



FINANCIAL BENEFITS

December 12, 2018



OPPORTUNITY FOR QUESTIONS

- You may call into this webinar by dialing +1 (613) 992-3221 and entering access code 450-848-936
- The WIFIA program welcomes clarifying questions on information provided in the presentation
- Questions may be posed at any time by typing into the webinar dashboard; participants are muted during the webinar and may only communicate by typing
- Unanswered questions will be answered in a follow-up e-mail or through the FAQ



PURPOSE OF THE SESSION

The purpose of this webinar is to:

- Foster a greater understanding of the requirements of the WIFIA program
- Pave the way for successful letters of interest to the WIFIA program



AGENDA



INTRODUCTION



OVERVIEW



FINANCIAL BENEFITS



ORANGE COUNTY WATER DISTRICT
PRESENTATION



QUESTION & ANSWER SESSION



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

- **2014:** Congress passed as part of Water Resources Reform and Development Act (WRRDA) of 2014 which established the WIFIA program
- **2014-2016:** EPA developed its first Federal Credit Program for water infrastructure
- **2017:** Congress appropriated \$25 million for credit subsidy which allowed EPA to select its first 12 projects to invite to apply for over \$2 billion in loans
- **2018:**
 - Congress appropriated \$55 million for credit subsidy and EPA invited 39 projects to apply for about \$5 billion in WIFIA financing
 - WIFIA program closed its first 5 loans totaling over \$1.5 billion in financing



FEDERAL CREDIT PROGRAM

A small amount of federal funds supports a much larger amount of infrastructure investment

- Congress only appropriates money to cover the estimated losses for projects
- The remaining loan amount is borrowed from and repaid to Treasury
- Since WIFIA loans finance up to 49%, they stimulate additional investment in the project

\$55
MILLION IN
APPROPRIATIONS



\$5.5

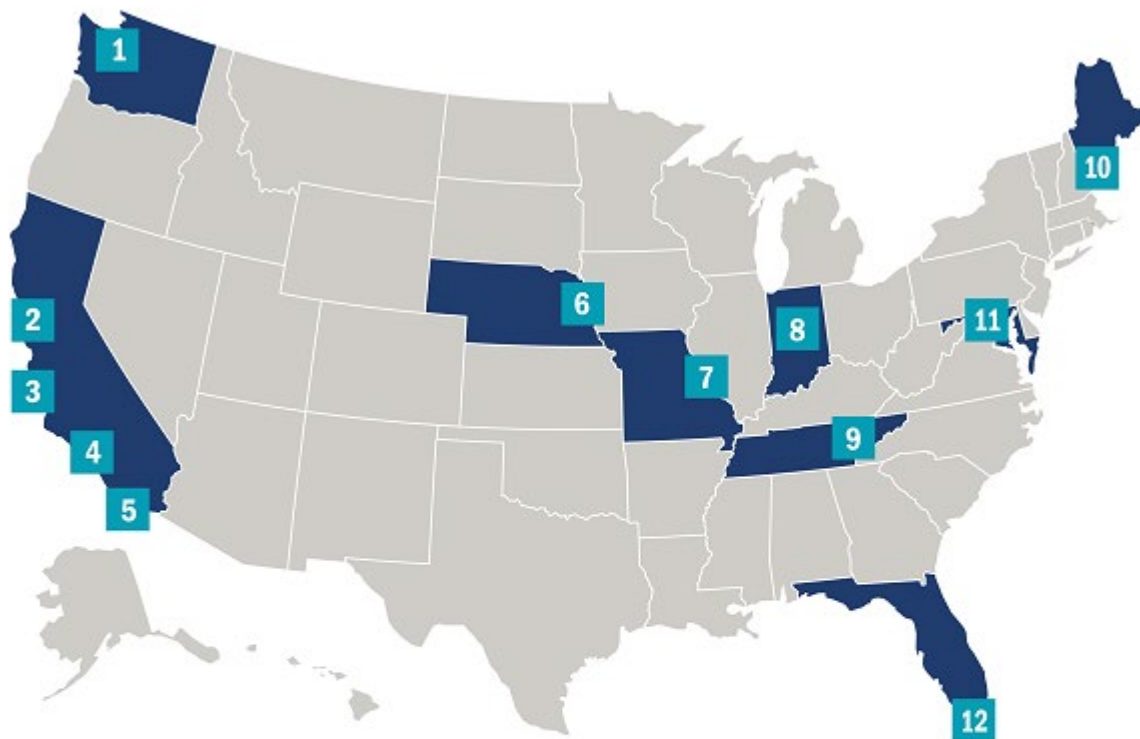
BILLION IN
LOANS

\$11

BILLION IN
INFRASTRUCTURE
INVESTMENT



FY 2017 SELECTED PROJECTS



1. King County
Georgetown WWTS

2. San Francisco PUC
Biosolids Digester Facilities

3. City of Morro Bay
Water Reclamation

4. Orange Co. Water District
Groundwater Replenishment System

5. City of San Diego
Pure Water San Diego

6. City of Omaha
Saddle Creek RTB

7. Metro St. Louis Sewer District
Sanitary Tunnel & Relief Projects

8. Indiana Finance Authority
FY2017 SRF Program

9. City of Oak Ridge
Water Treatment Plant

10. Maine Water Co.
Saco River Treatment Plant

11. City of Baltimore
Capital Improvements

12. Miami-Dade County
Ocean Outfall Reduction

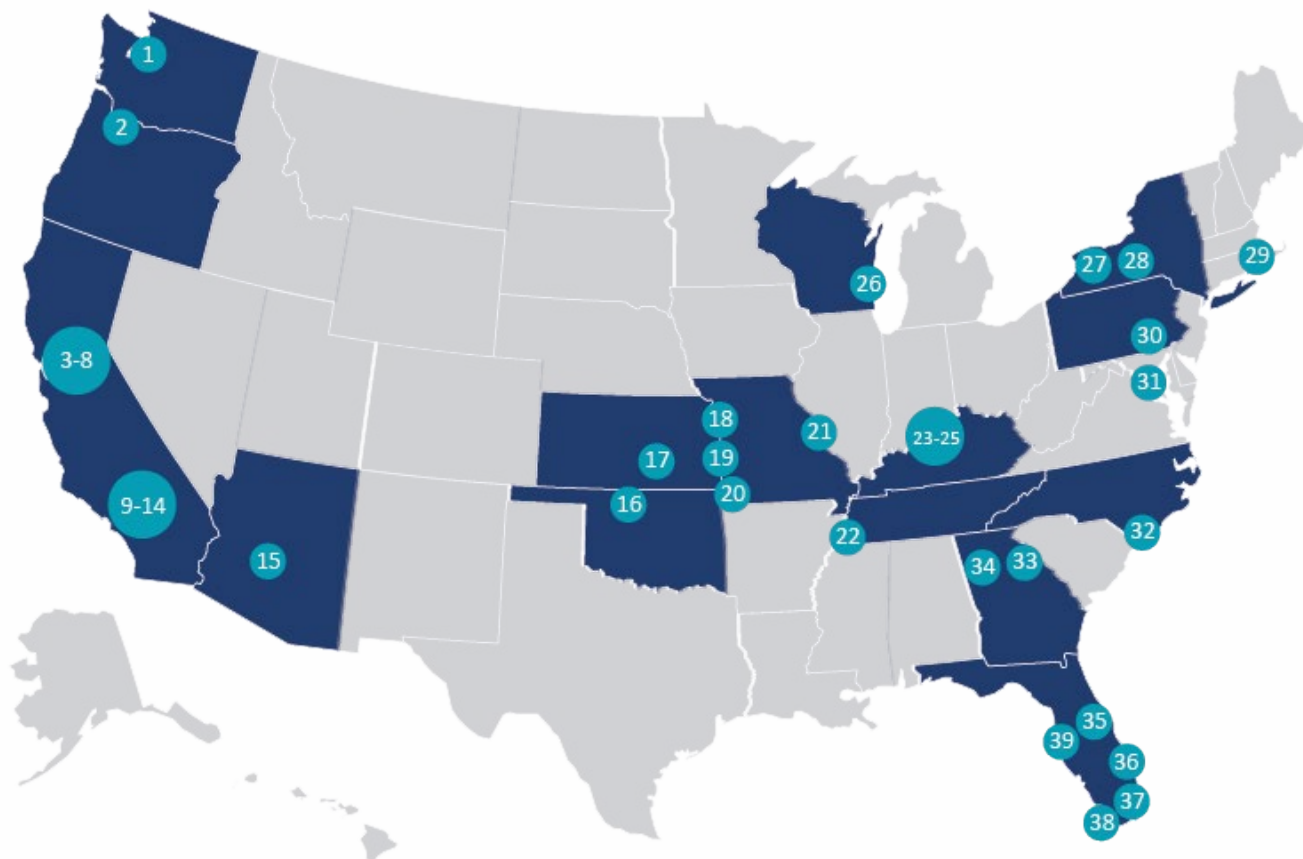


FY 2018 SELECTED PROJECTS

- Number of projects selected: 39
- Total invited loan amount: Approximately \$5 billion
- Total infrastructure investment: Over \$10 billion
- Number of projects reducing lead or other contaminants: 12
- Number of projects addressing repair, rehabilitation, or replacement: 37
- Population served by the projects: 22 million people in 16 states and Washington, D.C.
- Types of borrowers: private corporations, public entities, and public-private partnerships
- Types of projects: wastewater collection and treatment, drinking water distribution and treatment, stormwater management, desalination, and water recycling projects



FY 2018 SELECTED PROJECTS



Information about selected projects is available at:
<https://www.epa.gov/wifia/wifia-selected-projects>



OVERVIEW

ELIGIBLE BORROWERS

- Local, state, tribal and federal government entities
- Partnerships and joint ventures
- Corporations and trusts
- Clean Water and Drinking Water State Revolving Fund (SRF) programs



ELIGIBLE PROJECTS

- Projects that are eligible for the Clean Water SRF, notwithstanding the public ownership clause
- Projects that are eligible for the Drinking Water SRF
- Enhanced energy efficiency projects at drinking water and wastewater facilities
- Repair, rehabilitation, or replacement of treatment works, community water system, or aging water distribution or waste collection facility
- Brackish or seawater desalination, aquifer recharge, alternative water supply and water recycling projects
- Drought prevention, reduction or mitigation projects
- Acquisition of property if it is integral to the project or will mitigate the environmental impact of a project
- A combination of projects, each of which is eligible under the State water pollution control revolving fund
- A combination of projects secured by a common security pledge, each of which falls under an eligibility described above and the eligible entity submits a single Letter of Interest



HOW TO COMBINE PROJECTS

- WIFIA loans can fund a combination of projects through each loan, given the projects:
 - Share a common security pledge
 - Serve a common purpose
 - Have similar construction time frames

ELIGIBLE PROJECT SIZE



Minimum project size for large communities



Minimum project size for SRF-eligible small community projects (population of 25,000 or less)

ELIGIBLE COSTS

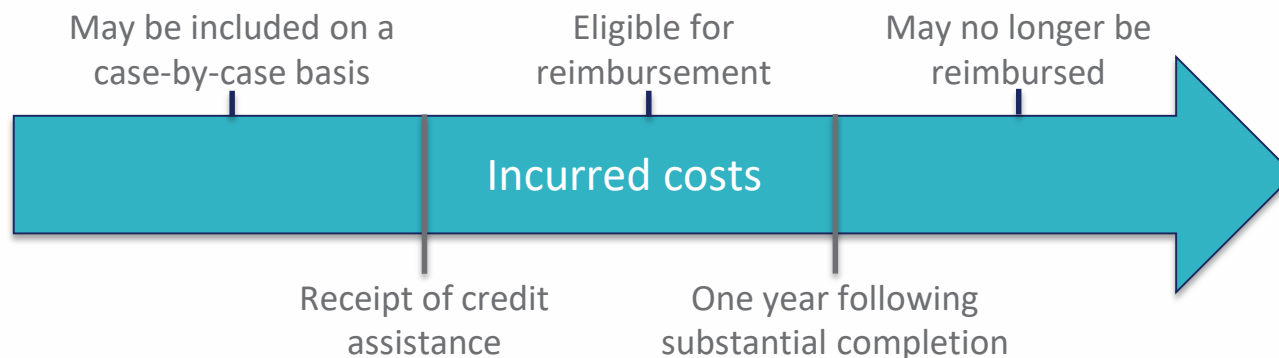
Eligible project costs are costs associated with the following activities, as defined in the statute

- **Development-phase activities**, including planning, feasibility analysis (or any related analysis necessary to carry out an eligible project), revenue forecasting, environmental review, permitting, preliminary engineering and design work and other preconstruction activities
- **Construction, reconstruction, rehabilitation and replacement activities**
- **The acquisition of real property or an interest in real property** (including water rights, land relating to the project and improvements to land), **environmental mitigation** (including acquisitions that would mitigate the environmental impacts of water resources infrastructure projects otherwise eligible for WIFIA credit assistance), **construction contingencies** and **acquisition of equipment**
- **Capitalized interest** necessary to meet market requirements, reasonably required **reserve funds, capital issuance expenses** and other **carrying costs** during construction
- **WIFIA application and credit processing fees**



ELIGIBLE COSTS

- Eligible costs incurred prior to receipt of credit assistance may be considered as a part of eligible project costs
 - Must be directly related to the development or execution of the project
 - Such costs will be approved on a case-by-case basis
- Incurred eligible costs may be reimbursed up to one year following substantial completion of the project



CREDITWORTHINESS

For WIFIA credit assistance, a project must meet the following criteria:

- The project and prospective borrower must demonstrate a reasonable assurance of loan repayment
- Project financing shall be repayable from a dedicated revenue source that also secures the senior project obligations of the project
- The prospective borrower must have developed an operations and maintenance plan that identifies adequate revenues to operate, maintain, and repair the project during its useful life

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

FEDERAL REQUIREMENTS



Projects receiving a WIFIA loan must comply with all relevant federal laws and regulations

- National Environmental Policy Act (NEPA)
- National Historic Preservation Act
- Archeological and Historic Preservation Act
- Environmental Justice
- American Iron and Steel Requirement
- Davis-Bacon Wage Requirement
- Endangered Species Act
- All Civil Rights Acts
- Clean Water Act
- Clean Air Act
- Safe Drinking Water Act
- Coastal Zone Management Act
- Protection of Wetlands
- Farmland Protection Policy Act
- Magnuson-Stevens Fishery Conservation and Management Act
- Wild and Scenic Rivers Act

Non-exhaustive list available at: <https://www.federalregister.gov/documents/2016/12/19/2016-30194/credit-assistance-for-water-infrastructure-projects>





FINANCIAL BENEFITS

CLOSED 5 LOANS TOTALING OVER \$1.5B

Saving borrowers up to \$650 million and creating over 6,000 jobs

- **KING COUNTY (WA):** \$134 M loan to construct its new Georgetown Wet Weather Treatment Station to control combined sewer overflows at two outfalls
- **CITY OF OMAHA (NE):** \$69 M loan to build the Saddle Creek Retention Treatment Basin to hold and treat combined sewage during wet weather events
- **ORANGE COUNTY WATER DISTRICT (CA):** \$135 M loan to expand the existing Ground Water Replenishment System from 100 MGD to 130 MGD
- **SAN FRANCISCO PUBLIC UTILITIES COMMISSION (CA):** \$699 M loan to upgrade and replace the solids handling processes at the Southeast Plant
- **CITY OF SAN DIEGO (CA):** \$614 M loan to clean the City's recycled water to produce 30 MGD of potable water



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

3.33%



MAXIMUM LOAN AMOUNT

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

- Maximum federal involvement: 80% of total project costs
- SRF funds are not federal funds in most cases
- The WIFIA loan amount is fixed at closing



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

- Interest payments must commence no later than 5 years following substantial completion of the project.
- Deferred interest payments are added to principal balance
- May be sculpted to accommodate the projected cash flow from project revenues and other sources
- Interest only period is no longer than half the term of the loan

REPAYMENT REQUIREMENTS

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

- 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 of interest or principal payments

- May be granted at the discretion of the program
- Are 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

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

Orange County

First Lien - Existing Debt + Project Debt
↓
Second Lien - Existing WIFIA Debt



San Francisco

First Lien – Existing Debt + Project Debt + WIFIA Debt
↓
Second Lien – Existing Debt

San Diego*

First Lien - Existing
↓
Second Lien – Project + Existing WIFIA Debt

*Loan agreement does not permit first lien project debt



COMPLEMENTS OTHER CAPITAL MARKETS FUNDING

EPA recognizes the importance of capital markets participation in advancing the development of water and wastewater infrastructure throughout the nation

- WIFIA debt complements other project funding rather than supplanting it, ensuring projects are fully funded
- Projects that receive WIFIA financing must be co-financed with other sources of financing, including tax-exempt, taxable bonds, or SRF financing
- WIFIA can be subordinate to other existing and project debt, reducing repayment risk for these other funding sources and making it easier for 3rd party lenders to participate



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
- No rate lock or commitment fees

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 3.33% on October 26, 2018



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 3rd party consulting 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

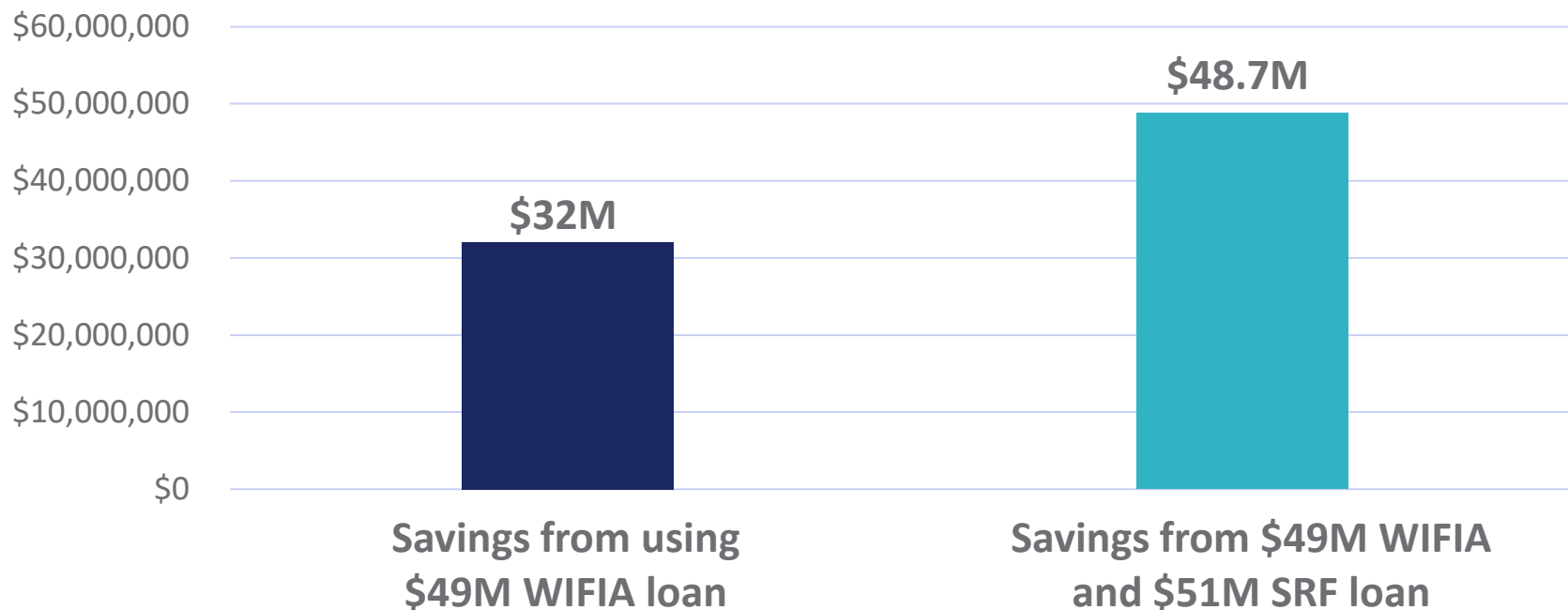
*Average size of loan and WIFIA fees are estimates based on FY2017 Projects



WIFIA COST SAVINGS

Compared to issuing a \$100-million municipal bond

King County



FLEXIBLE FINANCIAL TERMS

Disbursements

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

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

Prepayment

- There is no penalty for prepayment

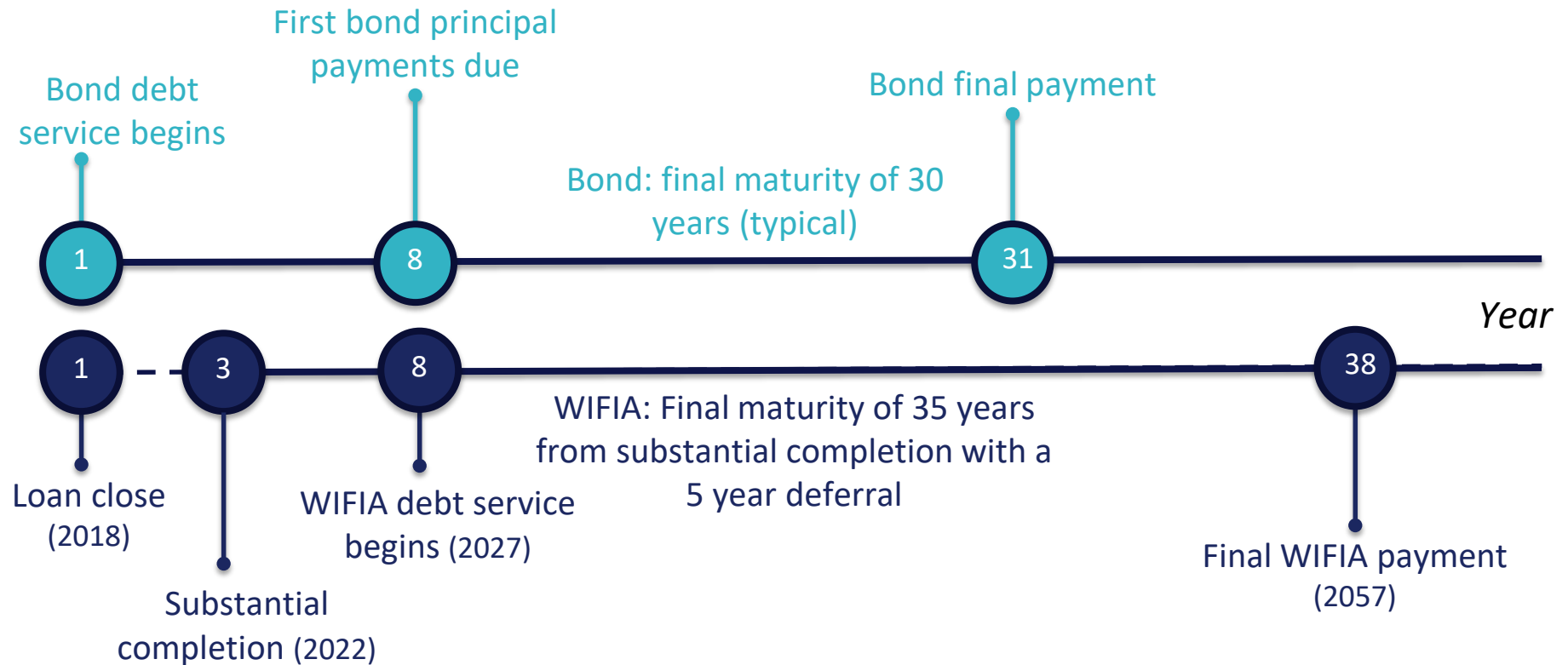
Lien Priority

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



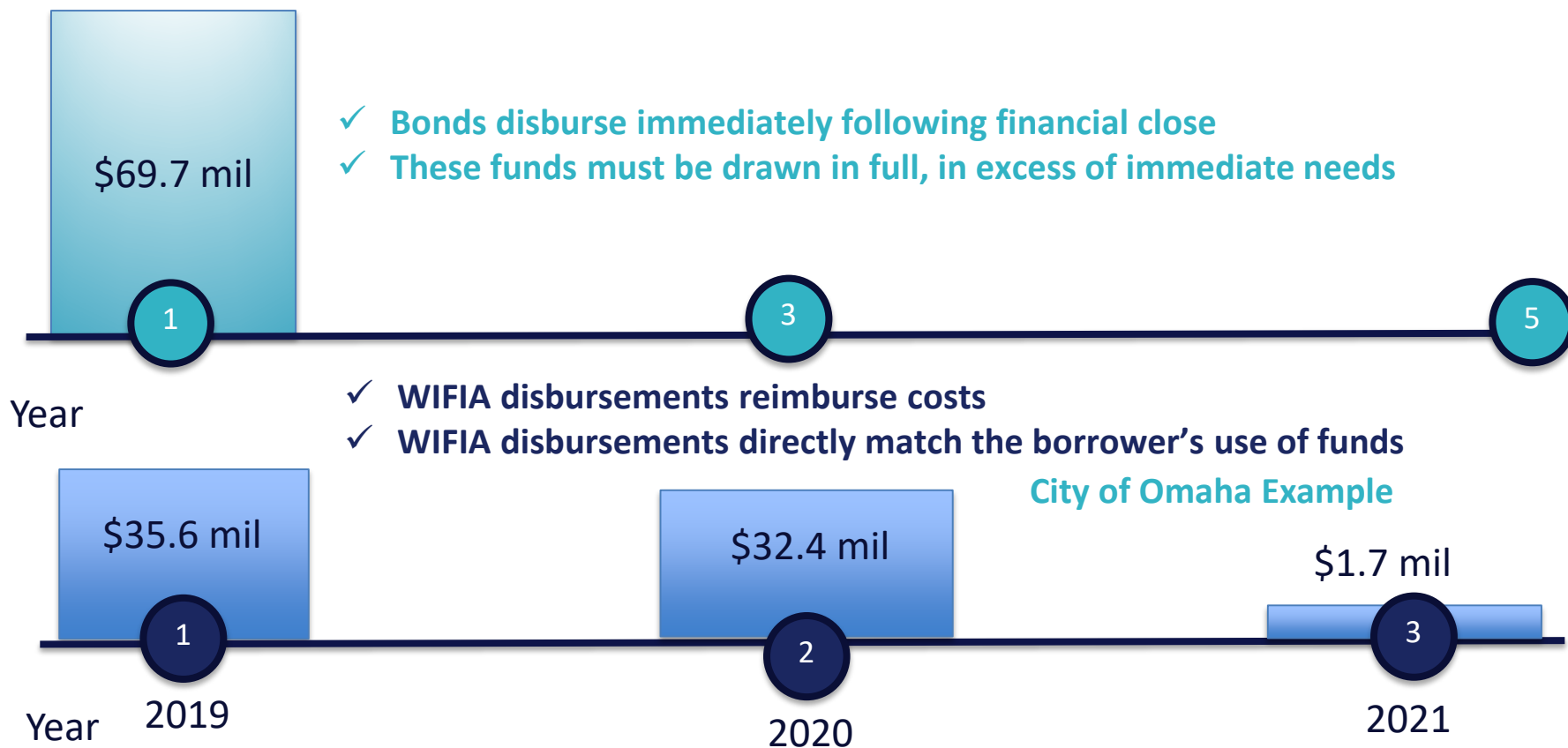
AMORTIZATION: BOND AND WIFIA

WIFIA offers a customized repayment schedule (Orange County Example)



DISBURSEMENTS CAN BE SHAPED BY FUNDING NEED

Reduces the amount of accrued interest and avoids arbitrage issues



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

SAN FRANCISCO CO-FINANCING	DOLLARS USD	PERCENTAGE
WIFIA LOAN	\$699 million	49%
BOND PREMIUM	\$10.7 million	1%
BONDS	\$650 million	45%
REVENUES	\$67 million	5%
TOTAL	\$1.4 billion	100%

OVER \$1.5B IN LOANS CLOSED

Saving borrowers up to \$650 million and creating over 6,000 jobs

BORROWER	KING COUNTY	CITY OF OMAHA	ORANGE COUNTY WATER DISTRICT	SAN FRANCISCO	SAN DIEGO
LOAN AMOUNT	\$134M	\$69M	\$135M	\$699M	\$614M
TERM	30 years from project completion	30 years from project completion	35 years from project completion	35 years from project completion	35 years from project completion
INTEREST RATE	3.06%	2.97%	3.06%	3.09%	3.36%
CO- FINANCING	Revenue Bonds & SRF Loan	Revenue Bonds OR SRF Loan	Certificates of Participation	Revenue Bonds and SRF Loan	Revenue Bonds and Short-Term Financing
TRANSACTION FLEXIBILITIES	1) 10+ year interest only period 2) Sculpted debt service	1) WIFIA commitment prior to execution of an SRF agreement 2) Interest capitalization during construction	1) Optional ability to use WIFIA to retire construction financing 2) 5 year capitalized interest after construction 3) Springing Lien	1) Optional ability to use WIFIA to retire construction financing 2) Interest capitalization during construction 3) Sculpted debt service	1) Subordinated debt 2) Sculpted debt service

KING COUNTY – WIFIA BENEFITS

Savings & Certainty

- King County estimates \$30.4M in savings, \$22.5M present value benefit, 16.8% of loan amount
- The WIFIA interest rate of 3.06% on April 19, 2018 was 1.02% lower than the tax-exempt issue and is the county's lowest 30-year borrowing cost
- Washington SRF rates are likely to be lower than the WIFIA interest rate, but funding is limited and requires annual applications
- King County has \$134.5M at a 3.06% interest rate available through the end of 2023

CITY OF OMAHA – WIFIA BENEFITS

Savings & Timeliness

- The City of Omaha's loan terms were straightforward allowing a quick turnaround time of less than 5 months from application submission to loan close
- The borrower will be able to capitalize interest during construction
- The City of Omaha saves about \$20 million in interest costs by utilizing WIFIA financing
- This loan created a loan agreement template for future loans so if the City works with WIFIA again, the process could potentially move even faster

ORANGE COUNTY WATER DISTRICT– WIFIA BENEFITS

Savings & Repayment Time

- The final payment for Orange County will be more than 35 years after the first loan disbursement
- Orange County deferred their WIFIA repayment and locked in a favorable rate at closing
- Deferring repayment allows Orange County to have excess cash during the deferral period which allows them to replenish reserves with cash
- This repayment flexibility also allows Orange County to meet their coverage policy and maintain their AAA rating
- WIFIA is in a subordinate position to the project's Senior debt obligations



SAN FRANCISCO PUBLIC UTILITIES COMMISSION–WIFIA BENEFITS

Savings & Repayment Time

- San Francisco has debt service payments that significantly increased over time to align with rate affordability measures
- Long interest-only repayment period
- WIFIA debt will be sculpted around other expected sources of funding
- The SFPUC plans to use interim construction financing that will be retired with the WIFIA loan in a single disbursement
- SFPUC retains the flexibility to draw earlier should short-term rates increase to above the WIFIA interest rate



CITY OF SAN DIEGO– WIFIA BENEFITS

Subordination & Repayment

- WIFIA is taking a subordinate lien position alongside existing project debt
- WIFIA debt will be sculpted around other expected sources of funding
- WIFIA will allow the City to defer payments by an additional 1-year to account for any unexpected schedule changes



UPCOMING OUTREACH EVENTS

In-Person Sessions

- January 15, 2019 – Atlanta, GA
- February 4, 2019– Phoenix, AZ

Webinar

- December 18, 2018, 2:00 - 3:30pm EST – Application Process
- Registration is available at <https://www.epa.gov/wifia/wifia-resources#information>



MEETING WITH WIFIA PROGRAM STAFF

EPA will meet with all prospective borrowers interested in discussing the program prior to submission of a letter of interest

- Send requests to wifia@epa.gov
- Meetings may be in-person or via phone
- Meetings will be no more than 1-hour
- EPA can answer clarifying questions but cannot provide technical assistance



RESOURCES

General information

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

- Program overview; links to laws and regulations; frequently asked questions

How to Apply

<https://www.epa.gov/wifia/how-apply-wifia-assistance-0>

- NOFA, Letter of interest form, FAQ, and checklist; sample financial pro forma; sample letter of interest

Resources

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

- Program handbook; template term sheet; learning module; information session registration; federal requirements



CONTACT US

Website: www.epa.gov/wifia

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Sign-up to receive
announcements about the
WIFIA program at
<https://tinyurl.com/wifianews>



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OCWD PRESENTATION



QUESTION & ANSWER SESSION

