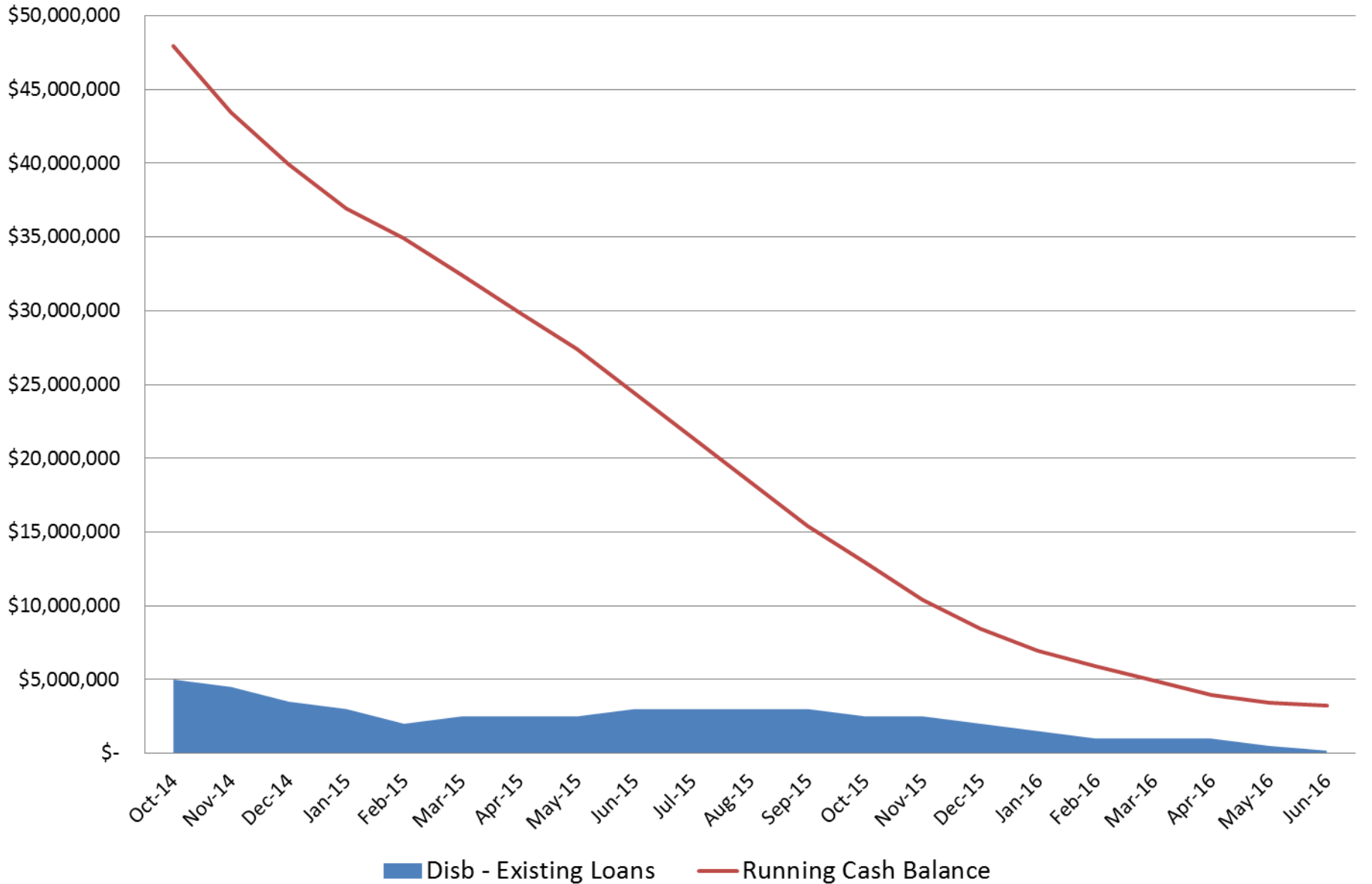
Target Lending Capacity

# IUP Fundable Range

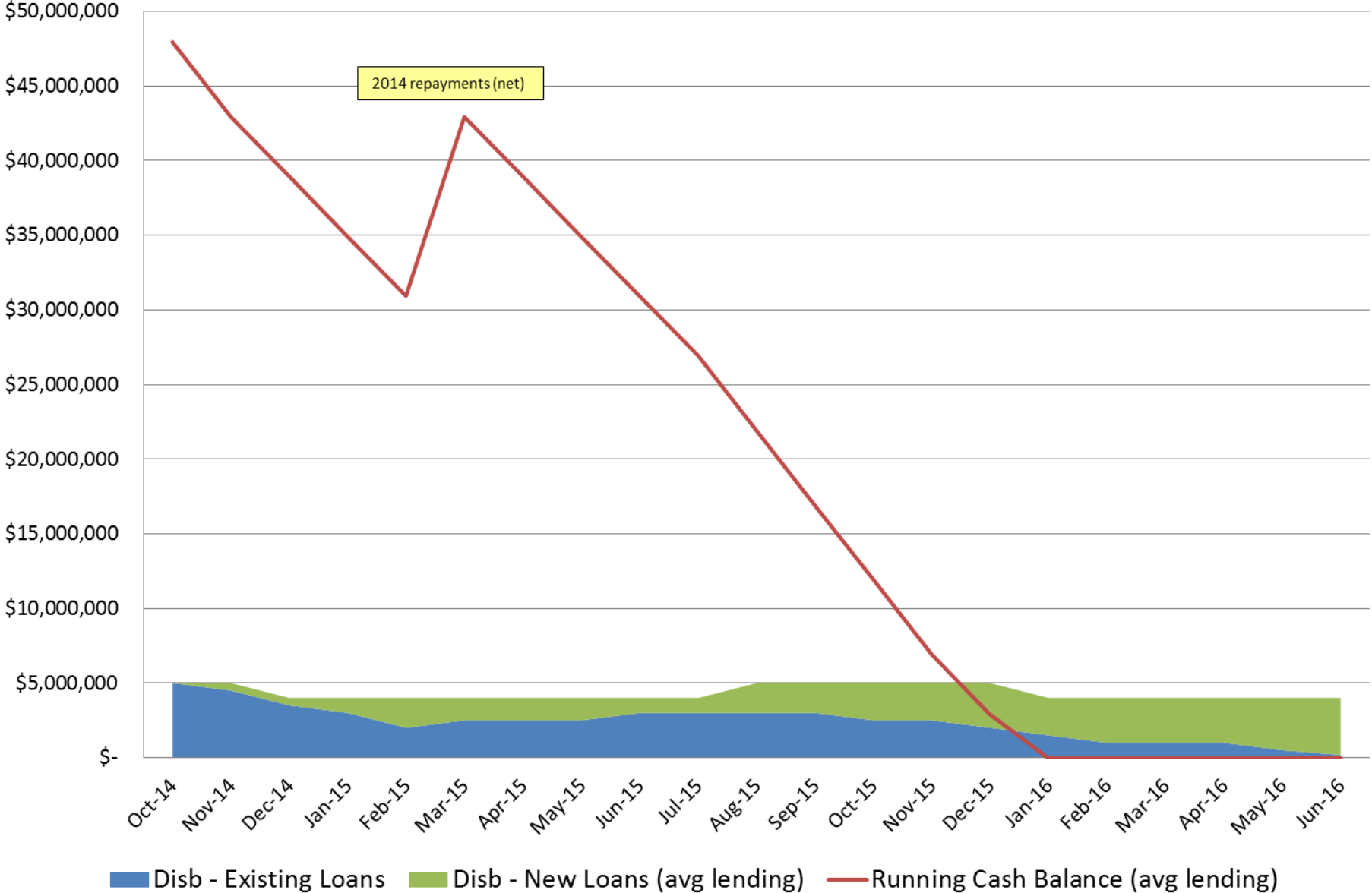
- Annual IUP fundable range – consider both loan demand and SRF lending capacity
  - Approved IUPs usually have fundable range 2-3 times greater than baseline lending capacity
  - Generally <50% of requests actually make it to construction and receive a loan by the end of the year
  - If more than expected go to construction, we know from cash flow analysis (and possible leveraging) that we can meet all loan commitments
- If necessary, we can adjust IUP fundable range in a future year
  - However, our goal is to maintain consistency from year to year as much as possible to provide predictability for cities



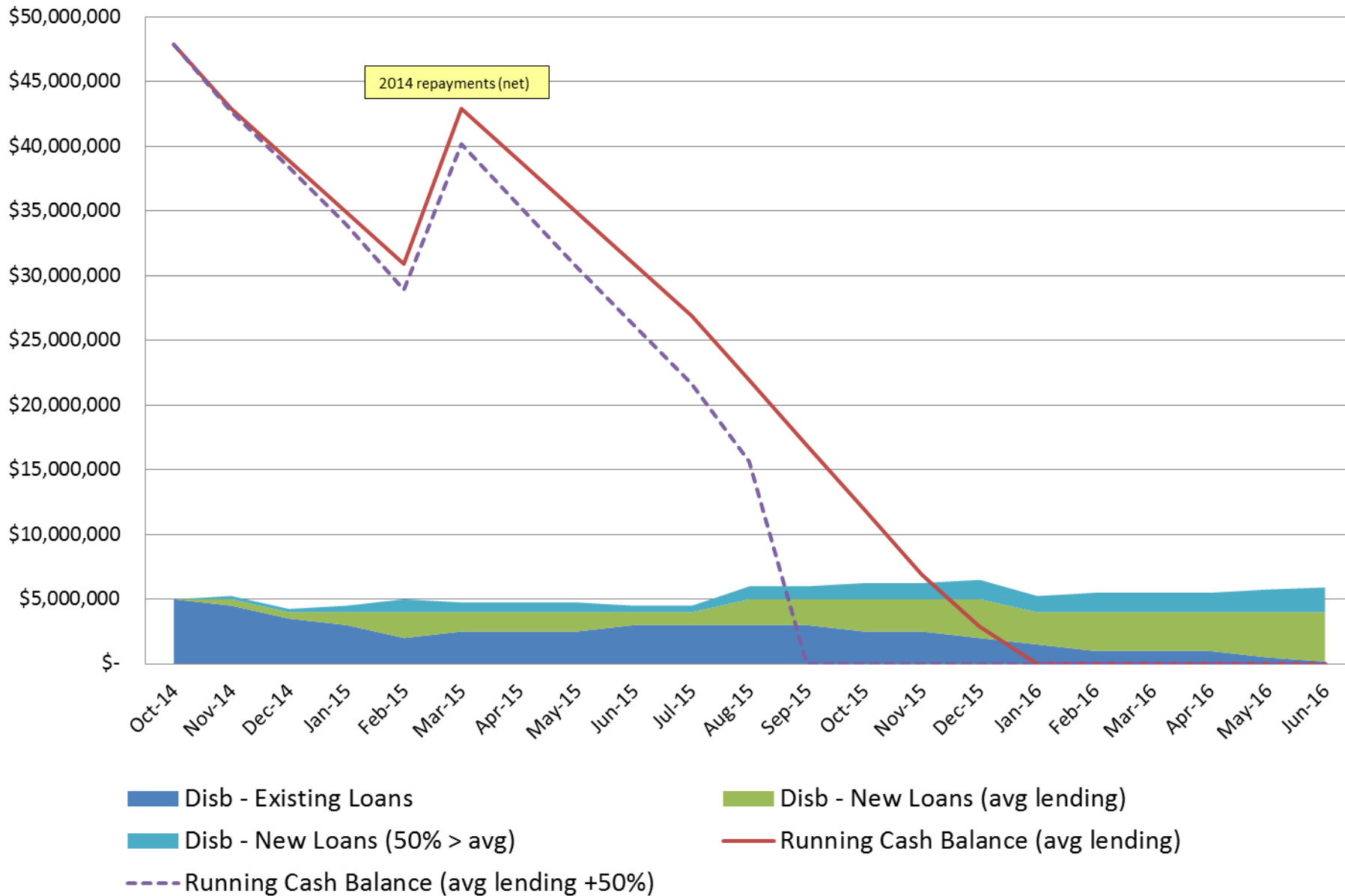
## Current DWSRF Cash Balance vs. Estimated Disbursements for Existing Loans



# Projected DWSRF Cash Balance vs. Estimated Disbursements for Existing and New Loans (average lending)



## Projected DWSRF Cash Balance vs. Estimated Disbursements for Existing and New Loans (average lending +50%)



# Leveraging

- Use 20+ year repayment stream to generate additional cash now to increase lending to meet current demand
- Allows flexibility to upsize IUP without knowing for sure how many projects will actually proceed
- Developing legal authority and structure to issue bonds may take significant time
  - Master bond resolution
    - Open pool structure – all loans pledged to all bonds
- Once legal structure is in place, actual bond sales are timed to meet cash flow needs

## Projected DWSRF Cash Balance (with leveraging) vs. Estimated Disbursements for Existing and New Loans (avg lending + 50%)

