



85th Annual Conference & Exhibits

Trends in project finance and funding

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Overview

- Asset management plans (AMPs)
- Banks and brokers
- Bond anticipation notes (BANs)
- State revolving fund (SRF)
- USDA Rural Development

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Asset Management Plans (AMPs)

- Past grant funding to complete and current grants in process
 - Stormwater, Asset Management and Wastewater (SAW)
 - Drinking Water Asset Management (DWAM)
- National Pollutant Discharge Elimination System (NPDES) permit requirements
- Future grant application requirements
- Capital improvement planning with engineer and staff
- Financial planning with financial advisor (or internally)

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AMP Lessons Learned

- Long-term financial planning
 - User rates
 - Cash and debt funded capital improvements
 - Cash reserves
- Inflationary increases
 - Supplier system needs
 - Operating expense increases
 - Construction cost inflation
 - Inflation concerns
- City/village vs. township development history

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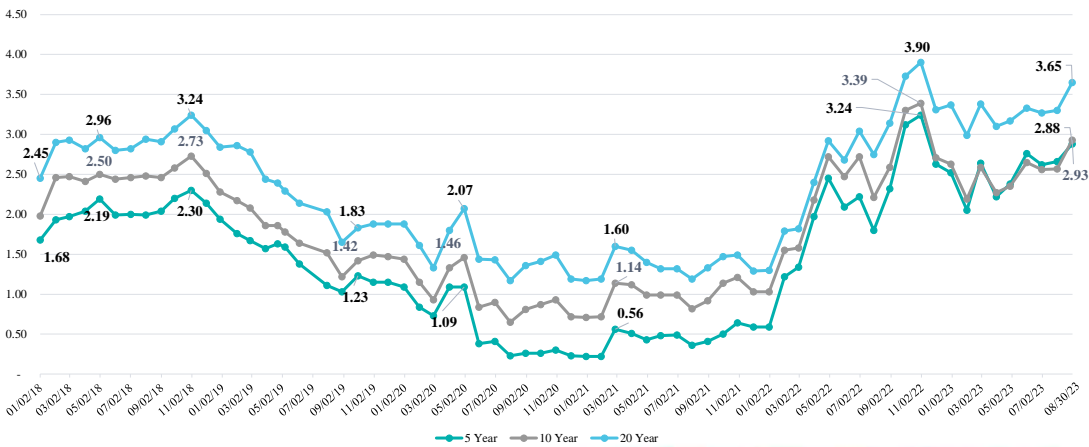
AMP Lessons Learned (cont.)

- Conservative capital improvement forecasts
 - Include inflation on cost estimates
- Water usage concerns statewide
- Operating expenses rising (higher than expected in some cases)
 - Healthcare
 - Utilities
 - Chemicals
- Planning for staffing concerns



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Tax-Exempt Interest Rate Trend



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Banks and Brokers

- Interest rates have risen in past couple of years, but now stable
 - Recent bond sale ranges:
 - 10 years – 3.00-3.50%
 - 15 years – 3.00-3.875%
 - 20 years – 3.625-4.25%
 - 25 years – 4.00-4.50%
 - 30 years – 4.25-4.75%
- Duration maximums with banks
 - Large interest rate differentials between banks and brokers currently
- Higher interest rate floor recently

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Using Local Banks

- Bond issue vs. mortgage commitment/“bank loan”
 - Installment purchase agreement is an exception
 - Rules around doing this for specific assets
- Is the bank offering a market interest rate?
 - \$1 million for 10 years at 3.50% = \$201,950.00 in interest
 - \$1 million for 10 years at 4.50% = \$263,250.00 in interest
 - \$1 million for 15 years at 4.00% = \$349,200.00 in interest
 - \$1 million for 15 years at 5.00% = \$446,000.00 in interest
- Is the person offering to do the financing the decision maker at the bank? Confirm before going too far.

> +\$61,300

> +\$96,800

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Bond Anticipation Notes (BANs)

- What are these?
 - “Bridge loan”
- Why are they used?
 - Typically used to fund up-front soft costs to get to closing on the permanent financing
 - Many engineers require up-front funding from community through cash or BAN
 - Can be used to pre-purchase materials (subject to permanent bond buyer rules)

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Bond Anticipation Notes (BANs) (cont.)

- What are the rules?
 - Must be through the 45-day Notice of Intent referendum period before closing
 - Borrow up to 50% of total project costs
 - Maturity no later than 3 years from closing or 60 days after expected permanent financing closing date
 - Be very conservative here
 - Problems with using BANs for SRF

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Interest Rate Comparison

- **State revolving fund (SRF)**
 - FYE 2024 interest rates

Term	Regular interest rate	Overburdened interest rate	Significantly overburdened interest rate
20 years	2.50%	2.00%	1.00%
30 years	2.75%	2.00%	1.00%
40 years (DWSRF only)	N/A	2.00%	1.00%

- **USDA Rural Development – 40-year bond issue**
 - 7/1 – 9/30 interest rates
 - Poverty – 2.125% (MAHI under \$41,000)
 - Intermediate – 2.875% (MAHI between \$41,000 - \$60,000)
 - Market – 3.625% (MAHI above \$60,000)



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SRF Things to Know

- **Overburdened status worksheet**
 - Median annual household income (MAHI) must be below State’s (\$63,498 for FY 2024)
 - Annual user costs greater than 1% of MAHI or taxable value per capita less than 20% of State’s (\$22,920) calculation
- **SRF underfunded in FYE 2022, 2023 and 2024**
 - Project scoring very important
 - Conservative project estimates (may not be able to borrow more than original estimate in application)
 - What’s “Plan B”?
- **State ARPA monies and IIJA monies**
 - Being funneled into this program



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SRF Things to Know (cont.)

- Additional funds for high construction bids hard to come by
 - Always have your financial advisor/engineer ask EGLE after bids to see what your options are
- Most projects are only getting 1-3 construction bids
- Process and timing still very rigid and sometimes rushed
- Good time for a full user rate analysis to plan for future as well as current project

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CWSRF FYE 2024 funding

Award	Amount
ARP Grant	\$200,923,158
CWSRF Loan	\$729,587,842
Traditional Forgiveness	\$13,900,000
BIL PFAS Forgiveness	\$9,144,000
BIL CWSRF loan	\$45,708,750
BIL CWSRF Forgiveness	\$43,916,250
Total	\$1,043,180,000

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DWSRF FYE 2024 funding

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USDA Things to Know

- **Grant possibilities**
 - General 1.5% of median annual household income (MAHI) calculation and exceptions
 - Not a given even if you are eligible
 - Very limited right now
 - We are seeing \$1 million or less typically
- **Buy American, Build American Act (BABAA)**
 - All new applications are subject to it
- **Length of process**
 - Taking much longer than in the past

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Things to Consider – Funding Roads

- Generally, restoration above utility replacement is allowed to be included
- “V” cut, 1 lane generally per utility
- Roadway vs. greenway
- Grant funding for water and sewer through SRF or USDA can help with costs here
- Water/sewer rates can help with costs
- Road replacement/extensive repairs every 10-20 years, water/sewer every 50-100 years (hopefully)

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Things to Consider – Sharing of Services

- Technology and communication have allowed for us to be more efficient
- Staffing concerns and aging workforce in trades
- Stuck in taxing models and limitations from late 1800's-1990's
- Better bids if projects are combined between communities

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Things to Consider – Maintenance Programs

- Maintenance, repair and small improvements on current system
- Lining instead of dig and replace
- CCTV and root cutting
- Valve replacements
- Spot repair

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Wrap-up

- AMP is vitally important to understand and adequately fund utility systems
 - Do a deep dive and see the whole picture
 - Conservative estimates on capital improvement forecasts
 - Consistently review outstanding debt and perform in-depth/holistic cash flow analysis
- Funding through SRF and USDA will be highly competitive, but first steps for most communities
- Important to have engineer and/or financial advisor in your corner always assessing and reassessing grant options
- Inflationary rate increases

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Questions?



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