

Co-ops Could Realize \$10 Billion Savings from Repricing RUS Debt

Key Facts

- Members of the Senate and House of Representatives have introduced the Flexible Financing for Rural America Act of 2020 to reprice electric cooperative loans from the U.S. Department of Agriculture's Rural Utilities Service.
- Electric co-ops could realize \$10.1 billion in net present value (NPV) savings from repricing \$42 billion in RUS loans.
- More than 500 electric co-ops in 41 states hold outstanding RUS debt. Repricing these loans without penalty would help manage consumer electric bills during this difficult economic period.

Electric co-ops could realize \$10.1 billion in net present value savings from repricing \$42 billion in Department of Agriculture Rural Utilities Service (RUS) direct loans and guaranteed loans.

RUS debt repricing is currently subject to a prepayment premium (often called a prepayment penalty) such that RUS/Federal Financing Bank (FFB) has to recover the net present value of the debt structure if retired before the end of the term of the loan.¹ This same penalty structure is the basis for calculating the benefit of loan repricing to electric co-ops.

Methodology

Publicly available data from RUS was used to estimate the amount of government debt outstanding to electric co-ops (\$42 billion), the average interest rate on that debt (3.6%) and the average remaining life of the loans (20 years). The current annual cost of the debt was compared with the annual cost of the debt if repriced at prevailing FBB rates (1.1% on average). These annual cost savings were multiplied over the average remaining life of the loans to arrive at an estimated total cost savings of \$10.1 billion NPV.

Assumptions

All cost savings are based on debt outstanding to RUS electric borrowers as of December 2018, according to data reported in the debt servicing sections of the RUS Form 7 (for distribution co-ops) and RUS Form 12 (for G&T co-ops). More than 500 RUS electric co-op borrowers (471 distribution and 35 G&T co-ops) hold outstanding debt.

¹7 CFR Subpart G - Refinancing and Prepayment of RUS Guaranteed FFB Loans Pursuant to Section 306(C) of the RE Act, June 16, 2020.

The debt outstanding includes RUS direct loans (hardship, municipal rate and Treasury rate loan programs) and RUS guaranteed loans, funded mainly through the FFB. It does not include RUS rural economic development loans.

Since 2012, all approved RUS loans to rural electric systems have been RUS guaranteed loans funded by the FFB. RUS guaranteed loans make up over 90% of the total RUS outstanding debt, as of year-end 2018. FFB loans can be made for short, intermediate or long-term periods. FFB repricing rates used in this analysis were as of June 11, 2020 and include an FFB 0.125% fee to cover administrative costs.

The savings shown on page three are aggregated by the state in which each co-op is headquartered. Electric co-ops in 41 states would realize savings from repricing government loans. Electric co-ops serve 42 million members in 48 states, however, there is no outstanding government debt in seven states (DE, MD, NV, NH, NJ, RI, UT).

Additional Savings from Repricing RUS Telecom and Reconnect Loans

There are 350 borrowers in the RUS telecom loan program with total outstanding debt of \$2.9 billion and an average interest rate of 3%. Assuming 20 years of remaining life of these loans and repricing at the current FFB 20-year rate of 1.1%, these borrowers would realize cost savings of \$422 million NPV.

Additionally, the repricing of the \$292 million in outstanding RUS Reconnect loans for broadband over a 30-year term will provide \$31 million NPV in savings. The total projected savings from repricing RUS telecom and Reconnect loans is \$453 million NPV.

Savings from Repricing RUS Electric Co-op Debt By State

	Sum of balance outstanding	Sum of Annual Savings	Sum of Nominal Savings over Life of Loan	Sum of Present Value Savings Life of Loan
Alabama	\$1,125,545,625	\$17,899,239	\$294,603,704	\$265,791,547
Alaska	\$562,171,094	\$8,176,900	\$142,168,737	\$127,132,976
Arizona	\$621,061,035	\$7,193,323	\$124,366,995	\$111,943,455
Arkansas	\$1,987,871,313	\$28,834,322	\$555,520,960	\$494,476,136
California	\$43,050,768	\$520,561	\$10,288,238	\$9,151,862
Colorado	\$386,612,682	\$5,653,529	\$112,373,135	\$99,683,503
Florida	\$1,694,923,086	\$23,474,499	\$436,960,514	\$389,475,376
Georgia	\$8,971,114,602	\$118,095,659	\$2,205,667,088	\$1,970,830,281
Hawaii	\$106,829,139	\$980,145	\$20,583,036	\$18,165,357
Idaho	\$34,682,914	\$401,569	\$8,400,875	\$7,412,868
Illinois	\$259,791,293	\$5,049,559	\$74,491,374	\$69,598,443
Indiana	\$1,250,146,347	\$22,096,271	\$418,707,924	\$373,513,142
Iowa	\$751,732,346	\$12,758,986	\$204,941,901	\$186,611,399
Kansas	\$390,450,505	\$4,806,373	\$100,997,873	\$88,963,875
Kentucky	\$3,712,859,325	\$52,993,607	\$904,570,424	\$815,363,915
Louisiana	\$634,123,773	\$7,515,871	\$142,046,500	\$127,047,246
Maine	\$19,757,874	\$323,048	\$5,214,564	\$4,722,059
Michigan	\$465,808,071	\$5,618,964	\$124,499,126	\$109,136,971
Minnesota	\$1,393,476,566	\$16,485,859	\$338,158,074	\$298,715,971
Mississippi	\$1,197,097,996	\$21,890,484	\$437,796,751	\$388,407,840
Missouri	\$2,239,437,918	\$42,839,792	\$811,834,612	\$723,123,665
Montana	\$109,937,982	\$1,333,022	\$25,564,475	\$22,699,686
Nebraska	\$57,359,163	\$1,321,157	\$23,462,302	\$21,050,040
New Mexico	\$416,952,467	\$4,909,507	\$92,287,740	\$82,168,760
New York	\$25,528,193	\$366,225	\$6,358,598	\$5,704,528
North Carolina	\$2,244,062,871	\$41,474,224	\$817,433,387	\$725,634,110
North Dakota	\$1,623,199,429	\$18,022,683	\$385,857,917	\$339,116,066
Ohio	\$436,380,300	\$5,325,465	\$104,193,631	\$92,358,547
Oklahoma	\$1,134,155,167	\$14,436,355	\$297,522,382	\$262,836,253
Oregon	\$86,655,812	\$1,249,395	\$24,991,236	\$22,084,113
Pennsylvania	\$104,949,864	\$1,221,172	\$21,001,074	\$18,821,024
South Carolina	\$1,391,021,326	\$15,678,826	\$276,132,371	\$247,755,712
South Dakota	\$928,277,179	\$10,266,141	\$202,673,288	\$179,505,912
Tennessee	\$380,015,869	\$6,256,948	\$101,760,426	\$92,123,605
Texas	\$3,119,624,410	\$41,893,788	\$732,151,740	\$656,592,929
Vermont	\$23,074,912	\$322,996	\$6,603,871	\$5,817,201
Virginia	\$1,162,191,036	\$14,484,922	\$290,133,015	\$257,066,605
Washington	\$179,407,598	\$2,525,851	\$33,136,961	\$30,550,198
West Virginia	\$2,686,236	\$25,367	\$532,714	\$470,141
Wisconsin	\$1,114,755,362	\$22,816,172	\$391,320,759	\$352,786,778
Wyoming	\$251,078,446	\$3,265,150	\$59,409,713	\$53,176,586
TOTAL	\$42,639,857,894	\$610,803,926	\$11,366,720,003	\$10,147,586,680