



Meeting: **Reservoir Committee & Authority Board Agenda
Item 3.3**

March 21, 2025

Subject: **Update on WIFIA Loan Application and Financing Structure**

Requested Action:

Receive an update on the status of the Water Infrastructure and Finance Act (WIFIA) loan application and a report on aspects of the anticipated financing structure.

Detailed Description/Background:

A WIFIA loan has been a component of the WIFIA financing plan for several years. Sites completed the Letter of Interest and has been negotiating the terms and conditions for a WIFIA Master Agreement and initial loan for about a year. As part of this process, the WIFIA Ad Hoc Committee has provided input regarding the business terms. Sites and the Environmental Protection Agency (EPA) have made substantial progress in completing the final draft of the Master Loan Agreement. EPA has informed Sites that while there is general uncertainty in the federal government and EPA, funding for Sites and all the other projects invited to apply for a loan have been appropriated and reserved. Further, EPA continues to negotiate and work to close loans as usual. EPA has indicated that there has not been an impact on funding and they will continue to honor draws on existing loans.

Sites will continue to work with EPA to close the remaining issues and finalize the Master Agreement in the next several months, with the intent to have all needed documents final, but will not seek approval to execute the Master Agreement until other conditions and actions have been concluded, including execution of the Benefits and Obligations contracts. At this preliminary stage of the discussions Attachment A describes the expected terms of the WIFIA Loan.

Two areas where Board member questions have arisen either at or outside of Board meetings regarding the finance plan include the structure of interim (during construction) financing and the desirability to capitalize interest during construction. The plan of finance anticipates the use of short-term obligations to fund the next phase of the Project, including design and construction. Interim financing could include short-term notes, commercial paper, or some form of bank loan. No later than at the end of construction, these short-term instruments would be refinanced with long-term debt, in the form of revenue bonds or WIFIA loans. This refinancing would initiate long-term financing and all Participants participating in Sites financings would be paying principal and interest payments (it should be noted that the WIFIA program includes the ability

to defer the start of principal and interest repayment for up to 5 years after the start of operations.)

Under the Benefits and Obligations contracts, Participants will be able to fund their share of the next phase on a pay-as-you go basis through cash calls or participate in Sites financings. Regarding Sites financings, the current financing plan provides two financing paths for Participants:

- Capitalized Interest thru Construction - which defers all principal and interest payments during construction since the Project will not be providing benefits during that time period.
- Interest Only During Construction – which defers principal payments through construction, but funds interest payments and reduces the total borrowing and annual debt service once the Project begins operation. It should be noted that even under this option the first year or two years of interest of each interim borrowing will be capitalized to meet invoicing and Participant payment schedules.

The May 2023 Plan of Finance Update showed cash flow for both of these options, as well as pay-as-you-go funding. The Updated Plan of Finance coming in June will be updated to reflect the updated cost estimate and these two financing options.

The final terms and conditions of the WIFIA Master Agreement and loans are still being negotiated, and it is anticipated the Authority Board and Reservoir Committee will consider this opportunity in the first half of 2026. Periodic updates on the WIFIA loan will be provided as needed.

Prior Action:

June 2023 – Approval to submit a Letter of Interest to EPA

November 2022 – Approval of the Master Resolution, Debt Management Policy and WIFIA Reserve Policy

Fiscal Impact/Funding Source: Under current market conditions, WIFIA funding remains competitive with traditional public market sources of financing such as tax-exempt municipal revenue bonds. As market conditions change or the terms of the WIFIA loan are unacceptable to the Board and Reservoir Committee, Sites will be able to use traditional forms of financing.

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Attachments: WIFIA Financial Terms Under Discussion



Expected WIFIA Loan Financial Terms

Lien Level: Senior

Additional Bond Test: 1.1x senior debt service, with the ability to include balance in the Liquidity Reserve

Material Adverse Event: limited to Sites Authority

Rate Covenant: Budget Based Rate Covenant equal to 1.1x senior debt service, with the ability to include the Liquidity Reserve¹

Federal Cross Cutters (e.g., NEPA, Davis Bacon, American Iron and Steel)

Interest Rate: The interest rate for each WIFIA loan is determined at the time the loan is executed, and is based on the Treasury rate for a similar term loan. Should interest rates decline between the time the loan is executed, and the first time Sites draws on the loan, Sites may request a reduction in the interest rate to reflect that market.

No Prepayment Penalty

Ability to defer payment for up to five years after completing construction and to structure principal payments at the end of the loan to shape debt service

¹ EPA has not yet agreed to this version of the rate covenant. The EPA proposal was based on a historic test. Sites proposed this budget based alternative which requires Sites to adopt a budget that has estimated revenues and Liquidity Reserve that are sufficient to pay operating expenses and 1.1 times annual debt service. The EPA proposal would require Sites to have collected revenues that were sufficient, along with balances in the Liquidity Reserve, to cover expenses and 1.1 times that year's debt service. This approach is impractical for Sites due to the budgeting and invoicing cycle. .