



Meeting: **Joint Reservoir Committee & Authority Board January 20, 2023**  
**Agenda Item 3.3**

Subject: **United States Department of Agriculture (USDA) Rural  
Development (RD) Loan Letter of Conditions**

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**Requested Action:**

Receive an update on the USDA's Rural Development Loan.

**Detailed Description/Background:**

In coordination with USDA RD staff, the Authority prepared and submitted a loan application under the USDA RD Community Facilities Program in July 2018 for the Maxwell Water Intertie (MWI) which is to be completed as part of the Sites Project. In September 2018, USDA RD issued a letter of conditions which was accepted by Sites relating to a loan of \$449 million. Currently, precedent conditions for executing the loan are being addressed. It is expected that the loan would be part of the overall project financing package that would be ready to execute at the time of investor commitment in late 2024. This report is intended to give the Board an update on the development of the loan.

The primary benefit of the USDA Rural Development Loan includes a cap on interest rates of 3.875% and, in today's market, this equates to a projected 1-2% reduction in the annual debt service payment when compared to revenue bonds. There have been changes to the Project since the letter of conditions was signed including the value planning process, Phase 2 rebalancings, and an invitation to apply for a WIFIA loan for 49% of eligible Project costs (~\$2.2B). Staff is working with the USDA to incorporate these Project changes into the loan packaging.

The original letter of conditions had an expiration date of four years from the effective date of the letter (September 26, 2018). In September 2022, at the request of the Authority, the USDA RD staff authorized a one-year extension of the effective date of the letter of conditions to September 26, 2023. In December 2022, the funding deadline was extended to 2028 by Congress as part of the 2023 Omnibus Appropriations bill. This extension allows the Authority to remain eligible for the \$449M loan and should allow the USDA RD staff to amend the letter of conditions to align with the Project schedule.

There are aspects of the current loan conditions that may make this a less attractive option when compared to revenue bonds if they cannot be changed. For example, the loan is specific to financing the construction of an intertie between the TC and GC canals. This feature continues to exist as part of the Sites project; however, through value planning the configuration was optimized

to make the project more affordable. Sites staff and USDA RD staff are working together to understand the changes to the project since 2018, how to maintain “independent utility”, and how to comply with the USDA RD program requirements. If complete independence is necessary to qualify for the loan, the added cost to the project could erode the financial benefits of the loan and may make revenue bonds more financially advantageous. Staff will continue working with USDA RD staff to address these issues and report back to the Board later this year on the status of these discussions and make a final recommendation in regard to continued pursuit of this financing option.

**Prior Action:**

July 2018 – Approved the submission of the loan application for the Maxwell Water Intertie project.

**Fiscal Impact/Funding Source:**

The USDA loan is part of the assumed Sites Project financing. The Plan of Finance assumes the USDA loan is applied as a lump sum against all base facility costs as opposed to the MWI being a standalone project or the MWI cost and USDA loan being assigned to a subset of participants. The annual debt service savings compared to other borrowing methods is between 1-2% based on the current market.

**Staff Contact:**

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**Primary Service Provider:**

HDR/Brown & Caldwell

**Attachment:**

None.