

Extended Accrual Pilot Sub-Program

September 15, 2018 Discussion Outline 1.0

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| Purpose | To relieve debt capital market constraints on remediation of US water system deferred maintenance and delayed investment where near-term cost recovery is limited but long-term cost recovery is relatively assured. |
| Legislative Nature | A pilot sub-program within existing WIFIA program that may make 'Extended Accrual Loans' (EA Loans). Sub-program will require several statutory amendments on WIFIA technical terms but no additional appropriation, lending authority or diminution of credit standards. |
| Sub-Program Size and Term | [\$1.0 billion allocation of WIFIA lending authority for [3] years] |
| Eligible Projects | In addition to current program eligibility requirements: <ol style="list-style-type: none"> 1. Project remediates deferred maintenance or delayed investment on an existing system in accordance with; 2. A long-term plan and commitment to sustainable cost recovery |
| Eligible Borrowers | Limited to: <ol style="list-style-type: none"> 1. Large, publicly-owned water systems, or; 2. Clean and Drinking Water SRFs |
| Primary EA Loan Feature | Ability to defer debt service and accrue interest up to [30] years post-completion to the extent that cost recovery is anticipated to be limited and in accordance with a long-term plan for amortization or refinancing. Straight-line 30-year amortization or custom schedule to final bullet thereafter. |
| EA Loan Seniority | Senior only; may be pari-passu with other new or existing senior debt on Eligible Project (exceptions for existing unalterable indentures will be considered) |
| EA Loan Ratings | A minimum rating of [A+/A1] from two nationally-recognized rating agencies. |
| EA Loan Size | [\$100]m to [\$500]m |
| Percentage of Project Capitalization | Maximum of 49% of Project capitalization, including other new Project debt but also including existing debt and book equity of the existing system assets that are the subject of deferred maintenance and delayed investment remediation. Further limitations on size of EA Loan with respect to total Borrower assets. |
| Pricing | [10 bps.] plus applicable Treasury rate (including zero-coupon pricing component for deferral period) |
| Credit Subsidy | Self-Pay only (exceptions to be considered). Credit subsidy payment may be financed in initial EA Loan drawdown. |

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| <p>[Federal Deficit Impact – CBO scoring]</p> | <p>[Expected to be minimal due (1) self-pay requirement and (2) tax-exempt debt issuance reduced to the extent that (i) limitations in tax-exempt capital market were the cause of constrained remediation of deferred maintenance and delayed investment and (ii) faster remediation will ultimately result in lower required debt capitalization of water system infrastructure.]</p> |
| <p>Additional Requirements</p> | <p>In addition to current program loan national policy objective requirements:</p> <ol style="list-style-type: none"> 1. Best-practices for Project procurement and O&M in accordance with a plan to achieve optimum long-term efficiency and lowest possible cost recovery; 2. Affordability issues to be explicitly addressed as part of long-term cost recovery plan. Funds for this purpose will be an eligible use of EA Loan. 3. Community-based workforce opportunities and local objectives to be explicitly included as part of long-term O&M cost recovery plan. Funds for this purpose will be an eligible use of EA Loan. |
| <p>Modification for SRF Lending</p> | <p>It is intended that SRFs will utilize EA Loans to offer extended accrual loans to smaller systems in forms that are generally consistent with Sub-Program objectives. Specific requirements for SRF on-lending and other modifications to be developed. Credit-related requirements apply solely to SRF as Borrower itself.</p> |