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A RARE WINDOW OF OPPORTUNITY

The 2021 Federal Infrastructure Bill: How Water Utilities Can Prepare Now

Municipal water utilities are engaged in a constant juggling act. You face multiple pressures, many of them often competing. Like so many utilities, you can find yourself caught in the paradox of unfunded mandates while much-needed infrastructure funding often gets hung up in political wrangling at the local, state, or national level.

On one hand, you must keep infrastructure in working order. On the other hand, you must plan for the future, maintain and even grow service to customers, and keep rates affordable while simultaneously satisfying stakeholders such as regulators, bondholders, media, citizens, and communities you support. Like other organizations, this means you juggle short-term operating needs vs. long-term needs and what to prioritize.

The new infrastructure bill, destined to pass in some form or other, offers a rare chance to make capital improvements that are actually funded, with an estimated \$3 billion per state expected to be up for grabs. It can also reduce the pressure you may otherwise face to increase rates.

But in order to take advantage of the funding, you need to have clear priorities and reliable, current financial data about your current assets and future spending needs. Waiting to get a handle on your strategy is not an option. You have to be ready now, as the bill is expected to come to fruition relatively quickly and the demand for project dollars will be overwhelming. In this article, we'll take a brief look at the bill—what you need to know, what you can do even in the absence of perfect information, and what you need to be thinking about now to take advantage of the funding.

Proactivity is key: What CFOs and your teams need to think about now

While the bill may not be a magical solution, it can offer some much-needed relief. It's a prime opportunity that challenges CFOs to think about spending priorities and mobilize teams quickly to take advantage of it. It calls you to examine where you need to focus, how to get in line, and how to be sure you're ready to prove need, defend requests, and report effectively on utilization of any funds you receive.

It's a lot for even the most seasoned CFO to consider. We've put together some suggested action steps to guide your approach as you begin planning.

Assemble a cross-functional, cross-agency team to plan for the bill. As with virtually any strategic initiative, it's important to involve key players out of the gate. For most CFOs, this means getting with your engineers, planning directors, and rate consultants if you use them. As a team, you can think holistically in terms of how you might feasibly be able to draw from both wells of funding covered in the bill (i.e., core infrastructure and water-specific), or how you can combine projects to maximize efforts. There will undoubtedly be money for roads. As a team you can examine how you might piggyback with other projects or departments and work collectively. For example, if you're repairing or replacing roads, doesn't it make perfect sense to work on water system components in the same areas as well?

Confirm you have the financial data and reporting tools you'll need over time. It's important to have a parallel workstream in which you assess the state of your data regarding your capital assets. The reality is that many water systems manage fixed asset accounting with a variety of disparate systems, complex integration, limited IT support and third-party resources. With resources stretched thin, this approach too often means more manual effort and inaccurate data. Do your current systems enable you to extract the reporting to justify expenditures and their impact to customers? Can you easily model various investment tradeoffs as necessary to establish priorities? Ensure your systems and financial reporting support your ability to take advantage of this window of opportunity (and future ones). If you aren't sure your systems are designed to help with this process, we encourage you to create an action plan sooner than later.

Create or update your CIP (capital improvement plan). Are you coming to the end of your current plan? Does any part of your plan need to be extended or revisited? Or do you have one formed at the moment? Your CIP anchors your infrastructure strategy, serving as your North Star for resource prioritization and data-driven financial decision-making. Ideally, it should be in solid shape regardless of any legislation du jour.

Within your CIP, think about the largest projects you have on the horizon. This is an ideal focal point for your cross-functional team. Using whatever assessment framework you choose, you should jointly examine:

- what you might be able to accelerate
- what you might be able to delay or demote
- what could you undertake that improves service and satisfaction without having to raise rates (i.e., high-yielding projects)

By examining your CIP through this lens, you can create a solid strategy that lets you optimize funding and create the best outcomes relative to your expected investments and rate structure. As you do this, continue to look for opportunities to partner across agencies and think more broadly.

Assess how commodity costs may impact your CIP. If they're rising amid shortages and expected to continue in that direction, that makes quoting now imperative. Additionally, it's critical to understand the magnitude of the material in each project and if the material can be hedged. For example, the government is requiring lead lines be replaced with copper lines. Seeing copper prices starting to rise in 2020, it would have been ideal to hedge copper through publicly available contracts or to have sought forward contracts directly with a copper manufacturer.

Staying Abreast of the Bill

Officially named "H.R.1319 - American Rescue Plan Act of 2021," the proposed infrastructure bill is shaping up to be one of the largest, most viable Federal infrastructure bills to come to fruition in the U.S.

As of the date of this publication (June 2021) there are actually two bills proposed: One addresses overall infrastructure and another addresses water specifically.

Key goals of the water-related portion are to replace the lead service lines across the country, as well as upgrade sewer systems with CSOs (combined sewer overflow), retention basins and other improvements.

Looking at numbers proposed thus far, the bill's potential impact on affordability is clear in terms of funding for your capital investments. In theory it also has the potential to create well-paying jobs, which in turn shores up citizens' ability to pay and your ability to maintain or even improve cash flow while also keeping rates stable.

To monitor the latest on the bill, we urge you to communicate with your Congressional representatives as well as your state budget offices, given that funding could up going to states vs. individual municipalities.

The official legislation can be found on the [Congressional website](#).

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In many cases, your municipality is larger than the supplier involved in a given project. Thus, you may be able to leverage size to get better pricing with raw material vendors. Lastly, most contracts are cost plus. If a particular material essential to your project is in short supply with rising prices, consider purchasing directly as much as possible in order to avoid the markup.

Be prepared with detailed project accounting to report progress. The application for new or updated infrastructure may require asset details on existing infrastructure (location, age, cost, etc.). In addition, your ability to report progress on infrastructure projects can strengthen your application for funds. Solutions like PowerPlan can support best practices for tracking asset accounting and financial reporting for projects.

Arm yourself: synthesize what's in the bill and prepare for the application process. Examine details like specified uses for funds. For example, are there funds specifically for replacing steel lines with copper lines? Another critical issue is whether the application will be submitted at the Federal level or state level. And what backup is needed? Do you need to quote jobs now, so they're shovel-ready by the time the application process actually starts? Are there lookouts or potential pitfalls to consider? Are there areas where you might be inclined to drag your feet on due to other priorities or lack of planning resources, but which you really know need attention now? The RFP/RFQ process takes time, so getting ahead of that can make a big difference.

Your next move

Regardless of the details of the bill, you can prepare your organization now to take the greatest possible advantage of this unique opportunity. By assembling a cross-functional team, reevaluating your CIP, and reinforcing asset tracking capabilities, your team can proactively plan for of the bill and maximize your water infrastructure for the future.

About the Author

Marcus has more than 25 years of financial and cross-functional executive leadership experience across industries including municipalities, utilities, and manufacturing. Marcus served as the Chief Financial Officer and Treasurer at both Detroit Water and Sewer System and Wayne County (MI) Airport Authority. He has a particular passion for helping fellow municipal executives navigate changing industry dynamics and apply best practices to optimize operations, satisfy stakeholders, and provide delivery excellence to their member organizations and communities. Marcus currently serves as Executive Director of Calderone Advisory Group, LLC. He is a Certified Public Accountant, Certified Managerial Accountant, Certified Turnaround Professional, Certified Insolvency & Restructuring Advisor, and series-3 Certified Trading Advisor. Marcus holds a Master of Business Administration degree from the University of Michigan, Ross School of Business, and a Bachelor of Arts in Accounting from Michigan State University.