



DATE: April 1, 2025

TO: Mayor and City Council

FROM: Director of Public Works and Interim Director of Finance

SUBJECT: **2025 WIFIA Loan:** Adopt Resolution of the City Council Authorizing the Execution and Delivery of a WIFIA Loan Agreement with the United States Environmental Protection Agency and a Related Promissory Note in the Maximum Principal Amount of \$244,139,000 (Excluding Capitalized Interest) to Finance Certain Capital Improvements to the Wastewater System, Including the Water Resource Recovery Facility Improvements, and Approving Related Agreements and Actions (Report from Director of Public Works Ameri)

RECOMMENDATION

That City Council adopts a resolution (Attachment II) authorizing the execution and delivery of a WIFIA Loan Agreement in the maximum principal amount of \$244,139,000 to finance capital improvements to the Wastewater System, including the Water Resources Recovery Facility (WRRF) Phase II Project (the “Project”) , and approving related agreements and actions.

SUMMARY

The City of Hayward’s Department of Public Works & Utilities is pursuing a major capital improvement project to improve the WRRF, formerly known as the Water Pollution Control Facility, (WRRF Phase II Improvement Project, the “Project”) to meet the nutrient reduction mandate for treated effluent identified in the 3rd Nutrients Watershed Permit adopted by the California Regional Water Quality Control Board (Control Board) in July 2024. The total cost of the Project is estimated at \$498 million, including capital costs, contingencies, and financing costs.

As part of the funding strategy, the City intends to finance approximately 49% of the Project costs through the U.S. Environmental Protection Agency’s Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) loan program (the “WIFIA Loan”). The WIFIA loan is expected to be approximately \$244.139 million and is expected to provide funding for construction costs between September 2026 and September 2028. The remaining cost will be funded by

publicly sold revenue bonds, a newly received grant from the Water Resources Development Act (WRDA), and sewer fund reserves.

Similar to the 2025 Bonds, the WIFIA Loan will be secured by net revenues (total revenues minus operation and maintenance costs) received by the City from its wastewater collection, pumping, transport, treatment, storage, and disposal system (Wastewater System).

BACKGROUND

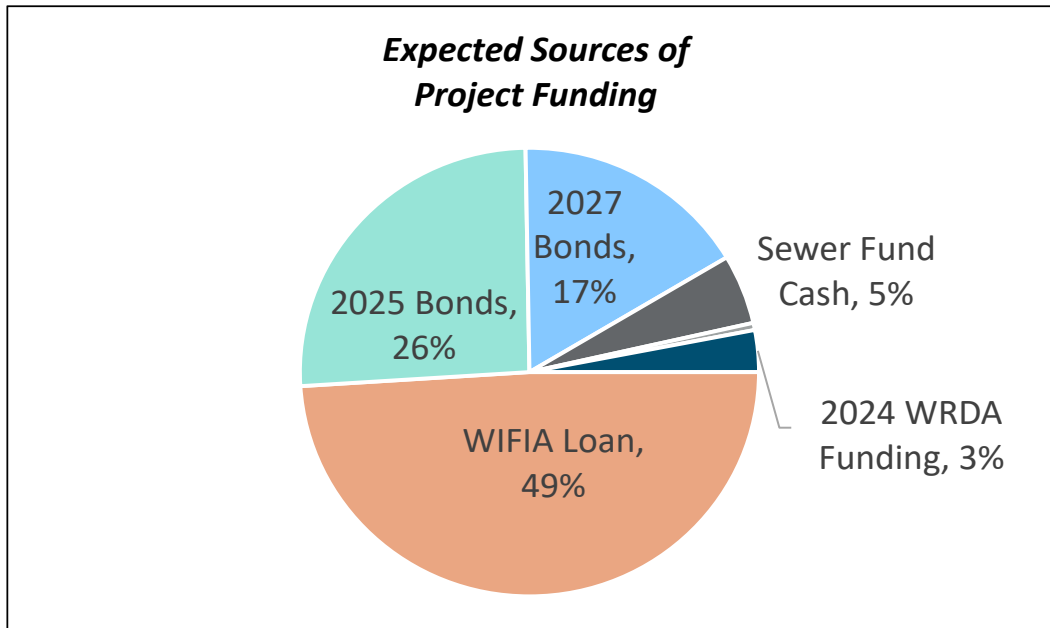
City staff have worked with Brown and Caldwell (B&C) and with the City's municipal advisor NHA Advisors (NHA) to develop a financing plan (Financing Plan) for the \$498 million Project. The Financing Plan was presented to the City Council Budget & Finance Committee at the May 15, 2024¹ meeting. Consistent with the Financing Plan, the City Council authorized the City Manager to apply for the WIFIA Loan in an amount up to \$260 million, on April 16, 2024², and authorized the issuance of the 2025 Wastewater Revenue Bonds in an amount up to \$135 million, approved by City Council on February 25, 2025³. The City subsequently sold \$124,885,000 in 2025 Wastewater Revenue Bonds at a true interest cost of 3.96%. These 2025 Bonds are expected to provide approximately 26% of the total funding needed for the Project.

As summarized in the graphic below, the financing plan for the Project utilizes a combination of Sewer Fund reserves, the WIFIA loan, a \$15 million WRDA grant, and two series of wastewater revenue bonds – 2025 Bonds and a future series (expected to be issued in or after 2027). The WIFIA loan is expected to be approximately \$244.139 million, which is sized to 49% of the eligible project costs (which is the maximum financing amount available from the WIFIA program pursuant to the WIFIA statute).

¹ [May 15, 2024 Council Budget & Finance Committee \(https://hayward.legistar.com\)](https://hayward.legistar.com)

² [April 16, 2024 City Council \(https://hayward.legistar.com\)](https://hayward.legistar.com)

³ [February 25, 2025 City Council \(https://hayward.legistar.com\)](https://hayward.legistar.com)



While WIFIA loans are market rate loans, meaning that the interest rate is based on the Federal Government’s current cost of borrowing and is not a subsidized or “below market” rate loan program, there are several key benefits the WIFIA Loan program provides:

First, WIFIA loans are “draw schedule loans”, which means that the City will only accrue interest on its WIFIA Loan based on actual amounts drawn (not the full \$244.139 million limit). This feature is especially beneficial if there is a delay in the speed at which the City draws down the WIFIA Loan.

Second, the WIFIA program allows for a flexible amortization structure. The WIFIA Loan will be structured to have its biggest payments after the majority of the City’s existing and anticipated Sewer debt obligations have been paid off. The ability to structure the WIFIA loans to “wrap around” the City’s other Sewer debt results in a lower aggregate annual debt service payment and reduces future pressure on ratepayers. The 35-year term option available through the WIFIA program allows the borrower to spread the costs of the asset over its useful life to ensure the long-term benefits of the project are shared between the current ratepayers and ratepayers who continue to benefit from that project decades from now.

Third, the WIFIA program has flexible payment terms (extended final maturity and deferred payments). The City will not be required to make payments until up to five years after the Project is complete and interest that accrues on the WIFIA loan draws will be capitalized and amortized over the life of the loan. Under the current financing plan, the City’s first WIFIA Loan payment will occur in fiscal year 2034. This will allow the City to methodically increase Sewer rates year over year in order to reduce overall ratepayer impact due to significant rate changes from one year to the next.

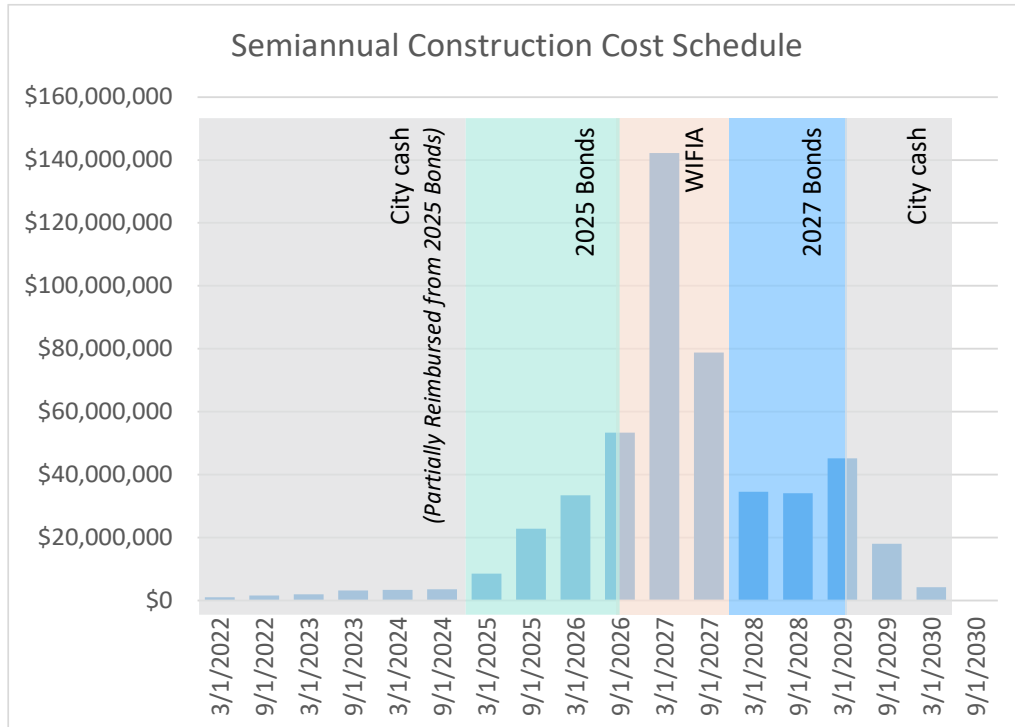
Fourth, WIFIA loans have a fixed interest rate based on the U.S. Treasury rate for a comparable maturity of the same weighted average life. This enables the City to secure long-term debt at an interest rate similar to the Federal government's cost of funds. The interest rate on each loan will be fixed at closing of the loans and is a function of the average life of each loan. It is worth noting that in the current market, a WIFIA loan with a 30-40-year average life similar to the City's WIFIA loan has an interest rate in the mid-4% range and it is not a subsidized, below-market loan program. However, in the current market, there are very few lenders providing funding with forty-year maturity and so making a true comparison between WIFIA rates and bond market rates is difficult.

Fifth, WIFIA loans have very flexible prepayment terms and the City has the option to prepay all or a portion of the loans on any interest payment date following substantial completion of the Project. Unlike a bond financing that has a standard 10-year prepayment lockout provision, if the City is able to secure money at a cheaper interest rate at any time after completing the Project, the City can use that cheaper interest rate funds to prepay all or a portion of the WIFIA loan.

Sixth, WIFIA loans come with some notable adjustment options after closing. First, there is a one-time interest rate reset option that allows a borrower to lower its interest rate, provided it has not drawn any funds from the WIFIA loan. To maximize the benefit of this interest rate reset option, NHA has advised the City to close on its WIFIA Loan now but delay drawing any money from that loan until September 2026 (approximately 18 months) after the proceeds from the 2025 Wastewater Revenue Bonds have been completely expended. Closing the WIFIA loan in spring 2025 puts a cap on the City's WIFIA Loan interest rate (i.e., it cannot go higher than the rate set at closing). Since WIFIA loan rates are currently in the mid-4% range at the time of this staff report, the objective of delaying WIFIA draws is to allow time for WIFIA loan rates to decrease so that the City can re-execute its WIFIA loan at a lower interest rate. The second notable post-closing adjustment option available through the WIFIA program is a one-time re-amortization of the loan's payment terms in the event that the City wishes to accelerate, adjust, or otherwise change the debt service repayment schedule to accommodate any changes in the Financing Plan. This option is not available for other loan programs or for municipal bonds and has value.

The graphic below illustrates the semi-annual Project cost schedule and the anticipated funding sources. The City has been using Sewer Fund reserves to pay Project costs to date and the next source of funding is the 2025 Bonds. Under the City's Financing Plan, the 2025 Bonds will fund construction between now and September 2026. Assuming Project construction progresses along the current schedule, the City would first need to draw on its WIFIA Loan in fall 2026. Once the City begins drawing on its WIFIA Loan to fund construction, the City expects to use WIFIA Loan disbursements to fund construction through the end of 2027. Depending on the final costs of the Project, the City will evaluate whether it is necessary to issue a second series of bonds in or around 2027. Finally, the City plans to commit \$25 million

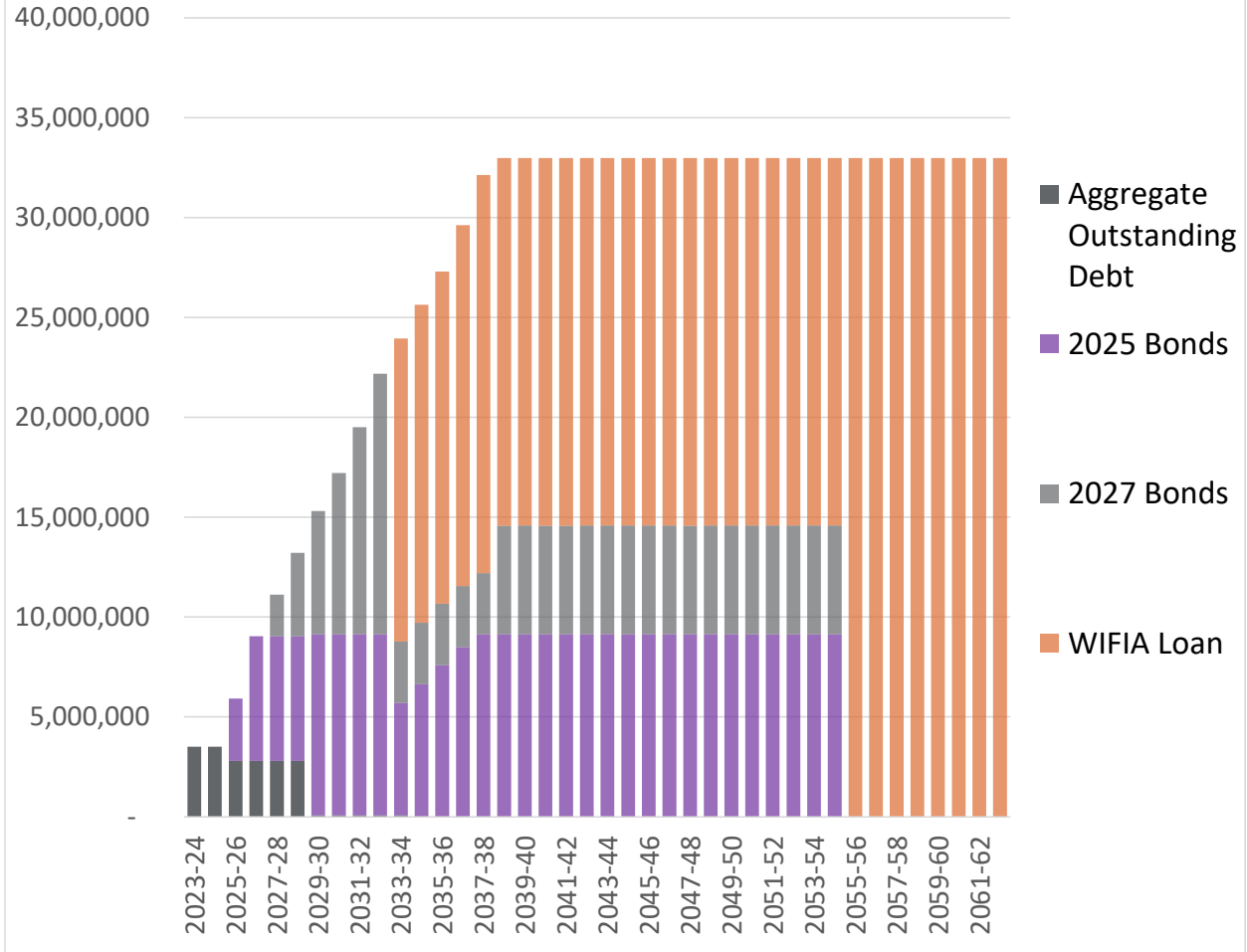
in future Sewer Fund reserves toward the Project but is strategically planning to wait to contribute those funds until the final stages of the Project.



DISCUSSION

The WIFIA Loan will be structured as fixed-rate debt with a 39-year term (39 years from closing the loan, 35 years from anticipated substantial Project completion). The WIFIA Loan will mature in March 2063. The anticipated WIFIA Loan structure is shown in the graph below (orange series). The dark grey series on the bottom of the graph is the aggregate debt service on the Sewer Fund’s outstanding debt (2006 State Revolving Fund (SRF) Loan, 2011 California Energy Commission (CEC) Loan, 2019 CEC Loan). The light purple series in the graph is the debt service on the 2025 Bonds and the grey series on top of the purple series shows the anticipated structure of the future 2027 Bonds.

**City of Hayward Wastewater Fund
Aggregate Outstanding and Anticipated Debt Service**



The WIFIA Loan will capitalize accrued interest during Project construction and for approximately 3 years thereafter. This means that interest that would otherwise be due and payable during that period is added to the loan balance and amortized over the life of the loan.

The first interest payment on the WIFIA Loan will be due in September 2033, but the City will not commence principal repayments until March 2035. From FY 37 through FY 55, the WIFIA Loan will have level annual principal and interest payments of approximately \$18.5 million per year. In FY 56, after the Sewer Fund’s other outstanding debt has matured and the Sewer Fund can allocate more money to paying down the WIFIA loan, the payments will step up to approximately \$33 million per year through final maturity in FY 63.

The final interest rate on the WIFIA Loan will not be known until the morning of closing (also subject to potential subsequent reduction as described above). On the day the WIFIA Loan is set to close, the EPA will provide the interest rate based on that day's treasury rates and NHA Advisors will optimize the final loan amortization based on that rate.

There are several items attached to this staff report that are open for City staff consideration. Key features and aspect of those documents are summarized below:

1. **Authorizing Resolution** (Attachment II): The authorizing resolution authorizes the City to execute and deliver the WIFIA Loan. The resolution also authorizes the execution of the legal documents for the WIFIA Loan, provided the final par and interest rate are within not-to-exceed parameters identified in the resolution. These not-to-exceed parameters authorize the City Manager to enter into the WIFIA Loan agreement with the Environmental Protection Agency (EPA), provided the final principal amount and interest rates are equal to or less than the following: (1) the principal amount of the WIFIA Loan cannot exceed \$244.139 million and (2) the maximum interest rate cannot exceed 5.25%. While the WIFIA loan not-to-exceed amount is expected to tie closely to the final WIFIA Loan amount, the not-to-exceed interest rate is set higher than the expected rate to provide a little flexibility given the unpredictability in the bond markets. This is similar to the approach for the 2025 Wastewater Revenue Bonds.
2. **WIFIA Loan Agreement** (Attachment III): The WIFIA Loan Agreement ("WLA") formalizes the relationship between the City of Hayward as borrower and the EPA as lender. The WLA describes the terms of the WIFIA Loan, including the payment terms and schedule, prepayment options, and other covenants related to the WIFIA Loan. Key covenants include the rate covenant to raise rates as needed to maintain Sewer Fund Net Revenues equal to 110% of each year's debt service, a covenant to provide quarterly construction reporting, a covenant to provide annual financial reporting, and the covenant to pay annual loan administration fees to the EPA. Additionally, the WLA lays out the process by which the City requests disbursements from the EPA and the process by which the City sends loan payments to the EPA. The WLA attached here is in near final form, but there are some remaining blanks that will not be filled in until closing – most notably the final interest rate and the final amortization schedule.
3. **WIFIA Term Sheet** (Attachment IV): The WIFIA Term Sheet summarizes the key terms of the WIFIA Loan Agreement. This document is presented in substantially final form and is not expected to change at this point.

STRATEGIC ROADMAP

This agenda item supports the Strategic Priority of Invest in Infrastructure. Specifically, this item relates to the implementation of the following project:

Project N22: Design Water Pollution Control Facility Phase II upgrade

ECONOMIC AND FISCAL IMPACT

Debt Service

Annual interest payments on the WIFIA Loan are expected to commence in FY 34 and principal repayments are expected to commence in FY 35. From that point through FY 55, the annual principal and interest payment on the WIFIA Loan is expected to be approximately \$18.5 million per year; the payment will then step up to \$33 million per year through FY 63.

Since the City is strategically delaying draws on the WIFIA Loan until Fall 2026, the costs of issuing the WIFIA Loan will be paid out of the FY 25 and FY 26 Budgets. The City has already made a \$100,000 application fee/downpayment to the EPA to cover a portion of the EPA's closing day costs, but the EPA will be invoicing the City after closing for any remaining costs not covered by the application fee/downpayment. Timing of receipt of that invoice is uncertain and it is possible that the invoice from the EPA will not be received until FY 26. In addition to the EPA's loan origination costs, the City has its own financing costs – bond counsel and municipal advisor fees primarily, but also a small debt registration fee paid to the State of California. Total costs are not expected to exceed \$475,000 or 0.2% of the loan size.

Sewer Rates and Connection Fees

On February 18th, 2025⁴, Council adopted the sewer rate increases of 12% annually from FY 26 through FY 30 and the sewer connection fee increases of 10% in FY 26 and FY 27. The rate and connection fees adjustments will enable the City to fund the required borrowings to fund the implementation of improvements to meet the requirements of the San Francisco Regional Water Board's newly adopted 3rd Watershed Permit. The adjustments will also allow the City to keep pace with the cost of sewer service collection, treatment, and disposal. This includes building reserves for future capital costs and ensuring that costs are recovered equitably. The required rate increases are anticipated to moderate after the first five years.

There is no General Fund Impact related to this.

SUSTAINABILITY FEATURES

There are no Sustainability Features directly associated with this item.

PUBLIC CONTACT

The WRRF Phase II Improvements Project includes a web page to be hosted on the City's website which is periodically updated throughout the multi-year duration of the project.

NEXT STEPS

If approved, City staff will work with the financing team and the EPA to move forward to closing. Staff would anticipate closing the WIFIA Loan by mid-April.

⁴ [February 18, 2025 City Council \(https://hayward.legistar.com\)](https://hayward.legistar.com)

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Regina Youngblood, Interim Director of Finance

Approved by:

A handwritten signature in black ink, appearing to read "Dr. Alvarez", written over a horizontal line.

Dr. Ana M. Alvarez, City Manager