



# **Capital Financing Strategies and Constraints:** **Lessons of the Political Economy**

**Eric P. Rothstein, CPA**  
**NACWA Winter Conference**  
**February 4, 2009**

**GALARDI  
ROTHSTEIN  
GROUP**



# Presentation outline

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## 💧 Context & constraints:

- Clean water investment requirements
- Market access & terms
- Financial capability

## 💧 Strategies:

- Project delivery
- Financial planning & policies
- Rate & fee increases
- Debt management

## 💧 Case study examples:

- Northeast Ohio Regional Sewerage District
- Illinois Water Reclamation District
- City of Atlanta



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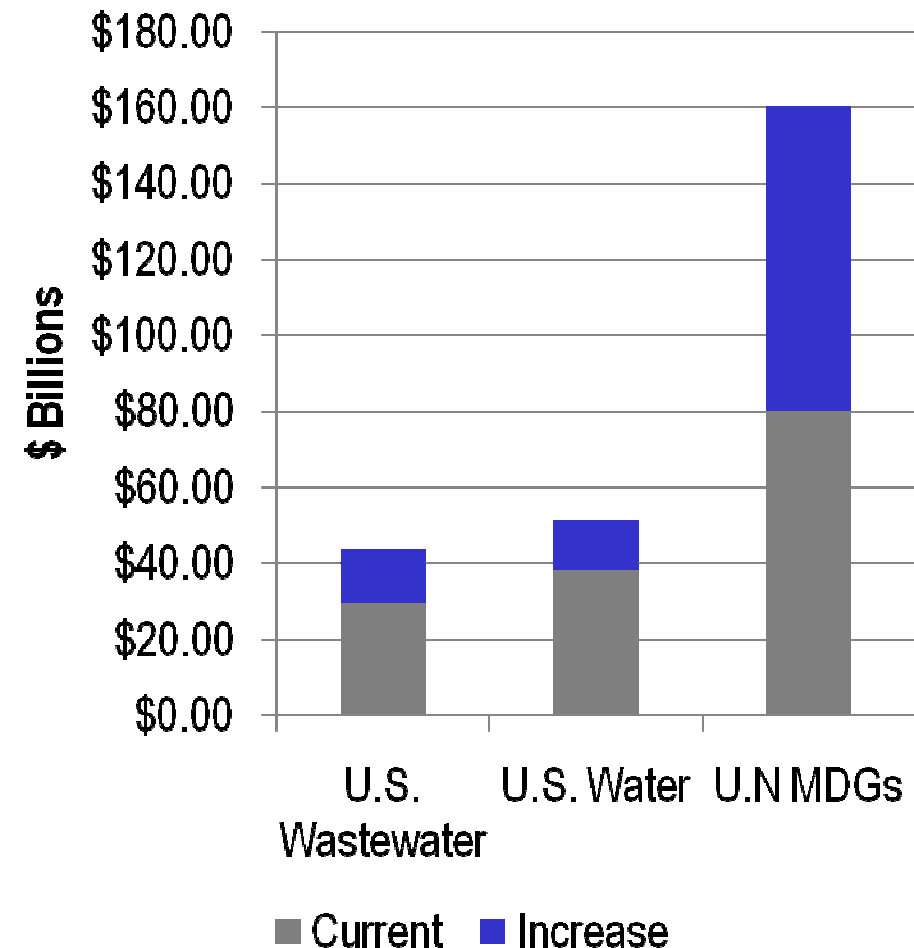
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## Context & Constraints:

# Investment requirements

- 2002 USEPA infrastructure funding gap report:
  - Wastewater utilities:
    - \$14 billion / year
  - Water utilities:
    - \$13 billion / year
- Additional future regulations

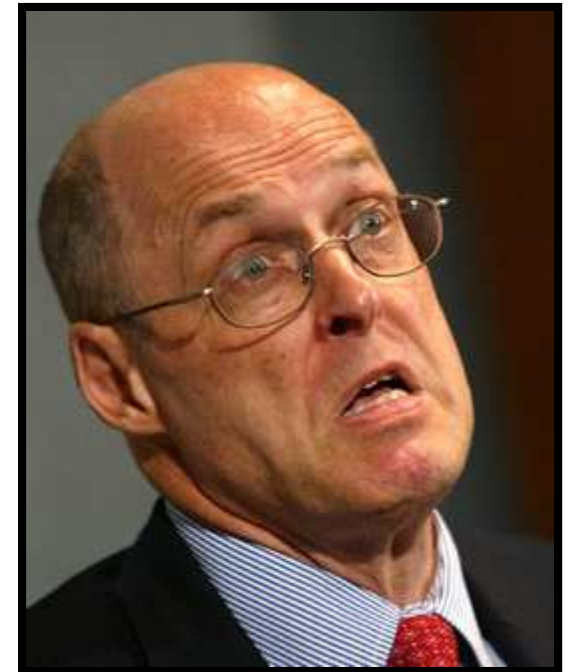




Context & Constraints:

# Market access and terms

- Volatility of credit markets
- Unavailability / limited value of bond insurance
- Withdrawal of institutions
- Substantial increases in fees / transaction costs





## Context & Constraints:

# Financial capability

- Prospective rate increases in context of economic downturn
  - Balanced against community financial capabilities**
  - Challenge low-income affordability**
- Inadequate / insensitive regulatory response
  - Flawed EPA methodologies**
- Inadequacy of industry's low-income affordability response

Permittee Financial Capability Indicators Score	Residential Indicator (Cost Per Household as a % of MHI)		
	Low (Below 1.0%)	Median (Between 1.0% and 2.0%)	High (Above 2.0%)
Weak (Below 1.5)	Medium Burden	High Burden	High Burden
Mid-Range (Between 1.5 and 2.5)	Low Burden	Medium Burden	High Burden
Strong (Above 2.5)	Low Burden	Low Burden	Medium Burden



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Strategies:

# Project Delivery

- Value engineering
- Alternative project delivery
- Procurement practices
- Project scheduling
- Program management







Strategies:

# Financial planning & policies

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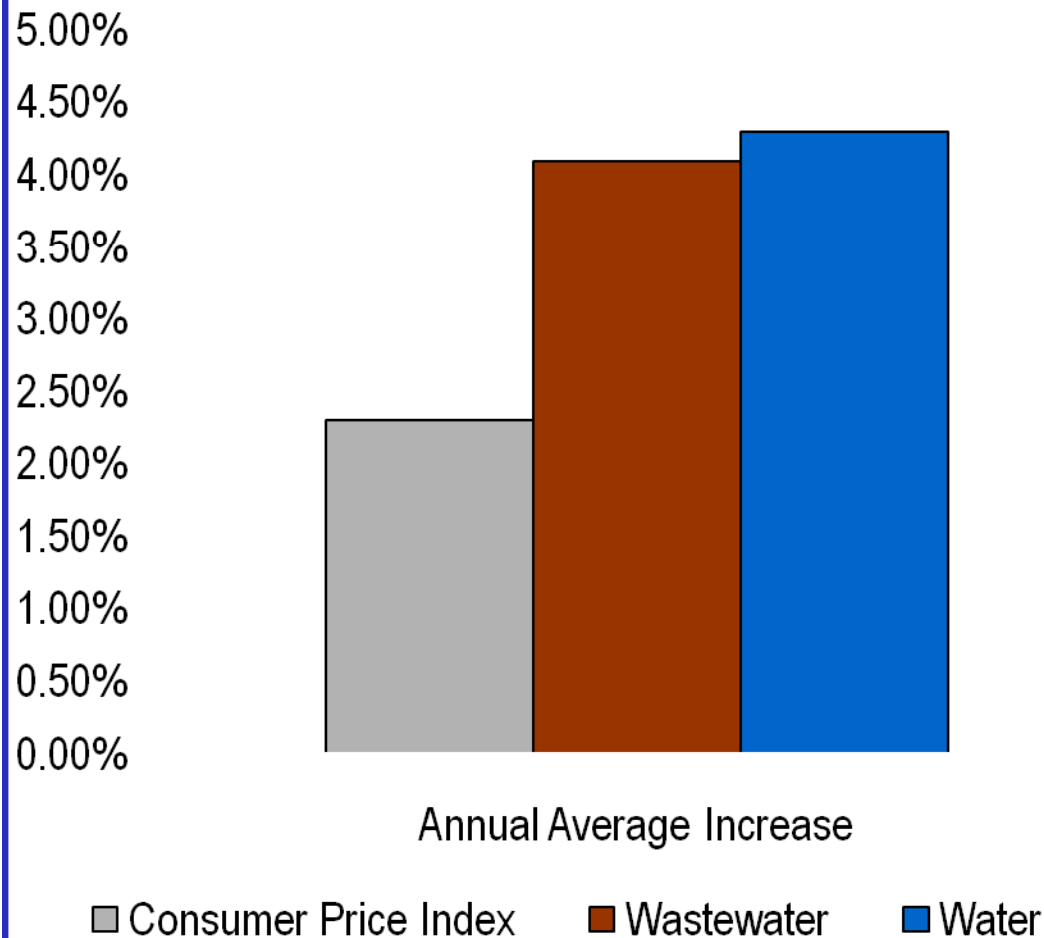
- ◆ **Strategic financial planning**
  - 10-30 year cash flow analyses
  - System-wide rate projections
  - Affordability assessment
- ◆ **Financial policies**
  - Targeted debt coverage
  - Reserves / fund balances
  - Targeted equity financing
  - Debt / investment practices
- ◆ **Governing board adoption**



Strategies:

## Rate increases

U.S. Water and Wastewater Rate  
Trends 1996-2004



- National trends will continue
- Historic underpricing
- Industry examples of public acceptance
- Value of service pricing



Strategies:

# Debt management

- ◆ **Limit exposure to market volatility**
  - Limit use of variable rate instruments
  - Adequate liquidity to manage timing into debt markets
- ◆ **Minimize costs of borrowing**
  - Despite administrative “issues,” use SRF loans
  - Secure strong ratings
- ◆ **Target debt / equity structure**
  - Limit borrowing for annual costs
  - Equity financing of capital





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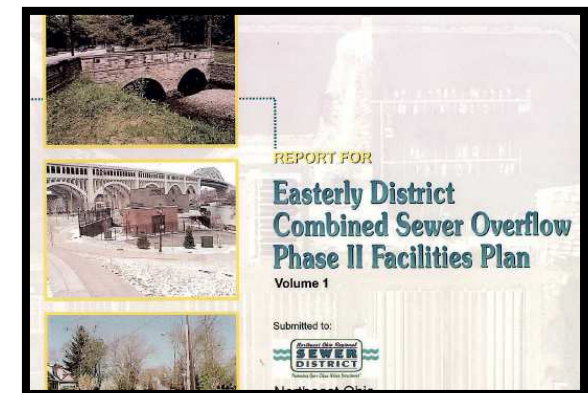
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## Case Study Examples: **NEORSD**



- ◆ Program management
- ◆ 30-year strategic financial planning analyses
  - **Reflect adopted financial policies**
  - **Indicator of financial capability for Consent Decree program**
- ◆ Multi-year rate increases anticipated
- ◆ Debt management to preserve high rating, access WPCLF funds

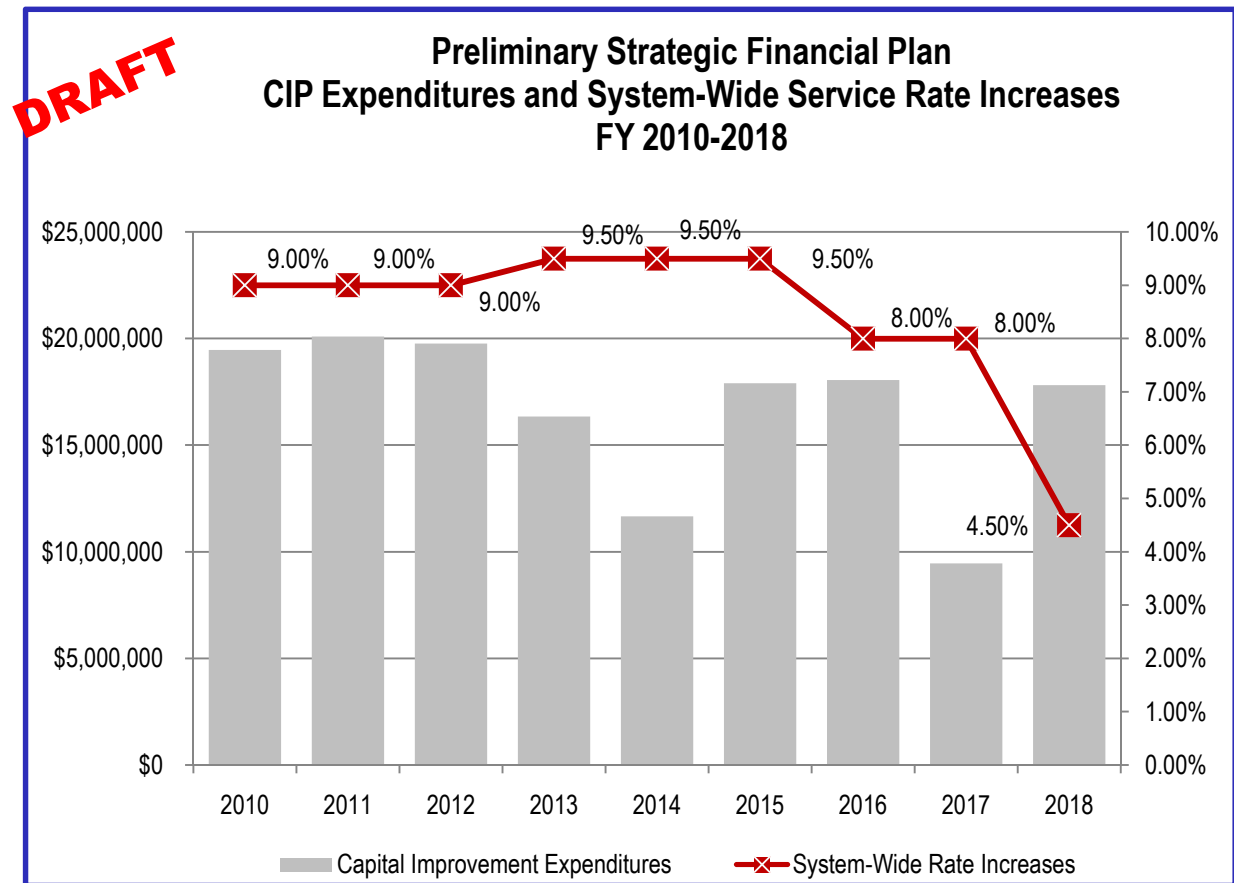




## Case Study Examples:

# Illinois Water Reclamation District

- 💧 \$200+ million CIP
  - **Re-scheduling**
  - **Cost estimation**
  - **Not-to-exceed procurement**
- 💧 New 10-year financial planning model
- 💧 Adopting financial policies
- 💧 Debt structuring
  - **Layered terms**







Case Study Examples:

# City of Atlanta



- ◆ Value engineering /Program mgmt
- ◆ Proactive financial planning
  - **Conservative response to chaotic conditions**
- ◆ (Legendary) 4-year rate increase plans
- ◆ Municipal Option Sales Tax
- ◆ Diverse debt portfolio
  - **Tax-Exempt Commercial Paper**
  - **GEFA loans**
  - **Revenue bonds**
    - **Limited VRDB**

## THE BOND BUYER

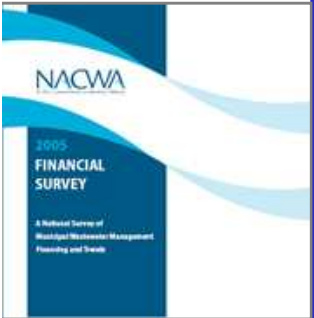
THE DAILY NEWSPAPER OF PUBLIC FINANCE

... "The department, which also oversees a court ordered sewer rehabilitation program, laid off 97 employees yesterday and froze 175 vacant positions.

"We are making these changes precisely because we intend to pay our bills," Franklin said during a press conference."



# Lessons of the Political Economy



- ◆ **“Chaos” is normal**
  - Construction & financial markets
  - Regulatory uncertainties
  - Climate change
- ◆ **Limit prayer for Obama “manna”**
  - No return to construction grants
- ◆ **Rely on fundamentals**
  - Relative stability of markets *served*
  - Proactive, conservative financial planning
  - Paced movement toward value-of-service pricing
  - High-return water quality investment within financial capabilities





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