Financing and Funding

• State and Federal funding supported much of the state’s water and wastewater infrastructure
• Moving forward will require other forms of funding – but, state and federal programs will be helpful
• There is a lot of money looking to work in the water sector – higher cost of capital
• Regardless of capital sources – water users and/or taxpayers will still be on the hook to pay!
• No magic bullets
Easiest Way to Fund Projects is to Use Other People's Money

- Water infrastructure capital investment will exceed $45 billion a year nationally
- Traditional sources of funding include:
  - Federal and state grants
  - Federal and state loans
  - Revenue bonds
  - General Obligation Bonds
  - Revenues (Pay as you go)

Have to Pay This Back!
Federal Grants and Loans

- Loans through the State Revolving Fund (SRF)
- Title XVI grants – recycled water projects
- Army Corps grants
- Federal funds will become harder to find
  - Competing objectives will lead to reduced federal funding because local funding is available
  - Loan programs may be available
State Funding

• **Water Bonds** – Proposition 1, Proposition 84
  - General obligation bonds
  - Funded by the state for statewide benefits
  - General fund pays - taxes
• **Revenue bonds** – funding the State Water Project
  - Water users pay
• WIFIA is modeled on the Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998
• Under the terms of the WIFIA program, project sponsors can secure a low-interest loan for up to 49% of project costs; the remaining 51% must come from other sources, such as tax-exempt bonds
• Interest rate under the WIFIA program is tied to US Treasury rates
• Eligible projects include:
  • Projects eligible for SRF loans (clean water, drinking water)
  • Enhanced energy efficiency at drinking water and wastewater facilities
  • Desalination, aquifer recharge, or water recycling projects
  • Property acquisition, if integral to a project or mitigating its environmental impact
  • Bundled SRF projects
  • A combination of projects secured by a common security pledge
PPP means different things to different people – but full PPP includes a financing element.

• PPP is a procurement and delivery method.

• PPP is all about allocation of risk.

• Private equity is more expensive than public funding (tax-exempt borrowing).

• PPP can be an efficient way to finance and share risk – but, there is a cost to understand.

• Procurement process is more complicated – transparency is key.
  • Requires expertise on the part of the agency.
  • Expertise on the part of PPP provider.
But – how do we pay for these loans?
Revenues Come from Rates, Fees, Assessments, and Taxes

• **Taxes and Regulatory Surcharges**
  - Property taxes
  - Sales tax
  - Monthly water surcharge

• **Water Rates**
  - Volumetric charges
  - Fixed charges

• **Property assessments**
  - Standby charge
Some Agencies Rely on Tax Revenues for a Portion of Revenues

- Coachella Valley Water District – 90% of State Project costs are recovered through property tax
- San Bernardino Valley Municipal Water District – all of State Project costs recovered through property tax
- Santa Clara Valley Water District – all of State Project costs recovered through property tax
- Southern Nevada Water Authority collects a share of the ¼% sales tax
Different Rate Structures Meet Different Objectives

- Fixed monthly bills
- Customer charge + Commodity rates
- Inclining block rates
- Conservation Pricing
- Water Budgets and Budget Pricing
Legal Constraints Make Everything Harder

- Propositions 218 and 26
- Capistrano Taxpayers Association vs. City of San Juan Capistrano
- Affirmed tiered rates
- Affirmed ability to charge for recycled water in potable rates
- BUT – all rates, including tiers, have to correspond to the actual cost of providing service
- Support and documentation are critical to making the case
Conclusions and Observations

• No simple solutions – cost of water will increase!
• Challenges are great – and sometimes difficult to quantify
• Maintain options for future supply – flexibility and responsiveness is critical in an uncertain world
• Solutions require diversification of resources and means to pay for those resources
• Political challenges are often greater than economic challenges
• A reliable supply of high quality water is critical to the state’s economic health