Financial Assistance Division

Joe Freeman, Chief, Financial Assistance Division

& Anne Burger Entrekin, Regional Managing Director, Hilltop Securities

October 15, 2019

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State Revenue Bond Loan Program (FAP)

Bond Reserve Fund (SWDRF)	**$17,110,297.50**
Surety Bonds	**$23,500,000.00**
Gross Production Tax	**$9,089,702.53**
WICERF (SQ 764)	**$300,000,000.00**

State Revenue Bond Loan Program (FAP)

1986 General Bond Indenture

TIPRA 2005

Blind Pool to Identified Pool

2016 General Bond Indenture

Updated Indenture to Current Standards

Modified Local Reserve Requirement

- ✓ Cash Reserve
- ✓ Surety Policy AA or Higher
- ✓ A- Assigned or affirmed in the last 18 months
- ✓ 1.4 Times DCR

393 **FAP Loans** **$1,244,510,000**

BOK Financial Securities

Stifel Nicolaus

Centennial Law Group

BancFirst

Standard & Poor's

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Emergency Grant Program

FAP Reserve Fund Earnings

Point Based System

60 point minimum ↓ ↑ **120 point maximum**

588 **Emergency Grants** **$35,073,082**

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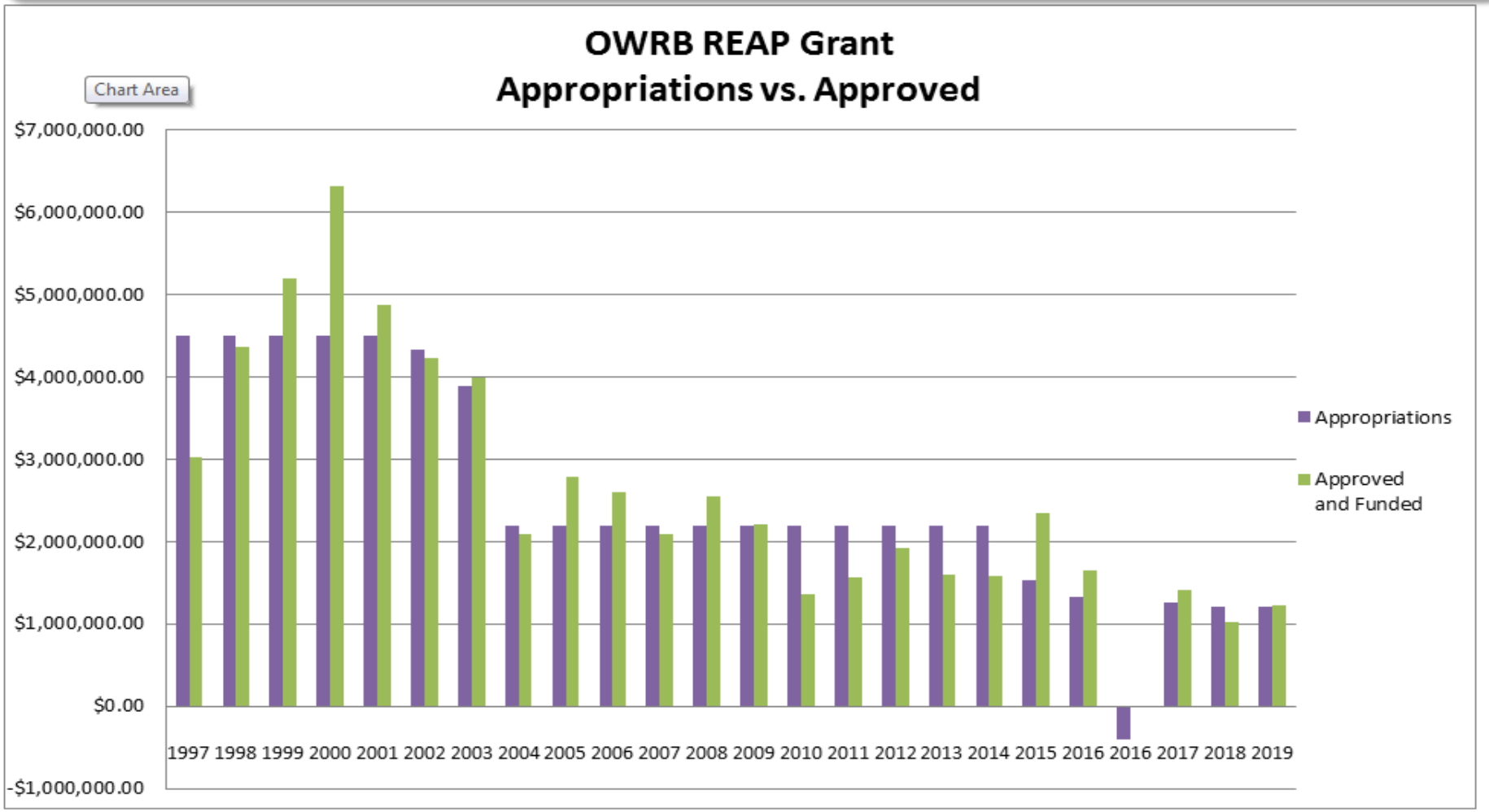
Rural Economic Action Plan (REAP) Grant

Appropriations

697	**REAP Grants**	**$62,020,690**

Historical Appropriations vs. OWRB REAP Grant Approvals



The second 2016 entry indicated repsents $400,000 of OWRB REAP funds that were re-appropriated.

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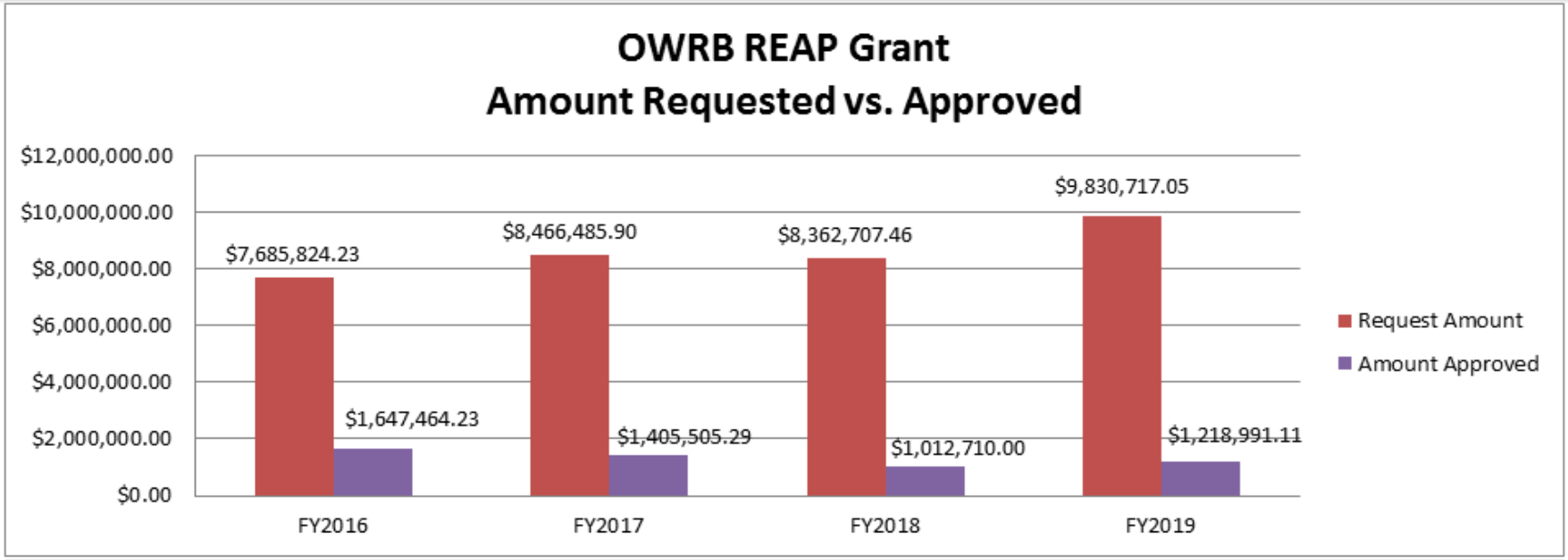
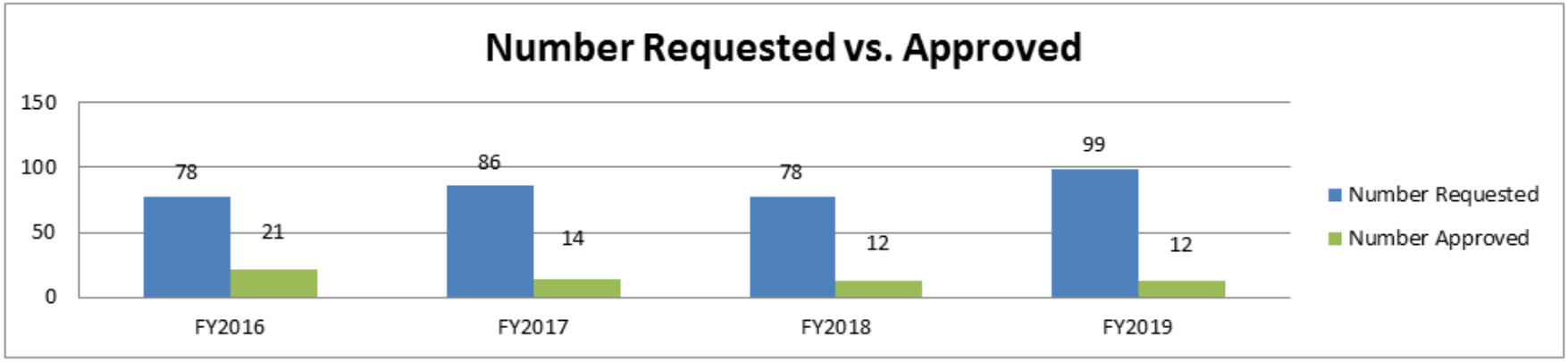
Need vs. Seed – the spread between requests and appropriations





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State Revolving Funds

- ✓ Clean Water (CW)
- ✓ Drinking Water (DW) co-administered with ODEQ

EPA Capitalization Grants

State Match

Interim Construction Loans

Long Term Takeout Loans

State Revolving Funds

Traditional Projects – CW/DW

State Revolving Funds

CW Non-Traditional Projects

Bixby PWA –
Rain Garden &
Roundabout

Project to address flooding issue created by stormwater runoff

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State Revolving Funds

CW Non-Traditional Projects

Oklahoma City WUT – Atoka Dam Improvements

Project to increase the capacity of the spillway & replace the existing chute

State Revolving Funds

CW Non-Traditional Projects

Lake McMurtry – Pervious Pavement

Pass through project with Oklahoma Conservation Commission that partnered with Lake McMurtry Friends and City of Stillwater

State Revolving Funds

2003 Leveraged Reserve Fund Model

2010 Leveraged Cash Flow Model

Capacity

CW – 60% of AAA Market Rate
DW – 70% of AAA Market Rate

Challenges:

- ✓ DW Capacity
- ✓ Interest Rate Spread
- ✓ Over Coming Perceptions

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Bank of America Merrill Lynch

- ✓ BOK Financial Securities
- ✓ Morgan Stanley
- ✓ Stifel Nicholaus

McCall, Parkhurst, and Horton

Gilmore and Bell

BancFirst

Standard & Poor's

Moody's

Fitch

As of October 2019

Water and Wastewater Financing in Oklahoma

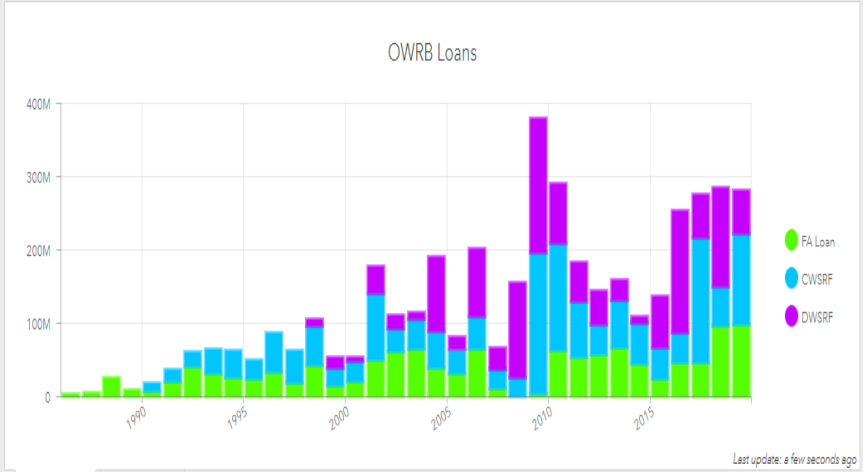
2,253

loans and grants approved for a total of

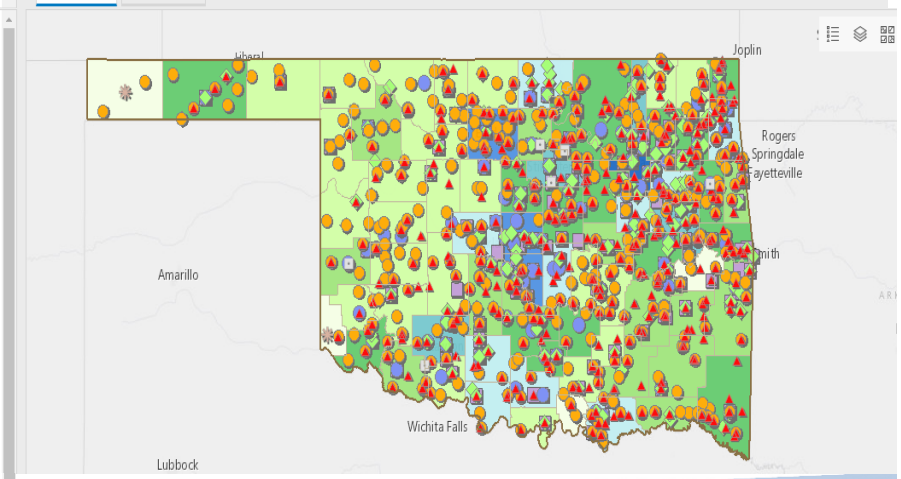
$4,403,625,804

Oklahoma communities have saved an estimated

$1,471,294,171



OWRB Loans | OWRB Grants



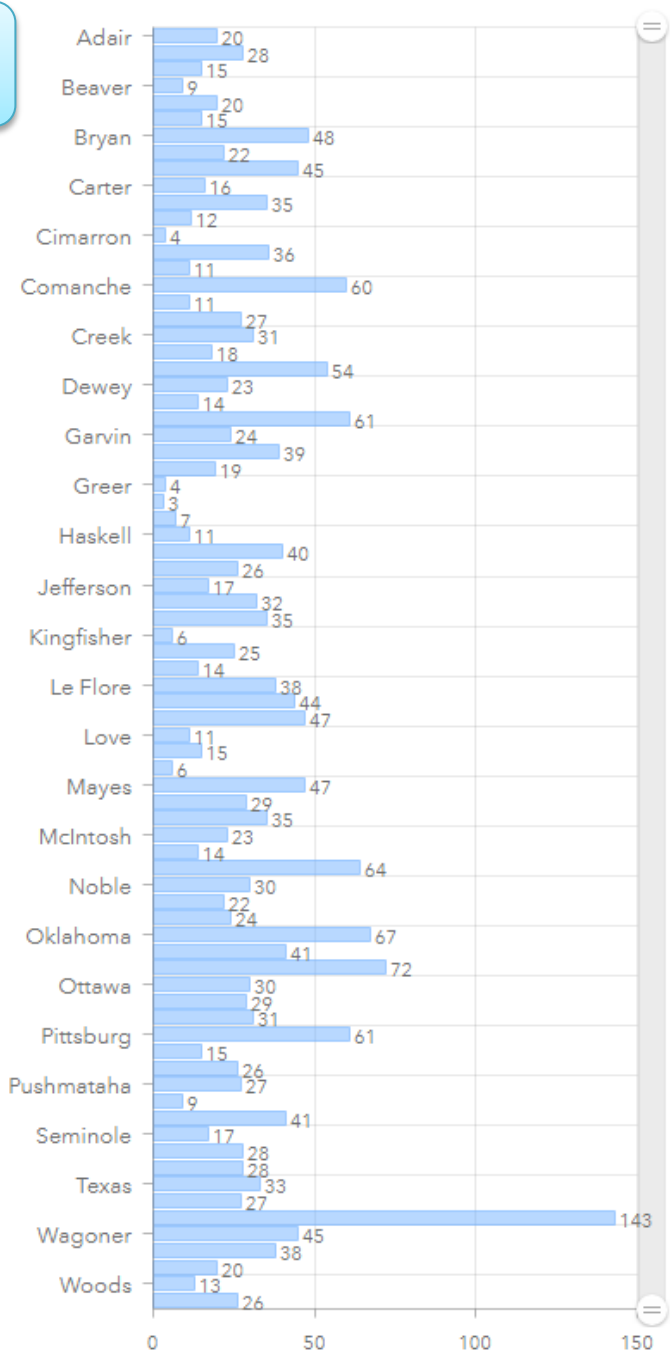
Approved Loans & Grants by Type

Type	Count	Amount
FA Loan	393	$1,244,510,000
CWSRF Loan	349	$1,702,079,001
DWSRF Loan	212	$1,356,899,183
Emergency Grant	588	$35,073,082
REAP Grant	697	$62,020,690
Drought Grant	6	$418,848
Water for 2060 Drought Grant	4	$1,500,000
Emergency Drought Relief Grant	4	$1,125,000

Approved Financing by Purpose

Type	Count	Amount
Water	1,400	$2,247,247,088
Sewer	803	$1,875,842,547
Water & Sewer	44	$271,130,544
Other	6	$9,405,625

Number of Loans & Grants by County



- ✓ New Master Trust
- ✓ SRF Refunding

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State of Oklahoma
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WATER RESOURCES BOARD
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New Master Trust and Refunding Opportunity

Oklahoma Water Resources Board

October 15, 2019

New Master Trust Indenture

State of Oklahoma
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Rationale for New Master Trust Indenture

State of Oklahoma OWRB Water Resources Board the water agency

- The current Master Trust Agreement ("MTA") utilized by the OWRB was implemented in 2003
- While the MTA was forward thinking and has allowed flexibility to the OWRB as your programs and the markets have evolved
- Based on opportunities to streamline program administration along with Trustee services, both amending the current MTA and drafting a new master trust indenture ("MTI") were evaluated
- After careful review and analysis, it was determined that implementing a new MTI would be more efficient and provide for greater flexibility in the future as markets continue to evolve

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Rationale for New Master Trust Indenture

- Focus of proposed changes to MTI
  - Program Structure
    - The OWRB was originally structured utilizing a Reserve Fund Structure
      - This structure encapsulated specific loans to specific series of bonds with credit enhancement from a defined investment agreement funded with Capitalization Grants
    - With the passage of the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA"), the OWRB has modified the manner in which borrower draws are funded
    - With the market dislocation in 2008 and Quantitative Easing, the OWRB has migrated to a Cash Flow Structure to optimize program capacity
      - Both of these events have resulted in the OWRB utilizing Capitalization Grants to fund loans for additional credit enhancement while funding loans on a FIFO basis

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Rationale for New Master Trust Indenture

- Focus of proposed changes to MTI
  - Credit Considerations
    - Many of the OWRB peer SRF programs have undertaken a similar evaluation
    - In our experience, if the prior master trust is closed with a clear path for surplus revenues to get to the new master trust, there have been no changes to the ratings
    - This is primarily due to the unique structures of SRF programs
      - Closed Loop Programs
      - Program for Perpetuity Requirement
    - Especially with the cross-collateralization provision in the authorizing legislation, the rating agencies evaluate the programs on an aggregate basis
      - All program series
      - Both clean water and drinking water

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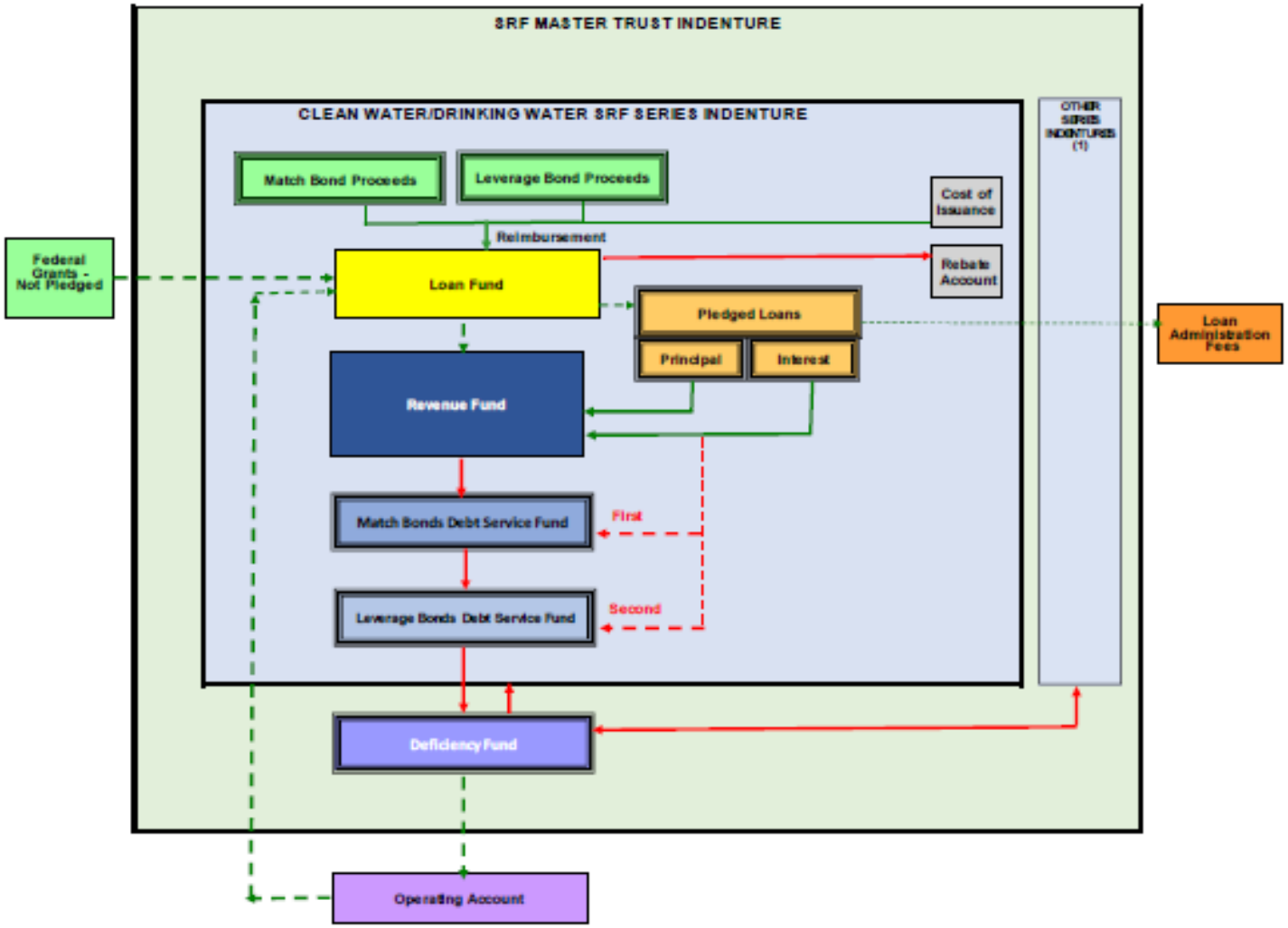
Flow of Funds for Current MTA



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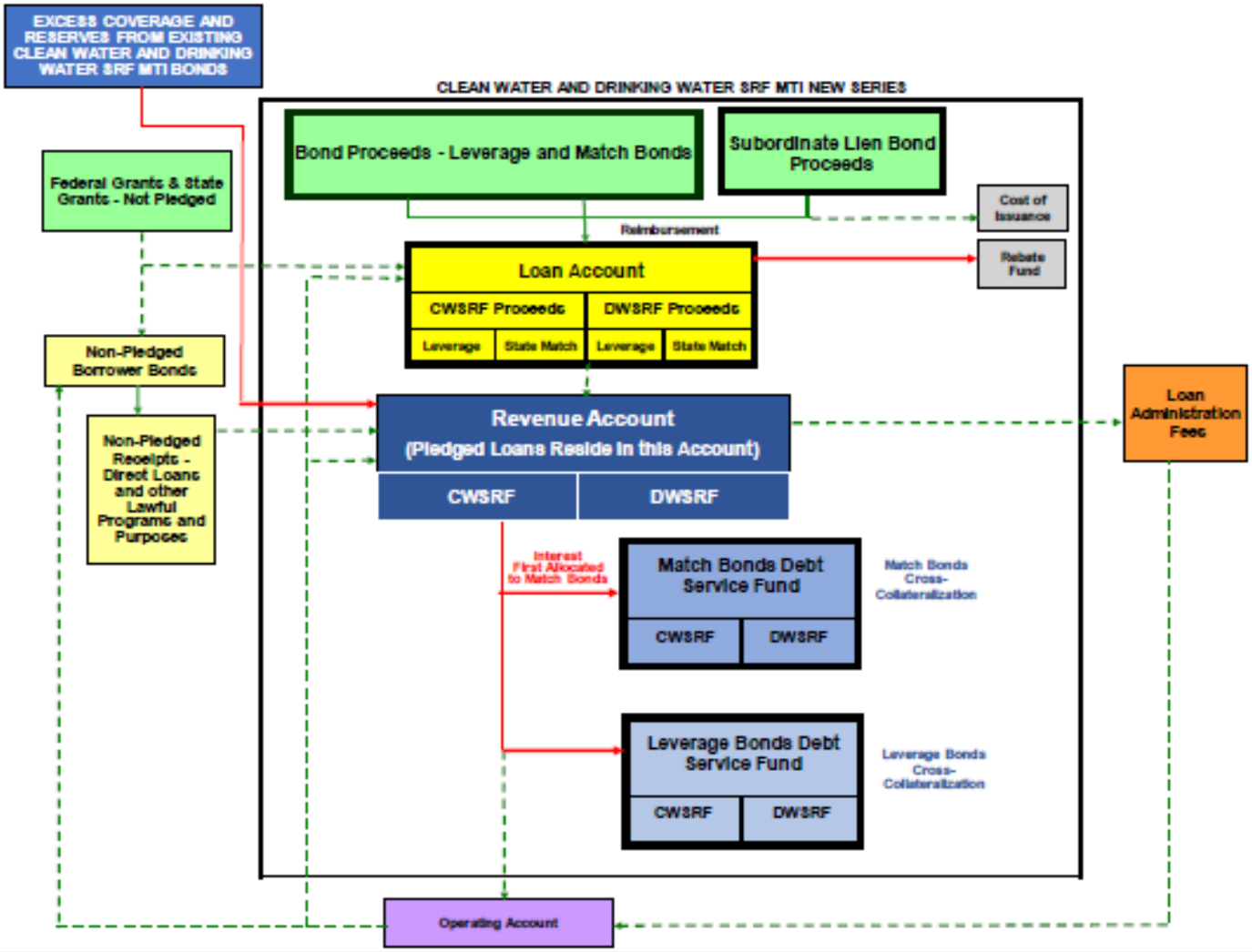
Preliminary Flow of Funds for New MTI



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Considerations and Benefits of the New MTI

- The existing MTA will be closed simultaneously with the first issuance of bonds under the new MTI
  - No future bonds will be issued under MTA
- The existing MTA will remain outstanding until all the existing SRF revenue bonds of the OWRB either matures or is refunded into the new MTI
- Each loan and its corresponding repayments will be pledged to all parity revenue bonds issued under the MTI
  - No more defining specific loans to secure specific series of bonds
  - This will reduce the required number of accounts and streamline program administration and Trustee services
- The rating agencies currently view the program on an aggregate basis, so this structure is consistent with rating agency methodology
- Many of the forward thinking provisions from the existing MTA will be incorporated into the new MTI along with other provisions for future flexibility

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Refunding Opportunity

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Bond Buyer's Index of 20 Municipal Bonds

The graph depicts historical interest rates and their respective relationships. Future interest rates are dependent upon many factors such as, but not limited to, interest rate trends, tax rates, the supply and demand of short term securities, changes in laws, rules and regulations, as well as changes in credit quality and rating agency considerations. The effect of changes in such factors individually or in any combination could materially affect the relationships and effective interest rates. These results should be viewed with these potential changes in mind as well as the understanding that there may be interruptions in the short term market or no market may exist at all.

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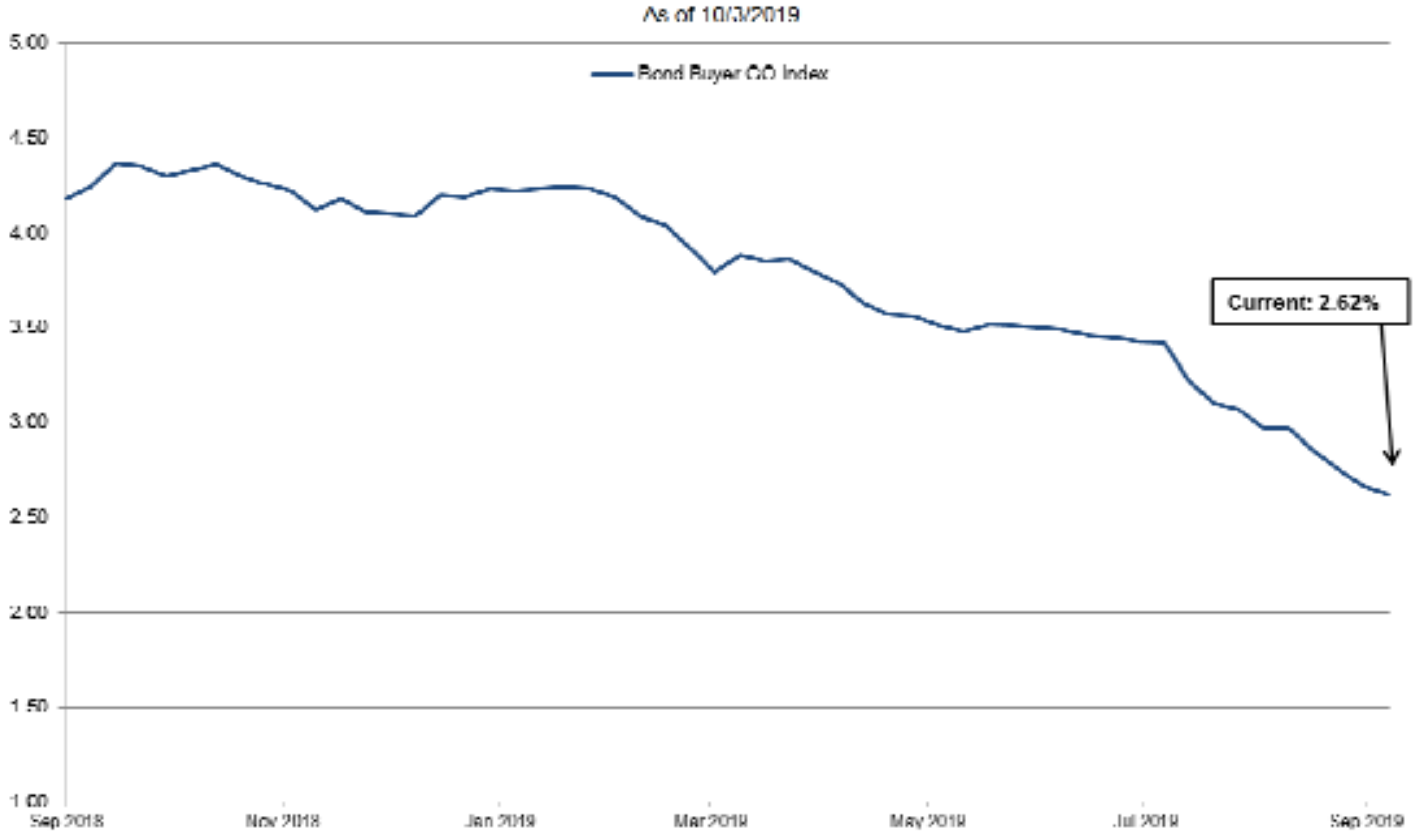
Bond Buyer's Index of 20 Municipal Bonds



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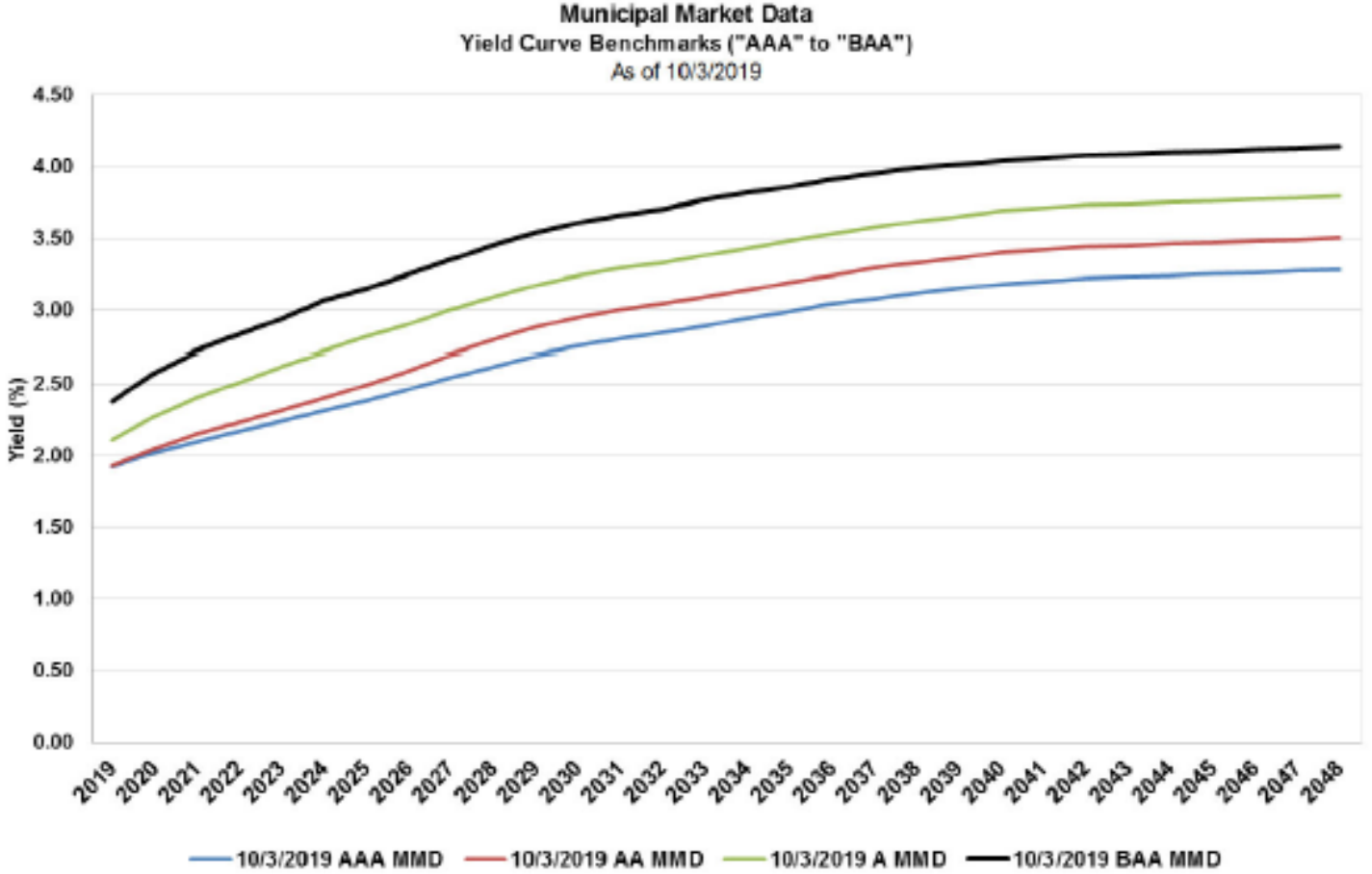
Credit Spreads



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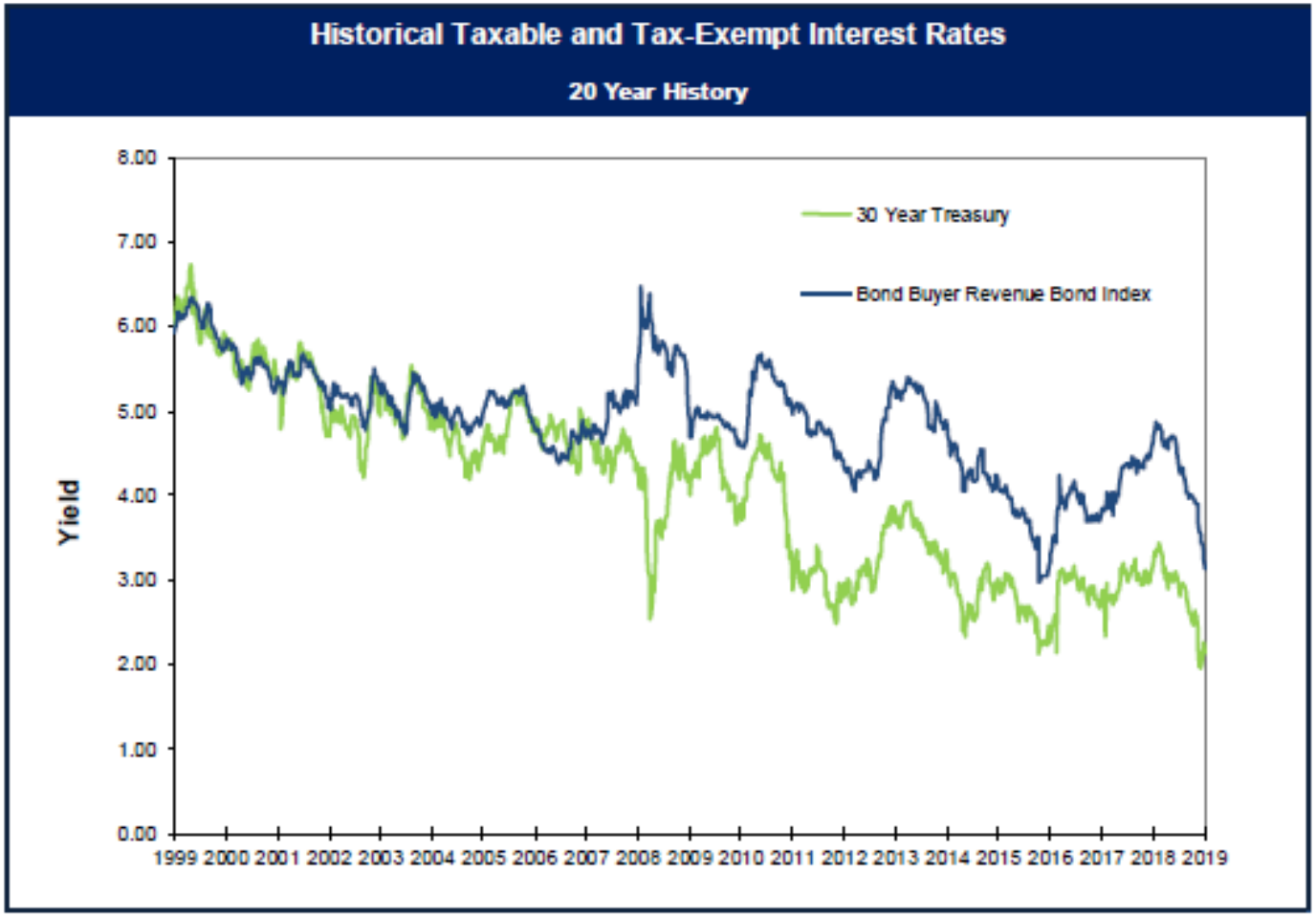
Historical Taxable and Tax-Exempt Rates



This graph depicts historical interest rates and their respective relationships. Future interest rates are dependent upon many factors such as, but not limited to, interest rate trends, tax rates, supply, changes in laws, rules and regulations, as well as changes in credit quality and rating agency considerations. The effect of such changes in such assumptions may be material and could effect the projected results. These results should be viewed with these potential changes in mind as well as the understanding that there may be interruptions in the short term market or no market may exist at all.

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Summary of Bonds Soon to be Callable

Clean Water SRF Bonds, Series 2011A	
Original Principal Amount	$85,000,000
Callable Principal	$45,860,000
Callable Maturities	2022-2031
Coupons	4.00%-5.00%
Call Date	4/1/2021

Drinking Water SRF Bonds, Series 2011B	
Original Principal Amount	$57,910,000
Callable Principal	$48,545,000
Callable Maturities	2022-2042
Coupons	3.00%-5.25%
Call Date	4/1/2021

Clean Water SRF Bonds, Series 2012B	
Original Principal Amount	$86,505,000
Callable Principal	$76,645,000
Callable Maturities	2023-2033
Coupons	3.00%-5.00%
Call Date	4/1/2022

Drinking Water SRF Bonds, Series 2012A	
Original Principal Amount	$49,395,000
Callable Principal	$36,890,000
Callable Maturities	2023-2042
Coupons	3.00%-5.00%
Call Date	4/1/2022

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Timing and Other Considerations

- Prior to the passage of the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), issuers were able to refund outstanding obligations which matured or were redeemable more than 90 days after issuance of refunding bonds ("advance refunding") with tax-exempt obligations
- With the passage of the 2017 Tax Act, tax-exempt advanced refundings are no longer permitted
  - Taxable advance refundings are still permitted
- With the compression between tax-exempt rates and taxable interest rates, opportunities exist for taxable advance refundings to be undertaken
- When evaluating whether to consider a taxable advance refunding, we recommend evaluating the projections with similar criteria previously applied to tax-exempt advanced refundings

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Federal Tax Law Considerations

State of Oklahoma OWRB Water Resources Board the water agency

- Pooled Loan Programs such as the SRF program have significant Federal Tax Law considerations
- After guidance from Tax Counsel, the following modifications were made to the proposed refunding structure
  - Principal amortization can begin once the escrow for the refunding bonds is no longer outstanding (4/1/2022)
  - All the bonds must be refunded, even those that are not callable
- This results in most of the savings being realized in the first two years

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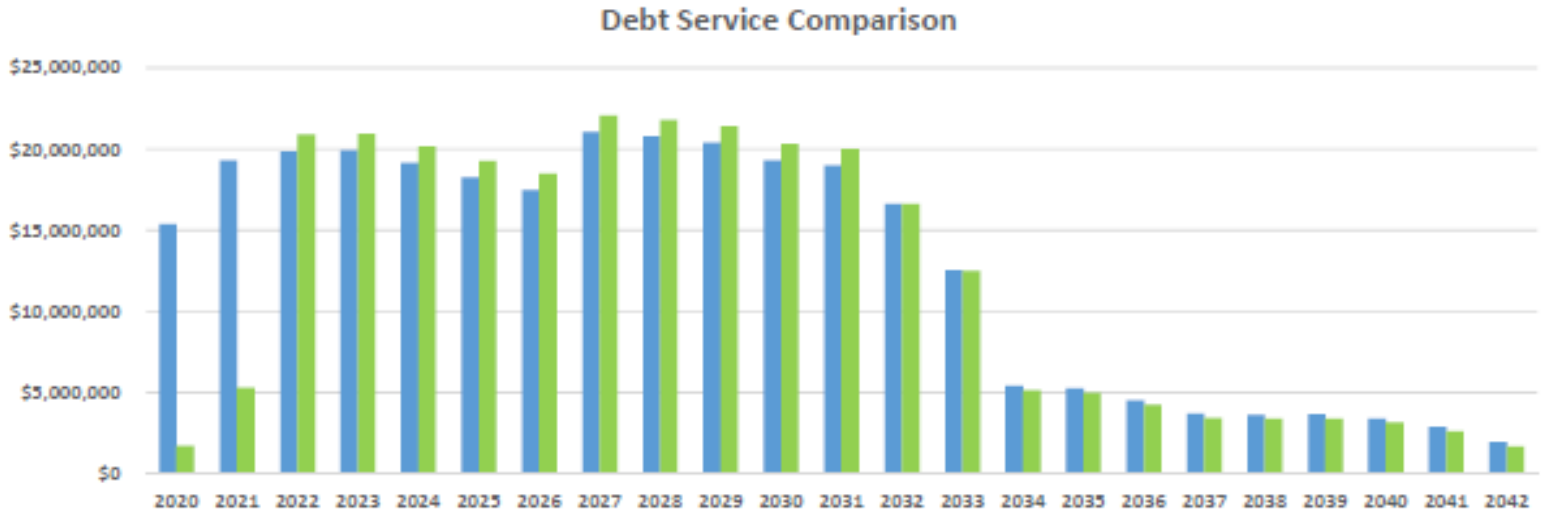
Proposed Refunding Bonds – Current Interest Rates

Proposed and Projected SRF Refunding Bonds, Series 2019	
Refunding Par Amount	$222,335,000
Gross Savings	$19,851,150
Net Present Value Savings	$20,188,567
Average Annual Savings 2020 and 2021	$13,829,970
Present Value Benefit (%)	9.71%
True Interest Cost	2.56%



*Current Market Rates as of September 26, 2019 .

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Summary

- The current municipal interest rate market is near historical lows
- Spreads between tax-exempt rates and taxable rates are compressed
- The OWRB has the opportunity to refund existing bonds on a taxable basis at lower interest rates resulting in projected debt service savings
- In addition to achieving debt service savings, should the OWRB decide to proceed with the refunding, the refunding bonds would be the first issuance under the new MTI
- This would accelerate the transition from the existing MTA to the proposed new MTI

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Questions?

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