

GAWP Position Statement: GEFA Securitization

The Georgia Environmental Facilities Authority (GEFA) has been an important source of water and sewer financing for many Georgia Association of Water Professional (GAWP) members across the State over the last twenty years. The Governor's budget proposes to “securitize” \$200 million from GEFA’s “Georgia Fund” which GAWP opposes. The GEFA program provides utilities with the necessary funding to develop projects which protect human health, the environment, as well as the State’s economic future. Securitization of the Georgia Fund could have negative long term repercussions on the credit rating of the State itself.

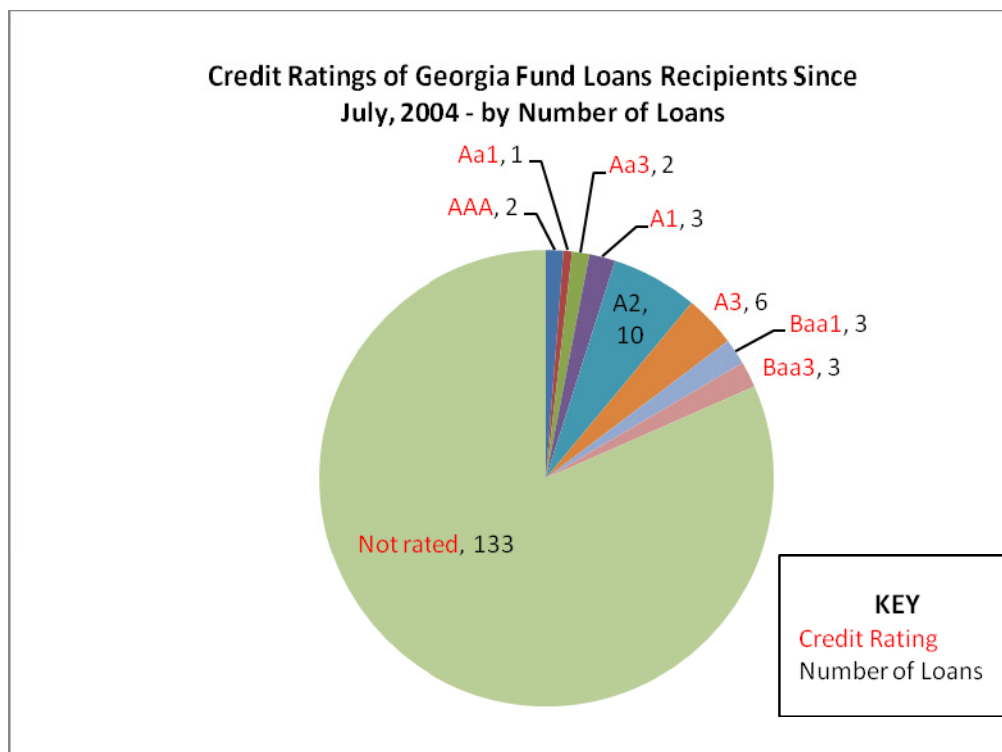
It has been suggested that the securitization of GEFA’s Georgia Fund program is a way of “(R)ightsizing this agency.” GEFA would maintain existing loan agreements but securitization would mean that the loan repayment stream would now be dedicated to security holders.

A unique feature of GEFA as a state entity is that its loans to a local government are not constitutionally recognized debt. Hence, they do not count towards a local government’s 10% debt ceiling. This is because GEFA loans are classified as intergovernmental contracts of service, and not “debt.” This is something that Georgia voters approved many years ago. This also means that a local government is spared having to run a local referendum in order to obtain a GEFA loan. The sale of the GEFA portfolio may jeopardize this status.

One should be clear that GEFA has two separate programs for financing local government water and sewer projects. Advocates of securitization have often misrepresented GEFA’s financial position by looking at these two programs as one. The programs have very fundamental differences. For example, the larger program is the State Revolving Fund (SRF) program which had more than twice the cash balance as did the Georgia Fund in September of 2009. This money comes from the federal government. (The SRF was also the vehicle for sending Stimulus money for water/sewer financing to the Georgia). However, the State only receives these federal dollars if Georgia can provide a 20% match from State funds – a good deal for the State by any standard! Besides providing this 20% match, a State has little control in how much federal money it receives via this federal program, except to document/report the level of need in the State. (Georgia has done such a good job of representing the water needs in the State via a federal survey, that over the last few years, the State has received an increasing percentage of these federal drinking water funds.) On the other hand, the Georgia Fund is capitalized by the State itself. Hence, the funds in this program are the only funds available for securitization. Another major difference between the SRF program and the Georgia Fund, as any local government seeking a quick loan can attest to, is the processing times involved. The SRF program, though an essential pot of money, comes with all the federal hoops to jump through, making the process at least a few months in length. With the Georgia Fund, loans have been turned around within a couple of weeks in some cases. The rapidity of the Georgia Fund makes it an unparalleled and critical financing option for local government utilities in need of immediate financing for critical water/sewer projects.

The GEFA program has grown over the years and this growth is a result of diligent financial practices. For example, GEFA has never had a default on a single loan since its creation in 1986. The proposition that “GEFA should return to its original purpose as a lender of last resort” is based on a false premise as GEFA was never intended to be a lender of last resort but a competitive option for Georgia’s Utilities. The

misconception that the Georgia Fund provides loans to too many high-credit-rated communities also deserves some clarification. The following pie chart shows that from 2004 to 2009, 80% of the 163 Georgia Fund loans went to the smaller, non-credit-rated communities across the State.



Besides the high **number** of loans to non-credit-rated communities, almost 66 percent of Georgia Fund monies flowed to these communities. (Source: GEFA Board Report, 08/25/2009)

In addition to financing smaller/non-credit-rated communities, the Georgia Fund has also made loans to some larger local governments. In the wake of Judge Magnuson's July 2009 ruling over Lake Lanier, the State needs flexible financing options for water supply/efficiency projects now more than ever before.

Proponents of the securitization idea are fond of claiming that GEFA is competing with the private industry. In reality, according to the Bond Buyer, the Agency accounted for less than 15% of the market for water/sewer loans from 2004 -2009. Furthermore, the private market is not easily accessible to small local governments. Even governments with populations as large as 5,000 may struggle to access the private market for several reasons. One major reason is simply the high cost (usually several thousand dollars) to even gain a credit rating. Bond Counsel is also usually prohibitively expensive for many small local governments. In the end, rating agencies tend to give small governments a low rating simply due to the small size of the government.

Georgia Needs the Georgia Fund Now More than Ever

Having a state capitalized loan program such as the Georgia Fund is not unique to this State. The Kentucky Infrastructure Authority (KIA) Fund B Infrastructure Revolving Fund loan program, for example, provides loans to water and sewer utilities similarly to the Georgia Fund loan program offered by GEFA. Such programs provide utilities with the necessary funding to develop projects which protect human health, the environment, as well as the State's economic future. Securitization of the Georgia Fund could have negative long term repercussions on credit rating of the State itself.

GAWP believes that securitization of GEFA funds would be an extremely short-sighted approach to the State's budget woes, and would cripple a program that has been one of Georgia's most successful and best-run programs for the past two decades at a time when our State, and our local governments, need it most.