

State Water Infrastructure Authority

Meeting Date: December 13, 2017

Agenda Item L – Future Funding Levels and the Potential for SRF Leveraging

Division of Water Infrastructure Staff Report

Background

The state has spent several years improving funding program efficiency and effectiveness by making the application process easier, streamlining engineering report and environmental document reviews, developing cash flow models for both SRFs, and combining the funding programs under single management. The result is that both SRFs have more funds available and the Division has seen increased demand for SRF funding particularly from larger municipalities in the state. In addition, the funding programs were provided a substantial increase in funding levels through the Connect NC Bonds. However, the fall 2017 round will be the last funding round in which Connect NC Bond funds will be available. Even with the infusion of the bond funds, demand for the funding program has exceeded funding availability.

Under the current budget state appropriated grants this year will be a little over \$11 million with approximately \$5 million allocated to specific projects. Next fiscal year, there is currently (subject to budget revisions) \$10 million appropriated with \$2 million allocated. For the CDBG-Infrastructure grants, the allocation this year was reduced from approximately \$26 million to \$21 million. These grant funding levels were discussed at the July 2017 Authority meeting.

Clean Water SRF funding next spring is projected to drop or remain about the same as a result of full implementation of the cash flow model implemented several years ago. Drinking Water SRF funding levels are projected to remain about the same but could receive a minor increase due to changes in the national allocation formula (as a result of the latest EPA Needs Survey to be released soon).

Potential Opportunities

The Department of Environmental Quality (DEQ) will be exploring the possibility of leveraging for the SRF programs. Leveraging is allowed under federal law for both SRFs and most larger states where demand exceeds available funding leverage the SRFs. Leveraging involves the SRF issuing debt which is in turn used to fund projects. Loan repayments are then used to pay off the bonds (usually revenue bonds). Most SRF programs nationally that leverage are AAA rated. There are several approaches that can be applied in leveraging:

- Since in many states larger municipalities are not all AAA rated, the SRF provides a savings in interest rate through the better bond rates.
- Federal law allows SRFs to invest funds to earn interest to offset interest subsidies.
- SRFs are allowed to borrow from the Water Infrastructure Finance and Innovation Act (WIFIA) program.
- Congress may consider other approaches in trying to address national infrastructure issues.

The Authority may also wish to consider making a recommendation on additional grant funding to the General Assembly. If so, the Authority may wish to target any additional grant funding in a specific way

(e.g., to address troubled systems). For example, the Authority may wish to make recommendations for additional funding for:

- troubled systems;
- Asset Inventory and Assessment;
- projects including resiliency; and
- other categories.

Purpose

The purpose of this agenda item is to provide the Authority with information on DEQ's efforts and to provide an opportunity for the Authority to begin discussions on funding levels and the potential need to increase those funding levels. Should the Authority wish to make any specific recommendation or wish to obtain more information on an issue, staff can use this discussion to bring additional information back to the Authority for a future action item.