Water and Wastewater Infrastructure Financing into the Next 50 Years

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Presentation Overview

- Background
- Capacity
- Where We Go From Here
Financing History

OWRB has successfully administered 5 loan and grant programs for water and wastewater infrastructure:

- Emergency Grants (1983)
- State Revenue Bond Issue (1985)
- Clean Water State Revolving Fund (1990)
- Drinking Water State Revolving Fund (1997)
Financial Assistance Program
Loan and Grant Recipient Status

Funding as of October 30, 2012

Funding Totals by County
- < $1 Million
- $1-10 Million
- $10-20 Million
- $20-50 Million
- $50-100 Million
- $100-200 Million
- $200-800 Million

- Grants
- Loans

Funding Totals by Program
- Clean Water Loans $1.15 Billion
- Drinking Water Loans $836 Million
- FAP Bond Loans $824 Million
- REAP Grants $51 Million
- Emergency Grants $34 Million
- Drought $491 Thousand

TOTAL $2.89 Billion
TOTAL SAVINGS $995 Million
OCWP Drinking Water and Wastewater Infrastructure Needs Survey

CDM-Smith conducted a detailed study evaluating the needs for water supply and wastewater providers.

Evaluated the needs for small, medium and large providers by Region.

Identified ~$82B in needs - ~$37.8B for water infrastructure and ~$43.9B for wastewater infrastructure.
What is the Urgency?

- Address health concerns related to water and wastewater
- Aging infrastructure
- Need for infrastructure for economic development
- DWSRF capacity has been strained
- SRF need over the next five years is over $565M
- Financial need over the next 50 years of $82B
Convened an advisory team of infrastructure financing professionals to investigate potential funding mechanisms to meet drinking water and wastewater project needs

Presented recommendations from the advisory team to the OWRB for consideration

Recommended a potential solution to the Oklahoma Legislature
OCWP Recommendations

- Additional State Investments
- Encourage maintaining or increasing Federal SRF Investments
- Consider subsidy reduction and methodology
- New methods to encourage regionalization
- Creation of a new or restructure Financial Assistance Loan Program
- Maintain Gross Production Tax Revenue
- Creation of State-backed Credit Enhancement Reserve Fund (CERF)
Moving into the Next 50 Years
Projected Water Demand as Compared to Capacity

Projected Demand $37.790 Billion

Projected SRF Capacity $2.388 Billion
Projected Wastewater Demand as Compared to Capacity

Projected Demand $43.890 Billion

Projected SRF Capacity $1.920 Billion
Factors Effecting Capacity

Factor 1
Program Demand

Factor 2
Underlying Borrower’s Lending and Borrowing Rate

Factor 3
Investment Rate Environment

Factor 4
Capital Contributions:
Capitalization Grants, 20% State Match & Other Available Capital
Leveraging Considerations

**Consideration**

- **Funding = Demand**
- **Funding < Demand**
- **Funding > Demand**

**Structure**

- **Direct Loan Program**
- **Leveraged Loan Program**
- **De-Leverage Loan Program**
Leveraging Today

- Leveraging has been an Effective Tool Utilized when Demand Exceeds Funds
- However, in Today’s Environment, it has Provided More Value
- Bond Market Interest Rates at Historically Low Levels
The Financial Assistance Program (FAP) was created in 1985 and has received approximately $22 million in funding.
- Funding has been leveraged to approximately $788 million in loans for 345 projects.

The Drinking Water SRF was created in 1999, has received approximately $204 million in capitalization combined with approximately $41 million in state match.
- Funding has been leveraged to approximately $769 million in loans for 144 projects.

The Clean Water SRF was created in 1990, has received approximately $296 million in capitalization combined with approximately $53 million in state match.
- Funding has been leveraged to approximately $1.057 billion in loans for 252 projects.
Capacity Considerations

Factors Impacting Capacity

1. Capitalization Grant Funding Levels
2. Grant Set Asides
3. Principal Forgiveness
4. Recycling/Non-Recycling Ratios
5. Other Funds Available for Capitalization
6. State Revolving Fund Borrowing Costs
7. Borrower Lending Rate
8. Perpetuity Requirement
9. Rating Agency Criteria

Potential Impacts
How Often are Capacity Assumptions Reviewed and Updated?

Assumptions are dynamic; not static:
- Capitalization levels are ever changing
- Interest rate environments are volatile
- Rating agency criteria is evolving
- Program demand varies annually

- Annually in conjunction with Intended Use Plan
- With each bond issue to update market factors
- In response to EPA programmatic changes
Impact of SQ 764
Impact of SQ764

Passage of SQ764 means the future of water/wastewater financing in Oklahoma is brighter than it's been for years.

A huge first step in addressing the State's long-term water/wastewater funding needs.

SQ764 – 3 questions & answers.
Impact of SQ764

Question #1 – What is SQ764?

Every city, town & rural water district occasionally needs to make expensive improvements or repairs to their water/sewer systems

Must borrow money to fund improvements

2 Primary options to borrow money

- Locally issued revenue bond
- OWRB loan – usually the best option due to OWRB’s high credit rating
Impact of SQ764

Question #1 – What is SQ764? (continued)

- OWRB credit rating is a result of reserve funds that provide bondholders a cushion against payment defaults
- SQ764 pledges $300 million in state bonding authority to these reserve fund
- Additional $300 million in reserves will help the OWRB maintain high credit ratings as it begins to address future funding needs
Impact of SQ764

Question #2 – How much will my community benefit from SQ764?

<table>
<thead>
<tr>
<th></th>
<th>OPTION A Local Revenue Bond</th>
<th>OPTION B OWRB FAP Loan</th>
</tr>
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<tbody>
<tr>
<td>Population of Community</td>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td># of Utility Customers</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Size of Borrowing</td>
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<td>$10,000,000</td>
</tr>
<tr>
<td>Length of Repayment Term</td>
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<td>25 Years</td>
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<tr>
<td>Credit Rating</td>
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<td>AA+</td>
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<tr>
<td>Average Interest Rate</td>
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<td>3.45%</td>
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<tr>
<td>Total Interest</td>
<td>$6,372,000</td>
<td>$4,860,000</td>
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<tr>
<td><strong>Difference</strong></td>
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<td><strong>$1,512,000</strong></td>
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</table>
Impact of SQ764

Question #3 – Will SQ764 fully address funding needs for the next 50 years?

- If future funding needs are ultimately only one-half of the projected $82 billion, SQ764 will ultimately be the first of many subsequent measures taken.

- How much of the $82 billion will be addressed by SQ764?

- OWRB needs to be AA+ or better to be a viable long-term lender.

- OWRB FAP Program bonds downgraded from AAA to AA+ in 2012 due to lack of reserves vs. bonds outstanding.
Impact of SQ764

Question #3 – Will SQ764 fully address funding needs for the next 50 years? (continued)

Currently the OWRB has AA+ rating and has:
- $270 million in FAP Bonds outstanding
- $23 million in reserves (about 8.5%)

With the addition of the $300 million pledged to the reserve fund from SQ764.....it’s reasonable to believe that the OWRB could fund $3.5 billion in loans at any one time

$3.5 billion * 2 = $7 billion over the next 50 years
Impact of SQ764

Conclusion
- SQ764 is one of the most important steps ever taken by the people of Oklahoma to address water/wastewater financing needs
- Will save Oklahomans hundreds of millions of dollars in the years to come
Questions?