Alternative Funding Sources: Realizing Solutions Starts at the Local Level

By Greg Baird

Rapid increases are inevitable, but can be made a bit more palatable if leveraged by or combined with alternative funding sources. The process includes doing all you can at the local level, reviewing and qualifying for any state aid, and pursuing the federal government’s resources — then many times returning back to local efforts. Projects may need to be subdivided with various scopes modified to meet any special funding purposes or requirements. Creativity and coordinated planning is the key and timing is everything.

Local Efforts

The preliminary step of investigating funding sources of any kind is to first internally scrutinize the capital infrastructure plan and current procurement policies and address the following questions:

- Can your capital need be reduced or adequately shifted based on asset management prioritization and financial planning best practices?
- Is there a scenario that would allow for regional cost sharing agreements?
- Are the infrastructure plans vetted against realistic growth and capacity needs?
- With your underground pipe costs nearly 60 percent of the total, are your procurement policies updated to include non-metallic pipes and fittings that meet AWWA standards — such as PVC at a lower capital replacement program cost than ductile iron?

Proper Procurement

Open competition policies and asset management practices today can save dollars now and set up the utility to remain eligible for future alternative funding sources. In the case of underground water networks, discriminatory procurement rules in many cities keep pipe made of PVC from even being considered in the bidding process. In some cases, the restrictive procurement rules can be attributed to bureaucratic inertia. Having used metallic pipes in their systems for many decades, municipal officials have simply neglected to update their bidding requirements to account for new technologies. But regardless of the reason, cities sticking to outdated procurement procedures are narrowing their options in addressing their water infrastructure challenges.

There is a surging and growing trend towards open competition for underground water and wastewater infrastructure. The Competitive Enterprise Institute (CEI) in Washington D.C. is asking Congress to implement such a policy for all federal water bills and asking municipalities to implement such policies. The National Taxpayers Union (NTU) has asked for the same from Congress. The Water Environment Federation’s (WEF) Government Affairs Committee (GAC) supports fair and open competition through the implementation of procurement policies and procedures that are transparent to the public and to suppliers, vendors and providers.

Leasing

Municipal Lease Financing is a mechanism used to help finance a project or equipment replacement rather than issuing a bond. Many times, a technology or equipment provider can even offer upfront financing with an interest cost. This may prove a win-win for both if the interest component is less than the credit market and more than the interest earnings of the company. Other benefits include spreading the cost over time and not incurring “debt” that may be subject to voter approvals, while preserving cash reserves.

Project construction and delivery options like design-build can reduce both the time and the cost of design as compared to traditional methodologies. Other types of contractual arrangements or public-private partnerships can also be evaluated based on the management objectives and criteria analysis.

State Legislative Sources

Every state has various types of special funding. Finding the right mix of project purposes can help determine the best match of low interest rate or grant funding. While many state-related sources do require the use of local matching funds, reducing the overall cost of borrowing is the main goal. The State Water resources Control Board’s (SWRCB) Clean Water State Revolving Fund (CWSRF) Program provides low-interest loan funding for construction of publicly-owned wastewater treatment facilities.

The State of California has many examples of special state legislative sources of funding for water and wastewater projects that may be similar to other states in the areas of regionalized cooperation, energy and wildlife. These include:

- The California Department of Water Resource (DWR), Integrated Regional Water Management (IRWM). IRWM establishes a prioritization process to determine which projects best meet a region’s needs. The prioritization process is intended to be a transparent and defensible method that encourages the development and submittal of projects that are best suited to meeting the identified needs of the region.
- The 2012 Affordable Green Neighborhoods grant program will award grants and provide educational resources to affordable housing developers and related public agencies that choose to pursue LEED 2009 for Neighborhood Development certification (LEED-ND).
• The California Energy Commission has announced the availability of funds for low-interest loans for energy efficiency and energy generation projects.
• The California Fisheries Fund offers three types of loans: fishing association loans, infrastructure loans and business loans.
• The Clean Beaches Initiative grant program (CBI) provides funding for projects that restore and protect the water quality and the environment of coastal waters, estuaries, bays and nearshore waters.
• The Climate Solutions University is accepting applications for scholarships to its Climate Adaptation Plan Development Program and Climate Adaptation Plan Implementation Program.
• Department of Water Resources (DWR) Local Groundwater Assistance (LGA) grants provide local public agencies with up to $250,000 to conduct groundwater studies or carry out groundwater monitoring and management activities.
• The Environmental Enhancement Fund (EEF) grant program is administered by the California Department of Fish and Game’s Office of Spill Prevention and Response.
• The REAP/EA/REDA grant program will provide grants for energy audits and renewable energy development assistance.
• The State Water Board executed a contract with California Rural Water Association (CRWA) to provide up to $500,000 in wastewater-related technical assistance to small, disadvantaged communities (SDACs) statewide.
• There is a SWRCB Agricultural Drainage Loan Program and Agricultural Drainage Management Loan Program.

Federal Sources
There are nine federal agencies that have provided funding for water and wastewater projects. Most of the federal funding comes from the top four – the EPA, the Department of Agriculture (USDA), the Department of Housing and Urban Development (HUD) and the Department of Commerce. A few examples include:
• The Rural Utilities Service (RUS), an agency of the USDA, has competitive grants to assist communities with extremely high energy costs. The grant funds may be used to acquire, construct, extend, upgrade or otherwise improve energy generation, transmission or distribution facilities serving communities in which the average residential expenditure for home energy exceeds 275 percent of the national average.
• The USDA provides loans and grants to develop water and waste disposal systems in rural areas and towns with a population not in excess of 10,000.
• The USDA has loans and grants to help rural businesses create jobs and spur economic development. The funding is being provided under the Rural Economic Development Loan and Grant Program.
• Under the Economic Development Assistance Programs (EDAP) Federal Funding Opportunity (FFO) will make construction, non-construction and revolving loan fund investments under the Public Works and Economic Adjustment Assistance Programs.

Systematically tracking and reviewing state and federal alternative funding sources is critical in order to evaluate each potential project’s fit for meeting the funding requirements and application deadlines.

The Alternative Funding Paradox
Everyone wants alternative funding sources, but no one wants their rate or tax contributions going outside of their municipality or state. Larger federal programs mean larger government, most likely more national debt and greater instability for our national credit and stock markets, which in return produces unemployment, greater instability and loss of private wealth. The hard medicine to take is that we really need to re-allocate our local individual standard of living to pay a little more for the basic utility services we want in the location we choose to live in. True sustainability and resilience can only occur at the local level through diligent planning and implementation.

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A Word on PABs from U.S. Representative Bill Pascrell, of New Jersey’s 8th Congressional District
There are jobs waiting to be created beneath our feet. We see signs of them with every water main break. Pick up a newspaper in any American city and there’s a good chance you’ll find a story about a company’s job cuts or a community’s water main break – maybe both.

Upgrading our water infrastructure is a job that needs to get done, and there are people willing and able to do it. The question is whether we have the political will to stop wasting water and put people to work without significantly burdening taxpayers and water customers.

We have an opportunity to do exactly that in strong, bipartisan legislation that I, as a member of the House Ways and Means Committee, introduced with U.S. Rep. Geoff Davis, R-Ky. In the House, U.S. Sen. Robert Menendez, D-N.J., teamed up with U.S. Sen. Mike Crapo, R-Idaho, to introduce the bill in the Senate.

The legislation, the Sustainable Water Infrastructure Investment Act of 2011, H.R. 1802, encourages private investment dollars – instead of public tax dollars – to help fund critical water infrastructure upgrades.

The legislation focuses on private activity bonds, or PABs. These bonds provide tax-exempt financing for projects that benefit the public. They are used widely for airports, intercity rail and solid waste disposal sites. The trouble is, federal law requires states to put a limit on the total number of PABs sold for all state- and local government projects, including those for water infrastructure. The legislation I have sponsored would remove the cap for water infrastructure, allowing for more PABs to be sold for these projects.

Due to constraints on the national budget, water infrastructure projects can no longer solely rely on the federal government for loans or grants. Instead, with this legislation, private water utilities will be able to approach a bank that will work with a state or local economic development authority to issue the PABs. The bank sells the PABs to investors, who are usually insurance companies, mutual companies and the occasional private investor.

The bill provides a projected $50 billion of private capital invested in our water infrastructure. The Clean Water Council estimates that for every $1 billion invested, 28,500 jobs will be created in the first year – a total of 1.4 million jobs within the first 10 years.

Now it’s up to the members of Congress to deliver on this vital legislation. Hopefully, the political will to tap into the jobs beneath our feet will be mustered before the next wave of water main breaks hits the papers.