

Star Wars, Splash Mountain, Cars - All Are Good Options! Public Financing Needs and Possibilities

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City of San Diego

- America's Finest City
- Population (Est.) 1.4 million
- City operates Water and Wastewater Utilities
- Debt Management Department is a centralized finance function working in coordination with operating departments to develop and execute financing plans for City projects
- Infrastructure Loans Team manages direct loan program

Mix of Financing Tools

- Primary Objective: Minimize cost of capital to generate affordable and cost-efficient financing plans
 - Affordability for taxpayers and/or ratepayers
 - Balance availability of low-cost capital with maintaining market access
- City utilizes a variety of tools to finance projects such as:
 - Bond markets
 - Direct loans (Federal & State loans, bank financing)
 - Grants
 - Pay-go funds

Direct Loan Programs Utilized by City

- Clean Water and Drinking Water SRF Programs
 - Clean Water and Drinking Water SRF for Water Utility, Wastewater Utility, or Storm Water (General Fund) projects
- California I-Bank Infrastructure SRF Program
 - I-Bank Infrastructure SRF Program for General or Enterprise Funds (utilized for San Diego Convention Center Corporation, a City Enterprise)
- U.S. EPA WIFIA Program
 - WIFIA Program for Water or Wastewater Utility
- Bank Financing
 - Equipment and vehicle leasing program for General Fund, Water Utility, and Wastewater Utility

Project Example: Pure Water Program Phase 1

- Significant component of City's capital program
 - Projects budgeted to Water and Wastewater Utilities
 - Creates local supply of potable drinking water
- Financing Plan: array of funding sources required
 - U.S. EPA WIFIA Program
 - Clean Water and Drinking Water SRF Loans
 - Interim funding sources including Notes and Commercial Paper
 - Revenue bonds
 - Pay-go funds
- Maximizing subsidized State and Federal funding
 - Benefit: Increased affordability for utility ratepayers
 - Cost: Increased complexity, administrative burden, uncertain timing

Clean Water & Drinking Water State Revolving Funds

Pros:

- Low interest cost / costs of issuance
- Fixed interest rate through construction draw and repayment periods (up to 30 years)
- No disclosure document / not rated

Cons:

- Competition for funds
- Long and uncertain lead time from application to closing
- Lack of flexibility / customization for borrower
- State and Federal contract and environmental requirements may increase cost/timeline of project

U.S. EPA WIFIA Program

Pros:

- Low interest cost
- Fixed interest rate through construction draw and repayment periods (up to 35 years)
- Flexibility to customize structure
- Rolling application

Cons:

- High costs of issuance
- Requires complementary funding
- Requires credit agency rating
- High administrative burden for post-issuance compliance
- Federal contract and environmental requirements may increase cost/timeline of project

Key Takeaways

- Consider pros and cons of each funding source and impact to financing plan and project timeline
- Identify team to manage application and post-issuance
- Utilize input from experts
- Discuss with financial advisor and/or bond counsel to ensure direct loans do not conflict with existing debt structures (ie, bond indentures)
- Plan for long lead times
- Have a Plan B