

Infrastructure Funding Alternatives

for Municipal Utilities



Agenda

- **Current revenues and reserve funds**
- **Public Funding Programs**
- **Private Funding Options**
- **Alternative Design & Delivery Models**

Michigan's Funding Gap

While the nation's infrastructure earned a "D+" in the *2017 Infrastructure Report Card*, Michigan faces infrastructure challenges of its own.

For example, drinking water needs in Michigan are an estimated \$13.8 billion, and wastewater needs total \$2.07 billion.

Delaying these investments escalates the cost and risks of aging infrastructure.



When communities write a check for a large infrastructure project, the funds come from one of three places:

1. Current revenues and reserve funds

2. Public Funding Programs

- SRF (State Revolving Fund)
- DWRF (Drinking Water Revolving Fund)
- SWQIF (Strategic Water Quality Initiatives Fund)
- USDA (US Dept. of Agriculture)
- SAW (Storm water, Asset Management, and Wastewater)
- WIFIA (Water Infrastructure Finance Innovation Act)

3. Private Funding Options

- GO Bonds (General Obligation)
 - Revenue Bonds
 - ACT 99 IPA (Installment Purchase Agreements)
 - TELP (Tax Exempt Lease Purchase)
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Reserve Funds

Pay as You Go

- More effective for larger utilities with large revenues.
- Difficult for smaller communities with very limited revenue potential.

**MAYBE MONEY DOESN'T
BUY HAPPINESS,**

**BUT I'M ACCEPTING
DONATIONS TO TEST
THAT THEORY.**

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Public Funding Programs

SRF

(State Revolving Fund)

DWRF

(Drinking Water Revolving Fund)

USDA

(US Dept. of Agriculture)

SAW

(Storm water, Asset Management,
and Wastewater)

WIFIA

Water Infrastructure Finance &
Innovation Act



Revolving Funds

Public Funding Programs

State Revolving Fund (SRF)

- Planning, design and construction of wastewater projects.
- Qualifications Based Selection
- Principal Forgiveness
- FY2017 - \$191M @ 2.5% Interest

Drinking Water Revolving Fund (DWRF)

- Planning, design and construction of water supply projects.
 - Fire protection water projects do not qualify
 - FY2017 - \$63M @ 2.5% Interest
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Strategic Water Quality Initiatives Fund (SWQIF)

Public Funding Programs

- Provides loans for work on failing on-site systems or work to remove stormwater or groundwater from sewer leads.
- Projects which are designed to reduce or eliminate the amount of groundwater or stormwater entering house leads are eligible for SWQIF funding.
- May provide financing for the construction of needed water pollution control facilities that cannot qualify for SRF.

Water/Sewer Programs (WEP)

- Service area less than 10,000 population.
- Direct Loans and Grants may be used for new systems, rehab of existing systems, and storm sewer separation.
- 3 tiers of interest rates based on MHI (2.00% - 3.375%)
- Up to a 40 year term

Predevelopment Planning Grants (PPG)

- Funding Limit - \$25,000 or 75% of the project cost, whichever is less.
 - Restricted to communities with MHI below \$41,678
 - Funds cannot be used to pay for work already completed.
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Storm water, Asset Management, and Wastewater (SAW) Public Funding Programs

- Asset management or stormwater plan development
- Testing and demonstration of innovative wastewater and stormwater technologies
- Stormwater treatment project planning and design
- Sewage collection and treatment project planning and design
- Planning and design of a SRF or SWQIF project
- FY18: \$62M Requested in State Budget

21st Century Infrastructure Commission

- SAW 2.0 recommended for 5 years - \$400M sanitary/storm, \$350M drinking water

Water Infrastructure Finance Innovation Act (WIFIA)

Public Funding Programs

- \$5 million - minimum project size for communities of 25k or less
- \$20 million - minimum project size for large communities
- 49%: Maximum portion of project costs that WIFIA can fund.
- Total federal assistance can't exceed 80% of a project costs
- Up to 35 year term
- Interest rate equal to or greater than the [U.S. Treasury rate of a similar maturity](#) at the date of closing.
- Projects must have a dedicated revenue source
- [NEPA](#), [Davis-Bacon](#), [American Iron and Steel](#)

Private Funding Options

GO Bonds
(General Obligation)

Revenue Bonds

ACT 99 IPA
Installment Purchase Agreements

TELP (*NEW*)
(Tax Exempt Lease Purchase)



General Obligation & Revenue Bonds

Private Funding Options



- Does not permit the financier to establish a security interest in the installed equipment, which requires a full term obligation from the local government entity
 - Is considered a limited tax, general obligation and may require the entity to raise taxes to meet their obligations
 - No specified term limit but generally around 20 years
 - The total principal amount of the bonds, at no time, shall exceed 5% of the total state equalized valuation of the combination of governmental units comprising the authority
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ACT 99 Installment Purchase Agreement (IPA)

Private Funding Options



- Does not permit the financier to establish a security interest in the installed equipment, which requires a full term obligation from the local government entity
 - Is considered a limited tax, general obligation and may require the entity to raise taxes to meet their obligations
 - Limited to a maximum term of 15 years
 - Limited to 1.25% of the taxable value of the real and personal property in the local government entity
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Tax-Exempt Lease Purchase (TELP)

Private Funding Options



- Subject to annual appropriations due to the financiers ability to perfect a security interest in the equipment installed
 - No covenants to raise taxes because the lease is subject to annual budget appropriations
 - Can finance up to 20 year term
 - Can be cancelled in a non-appropriation event
 - Has been used with the City of Marquette, MI to finance advanced metering infrastructure
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Options Summary

Private Funding Options

	TELP	GO/Revenue Bond	Act 99
Approval	Resolution of board / council	Voter referendum*	Resolution of board / council
Obligation	1-year lease w/ annual renewals	Full-term	Full-term
Funding	Annual budget appropriation	Covenant to raise taxes	Not to exceed 1.25% of taxable value of real and personal prop.
Cancellation	Can be cancelled if not approp.	Can not be cancelled	Can not be cancelled
Prepayment	In whole any time for 102-104%	No "call" for 10 years, then 102%	No Call for a per., then 102-104%
Issuance	Private placement	Public offering	Private Placement
Closing	4 weeks or less	12 weeks	4 - 6 weeks
Term	Not to exceed 20 years	Generally up to 20 years	Not to exceed 15 years

* Some states allow Local Governments to issue GOBs without voter approval: e.g. Illinois, Wisconsin, Tennessee.

Additional Design and Delivery Models

P3

(Public Private Partnership)

PPA

(Power Purchase Agreement)

CPPC

(Contingent Payment Performance Contracting)

PC

(Performance Contracting)



Additional Design & Delivery Models

Private Funding Options

- **Public Private Partnership (P3)**
 - Third party ownership where private entity will manage the life-cycle of the asset (including O&M, R&R)
 - Not widely used in US but gaining popularity as enabling legislation is introduced
- **Power Purchase Agreement (PPA)**
 - Third party ownership with local entity only responsible for paying based on the alternative energy produced
- **Contingent Payment Performance Contracting (CPPC)**
 - Local entity only pays for the savings they receive from the installed equipment and has the right to directly offset their payment if savings aren't achieved

Additional Design & Delivery Models

Leverage Any Funding Option

Performance Contracting (PC)

- Alternate design & delivery method with guaranteed outcomes such as project costs & system performance
- Enabling legislation allows local units of government to fund projects through:
 - Energy savings & Operational savings
 - Available Grants & Rebates
 - Future revenue
- Can be funded by any previously covered funding vehicle



Questions



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