

**Response to Georgia Public Policy Foundation Article - “GEFA: Paring Back Mission Creep Could Yield State Half a Billion Dollars”** by Kelly McCutchen  
(<http://www.gppf.org/article.asp?RT=&p=pub/GovernmentReform/GEFA090804.htm>) Accessed on 9/2/2009

*Prepared by the “Utility Finance and Management Committee” of the Georgia Association of Water Professionals*

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. A recent article published by the Georgia Public Policy Foundation (GPPF) raises some interesting questions about the direction of one particular water/sewer funding program administered by GEFA, however, there are certain areas of the article that prompt further discussion.

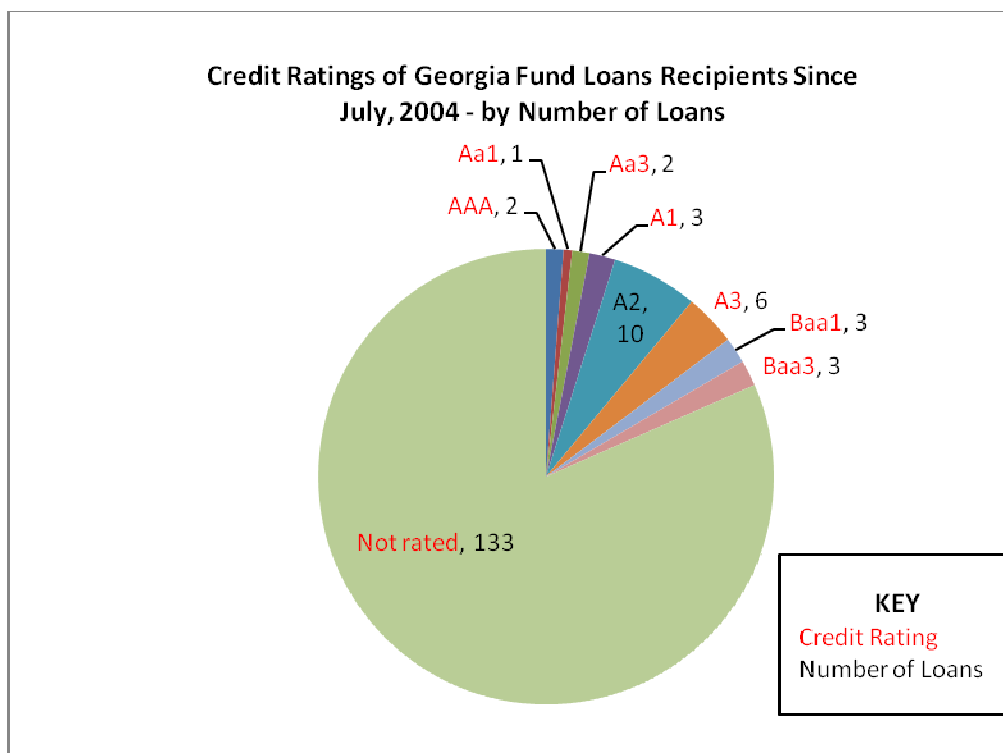
In the GPPF article, the writer calls for the securitization of GEFA’s Georgia Fund program, as a way of “(R)ightsizing this agency.” According to the proposition, securitization of the Georgia Fund would yield “between \$325 million and \$500 million” that would be handy as the State tries to plug the current budget shortfall. (In reality, even the \$325 million number is somewhat inflated. The money that would be available to the State would be considerably less - GEFA would need to maintain existing loan agreements since securitization would mean that the loan repayment stream would now be dedicated to security holders.)

In some areas, the article seems to lump together GEFA’s two main water and sewer financing programs. To do so is misleading, since 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 this year. 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. In several instances, the GPPF article seems to misleadingly lump these two loan programs together in order to paint a more “rosy” picture of GEFA’s financial position. For example, where the author references two AAA rated communities receiving the standard loan terms, the loans involved are actually under the SRF program, and NOT the Georgia Fund. 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 GPPF article seems to beg the question “why *punish* an organization for being successful?” The author points to several ways in which GEFA has grown over the years. 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. Shouldn’t such a track record of growth and good financial underwriting be considered something to applaud, instead of a cash cow to plug the State’s budget hole? The writer even states that “GEFA should return to its original purpose as a lender of last resort.” How many organizations want the mission of being the *last* place their clients turn to?

The tenet that the Georgia Fund provides loans to too many high-credit-rated communities also deserves some scrutiny. 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% of Georgia Fund monies flowed to these communities. (Source: GEFA Board Report, 08/25/2009)

While it is a worthy goal to aim financing at more needy communities, we must be careful that Georgia Fund loans do not turn into a reward to local governments who have poor financial practices. There is no argument that there do exist legitimate cases where smaller communities have financial hardship, despite good financial practices. However, for instance, where a utility has severely underpriced water/sewer

services or repeatedly transfers revenue from its utility enterprise funds to its general fund, such practices should not be encouraged via prioritized access to the Georgia Fund. In other words, there is room for the argument that governments with good financial management, (where these practices have actually earned the given government a good credit rating), should not be castigated by being banned from the Georgia Fund.

Another premise put forth in the GPPF article is that GEFA has an unfair advantage over its private counterparts. In reality, according to the Bond Buyer, the Agency accounted for less than 15% of the market for water/sewer loans from 2004 -2009.

### **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.

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. The GPPF writer insists that GEFA should somehow cater more to governments with lower credit ratings. However, such governments tend to be smaller, non-metro entities. The Lake Lanier ruling affects the larger, metro area utilities which tend to have the higher credit ratings. This does not seem to be the right time to exclude these utilities from a funding source such as the Georgia Fund.