Agenda

Water Infrastructure Needs Are Real

Is Funding Available?

State Revolving Fund Overview

Interest Rate Trends

Plan To Build
Why Build Now

- Volatile construction markets
- Financial benefit to ratepayers
- Most systems have deferred maintenance
- Uncertainty about future interest rates
- Capacity in funding programs
- American Rescue Plan Act improves attractiveness
Why Build Now

Public Works Investment is a Counter-Cyclical Economic Driver

- Public Works investing gets a workforce back-to-work.
- Public Works should borrow during periods of “low cost of money”.
- Public Works investing is a long-term expenditure with long-term benefits.
Municipal Wastewater Treatment Systems

- 818 public facilities owned by 608 entities.
Municipal Wastewater Treatment Systems

• 818 public facilities are designed to treat 1.41 Billion Gallons/Day.

• Currently treating 0.80 Billion Gallons/Day.
Municipal Wastewater Lagoons

- 325 lagoon facilities owned by 283 entities are designed to treat 53.7 Million Gallons / Day.
Municipal Wastewater Lagoons

- 325 public lagoons are treating 38.7 Million Gallons / Day.
Municipal Wastewater Collection Systems

- **29,423** miles of collection system piping (on the public side alone).
Municipal Wastewater Collection Systems

- **26,448** miles of collection system piping serving mechanical facilities.
- **2,975** miles serving lagoon treatment entities.
Public Wastewater Systems

• 38% have inflow & infiltration issues.
• 25% have sanitary sewer overflow problems.
• 8% are hydraulically overloaded.
Lagoon Treatment Systems

- 32% have inflow & infiltration issues.
- 17% have sanitary sewer overflow problems.
- 35% are hydraulically overloaded.
Municipal Wastewater Lift Stations

• Many utilities have lift stations.
• Lift stations are rarely inspected by regulators.
Municipal Treatment Systems

818 permitted municipality-owned facilities.

29,423 miles of collection piping.

! Only 116 Construction Permits have been issued (treatment and collection combined) since January 2018. (current as of September 1, 2021).
Drinking Water Systems

- **2,740** Public Water Systems
- **1,423** Community Water Systems serving 5.4 Million Customers
Municipal Water Systems

- **1,423** Community Water Systems
- **282** County PWSDs
- **1,141** Municipal Systems
Municipal Drinking Water Systems

- Average of 78 municipalities responded to the MoDNR’s Capacity Survey in each survey year.
- Only 283 cities have responded in at least 1 of the last 5 survey years, combined.

Only 25% of all systems!
Municipal Drinking Water Systems

- Of the 283 reporting cities, there are a total of 432 data points.
- 56% reported water losses at or greater than 20%.
Municipal Drinking Water Systems

• Since 2012, of the 283 reporting cities, there are 51 cities that reported losses greater than 40%.

• Thus, 18% of municipalities have water pipe problem.
Forecasting Municipal Drinking Water Piping Needs

• If we extrapolate the reported 18% of municipalities having serious water distribution piping issues to all Missouri municipalities…

• Then, over 200 municipal systems need new pipes.
Investing in Public Works is Needed...NOW
STATE REVOLVING FUND (SRF) OVERVIEW
SRF Loan Programs

- Primarily loan programs
- Offer below market rate loans with interest subsidy set at 70% of market interest rate
- ½ percent annual administration fee
- Loan term typically 20 years, but up to 30 years with 0.25 percent added interest
- Custom amortization available to accommodate existing debt

Market Interest Rate vs. SRF Interest Rate

- Chart showing the comparison of market interest rates and SRF interest rates from 2015 to 2020.
Interest Savings for SRF Borrowers

For example purposes only; actual interest rates, payments, fees, and savings may vary based on market conditions and project-specific details. This example assumes a market interest rate at 2.99 percent interest with the subsidized SRF interest rate at 0.90 percent, and demonstrates net savings with the SRF 0.5 percent administration fee.

Contact the Financial Assistance Center for a customized loan estimate for your project by emailing fac@dnr.mo.gov.
Drinking Water SRF Loan Program

Eligible projects:

- Drinking water infrastructure upgrades — wells, treatment, storage and distribution
- Planning and design of eligible projects
- Acquisition of land — if needed for the purpose of locating eligible project components

Ineligible projects:

- Dams
- Fire Protection
- Projects to serve speculative future growth
- Operation and maintenance expenses
- Water rights (with some exceptions)
Drinking Water SRF Grant if Funds Are Available

- **Grants with loan for disadvantaged communities**
  Borrowers population **3,300** or fewer, and user rates are above **2%** of the median household income, and median household income is below **75%** of the state average.

- **Grants with loan for regionalization/consolidation**
  Borrower interconnecting a neighboring public water system to resolve Safe Drinking Water Act noncompliance, achieve the technical, managerial, and financial capacity, or for drought resiliency.
Clean Water SRF Loans

Eligible projects
New construction or improvements to:
- Wastewater treatment plants
- Sewer lines
- Storm sewer control
- Non-point source projects

Ineligible projects
- Operations and maintenance
- Some projects are limited by public and private ownership
Clean Water SRF Grants if Funds Are Available

- **Affordability Grant with Loan**
  Borrowers population of 20,000 or less who would have difficulty financing projects without additional subsidization

- **Water Quality Incentive Grant With Loan**
  Borrowers with an eligible project component

- **Regionalization Incentive Grant**
  Municipalities planning or constructing sewer connection to small, struggling community
SRF Applications

- Applications due March 1
- May be paper or electronic
- Must be complete/accurate
- Must have:
  - Debt instrument
  - Complete facility plan/engineering report
Engineering Report Grants

**Purpose:** Engineering costs for necessary drinking water or wastewater system improvements

**Eligibility:** Municipalities, counties, public sewer districts and public water districts
- Drinking water – Population under 3,300 or larger systems developing a plan to serve a system with a population at or under 3,300
- Wastewater – Population under 10,000

**Funding amount:**
- Drinking water – 80% grant with a 20% recipient match, not to exceed a maximum grant amount of $30,000.
- Wastewater – 80% grant with a 20% recipient match, not to exceed a maximum grant amount of $50,000
Wastewater: Planning to Build

Engineering Report Grants
(formerly called Small Community Engineering Assistance Program)

- **205** grants awarded in 8 years.
- **39** grants obligations not met.
- **386** entities are grant eligible.
- …still!
SRF in the Future

The Crystal Ball
AMERICA RESCUE PLAN ACT FUND
American Rescue Plan Act Fund

Ramona Huckstep
Policy and Membership Associate
Missouri Municipal League
ARPA By the Numbers

• $65 billion of direct aid is going to EVERY city, town or village across the country

• $1.272 billion will be distributed to Missouri municipalities

• Over 900 municipalities that will be receiving the funds
Important Dates

• All ARPA funds for municipalities need to be OBLIGATED by Dec. 2024.

• All ARPA funds for municipalities need to be SPENT by Dec. 2026.

• For NEU’s – Annual Project and Expenditure Report is due Oct. 31, 2021, for funds spent up until Sept. 30, 2021.

• For Metro Cities – Quarterly Project and Expenditure Report is due Oct. 21, 2021
Ineligible Uses for ARPA Funds

• Federal Matching Requirements
• Premium Pay for telework
• Pensions
• Infrastructure not Directly Addressed in ARPA
• Rainy Day Funds, Financial Reserves, and Outstanding Debt
Expenditure Categories

1. Public Health
2. Negative Economic Impacts
3. Services to Disproportionately Impacted Communities
4. Premium Pay
5. Infrastructure
6. Revenue Replacement
7. Administrative
Initial Survey Results from MML

• 78 responses so far
• 96% of respondents had received their ARPA funds
• Top 3 priorities are all related to Infrastructure:
  1. Wastewater/Sewer Infrastructure
  2. Stormwater Infrastructure
  3. Drinking Water Infrastructure
Next Steps

1. Make sure the municipality received the correct amount
   • Half the amount now and half in a year
2. Prioritize your municipal needs based on allowable uses
3. Seek possible partners to assist with funding (county, state)
4. Seek assistance, if needed, to administer the funds
5. Meet reporting deadlines
6. Look for additional info from the U.S. Treasury on final rule
7. Look for info on the MML website
For More Information

Contact the Missouri Municipal League at:
Email: Info@mocities.com
Call: 573-635-9134
Or
Go to the website:
www.mocities.com
INTEREST RATE TRENDS
Federal Reserve in the News Last Week

“Fed Tees Up Taper and Signals Rate Rises Possible Next Year”
WSJ, September 22, 2021

“Fed signals possibility of 6 to 7 rate hikes through 2024,”
Yahoo! Finance, September 22, 2021

“Federal Reserve holds interest rates steady, says tapering of bond buying coming ‘soon’”
CNBC, September 22, 2021
Municipal Bond Interest Rate Trends Since 1990

✓ Index average from 1990 – 2021 is 5.2%

Source: Bond Buyer
Municipal Bond Interest Rate Trends Since 2008

Source: Bond Buyer
The Outlook is Cloudy

- COVID-19 variants
- Inflation
- Market bubbles
- US debt ceiling / political friction
- Federal Reserve “un-tapering” strategy
- FOMC signals federal funds rate increases could begin next year
Cost of debt for municipal utilities remains low.

Fed’s immediate priority appears to be “un-tapering” before increasing Federal Funds rate.

No guarantees. But changes likely to take some time.

Talk to your Municipal/Financial Advisor.
PLAN TO BUILD. THEN BUILD.
Planning to Build

- Preparing to make improvements by compiling planning documents
  - Facility plans
  - Engineering reports
  - Master plans
Planning to Build

• Reevaluate capital improvement planning documents.
• Deeply evaluate SCADA systems (prepare to work more remotely).
• Consider regionalization & consolidation.
• Consider moving projects forward that have faster construction timelines.
Conventional Delivery
Collaborative Delivery
Why Design-Build Delivery

- Lower Costs
- Fewer Change Orders and Claims
- Construction Quality
- Price Certainty
- Speed of Delivery
- Builder Involved in the Design Process
- Single-Point Accountability

Water & Sewer Infrastructure Needs are Real

SRF Monies Are Available

Historically Low Interest Rates

Take Advantage of this Opportunity