



# Ask Me Anything: Why Should my Utility Incur Debt?

May 19, 2025



# About Us

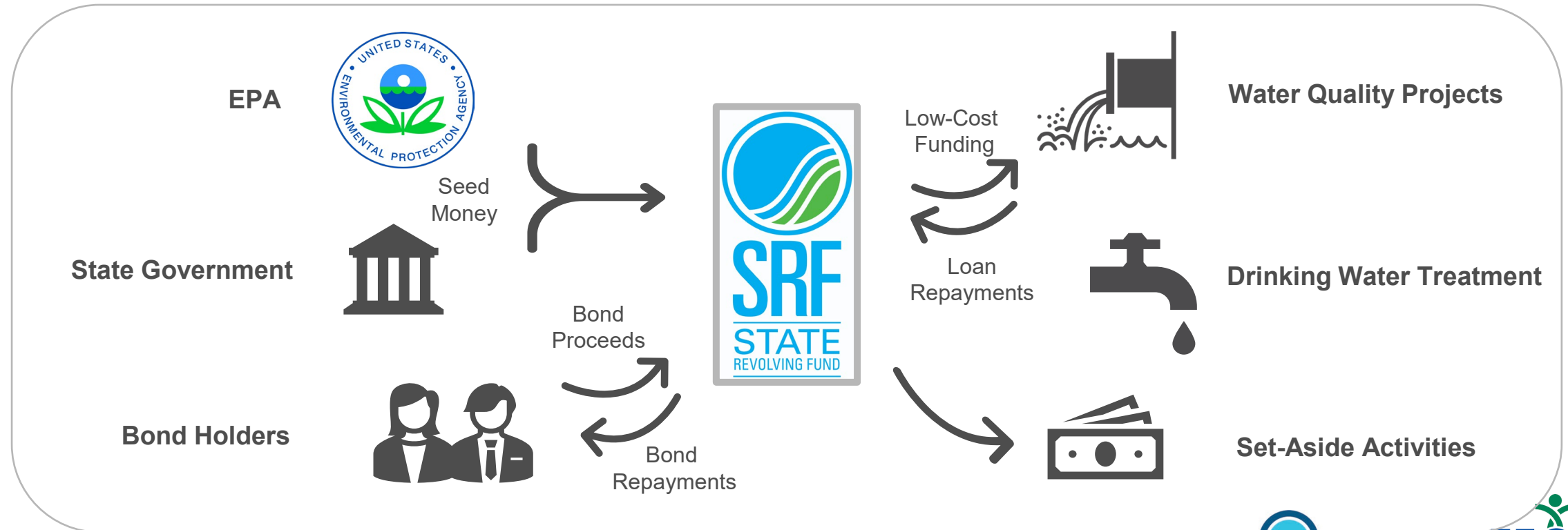
The **Environmental Finance Center Network (EFCN)** is a university- and non-profit-based organization creating innovative solutions to the difficult how-to-pay issues of environmental protection and water infrastructure.

The EFCN works collectively and as individual centers to address these issues across the entire U.S, including the 5 territories and the Navajo Nation. The EFCN aims to assist public and private sectors through training, direct professional assistance, production of durable resources, and innovative policy ideas.



# What are the SRFs?

- Low interest revolving loan program with subsidies for targeted projects and communities
- Money comes from EPA/Federal Government, state match, loan repayments, interest, bond proceeds



# Excuses

- High cost of borrowing
- Budget constraints
- Fiscal responsibility
- Uncertain revenue streams
- Long payback period
- Alternative funding sources
- Political or public opposition
- Environmental or regulatory concerns
- Uncertainty about future needs
- Risk of project failure

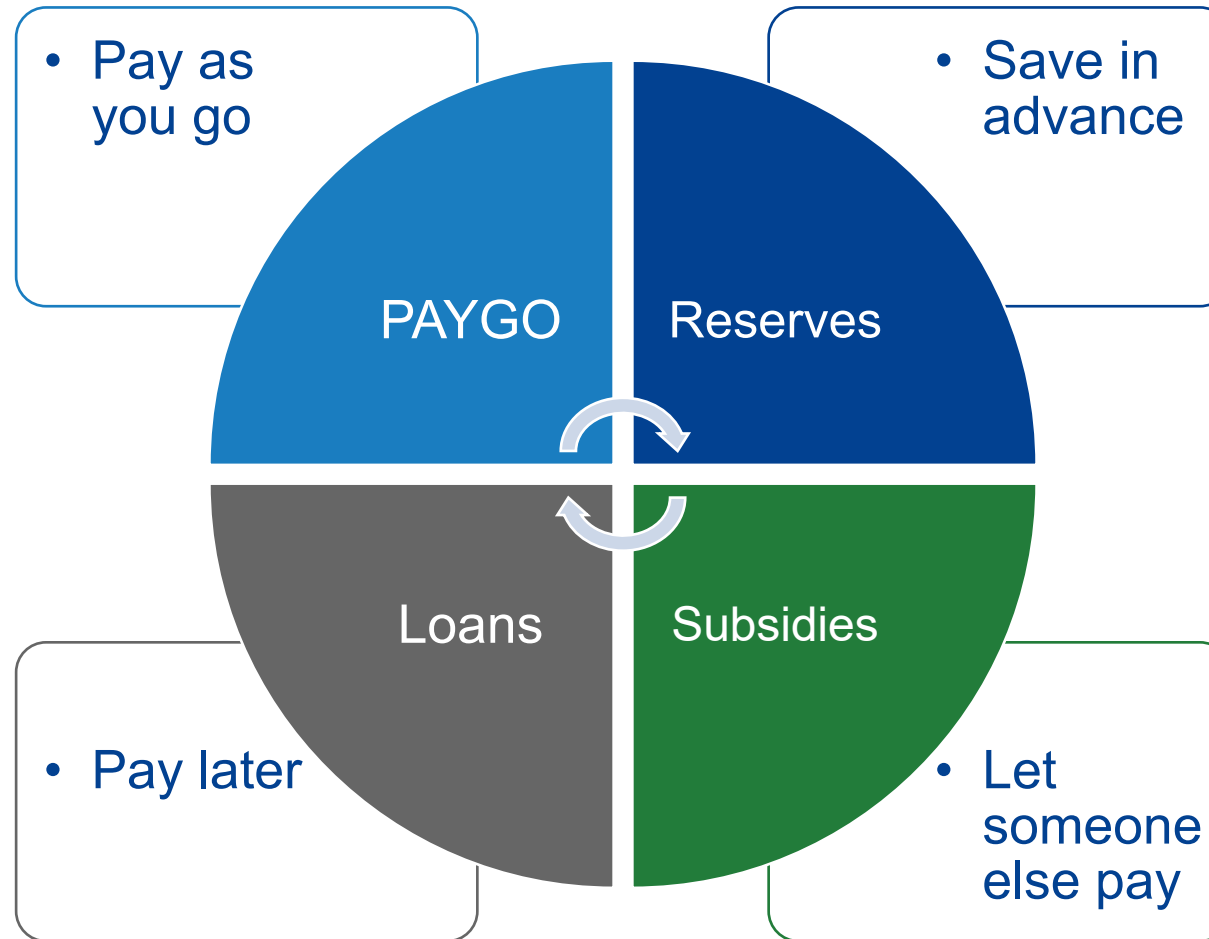


# Justifications

- Funding large-scale improvements
- Ensuring safe & reliable water supplies
- Cost-effective financing
- Economic growth & development
- Preventing greater future cost
- Accessing external funds
- Meeting regulatory requirements
- Enhancing resilience & climate preparedness
- Public health & safety
- Achieving long-term cost savings



# Paying for Infrastructure



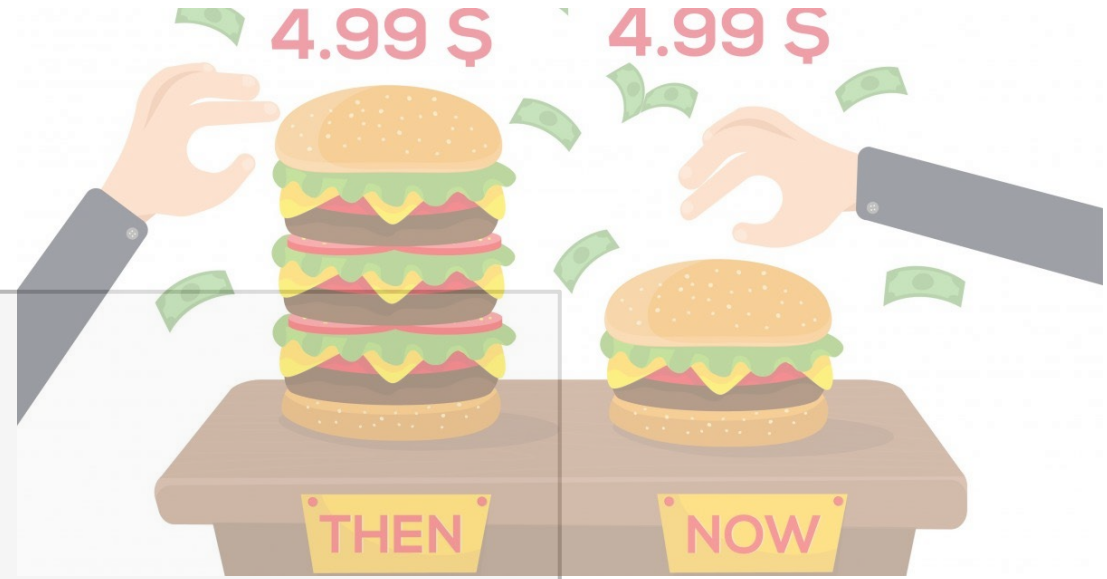
# PAYGO

- Large capital budget
- Robust capital improvement plan
- Professional staff



# Reserves

- Full Cost Pricing
- Inflation
  - Dollar is worth less tomorrow and today
  - Saving for infrastructure replacement via depreciation does not account for inflation or construction price increases
  - Saving accounts yields are not equal to inflation
- Delaying project to save increases project costs, chances of negative public health or environmental impacts, or enforcement actions





# Subsidies/Grants

- Free money? No such thing
- What is the cost to pursue so called free money?
  - Staff
  - Project delays
  - Grant compliance
  - Match requirements
- Grants can distort a system's financial reality
  - Hides true cost of service
- Competition and low predictability



# Debt

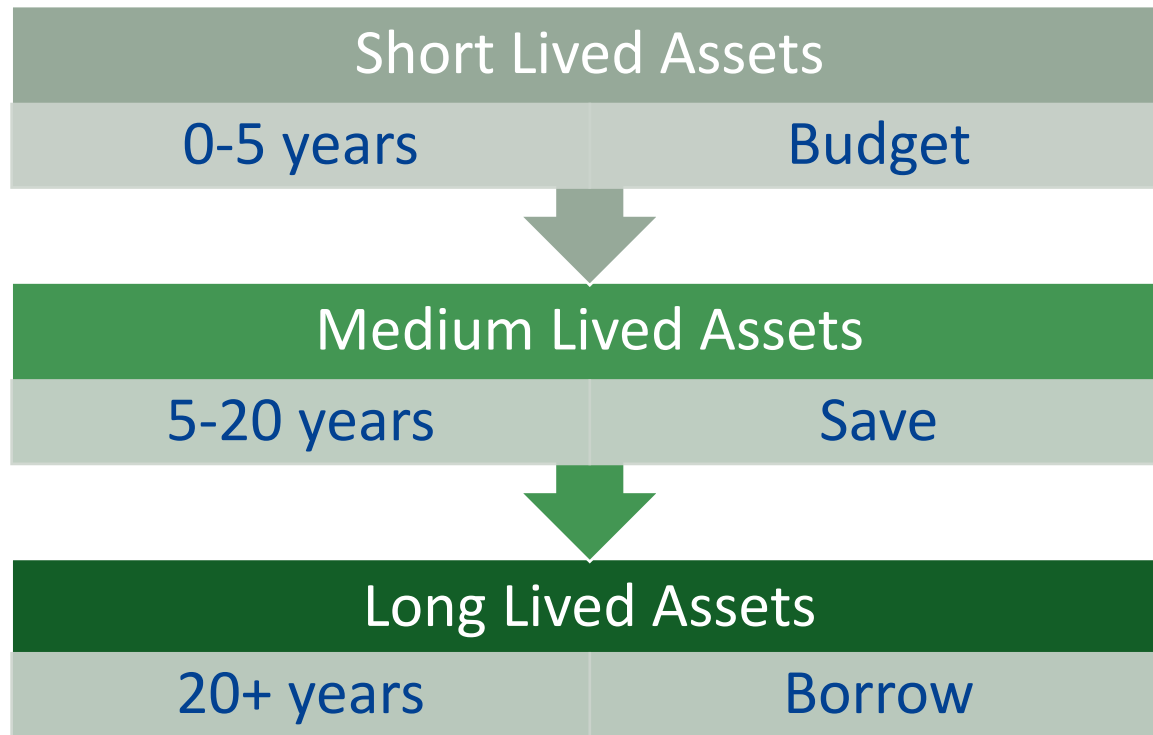
## • Benefits

- Level principal
- 100% financing
- Refunding options
- Tax/user fees as security
- Spreads investment out over many years
- Financed by bond holders – who are they?

## • Challenges

- Aversion to debt
- Interest rate unknown until closing
  - Cost-of-issuance can add up

# Ashley's Budgeting Philosophy



**= Intergenerational Equity**

# Budgeting

# Ask Yourself

- Calculating reserves
- Debt planning
- Depreciation
- End-of-year surplus
- Delinquencies
- Days of cash on hand
- General Fund transfers
- Non-revenue water
- Contract services
- Debt Service Coverage Ratio



# Budget Considerations

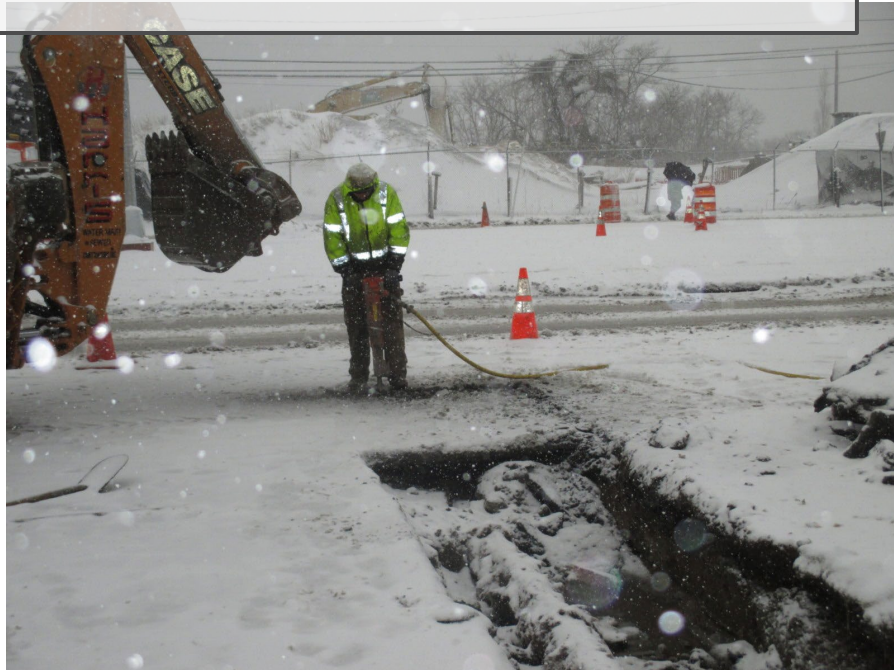
- Do you have a budget?
- When was the last time a review was completed?
- How and when is the next year's budget developed?
- Are you on target with expected expenses?
- What are the high dollar value or % exceedance line items?
- Set expense needs, then evaluate revenue





# Budget Exercise

- Waterline repair budget line item: \$35,000
- Winter waterline break expense: \$25,000/break
- Insurance claims, service disruption, repair conditions



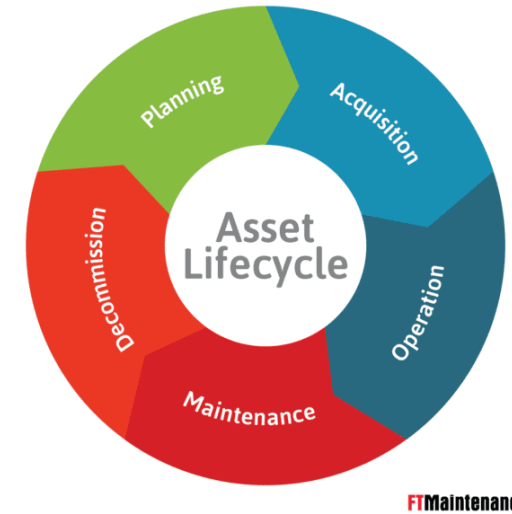
- 65 YO waterline
- Annual + breaks in winter
- DWSRF annual loan payment: \$35,000

# AM + CIP



# Asset Management

- Inventory, including condition assessment
- Level of Service goals
- Criticality assessment
  - Probability of failure
  - Consequence of failure
- Prioritization
- Funding strategy



- An AMP typically includes:
  - Inventory and analysis of critical assets
  - Evaluation of asset maintenance costs
  - Long-term funding strategies

# Capital Improvement Plan

- A CIP covers 5-7 years and typically includes:
  - Estimated costs for each project
  - Estimated timelines for each project
  - Funding sources
  - A financing plan

<https://opengov.com/article/capital-improvement-plans-101/>

What is the correct answer to  
any SRF question?

Every state is different.  
It depends.

# Upcoming Trainings

**How do I Prepare for a Financial Review?**

June 4, 2025 / 11:00-1:00 pm EST

**What is the best way to calculate rates?**

June 16, 2025 / 2:00-4:00 pm EST

**Federal Award Compliance**

July 2, 2025 / 11:00-1:00 pm EST

**Asset Management and Capital Improvement Plans**

July 21, 2025 / 2:00-4:00 pm EST

For more information and to register visit:

<https://efcnetwork.org/event/virtual-office-hours-ask-me-anything-srf-technical-assistance-open-discussion/>

## Community Finance Team

<https://www.quantifiedventures.com/community-finance>



### Ashley Lucht

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- Former DWSRF Project Manager for the State of Vermont

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