



## Presentation to Westlands Water District



### California WaterFix Financing Strategies

Goldman Sachs & Co. LLC

July 17, 2017



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## Structuring Decisions

- **Repayment During Construction:** Pay current interest during construction or borrow interest during construction (e.g. capitalized interest)
- **Repayment Term:** Capital assets (tunnels) have long useful life, allows for longer tax-exempt debt repayment terms (40, 50, or more years), if desired
- **Repayment Shape:** Trade-offs between level debt service and ascending debt service

## Potential Federal Loan Programs

- **Water Infrastructure Finance and Innovation Act (WIFIA)** is an existing program that offers lower rates and more flexible repayments during construction; also, reduces interest rate risk to borrowing program
- **Water Infrastructure Loan Act (WILA)** does not currently exist; draft legislation similar to WIFIA, but contemplates loan for larger percentage of projects

## Structuring Flexibility

- **Joint Powers Agency ("JPA") Financing Structure:** Well established financing construct; can issue interim and long-term financing
- **Contractor Flexibility:** JPA allows for more than one set of structural terms (multiple series) tailored to different contractor needs

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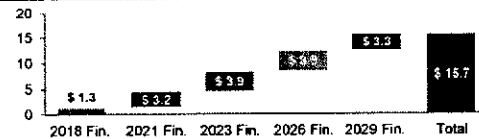
# General Assumptions

## Structuring, Inflation, and Project Yield Assumptions

### Debt Structuring Assumptions

- Tax Exempt Debt Assumptions:
  - Five financings: 2018, 2021, 2023, 2026 & 2029
  - Total Project Fund: \$15.7bn (nominal)
  - DSRF funded (5.0% of Proceeds)
  - **Assumed Interest rate: 5.0%**<sup>1</sup>

### Assumed Project Costs (\$bn)



### Inflation Assumptions

- Project cost for this analysis assumed to be in nominal 2014 dollars
- All inflation-adjusted figures assume an **annual inflation rate of 2.0%**<sup>2</sup>
- Inflation adjusted figures allow for analysis in terms of "today's dollars"

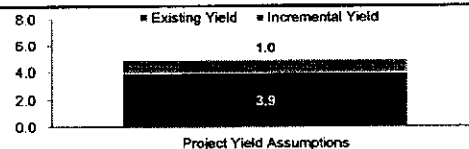
### Inflation Adjusted Project Costs (\$bn)

Project Costs Assuming:	Nominal Project Cost (2014 Dollars)	Assumed Cost +100bps Inflation	Assumed Cost +200bps Inflation
2018 Financing	\$1,300	\$1,353	\$1,407
2021 Financing	\$3,221	3,453	3,700
2023 Financing	3,925	4,293	4,691
2026 Financing	3,925	4,423	4,978
2029 Financing	3,729	3,865	4,480
<b>Total</b>	<b>\$15,700</b>	<b>\$17,387</b>	<b>\$19,256</b>

### Project Yield Assumptions

- Based on provided estimates from Westlands, this presentation assumes **total project yield of 4.898mm acre-feet (H3+)**
  - **Assumed incremental yield: 1.0mm acre-feet**
    - Derived from comparison of H3+ with and without tunnels

### Incremental Yield Comparison (Millions of Acre-Feet)



<sup>1</sup> 5.00% interest based on 15-yr average RBI (4.83%). Current RBI is 3.76%  
<sup>2</sup> Inflation figure based on average annual CPI since 2002 (1.927%)

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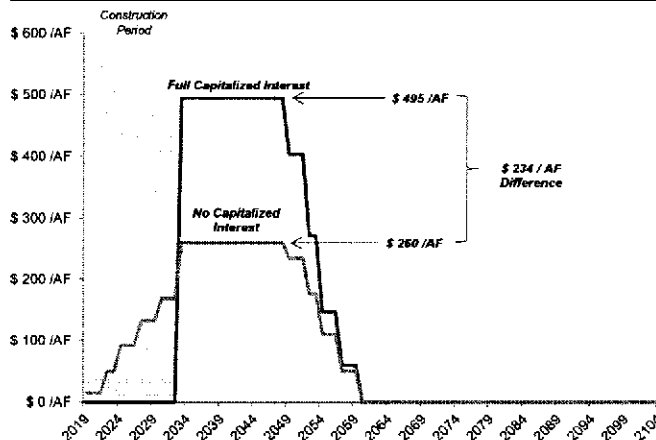
## I. Public Market Financing Structures



### Costs vs. Benefits of Capitalized Interest

Decision: Reduce Debt Service Payments During Construction for Increased Debt Service Payments Thereafter

30-Year Level Debt – Nominal Cost / AF on Total Project Yield (4.898mm AF)



Full Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 495 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 368 / AF
2033 Annual Debt Service	\$ 2.423 bn
Avg. Construction Payment	\$ 0 / AF
Total Par <sup>3</sup>	\$ 30.7 bn
No Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 260 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 193 / AF
2033 Annual Debt Service	\$ 1.274 bn
Avg. Construction Payment	\$ 95 / AF
Total Par <sup>3</sup>	\$ 16.6 bn

- Assumes \$15.7bn in project costs is financed 100% with Tax-Exempt bonds
- Capitalizing interest reduces payments during construction, but increases payments thereafter
- Contractors could partially capitalize interest
  - Balances reduced payments during construction with increased payments post-construction

<sup>1</sup> "Opening Payment" denotes the first full debt service payment post-construction. For purposes of this analysis, this is assumed to take place in 2033.

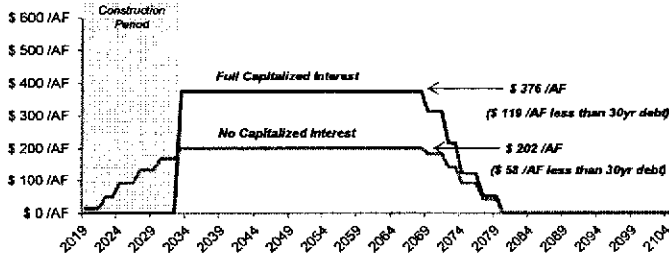
<sup>2</sup> Assuming a 2.0% inflation rate

<sup>3</sup> Based on a \$15.7bn project cost

# Debt Repayment Term Scenarios

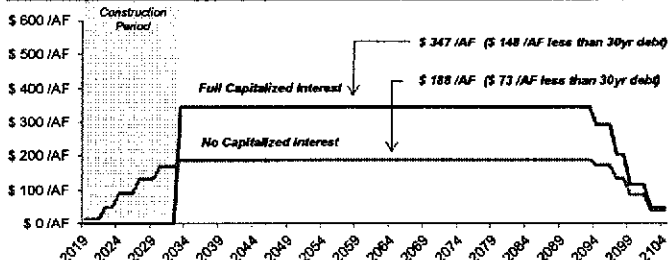
## Extended Repayment Term Allowable Given Life of Asset

50-Year Level Debt – Nominal Cost / AF on Total Project Yield (4.898mm AF)



Full Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 376 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 279 / AF
2033 Annual Debt Service	\$ 1.839 bn
Avg. Construction Payment	\$ 0 / AF
Total Par <sup>3</sup>	\$ 30.7 bn
No Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 202 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 150 / AF
2033 Annual Debt Service	\$ 0.990 bn
Avg. Construction Payment	\$ 95 / AF
Total Par <sup>3</sup>	\$ 16.6 bn

75-Year Level Debt – Nominal Cost / AF on Total Project Yield (4.898mm AF)



Full Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 347 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 258 / AF
2033 Annual Debt Service	\$ 1.698 bn
Avg. Construction Payment	\$ 0 / AF
Total Par <sup>3</sup>	\$ 30.7 bn
No Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 188 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 139 / AF
2033 Annual Debt Service	\$ 0.919 bn
Avg. Construction Payment	\$ 95 / AF
Total Par <sup>3</sup>	\$ 16.6 bn

■ Assumes \$15.7bn in project costs is financed 100% with Tax-Exempt bonds

■ Assumes original issuance is refinanced in 2048 and principal maturing after 2048 carries a 6.0% rate

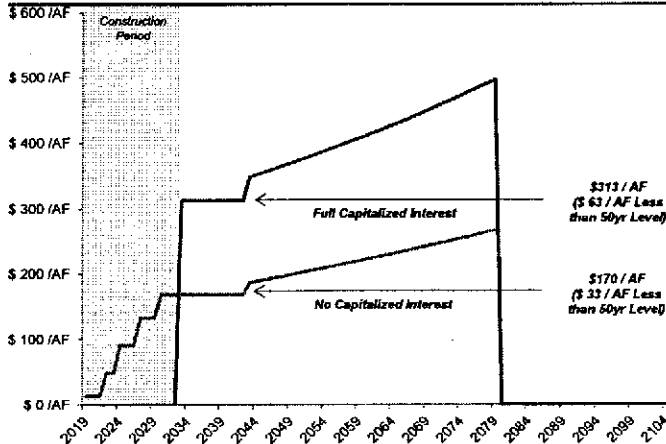
<sup>1</sup> "Opening Payment" denotes the first full debt service payment post-construction. For purposes of this analysis, this is assumed to take place in 2033.

<sup>2</sup> Assuming a 2.0% inflation rate

<sup>3</sup> Based on a \$15.7bn project cost

# Debt Service Can be Shaped to Reduce Payments in Early Years

50-Year Backloaded Debt – Nominal Cost / AF on Total Project Yield (4.898mm AF)



Full Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 313 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 232 / AF
2033 Annual Debt Service	\$ 1.533 bn
Avg. Construction Payment	\$ 0 / AF
Avg. Post-Construction Payment	\$ 396 / AF
Total Par <sup>3</sup>	\$ 30.7 bn
No Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 170 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 126 / AF
2033 Annual Debt Service	\$ 0.831 bn
Avg. Construction Payment	\$ 95 / AF
Avg. Post-Construction Payment	\$ 214 / AF
Total Par <sup>3</sup>	\$ 16.6 bn

■ Assumes \$15.7bn in project costs is financed 100% with Tax-Exempt bonds

■ Principal payments delayed until 2043

■ Debt service increasing at 1.0% per year from 2043 to 2079

■ Assumes original issuance is refinanced in 2048 and principal maturing after 2048 carries a 6.0% rate

<sup>1</sup> "Opening Payment" denotes the first full debt service payment post-construction. For purposes of this analysis, this is assumed to take place in 2033.

<sup>2</sup> Assuming a 2.0% inflation rate

<sup>3</sup> Based on a \$15.7bn project cost



## II. Federal Borrowing Programs



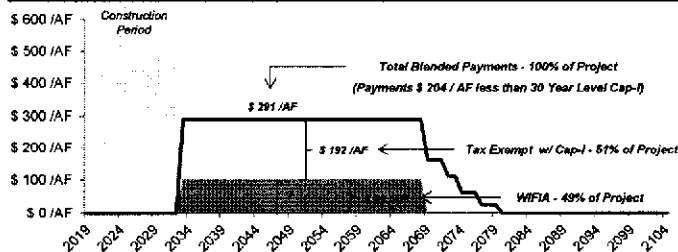
### Benefits of WIFIA

#### Locking in a Low, Fixed Borrowing Rate & Delaying Interest Payments Without Capitalizing Interest

##### WIFIA Program Overview

- The Benefits of WIFIA are as follows:
  - **Low Borrowing Rate** – Treasuries/SLGS + 1bps<sup>1</sup>
  - **Locked Borrowing Rate** – Reduce interest rate risk by locking borrowing rate when Letter of Intent is accepted
  - **Draw Down Feature** – Reduce carried interest cost
  - **Delayed Repayment** – Repayment can be deferred until 5 years after substantial completion of the project
  - **Finance 49% of project costs** – WIFIA will lend up to 49% of project costs
  - **Subordinate Lien Priority** – Except in event of bankruptcy, insolvency, or liquidation (i.e., springing lien)
- Currently requires Federal Budgetary credit subsidy allocation for projects or implementation of “user pay” policy:
  - Credit subsidy or risk premium estimated to be approximate 1-5% of project cost
  - User pay requires EPA language included in 2018 Budget Bill

##### WIFIA Financing – Nominal Cost / AF on Total Project Yield (4,898mm AF)



WIFIA Scenario	
Project Cost Funding: 51% Tax Exempt + 49% WIFIA	
Opening Payment (2033 Dollars) <sup>2</sup>	\$ 291 / AF
Opening Payment (2018 Dollars) <sup>3</sup>	\$ 216 / AF
2033 Annual Debt Service	\$ 1.425 bn
Avg. Construction Payment	\$ 0 / AF
<b>Total Par<sup>4</sup></b>	<b>\$ 23.3 bn</b>

- If WIFIA is allocated to certain contractors to fund entire share, cost becomes ~\$ 202 / AF

<sup>1</sup> Assumed rates based on Goldman Sachs 30yr treasury forecast for 2018 (3.4%)  
<sup>2</sup> "Opening Payment" denotes the first full debt service payment post-construction. For purposes of this analysis, this is assumed to take place in 2033.  
<sup>3</sup> Assuming a 2.0% inflation rate  
<sup>4</sup> Based on a \$15.7bn project cost



# Benefits of WILA

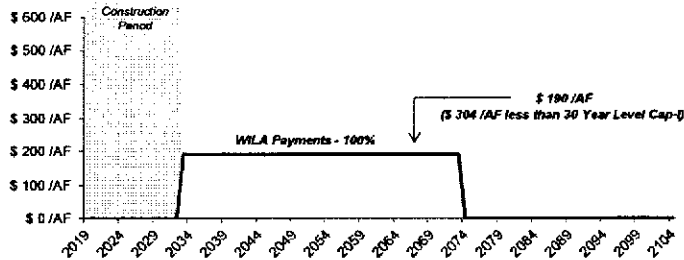
Secure All the Benefits of WIFIA for 100% of Project Costs

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## WILA Program Overview (Current Proposal)

- WILA is theoretical and exists only as draft legislation. Currently there is no sponsor for the legislation.
- WILA offers the same benefits as WIFIA but for 100% of projects costs
  - Additionally, WILA as drafted would allow for 5 more years of principal deferral

WILA Financing – Nominal Cost / AF on Total Project Yield (4.898mm AF)



WILA Payments Project Cost Funding, 100% WILA	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 190 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 142 / AF
2033 Annual debt Service	\$ 0.933 bn
Avg. Construction Payment	\$ 0 / AF
Total Pa <sup>3</sup>	\$ 15.7 bn

Note: Assumed rates based on Goldman Sachs 30yr treasury forecast for 2018 (3.4%)

<sup>1</sup> Opening Payment\* denotes the first full debt service payment post-construction. For purposes of this analysis, this is assumed to take place in 2033.

<sup>2</sup> Assuming a 2.0% inflation rate

<sup>3</sup> Based on a \$15.7bn project cost

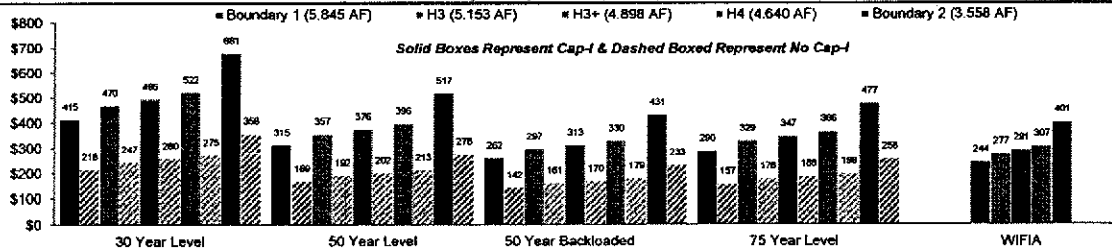


# Total Yield Sensitivity Analysis

Boundary 1, H3, H3+, H4 & Boundary 2

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Total Yield Sensitivity Analysis – Opening Payment in 2033



		30 Year Level		50 Year Level		50 Year Backloaded		75 Year Level		WIFIA	
		30 Year Level Debt Cap-I	30 Year Level Debt No Cap-I	50 Year Level Debt Cap-I	50 Year Level Debt No Cap-I	50 Year Backloaded Cap-I	50 Year Backloaded No Cap-I	75 Year Level Debt Cap-I	75 Year Level Debt No Cap-I	WIFIA	
B.1 1.840 AF	Opening Payment (2033 Dollars)	415	218	315	169	262	142	290	157	244	
	Opening Payment (2018 Dollars)	308	162	234	126	195	106	216	117	181	
H3 6.162 AF	Opening Payment (2033 Dollars)	470	247	357	192	297	161	328	178	277	
	Opening Payment (2018 Dollars)	349	184	265	143	221	120	245	133	206	
H3+ 4.898 AF	Opening Payment (2033 Dollars)	495	260	376	202	313	170	347	188	291	
	Opening Payment (2018 Dollars)	368	193	279	150	232	126	258	139	216	
H4 4.140 AF	Opening Payment (2033 Dollars)	522	275	396	213	330	179	366	198	307	
	Opening Payment (2018 Dollars)	388	204	295	159	245	133	272	147	228	
B.2 3.558 AF	Opening Payment (2033 Dollars)	681	358	517	278	431	233	477	258	401	
	Opening Payment (2018 Dollars)	506	266	384	207	320	173	355	192	298	

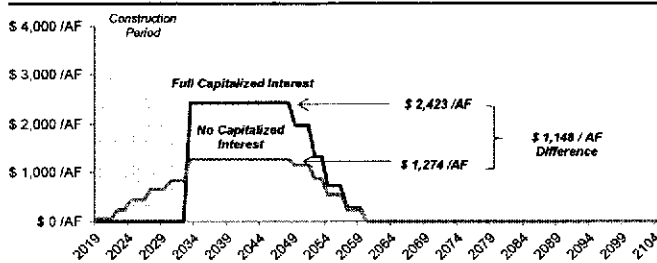


### III. Incremental Yield Analysis



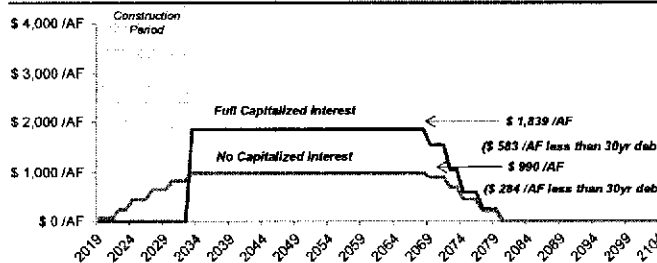
### Incremental Yield Analysis – 1.0 mm AF 30 & 50 Year Level Debt Scenarios

30-Year Level Debt – Nominal Cost / AF on Incremental Project Yield (1.0mm AF)



Full Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 2,423 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 1,600 / AF
2033 Annual Debt Service	\$ 2,423 bn
Avg. Construction Payment	\$ 0 / AF
Total Par <sup>3</sup>	\$ 30.7 bn
No Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 1,274 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 947 / AF
2033 Annual Debt Service	\$ 1,274 bn
Avg. Construction Payment	\$ 463 / AF
Total Par <sup>3</sup>	\$ 16.6 bn

50-Year Level Debt – Nominal Cost / AF on Incremental Project Yield (1.0mm AF)



Full Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 1,839 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 1,367 / AF
2033 Annual Debt Service	\$ 1,839 bn
Avg. Construction Payment	\$ 0 / AF
Total Par <sup>3</sup>	\$ 30.7 bn
No Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 990 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 738 / AF
2033 Annual Debt Service	\$ 0,990 bn
Avg. Construction Payment	\$ 463 / AF
Total Par <sup>3</sup>	\$ 16.6 bn

- Assumes \$15.7bn in project costs is financed 100% with Tax-Exempt bonds
- Assumes principal maturing after 2048 carries a 6.0% interest rate (50-Year Level Debt Only)

<sup>1</sup> "Opening Payment" denotes the first full debt service payment post-construction. For purposes of this analysis, this is assumed to take place in 2033.

<sup>2</sup> Assuming a 2.0% inflation rate

<sup>3</sup> Based on a \$15.7bn project cost

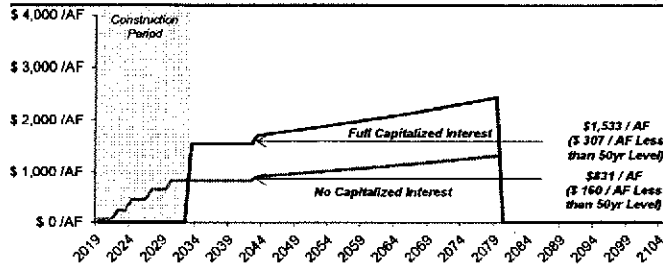


# Incremental Yield Analysis – 1.0 mm AF

## 50 Year Backloaded & 75 Year Level Debt Scenarios

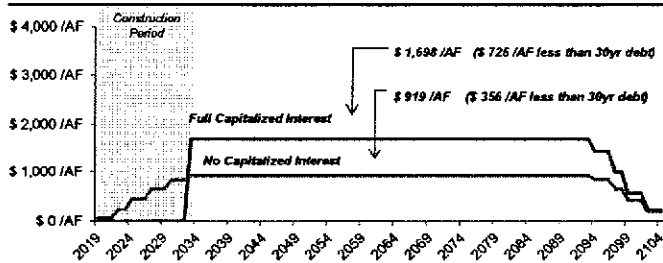
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50-Year Backloaded Debt – Nominal Cost / AF on Incremental Project Yield (1.0mm AF)



Full Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 1,533 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 1,138 / AF
2033 Annual Debt Service	\$ 1,533 bn
Avg. Construction Payment	\$ 0 / AF
Avg. Post-Construction Payment	\$ 1,929 / AF
Total Par <sup>3</sup>	\$ 30.7 bn
No Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 831 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 617 / AF
2033 Annual Debt Service	\$ 0.831 bn
Avg. Construction Payment	\$ 463 / AF
Avg. Post-Construction Payment	\$ 1,046 / AF
Total Par <sup>3</sup>	\$ 16.6 bn

75-Year Level Debt – Nominal Cost / AF on Incremental Project Yield (1.0mm AF)



Full Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 1,698 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 1,262 / AF
2033 Annual Debt Service	\$ 1,698 bn
Avg. Construction Payment	\$ 0 / AF
Total Par <sup>3</sup>	\$ 30.7 bn
No Capitalized Interest	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 919 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 683 / AF
2033 Annual Debt Service	\$ 0.919 bn
Avg. Construction Payment	\$ 463 / AF
Total Par <sup>3</sup>	\$ 16.8 bn

■ Assumes \$15.7bn in project costs is financed 100% with Tax-Exempt bonds

■ Assumes principal maturing after 2048 carries a 6.0% interest rate

<sup>1</sup> "Opening Payment" denotes the first full debt service payment post-construction. For purposes of this analysis, this is assumed to take place in 2033.

<sup>2</sup> Assuming a 2.0% inflation rate

<sup>3</sup> Based on a \$15.7bn project cost

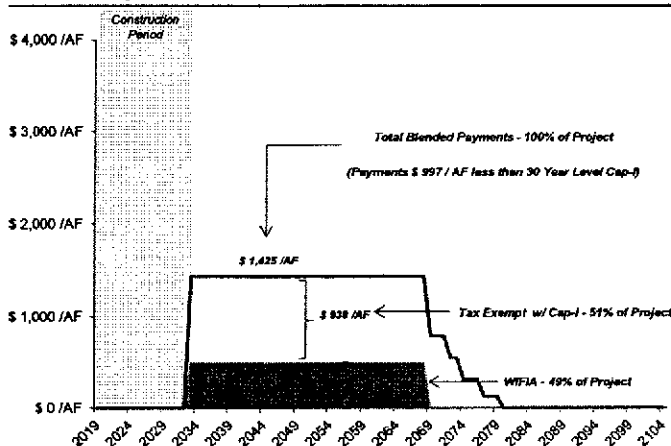


# Incremental Yield Analysis – 1.0 mm AF

## WIFIA Scenario

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WIFIA Financing – Nominal Cost / AF on Incremental Project Yield (1.0mm AF)



WIFIA	
Project Cost Funding: 51% Tax Exempt - 49% WIFIA	
Opening Payment (2033 Dollars) <sup>1</sup>	\$ 1,425 / AF
Opening Payment (2018 Dollars) <sup>2</sup>	\$ 1,059 / AF
2033 Annual Debt Service	\$ 1,425 bn
Avg. Construction Payment	\$ 0 / AF
Total Par <sup>3</sup>	\$ 23.3 bn

■ Assumes 49% of project costs financed through WIFIA & 51% financed with 50 year tax exempt debt

■ If WIFIA is allocated to certain contractors to fund entire share, cost becomes ~\$ 994 / AF

<sup>1</sup> "Opening Payment" denotes the first full debt service payment post-construction. For purposes of this analysis, this is assumed to take place in 2033.

<sup>2</sup> Assuming a 2.0% inflation rate

<sup>3</sup> Based on a \$15.7bn project cost



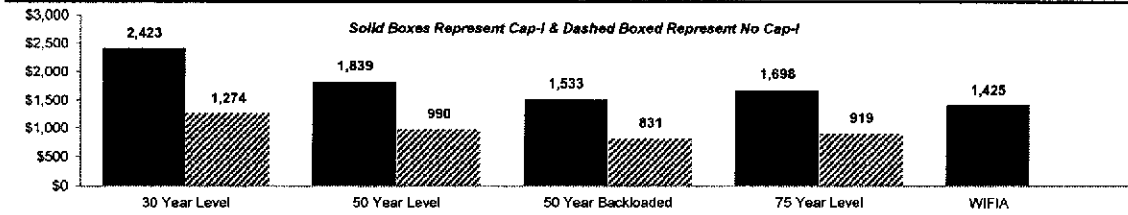


# Incremental Yield Sensitivity Analysis

Incremental Yield: 1,000,000 AF

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## Incremental Yield Analysis – Opening Payment in 2033



	30 Year Level Debt Cap-I	30 Year Level Debt No Cap-I	50 Year Level Debt Cap-I	50 Year Level Debt No Cap-I	50 Year Backloaded Cap-I	50 Year Backloaded No Cap-I	75 Year Level Debt Cap-I	75 Year Level Debt No Cap-I	WIFIA
<b>Incremental Yield 1,000,000 AF</b>									
Opening Payment (2033 Dollars)	2,423	1,274	1,839	990	1,533	831	1,698	919	1,425
Opening Payment (2018 Dollars)	1,800	947	1,367	736	1,139	617	1,262	683	1,059
<b>Cost Per AF Sensitivity (+100k AF // -100k AF)</b>	(220) // +269	(116) // +142	(167) // +204	(90) // +110	(139) // +170	(76) // +92	(154) // +189	(84) // +102	(130) // +158