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watersmartinnovations.com
Utilizing Debt Funding for Water Conservation Programs

Cynthia Koehler, Executive Director, WaterNow Alliance
Ed Harrington, former President, Government Finance Officers Association
Mary Kimura, Attorney, Norton Rose Fulbright
Julie Desimone, Partner, Utility National Practice Leader, Moss Adams
EFFICIENCY AND WATER SUPPLY

CITY OF LOS ANGELES WATER USE AND POPULATION

Since 1970 to present, L.A.’s population has grown by over 1.0 Million

131 gallons/person/day

Note: Population was updated with 2010 U.S. Census data
THE NEW INFRASTRUCTURE: CENTRALIZED AND DECENTRALIZED

Potential Water (thousand acre-feet)

- **Seawater Desalination**: 330 - 560
- **Stormwater Capture**: 420 - 630
- **Water Reuse**: 1,200 - 1,800
- **Urban Efficiency**: 2,900 - 5,2

Source: Pacific Institute
“DISTRIBUTED INFRASTRUCTURE”
CAPITAL vs. OPERATING

- Pipes
- Treatment plants
- Reservoirs

- Staff salaries & benefits
- Chemicals
- Annual regular maintenance
ACCESSING CAPITAL MARKETS FOR EFFICIENCY

BOND FINANCING DISTRIBUTED WATER SYSTEMS:
How to Make Better Use of Our Most Liquid Market for Financing Water Infrastructure

September 2014

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asset

/ˈæsət/

noun

a resource with economic value that an entity owns or controls with the expectation that it will provide future benefit.
Mission: to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards.
Water Smart Landscape Program:

- $202 million in rebates
- 108.52 billion gallons saved since 2000
- 177 million
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WHAT DO YOU WANT TO DO?

• Expanded water conservation programs
  • Subsidized Toilet installation
  • Washing machine rebates
  • Free shut off valves/nozzles

• Turf buyback

• Partner with a Waste/Stormwater agency on a facility they will own and operate, but will put water back into your aquifer

• Green Roofs/permeable pavement on private property
WHAT’S THE PROBLEM?

• Your finance folks tell you that you can only pay for these things out of rate revenue

• Annual rate revenue is not sufficient to cover large programs.

• There are alternative financing choices available that accountants are unfamiliar or uncomfortable with.
# ASSET CONTROL

The WaterNow Alliance Flexible Financing Initiative

<table>
<thead>
<tr>
<th>Water Efficient Indoor Appliances</th>
<th>Real Property Lease</th>
<th>Personal Property Lease</th>
<th>Lien</th>
<th>Title</th>
<th>Contract</th>
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<tbody>
<tr>
<td>Cash-for-grass, Xeriscape, Permeable pavement, green rooftops, bioswales, rain gardens</td>
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<td>Grey Water System, drip irrigation,</td>
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- Green = Likely
- Yellow = Potentially
- Red = N/A
What are “regulated operations”?
• Are you eligible:
  ✓ Do you have a governing board that can set rates?
  ✓ Can they set rates designed to recover the specific costs of the program you want to fund?
  ✓ Can they set rates at levels sufficient to recover those costs from your customers?
GASB# 62 says:

• A regulated business-type activity should capitalize all or part of incurred costs that otherwise would be charged to expense if the following criteria are met:
  • It is probable that future rate revenues will be at least equal to the costs incurred.
  • Future revenue will pay for these incurred costs—not for future costs.
WHY IS THIS IMPORTANT?

• If you are allowed to view these programs as part of the long-term capital program, they become much more scalable and provide real opportunities for large water savings.

• You open up a wider choice for funding the projects—issuing debt.
WHO DO YOU NEED TO WORK WITH?

• Accountants/Auditors
• Bond Lawyers
• Bond Financial Advisors
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WE’RE ALL CONNECTED THROUGH WATER