

Funding water facilities for A WIDE RANGE OF OPTIONS

by Kerri Peyton, RBC Royal Bank

With the Federation of Canadian Municipalities predicting the need for billions of dollars in municipal infrastructure construction over the coming years, Canadian towns and cities of all sizes will be looking for cost-effective ways to keep their communities operating smoothly. When it comes to funding infrastructure projects such as water and wastewater facilities, there are a wider variety of options available than for personal purchases such as vehicles or homes. Depending on the project and community needs, each of the different alternatives offers its own benefits.

The longest-standing method of financing municipal infrastructure projects is through a debenture issue. Through this process, the provincial government, a municipal board or another public sector entity lends the money to the municipality for a defined period of time and at a set rate. Debentures remain the most appropriate solution for smaller projects that serve limited populations. However, because debentures are strictly defined, they are often not as flexible as bank financing and may involve extensive

administration time and costs.

When a project is funded through financing, the bank or credit union simply lends the borrower the money needed to finance their project, and the borrower promises to pay it back over a set period. The details of financing agreements vary greatly, with different interest rates, terms and amortization (payback) periods. Often, financing through a financial institution requires less administration than selling debentures, but financing is generally only available to projects that have a strong taxpayer base and are financially viable. Financing is an effective solution for the construction of new facilities.

Leasing is another financing solution for a facility that requires upgrading or expansion, or for the purchase of equipment that remains separate from the "bricks and mortar" of the facility itself. Under the terms of a lease, the bank actually purchases the equipment and, in turn, rents it to the client for the established term with payments structured to match cash flow. Because there is usually no down payment, this allows the borrower the flexibility of paying for the equipment

over its useful life, instead of in one lump sum up-front. Payments can be established on a very flexible basis, usually paid monthly, quarterly, semi-annually or annually.

For very large and complex infrastructure projects, borrowers may choose to access the capital markets for funding through a bond or share issue. This allows institutional and private investors to provide needed funds for a project in exchange for owning shares that can be traded.

Finally, the public-private partnership, or P3, is a newer approach to infrastructure construction that is growing in popularity. P3s are a cooperative venture between organizations in the public and private sectors, often where the private company will build the project and charge the public entity for its use. This allows the municipality to meet an urgent infrastructure need without having to allocate the funds up-front. It also transfers at least some of the risk associated with the project to the private developer, lessening the load on taxpayers. Financial institutions can play varying roles in P3s, advising both public

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sector and private organizations on the different alternatives. P3s have been successfully implemented for numerous water and wastewater facilities throughout Canada and the United States.

When it comes to funding water and wastewater facilities, the options are as varied as the towns and cities they serve. But, with municipalities facing a critical need for infrastructure over the coming years, public sector organizations and financial institutions alike will be looking for innovative ways to build the necessary facilities without placing undue pressure on taxpayers.

For additional information, or to locate the name of the funding representative in your region, check out RBC Royal Bank's website at www.rbcroyalbank.com/publicsector. RBC Financial Group is one of North America's premier diversified financial services companies and Canada's largest company, serving more than 12 million personal, business and public sector clients worldwide from offices in more than 30 countries. ♦

Water Facts

Manitoba's 100,000 lakes cover approximately 17% or 101,600 km² of its surface area.

Lake Winnipeg is the world's 10th largest freshwater lake plays a critical role in tourism, recreation, commercial and sport fisheries, and hydroelectric generation in Manitoba.

Lake Winnipeg is also the world's third largest reservoir, generating hydroelectric power for all Manitobans.

Source:
Government of Manitoba

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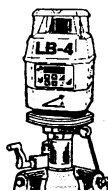
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