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Water Research Foundation Publishes Report on Infrastructure Funding.

The Water Research Foundation (WRF), a leading sponsor of innovative research supporting the water community, has published a new report to help utilities assess several new and emerging capital financing alternatives. The report indicates that while the new capital funding options may help, utilities still need sufficient and sustained revenue to pay for the financing, and that revenue will need to come from rates.

The project, "[*New and Emerging Capital Providers for Infrastructure Funding \(#4617\)*](#)," was funded because more than \$650 billion is needed for water and wastewater infrastructure upgrades and renewal over the next 20 years. The extraordinary capital funding needs, and the demands and expectations of water utility stakeholders create a challenging capital financing environment for water utilities, leading policymakers to look for innovative ways of lowering borrowing costs and achieving other benefits, such as risk mitigation, greater public awareness, and value capture. New and emerging financing alternatives may be able to help utilities obtain these benefits while helping to close the infrastructure funding gap.

The research report documents the current state of financing alternatives in the water industry, identifies new and emerging capital financing alternatives, and discusses benefits and limitations of each. The research team facilitated interviews with utility managers, investors, investor advisors, and other organizations involved in municipal capital financing to gather perspectives on why various alternatives were used, how the process worked, what benefits were realized, and what lessons were learned. The research also gathered perspectives on the current level of investor interest and participation in these financing alternatives, and opportunities to increase said interest and participation.

In addition to examining the new funding options, the project found that the real problem with infrastructure funding is not the lack of traditional or innovative financing alternatives, but rather the limited amount of sufficient and sustained revenue funding sources that can pay for the financing. Ultimately, utility service rates are the primary means to fund capital investments in water utilities.

"While there are many new financing options for utilities to pursue in funding aging infrastructure, none are a silver bullet," said Rob Renner, CEO of the Water Research Foundation. "Utilities will continue to need sufficient revenue to bridge the infrastructure gap."

The final deliverables include 11 case studies, covering financing alternatives including green bonds, century bonds, public-private partnerships, public-public partnerships, private placements, WIFIA, self-financing, and integrated financing. These case studies are provided as a separate document.

The project also produced an interactive decision support tool to assist utility finance managers in assessing the potential applicability of the various new and emerging capital financing alternatives highlighted in this research report. This tool is not a specific endorsement or recommendation for

any specific capital financing approach. Users of this tool should discuss capital financing alternatives with any and all internal or external registered municipal advisors that it deems appropriate before making any capital financing decisions.

The principal investigator for this project was John Mastracchio, CFA, vice president, Arcadis, U.S. Inc. The project was managed by Jonathan Cuppett, WRF research manager.

BY MIKE KEZDI ON DECEMBER 29, 2016

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