

SITES RESERVOIR

Frequently Asked Questions: **WIFIA Loan**

The Sites Reservoir Project has been invited by the US EPA to apply for the largest-ever WIFIA loan commitment of up to \$2.19 billion. This WIFIA loan commitment would cover up to 49% of Project costs with low-interest, flexible financing for participating water agencies throughout California, and has the potential to reduce the unit cost of water by as much as 10%. This is a major accomplishment for the EPA, the Sites Reservoir Project participants, and California's environment, people and farms, taking a significant step toward securing our water future in an affordable way.

What is a WIFIA loan?

The Water Infrastructure Finance and Innovation Act (WIFIA) was enacted by Congress in 2014 and to date has provided over \$10 billion in loans to accelerate investment in our nation's water infrastructure. The WIFIA program provides long-term, low-cost supplemental loans for regionally and nationally significant projects. Projects that qualify for WIFIA loans can benefit from substantial cost savings.

What does a WIFIA loan do to improve the financing picture for the Sites Project?

Receiving a WIFIA loan is a **game changer** for the project and would have the following benefits for the Sites Project:

- The interest rate on a WIFIA loan is tied to the rate of U.S. treasury bonds and is not impacted by the borrower's credit which, especially in an inflationary period, can be more attractive than the interest rates on municipal bonds issued through the public debt markets (as much as 1.1% lower in the current market).
- Securing a low interest rate early in the Project development through the WIFIA program can serve as a hedge against future rate increases. Conversely, the EPA has allowed WIFIA loans to be "refinanced" if interest rates go lower prior to the first draw. The interest rate is determined at execution of the loan agreement. The Project may be able to take advantage of additional flexibility through a master agreement to secure a large upfront commitment from the EPA and then close multiple loans over the life of the Project as funds are needed.
- The WIFIA loan has very flexible structuring and repayment terms with an option to defer principal and interest payments until five years after substantial completion of the Project. For participants that do not have water rates, this flexibility provides time they may need to phase in rates and could significantly improve their ability to pay, although deferring repayment does increase the overall cost of the loan because interest begins to accrue from the first draw date of the loan.
- The Project is eligible for 49% of Project development costs from the loan. When combined with the previously secured USDA loan, this package substantially covers the borrowing requirements of the Project for participating water agencies. Additionally, WIFIA loans can be used to fund preconstruction activities, providing an alternative to other interim financing options.

How did Sites Reservoir receive an invitation to apply for a WIFIA loan?

The Sites Project Authority submitted a letter of interest in July 2021, at the same time as all other applicants. At the time other projects were announced in late December, the review of Sites Reservoir's expression of interest was still ongoing, and EPA opted to postpone a decision on the project until a more comprehensive review could be completed.

Sites Reservoir **meets the criteria** for a WIFIA loan however there were several factors that required further consideration and a more exhaustive review. First, the size of the loan eligibility, \$2.2 billion, is



more than twice as large as the largest WIFIA loan commitment ever made. As such, this could not be considered lightly. Second, while the unique structure of the Sites Project Authority clearly demonstrates a commitment to collaboration and local Project leadership, it lengthened the review process for a WIFIA loan. Overall, while the Project will generate substantial benefits to California, the scope and scale required additional due diligence.

What are the next steps in the WIFIA loan process?

The Sites team will work with participating agencies to complete an application within one year. A major part of the application is receiving a credit rating from two rating agencies. Once the application is complete and approved, the loan agreement will be negotiated along with a master agreement, if needed.