To: Administrative Control Board

From: Steve Anderson, CFO

Date: June 5, 2025

Subject: WIFIA loan Scenarios

**Action Requested**

Recommendation of which scenario to use for Resolution MRW 2025-13, authorizing the issuance and sale of Water Revenue Bonds.

**Scenario 1**

The total issuance request of $61 million to cover two separate transactions.

* $43 million maximum issuance for the District’s upgrade and expansion of its water treatment plant.
  + Loan from WIFIA planned at $34.3 million
    - $43 million loan requested from WIFIA to allow for a larger continency
    - District would need to make interest only payments from 2027 through 2033
    - Would result in larger water rate increases from 2027 through 2033
* $18 million issuance for refunding (refinancing) of bonds issued in 2023 to construct the District’s new office and maintenance facility.

$61 million is the maximum amount that can be borrowed with a maximum interest rate of 5.5%.

**Scenario 2**

The total issuance request of $73 million to cover two separate transactions.

* $55 million maximum issuance in for the District’s upgrade and expansion of its water treatment plant.
  + Loan from WIFIA planned at $34.3 million
    - $43 million loan requested from WIFIA to allow for a larger continency
    - District would “capitalize” the interest expense from 2027 through 2033. Which means WIFIA would add the interest expense to the loan balance.
    - Smaller water rate increases from 2027 through 2033
* $18 million issuance for refunding (refinancing) of bonds issued in 2023 to construct the District’s new office and maintenance facility.

$73 million is the maximum amount that can be borrowed with a maximum interest rate of 5.5%.

**Comparing the Scenarios**

In either Scenario 1 or 2 the loan request to WIFIA is $43 million, with the actual planned draw down being $34.3 million.

In Scenario 1 the District would make interest only payments on any funds drawn down from the loan closing through 2033, keeping the loan balance at the amount drawn down.

In Scenario 2 no payments would be made until 2034, meaning the interest expense (approximately $12 million) would be added to the loan balance. Thus, the need for the resolution amount to be increased from $43 million to $55 million.

In Scenario 1 water rate increases are projected to be:

* + - Projected rate increases from 2026 through 2028: 7% to 8%
    - Projected rate increases 2029 through 2034: 4% to 6%
    - Projected rate increases after 2034 through 2040: 3% to 5%

In Scenario 2 water rate increases are projected to be:

* + - Projected rate increases from 2027 through 2033: 3% to 5%
    - Projected rate increase in 2034: 8% to 9%
    - Projected rate increases after 2035 through 2040: 4% to 6%

All rate increases assume normal inflation/cost increases.

As can be seen above, making interest only payments under Scenario 1 would require larger rate increases in the early years, but decrease the rate increases in the future as the overall expense of the loan in lower.

In Scenario 2, smaller rate increases are required in the early years because no interest payments are made. However, larger rate increases are required in the future as the overall expense of the loan is higher.

Below is description of both the WIFIA Loan and Refinancing of the Series 2023 Bond

**$43 Million WIFIA Loan Request**

The District has been working with the Environmental Protection Agency (EPA) since October 2023 to access federal funding through the Water Infrastructure Finance and Innovation Act (WIFIA) to upgrade and expand its water treatment plant facility in Promontory. The District’s current estimate of project costs is $42.65 million of which WIFIA funding can provide up to 80%. The remaining 20% will be funded through District impact fees, capital reserves and $2 million from the State of Utah, Division of Drinking Water.

Advantages of using WIFIA funding include:

* Flexible draw down. Funds can be drawn down over time and interest is only accrued on the portion that has been drawn down and there is no obligation to draw down all the funds that are approved.
* Long amortization period. The amortization period for the loan can be up to 35 years which includes the first payment not being required until five years after substantial completion of the project. This will greatly decrease the impact on rates for District customers as other debts will have been paid off by the time the first payment on the WIFIA bond is due.
* Post-closing flexibility. Including interest rate resets (a one-time interest rate reset after the loan has closed but before any funds have been drawn), adjustments to project scope and timeline to respond to changing construction schedules.
* No prepayment penalties. The WIFIA loan can be repaid at any time without penalty, preserving the flexibility to secure other funding sources after loan closing.
* Quick reimbursements. The WIFIA program uses a scalable review process that allows for a 15-day processing of reimbursement requests.

These are federal funds and the District will need to meet environmental and wage regulations, as well as the American Iron and Steel (AIS) requirement, however the District has qualified for a waiver for the Build America, Buy America Act (BABA).

With the treatment plant design currently at 30%, the District believes it has accounted for potential cost overruns through a $6.38 million contingency. However, in the current uncertain economic environment the District will request the Council approve either $43 million or $55 million depending on which Scenario is selected.

**$18 Million Bond Refunding**

In 2023 the District did a direct placement bond with the Bank of Utah for $18 million to facilitate the construction of its new administrative office and maintenance facility. At the time the Bank of Utah was offering favorable rates and with the direct placement

the District was able to avoid the additional costs of going to the market to offer the water revenue bond.

Rates as of June 2, 2025 would result in a Net Present Value savings of $1.12 million and drop our True Interest Cost from 5.17% to 4.62%.

Due to the continuing volatility in the bond market, a refunding may not be a viable option for the District, however, should rates begin to decline on the 10-year treasury, the District wants to be able to react in a timely manner.