Water Resources Agency

Finance Committee

Overview of Safety of Dams Projects Financing Options

February 7, 2025

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EXPERIENCE, INTEGRITY & SERVICE

Capital Financing Options

- Debt financing is reviewed in conjunction with funding provided by grants and PayGo sources

	Tax Exempt Loans / Bonds	WIFIA / CWIFP[4]	SRF Loan [1]
Lien Priority	Issuer's Option (Impacts Cost)	Senior or Subordinate	Senior
Borrowing	100%	49%	Up to 100% [2]
Prepayment	Usually, 10 years after closing (anytime for VRDO)	Annually, $500,000 minimum	With consent of SWRCB
Rate Reset	NA	Permits 1 rate reset	NA
Amortization	Typically, 30 years	35 Years after Project Completion	Between 20-30 years
Timing to Receive Funds [3]	8 months, depending on political environment	Two (2) Years	2-3 Years, depending on the State
Timeline of Board Approval of Revenue	In advance of document approval; drafts ready during credit rating process	In advance of OMB credit council approval	In advance of loan closing; drafts ready during financial due diligence

(1) SWRCB indicates the construction or rehabilitation of dams is an ineligible project cost unless there are some dam rehabilitation costs solely for the benefit of providing drinking water that may be eligible, and such would require consultation with EPA for potential project eligibility.
(2) Depends on available funding allocations from SWRCB.
(3) Time remaining from initial Board approval to proceed with debt financing.
(4) A Memo from the Office of Management of the Budget has temporarily frozen disbursements from federal agencies under grant and loan programs in order to give the Trump Administration time to evaluate programs. The temporary freeze is expected to last ninety days.

Sources: US EPA and State Water Resources Control Board.

Funding Ideas

General Obligation (GO) Bonds

Two-thirds voter-approved long-term debt obligations that are secured by an *ad valorem* tax on all taxable property within the Agency's boundary*

Ad valorem (Percentage based) taxes create a new revenue stream for the Agency

Unlimited ability to raise taxes provides investors with greatest security and lowest borrowing cost to the Issuer

Most commonly issued by states, cities, and local governmental units such as school districts and Counties

*Sec 24 (c) (1) of Agency Act suggests AV Property taxes need to be levied on all Property within Agency.

GO Bond Process

Before Election:

(at least 88 days before)

- Projects must be declared by resolution for the election
- The Board must declare resolution for election
- Tax rate must be estimated, and bond amount named

After Election:

- Citizens Oversight Committee appointed
- Annual audits required
- Approval of bond documents by Board

Bond Sale:

- Pre-Price, Price and Market Research with Underwriter
- Underwriter contacts investors and obtains orders
- Municipal advisor recommends adjustments to pricing

Review Tax Rate/Continuing Disclosure:

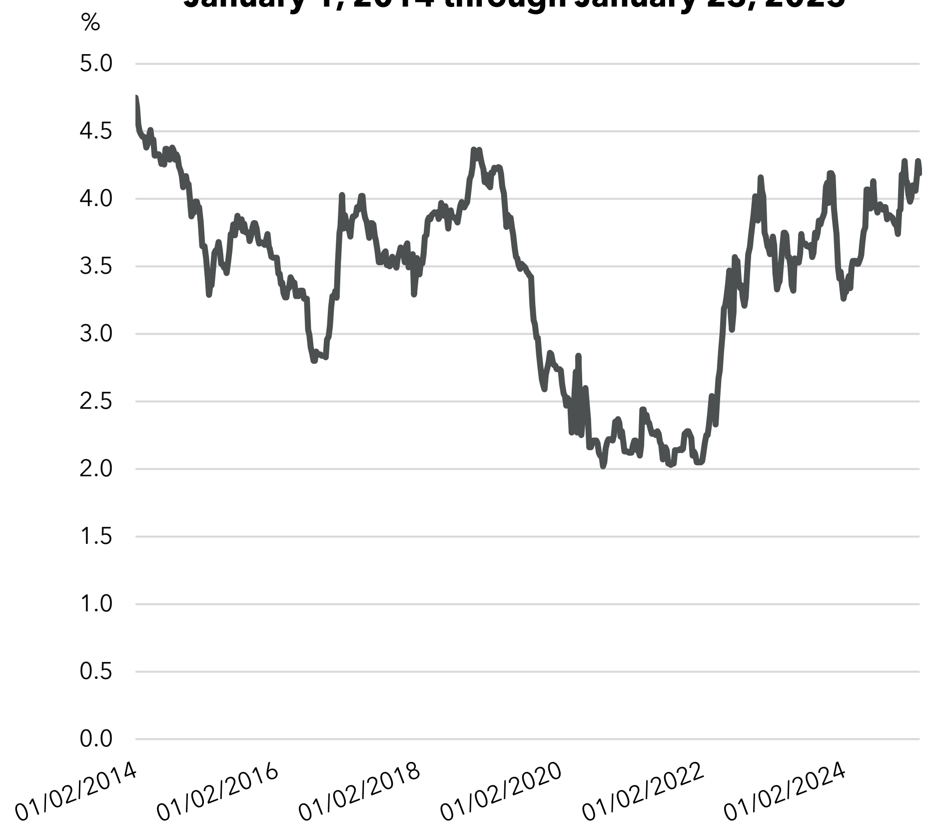
- Construction, reconstruction, rehabilitation, or replacement of Agency facilities
- Annual disclosure to market including annual Audit and update of certain information from disclosure document

GO Bonds – Tax Rate and Historical Yields

$$\textbf{Tax Rate} = \frac{\textbf{Annual Debt}}{\textbf{Assessed Valuation}}$$

- Projections of future tax rate are a function of the following variables:
  - Beginning Assessed Valuation of Taxable Property
  - Assumed Growth Rate of Assessed Valuation
  - Number of Years Tax to be Levied
  - Assumed Interest Rates on Bonds
  - Timing and Amount of Individual Bond Sales

Historical 20-Bond GO Index
January 1, 2014 through January 23, 2025



Source: The Bond Buyer.

Special Benefit Assessment Bonds

- Pledge of revenues received from Prop 218 approved special benefit assessments
- Requires engineers report and review of benefits
- Credit will review any limitations to the receipt of revenues from benefit assessments (i.e., ability to increase rates, term of assessment, landowner base)
- Typical revenue bonds covenants:
  - 30-year term
  - Standard 10-year par call
  - Repayment sculpted to borrowers needs
  - Rate covenant (120% - 125% is standard, but 110% may be acceptable)
  - Structure rate covenant as gross revenue pledge
- May enhance credit by adding subordinate pledge of remaining revenues from 2018 Bond pledged revenues
  - The Agency cannot issue parity debt to outstanding 2018 Bonds

Historical Revenue Bond Index
January 1, 2014 through January 23, 2025

Source: Bond Buyer Index.

Financing Options

Financing Options

Fieldman proposes consideration of the following financing options for the Agency:

- Issue 30-Year GO-Bonds for 100% of project funds
- Issue 30-Year Special Benefit Assessment Bonds for 100% of project funds
- Issue 30-Year Special Benefit Assessment Bonds for 51% of project funds, and 35-Year WIFIA Loan for the remaining 49% of project funds

Debt Comparisons*

OPTION 1: GO Bonds	
Bond Statistics & Financing Assumptions	
Arbitrage Yield	3.84%
True Interest Cost (TIC)	4.18%
All-In TIC	4.19%
Term	30 Years
Call Feature	10 Years
Total Interest	$168,122,100
Average Annual Debt Service	$11,851,570
Maximum Annual Debt Service	$11,704,450
Total Debt Service	$355,547,100

OPTION 3: Hybrid - 51% Assessment Bonds	
Bond Statistics & Financing Assumptions	
Arbitrage Yield	3.96%
True Interest Cost (TIC)	4.27%
All-In TIC	4.30%
Term	30 Years
Call Feature	10 Years
Total Interest	$86,858,550
Average Annual Debt Service	$6,122,952
Maximum Annual Debt Service	$6,048,100
Total Debt Service	$183,688,550

OPTION 3: Hybrid Aggregate	
Bond Statistics & Financing Assumptions	
Arbitrage Yield	4.36%
True Interest Cost (TIC)	4.52%
All-In TIC	4.53%
Term	30 & 35 Years
Call Feature	10 Years & Anytime
Total Interest	$223,796,485
Average Annual Debt Service	$11,207,911
Maximum Annual Debt Service	$11,685,048
Total Debt Service	$425,900,618

OPTION 2: Assessment Bonds	
Bond Statistics & Financing Assumptions	
Arbitrage Yield	3.96%
True Interest Cost (TIC)	4.27%
All-In TIC	4.29%
Term	30 Years
Call Feature	10 Years
Total Interest	$170,069,200
Average Annual Debt Service	$11,988,473
Maximum Annual Debt Service	$11,839,700
Total Debt Service	$359,654,200

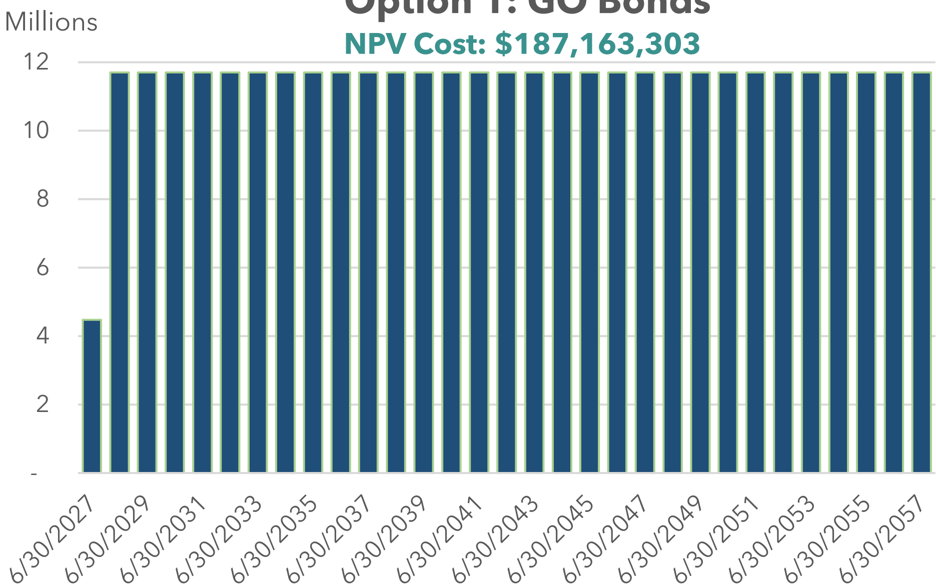
OPTION 3: Hybrid - 49% WIFIA Loan	
Bond Statistics & Financing Assumptions	
Arbitrage Yield	4.78%
True Interest Cost (TIC)	4.78%
All-In TIC	4.78%
Term	35 Years
Call Feature	Anytime
Total Interest	$136,937,935
Average Annual Debt Service	$6,728,113
Maximum Annual Debt Service	$11,685,048
Total Debt Service	$242,212,068

**Preliminary, subject to change. Estimated based of market conditions as of January 24, 2025. Assumes a Project Fund of $200 million.*

Summary of Financing Options*

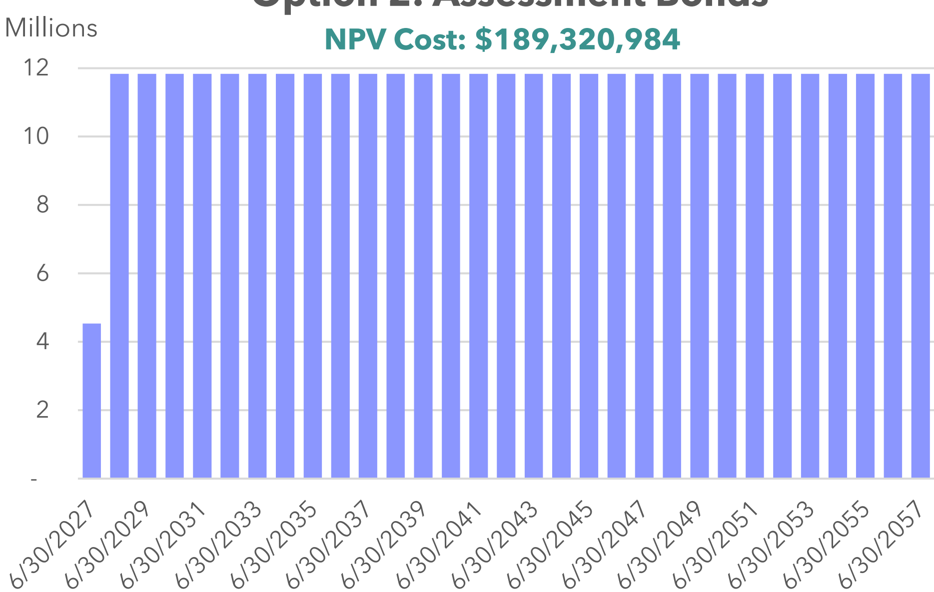
Option 1: GO Bonds

NPV Cost: $187,163,303



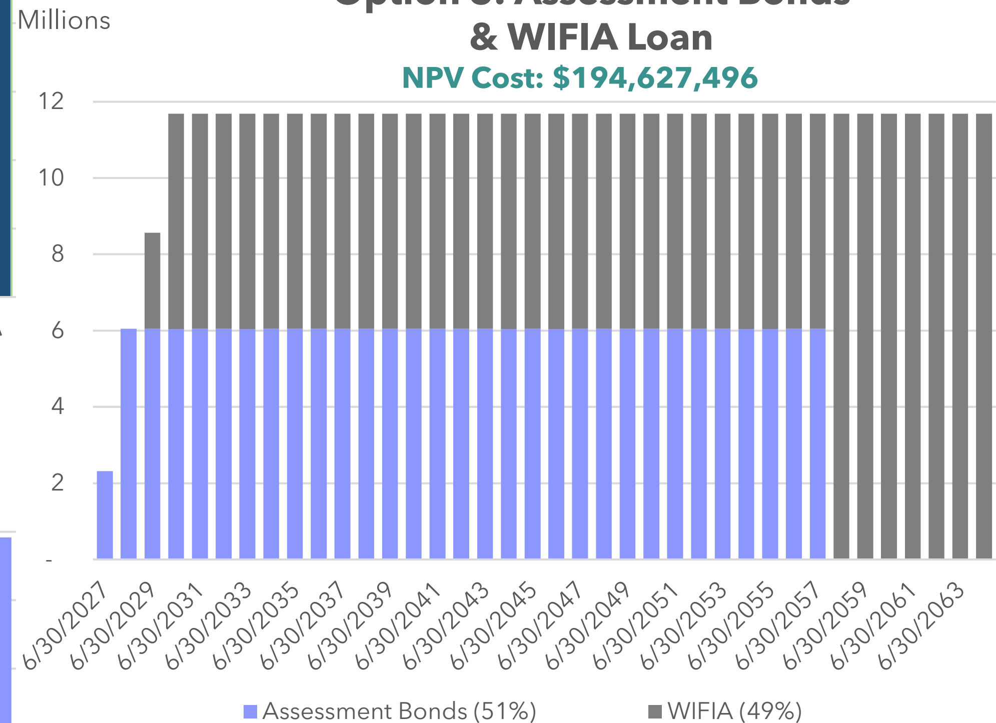
Option 2: Assessment Bonds

NPV Cost: $189,320,984



Option 3: Assessment Bonds & WIFIA Loan

NPV Cost: $194,627,496



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Next Steps

- Authorize staff to proceed with a rating evaluation service from S&P Global
  - Estimated to be $35,000 with additional $5,000 for every rating scenario requested
- Finance team to determine appropriate timing for obtaining preliminary rating analysis for proposed debt issuance
  - Provide feedback on potential rating considerations to determine the debt structure and administrative path forward

Questions & Discussion

Appendix

Summary of Financing Options*

	NPV @ 4.48%	$187,163,303	$189,320,984	$96,694,824	$97,932,671	$194,627,496
		OPTION 1	OPTION 2	OPTION 3		
	Period Ending	100%	100%	Assessment Bonds 51%	WIFIA 49%	Total 100%
1	6/30/2027	4,479,100	4,530,725	2,314,050	-	2,314,050
2	6/30/2028	11,702,825	11,835,325	6,046,725	-	6,046,725
3	6/30/2029	11,703,450	11,839,325	6,047,100	2,516,052	8,563,152
4	6/30/2030	11,701,700	11,835,825	6,043,725	5,641,323	11,685,048
5	6/30/2031	11,702,200	11,839,450	6,046,350	5,638,698	11,685,048
6	6/30/2032	11,704,450	11,834,825	6,044,725	5,640,323	11,685,048
7	6/30/2033	11,703,075	11,836,575	6,043,725	5,641,323	11,685,048
8	6/30/2034	11,702,700	11,839,075	6,047,975	5,637,073	11,685,048
9	6/30/2035	11,702,825	11,836,950	6,047,225	5,637,823	11,685,048
10	6/30/2036	11,702,950	11,834,825	6,046,350	5,638,698	11,685,048
11	6/30/2037	11,702,575	11,837,075	6,045,100	5,639,948	11,685,048
12	6/30/2038	11,701,200	11,838,075	6,048,100	5,636,948	11,685,048
13	6/30/2039	11,703,200	11,837,325	6,045,100	5,639,948	11,685,048
14	6/30/2040	11,702,950	11,839,200	6,045,850	5,639,198	11,685,048
15	6/30/2041	11,699,950	11,838,075	6,044,975	5,640,073	11,685,048
16	6/30/2042	11,703,450	11,838,325	6,047,100	5,637,948	11,685,048
17	6/30/2043	11,702,700	11,839,200	6,046,850	5,638,198	11,685,048
18	6/30/2044	11,702,075	11,835,075	6,043,975	5,641,073	11,685,048
19	6/30/2045	11,700,825	11,835,200	6,047,975	5,637,073	11,685,048
20	6/30/2046	11,703,075	11,838,575	6,043,475	5,641,573	11,685,048
21	6/30/2047	11,702,950	11,839,325	6,045,100	5,639,948	11,685,048
22	6/30/2048	11,703,650	11,836,200	6,047,400	5,637,648	11,685,048
23	6/30/2049	11,702,850	11,836,900	6,046,800	5,638,248	11,685,048
24	6/30/2050	11,699,450	11,839,700	6,044,700	5,640,348	11,685,048
25	6/30/2051	11,702,850	11,839,100	6,045,800	5,639,248	11,685,048
26	6/30/2052	11,702,450	11,834,700	6,044,800	5,640,248	11,685,048
27	6/30/2053	11,700,125	11,837,625	6,046,750	5,638,298	11,685,048
28	6/30/2054	11,700,875	11,837,750	6,044,125	5,640,923	11,685,048
29	6/30/2055	11,702,000	11,838,000	6,043,875	5,641,173	11,685,048
30	6/30/2056	11,702,250	11,837,125	6,045,250	5,639,798	11,685,048
31	6/30/2057	11,700,375	11,838,750	6,047,500	5,637,548	11,685,048
32	6/30/2058	-	-	-	11,685,048	11,685,048
33	6/30/2059	-	-	-	11,685,048	11,685,048
34	6/30/2060	-	-	-	11,685,048	11,685,048
35	6/30/2061	-	-	-	11,685,048	11,685,048
36	6/30/2062	-	-	-	11,685,048	11,685,048
37	6/30/2063	-	-	-	11,685,048	11,685,048
38	6/30/2064	-	-	-	11,685,048	11,685,048
	TOTAL	**$355,547,100**	**$359,654,200**	**$183,688,550**	**$242,212,068**	**$425,900,618**

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