Ask Me Anything! Why Should my Utility Incur Debt? 5.19.2025

Quick recap

Ashley conducted an "Ask Me Anything" session on State Revolving Loan Funds (SRFs) where she discussed the benefits and challenges of using debt financing for utilities, including comparisons with alternative funding methods and considerations for intergenerational equity in community services. Ashley shared her experience working with small water systems and bond banks, emphasizing the importance of technical assistance and asset management in supporting these communities' infrastructure needs.

Next steps

- Ashley to conduct upcoming training on "How to prepare for a financial review" on June 4th
- Ashley to deliver abbreviated version of "The Art of Setting Utility Rates" training on June 16th
- Ashley to present "Federal award compliance" training covering SRF Federal crosscutters on July 2nd
- Ashley to conduct training on "Asset management and capital improvement plans" in late July
- Ashley to participate in Water Online podcast event later this month.
- Ashley to continue hosting Ask Me Anything sessions through November 17th

Summary

SRF "Ask Me Anything" Session

Ashley conducted an "Ask Me Anything" session on State Revolving Loan Funds (SRFs), emphasizing her 20-year experience in Vermont's Drinking Water SRF and Bond Bank. She discussed the topic of why utilities should incur debt, noting that she had touched on this topic in previous sessions. Ashley explained that the session was not recorded to encourage open questions, and she assured participants that their identities and specific utility details would remain confidential. She also mentioned that summaries of the session would be posted on the Environmental Finance Network's website for future reference.

State Revolving Loan Fund Operations

Ashley explained the history and operation of the Clean Water and Drinking Water State Revolving Loan Funds, noting their long-standing presence and the mechanism by which federal and state funding is allocated and managed. She highlighted that the funds are sustainable due to the significant amount of money coming back into the programs annually through loan payments, exceeding the contributions from federal and state funding. Ashley also discussed the concept of leveraging, where some states use repayment funds as collateral to secure additional funds from the municipal bond market, and addressed questions about the funds' viability if federal funding is reduced.

Infrastructure Debt Financing Strategies

Ashley discussed the use of debt financing for infrastructure projects, explaining that communities often borrow money to fund long-lived assets. She addressed common excuses for avoiding debt, such as cost concerns and political opposition, and provided justifications for using debt financing. Ashley also compared alternative funding methods like pay-as-you-go, reserves, and subsidies, highlighting the benefits and challenges of each. She emphasized the importance of planning for infrastructure replacement and the advantages of debt financing, including delayed repayment and the potential for refinancing municipal bonds.

Intergenerational Equity in Community Services

Ashley discussed intergenerational equity in community services, using a personal example of a condo roof replacement to illustrate how current residents pay for future benefits. She then presented budget considerations for communities, emphasizing the importance of aligning debt financing with asset management, timing infrastructure investments with maturity schedules, and tying debt to growth to smooth revenue increases.

Infrastructure Debt Financing Strategies

Ashley discussed the importance of asset management and capital improvement planning in utility operations, using a real example from a community in Vermont to illustrate the benefits of using debt financing for infrastructure replacement. She explained how analyzing the cost of recurring water line breaks led to the decision to take out a loan to replace the entire water line, which annual loan payment was about the same as annual repairs but provided a long-term solution. Ashley emphasized that debt financing is a valuable tool for managing infrastructure assets, particularly when combined with proper asset management practices and careful budget planning.

SRF Training and Variability Discussion

Ashley discussed the variability of SRF programs across states and encouraged participants to register for upcoming "Ask Me Anything" trainings, which are scheduled for the first Wednesday and third Monday of each month, generally. She clarified that while some trainings are part of a series, others are one-offs due to scheduling conflicts. Ashley also shared her experience working with small water systems and encouraged questions from the audience, noting that participation does not earn credit hours.

SRF Loan Access Challenges

Ashley discussed the challenges small communities face in accessing SRF loans, highlighting the need for pre-development funding to hire engineers and reduce financial burdens. She emphasized that, in an ideal world, states would provide highly subsidized funding for engineering services, which would facilitate smoother project implementation and help communities navigate the SRF process.

Bond Banks: Conduit for Municipal Funding

Ashley explained how bond banks function as conduit financiers for small municipalities, using Vermont as an example. She described how a town can issue a general obligation bond, which pledges the town's tax revenue as collateral for a loan. The bond bank then pools these small loans into a larger offering and issues that bond to the capital market, using its own credit rating to secure favorable interest rates. Ashley emphasized that bond banks absorb the financial risks and costs associated with issuing bonds, allowing small towns to access funding for infrastructure projects that they might not be able to secure on their own.

Supporting Small Communities in Utility Management

Ashley discussed her experience working with small communities and the challenges they face in managing utility projects. She outlined upcoming training sessions on financial reviews, rate calculations, Federal award compliance, and asset management. Ashley also mentioned a podcast appearance and encouraged attendees to register for a Water Online live event. She emphasized the importance of technical assistance for small communities and the rewarding nature of supporting these efforts, despite the challenges.

Disclaimer: This summary was generated using AI but was reviewed and edited by a Human.

Common excuses for not taking on debt for water infrastructure projects often include:

1. High Cost of Borrowing: Concerns about high interest rates and total repayment amounts making the project financially burdensome.

2. Budget Constraints: Limited available funds or general budget restrictions preventing the approval of new debt.

3. Fiscal Responsibility: Desire to avoid increasing debt obligations to maintain strong credit ratings and financial stability.

4. Uncertain Revenue Streams: Doubts about the ability to generate sufficient revenue or fees to service the debt.

5. Long Payback Periods: Worried that the time needed to recover costs is too long, making the investment less attractive.

6. Alternative Funding Sources: Preferential use of grants, government subsidies, or other non-debt financing mechanisms.

7. Political or Public Opposition: Resistance from stakeholders or the public who may oppose debt-financed projects.

8. Environmental or Regulatory Concerns: Fears that delays or additional requirements could increase costs or complicate financing.

9. Uncertainty About Future Needs: Doubts about long-term demand projections or future water usage, leading to hesitation in committing funds.

10. Risk of Project Failure: Concerns about construction delays, technical challenges, or other risks that could jeopardize the investment.

Common reasons for taking on debt for water infrastructure projects include:

1. Funding Large-Scale Improvements: To finance significant upgrades or new construction that exceeds current budget capacity.

2. Ensuring Safe and Reliable Water Supply: Investing in infrastructure that guarantees water quality and continuity for communities.

3. Cost-Effective Financing: Taking advantage of low interest rates to spread costs over time, making large projects more affordable.

4. Economic Growth and Development: Supporting community or regional growth by expanding water services, which may require upfront investments.

5. Preventing Greater Future Costs: Addressing aging or failing infrastructure to avoid more expensive repairs or crises later.

6. Accessing External Funds: Leveraging loans or bonds that often come with favorable terms, enabling projects that might not be feasible otherwise.

7. Meeting Regulatory Requirements: Complying with government or environmental standards that necessitate infrastructure improvements.

8. Enhancing Resilience and Climate Preparedness: Investing in infrastructure that can withstand extreme weather events or other climate-related challenges.

9. Public Health and Safety: Ensuring that water systems meet health standards and prevent contamination.

10. Achieving Long-term Cost Savings: Implementing efficient systems that reduce operational costs over time, justifying the initial debt.

Disclaimer: These excuses and reasons were generated using AI but were reviewed and edited by a Human.

From the Chat:

Q: If we registered for this training will we automatically get an email for future trainings?

> *A: Not necessarily. It would be best to use this link to make sure you're registered.* [*https://efcnetwork.org/event/virtual-office-hours-ask-me-anything-srf-technical-assistance-open-discussion/*](https://efcnetwork.org/event/virtual-office-hours-ask-me-anything-srf-technical-assistance-open-discussion/)

Q: How well are TA providers doing?

> *A: That is a tough question to answer. I think, generally, TA providers have been issued a Sisyphean task. Supporting utilities, especially the smallest, most under-resourced ones is a long game. One does not simply show up one day, ask what the problem is, fix it and then move on. Challenges compound and solving one may beget another.*

Q: Can you talk a little more about bond banks and how they may be able to help with funding ww improvement projects for teeny tiny systems?

> *A: Bond banks, if they exist in a state, may be able to provide the cover very small utilities need in order to access financing. What I mean by that is, because bond banks, as I've come to understand them, can pool requests from a variety of borrowers for a variety of projects, ultimately providing economies of scale. Of course, I don't speak for all bond banks, but aside from the CWSRF, they may be a good option.*

C: Okay this was pretty darn good so thanks got to run.

C: This was awesome! Thank you!

C: I'm fairly new to this world and I've learned so much from these sessions. Really grateful to have found y'all!

C: Thank you for the overview and talking about TA. This has been helpful!