



Date: September 22, 2023

To: Nebraska Environmental Quality Council

From: Sarah Starostka, Planning and Aid Division Administrator, NDEE

Re: Bond Authority Resolutions for the Drinking Water Facilities Loan Fund, Land Acquisition and Source Water Loan, and Wastewater Treatment Facilities Construction Loan Funds

The noted funds, more commonly known as the Clean Water and Drinking Water State Revolving Funds (SRFs), are capitalized annually through grants appropriated by Congress issued through the U.S. Environmental Protection Agency (EPA). Those grants require a state match, in the amount of 20% of the awards. Through the Nebraska Investment Finance Authority, the Department has continued to issue bonds for state match purposes since the Council last increased our bond authority in November of 2021. For the Drinking Water fund, the authority that remains is \$4,526,000, short of that needed for the next set of EPA grant awards (e.g., ~\$5.1M). For the Clean Water fund, the authority that remains is \$4,236,000 and should also be increased similarly for grant match purposes.

Beyond that required for grant match, the Department has continually assessed the overall municipal bond market. There are concerns and those may prove to be well-founded; however, the U.S. Economy continues to prove itself resilient. If only simple recessionary pressures develop, long-term rates for private bond market may spike from the current 4 to 5 percent to the 7 to 8 percent now observed in mortgage rates. Conditions may develop where the SRF would need to be prepared to proceed with a leveraged loan program.

While previous increases were limited to \$10M, additional match bond authority of \$30M for the Drinking Water Facilities Loan and Land Acquisition and Source Water Loan Funds, and \$15M for the Wastewater Treatment Facilities Construction Loan Fund, is requested of the Council to satisfy the program's projected federal grant match requirements. An additional \$50M in leveraged loan program bond authority is now also requested, to prepare should the path of market rate conditions lead to a need to provide affordable financial assistance of critical water and wastewater projects throughout the state.

In a cash flow leveraged loan program the EPA capitalization grants are directly loaned out and the repayments of those loans are pledged as security for repayment of state issued revenue bonds (leveraged bonds). The revenue bond proceeds are also loaned to municipalities and such loans are pledged as security for repayment of the state issued revenue bonds. Since a portion of loans are funded with EPA capitalization grant funds, which the program does not pay interest on but does receive interest payments from once they are loaned out, the pool of loans can be offered at interest rates less than the market rate. In approving authority for leveraged bonds, the EQC is not approving a leveraged loan program, just approving the advance steps for the Department to subsequently present such a program in the SRF Intended Use Plan at a later time.