

Water and Wastewater Infrastructure Financing into the Next 50 Years

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Presentation Overview

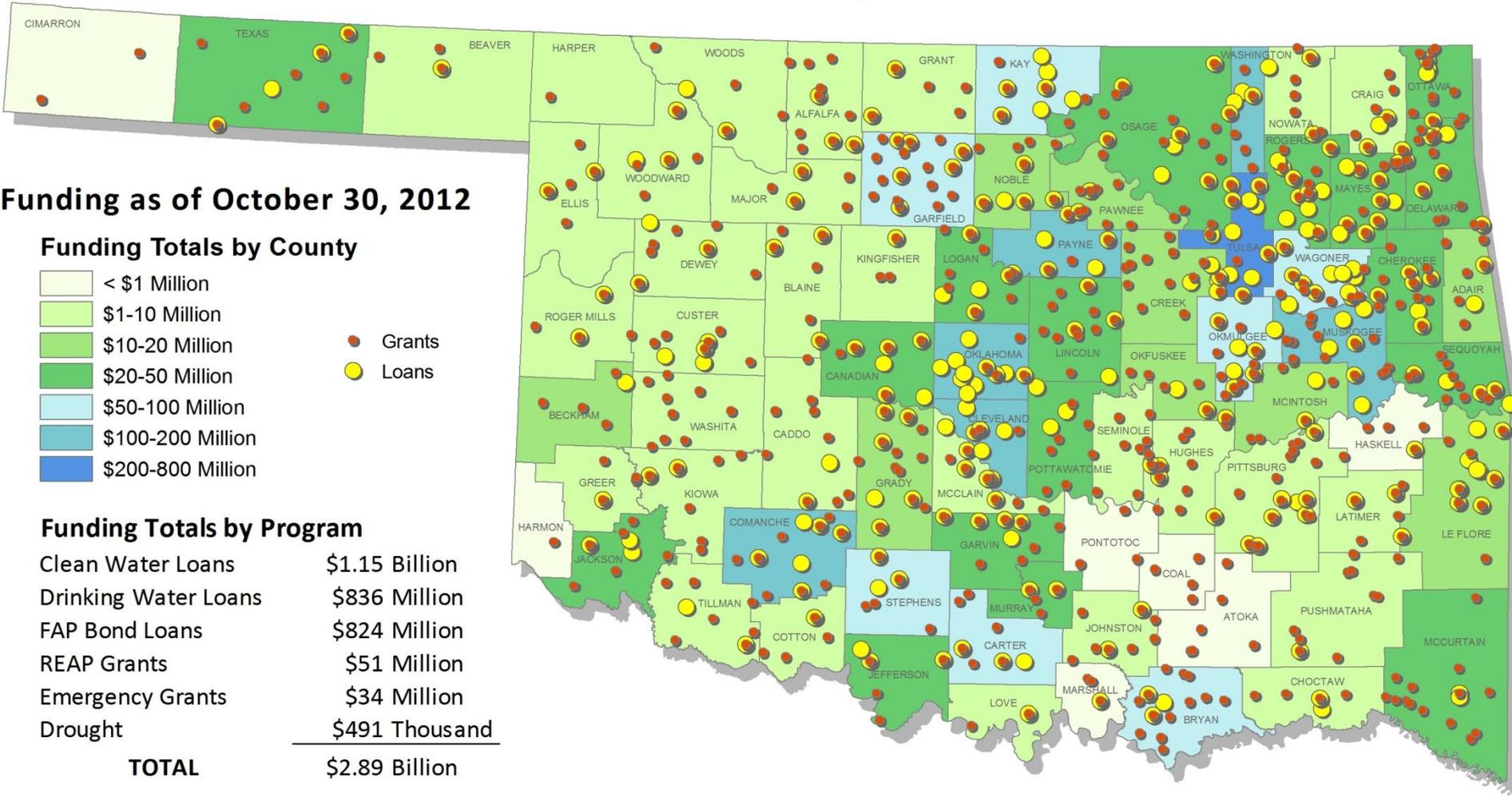
- Background
- Capacity
- Where We Go From Here

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)
 - Rural Economic Action Plan Grants (1996)
 - Drinking Water State Revolving Fund (1997)

Financial Assistance Program

Loan and Grant Recipient Status



Evaluating Infrastructure Needs

- 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

OCWP Implementation Plan

- 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

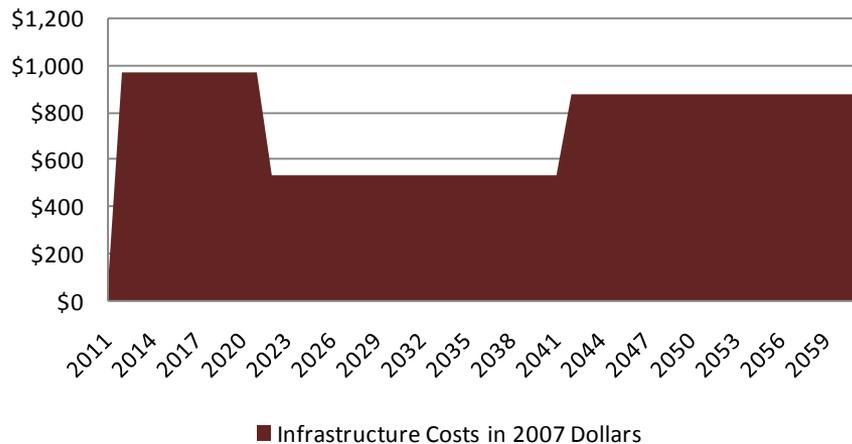
OCWP Recommendations

- 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)

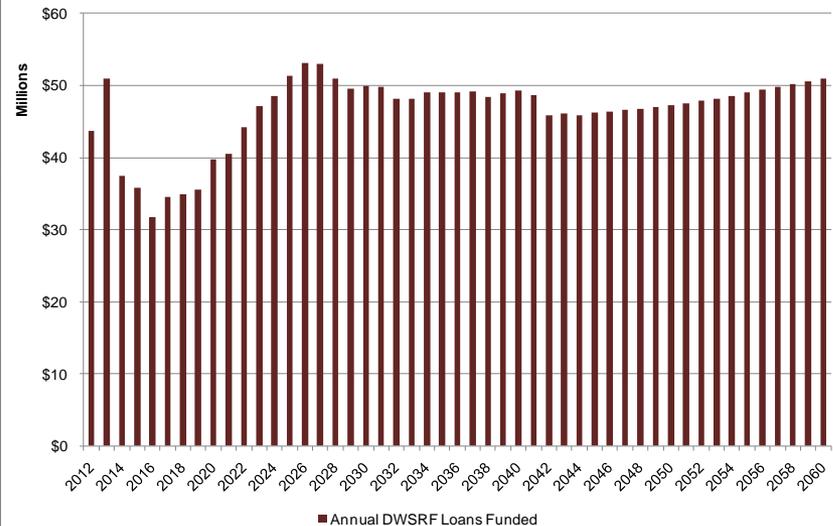
Moving into the Next 50 Years

Projected Water Demand as Compared to Capacity

Annual Infrastructure Costs in 2007 Dollars



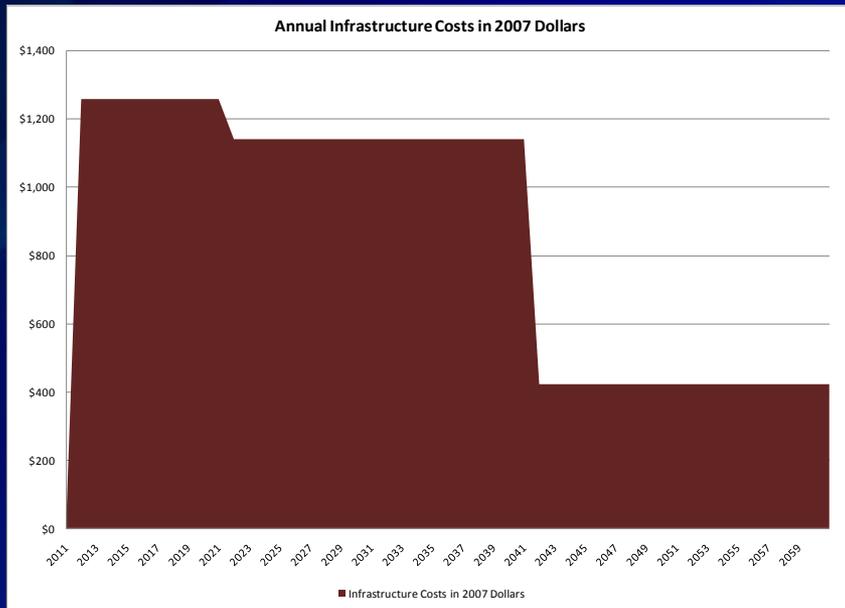
Estimated OWRB Drinking Water SRF Annual Loan Funding (Not Adjusted for Inflation)



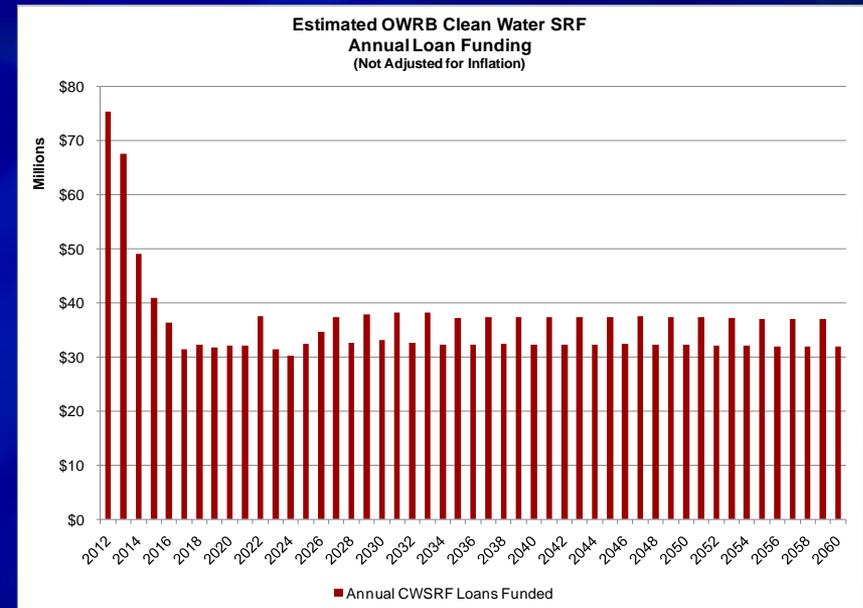
Projected Demand \$37.790 Billion

Projected SRF Capacity \$2.388 Billion

Projected Wastewater Demand as Compared to Capacity

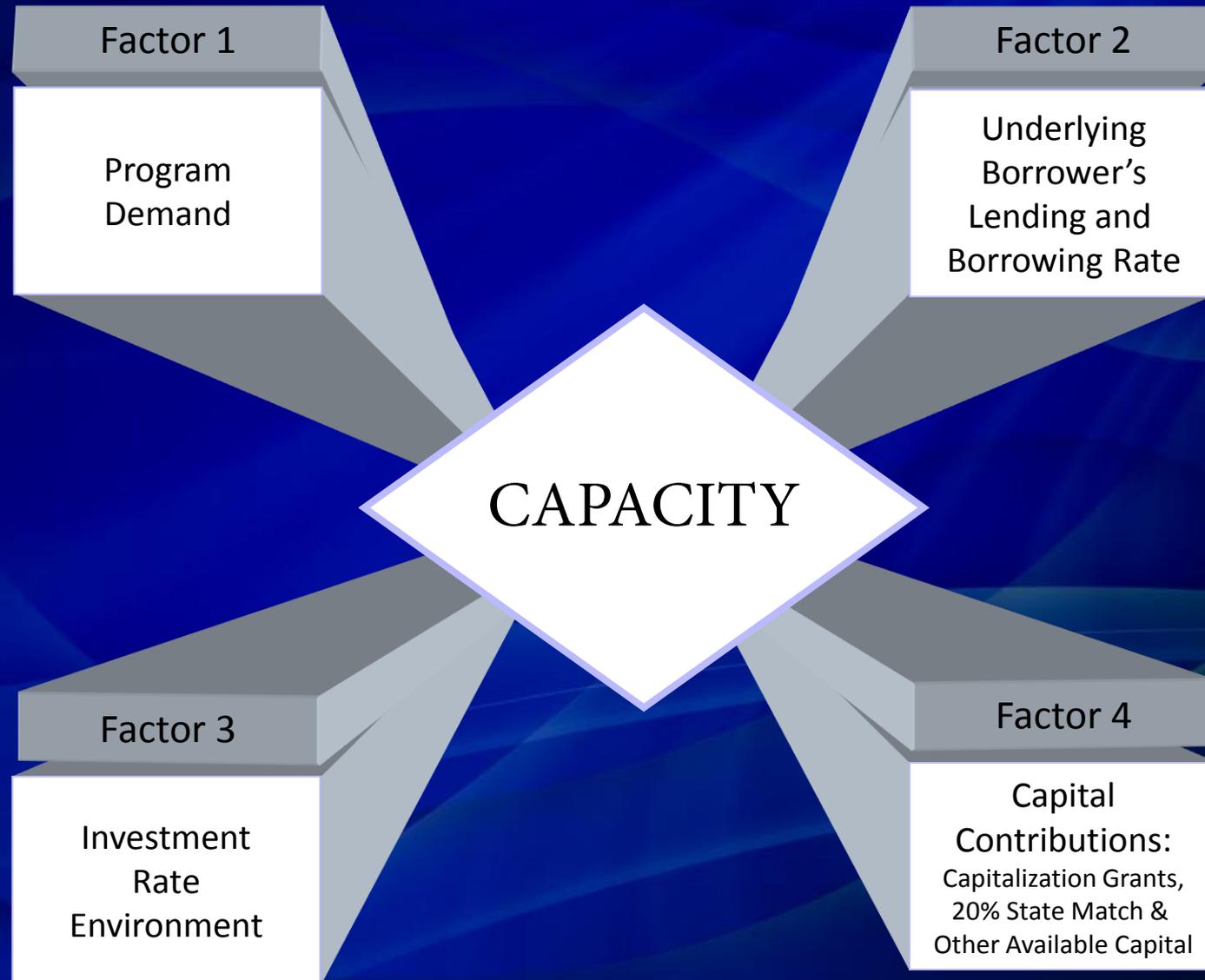


Projected Demand \$43.890 Billion



Projected SRF Capacity \$1.920 Billion

Factors Effecting Capacity



Leveraging Considerations

Consideration

Funding = Demand

Funding < Demand

Funding > Demand

Structure

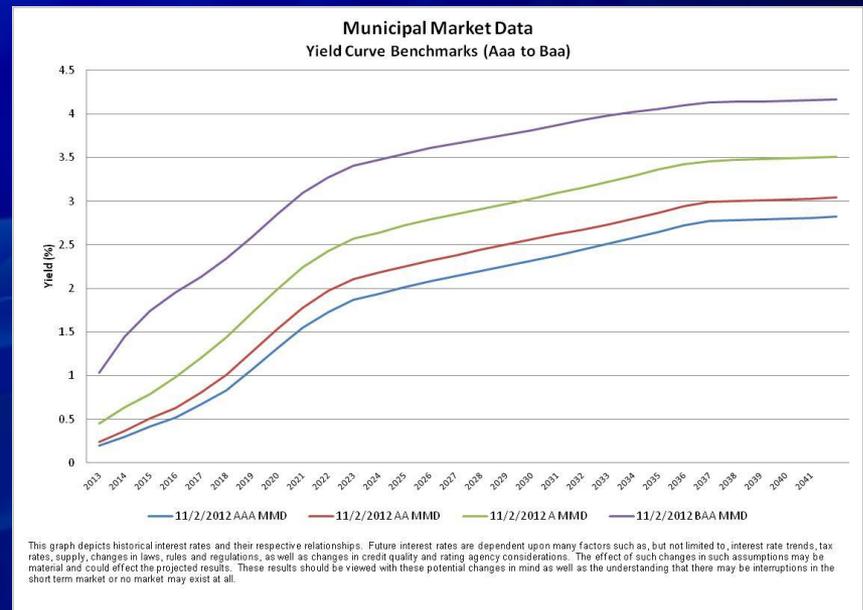
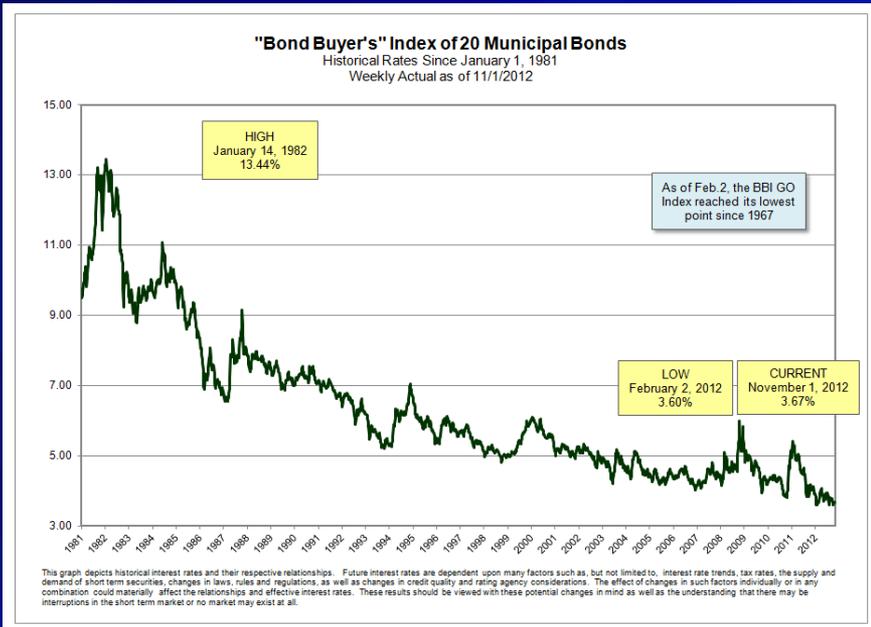
Direct Loan Program

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



Examples of Leveraging

- 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

Consideration

Potential Impacts

**Factors
Impacting
Capacity**

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graph LR; A[Factors Impacting Capacity] --> B[1. Capitalization Grant Funding Levels]; A --> C[2. Grant Set Asides]; A --> D[3. Principal Forgiveness]; A --> E[4. Recycling/Non-Recycling Ratios]; A --> F[5. Other Funds Available for Capitalization]; A --> G[6. State Revolving Fund Borrowing Costs]; A --> H[7. Borrower Lending Rate]; A --> I[8. Perpetuity Requirement]; A --> J[9. Rating Agency Criteria];
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1. Capitalization Grant Funding Levels
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6. State Revolving Fund Borrowing Costs
7. Borrower Lending Rate
8. Perpetuity Requirement
9. Rating Agency Criteria

Capacity Considerations

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 its 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?

	OPTION A Local Revenue Bond	OPTION B OWRB FAP Loan
Population of Community	6,000	6,000
# of Utility Customers	3,000	3,000
Size of Borrowing	\$10,000,000	\$10,000,000
Length of Repayment Term	25 Years	25 Years
Credit Rating	BBB+	AA+
Average Interest Rate	4.30%	3.45%
Total Interest	\$6,372,000	\$4,860,000
Difference		\$1,512,000

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?