



State of Utah

Presentation to The Executive Water Finance Board

WIFIA Program Overview and Potential Application for Lake Powell Pipeline

David Damschen, CTP
State Treasurer

Ruth Pan
Goldman Sachs & Co. LLC
Public Sector and Infrastructure Banking

Jon Bronson
SVP & Director
Zions Public Finance

I. WIFIA Program Overview



WIFIA Overview

- The Water Resources Reform and Development Act of 2014 (WRRDA) created the Water Infrastructure Finance and Innovation Act (“WIFIA”) loan program.
 - Administered by the EPA’s Division of Water Infrastructure
 - Modeled after the TIFIA program for transportation projects
- WIFIA’s program goals:
 - Facilitate water infrastructure projects with a significant public benefit
 - Fill capital market gap for secondary/subordinate capital
 - Limit Federal exposure by relying on market discipline

WIFIA Overview

- In 2015, WIFIA was amended to allow for the use of tax-exempt financing in WIFIA-funded projects
- In December 2016 President Obama signed legislation appropriating \$20 million for WIFIA, of which \$17 million is for WIFIA loans
 - Initial \$17 million estimated to provide over \$1 billion in loan capacity
 - EPA accepted Letters of Interest (LOI) through April 2017 and selected twelve projects to apply
- On February 12, 2018, the Trump Administration's "Legislative Initiative to Rebuild Infrastructure in America" proposed an additional \$14 billion allocated to WIFIA, TIFIA and RRIF (breakdown of allocation to be determined)

II. WIFIA Program Mechanics



WIFIA Requirements

- Eligible borrowers include:
 - Municipal entities, including state and local entities and public instrumentalities
 - Corporations and partnerships

- Eligible projects include:
 - Clean Water SRF eligible projects
 - Drinking Water SRF eligible projects
 - Projects that enhance energy efficiency in the operation of a public water system
 - Brackish or seawater desalination, aquifer recharge, water recycling
 - Acquisition of property if it is integral to the project or will mitigate the environmental impact of a project
 - A combination of projects secured by a common security pledge

WIFIA Requirements

- Eligible costs include:
 - Development activities, including planning, preliminary engineering, design, environmental review, revenue forecasting, and other pre-construction activities
 - Construction, reconstruction, rehabilitation, and replacement activities
 - Capitalized interest, reasonably required reserve funds, issuance expenses and other carrying costs during construction

WIFIA Requirements

- Major requirements:
 - \$20 million: Minimum project size for large communities
 - \$5 million: Minimum project size for small communities (population of 25,000 or less)
 - Loan amount limited to 49% of eligible project cost
 - Dedicated revenues for repayment
 - Project must be deemed creditworthy (senior lien revenue debt must have two investment grade ratings)
 - No more than 80% of the project cost can involve federal assistance
 - Compliance with major federal laws, including Davis-Bacon, NEPA, etc.

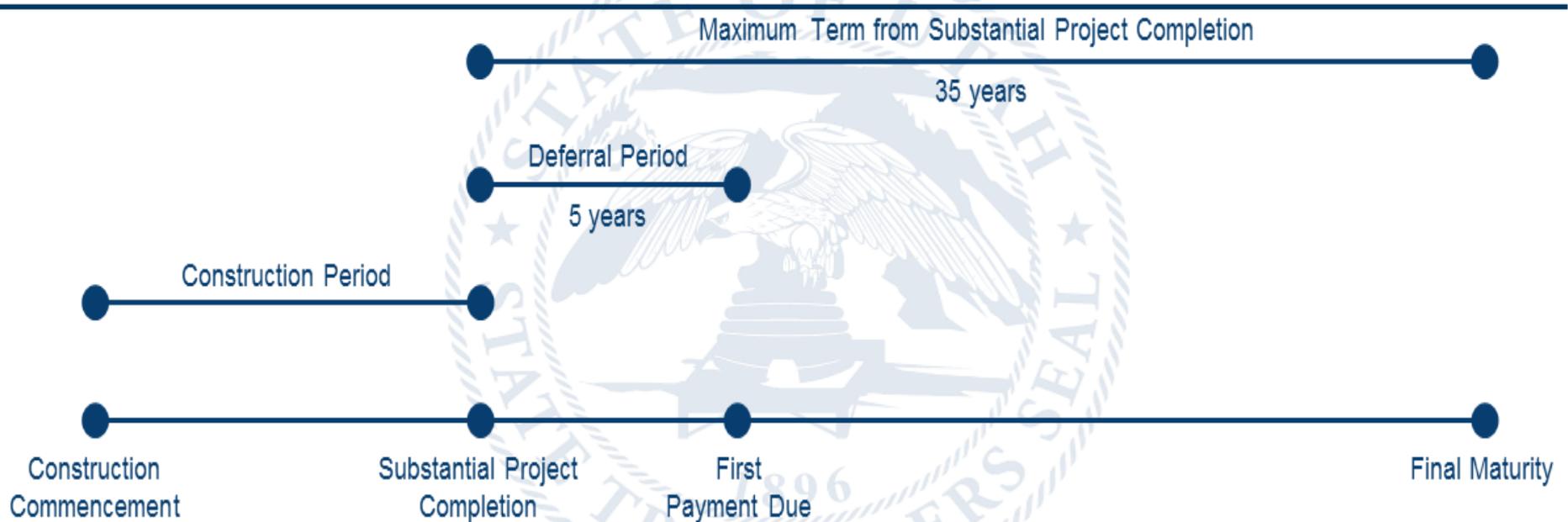
WIFIA Mechanics

WIFIA Financing Terms Are Favorable and Provide Projects with Flexibility and Interest Rate Certainty

- Financing terms are negotiated for each loan but are typically as follows:
 - Low Rate (Treasuries/SLGS + 1bp)** – Reduced Cost
 - Locked Rate** – Reduced Interest Rate Risk/ Exposure to Rising Rates
 - Draw Down Feature** – Reduced Interest Carry (or need for capitalized interest)
 - Delayed Repayment** – Repayment can be deferred until 5 years after substantial completion of project
 - Prepayment Flexibility**- May be prepaid in whole or in part without penalty
 - Maximum final maturity date** – 35 years after substantial completion (better match for projects with long useful lives)
 - Subordinate Lien Priority** – except in event of bankruptcy, insolvency, or liquidation (i.e., springing lien)

WIFIA Mechanics

Illustrative Payment Structure Under WIFIA Program



• Source: EPA WIFIA presentation

WIFIA Application Process

Letter of Intent

- Letter of Intent (“LOI”) must be submitted with project description and financing plan
 - LOIs can be submitted after EPA issues a Notice of Funding Availability
- Project selection criteria to be published in the Federal Register
- Upon invitation to apply, a comprehensive application must be submitted within one year, and include a preliminary rating opinion letter

Application

- Application is reviewed and Term Sheet is negotiated
 - Oral presentation and Engineering Due Diligence required
- Credit Council and Review Board review and recommend for approval
- EPA Administrator approves and executes Term Sheet

Closing

- Final documentation drafting
- Two final investment grade ratings required for closing
- Set interest rate on the loan and execute loan agreement

An invitation to apply is an important milestone and may be received within 6-9 months of submitting an LOI.

WIFIA 2017 Letter of Interest/Projects

Project Name	Borrower	Requested Loan Amount
Ocean Outfall Discharge Reduction and Resiliency Enhancement Project	Miami-Dade County (Florida)	\$79mm
Deer Creek Sanitary Tunnel and Sanitary Relief	Metropolitan St. Louis Sewer District (Missouri)	\$43mm
Saddle Creek Combined Sewer Overflow Retention Treatment Basin	City of Omaha (Nebraska)	\$55mm
Groundwater Replenishment System Final Expansion	Orange County Water District (California)	\$124mm
Pure Water San Diego	City of San Diego (California)	\$492mm
Indiana Finance Authority FY 2017	Indiana Finance Authority (Indiana)	\$436mm
Georgetown Wet Weather Treatment Station	King County (Washington)	\$129mm
Comprehensive Infrastructure Repair, Rehabilitation and Replacement Program	Baltimore City Department of Public Works (Maryland)	\$200mm
Saco River Water Treatment Facility	Maine Water Company (Maine) (Private)	\$25mm
Water Treatment Plant Design and Construction	City of Oak Ridge (Tennessee)	\$22mm
Water Reclamation Facility Project	City of Morro Bay (California) (Small Community)	\$82mm
Southeast Water Pollution Control Plant Biosolids Digester Facilities Project	San Francisco Public Utilities Commission (California)	\$625mm
Total		\$2,312mm

EPA is Open to Considering Ways to Expand Program Scope and Applicability

- **1) Revenue-Neutral Approach to Expand WIFIA Through “Self Help – User Pay” Loans and Loan Guarantees:** WIFIA Program loan allocations effectively capped by congressional appropriation of “credit subsidy costs” needed to insure against the risk of default on the provided federal loans and loan guarantees
- However, WIFIA allows borrowers the option of paying their own credit subsidy costs in the form of fees
 - Such borrowers *could be* “first in line” for WIFIA loan approvals
- A “self-help - user pay” model could substantially expand the funding that WIFIA can support, without 1) any need for additional credit subsidy based appropriations, 2) any additional risk to the federal Treasury, and 3) affecting the availability of WIFIA loans or loan guarantees supported through appropriations
- The user pay option is permissible under WIFIA and no changes to the statute are needed; however, a separate cap for this option must be established in the appropriations bill
- **2) WIFIA eligibility based on totality of project cost:** Currently, only 49% of project cost with same repayment source is eligible for loan
- However, some large projects have multiple funding sources (e.g., State-level support, local use fees)
- Basing loan eligibility on entire project cost (regardless of funding source) would greatly enhance ability of program to advance such projects

White House Framework for Rebuilding Infrastructure in America

- \$200 billion of Federal spending over 10 years to encourage state and local match to result in \$1.5 trillion of total investment
- Accelerated permitting process
- Expanded statutory authority (i.e. liberalization of interstate tolling)

Program	Size	Type
Infrastructure Incentives	\$100 billion	Competitive Grants (up to 20% of project costs, State capped at 10%)
Rural Infrastructure	\$50 billion	80% block grants and 20% competitive grants
Transformative Projects	\$20 billion	Competitive Grants, government may retain net revenue sharing
TIFIA / RRIF / WIFIA	\$14 billion	Credit subsidy / Budget scoring cost
PABs Expansion	\$6 billion	Budget scoring cost
Federal Capital Financing Revolving Fund	\$10 billion	Revolving fund to facilitate purchase of real estate for federal scoring purposes

White House Framework (cont.)

Infrastructure Incentives Program

- \$100 billion for competitive grants incentivizing state / local match for:
 - Surface transportation airports, passenger rail, ports, waterways, flood work, water support, hydro-power, water resources, drainage water facilities, waste water facilities, and low waterfall support sites
- Cannot exceed 20% of total cost (individual State cap is 10%)

Evaluation Criteria	
Category	Weight
Size of Project	10%
Additional Local Revenue for Capital	50%
Additional Local Revenue for O&M	20%
Innovative Delivery	10%
New Technology	5%
Economic and Social Returns	5%

White House Framework (cont.)

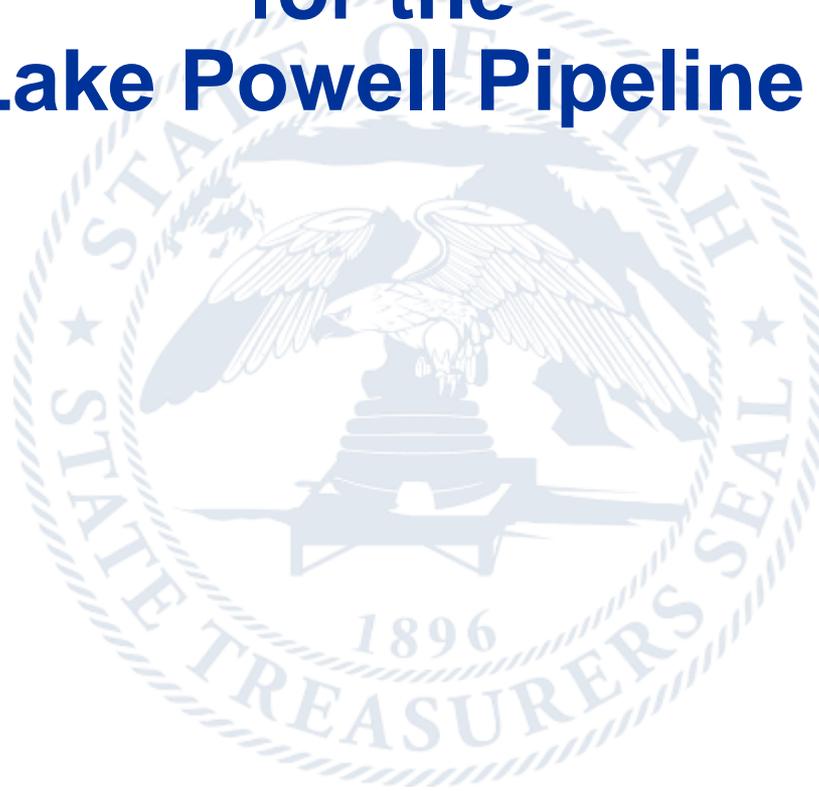
WIFIA

- WIFIA credit score subset of \$14 billion also used for TIFIA and RRIF

WIFIA

- ***Expand WIFIA Funding and Broaden Program Eligibility***
- Expand EPA's WIFIA authorization to include non-Federal flood mitigation, navigation and water supply
- Authorize Brownfield rehabilitation and cleanup of Superfund sites under WIFIA
- ***Reduce rating agency opinions from two to one for all borrowers***
- ***Provide EPA authority to waive the springing lien in certain lending situations***
- Increase the base level of administrative funding authorized to ensure EPA has sufficient funding to operate program
- Remove the restriction on the ability to reimburse costs incurred prior to loan closing under WIFIA
- Expand the WIFIA program to authorize eligibility for credit assistance for water system acquisitions and restructurings
- Expand WIFIA authorization to include Federal deauthorized water resource period

III. Potential Application for the Lake Powell Pipeline

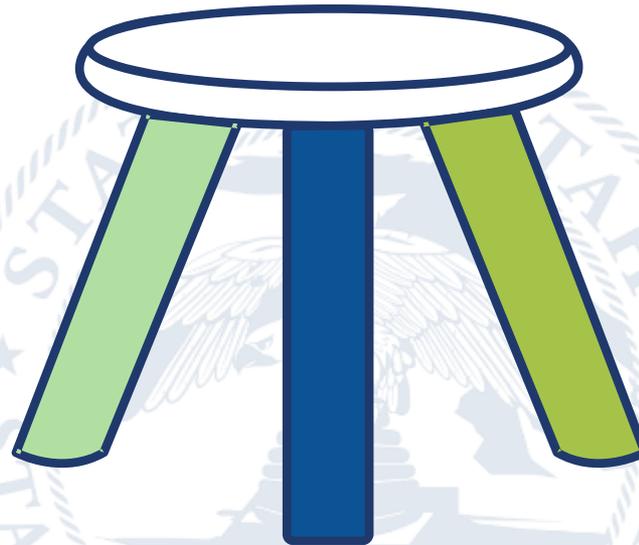


Lake Powell Pipeline Act



- Financially feasible; however, severely limits State's ability to issue GO bonds for other capital projects
- Local water agencies to pay back State over time with interest
- Estimated timeframe: ~40-50 years (well beyond final maturity of GO bonds, expected to be 20 years)
- State is verifying repayment costs and local funding sources
- 1/16ths of sales tax set aside for Water Infrastructure Restricted Account (WIRA) expected to reach \$34mm/year in 2021 may be used to fund project
- However, State has other water projects that may need WIRA funds

Potential Alternative Structures



State GO Bonds

- Lowest financing cost, but highest opportunity cost
- How do we minimize need for State GOs?

WIFIA Loan

- Low/ competitive financing cost
- Ability to lock in interest rates for large portion of project need
- Flexible repayment
- How do we maximize eligible amount?

WCWCD Revenue Bond

- Must be investment grade
- Higher financing cost, but with appropriate risk transfer
- Sizing will reduce need for State GO bonds **and** increase eligibility for WIFIA

Local Revenue Sources



Water Rates

- Current population pays comparatively low rates, well within standard affordability benchmarks
- With projected population growth, consumption is expected to triple by 2065
- Combination of rate increases and demand increases may offer strongest revenue opportunity

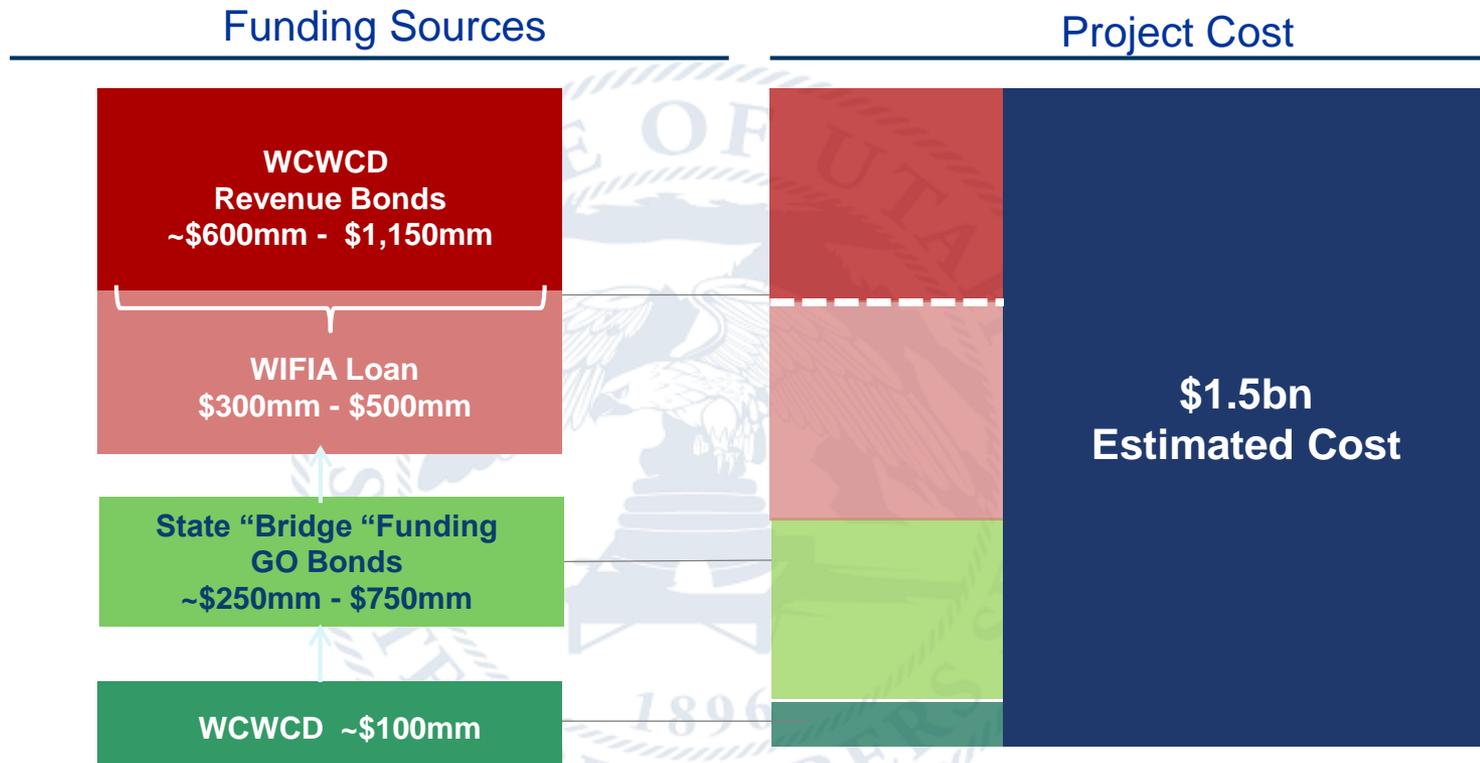
Impact/ Connection Fees

- WCWCD currently charges impact fee of ~\$8,400 (3.5% of median home price)
- WCWCD recently set impact fee increases of \$1,000/year through 2026
- Impact fees are a non-recurring revenue stream and, while helpful, insufficient on their own

Property Taxes

- Current total AV of \$13.4bn
- WCWCD authorized to levy up to 0.1% (currently only levying 0.072%)
- Property taxes provide greatest stability and predictability

Possible LPP Funding Scenario



- This is one potential funding scenario; however, EPA's willingness to consider totality of project cost could further maximize LPP access to WIFIA loan terms and attractive rates
 - 49% of WCWCD funding source equals approximately \$300mm to \$500mm eligible for WIFIA
 - 49% of total project cost equals approximately \$750mm eligible for WIFIA

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