SPOTLIGHT

RHODE ISLAND INFRASTRUCTURE BANK: A GREEN BANK WITH SHADES OF BLUE

INTERVIEW WITH JEFFREY DIEHL, EXECUTIVE DIRECTOR AND CEO OF RHODE ISLAND INFRASTRUCTURE BANK

Rhode Island Infrastructure Bank (RIIB) is the newest member of the Green Bank Network. RIIB has a somewhat broader environmental focus than traditional green banks. Green banks typically seek to catalyze private investment in clean energy or energy efficiency projects, using such techniques as credit support, subordinated debt and equity investments, aggregation and securitization, and demonstration projects. RIIB departs from this model in two principal respects.

First, RIIB has historically interacted with a different set of actors: municipalities rather than private institutions. While it accesses funds from the private sector, it does this by issuing revenue bonds—predominantly through the green bond market—or sometimes by borrowing from private lenders. Other green banks may also transact with municipalities but generally not with the same degree of focus as RIIB.

Second, RIIB is very active in other areas of infrastructure finance beyond clean energy, mainly in the water and transportation sectors. It administers the financial side of Rhode Island's Clean Water and Drinking Water State Revolving Funds.

To be sure, RIIB also engages in some more traditional green bank activities. It administers a C-PACE program, with funding provided by private lenders. It also runs the Efficient Buildings Fund, which makes loans to finance clean energy and energy efficiency projects for public entities including municipalities, quasi-state entities, and public universities and colleges.

Finally, RIIB administers other environmental infrastructure finance programs focused on brownfields remediation, septic system repair or replacement, and septic-to-sewer system conversions.

We spoke with Jeffrey Diehl, Executive Director and CEO of RIIB, about the bank's approach to state revolving fund financing and its broad overall scope.

RIIB has an impressive scope in funding different types of projects: water, roads and bridges, energy-efficient buildings, C-PACE, septic systems and sewers, and brownfields remediation. How did you end up with such a broad and varied portfolio?

This year we are celebrating RIIB's 30th anniversary. The bank was originally set up as the Clean Water Finance Agency (CWFA) to manage the Clean Water State Revolving Fund. It was created as a financing agency to administer the lending component of the program separate from the Department of Environmental Management (DEM), which was tasked to administer the technical side. When the Drinking Water State Revolving Fund was created, the agency administered the lending portion of that function as well, in partnership with the Department of Health (DOH) on the technical side. Thus, DEM and DOH set the technical criteria for funding and created funding project priority lists, and CWFA administered the finance side.

When the Drinking Water SRF was added, it made to sense to run the finance side of that program in the same place as the Clean Water SRF given the significant similarities

of the two programs. The state's Municipal Road and Bridge program was modeled on the successful water SRFs and added to the CWFA's suite of infrastructure finance programs. When the municipal energy program (Efficient Buildings Fund) and brownfields revolving fund programs were in development, the question was asked: "Where should we house these programs?" Rather than create a new agency, it was felt that the success CWFA had demonstrated in managing the water SRFs and the road and bridge program could be translated into establishing and managing the energy and brownfields programs. The CWFA's mandate was expanded, and it was renamed Rhode Island Infrastructure Bank.

Let's talk about the Clean Water and Drinking Water SRFs. How do you approach the funding under these programs?

RIIB has always leveraged these programs. We lend at a formula based on the borrower's rating and then provide an interest rate reduction of 33 percent from the market cost of funds for the clean water program and 25 percent for the drinking water program. We are the number one state program in terms of leverage for clean water and in the top three-to-five on drinking water. Part of the way we create so much leverage is that our lending formula is based on market rates, not just giving the same rate to everyone. We issue revenue bonds secured by a broad pool of loans to the local municipalities and their enterprises. Our bond rating for the water SRF programs is AAA, higher than the credit rating of the state and most of its municipalities. There are other features that help us get a high rating. If any of the loans to the municipalities were to default, then, if necessary, the other loans securing the revenue bond would revert to the original market rate. This gives additional credit support from the bondholder's perspective. But, in fact, we have never had a default on the loans in our water SRF portfolio.

Other aspects of the program provide some additional comfort to bondholders. The loans are diversified across different municipalities. If a community gets into financial difficulty, the state gets involved early and can appoint a financial adviser who is responsible for overseeing the community's financial affairs. In theory, the financial adviser could intercept state funds before they get to the community, but it never actually has come to that.

Lending at a market-related rate, albeit subsidized, for each municipality, combined with program capital allows the bank to maximize the program leverage. The program also benefits from the AAA rate. The clean water and drinking water bonds are cross-collateralized so each can use recycled capital from the other program, at least temporarily, to make payments to bondholders if necessary.

In total, we have over $1.5 billion of water-related assets, about two-thirds debt-financed. We also lend our SRF capital. Since the SRF capital is contributed to the program on a cost-free basis, we can use the interest on the loaned capital to subsidize the debt service on the bonds. Also, pooling loans into one bond deal gives the municipalities economies of scale; for example, the fixed costs associated with issuing bonds in the market are spread over a number of loans. And, of course, the pooling and coverage ratio allow us to achieve the AAA rating, which, as noted above, is a further benefit to the program.

How do you get projects? Are you satisfied with your volume?

The agency with technical expertise, DEM for clean water and DOH for drinking water, establishes the project criteria and creates project priority lists. We fund the projects applying for loans in the order set forth on these lists. While we could certainly finance more projects if we had more capital funding, we are at a pretty good balance at present. In any event, we have a very large, multi-year project in the pipeline, the Narragansett Bay Commission's third and final phase of a combined sewer overflow project.

INTEGRATING CLEAN ENERGY AND RESILIENCE INTO WATER INFRASTRUCTURE

RIIB has financed wastewater treatment projects that incorporate clean energy into their operations. A water treatment facility on Narragansett Bay used the bank's Clean Water State Revolving Fund (SRF) to finance three on-site wind turbines. These turbines produce enough electricity to satisfy approximately 60 percent of its annual electricity needs. When the city of Newport was looking to make resiliency upgrades to a wastewater treatment facility to handle increased wet-weather events, the city looked to the bank for a financing solution. The city also wanted to add a solar component to the project but had a limited budget within its Clean Water borrowing authorizations. The bank suggested that the city use two of the bank's financing programs to complete the project. By using the Clean Water SRF for the wastewater-related components and the Efficient Buildings Fund to finance and complete the solar investment, the city was able to complete both projects with a limited budget. In November 2018, the state's voters passed a Green Economy and Clean Water bond ballot initiative that will provide critical state match funding for the bank's SRFs while also adding $5 million in grant funding for resiliency projects at wastewater treatment facilities.

Turning now to the broad scope of projects that you fund, how do you go about offering your product line to the various Rhode Island municipalities?

We have actually changed our approach. Originally, our separate programs were each run by a different program manager who did everything for that particular program. The programs were extremely similar but operated slightly differently because they were managed by different individuals. When our mandate was expanded, we realized that the customers for the different programs were really all the same customers, municipalities and their enterprises! So we reorganized ourselves a few years ago to be customer-centric rather than program-centric. We undertook to have more proactive engagement with our communities in a way that focused on their needs—asking, for example, "How can we deliver financing programs to you in a way that works for you?"

Let's take the recent increased investment in school infrastructure as an example. Schools have energy, stormwater management, and water conservation needs, among others. They can carve out aspects of their projects and finance them through our programs and save the school district a lot of money in interest cost by utilizing our below-market financing programs to finance part of the project, while still retaining access to other subsidies and incentives. We can save them money and we can also raise resilience, energy efficiency, and other, similar issues with them as part of the conversation. In other words, we are trying to change the thought process around financing large infrastructure projects by disaggregating the project into its components and financing these components in the most cost-advantaged way.

As another example, a state road in one of our towns is closed several times a year due to flooding as a result of severe weather events. The state has plans to repave the road in the coming years as part of a larger improvement cycle. Of course, a road in the Northeast that is subject to frequent flooding requires more frequent repair. Coincidentally, a local water company needs to remove a dam that is upstream from a culvert running under this road. Removal of this dam is necessary to improve water quality in the reservoir behind the dam by increasing water flow to reduce stagnation. However, to accommodate the increased water flow resulting from the dam removal, the size of the culvert must be increased, which means the road must be raised to accommodate the larger culvert. Raising the road will increase its resiliency to flooding as a result of weather events and decrease maintenance in the future. This project will solve a number of issues including water quality and road infrastructure resiliency.

This project will be financed through a number of sources including grants, water SRF finance, and state and federal road money. There will be Clean Water SRF money to remove the dam, there may be SRF money to do some of the river buffer and watershed work around where the road is elevated, and there will be state and federal money to elevate the road and increase the size of the culvert. A number of parties are involved in the project including the town, state DOT, DEM, DOH, and the bank, as well as a number of other stakeholders. Rather than approaching this project in its components, we quarterbacked the process, bringing all the parties to the table at once to solve a complex and interconnected project with significant environmental and economic impacts. Our role as a provider of finance, rather than a combined regulator and finance provider, can assist us in mediating the various parties involved in such complex projects.

In the past, our customers (the municipalities) were not completely aware of the full breadth of our financing programs nor how they might be utilized to solve their infrastructure needs. By proactively engaging with our customers about their short-, medium-, and long-term infrastructure needs, we are able to deliver a combined suite of financing across a municipality's different projects. This strategy has already borne fruit: In this fiscal year, we will experience a record year of lending to municipalities, totaling $160 million, more than we did over the last two years combined. More than 30 percent of this is what we call "new business"—that is, new customers or existing customers using new programs.

PILOT PROJECT FOR LEAD SERVICE LINE REPLACEMENT

RIIB has a pilot project with Providence Water, a local water utility, to provide interest-free loans to homeowners for lead service line replacements. Providence Water is responsible for managing the system's water mains and lines, but it is the homeowner's responsibility to replace his or her lead service lines. The utility had a pilot program under which it would provide its customers with an interest-free loan to replace lead service lines at individual properties. The bank worked with Providence Water to increase the amount available and is providing a $1 million interest-free loan to the utility to expand the lead service line replacement program. Homeowners can now get three-year interest-free loans from Providence Water in the amount of $3,000 to $12,000 to fund the replacement work.

What aspects of your approach do you think are replicable by other states?

We think a lot of this is replicable across the states. For example, separating the financing agency from the technical agency can be done in other states, subject to local political considerations.

Ideally, you can establish or expand a financial agency that encompasses local transportation, energy, water, brownfields, and other municipal financing needs. To the extent possible, you'd provide funding that is fungible across all of these needs, although the water SRFs do have limitations on use of capital. By funding across different areas, you could build incentives for stormwater management and resiliency into the road and bridge program, you could integrate more energy discussions into the drinking water and clean water projects, and so on.

The creation of the Rhode Island Infrastructure Bank has been progressive, and in retrospect it makes a lot of sense. We are a centralized hub of local infrastructure finance. It all started with a decision 30 years ago to put the finance side of the Clean Water SRF into a separate agency. This decision and the successful execution of the water SRF programs set the stage for where we are now. Other programs arose from the same SRF model. We are taking it to the next level by combining the different programs into an infrastructure financing suite.

We don't see ourselves as just the money guys, but rather have the capacity to approach the financing in an integrated way and create efficiencies while promoting resilience, energy efficiency, stormwater planning, and the like as a result.

Interviewer: Roger Baneman, NRDC

The interview has been edited for publication.

GREEN BANK NETWORK

The Green Bank Network's Spotlight highlights the GBN's newest member.

The Green Bank Network (GBN) is a membership organization managed by NRDC and the Coalition for Green Capital that was founded in December 2015 to foster collaboration and knowledge exchange among existing Green Banks, enabling them to share best practices and lessons learned. The GBN also aims to serve as a source of knowledge and a network for jurisdictions that seek to establish a Green Bank. The GBN members are the Clean Energy Finance Corporation (Australia), Connecticut Green Bank (U.S.), Green Finance Organisation (Japan), Green Investment Group (UK), GreenTech Malaysia, NY Green Bank (U.S.), and Rhode Island Infrastructure Bank (U.S). Visit us at greenbanknetwork.org/about-gbn.

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