<u>BENEFITS OF LOW-INTEREST LOAN PROGRAM FOR WATER SUPPLY PROJECTS</u>:

Loans just above the 30-year Treasury rate (currently about 2.6%) for Reclamation projects are a cost-effective way to help local districts improve their water supply at minimal taxpayer cost. This proposed loan program in the Drought Resiliency and Water Supply Infrastructure Act is known as the Reclamation Infrastructure Finance and Innovation Act (RIFIA):

- **<u>This program can save water districts 10-25% on the cost of their loans, all for federal appropriations of only 1% of the cost of the loan</u>**. This is a very cost-effective investment.

- The water districts save 10-25% on the repayment cost of their loans, with total savings of about 10% for AAA rated districts and 20-25% for AA- rated districts. For example, water districts building the proposed Sites Reservoir in California would pay only $512/acre-foot instead of $682/acre-foot (a 25% saving).

- These significant benefits can be obtained by federal appropriations of only 1% of the cost of the loan – as validated by OMB based on its experience with the substantively identical Water Infrastructure Finance and Innovation Act (WIFIA).

    - OMB approved loans of $2.3 billion in the FY 2018 WIFIA round backed by appropriations of just over 1% of that amount or $25 million in budget authority, because there is a virtually non-existent default rate for water projects.

    - Because federal outlays need only cover 1% of the loan cost, **the draft bill with $125 million in authorized federal outlays could support $12.5 billion in project lending authority.** Moreover, because RIFIA loans cover at most 49% of the project cost, this $12.5 billion in lending authority will support $25 billion in water supply projects.

    - **Only 4 in a thousand water infrastructure projects default, based on a study conducted by Fitch credit rating agency.** There are additional substantial taxpayer protections, as described below.

<u>Taxpayer Protections:</u> Includes all the taxpayer protections from the successful WIFIA and TIFIA programs. In particular, the **RIFIA loans are limited to 49% of the total project cost, and the federal loans would have senior status in the event of any default.** These provisions ensure the taxpayer won't be harmed in any default where the project retains at least 50% of its value, which is extremely likely for ratepayer backed water supply projects.

<u>Savings for Water Districts from RIFIA loans:</u>
Water districts financing drought resiliency projects save in three major respects:

- **They pay about a 2.6% interest rate on their loans based on today's rates, versus 4% or greater rates** for the alternative of municipal bond financing.

- **The districts would not need to start loan repayments until 5 years after substantial completion of the project**, a substantial cost saver.

- Loans are for 35 rather than 30 years, lowering annual debt service costs.