THE BOND BUYER

Water groups propose new Fed program, return of advance refunding

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Water sector advocacy groups say water agencies will face cash-flow challenges over the next few years due to the coronavirus and want for federal relief through advance refunding and federal lending programs.

In a white paper released by the National Association of Clean Water Agencies this week, the group asked for different financing measures to help water facilities pull themselves through the pandemic. Those include asking the Federal Reserve to create a municipal short-term note program targeted for water systems and restoring tax-exempt advance refunding, among other tools.

NACWA would want to see their asks included in the next coronavirus stimulus bill, said Nathan Gardner-Andrews, NACWA's general counsel and chief advocacy officer.

Nathan Gardner-Andrews, NACWA's general counsel and chief advocacy officer, said he would want those provisions to be included in the next COVID-19 stimulus bill. Senate leaders have said that bill could be its last stimulus package. If their asks are not included in a stimulus bill, NACWA would want them to be folded into a water reauthorization bill, which has been introduced in both the Senate and House already, or an annual appropriations bill.

"The reality is that regardless if Congress passes another standalone coronavirus relief package that this federal government and Congress will continue to do things to address the economic fallout from the pandemic through the end of this year and maybe even into early next year," Gardner-Andrews said.

The water sector has been hit hard by the effects of COVID-19 and water utilities have said they are largely being left out of COVID-19 federal funding. NACWA estimated a $16.8 billion revenue loss to clean water facilities and a $13.9 billion revenue loss to drinking water utilities.

The water sector holds more than $300 billion in outstanding municipal bond debt. Pre-pandemic, water sector issuers of different sizes had strong levels of liquidity, NACWA wrote.

"These metrics highlight that for most systems the crisis is less related to immediate cash requirements but instead related to the ability to withstanding cash-flow challenges over the next one to three years," NACWA wrote. "This points to the opportunity to provide meaningful relief through restructuring of debt obligations."

NACWA wants to bring back tax-exempt advance refunding, which was eliminated by the Tax Cuts and Jobs Act of 2017. A lower debt service payment would help water utilities absorb revenue losses and would help those with bonds callable in the next one to three years, NACWA said.

NACWA also wants to increase the cap on bank-qualified bonds to $40 million from its current $10 million, which would allow banks to expedite access to low-cost capital needed to help water facilities weather the pandemic, NACWA said. Bank-qualified bonds allow banks to deduct most of the carrying costs of the debt as a business cost. The bonds have to have been sold by an issuer that issues no more than the cap that calendar year.

NACWA also wants to see the Fed create a Water System Liquidity Facility, which would be similar to the Fed's $500 billion Municipal Liquidity Program.

The proposed program would provide short-term liquidity support for the water and wastewater sector. It would mirror the MLF closely, using a special purpose vehicle to purchase short-term notes and bond anticipation notes to assist in revenue impacts caused by COVID-19.

“Right now with the existing municipal window, water utilities have to jockey with every other municipal function and in most cases, it’s not the utility itself, it’s the city or county that is getting the funds,” Gardner-Andrews said. “Then, it depends on local politics and those jurisdictions on how those funds get divided up.”

NACWA wants to see the proposed program lend $30 billion to water facilities, Gardner-Andrews said.

NACWA also suggested lawmakers supplement the Drinking Water State Revolving Fund and Clean Water Revolving Fund programs with short-term or no-interest loans to be repaid or forgiven after five years.

SRF’s act as infrastructure banks by providing low-interest loans for drinking water infrastructure projects. As money is paid back into the state’s revolving loan fund, the state makes new loans for other projects. These recycled repayments of loan principal and interest earnings allow the state’s fund to “revolve” over time. They are typically longer-term loans.

Last, NACWA wants to create a Taxable, Interest-Subsidized Infrastructure Bond, or TIIB, which would be similar to Build America Bonds and have those not be subject to sequestration.

Garner-Andrews said NACWA has not had specific conversations with lawmakers yet.

“We tried to come up with some ideas, that if a certain concept wasn’t politically viable, there would be another option that would kind of achieve the same result, but might be more politically palatable,” he said.