



Meeting: **Reservoir Committee & Authority Board Agenda** **November 21, 2025**
Item 3.2

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

Requested Action:

Receive an update on the key terms of the anticipated Water Infrastructure and Finance Act (WIFIA) loan and other aspects of the anticipated Authority provided financing structure.

Detailed Description/Background:

There are three basic components to the long-term project financing being secured by the Authority for those Participants electing this payment approach; (1) WIFIA loan, (2) USDA loan, and (3) Sites issued long-term revenue bonds. This report covers the status and progress on the WIFIA loan, which would be the majority of long-term financing as currently planned. Future reports will cover the USDA loan and revenue bonds. Last month's report on short-term interim financing covered the procurement process for a service provider and the upcoming near-term actions necessary to implement this source of funding. A future report will cover the USDA Loan.

This is an opportunity for the Board to provide guidance and input on any specific areas of concern with the WIFIA loan terms to ensure that when the Master Agreement comes to the Board to be executed after investor commitment (i.e., all Benefits and Obligations Contracts have been executed), the WIFIA loan will meet the Participants' needs.

A WIFIA loan has been a component of the project financing plan since 2023. Sites completed the Letter of Interest and has been discussing the terms and conditions for a WIFIA Master Agreement and initial loan for over 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 appropriations at the federal government and EPA, EPA indicated that funding for Sites and all the other projects invited to apply for a loan has been appropriated. Earlier this year, the Authority communicated the updated cost estimate to EPA. The Authority has received verbal confirmation that the total loan amount totaling 49% of the updated cost estimate is acceptable to EPA.

. In July 2025, USEPA informed the Authority that further discussions on the WIFIA Master Agreement would be placed on hold until (i) all project participants who are expected to individually represent five percent or more of the potential

WIFIA borrowing have signed the Benefits and Obligations Contract, and (ii) USEPA is provided with copies of (a) the Reclamation Partnership Agreement with the Bureau of Reclamation, (the "Bureau"), (b) the Proposition 1 Water Storage Investment Program Contract and (c) the substantially complete final water rights documentation.

Anticipated Key Terms include:

- WIFIA Loan will be Secured by a Senior Lien on the Authority's Revenues
 - The Authority's payment obligations under the WIFIA loans will be secured by a senior lien and pledge of the Authority revenues specified in the WIFIA Master Agreement, including amounts received under the Benefits and Obligations Contract, transfers from the Liquidity Reserve, and certain other revenues specified in the WIFIA Master Agreement. Amounts received under the contracts with the Bureau and the State of California are excluded from the pledge. This approach is reflected in the current Draft B&O.
- Budget Based Rate Covenant
 - This covenant will be satisfied by the Authority setting rates and charges per the Benefits and Obligations Contract at the start of the fiscal year at reasonably expected levels, together with certain amounts in the Liquidity Reserve, to result in a debt service coverage ratio equal to 1.1.

Remaining outstanding issues requiring further discussion:

- Acts of a Single Participant Triggering an Event of Default
 - Would a project participant that individually represents five percent or more of the WIFIA borrowing cause an event of default under the WIFIA Master Agreement?
- Requirement for USEPA Consent to the Sale, Transfer or Assignment of Capacity Interest
 - What conditions are there for lender approvals and notice of certain sales, transfers and assignments of Capacity Interest?.
 - For certain transactions that would result in the then-current credit rating on the WIFIA loan being downgraded, would consent be required before closing any such transaction?
- Requirement for USEPA Consent to the Sale, Transfer or Assignment of Defaulted Capacity Interest to Parties Other than Non-Defaulting Project Participants
 - Is notice alone sufficient?
 - When such a transaction would result in the then-current credit rating on the WIFIA Loan being downgraded, could consent of USEPA be required before such a transaction can be closed?

Sites will continue to work with EPA to close the remaining issues and finalize the Master Agreement once the above documents are in place.

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 (usually of 5 years or less). 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 ability to be flexible on the timing of refinancing helps to mitigate some of the interest rate risk, which really moves the needle on debt service and project affordability. This refinancing would initiate long-term financing and all Participants participating in the Authority's financings would begin 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 have a one-time option to fund their share of construction payments on a pay-as-you go basis through cash calls or participate in Authority financings. Regarding Authority financings, the current financing plan provides two financing paths for Participants:

Capitalized Interest Through Construction

- This option defers all principal and interest payments during the construction period.
- Because the Project will not yet be delivering benefits during this time, all borrowing costs are capitalized and repaid once the Project enters operations.
- This approach minimizes Participant payments during construction but results in a higher total borrowing amount and larger repayment obligations during operations.

Interest-Only During Construction

- Under this option, principal payments are deferred during construction, but Participants begin paying interest on their allocable share of the debt as it accrues.
- This structure reduces total borrowing costs and lowers annual debt service once the Project is operational.
- Even under this approach, it is suggested that three years of interest on each interim borrowing be capitalized to align with invoicing and Participant payment schedules established under the B&O Contracts.

Initial Capitalization Period

It is anticipated that, during the first three years of each financing, interest payments will be capitalized to ensure compliance with the invoicing and payment requirements of the B&O Contracts.

- The B&O Contract requires that no later than March, Sites provide Participants an estimate of the invoice amounts for the following fiscal year. Further – in order to ensure that the Department of Water Resources can properly receive funds from Statements of Charges for those Participants choosing to use this payment method, Sites will need to provide an estimate of invoices two years prior to the invoice date.
- If the first three years of interest were not capitalized, the Authority would need to make conservative estimates of the interest to be included in the invoices to ensure sufficient funds are collected to meet debt service obligations. This approach could result in higher initial collections from Participants and the need for future true-ups once actual borrowing costs are known.

Executing the Master Services Agreement

Execution of the WIFIA Master Agreement and related documents (including Loan 1 to fund planning and design costs) is an important milestone in advancing the Authority's long-term financing plan; however, finalizing the Master Agreement and Loan 1 does not obligate the Authority to draw loan funds.

The Authority's current financing plan anticipates the following key steps before participants are required to make binding commitments regarding participation in Authority financing:

Execute B&O Contracts by the Authority and Participants

Execution of the WIFIA Master Agreement by the Authority

Participant Commitment Timing

- Ninety (90) days prior to the Authority's execution of the Master Agreement, each Participant will be required to formally declare (one-time irrevocable option) whether it intends to participate in the Authority's WIFIA financing.

This declaration will apply not only to the initial WIFIA loan but also to all future long-term WIFIA loans under the Master Agreement. Participants choosing not to participate in the Authority's WIFIA financing will continue to fund their share as Self-Funding Participants, consistent with the B&O Contract.

The December 2025 Plan of Finance Update will show cash flow for both of these options, as well as pay-as-you-go funding.

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

Prior Action:

March 2025 – WIFIA Status Update

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:

The costs of developing the Authority financing including coming to terms with EPA on the WIFIA are covered in the FY25 and FY26 budget.

The final election of the Authority’s financing structure depends on several factors. Under current market conditions, WIFIA funding appears to remain competitive with traditional public market sources of financing such as tax-exempt municipal revenue bonds. As market conditions change or if the terms of the WIFIA loan are unfavorable to Participants, tax-exempt municipal revenue bonds are likely to be the alternative.

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