



# Money Matters: Infrastructure Financing During the Corona Virus Crisis

May 28, 2020

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*All data as of 5/20/2020 unless otherwise noted*



## UNPRECEDENTED AND UNCERTAIN

- ◆ Highest unemployment rate since World War II
- ◆ Uncertainty surrounding large sectors of the economy, including travel, entertainment, restaurants, retail
- ◆ Accelerating changes in the way we all work
- ◆ Extensive Federal Reserve Actions
- ◆ Fiscal response of nearly \$3 trillion, with more to come
- ◆ Interest rate volatility



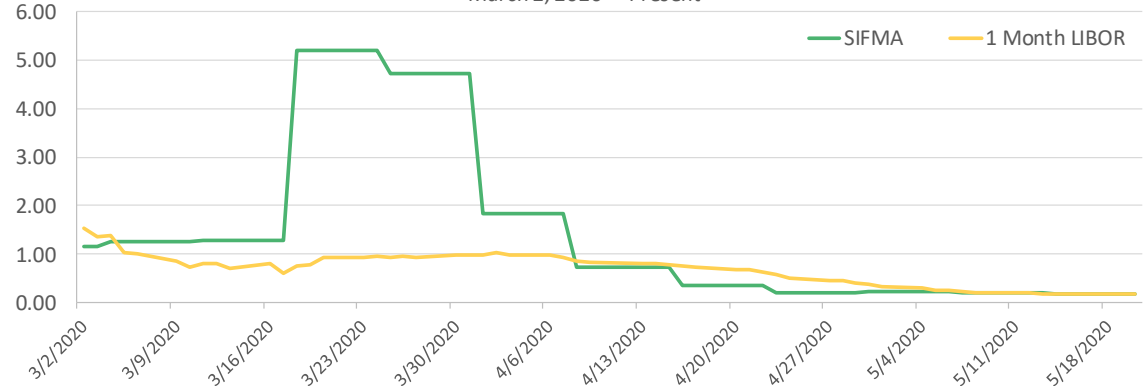
# Short-term Markets - Sharp Increases in March

- ◆ Need for liquidity drove short-term Muni rates up in March
- ◆ New facilities implemented by the Fed, allowing for the use of highly-rated, short-term municipals as eligible collateral, provided benefit to short-term municipal markets.

Short-term SIFMA and LIBOR Rates  
2019 - Present

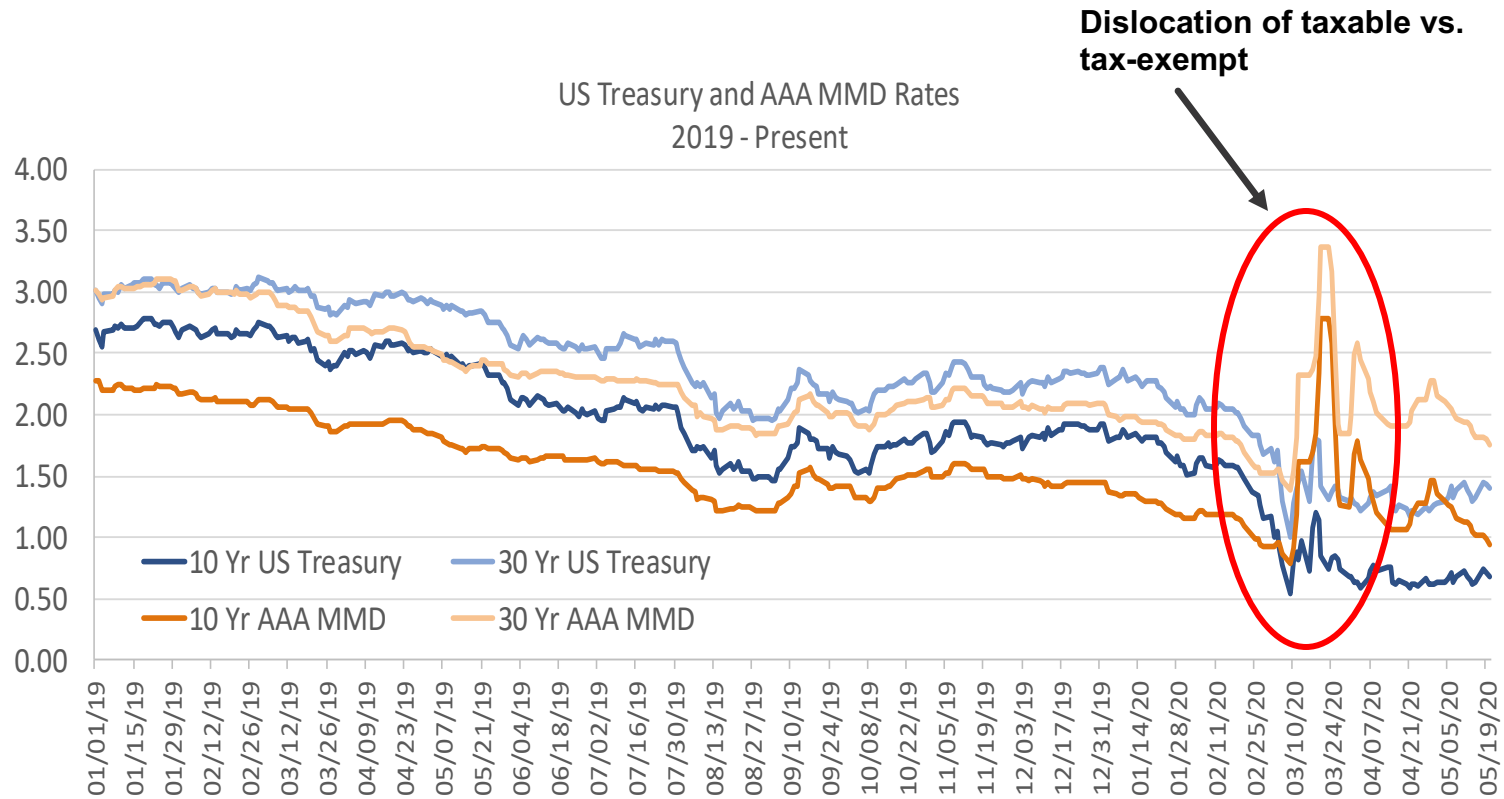


Short-term SIFMA and LIBOR Rates  
March 2, 2020 - Present



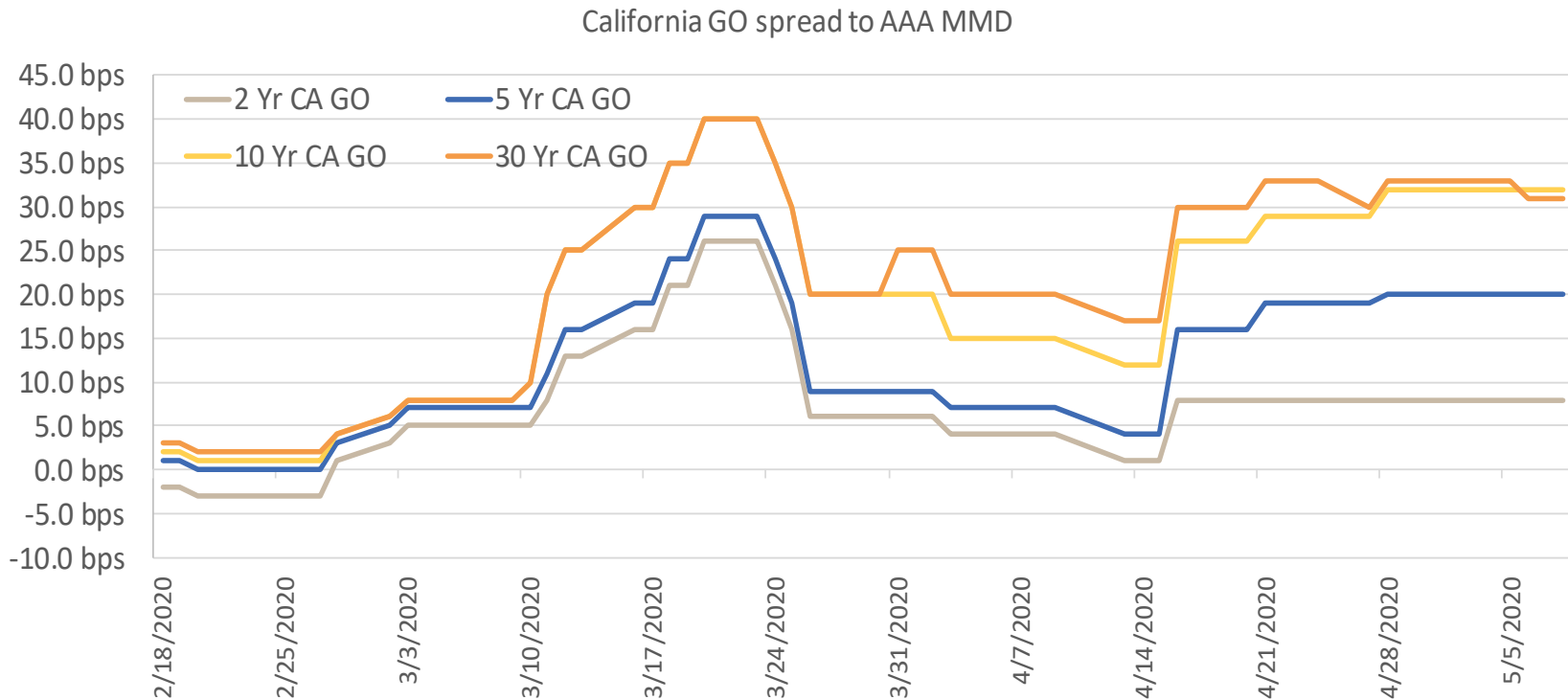


# Volatile Interest Rates on Long-term Bonds





# Credit Spreads Widen

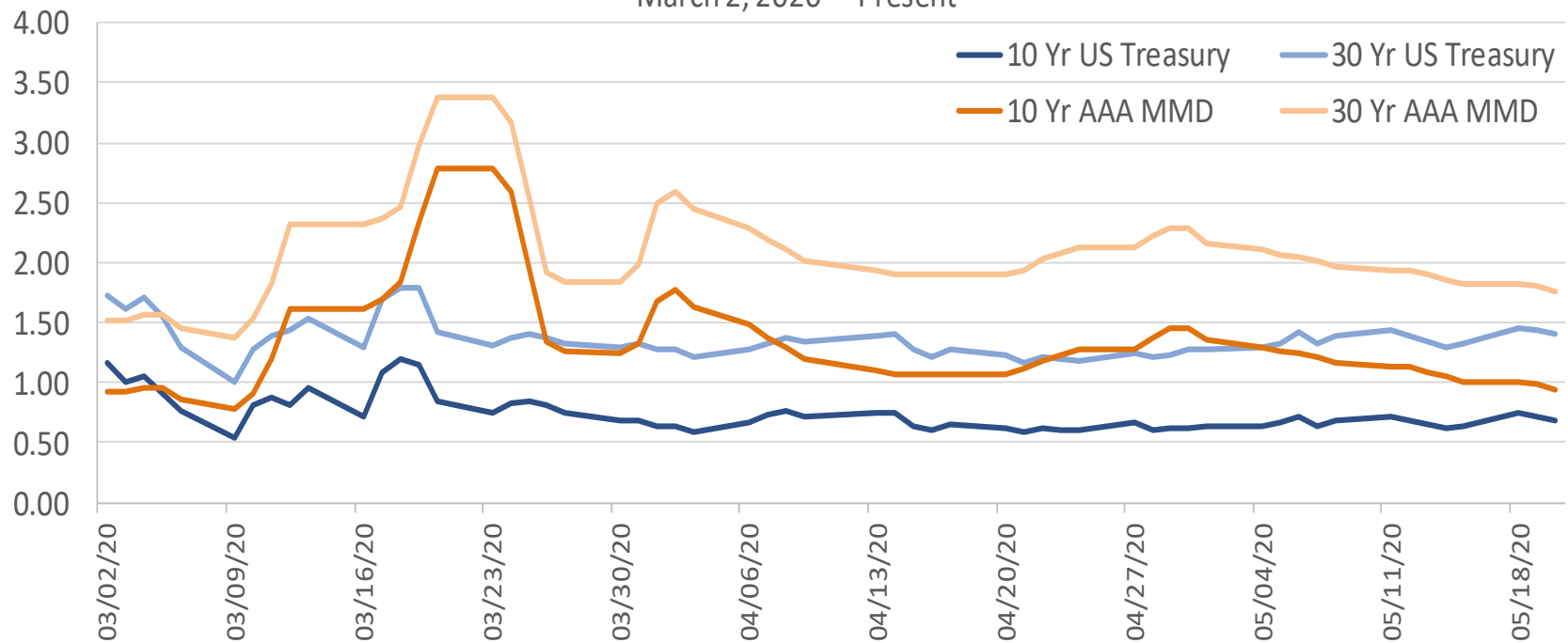


Source: Refinitiv



## Tax-exempt to Taxable Ratios Remain High But – Interest Rates Are Low!

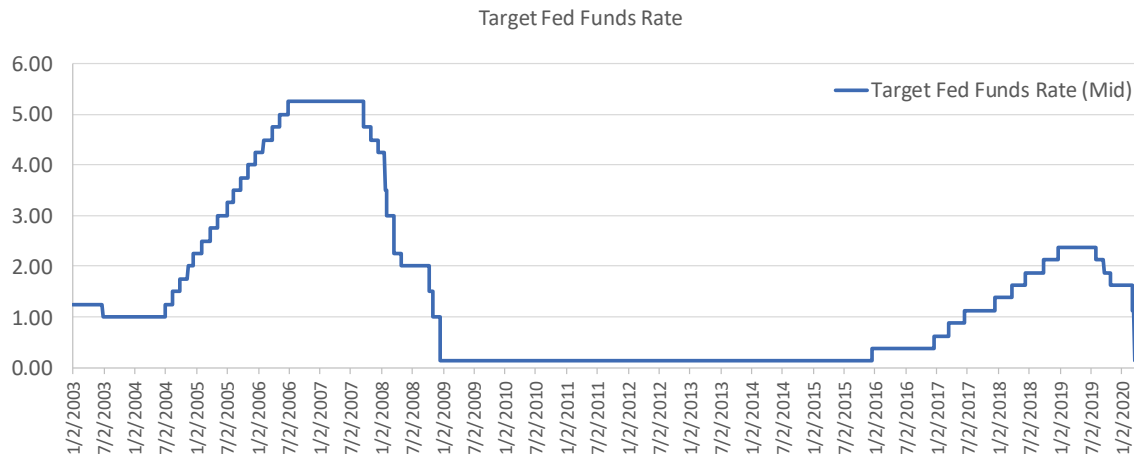
US Treasury and AAA MMD Rates  
March 2, 2020 - Present





# Federal Reserve to the Rescue!?!

- ◆ Reduced Fed Funds Rate to near zero
- ◆ Implemented a number of lending facilities to assist the corporate bond market, commercial paper market, and primary dealers to ensure functioning markets
- ◆ Municipal Market Lending Facility
- ◆ Federal Reserve balance sheet has grown to approximately \$7 trillion – recent purchases consist of treasury obligations and mortgage backs
- ◆ Federal Reserve indicates it will continue to do everything within its powers to support the economy



Source: Bloomberg



## Financial/Credit Impacts

- ◆ S&P placed all sectors on negative outlook
- ◆ AWWA estimates financial impact on drinking water utilities of almost \$13.9 billion
  - Another \$1.6 billion potentially lost due to deferred rate increases
  - \$5 billion of deferred capital = approximately \$32 billion impact on local economies

Source: AWWA, The Financial Impact of the COVID19 Crisis on Drinking Water Utilities, April 14, 2020





## Water/Wastewater Utilities are Strong Credits

- ◆ Essential Service Providers
- ◆ Strong Reserve Balances/Liquidity
- ◆ Strong debt service coverage ratios
- ◆ Challenges:
  - Collections – increased write-offs?
  - Higher costs due to COVID response
  - Implementing new work methods
  - Collective bargaining agreements
  - Political will to raise rates and charges



## What Now for Capital Funding?

- ◆ Cash is King – this is when reserves are critical
- ◆ FEMA reimbursements
- ◆ March 27<sup>th</sup> - CARES Act enacted
- ◆ Potential Infrastructure Bill
- ◆ Your own credit – short and long-term borrowings
  - Direct loans
  - WIFIA/SRF
  - Public market for notes and bonds



# Disclosures

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