Finance and Administration Committee

Santa Clarita Valley Water Agency

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FIELDMAN | ROLAPP & ASSOCIATES
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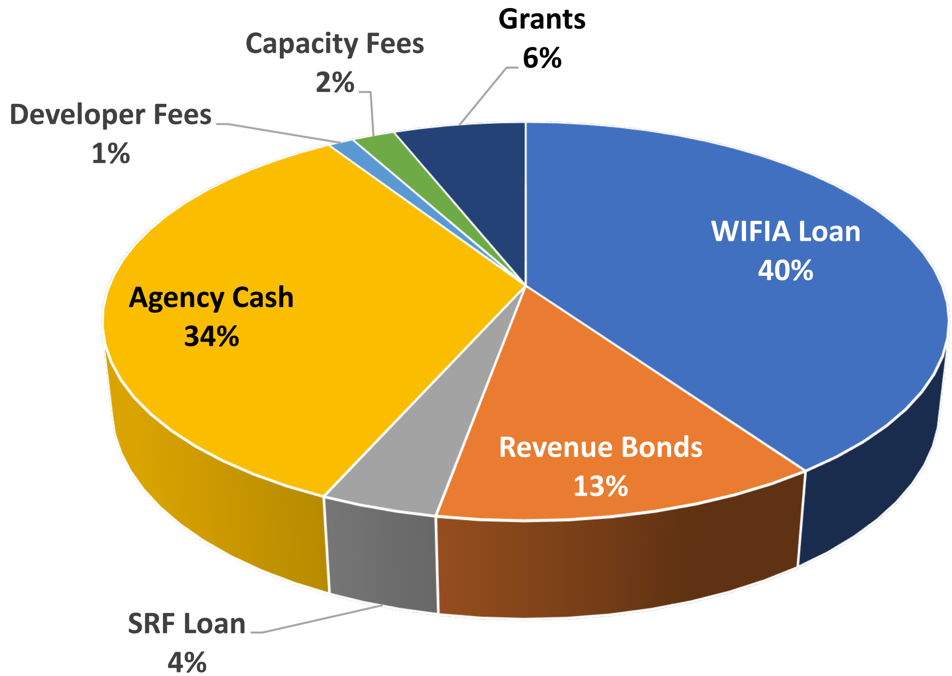
SCVWA – WIFIA Loan Update

- Santa Clarita Valley Water Agency ("SCVWA") has been working with the EPA on its ~$725 million eligible capital projects.
- SCVWA has applied for a WIFIA Loan and under a Master Agreement structure can access multiple WIFIA Loans over a five-year period.
- SCVWA and EPA have important business and legal issues that are still in discussion
- There is a high administrative and compliance burden for staff to complete EPA Federal requirements

Current Estimated Funding Sources

- Under the WIFIA Statute 49% of eligible project costs can be funded with proceeds from the WIFIA Loan; 51% of project costs needs to be funded with non-WIFIA sources.
  - All project costs need to be expended before substantial completion date
- Currently the estimated breakdown of the initial phase of funding is as follows:



Outstanding Business / Legal Issues

1. **Development Default**

- ❑ Provides that if any component of a WIFIA Project is not completed within a specified period of time following the WIFIA Project's Projected Substantial Completion Date (the "Development Default Date"), there is a default.
- ❑ Consequences of a Development Default include:
  - WIFIA loan to be immediately due and payable;
  - Increasing the interest rate on the WIFIA loan;
  - Cross-default the Agency's other outstanding debt.
- ❑ Development Default Date can only be changed by a negotiated amendment with EPA to the WIFIA loan documents.
- ❑ Avoiding a Development Default (removal of a project or project component that will not be completed by the Development Default Date) requires either affirmative approval of the EPA or an amendment to the WIFIA loan documents.

Outstanding Business / Legal Issues

2. Existing Rate Covenant

- The rate covenant in the Agency's outstanding publicly sold debt is budget based, meaning that the test is satisfied if at the beginning of each Fiscal Year, the Agency sets rates it reasonably expects will result in a specified debt service coverage ratio.
  - Rate covenant has become a commonly accepted rate covenant in California.
  - Not meeting rate covenant is not an event of default if Agency complies with rate covenant at beginning of the following Fiscal Year

2. EPA Proposed Rate Covenant

- Proposed EPA rate covenant requires Net Revenues = 1.1 times Parity + Subordinate debt
- If the Agency fails to meet the specified debt service coverage ratio at the end of a Fiscal Year, the EPA would have the right to require the Agency to hire a rate consultant to review and analyze the Agency's operations and provide recommendations.
  - The failure to hire a rate consultant and follow recommendations would be a default under the WIFIA loan documents.
- Proposed rate covenant, including the timing of certain required actions if the debt service coverage ratio is not satisfied, does not appear to consider the needs of the Agency to comply with Proposition 218.

Outstanding Business / Legal Issues

3. Additional Debt Test

- Unlike recent and other current deals, EPA is declining to allow a "waterfall" subordinate debt test.
  - Under this formulation of an additional debt test, the Net Revenues, after deducting the payment of parity debt service, would have to meet the required debt service coverage ratio in order for the Agency to be permitted to incur additional subordinate obligations.
- Instead, the EPA wants an additional debt test of 1.1 times on all parity and subordinate debt.
- This configuration will limit the Agency's ability to issue subordinate debt in the future.

Bonds vs. WIFIA Savings / (Cost)

	AUGUST 2022	AUGUST 2024
	Bonds vs WIFIA	**Bonds vs WIFIA**
Project Fund	$360,000,000	$367,200,000
WIFIA Long-Term Debt Cost*	$703,724,570	$777,010,896
Bonds Long-term Debt Cost*	$656,148,525	$696,000,375
Total Estimated Gross Cost	($47,576,045)	($81,010,521)
Total Estimated NPV Benefit	$29,839,633	$1,520,394

*Includes annual WIFIA and Bond administrative and compliance fees

Notes:

1. Assumes market conditions as of September 9, 2024.
2. Scenario 1 assumes 49% WIFIA and 51% Bonds to fund $367.2 million capital program (includes 2% contingency)
3. Scenario 2 assumes 100% Bonds to fund $360 million.
4. Bond Assumptions: Financing costs include $300,000 for COI and $3.50/bond for Underwriter Discount with 30 year-repayment.

Bonds vs. WIFIA Savings / (Cost) + CP

	SCENARIO 1	SCENARIO 2
	BONDS + CP	WIFIA + CP
Project Fund	$116,600,000	$121,900,000
Total Long-term Debt Cost	$263,309,000	$268,329,108
Total Fees over Term of Bonds / WIFIA Loan	$192,500	$6,516,703
Total Debt Cost	$263,501,500	$274,845,811
Total Estimated Gross Cost	($11,344,311)	
Total Estimated NPV Cost	($3,339,868)	

Notes:

1. Assumes market conditions as of September 9, 2024.
2. Scenario 1 Bonds take-out the CP Program of ~$116 million to fund project and interest costs (assuming 2.50% average CP interest rate).
3. Scenario 2 WIFIA Loan take-out the CP Program of ~$122 million (reflecting 2% increase to project costs) to fund project and interest costs (assuming 2.50% average CP interest rate)..
4. Includes additional administrative and compliance fees for a WIFIA Loan.
5. Bond Assumptions: Financing costs include $300,000 for COI and $3.50/bond for Underwriter Discount with 35 year-repayment.

Questions and Discussion

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