

2016 INAFSM ANNUAL CONFERENCE

Stormwater Project Financing Alternatives And Considerations

September 9, 2016

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Presentation Outline

- Municipal bond market
- Methods of financing capital projects
- Advantages/disadvantages of funding sources
- Storm water financing alternatives

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Municipal Bond Market

- The Fed is no longer running a quantitative easing program (i.e. no asset purchases)
- Fed is "Hawkish" meaning they favor raising interest rates
- Fed Funds futures suggest rates could rise by 50bps by this time next year
- Possible flattening of the yield curve (i.e. short term rates going up and long term rates going down)
- High demand for municipal bonds
- Where will bond interest rates in the future
 - Short-term (1 year) – 70bps to around 1%-1.25%?
 - Long-term (25 year) – 3.25% to around 3.0%?

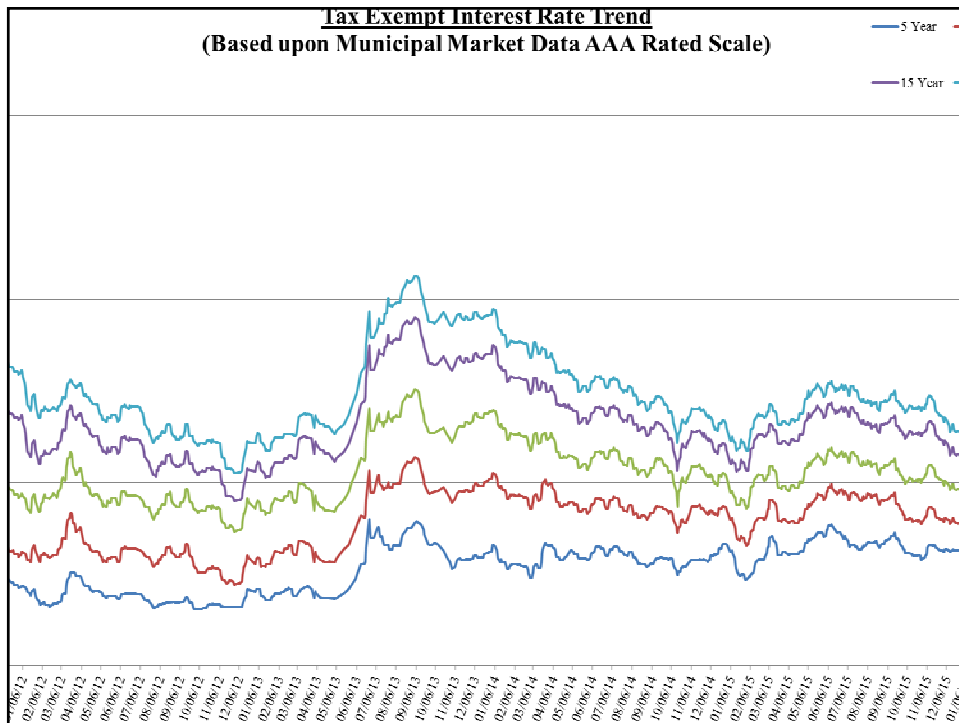
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Tax Exempt Interest Rate Trend
(Based upon Municipal Market Data AAA Rated Scale)



Methods of Financing Utility Capital Projects

- In the past, it was common for cities, towns and counties to use the street department or General Fund to fund storm water needs
- Increased pressures on tax-supported funds (maximum levies) or competing needs

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Methods of Financing Utility Capital Projects

- Under which state statute was the storm water utility created
 - Title 8 (SW management utility)
 - Title 13 (Sewage works)
- Title 8 – ability to levy a tax and/or user fee
- Title 13 – user fee only

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Methods of Financing Utility Capital Projects

- Rates – pay as you go
- Revenue bonds
 - No statutory debt limit
 - Limited by ability to pay
 - Can be backed or supplemented by TIF or local option income taxes
- Tax Supported bonds (Utilities formed under I.C. 8 only)
 - Statutory debt limit
 - Circuit breaker impacts
- Grants
- SDCs

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Other General Funding Options Available to Cities, Towns and Counties

- Property taxes
 - Need to factor in circuit breaker credits
- Local option income taxes (CEDIT, COIT, CAGIT)
- TIF revenues
- General obligation bonds (limited to 2% of NAV)
- Impact fees
- Cumulative capital funds (CCD or CCI)
- Redevelopment district leases or bonds

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Advantages and Disadvantages of Various Funding Mechanisms

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Property Taxes (Through Storm Water Utility)

• **Advantages**

- Secure revenue source (bonds are very marketable)
- Billing through existing system. Billing and collection by County through tax bills

• **Disadvantages**

- Only for Debt Service not Operations
- Increased pressure on property taxes (Circuit Breaker impacts)
- Matching of costs and benefits
- Subject to debt limit (8% of NAV)
- Only in corporate boundaries
- Excludes tax exempt properties (churches, schools, etc.)

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Storm Water User Fees (Storm Water Utility)

- **Advantages**
 - Matching of costs and benefits
 - Monthly cash flow
 - Matching of customers
 - Tax lien for delinquent bills
 - Billing through existing system. Billing and collection by County through tax bills
- **Disadvantages**
 - Higher financing costs – coverage and reserves
 - Cost of billing and administration
 - Public acceptance

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Hybrid Approach (User Fees and Property Taxes)

- Establish user fee to support operations and property tax to support the financing of capital projects
- A mix of advantages of user fees as well as advantages of property taxes for financing purposes

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Capital Project Financing Alternatives

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Capital Project Financing Alternatives

- **Bonds – Open Market**
 - Historically low interest rates
 - Revenue or tax supported issues
 - Need to establish rate history for Revenue Bonds
 - Timing controlled by issuer
 - Higher issuance costs
 - Bank qualification, bond insurance, rating
 - Credit quality very important!!

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Capital Project Financing Alternatives (Cont'd)

- **Bonds – SRF – Subsidized Program**
 - Very low subsidized interest rates
 - 2% 3rd quarter 2016
 - Very competitive since everyone wants to get the subsidized rates
 - Timing tied to SRF fiscal year
 - Additional engineering/regulatory costs
- **Pooled Program**
 - Market rates
 - Timing could be a concern

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SRF Eligible Storm Water Projects

- **Wastewater projects include:**
 - Combined sewer overflow corrections, and
 - Infiltration/inflow projects.
- **Nonpoint source projects include:**
 - Wetland protection and restoration measures,
 - Best Management Practices for agriculture and storm water runoff,
 - Riparian Buffers and Conservation Easements

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What types of storm water projects are not eligible for SRF funding?

- Projects that are solely intended for economic development.
- Storm water projects that have no environmental benefits.

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Capital Project Financing Alternatives (Cont'd)

- **Bonds – Rural Development**
 - Low interest rates
 - 1.625% to 2.75% as of 7/1/16
 - Process duration sometimes extended
 - 40-year term
 - Helps fund a project with limited customer base
 - Additional engineering/regulatory costs

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Concluding Thoughts

- Options depend on how the Utility was created
- Timing considerations
- Cost of borrowing
- No one size fits all
- Plan ahead (Get professional team on board earlier rather than later)

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Questions/Comments?

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