

LEVERAGING CAPITAL MARKETS TO ACCELERATE LEAD SERVICE LINE REPLACEMENTS

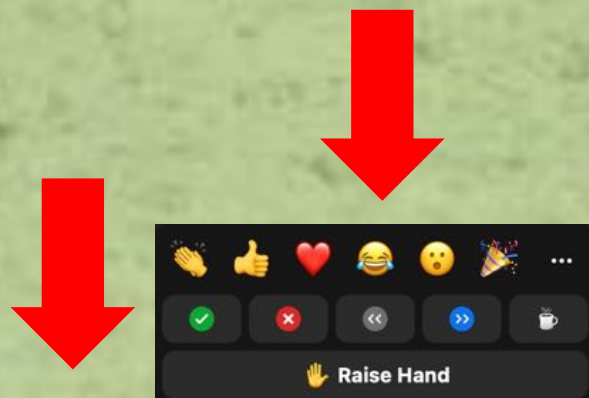
February 1, 2023
10am PT / 1pm ET



Music: www.bensound.com

WATERNOW ALLIANCE

Housekeeping & How to Ask Questions



Today's Speakers



MARC UY, Portfolio Manager, Municipal Impact,
AllianceBernstein



ANGELA BRICMONT, Chief Financial Officer,
Denver Water



HALEY MILLER, Internal Controls Manager,
Denver Water



CYNTHIA KOEHLER, Executive Director,
WaterNow Alliance



DENISE SCHMIDT, Funding Navigator Director,
Environmental Policy Innovation Center

Agenda



- About WaterNow
- Lead Service Line Replacements—A One Water Solution
- Financing Options for Private LSLRs
- Case Study: Denver Water
- Funding Navigator—Accessing Federal Dollars
- Discussion and Audience Q&A

PLEASE COMPLETE OUR WEBINAR EVALUATION!



 **waternow** alliance
water leaders. resilient solutions.

OUR MISSION

ENGAGE

our growing network and connect them to opportunities, ideas, data, resources and one another

ADVOCATE

for a sustainable water future by eliminating barriers and advancing solutions through our policy work

DEMONSTRATE

success by showcasing strategies that communities can replicate and scale

A forum and network of local water leaders advancing sustainable, affordable, equitable and climate resilient water strategies

WHAT DO WE MEAN BY SUSTAINABLE?

Providing safe, healthy, and affordable water services for people while preserving the integrity of water resources and the environment for future generations.



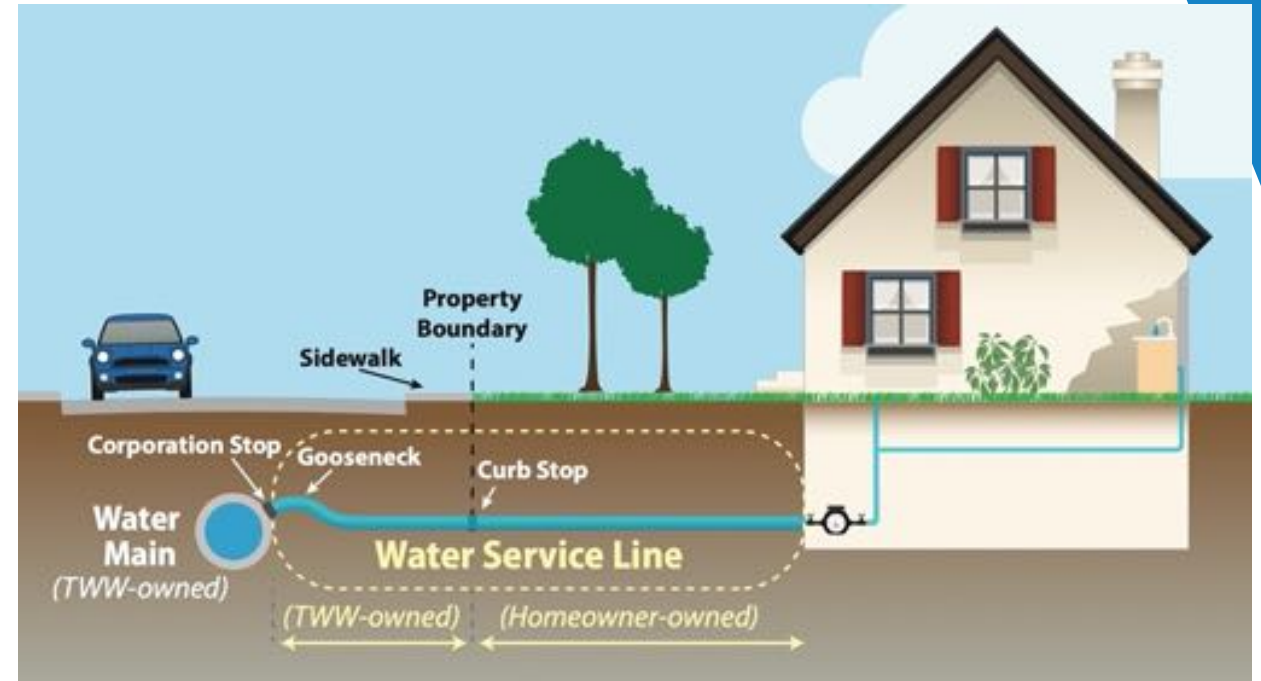
WHAT DO WE MEAN BY EQUITABLE?

Water equity means universal access to secure, affordable, safe, and healthy drinking water, and wastewater and stormwater management services. Equitable water infrastructure investment should support the long-term sustainability of our waterways, water systems, and utilities.



THE CHALLENGE: REMOVING LEAD IN DRINKING WATER

- ✓ 6-10 million lead service lines across the country
- ✓ Most are privately owned



LSLR: A ONE WATER SOLUTION

- ✓ Treatment options can impact local water systems and waterways
- ✓ Replacing LSLs is a holistic approach that tackles lead at its source



ACCELERATING IMPACT: INVESTOR PERSPECTIVE ON LSLR



Marc Uy
Portfolio Manager,
Municipal Impact
AllianceBernstein

Thoughts From an Investor

- The growing ESG market and greenwashing
- Why are we interested in lead service line replacement bonds?
- Potential speed bumps
- Think differently
- How do we judge the true impact of this investment?



FINANCING TO ACCELERATE PRIVATE LSLRs



Cynthia Koehler
Executive Director
WaterNow Alliance

FUNDING VS FINANCING

Funding: Who pays for infrastructure

Financing: How infrastructure is paid for over time.



Fiscal resources raised through *financing i.e., borrowing*, must be repaid from *funding* that ultimately comes from ratepayers.

WHY ARE WE TALKING ABOUT DEBT?

The Need for Speed

Using annual rate revenue usually means a slower approach.

E.g., Chicago estimates 70 years to complete LSLRs.

Capital financing provides upfront cash to enable rapid deployment.



BENEFITS OF DEBT FINANCING Lead Service Line Replacements



- ✓ Invest for scale, workforce development
- ✓ Supports public health goals
- ✓ Match costs with benefits
- ✓ Access to efficient and inexpensive financing
- ✓ Intergenerational equity

UTILITY FINANCING FOR PRIVATELY-OWNED LEAD LINES

- ✓ Most lead lines are on private property
- ✓ Disproportionately impact communities of color
- ✓ LCR requires utilities to ensure drinking water is safe and lead free



TWO KEY DEBT-FINANCING OPTIONS

State Revolving Funds

- ✓ Mechanism for accessing \$15B in BIL funds
- ✓ Add'l SRF loans available for LSLR
- ✓ States specifically authorized to issue SRF loans for LSLR

Municipal Bonds

- ✓ Familiar way to pay for water infrastructure
- ✓ Complementary to BIL and SRF dollars
- ✓ Can be flexible enough to invest in private replacements

THREE GATES OF DEBT FINANCING

Before you can issue debt, you have to pass through three gates

1. Do you have legal authority?
2. Are you meeting tax laws?
3. Have you planned for appropriate accounting treatment?



ACCOUNTING RULES ALLOW US TO DEBT FINANCE A WIDE VARIETY OF ITEMS

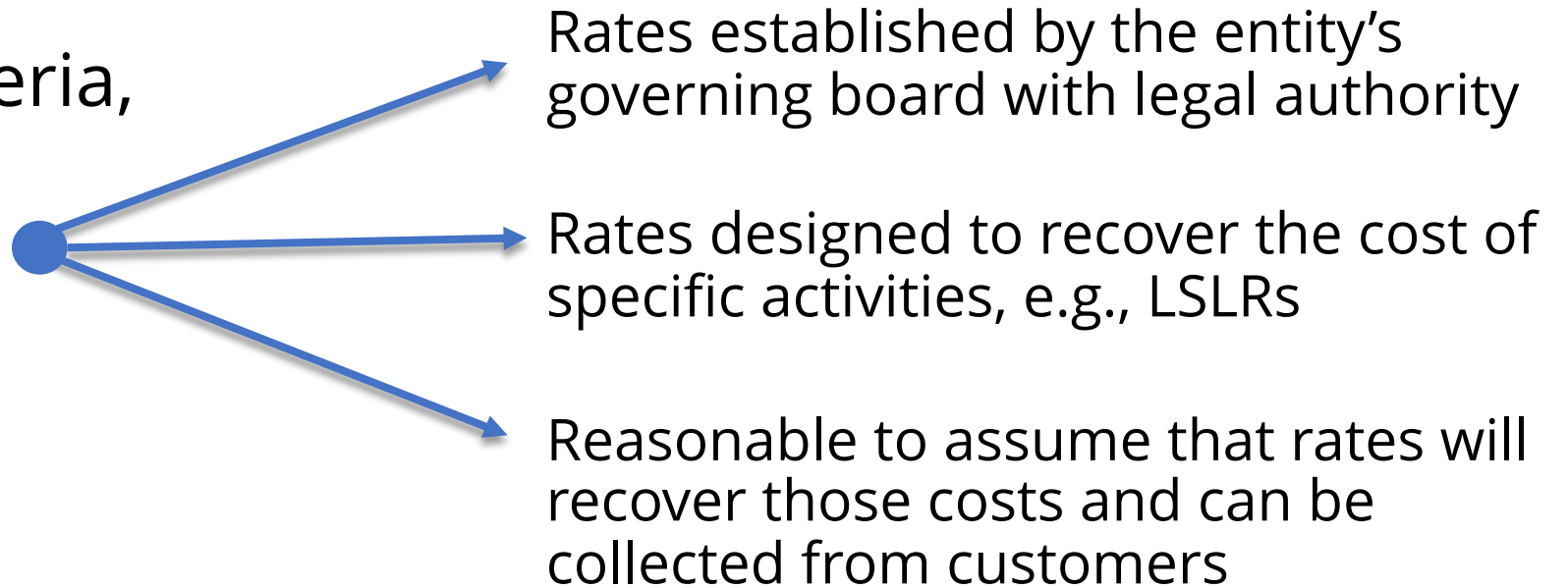


- ✓ Own and operate an asset
- ✓ Control through contracts or easements
- ✓ Avoid the control requirement – use Regulated Operations accounting

WHAT ARE REGULATED OPERATIONS?

Regulated Operations accounting does not require governmental ownership or control over a tangible asset

If you meet these criteria,
costs incurred =
Regulatory Assets



WHY IS THIS ALTERNATIVE ACCOUNTING APPROACH IMPORTANT FOR LSLRS?

- ✓ Enables utility to create an asset it can borrow against without ownership or control.
- ✓ Allows utility to borrow to invest in water infrastructure it doesn't own or operate.
- ✓ This allows utilities to pay for private private property installations



THANK YOU

**Cynthia Koehler
Executive Director
WaterNow Alliance**

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WATERNOW ALLIANCE

DENVER WATER: LARGE-SCALE LEAD LINE REPLACEMENTS

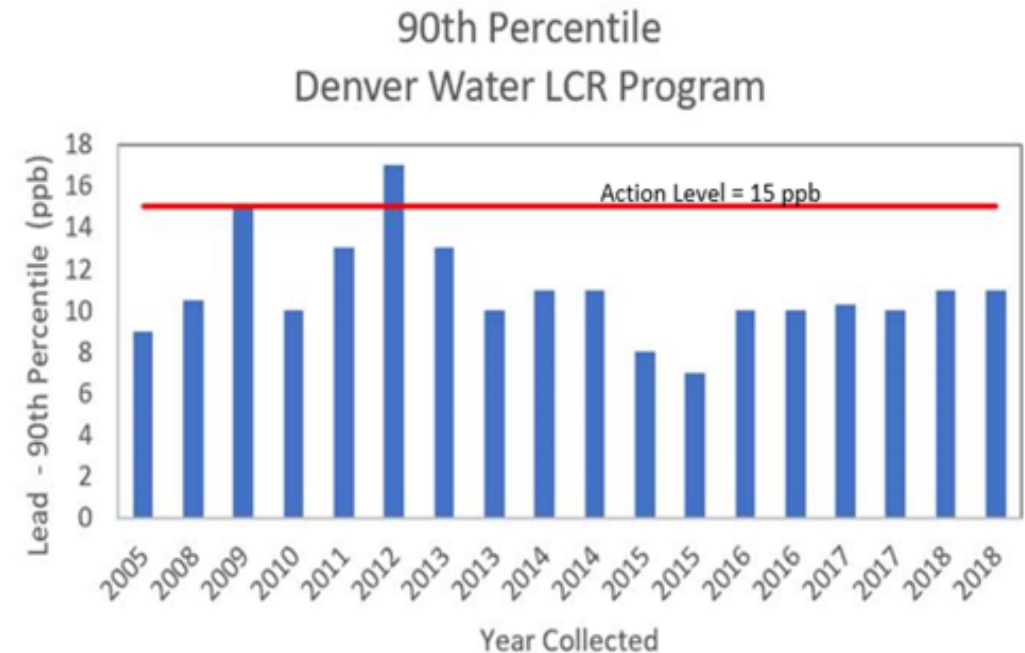


Angela Bricmont
Chief Financial Officer
Denver Water

Haley Miller
Internal Controls Manager
Denver Water

Lead Reduction Program (LRP) Background

- Estimated 64,000 - 84,000 lead service lines (LSLs) in Denver Water’s service area.
- Service lines are owned by customers, not Denver Water.
- In 2012, Denver Water exceeded lead Action Level.
- In 2018, Colorado Department of Public Health and Environment ordered orthophosphate as Optimal Corrosion Control Treatment (OCCT).
- Denver Water and other stakeholders sought an alternative approach to addressing lead in drinking water.



EPA Variance to replace Lead Service Lines

- Pro-active, comprehensive program to replace LSLs at no direct cost to customers within 15 years.
- Conducted under an EPA variance to OCCT requirements.
- Viewed as alternative “treatment costs” spread across all customers for rate-setting.
- Cost of program >\$50MM/year.



Lead Reduction Program Objectives



Lead Reduction Program Elements

Corrosion Control Treatment

Managing water chemistry (pH)

Lead Service Line Inventory

Building, maintaining, a searchable database of service line compositions

Filter Program

Provide pitcher and replacement filters to all customers enrolled in program

Lead Service Line Replacement

Full replacement of LSLs (prioritization focuses on risk/health equity)

Communications, outreach and education

Promote program understanding and filter adoption

LEAD REDUCTION PROGRAM

KEY METRICS

Report Period: 1/1/2022 to 11/30/2022

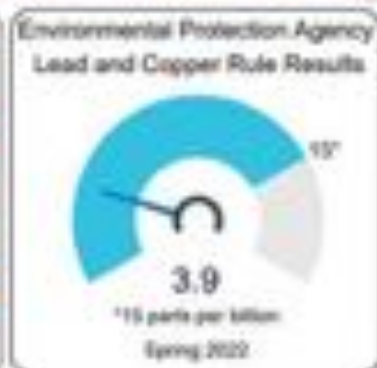


**Includes water quality testing, gathering and records analysis to confirm service line material

Corrosion Control Treatment

Location (WTP)	pH = 8.8 ± 0.2
Foothills WTP Treated Water	Yes
Marston WTP Treated Water	Yes
McFet WTP Treated Water	Yes

Location (Distribution System)	pH = 8.8 ± 0.3
Distribution System	Yes



Program Milestones

Milestone	Milestone Description
1Q 2022	Host construction preparedness virtual community meeting
1Q 2022	Send lead service line replacement customer notification and consent form packets
2Q 2022	Distribute post-replacement customer survey
3Q 2022	Host construction preparedness virtual community meeting
3Q 2022	Filter reminder postcard mailed
3Q 2022	Host filter-focused virtual community meetings
4Q 2022	2023 work areas identified
4Q 2022	Continue targeted neighborhood outreach
4Q 2022	Stakeholder Advisory Committee meeting

(*Digital Data Reported Quarterly)

Challenge to Funding Private Lead Service Lines

- To lower the annual impact of LRP to customers, we needed a way to finance LSL replacements, even though lines are privately owned.
- IRS has strict rules around financing projects that benefit a “private activity”.
 - Bonds are subject to “private business use” rules if more than 10% of the proceeds are used for any private business.



Capitalizing Private Lead Lines on Balance Sheet is allowed*

- Under GASB 62, public utilities can record regulated assets on their books for incurred costs that would otherwise be expensed under Generally Accepted Accounting Principles (GAAP) if three conditions are met:
 - Rates established by an independent, third-party regulator or by its own governing Board.
 - Rates recover the specific business-type activity's costs of providing the regulated services.
 - Rates must be set at levels to recover the costs and can be charged to and collected from customers.
- By including the private LSLs as an asset on the balance sheet, this expands financing options.
- Booking a private line as an asset does not impose an obligation on the utility to maintain it.

**Work with your auditors and experts to understand GASB financial reporting and compliance requirements.*

Funding Navigator Overview

Leveraging Capital Markets to Accelerate Lead Service Line Replacements

February 1st, 2023



ENVIRONMENTAL POLICY
INNOVATION
CENTER

Denise Schmidt
Funding Navigator Director

Water Equity

Advancing innovation and policy to ensure equitable access to safe, reliable, and affordable water.





The opportunity: Enhance equity and resilience through the IJA

- A roughly **\$50 billion** investment in water infrastructure nationwide
- Increases annual allotments of State Revolving Funds (SRFs)



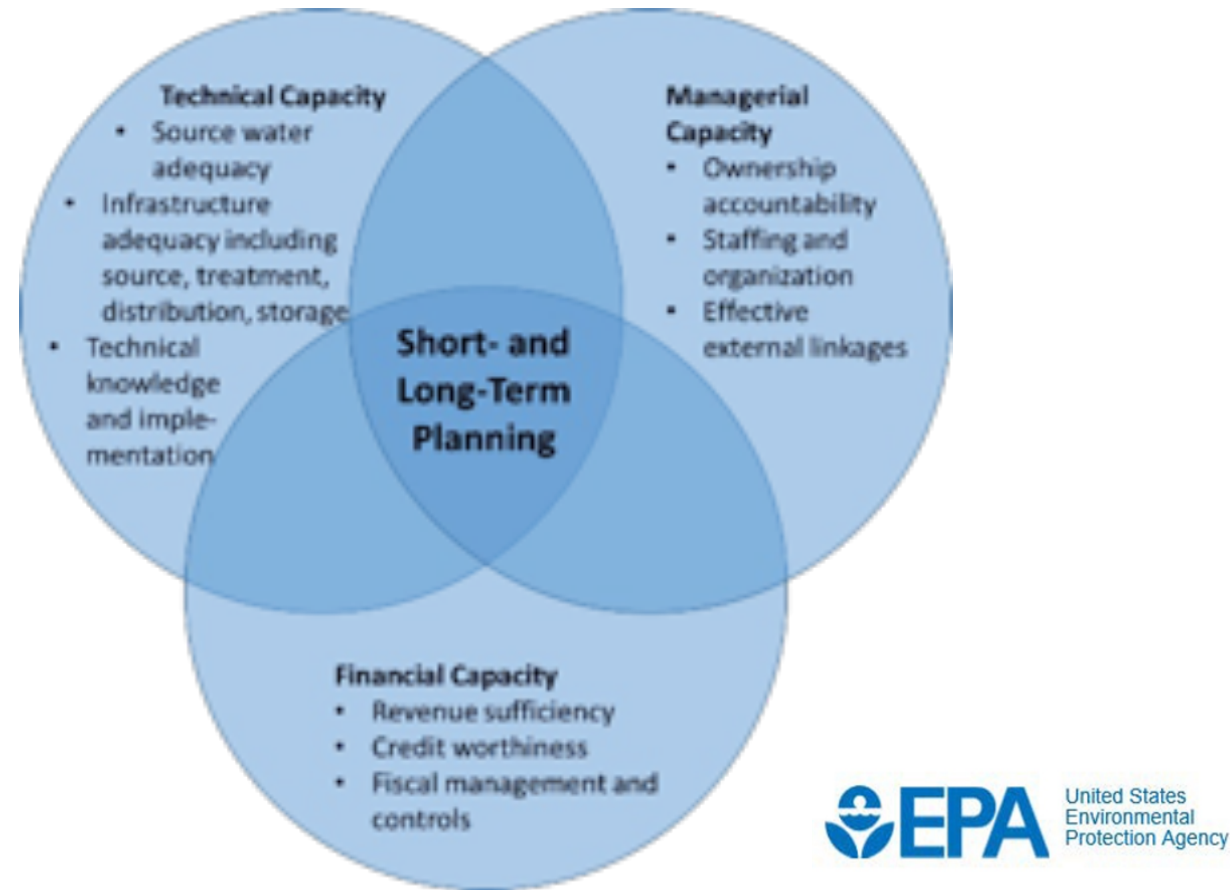


The challenge: The process of accessing public funds for infrastructure can be complex and costly.

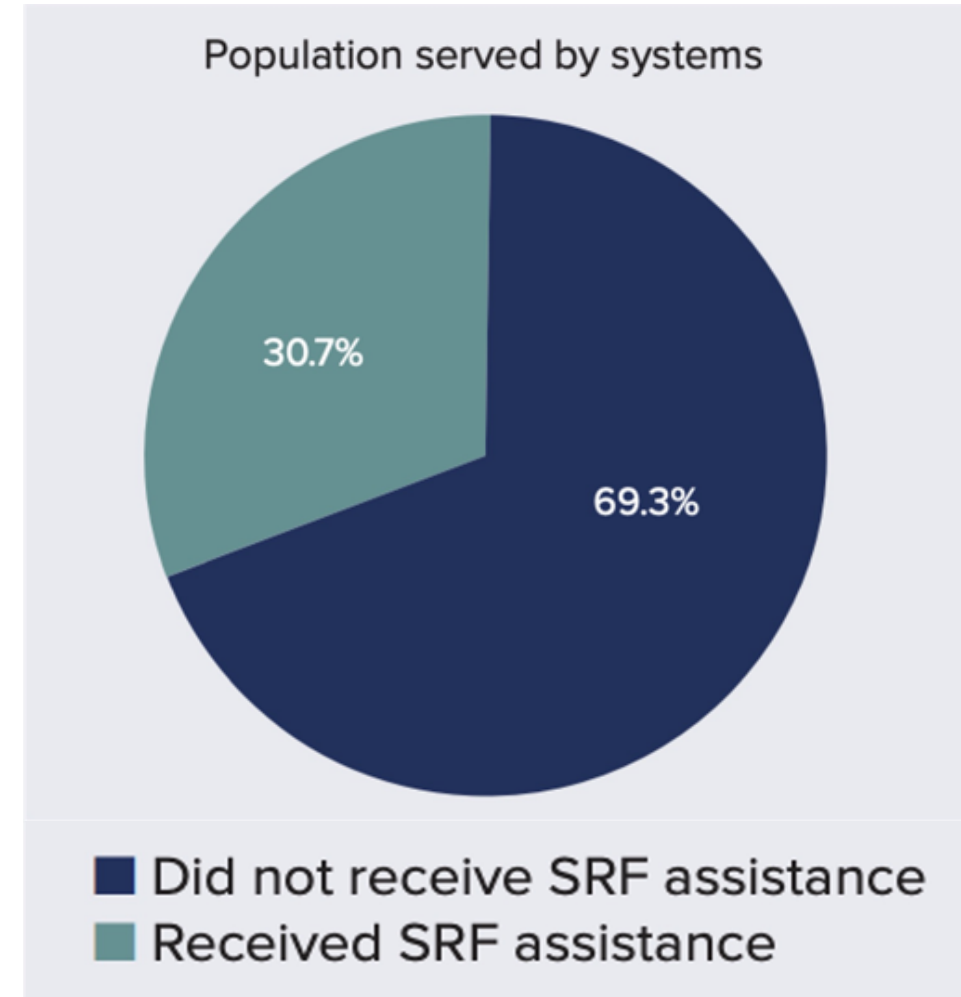
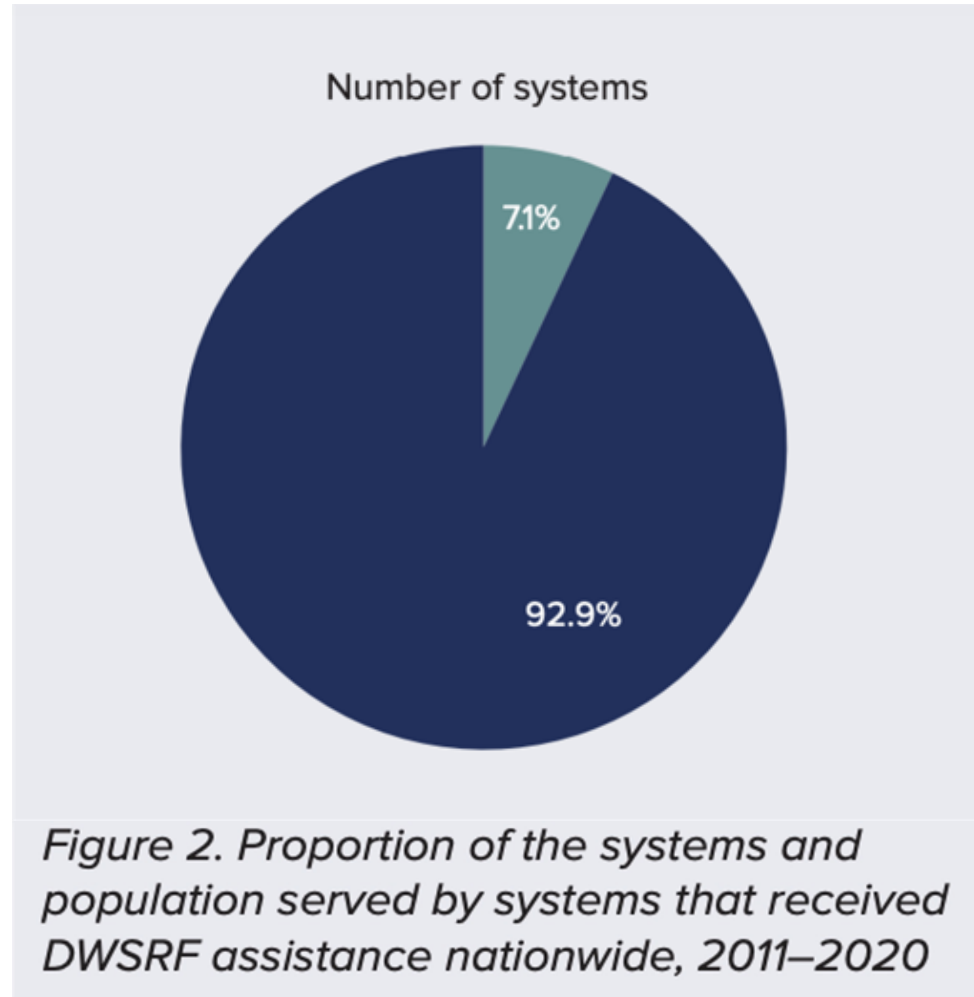




The challenge: Technical, managerial, and financial capacity



Most drinking water systems have not applied for or received SRF assistance





Funding Navigator

Connecting communities to public funds for investment in water infrastructure



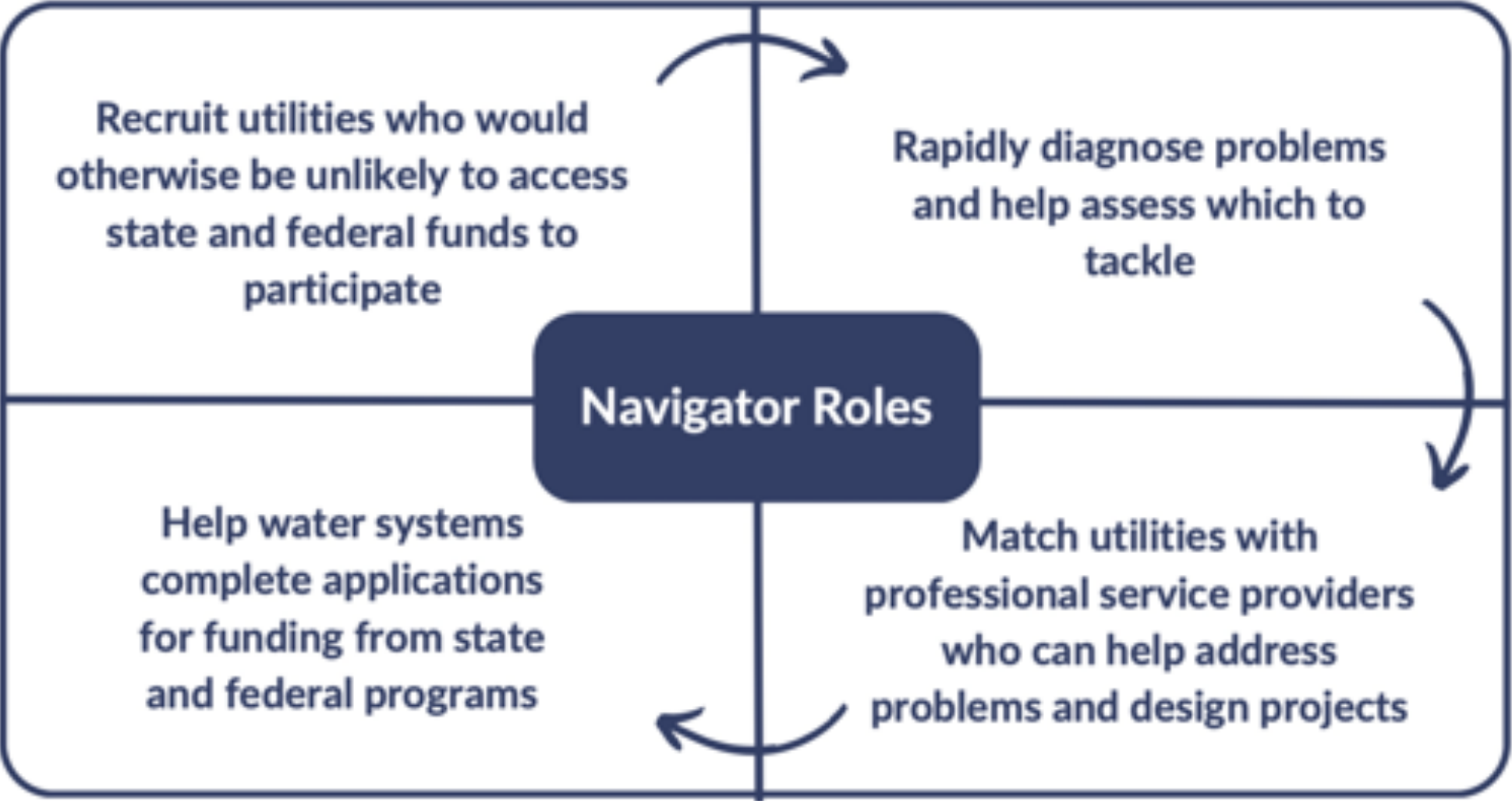
Lead-Free Water

Replace lead pipes faster, efficiently, and equitably





Four roles for the Funding Navigator



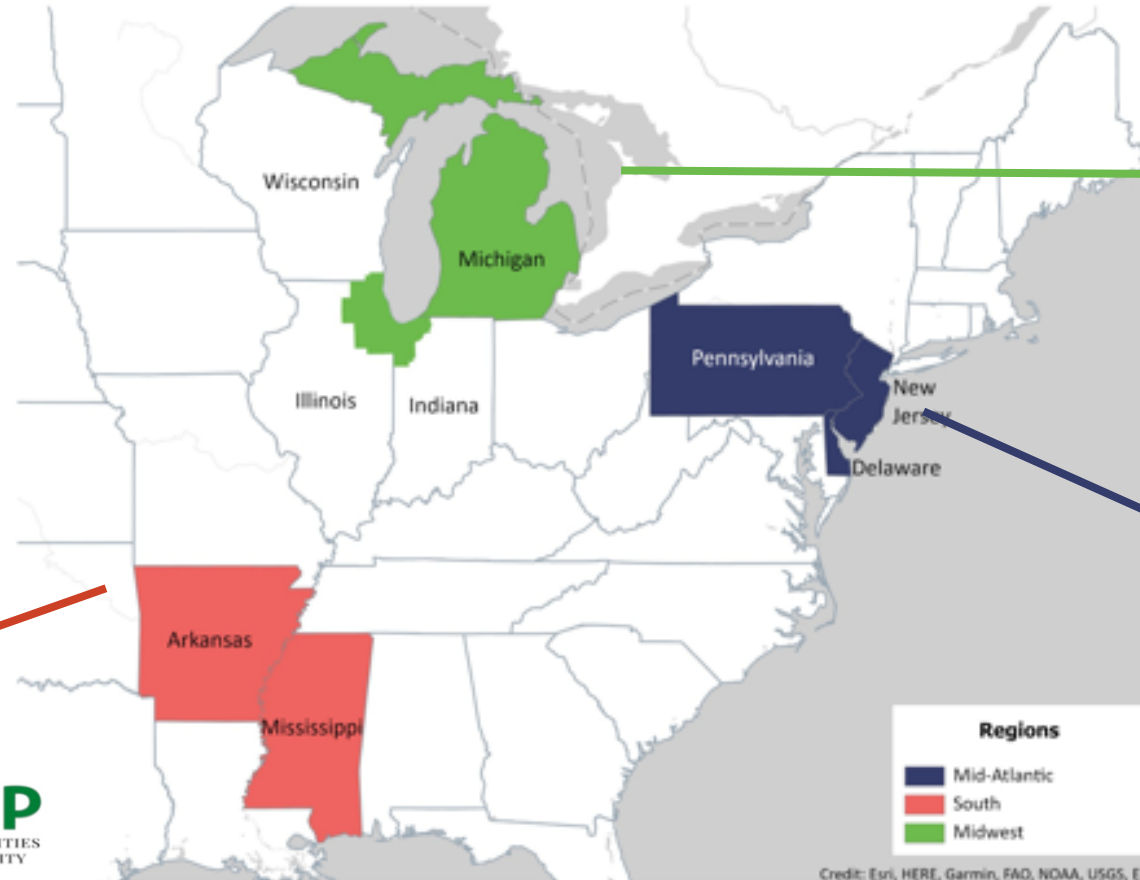
Funding Navigator partners



Anthropocene Alliance

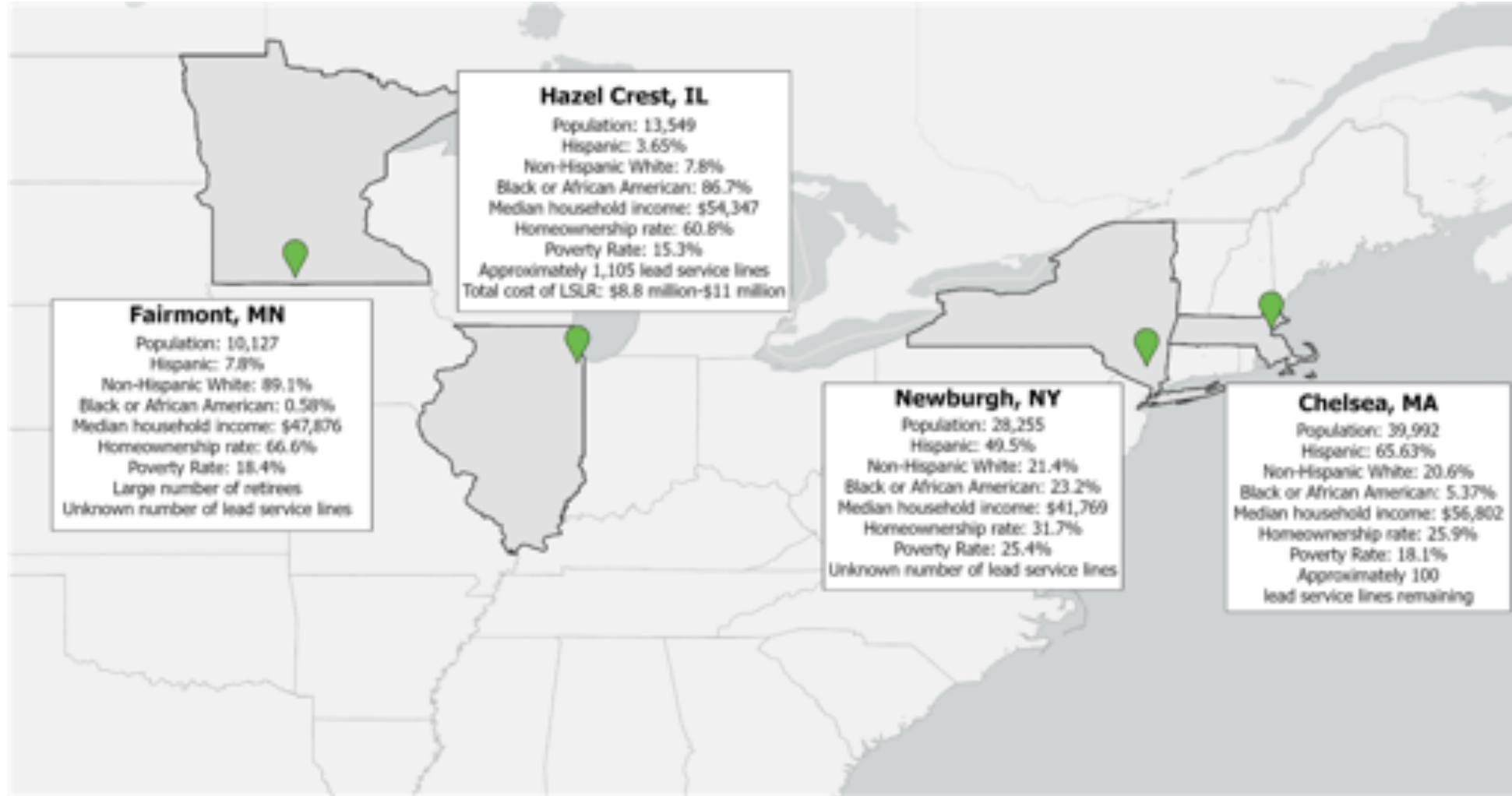


COMMUNITIES Unlimited



Credit: Esri, HERE, Garmin, FAO, NOAA, USGS, EPA

Lead-Free Water Challenge Partners



ENVIRONMENTAL POLICY
INNOVATION
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BlueConduit



WaterPIO
 ALWAYS ON CALL



CENTER FOR
**GEOSPATIAL
 SOLUTIONS**



120Water™



EPIC's Lead-Free Water Initiative

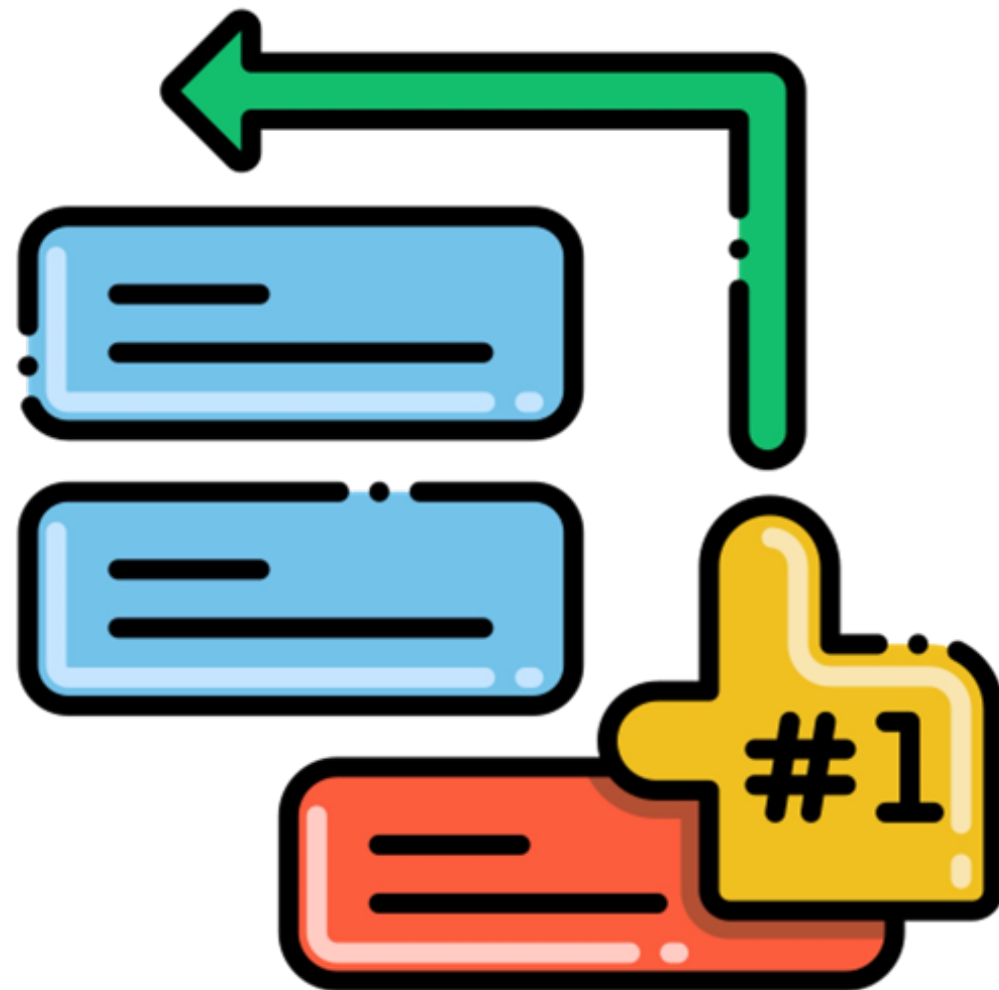
- **Lead-Free Water Movement**
- **Tracking federal funding** to see which communities receive funds for lead and in what form - principal forgiveness or loans?
- **Tracking rate of LSL replacement** to gauge how fast we are replacing lead pipes, and identify the ingredients for success
- **Provide technical assistance** to utilities through the Funding Navigator

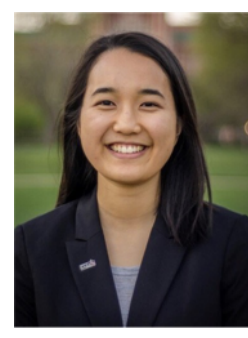
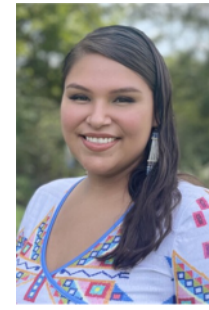
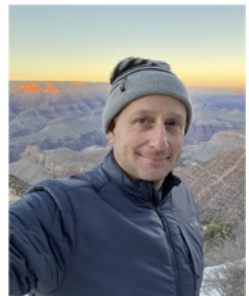




Now underway: proactive recruitment and screening

1. Establish and build partnerships
2. Compile data on community needs
3. Groundtruth with stakeholders
4. Prioritize where to focus
5. Use repeated outreach
6. Initial meeting with utility





denise@policyinnovation.org

The background of the slide is a collage of overlapping, torn-edged sticky notes in various colors including light blue, teal, lavender, and lime green. Each sticky note features a large, dark blue question mark. The text is centered over this pattern.

DISCUSSION AND AUDIENCE Q&A

WATERNOW ALLIANCE



STAY TUNED!

LEAD SERVICE LINE
REPLACEMENTS PODCAST
SERIES LAUNCHING SOON

www.waterloop.org/

Project Accelerator



A WaterNow Alliance Initiative

Hands-on support to
accelerate your
sustainable water program

**Applications due
February 10**

<http://bit.ly/Project-Accelerator>



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LEARN MORE AND SIGN UP

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THANK YOU

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