



WEBINAR SERIES

Benefits of Financing with
WIFIA Loans

December 13, 2017



WEBINAR PURPOSE

The purpose of this webinar is to:

- Foster a greater understanding of the potential benefits of the WIFIA program
- Interact with prospective borrowers and professionals
- Pave the way for successful letters of interest to the WIFIA program



AGENDA



INTRODUCTION

Moderator: Jorianne Jernberg



CREDIT TERMS

Kevin McDonald



BENEFITS

Amit Srivastava



RESOURCES & QUESTIONS

Moderator: Jorianne Jernberg



OPPORTUNITY FOR QUESTIONS

- You may call into this webinar by dialing +1 (415) 655-0060 and entering access code 501-484-436
- The WIFIA program welcomes clarifying questions on information provided in the presentation
- Questions may be posed at any time by typing into the gotowebinar dashboard; participants are muted on the webinar and can only communicate by typing
- The WIFIA program will include these questions in an FAQ, available on the WIFIA website
- Unanswered questions may be answered in a follow-up e-mail or through the FAQ





INTRODUCTION



MISSION STATEMENT

The Water Infrastructure Finance and Innovation Act (WIFIA) program accelerates investment in our nation's water and wastewater infrastructure by providing long-term, low-cost, supplemental credit assistance under customized terms to creditworthy water and wastewater projects of national and regional significance.



BACKGROUND

- Passed as part of Water Resources Reform and Development Act (WRRDA) of 2014
- WIFIA is modeled on the Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998
- Congress appropriated \$25 million for credit subsidy for FY 2017 which allowed EPA to select its first 12 projects to invite to apply for loans



FEDERAL CREDIT PROGRAM

- Leverage federal funding since Congress only needs to appropriate money to cover estimated losses and the remainder of the funding is borrowed from and repaid to Treasury
- A small amount of federal funds can support a larger amount of infrastructure investment

\$25
MILLION IN
APPROPRIATIONS

\$2.3
BILLION IN LOANS

\$5.1
BILLION IN
INFRASTRUCTURE
INVESTMENT



CURRENT STATUS

- Appropriations and FY 2018 Selection Round
- Legislation
- Projects selected in FY 2017





CREDIT TERMS

CREDIT TERMS



Interest rate will be equal to or greater than the U.S. Treasury rate of a similar maturity



Maximum final maturity date from substantial completion



Maximum portion of eligible project costs that WIFIA can fund



Projects must be creditworthy



Maximum time that repayment may be deferred after substantial completion of the project

INTEREST RATE

Interest rate will be equal to the U.S. Treasury rate of a similar maturity.

- Single fixed rate established at closing
- The WIFIA program estimates the yield on comparable Treasury securities by adding one basis point to the State and Local Government Series (SLGS) daily rate with a maturity that is equal or greater than the weighted average life (WAL) of the WIFIA loan
- Use of the WAL means that the interest rate will be lower than the 30 year SLGS rate in most cases

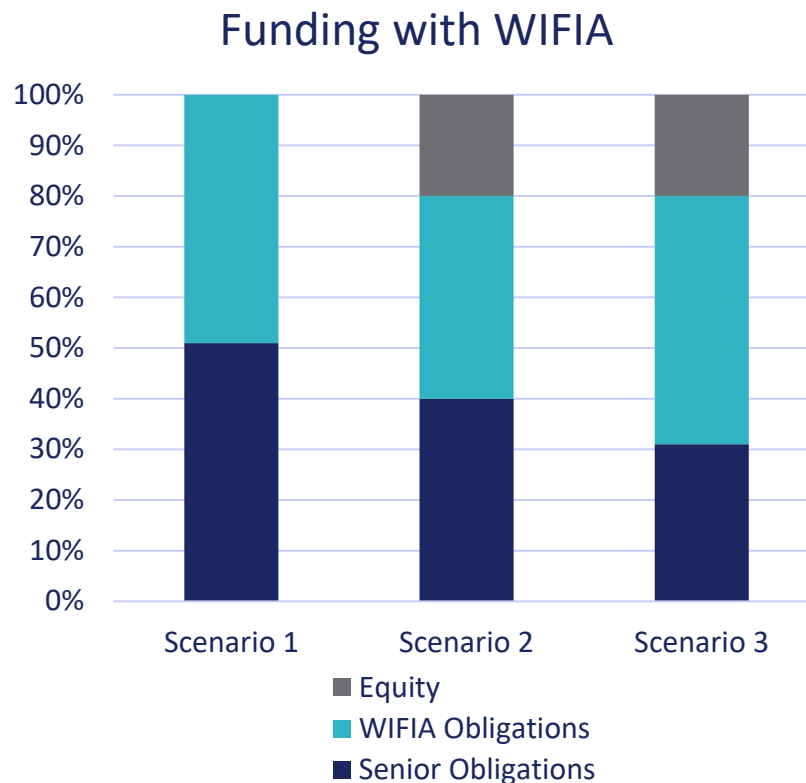
2.93%



MAXIMUM LOAN AMOUNT

Maximum amount of WIFIA loan is 49% of eligible project costs

- The amount of the WIFIA loan may not exceed the amount of the project's senior obligations unless the WIFIA loan obtains an investment-grade rating
- Maximum federal involvement: 80% of total project costs



MATURITY & PAYMENTS

Maturity date

- Must be the earlier of 35 years after the date of substantial completion of the project or the useful life of the project

Debt service payment

- Payments must commence no later than 5 years following substantial completion of the project
- May be sculpted to accommodate the projected cash flow from project revenues and other sources



REPAYMENT REQUIREMENTS

WIFIA loan must be repaid using a dedicated source of repayment or security pledge

- Pledge must be the same in all material respects as the security pledge for the project's senior obligations
- Multiple revenue sources must be cross-collateralized into a common security pledge
- WIFIA loan shall include a rate covenant, coverage requirement or similar security feature supporting the project obligations

Potential Repayment Sources:

- Taxes
- Rate revenue
- Debt service income from issued loans
- Transfers pledged from state or local governments
- Dedicated taxes
- General obligation pledge
- Revenues that are pledged for the purpose of retiring debt on the project
- General recourse corporate undertakings



CREDIT TERMS

Deferrals

- May be granted at the sole discretion of the Administrator
- May be contemplated in the credit agreement
- Must be a reasonable assurance of repayment of the WIFIA credit instrument

Prepayment conditions

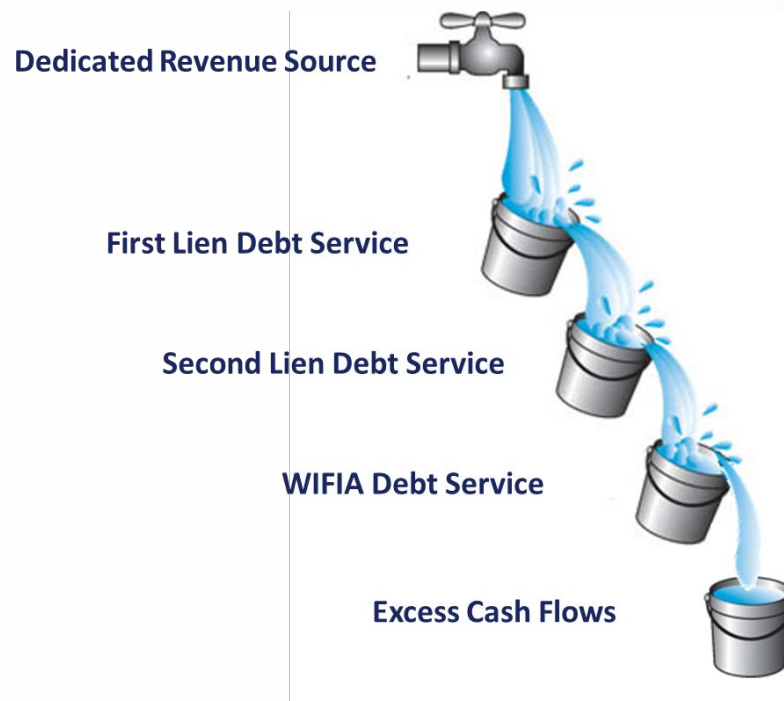
- May prepay in whole or in part at any time without penalty
- May not use federal funds to prepay



SUBORDINATION

WIFIA Loans may be subordinate to the project's senior debt obligations

- Under certain circumstances, WIFIA may take a subordinate position in payment priority of project obligations, increasing coverage ratios for senior bond holders
- In the event of bankruptcy, insolvency, or liquidation, the WIFIA credit instrument will have a parity lien with respect to the project's senior obligations



PRELIMINARY RATING LETTER

Preliminary credit rating letter must be submitted with the application

- Public rating letter from at least one Nationally Recognized Statistical Rating Organization (NRSRO)
- Suggested contents include:
 - Proposed loan structure
 - Revenue pledge
 - Estimated coverage ratios
 - Key assumptions and limitations
- EPA may consider accepting existing rating letter in place of a new preliminary rating on a case-by-case basis



FINAL RATING LETTER

Two final public rating letters must be submitted prior to loan closing

- Public rating letter from two NRSROs that assess the default credit risks
- Senior debt must achieve a rating of investment grade or above
- The letter rating may include:
 - Terms and conditions of the WIFIA loan
 - WIFIA loan features. ex: loan tenor & amortization profile
 - Plan of finance
 - Revenue pledge
 - Collateral or security
 - Potential loan covenants
 - Credit risks and mitigants





BENEFITS

ENCOURAGES CO-FINANCING

WIFIA loans can be combined with various sources of funding

Borrowers and co-financing partners benefit from the project being backed by the Federal government

- Private equity
- Revenue bonds
- Corporate debt
- Grants
- State Revolving Fund loans
- Other federal debt financing



BENEFITS OVERVIEW

WIFIA's benefits can serve various borrower needs

Cheaper than alternatives

- Low, fixed interest rate
- Low fees

Flexible financial terms

- Customized repayment schedule
- Customized disbursements
- No penalty for prepayment
- Flexible co-financing

Can attract other borrowers and allow for more senior debt

- Can take a lower lien priority, freeing up coverage for affordable senior debt
- Improves the position and confidence of other lenders



LOW, FIXED INTEREST RATE

The interest rate will be a single fixed rate established at closing

- May receive multiple disbursements at the same fixed interest rate

Low interest rate equal to the U.S. Treasury rate of similar maturity

- Not affected by borrower's credit
- Maturity is calculated using the weighted average life
- Rate is lower than the 30 year SLGS rate, which was 2.93% on October 26



LOW FEES

WIFIA's fees compare favorably to capital market fees

- Capital market fees are determined by a percentage of the total loan value
- WIFIA fees are based on the costs associated with providing credit assistance
- Application fees are eligible for financing as part of the WIFIA loan
- For the 2017 Cohort of projects, WIFIA fees are significantly lower than estimated capital markets fees

AVERAGE SIZE OF LOAN*	AVERAGE WIFIA FEE*	CAPITAL MARKET FEES
\$200M	\$250K - \$350K	\$1M - \$2M

*Average size of loan and WIFIA fees are estimates based on FY2017 Projects



WIFIA COST SAVINGS

Compared to issuing a \$100-million municipal bond



FLEXIBLE FINANCIAL TERMS

Customized repayment schedule

- Repayment period is 35 years from substantial completion
- Payments may be deferred up to 5 years following substantial completion
- WIFIA loans can be amortized to complement other debt repayments

Disbursements

- Multiple disbursements at no additional cost to the borrower
- May be synchronized with funding needs, reducing the amount of accrued interest

Prepayment

- There is no penalty for prepayment

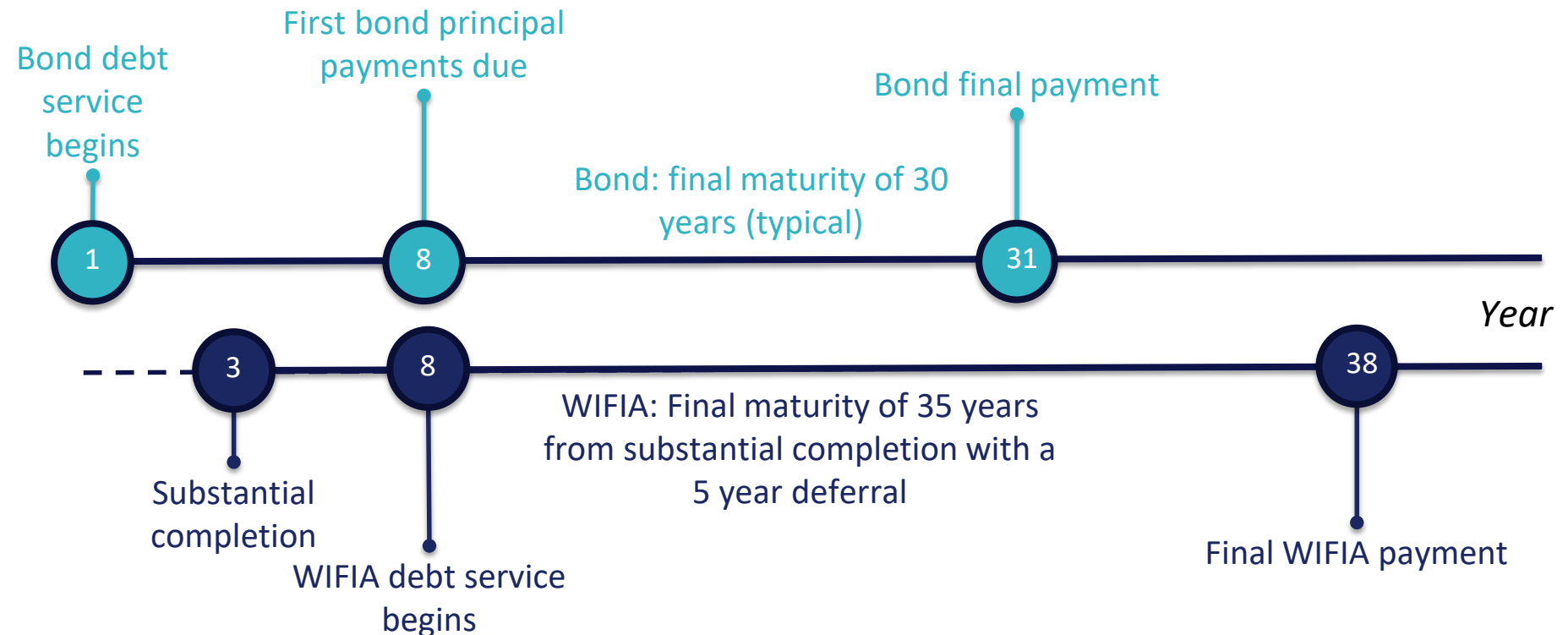
Lien Priority

- WIFIA loans may be junior (i.e., subordinate) to the senior debt obligations in payment priority in some circumstances



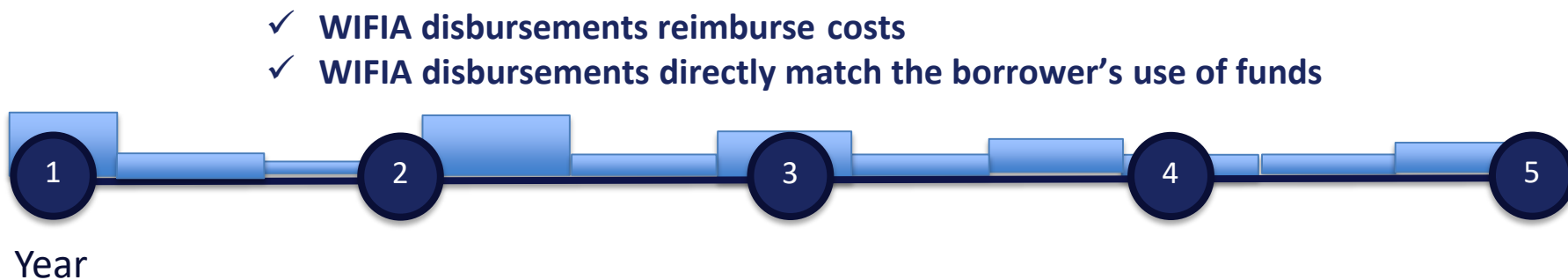
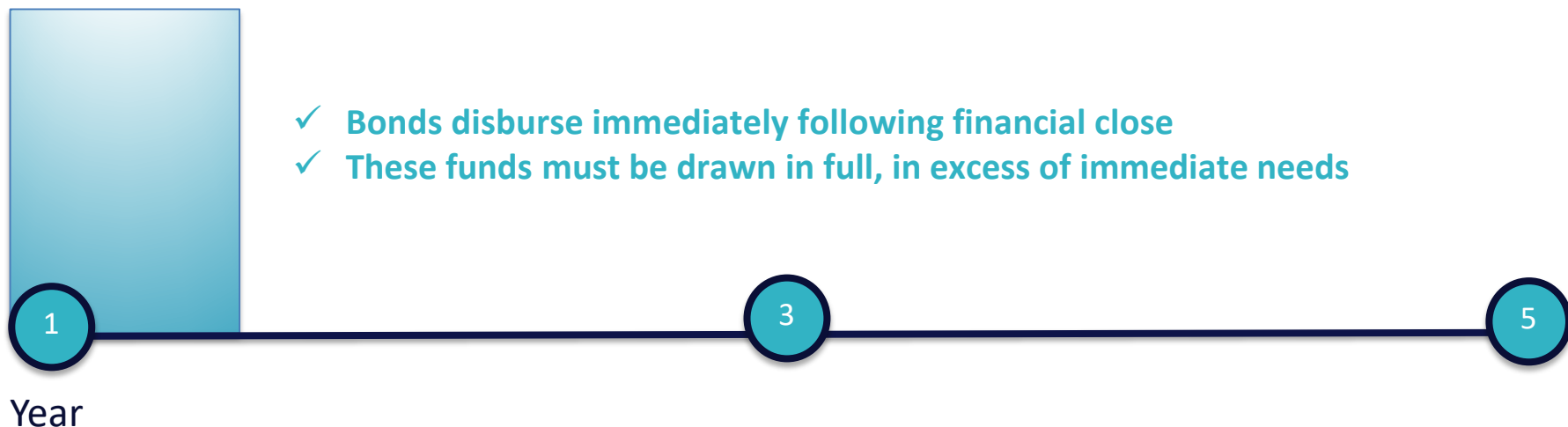
AMORTIZATION: BOND AND WIFIA

WIFIA offers a customized repayment schedule



DISBURSEMENTS CAN BE SHAPED BY FUNDING NEED

Reduces the amount of accrued interest and avoids arbitrage issues



WIFIA IS FLEXIBLE WITH LIEN POSITION

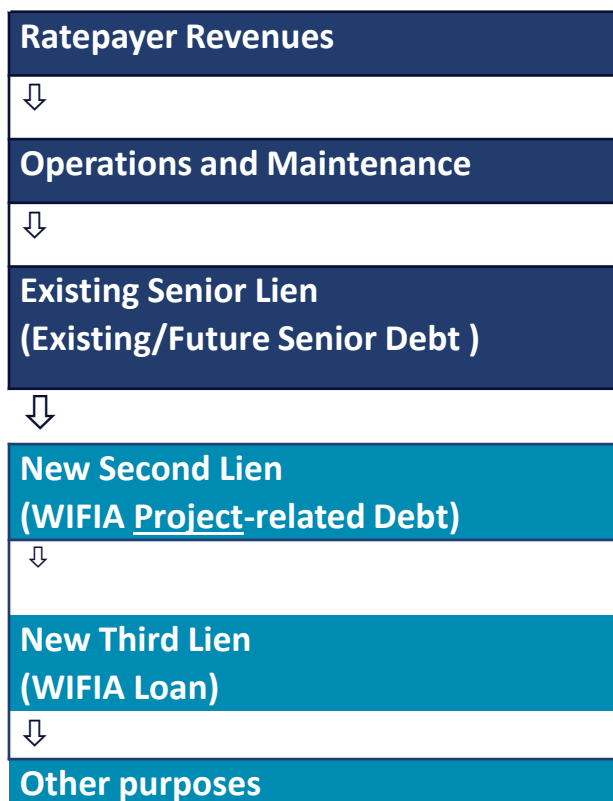
WIFIA's flexibility in payment priority allows borrowers easier access to other sources of financing at more favorable terms

- A borrower's existing and future debt unrelated to the WIFIA project may be senior to WIFIA in priority
- The flexibility of WIFIA to be subordinate to the issuer's senior lien may allow the borrower to issue debt more easily and cost effectively by preserving additional senior lien capacity
- WIFIA also has the ability to take a subordinate position with respect to other sources of debt to fund the WIFIA project
- When WIFIA is subordinate to other project debt, it will spring to parity in a bankruptcy related event

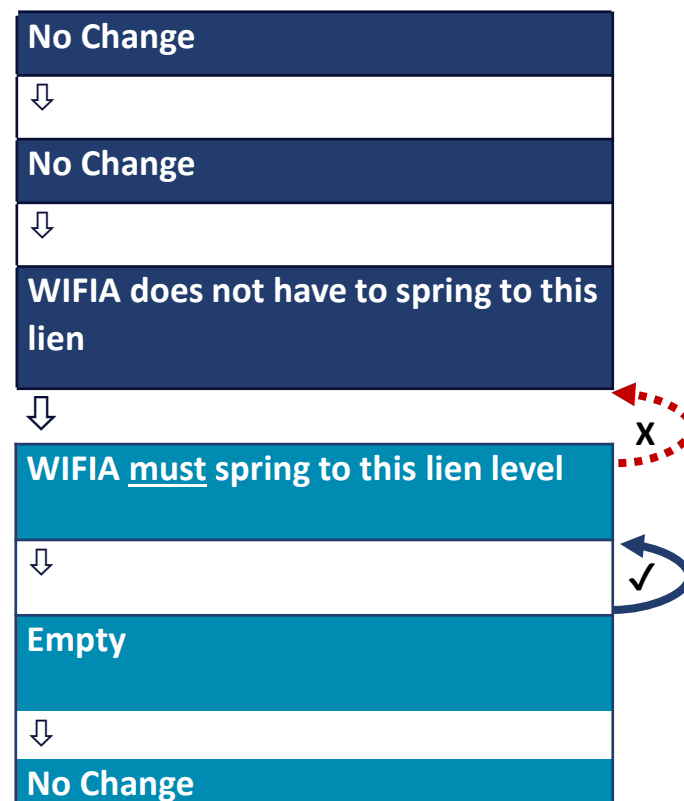


WIFIA IS FLEXIBLE WITH LIEN POSITION

Flow of Funds in a Sample Existing Indenture



Same Flow of Funds in a bankruptcy related event



FOUR CASE STUDIES

Demonstrate unique benefits of WIFIA financing

- Utility A- flexible repayment schedule smooths out payments to fit into borrower's existing debt structure
- Utility B- flexible repayment schedules and 5-year deferment allows for gradual rate increases
- Utility C- low rates and low fees for large projects reduce the cost of a large project
- Utility D- subordinate lien position allows the borrower to take on more debt



UTILITY A

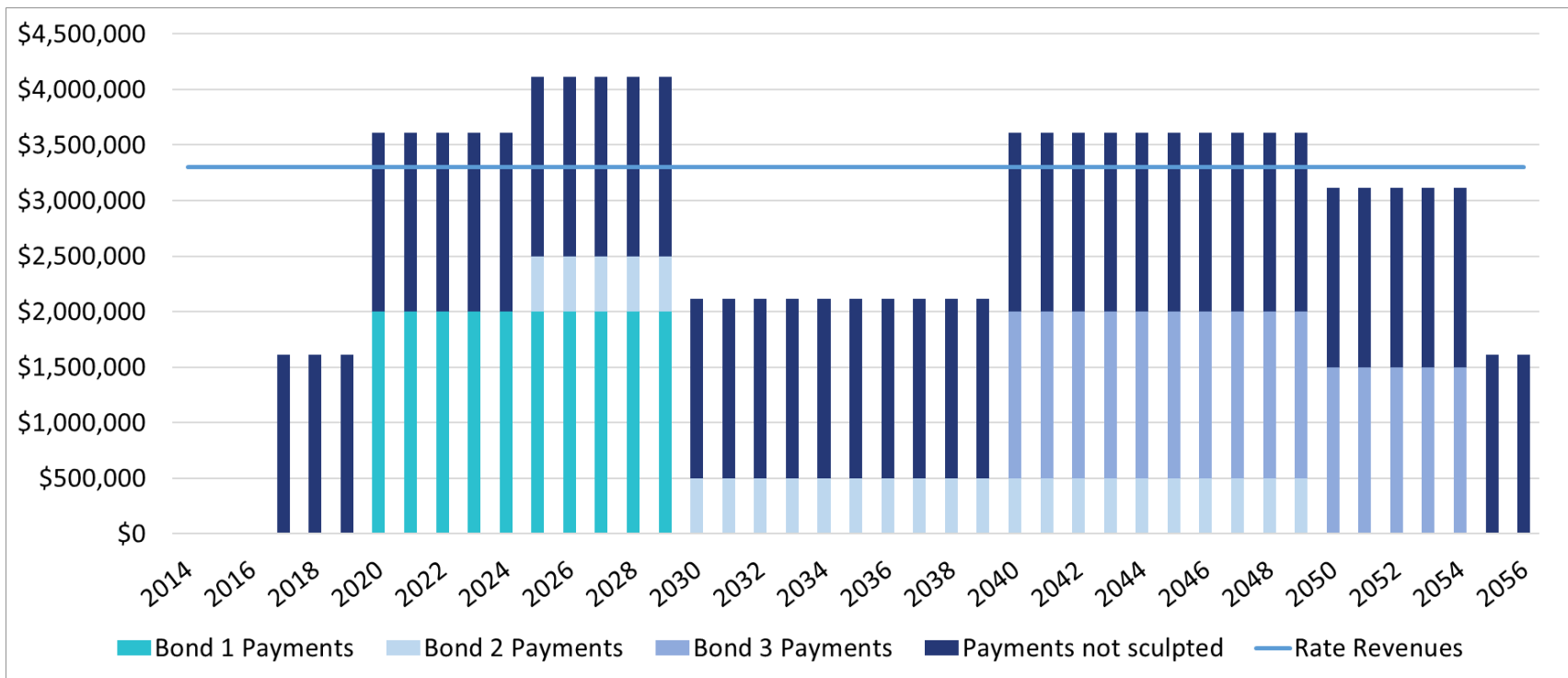
Debt service flexibility

- Utility A has been in the market for a long time, and has issued debt every few years on a long-term basis
- Highly rated with debt capacity
- Their debt payments are irregular (“lumpy”)
- WIFIA flexibility could help smooth debt service payments
- Would like to achieve cost savings through reduced interest rate



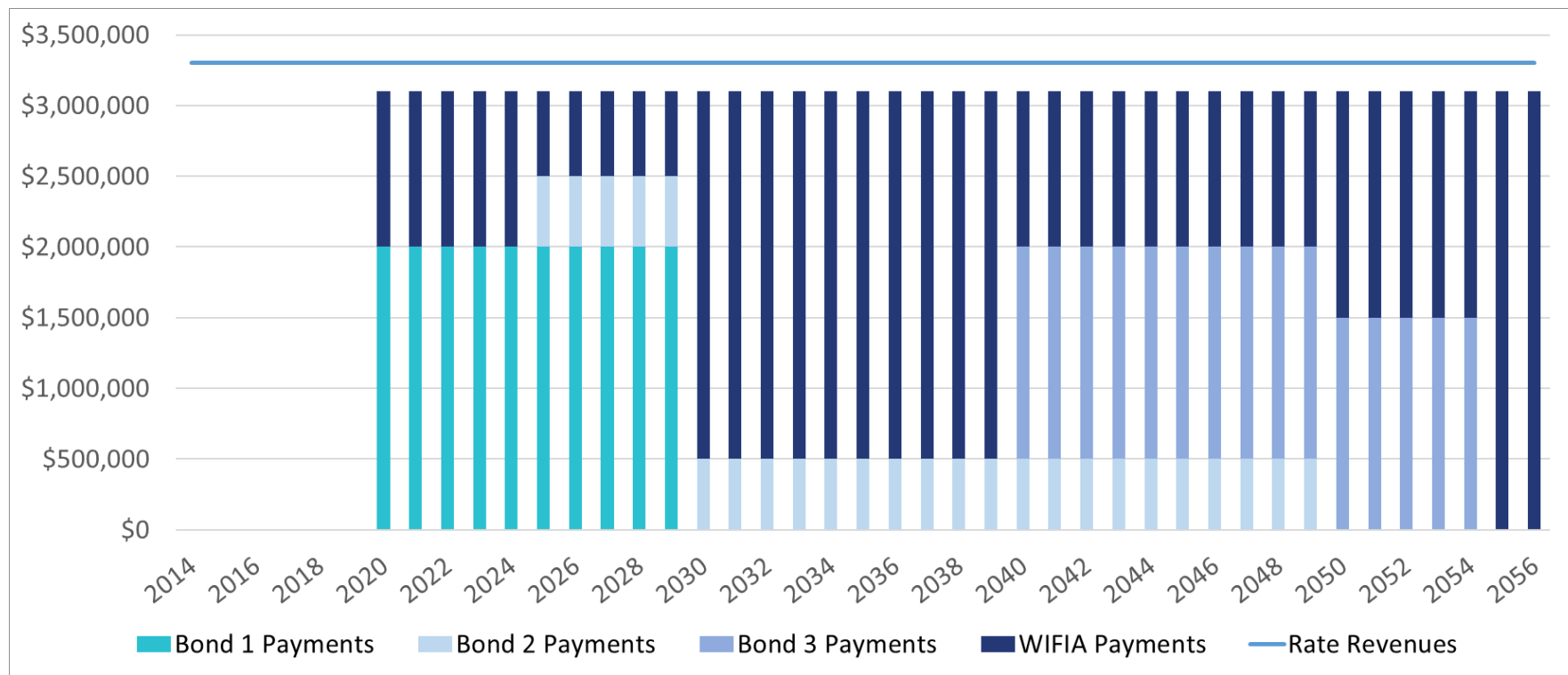
EXISTING PAYMENT SCHEDULE

Without a sculpted repayment schedule, payments could be uneven and hard to manage



UTILITY A CUSTOMIZED WIFIA REPAYMENT SCHEDULE

WIFIA debt service is sculpted to fit with existing bond payments



UTILITY B

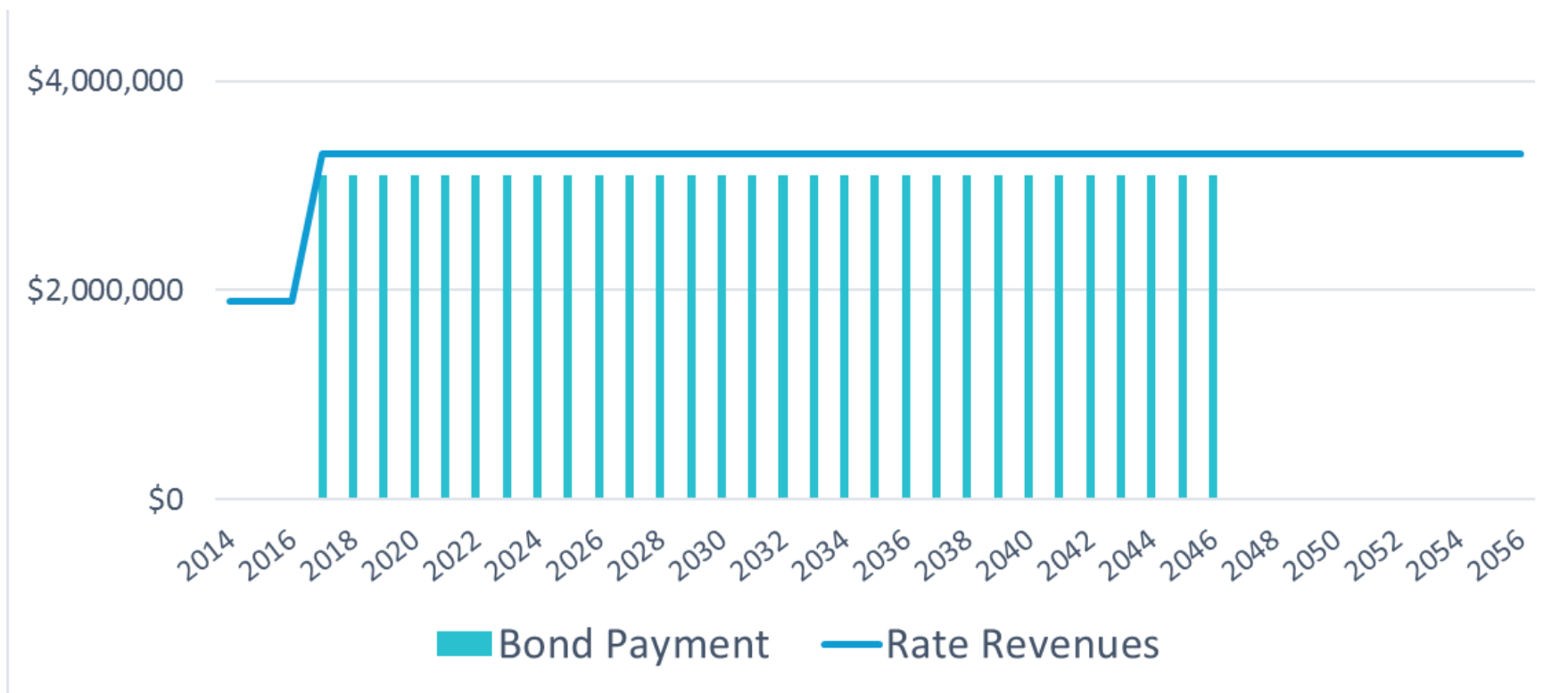
Debt Service Flexibility and 5-year deferral for payments

- Will need to implement additional rate increases to service debt
- WIFIA flexibility could help smooth out rate increases
- Will achieve cost savings through a reduced interest rate
- Rates would need to immediately increase, by 20-30%, without the flexibility offered by WIFIA



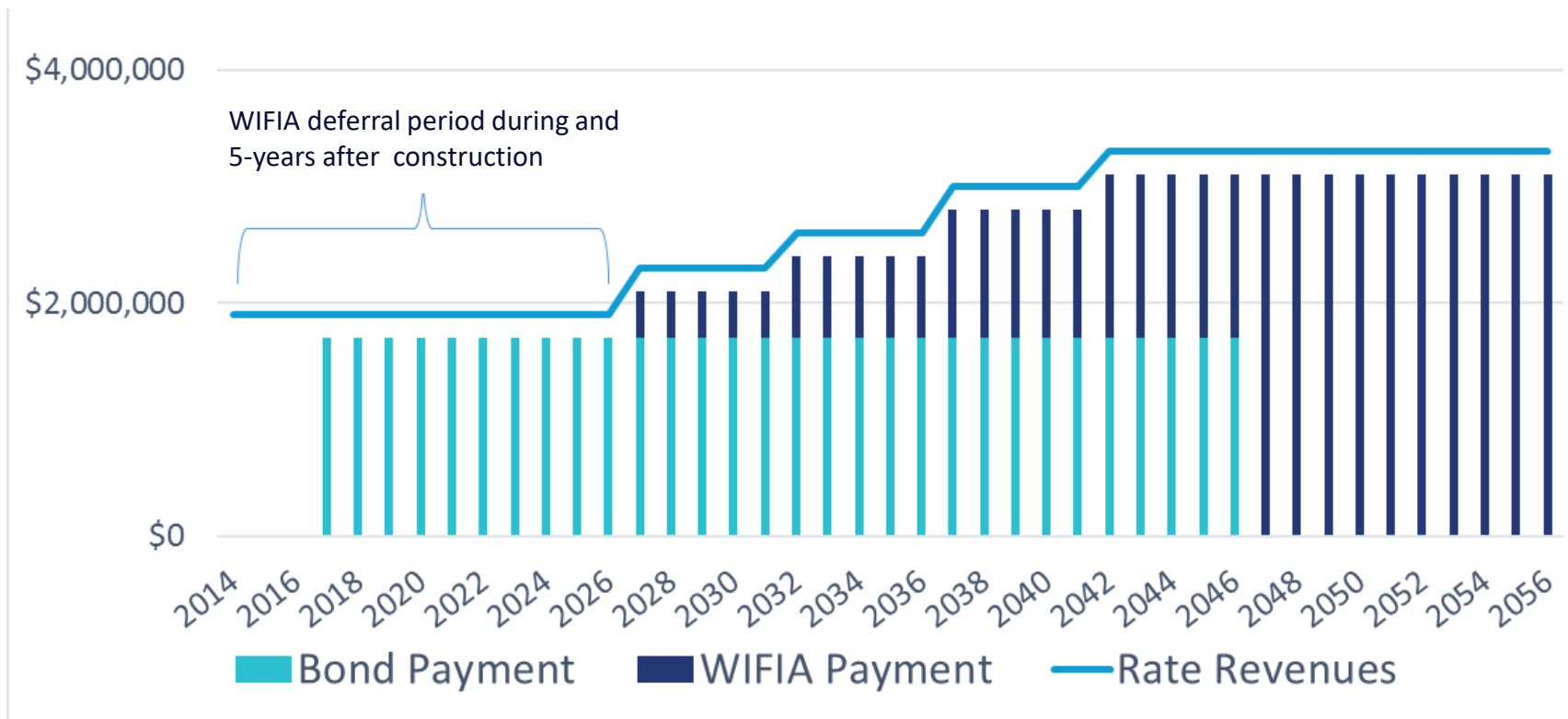
TYPICAL BOND REPAYMENT SCHEDULE

Bond financing requires more immediate rate increases



UTILITY B CUSTOMIZED WIFIA REPAYMENT SCHEDULE

WIFIA's flexible repayment schedule allows for rate increases to be phased in over a longer period of time



UTILITY C

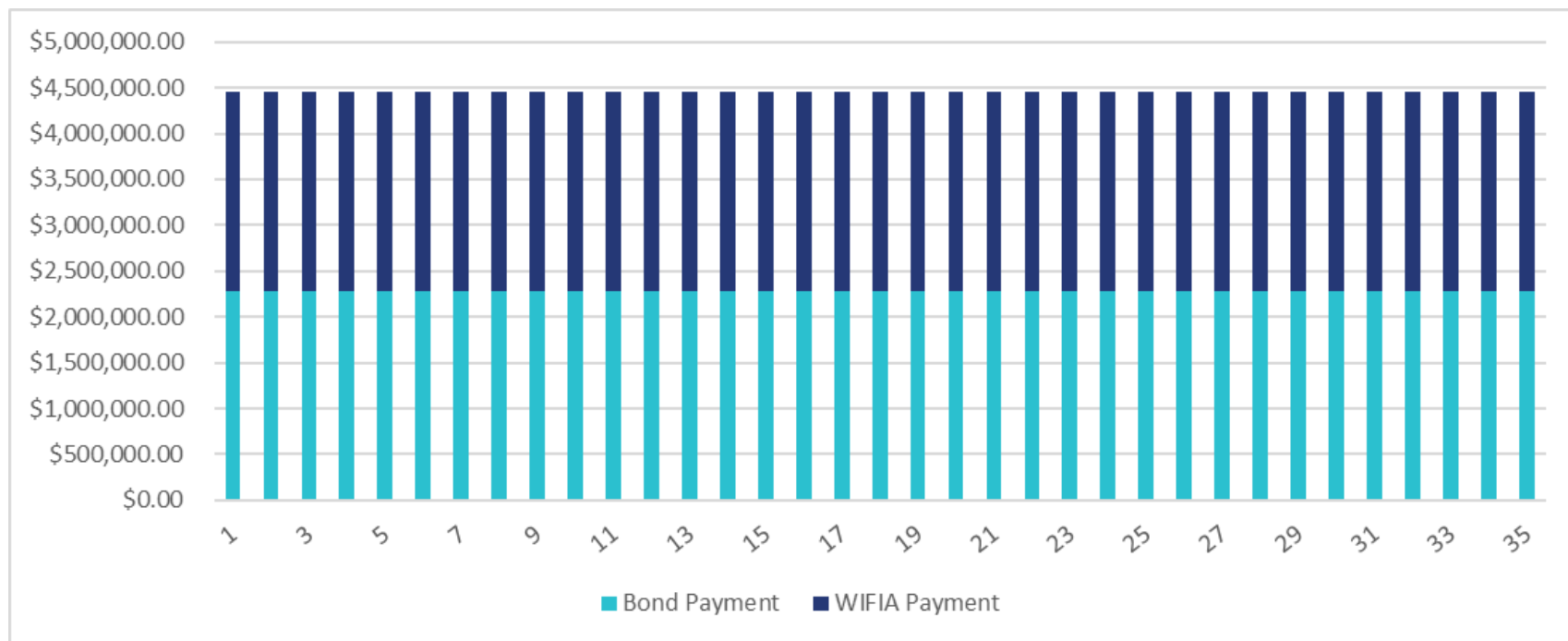
Low interest rates generate cost savings

- Interested in receiving a large loan at a low rate
- Capable of making payments immediately after construction
- Will achieve cost savings through a reduced interest rate and low fees



UTILITY C REPAYMENT SCHEDULE

Utility C has opted for a fixed repayment schedule



UTILITY C REPAYMENT SCHEDULE

Borrowers that make more payments upfront may be able to obtain a more attractive interest rate

- WIFIA borrowers have the option to frontload their repayment schedule, effectively reducing the WAL of their loan

INTEREST RATE COMPARISON

LOAN DATE	WIFIA WEIGHTED AVERAGE LIFE	30-YEAR TREASURY	35-YEAR WIFIA
October 26, 2017	20.68 years	2.93%	2.71%



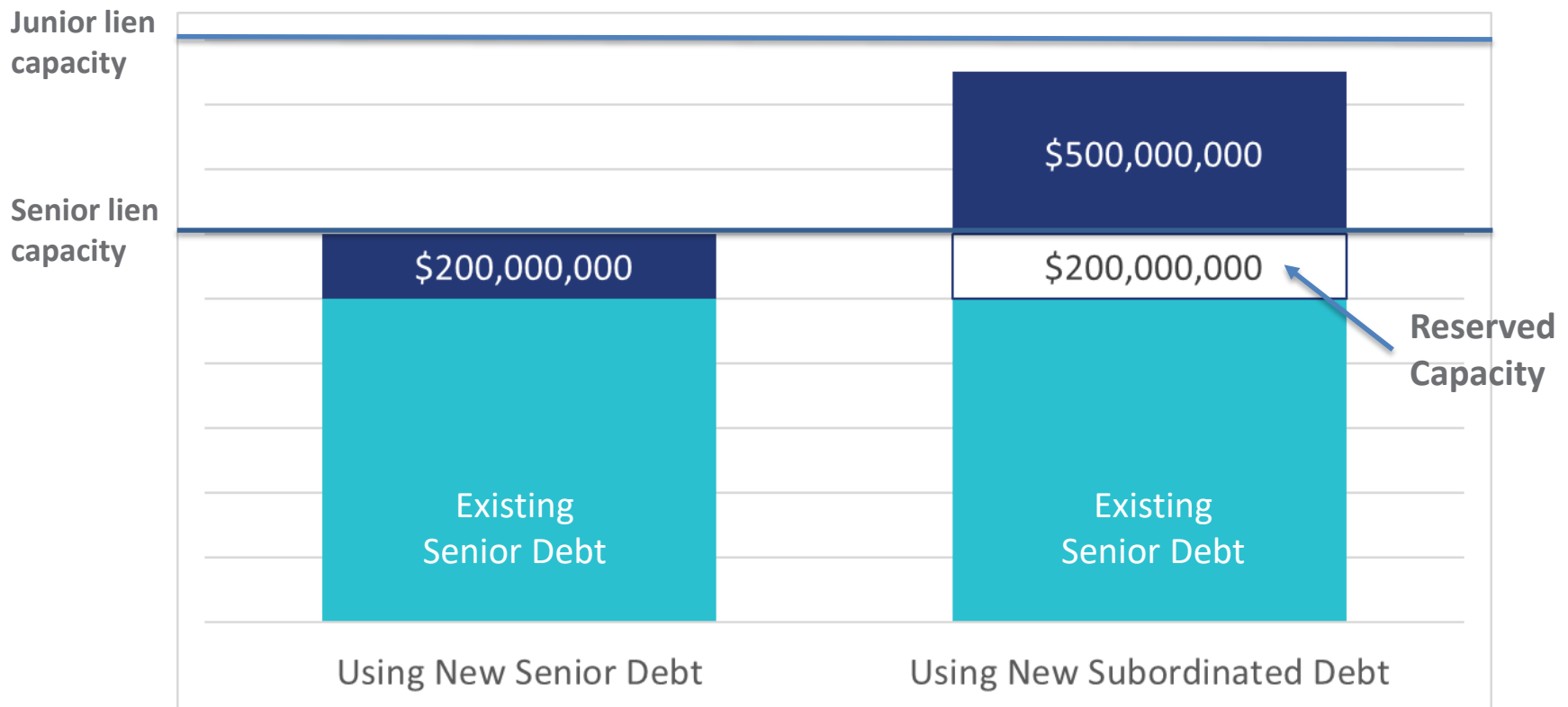
UTILITY D

Utility D does not have sufficient capacity on the senior lien to finance its project

- Utility D has the capacity to issue \$200 million on senior lien
- They want to finance a project that costs \$500 million
- Utility D will have more capacity and can borrow to finance the full \$500 million project if they finance with a junior lien

UTILITY D

WIFIA debt with a subordinated lien allows borrower to take on more debt



RECAP OF WIFIA BENEFITS

- **Very low interest rate** equivalent to the U.S. Treasury rate of the same maturity based on the weighted average life (WAL)
- **Highly flexible repayment schedule** during construction, allowing payment deferral during periods of high capital expenditure
- **Ability to preserve a borrower's senior debt capacity**, allowing borrowers issue future non-WIFIA project related debt at lower interest rates and with more favorable terms
- **Flexibility to sculpt the WIFIA repayment schedule** in order to reduce burden on rate payers. WIFIA repayments can be ramped up over time, allowing for small and steady rate increases to satisfy capital expenditures and debt service payments
- **Ability to back load repayments** offers significant saving compared to level repayment schedules, because cash outlays that are made sooner cost more than outlays in future years due to lost earning capacity on that cash
- Presence of low-cost, flexible WIFIA debt **improves the position and confidence of other lenders**. This may help borrowers obtain other sources of funding at more favorable terms





RESOURCES & QUESTIONS



OUTREACH EVENTS

Upcoming in-person sessions

- **Washington, DC:** January 17

Webinars

- **WIFIA Application Process:** Tips for Submitting a Letter of Interest: December 20, 2:00 p.m. - 3:30 p.m. (ET)
- **Letter of Interest Submission and Project Selection:** TBD, following the release of the FY18 Notice of Funding Availability

Register at:

<https://www.epa.gov/wifia/learn-about-wifia-program#information>



RESOURCES

General information

<https://www.epa.gov/wifia/learn-about-wifia-program>

- Program overview
- Links to laws and regulations
- Recordings and presentations from past webinars
- Frequently asked questions

Application Materials and Resources

<https://www.epa.gov/wifia/wifia-application-materials-and-resources>

- Letter of Interest form
- Letter of Interest FAQ
- Application form
- WIFIA Program Handbook
- Sample financial pro forma



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