



San Luis & Delta-Mendota Water Authority Special Finance Committee Meeting

JPP Rewind Project

June 25, 2019

BACKGROUND

- Authority needs to upgrade motors in pumps at Jones Pumping Plant (JPP Rewind Project)
- Cost is approximately \$35 million
- Authority will need to borrow funds from multiple sources to fund the JPP Rewind Project
- Most cost effective outside funding options
 - ✓ Reclamation Loans
 - ✓ WIFIA Loan
 - ✓ Municipal Taxable Bonds



WIFIA - OVERVIEW

Eligibility

- Eligible Borrowers
 - ✓ Local, state, tribal, and federal government entities
- WIFIA can fund development and implementation activities for eligible projects
 - ✓ Drinking water treatment and distribution projects
 - ✓ \$20 Million – Minimum project size for large communities
- 49% - Maximum portion of eligible project costs that WIFIA can fund
- 35 Years – Maximum final maturity date from substantial completion
- Projects must be creditworthy – Minimum of two investment grade ratings on the WIFIA Loan
- NEPA, Davis-Bacon, American Iron and Steel, and all federal cross-cutter provisions apply.



WIFIA – FINANCIAL BENEFITS

WIFIA Loans offer a low, fixed interest rate

- A single fixed rate established at closing
- Rate is equal to the US Treasury rate of a similar maturity, plus 0.1%
- Rate is not impacted by borrower's credit or loan structure
- Customized repayment schedules
- WIFIA loans may have a length of up to 35 years
- Payments may be deferred up to 5 years after the project's substantial completion.
- WIFIA may take a subordinate position in payment priority and increase coverage ratios for senior bond holders
- WIFIA loans can be combined with other forms of debt



FINANCING PLAN OVERVIEW

- WIFIA offers lower interest expense than bonds, thus the goal is to maximize the amount borrowed under WIFIA
- The balance needed to complete the JPP Rewind Project will need to be funded from water rates, Reclamation Loans or taxable bonds
- The Authority will be unable to issue tax exempt bonds* because Reclamation owns the project

*Tax-exempt bonds could be issued at a reduced interest expense



WIFIA CHALLENGES / CREDIT CONCERNS

- The WIFIA Loan will require 2 credit ratings of at least investment grade (BBB category)
- The Authority has no credit rating supported by this source of revenues
- The design of the operations and cash flow adequately provides the Authority with the ability to operate very efficiently
 - ✓ The Authority has limited flexibility to revise rates to increase liquidity and therefore, forecasted liquidity may be considered “weak” by US EPA and the credit rating agencies



ENHANCING CREDIT

- Certain liquidity levels and security provisions are required of Issuers to obtain investment grade ratings
 - ✓ The Authority may negotiate these provisions going forward to bolster the projected liquidity and lender securities should it be required
- Issuing WIFIA Loan on a subordinate lien creates more coverage for senior lien bondholders
- Structuring WIFIA Loan with level debt service is considered the most creditworthy repayment structure

PRELIMINARY STRUCTURING: CLOSING IN AUG./OCT. 2020

	<u>WIFIA Loan</u>	<u>Reclamation Loans</u>
Par	\$ 17.9 million ⁽¹⁾	\$ 11.1 million
Interest Rate	2.88%	2.375%
Average Annual D/S	\$ 990,611	\$ 891,085
Capital	\$ 17.4 million	\$ 11.04 million

- The JPP Unit Rewind Projects include additional funding of \$7.2 million from water rates.

(1) Includes WIFIA capitalized interest during construction period.



PRELIMINARY BENEFIT OF WIFIA

Taxable Bonds & Existing Reclamation Loan

WIFIA & Reclamation Loans

Par	\$ 29.9 million	\$ 29.1 million
Interest Rate	5.06% / 2.375%	2.88% / 2.375%
Gross D/S (30 Year)	\$ 48,138,776	\$ 39,122,157

- The JPP Unit Rewind Projects include additional funding of \$7.2 million from water rates.



FORECASTED FINANCIAL STRUCTURE

- Authority pledges Revenues under Water Delivery Contracts and will make payments of debt service after payment of operations and maintenance.
- Authority pledges remaining amount towards WIFIA Loan