

MME 2023 Summer Workshop



Michigan
Municipal
Executives

Trends in Project Finance and Funding

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Overview

- **Asset Management Plans (AMP's)**
- **Banks and Brokers**
- **Bond Anticipation Notes (BAN's)**
- **State Revolving Fund (SRF)**
- **USDA Rural Development**
- **Inflation Reduction Act (IRA)**

Asset Management Plans (AMP's)

- **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)**

AMP Lessons Learned

- **Long-term financial planning**

- User rates
- Cash and debt funded capital improvements
- Cash reserves

- **Inflationary increases**

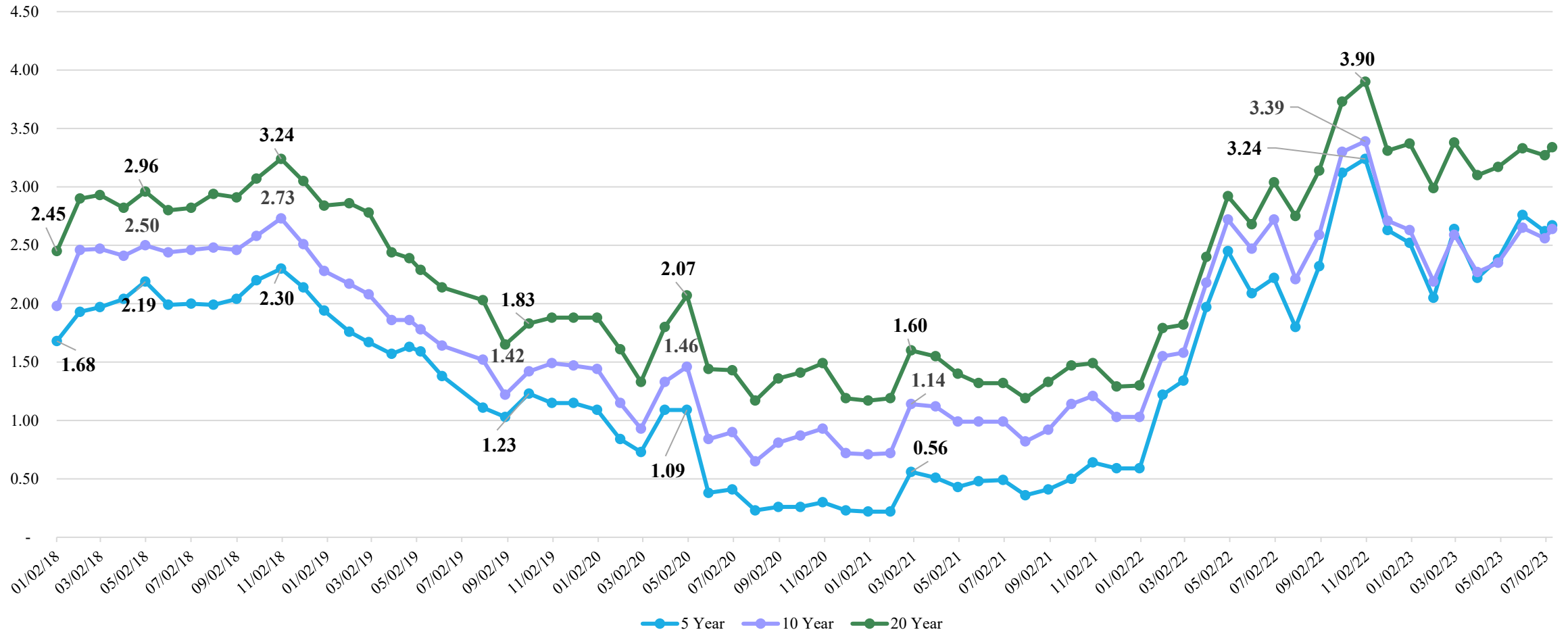
- Supplier system needs
- Operating expense increases
- Construction cost inflation
- Inflation concerns

- **City/Village vs. Township development history**

AMP Lessons Learned (cont'd)

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

Tax-Exempt Interest Rate Trend



Banks & 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**

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 4% = \$233,200.00 in interest
 - \$1 million for 10 years at 5% = \$295,000.00 in interest
 - \$1 million for 15 years at 4.5% = \$397,125.00 in interest
 - \$1 million for 15 years at 5.5% = \$494,175.00 in interest
- **Is the person offering to do the financing the decision maker at the bank? Confirm before going too far.**

Bond Anticipation Notes (BAN's)

- **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)

Bond Anticipation Notes (BAN's) (cont'd)

- **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 BAN's for SRF

Interest Rate Comparison

- **State Revolving Fund (SRF)**

- FYE 2023 interest rates
 - 20 years - 1.875%
 - 30 years - 1.875% (disadvantaged) or 2.125%
 - 40 years - 1.875% (disadvantaged) - DWSRF only
- FYE 2024 interest rates going up?
- Never gone above 2.50%

- **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)

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 are being funneled into this program**

SRF Things to Know (cont'd)

- **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**

SRF FYE 2023 Funding

DWSRF	Available Loan Amount	Out of Loan Amount How Much is Principal Forgiveness
Traditional	\$ 125 million	\$ 17 million
Bipartisan Infrastructure Law General	\$ 44 million	\$ 21.5 million
Bipartisan Infrastructure Law Emerging Contaminants	\$ 18.5 million	\$ 18.5 million
Bipartisan Infrastructure Law Lead Service Line Removal	\$ 69 million	\$ 34 million
Total	\$ 256.5 million	\$ 91 million

CWSRF	Available Loan Amount	Out of Loan Amount How Much is Principal Forgiveness
Traditional	\$ 800 million	\$ 26.5 million
Bipartisan Infrastructure Law General	\$ 77 million	\$37.8 million
Bipartisan Infrastructure Law Emerging Contaminants	\$ 4 million	\$ 4 million
Total	\$ 881 million	\$ 68.3 million

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

- **All new applications subject to Buy American, Build American Act (BABAA)**

- **Process is taking much longer than in the past**

Inflation Reduction Act (IRA)



Aug. 16, 2022
signed into law



728
pages

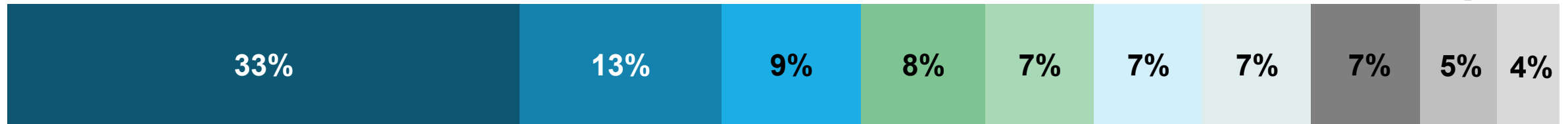


\$738 billion
in funding



\$499 billion
in new spending
and tax cuts

IRA – Breakdown of \$499B Funding



33% — Clean Electricity Tax Credits

13% — Extension of Expanded ACA Subsidies

9% — Par D Re-Design, LIS Subsidies, Vaccine Coverage, Insulin

8% — Air Pollution, Hazardous Materials, Transportation and Infrastructure

7% — Individual Clean Energy Incentives

7% — Clean manufacturing Tax Credits

7% — Clean Fuel and Vehicle Tax Credits

7% — Conservation, Rural Development, Forestry

5% — Building Efficiency, Electrification, Transmission, Industrial, DOE Grants and loans

4% — Other Energy and Climate Spending

IRA – Key Targets for Emissions Reductions

- **Power** – provides extended tax incentives for the IRA, accelerating clean energy generation, including solar and wind power, incentives for energy storage, maintenance of existing nuclear resources & research and development.
- **Industry** – supports programs for direct emissions abatement at industrial facilities and within manufacturing, and recycling processes, incentives for clean fuels, and procurement measures for low-carbon materials to promote industrial emissions reductions.
- **Transportation** – tax credits for clean vehicles, investments to strengthen battery supply, and deploying charging infrastructure.
- **Buildings** – incentives for more efficient homes and commercial buildings, and funding to assist with state and local building code adoption.

IRA – Eligible Entities

- **Cities, villages, townships, counties and municipal utilities are now eligible for clean energy tax credits!**
- **File for a direct pay tax credit from the federal government to the tax-exempt entity for qualifying clean energy project.**
 - Reduced local funding and direct costs

IRA – Tax Credits

- **Over 70 separate tax credits in the IRA**
- **Many of these credits and incentives are entitlements, meaning if your project meets specific criteria you are entitled to the tax credit**
- **Most credits are effectively good through 2032**
 - The longest U.S. “energy policy” timeframe ever

IRA – Qualifying Project Types

**Wind, solar,
hydro**

**Biomass,
combined
heat & power,
geothermal**

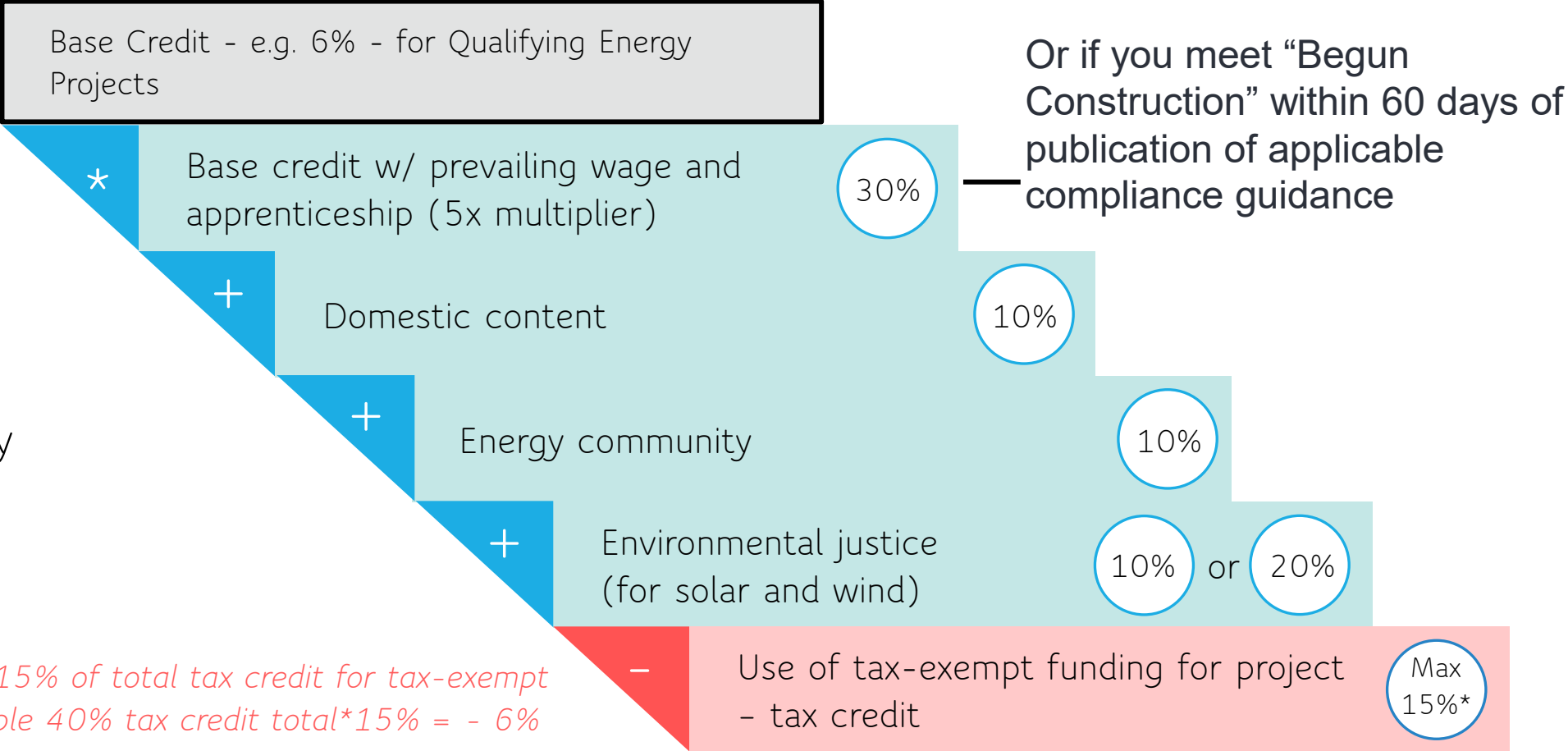
**Carbon
capture**

**Electric
vehicles**

**Renewable/
Low-carbon
fuels**

IRA – Tax Credit Calculation

“Base Credit” + “Bonus Criteria” is the overriding theme of the new credit regime



➤ Not all credits apply to all projects

* Max 15% of total tax credit for tax-exempt
 Example 40% tax credit total*15% = - 6%

IRA – Prevailing Wage

Prevailing wage is satisfied if:



Taxpayer satisfies the prevailing wage rate requirements



Taxpayer maintains and preserves sufficient records

Prevailing wage terms

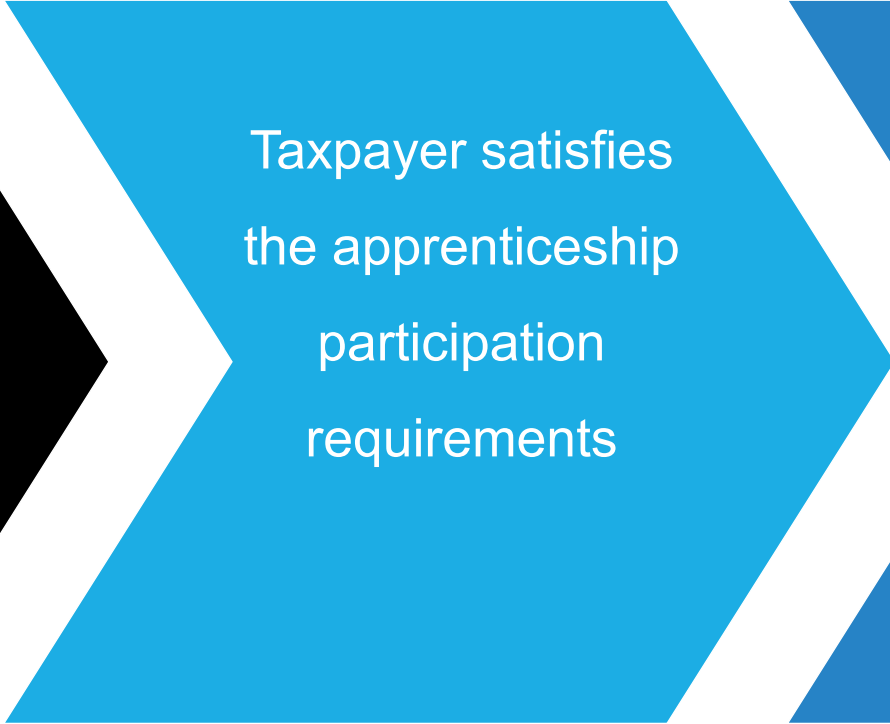
- **Wage and wages – wages as defined under 29 CFR 5.2(p) including any bona fide fringe benefits as defined therein**
- Construction, alteration or repair – construction prosecution, completion, or repair as defined under 29 CFR 5.2(j)
 - **Covers only mechanics and laborers who work *on the site* of the federally-funded public building or public work. Does not cover mechanics and laborers employed off-site, such as suppliers, materialmen and material delivery truck drivers. This is regardless of their employer.**

IRA – Apprenticeship Requirements


- Taxpayer satisfies the apprenticeship requirements if



Taxpayer satisfies the apprenticeship labor hour requirements, subject to any applicable apprenticeship ratio requirements



Taxpayer satisfies the apprenticeship participation requirements



Taxpayer complies with the general recordkeeping requirements

IRA – Domestic Content Bonus – 10%

- **Property must consist of materials manufactured in the United States**
 - Steel and iron must be 100% manufactured in the United States
 - Adjusted percentage of the total cost of all manufactured products must be mined, produced, or manufactured in the United States
 - Adjusted percentage through 2024 is 40%

Increase to credit percentage:

- **For projects not meeting wage and apprenticeship requirements additional credit is 2%**
- **For projects meeting wage and apprenticeship requirements additional credit is 10%**

IRA – Energy Community Bonus – 10%

- **Brownfield site**
- **Metropolitan statistical area or non-metropolitan statistical area which –**
 - Has 0.17% or greater direct employment or 25% or greater local tax revenues related to the extraction, processing, transport or storage of coal, oil or natural gas
 - Has an unemployment rate at or above the national average unemployment rate for the previous year
- **Census tract**
 - Which after Dec. 31, 1999, a coal mine closed
 - After Dec. 31, 2009, a coal-fired electric generating unit has been retired
 - Adjoining census tract

Increase to credit percentage:

- **For projects not meeting wage and apprenticeship requirements additional credit is 2%**
- **For projects meeting wage and apprenticeship requirements additional credit is 10%**

IRA – Environmental Justice Bonus

- **Qualified solar and wind facility**

- Generates electricity solely from wind or solar
- Has a maximum net output of less than 5 megawatts
 - Located in a low-income community (45D(e)) or on Tribal land
 - Part of a qualified low-income residential building project or a qualified low-income economic benefit project

Increase to credit percentage:

- **Possible increase of 10% or 20%**
- **Must receive environmental justice solar and wind capacity limitation allocation**

IRA – Summary Credit Buildup – “The Holy Grail”

	Percentage
Base Credit + Prevailing Wage	30%
Domestic Content	10%
Energy Community	10%
Environmental Justice	10% OR 20%
Total Maximum Credit Amount	70%

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 stops 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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