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.

Source: Refinitiv
Volatile Interest Rates on Long-term Bonds

US Treasury and AAA MMD Rates
2019 - Present

Dislocation of taxable vs. tax-exempt
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 27th - 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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