



# WU WIFIA Loan Programs

Presented by:

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## Disclaimer

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## **Discussion Outline**

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- I. Recommendations**
- II. Financing Schedule**
- III. WIFIA Loan Program**
- IV. WIFIA Master Credit Agreement Key Terms**
- V. WU WIFIA Loan Assumptions, Legal Covenants**
- VI. Conclusion**



## Recommendations

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- A. Adopt Resolution to approve Up to \$2.5B for Water Utility (WU) Projects: Pacheco Reservoir Expansion; Anderson Dam Seismic Retrofit (ADSR) and Coyote Percolation Dam projects; and**
  
- B. Authorizing President, Vice President, Chief Executive Officer or the Chief Financial Officer (or any acting or interims of such positions) and the Secretary (each an “Authorized Officer”), District Counsel, and the Clerk of the Board to execute and deliver any and all documents necessary to consummate the execution and delivery of all required WIFIA Loan Program documents**



## Financing Schedule<sup>1</sup>

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Description	WIFIA Loans
PFFC Meeting	12/6/22
VW Board Meeting	12/13/22
Ratings	12/12/22
Closing	<del>12/30/22</del> 1/31/2023

1. Financing schedule is tentative, subject to change pending the EPA's credit approval process for the WIFIA loans.



## WIFIA Loan Program

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- **Administered by the United States Environmental Protection Agency**
- **Funds up to 49% of eligible project costs (min \$20M project size)**
  - Water, wastewater, desalination/recharge/water recycling projects
- **Master Credit Agreement establishes terms and conditions for the WIFIA Loans that may be drawn down over time to match project design and construction schedule**
- **Interest rate is set at closing of each WIFIA Loan equal to US Treasury rate plus 0.01% of a similar maturity**
- **Loan repayment schedule is customizable:**
  - Match debt service payment dates to anticipated revenues and expenses
  - Up to 35 years repayment period after project substantial completion
    - Defer payments up to 5 years after project substantial completion
  - Loans are immediately prepayable (no lock-out period)
  - Interest can be capitalized/deferred at loan rate
- **Subordinate to senior debt (spring to senior in bankruptcy event)**
- **National Environmental Policy Act (NEPA), Davis-Bacon, American Iron and Steel, and all federal cross-cutter provisions apply.**

# WU WIFIA Master Credit Agreement Key Terms

#	Term	Description
3	WIFIA Loans Under the Master Credit Agreement (MCA)	<ul style="list-style-type: none"> <li>• Fund up to 49% of eligible project costs.</li> <li>• Max Loan Amount (WU): Up to \$2.B (+0.5B estimated capitalized interest)</li> <li>• Max Draws (WU): up to 10 loans over 8 years</li> </ul>
5	Interest Rate	Set at time of each loan closing; accrue based on Outstanding WIFIA Loan Balance
7	Security and Priority	Secured by Pledged Collateral on a subordinate basis; spring to senior if in default
9	Prepayment	Allowed with no fees in inverse order of maturity
10	Fees and Expenses	VW pays upfront costs of issuance for EPA's legal/financial expenses and ongoing annual servicing fees
17	Affirmative Covenants of the District	Senior Debt: 1.25x; Subordinate Debt: 1.1x
18	Additional Obligations Test (ABT)	Senior Debt: 1.25x; Subordinate Debt: 1.1x
20	Reporting Requirements	<ul style="list-style-type: none"> <li>• Annual: Updated financial model (YE+180 days); audited annual financial statements (YE+180 days+90 days grace); Single Audit</li> <li>• Quarterly: Construction Monitoring Report; Eligible Project Costs</li> <li>• Periodic: Final Specifications (prior to bid advertisement); Public Benefits Report</li> <li>• Maintain all records for life of WIFIA Loan + 5 years</li> </ul>
21	Events of Default and Remedy	<ul style="list-style-type: none"> <li>• Payment; covenant, misrepresentation; adverse judgement, bankruptcy, etc.</li> <li>• Development default: (a) VW abandons work or fails to diligently prosecute work; or (b) VW fails to achieve Substantial Completion within 24 months after Projected Substantial Completion Date</li> <li>• Remedies include typical provisions similar to publicly sold debt, and also include full repayment of outstanding WIFIA loans and fees for development default</li> </ul>



# Water Utility WIFIA Loan Assumptions

WIFIA	Loan #1	Loans 2-10*	Total
Purpose	Planning and design costs for Anderson Dam Seismic Retrofit and Coyote Percolation Dam (Anderson Projects)	Construction costs for Anderson Projects; planning, design and construction for Pacheco Reservoir Expansion	
Loan Amount	<del>\$173M</del> <b>\$73.9M</b>	<del>\$1,856M</del> <b>\$1,955.1</b>	\$2,029M
Closing Date	<del>12/30/2022</del> <b>1/31/2023</b>	<del>12/30/2023</del> <b>FY 2023 - 2032</b>	
First Interest	<del>6/1/2037</del> <b>12/1/2029</b>	6/1/2037 <b>6/1/2032</b>	
First Principal	<del>6/1/2055</del> <b>6/1/2049</b>	6/1/2055 <b>6/1/2052</b>	
Final Principal	<del>6/1/2067</del> <b>6/1/2059</b>	6/1/2067 <b>6/1/2067</b>	

\* EPA requires all CEQA/NEPA and federal consultations (e.g., State Historic Preservation Officers (SHPO), National Marine Fisheries Service (NMFS), etc.) be completed prior to execution of the construction loan for each project.

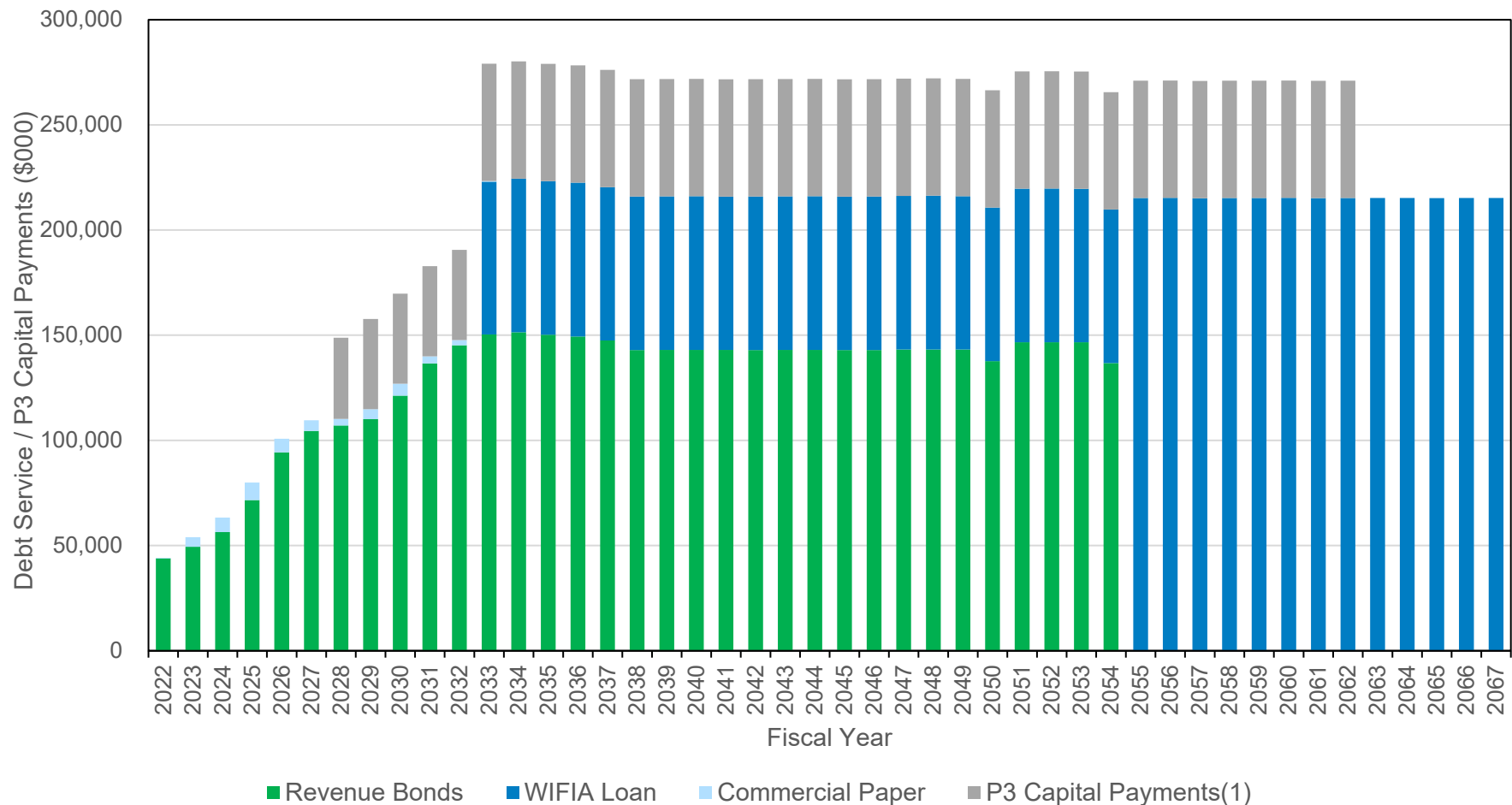




# Water Utility Projected Debt Profile

(Amounts in \$000)

## Forecasted Debt Service



(1) The P3 Availability Payment Contract is expected to be drafted and negotiated in FY2023, subject to Board approval. Per Board direction, Valley Water is neither an obligor nor a guarantor of any P3 debt.



# Water Utility Legal Structure

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- **Parity Master Resolution**

- No Senior Lien (defeased on 6/1/2022)
- Defines “Net Water Utility System Revenue” as Water Utility System Revenues less O&M
- Rate Covenant – Net Water Utility System Revenue of no less than 125% of all outstanding debt service on a budget basis
- Parity Debt Test
  - (i) Net Water Utility System Revenue of no less than 125% of outstanding and proposed debt service for FY of issuance
  - (ii) estimated Net Water Utility System Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project shall produce a sum equal to at least 125% of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years
- No DSRF required

# Water Utility Parity Master Resolution Flow of Funds

## Parity Master Reso Flow of Funds

Current Water Utility System Revenue

Special Purpose Funds <sup>1,2</sup>

## Water Utility System Revenues

+/- Rate Stabilization Reserve Fund <sup>2</sup>

Less: Operating and Maintenance

## NET Water Utility System Revenues

Less: Parity Debt Service  
Less: Deposits to Parity DSRF (if any)

## NET Water Utility Revenues for Subordinate Debt

## Subordinate Debt Service (CP, Revolver, WIFIA Loan)<sup>3</sup>

### Parity Debt Rate Covenant

1.25x All Parity Debt Service

### Subordinate Debt Rate Covenant

1.10 x Subordinate Debt Service

### Notes:

- 1.) Requires Board resolution and limited to the amount of reduced Current Water Utility System Revenue as a result of non-routine expenditures resulting from extraordinary events.
- 2.) Transfers during or within 270 days after the end of the FY.
- 3.) WIFIA loan springs to parity lien in case of bankruptcy related event



## Conclusion

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- Approval of the financing plan allows Valley Water the flexibility to finance capital projects at low long-term costs
- Board not obligated to approve the construction of any of the projects
- No limit on Board's actions related to California Environmental Quality Act (CEQA) review:
  - Consider other feasible alternatives and mitigation measures
  - Make modifications to reduce project impacts
  - Take Board action not to proceed
- **Good Faith Estimate\*:**
  - WU:** (1) true interest cost ~~4.910%~~ **3.68%**; (2) finance charge \$1,740,000; (3) proceeds \$2,027,076,251; (4) total payment amount ~~6,158,305,321~~ **\$4,782,351,170**
- **WU WIFIA Loan programs projected to save ~~764.8~~ **\$888.7** million over life of the loan, compared to issuing Certificates of Participation to fund these projects**

\*Original estimates based on market rates on 10/28/22 + 0.75%, current estimates as of 12/2/2022 indicated in red text; subject to change pending pricing in January 2023.



## Recommendations

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# QUESTIONS





# Valley Water

Clean Water • Healthy Environment • Flood Protection

