

Bond Case Briefs

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The Cost of Water Is Rising - Financing Tools And Strategies To Help Communities Pay: Butler Snow

Across America, the cost of water is rising. Getting clean drinking water is not as easy as turning on the faucet. Not only is access to safe water a growing issue across America — it is an expensive one too. Local elected officials throughout the United States, whether in small towns or the country's largest cities, are facing the difficulties of expanding, repairing and bringing into compliance with federal and state regulations their aging drinking water and wastewater systems. In older jurisdictions, pipes installed as long as a century ago will have to be replaced. Repairing and replacing these age old pipes comes with the ever-pervasive task of filling and smoothing the potholes that can result from the repair of these antiquated and dilapidated water and wastewater systems. Additionally, several cities are going to have to make major upgrades to their systems as a result of federal and state enforcement actions and undertake complicated analysis when considering the feasibility of sending their wastewater to a regional system juxtaposed to operating their own wastewater treatment facilities.

It could cost more than \$2 trillion over the next 25 years to replace and expand drinking water and wastewater systems nationally.¹ Both federal and state solutions are being proposed to address this enormous cost that involves innovative financing and in some instances private parties. However, some cities and towns will find it necessary to utilize current tools (perhaps in unorthodox ways) to construct and repair systems because the need is so great. Regardless, the cost is vast and the need is abundant.

National Solutions

WIFIA – Public works officials around the country are advocating for the use of the Water Infrastructure Financing and Innovation Act (“WIFIA”), a program modeled after the Transportation Infrastructure Financing and Innovation Act (“TIFIA”). WIFIA is an Environmental Protection Agency (“EPA”) program that will hopefully spur private sector investment in water infrastructure by providing innovative financing mechanisms for water-related infrastructure projects of national or regional significance.² The program attempts to fill in gaps left open by State Revolving Fund (“SRF”) programs by providing subsidized financing for large dollar-value projects. Once Congress provides funding, WIFIA could provide low interest rate loan financing for the construction of drinking water and wastewater infrastructure.

AFF Bonds – the America Fast Forward (“AFF”) bond program is a President Obama backed proposal similar to the Build America Bond program that would be an alternative to traditional tax-exempt bonds. AFF Bonds would be taxable bonds issued by State and local governments in which the treasury would make direct payments to state and local governmental issuers (through refundable tax credits). The AFF bond program would allow the treasury to make direct payments to state and local governmental issuers in an amount equal to 28 % of the coupon interest on the bonds. The goal of the AFF bond program is to facilitate greater efficiency, more investors, and lower costs for state and local governmental debt.

QPIBs – the catalyst for Qualified Public Infrastructure Bonds (“QPIBs”) is the push for the public and private sector to work together to build infrastructure projects. QPIBs will extend the benefits of municipal bonds to public private partnerships (“P3s”) or like partnerships that involve long-term leasing and management contracts, lowering the cost of borrowing and attracting new capital. If approved by Congress, the QPIB bond program would provide financing for airports, ports, mass transit, solid waste disposal, sewer, and water, as well as for other types of surface transportation projects.

Local Solutions

Tax-exempt municipal bonds – The oldest and most frequently used program to finance infrastructure projects is the use of tax exempt government bonds. There is no federal cap on the amount of tax-exempt debt a local can issue (although there may be state or local caps) and each year the federal government forgoes about \$30 billion in revenue through this tax exempt subsidy.

SRF – In the 1970s and 1980s, the federal government provided generous grants to localities to improve their water and wastewater systems.³ Today, the federal government has assisted communities across the nation by providing appropriations to state revolving loan funds through its SRF program, which states, in turn, can loan out to local projects or to help refinance local debt. Over the last two and half decades, SRFs have provided over \$100 billion, funding more than 33,320 low-interest loans.

Footnotes

1 Tom Curtis, Water Infrastructure: The last and next 100 Years, Journal AWWA, August 2014 <http://www.awwa.org/publications/journal-awwa/table-of-contents/articleid/46499415/issueid/46498556.aspx?getfile=/documents/dcdfiles/46499415/jaw201408curtis.pdf> (accessed July 10, 2015).

2 WIFIA was signed into law on June 10, 2014, as Public Law 113-121.

3 Ryan Holeywell, Financing Water Infrastructure Like Transportation, Governing May 2012 <http://www.governing.com/topics/finance/gov-financing-water-infrastructure-like-transportation.html> (accessed July 10, 2015).

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The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.