

FUNDING INFRASTRUCTURE PROJECTS DURING A RECESSION

By Ted R. Fylstra



In communities throughout Florida and across the country, drinking water and wastewater systems are straining under the weight of decades of federal government underinvestment. As the troubles with our water infrastructure mount, the country's economy slides deeper into recession. Investing now in drinking water and wastewater system improvement projects can help considerably to bring the economy out of the recession, while enhancing the quality and useful life of these critical components of our infrastructure.

But, how does a community do this when tax revenue is reduced, the lack of development or government waivers have reduced availability of funds from impact fees, and the money that is available is being stretched among competing needs? The answer is to make maximum use of remaining sources of grant funding. Sources of funding still available for critical infrastructure projects are described below. Please read on to see which programs may be beneficial for your community.

Florida Department of Environmental Protection (FDEP) Small Community Wastewater Facilities Grants Program (SCWFGP)

The SCWFGP provides preconstruction and construction grants for eligible wastewater projects implemented by communities under 7,500 in population and with per capita income that is less than the State average. Grant amounts depend on the ultimate source of matching funds (State Revolving Fund (SRF) or community match), and the documented need for the project. Approximately \$10 to \$15 million is available on an annual basis.

Small Cities Community Development Block Grant Program (CDBG)

This program is available to communities with a population of 50,000 or less that opt out of their County's CDBG entitlement program. The Small Cities CDBG program is a competitive grant program that awards funds to eligible communities. Since 1983, funding has varied between \$18 and \$35 million on an annual basis. This program is a good source of funds for projects that the community cannot otherwise afford. Examples of eligible projects include:

- rehabilitation and preservation of housing;
- water and sewer improvements;
- street improvements;
- economic development activities;
- creating jobs for low and moderate income people;
- downtown revitalization;
- parks and recreation projects; and
- drainage improvements.

Based on its population, a community can apply for between \$600,000 and \$700,000 in grant funding for projects in any one application cycle.

Community Budget Issue Request (CBIR)

Although the Florida Legislature has not funded this program for the last three years, this program has, in the past, provided grant funds for completion of eligible projects that protect public health or the environment, and implement a state, local, or regional plan related to water quality improvement and restoration. As the economy improves, the State will likely reinstate funding of this program.

FDEP State Revolving Fund Loan Program (SRF)

The SRF program is similar in structure and process to the SCWFGP, but does not provide grant funding. The SRF program provides low-interest loans to communities for completion of utility infrastructure projects. Based on current bond rates of 4.35% and the census tracts associated with a particular project, a community could be eligible for an interest rate between 2% and 3%. Payments are normally amortized over 20 years, with a 30-year amortization available on request. Using this program, a community could leverage its utility revenue stream to complete projects while maintaining and building reserves.

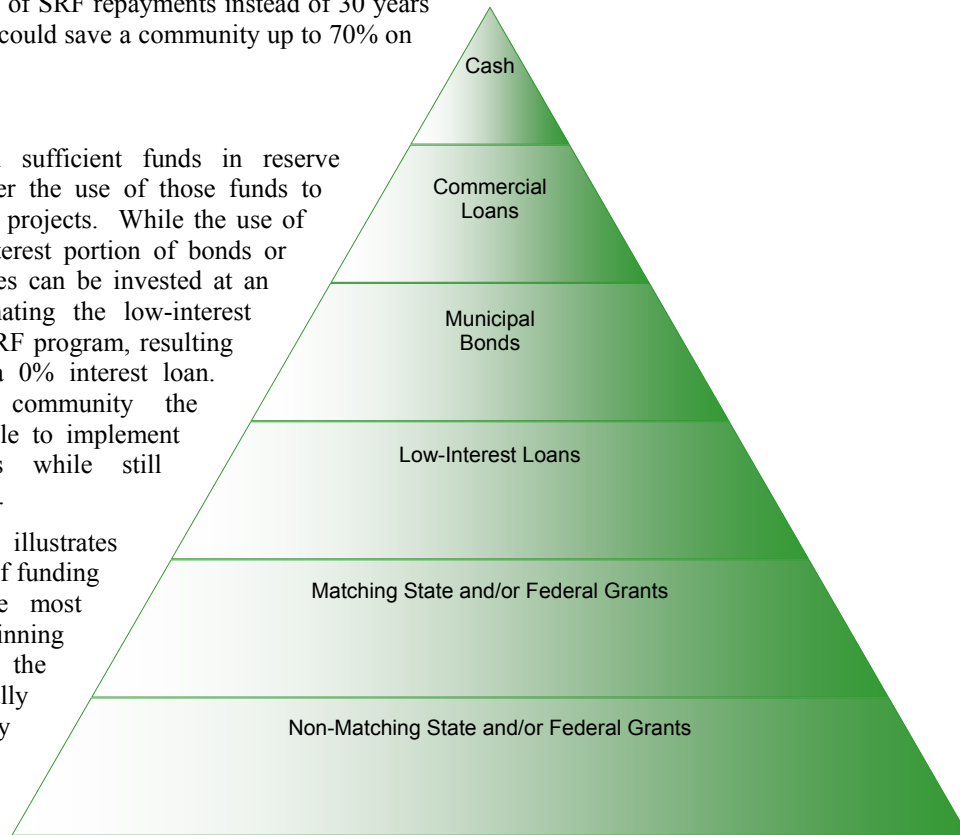
Municipal Bonds

One option that many communities use to fund infrastructure projects is bonds. However, in those instances where lower cost financing or grants are available, bonds are not the most advantageous financing method. For example, use of the SRF program referenced previously instead of bonds would involve 20 years of SRF repayments instead of 30 years of bond payments, and could save a community up to 70% on interest costs.

Cash

Any community with sufficient funds in reserve accounts could consider the use of those funds to construct infrastructure projects. While the use of cash eliminates the interest portion of bonds or loans, often the reserves can be invested at an interest rate approximating the low-interest rate provided by the SRF program, resulting in the equivalent of a 0% interest loan. This provides the community the advantage of being able to implement infrastructure projects while still holding on to their cash.

The diagram, at right, illustrates the overall preference of funding mechanisms, with the most desirable approach beginning at the bottom of the pyramid. Generally speaking, a community should exhaust options at each level before proceeding upward to the next level.



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