



Meeting: **Joint Reservoir Committee & Authority Board
Agenda Item 2.1**

March 17, 2023

Subject: **Water Infrastructure Finance and Innovation Act (WIFIA)
Application**

Requested Action:

Reservoir Committee and Authority Board consider authorizing the submittal of the Environmental Protection Agency's (EPA) Water Infrastructure Finance and Innovation Act application and pay the non-refundable application fee of \$100,000.

Detailed Description/Background:

In March 2022, the Sites Project Authority (Sites Authority) was invited to apply for a WIFIA loan for up to 49% of eligible costs for the Sites Reservoir Project (Project). The application is due within 1 year of the invitation. There are potential Project benefits of a WIFIA loan when compared to municipal revenue bonds including favorable interest rates, flexible repayment options, and possible credit terms that align well with the Project's needs. The Board is being asked to authorize an application which initiates about a 12-month period of negotiating a loan agreement with EPA. Application does not constitute commitment to a WIFIA loan but it is a step in that direction.

The Sites Authority expects to secure WIFIA loans through a Master Agreement. This would be the primary source of funds for the Participant share of capital cost. This approach allows funding to be received in tranches that align with Project development phases, including pre-construction if desired. The first step to securing a Master Agreement is to complete and submit an application by end of March 2023. The requested action from the Board at this time is to authorize the Sites Authority to submit the WIFIA Application and pay the application Fee of \$100,000.

The application consists of materials previously reviewed as part of submittal of the Letter of Interest with the following additions and changes:

- **Indicative Credit Rating:** As part of the application process, an Indicative credit rating has been received from Standard and Poors. The results indicate the adopted standards and policies of the Authority are sufficient to the rating agency to meet the requirements of the Environmental Protection Agency (EPA) WIFIA program. A final rating agency credit evaluation will be required prior to executing the Master Agreement with EPA. Staff presented an overview of the results of the Indicative Credit Rating process, and the general approach of the EPA WIFIA Application to the WIFIA Ad-hoc Subcommittee and there were no substantive comments received. Supporting

materials were developed to support the indicative credit rating process, which includes:

- Cash Flow Pro Forma includes the Project's debt issuance schedule, the amortization and repayment schedules for all Project debt and estimated debt service coverage.
 - Master Resolution describing the Authority's approach and priorities to collection and use of revenues to pay Authority expenses.
 - WIFIA Reserve Policy of the Authority consistent with the Final Guiding Principles and Preliminary Terms.
 - Debt Management Policy in compliance with Government Code requirements.
- **Inflation and Market Volatility Contingency:** The 2021 Feasibility Report remains the cost basis supporting the EPA WIFIA Application. Because of the recent inflation and market volatility, a 20% contingency was added to the WIFIA LOI costs. This is an eligible cost from the EPA and provides flexibility if additional funds are needed.

After receiving the application, EPA WIFIA staff will begin performing due diligence on the Project and the Sites Authority's credit. It is anticipated that questions that arise during this process will begin mid-2023 and will be addressed in Participant quarterly check-ins or brought to the WIFIA Ad-hoc Subcommittee as needed. Staff targets closing the WIFIA Loan Master Agreement and the first WIFIA Loan on time to support initiating Phase 3 and 4 activities and following the execution the Benefits and Obligations Contracts.

Prior Action:

November 2022 – Adopted the following documents in relation to preparing an application for WIFIA loan: a) Master Resolution, b) WIFIA Reserve Policy and C) Debt Management Policy.

June 2021 – Authorized submittal of a Letter of Interest to EPA which put the Project into consideration under a nationwide competitive process and resulted in the invitation to apply for the loan.

Fiscal Impact/Funding Source:

The Amendment 3 Work Plan includes a sufficient budget to cover required resources, activities, and fees in support of the WIFIA application. Any required adjustments based on feedback during the final rating process or during the WIFIA negotiations will be considered within the Fiscal Year Budget development process. The \$100,000 Application Fee is in the approved 2023 budget. Any additional expenses for EPA's review of the Application will not be assessed until finalization of the Master Agreement.

Staff Contact: JP Robinette/Derek Gardels

Primary Service Providers: HDR

Attachments: None