

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **City Should Consider Using P3s to Bolster Pension Plan and Water System, Observer Says.**

In addition to providing the financing, technical expertise and labor cities need to maintain and improve vital infrastructure projects, P3s can produce revenues that could keep municipal pension plans solvent, suggested a resident of one Florida city that is facing this dilemma.

A solid pension plan should be 80 percent to 90 percent funded but Sarasota's general plan is only 71 percent funded and is projected to incur a \$54 million unfunded liability in the years ahead, wrote Lewis Solomon, a professor emeritus at George Washington University Law School in an [Aug. 8 Herald Tribune op-ed](#).

To keep its underfunded pension plan afloat, the city is reducing cost-of-living adjustments and other plan benefits and limiting the number of workers who can enroll. The city should instead consider investing the plan's funds in a P3 project that can serve the dual purpose of producing good returns for the plan while rehabilitating Sarasota's struggling water and wastewater system, Solomon suggested.

"Rather than these palliatives, Sarasota could monetize its water and sewer system by entering into a public-private partnership for these assets. By providing access to private capital, this approach would quickly help the municipality achieve the general plan's 80 percent funding target and substantially lessen the millions in current, annual contributions to pay down the plan's unfunded liabilities," he wrote.

[Robert Poole](#) of the Reason Foundation recently made a similar suggestion, pointing out that pension funds looking for relatively safe investments would do well to consider buying into existing or "brownfield" infrastructure P3 projects than in new "greenfield" ones.

By leasing its water system — representing more than \$100 million in water and sewer projects — to a private developer for 20 to 30 years, Sarasota could obtain private financing for and rehabilitation of 175 miles of water pipes and its deteriorating lift stations, Solomon estimated.

More than 2,000 communities use P3s to fund and conduct vital water-related infrastructure projects, [Michael Deane](#), executive director of the National Association of Water Companies has noted.

One example is the Bayonne (N.J.) Municipal Utilities Authority, which leased its ailing water and wastewater system to Kohlberg Kravis Roberts and United Water in 2012 for 40 years, Solomon pointed out. Through the deal, the authority received \$150 million from the developer, which also agreed to invest \$107 million in the city's water system and provide technical expertise to rehabilitate it.

"This infusion of capital was critically important to the city because it eliminated \$130 million of existing debt and improved both the authority's finances and Bayonne's credit rating," according to a June 10, 2015, [article](#) on two successful municipal water P3s published by the Wharton School at

the University of Pennsylvania.

Although it is not yet common for pension plans in this country to invest in public infrastructure projects, interest is growing. For instance, the California Public Employees Retirement System announced recently its purchase of a 10 percent share — at least \$330 million — of the company that operates and maintains the Indiana Toll Road.

[Pension fund managers in Canada](#) have figured this out. Several are invested in such projects internationally and the Trudeau government is encouraging them to do so domestically.

NCPPP

August 22, 2016

Copyright © 2024 Bond Case Briefs | [bondcasebriefs.com](http://bondcasebriefs.com)