Safeguarding Tomorrow through Ongoing Risk Mitigation Revolving Loan Fund Program – Financial Management and Analytics

The Safeguarding Tomorrow through Ongoing Risk Mitigation Revolving Loan Fund (Safeguarding Tomorrow RLF) program provides capitalization grants to entities to establish a revolving loan fund. This document offers entities some financial management best practices and tools for managing and monitoring the financial health of a revolving loan fund program.

Maintaining Long Term Health of the Fund

The intent of the Safeguarding Tomorrow RLF program is to provide capitalization grants to entity loan funds to create a steady and lasting funding source for local hazard mitigation projects. Ultimately, entities should choose the management and analytical tools best suited to their capacity, resources, and needs. This may include partnering with or learning from other entity agencies that effectively manage a revolving loan fund.

Financial Management

Financial management practices can help an entity maximize the loan fund. There are several recommended best practices to ensure the fund's health and survival.

SOURCES AND USES OF ASSETS

Keeping track of where the assets come from and how they are used gives an entity a basic understanding of how funds move in and out of the loan fund. Money can come from different sources like capitalization grants, entity match, bonds, loan principal repayments, and investment earnings. These funds can be used for administrative costs, fund disbursement, capital projects, and bond service debt. A table outlining these sources and uses should be included in the Intended Use Plan.

Revolving loan funds usually grow through interest repayments and additional funding. Since interest is optional for the Safeguarding Tomorrow RLF program, entities are encouraged to plan to increase money to support the growth of their fund. This can be done through setting aside money in their budget and submitting future Safeguarding Tomorrow RLF grant applications.

BONDS AND LEVERAGING

Issuing bonds can increase the funds in an entity loan fund. Some entities in the Safeguarding Tomorrow RLF program plan to use bonds in the future to increase how much money they can lend. However, creating and managing a bond program is complex, and the program requires entities to award loans up to the amount of the capitalization grant, minus administrative and technical costs, within the two-year Period of Performance of the grant. Entities may find it more beneficial to wait until loans have been repaid and the fund size has increased. The tools and techniques for financial management and monitoring discussed later are especially important when dealing with bonds to ensure continued access to the bond market.

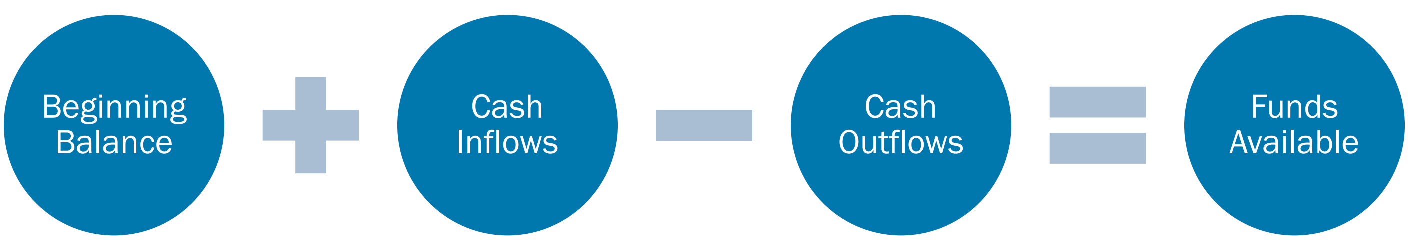
Analytical Tools and Methods

There are multiple tools and methods for financial management that can help entities use both current and historical operational data to make plans.

CASH FLOW MODELING

Financial models, such as cash flow modeling, can help entities see how their decisions about fund management will affect their finances over time and answer questions about future lending. Cash flow modeling gives entities a view of their current available funds and predicts how much money will be available in the short and long term (see Figure 1). Understanding the availability of funds helps entities avoid having unspent funds and supports the overall health of the fund. Cash flow modeling allows entities to assess the potential of using additional funds by pinpointing when it might be necessary to do so to meet cash flow needs. Examples of financial models used by participating entities include scenario-based, asset-liability, and capacity planning models. Scenario-based models estimate changes in cash flows by looking at different possible outcomes. Asset-liability models focus on the timing of cash flows to ensure there are enough assets to cover liabilities. Capacity planning models give an idea of available capacity, whether using additional funds is possible, and debt service coverage projections.

Figure 1. Cash Flow Model



ADDITIONAL ANALYTICAL TOOLS

Entities should use the tools and methods that work best for them and should make use of their existing financial analysis capabilities. Trend analyses are a valuable tool to help entities monitor the long-term health of the fund. Trend analyses show how specific indicators have changed over time and can provide entities with an understanding of whether certain changes to fund management policies were effective. Entities should clearly explain all financial tools, analyses or models used to assess the health of the fund in their Intended Use Plan.

Intended Use Plan Example Language: The Entity Infrastructure Bank, together with all entity agency partners, will implement a capacity planning model. This planning tool provides a relevant framework for decision-making and provides a high-level capacity projection within a given set of assumptions. While not expected in the early implementation of the Revolving Loan Fund, the Entity Infrastructure Bank can issue bonds to leverage the portfolio to increase capacity. Major inputs, assumptions and outputs are highlighted in Table 2 below.

Table 2. Example Capacity Planning Framework

Inputs and Assumptions	Outputs
Actual Application Requests	▪ Capacity Indication
Future Project Loans	▪ Capacity Indication
Loan Subsidy and Terms	▪ Capacity Indication
Loan Draw Timing	▪ Leverage (Go/No-Go)
Level of Additional Subsidy	▪ Leverage (Go/No-Go)
Federal Capitalization Grants	▪ Leverage (Go/No-Go)
State Match Requirements	▪ Debt Service Coverage Projections
Existing Loan Repayments	▪ Debt Service Coverage Projections
Bond Payments	▪ Debt Service Coverage Projections
Infrastructure Bank Borrowing Rates	▪ Perpetuity (Continuous) Test Results
Infrastructure Bank Investment Rates	▪ Perpetuity (Continuous) Test Results
Reserve Fund De-allocations	▪ Perpetuity (Continuous) Test Results

Entity Loan Fund Monitoring and Oversight

Oversight of the entity loan fund is important when evaluating performance, and the program includes specific reporting processes to ensure effective monitoring and evaluation. These include Quarterly Progress Reports, Annual Audits, Biennial Audit Package, Post Period of Performance Reporting. Additional information on these documents and reporting requirements will be provided on the Safeguarding Tomorrow RLF webpage.

QUARTERLY PROGRESS REPORTS

Entities need to provide updates to FEMA every quarter through the system of record, sharing financial information about the loan fund and details about individual loans issued. For the first years of the program, the system of record is ND Grants.

ANNUAL AUDIT (SINGLE AUDIT REPORT)

This is a full financial and compliance audit that is mandatory for entities that spend $750,000 or more from all federal funding sources during the fiscal year.

BIENNIAL (TWO-YEAR) AUDIT PACKAGE

This is a program-specific report submitted to FEMA through the system of record every two years that includes the Federal Financial Report SF-425 and financial details such as assets, liabilities, revenue, expenses, and cash flow statements. Submission of these audits is triggered by the entity receiving loan repayments and is due on the last day of the second fiscal year after loan repayments begin. For example, if loan repayments begin in Jan. 2025, the first biennial audit would be due Sept. 30, 2026.

POST PERIOD OF PERFORMANCE REPORTING

After the Period of Performance ends, entities must submit a closeout report to FEMA through the system of record. This report includes financial information, such as SF-425, and a final request for payment. FEMA also requires entities to calculate key financial performance measures through the reports discussed above. The below table provides an overview of financial performance measures and the reporting tool.

Table 3. Safeguarding Tomorrow RLF Financial Performance Measures

Financial Performance Measure	Performance Report Type
Executed Loans as a Percent of Funds Available	▪ Quarterly Progress Reports
Disbursements as a Percent of Executed Loans	▪ Quarterly Progress Reports
Delinquency Ratio	▪ Biennial Audit

Grant Payback Obligation

A grant payback obligation means that there are situations where the entity must repay some or all the grant money. These rules are set up to make sure that the grant funds are used for their intended purposes and that the recipient follows the rules of the grant agreement. Here are some common scenarios in which grant payback obligations may apply:

- Non-compliance
- Misuse of funds
- Early termination
- General change in circumstances

FEMA will work with the entity to resolve any issues that may come up to avoid a grant payback obligation.

Additional Information

FEMA continues to engage stakeholders and incorporate best practices learned to inform future funding opportunities and ensure the long-term viability and success of the program at all levels. For additional information and resources, visit the Safeguarding Tomorrow RLF webpage.