COUNCIL OF INFRASTRUCTURE FINANCING AUTHORITIES

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PUBLIC INFRASTRUCTURE FINANCING AGENCIES

SRF Marketing: Still Important?

Council of Infrastructure Financing Authorities
May 20, 2013

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Panel Participants

Moderator	
Tom Liu Managing Director Bank of America Merrill Lynch 646-743-1361 thomas.liu@baml.com	■ Manager, Water and Wastewater/SRF Group ■ 24 years of SRF experience ■ Served on over $16 billion of SRF financings for 24 SRF programs in the nation
Panelists	
Jennifer Wasinger Assistant Chief/SRF Program Manager Financial Assistance Division Oklahoma Water Resources Board 405-530-8800 jlwasinger@owrb.ok.gov	■ Manages the Financial Assistance Division's four sections and oversees the engineering, environmental, financial and operational work ■ Manages the Board's five water and wastewater infrastructure financing programs ■ Conducts work for the SRF program and serves as the Board's liaison with US EPA
Matthew Driscoll President and CEO New York State Environmental Facilities Corporation 518-402-6951 Matthew.driscoll@efc.ny.gov	■ Oversees one of the largest and most successful State Revolving Fund programs in the nation, managing over $13 billion in assets ■ Extended EFC's award-winning Green Innovation Grant Program, keeping New York at the forefront of "green" urban and infrastructure planning ■ Member of Governor Cuomo's Cabinet, Co-Chair of the NYS Storm Recovery Task Force and Chair of the Great Lakes Protection Fund Board of Directors

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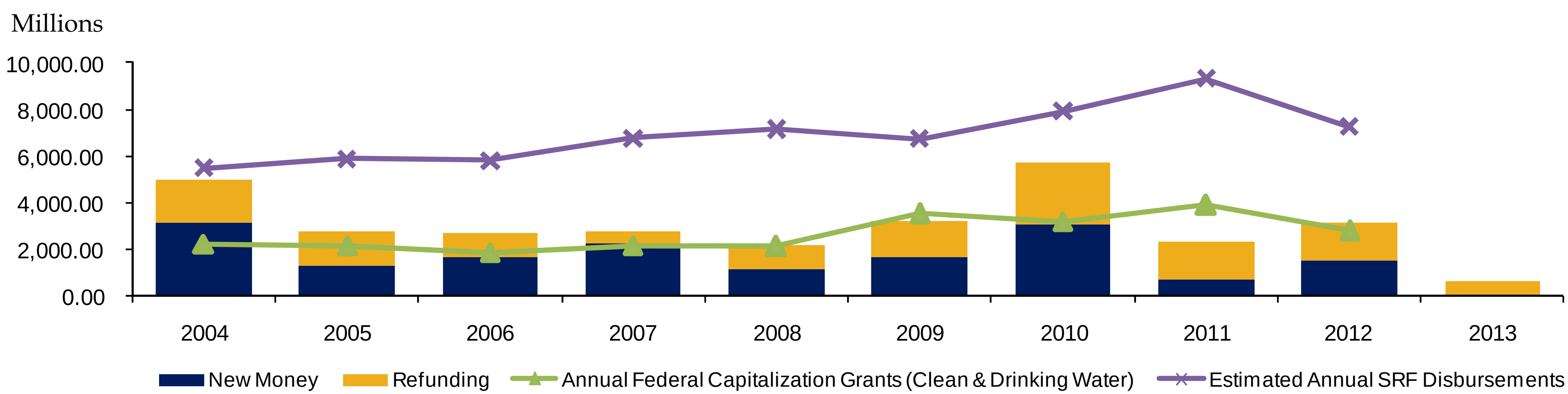
Overview of State Revolving Fund Activity

Historical SRF Issuance, Federal Assistance and Estimated SRF Loan Disbursements



Source: Thomson Reuters SDC, US EPA; as of 5/6/13

Overview

- On a nationwide basis, estimated water and wastewater needs have been growing and now exceed $1 Trillion (American Society of Civil Engineers)
- Recent ARRA funding in 2010/2011 appears to have temporarily increased SRF funding/disbursements
- Current and prospective future SRF loan disbursements appear to be on the decline

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Increasing SRF Funding Demand

- **In Many States, SRF Funding Demand has Decreased**
  - Low interest rates – especially on stand-alone financings for highly-rated borrowers
  - Economic concerns – which has made borrowers debt adverse
  - Administrative burdens – associated with borrowing through the SRF programs
  - Other factors – including "unclear" financial benefits, prepayment and refunding concerns, borrower concentration, etc.

- **Potential Impact of Decreased SRF Funding Demand**
  - Loss in overall SRF funding capacity – due to cashflow concerns
  - Negative arbitrage – associated with minimum interest earnings which are lower than borrower loan rates
  - Loss in upfront/ongoing borrower fees
  - State level concerns – as most States have water needs in excess of $1 billion and have other existing/prospective water funding programs
  - US EPA concerns
    - Planned OIG investigations – into unliquidated obligations
    - Future funding concerns

Source: Bank of America Merrill Lynch

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Increasing SRF Funding Demand – Prospective Strategies

Marketing	Programmatic	Financial
▪ **Outreach Programs** ▪ Governor's/Treasurer's website and/or press release ▪ State-wide conferences and forums ▪ Water conferences/forums ▪ Bus Tours/local visits-to targeted borrowers ▪ **Borrower/Prospective Borrower "Awareness/Satisfaction" Surveys** ▪ **Developing Borrower Targets –** including those borrowers which can immediately spend loan monies ▪ **Developing Marketing Tools** ▪ SRF program websites ▪ Periodic newsletters ▪ On-line pre-application	▪ **Set Financing Schedules -** e.g., Spring and Fall financings and possibly more flexible schedule for large frequent borrowers ▪ **Extended Term Financings –** beyond 20 years for the clean water program; US EPA approval needed ▪ **Re-evaluate Prepayment/ Refunding Policies** ▪ Reinvestment/Administrative impact ▪ Treatment of Refunding Savings ▪ **Establish General Water/Infrastructure Pooled Financings Program** ▪ Emphasizes SRF Program Management's Strengths ▪ Funds SRF ineligible and/or other projects ▪ Potential source of fee income	▪ **Re-Evaluate Borrower Loan Rates** ▪ Considering loan rate methodology/alternative cost of funds ▪ Determine borrower fee elasticity ▪ **Consider Structuring Alternatives** ▪ Subordinate/Non-Parity/Double-Barrel loans ▪ **Implementing Short-Term Financing** ▪ "Tranche" Financing – to lower cost of funds (e.g., commercial paper financing and long-term fixed rate refinancing) ▪ Multiple available short-term products

Source: Bank of America Merrill Lynch