Agenda Report

November 10, 2026

TO: Honorable Mayor and City Council
Pasadena Public Finance Authority

FROM: Water and Power Department

SUBJECT: **JOINT ACTION OF CITY COUNCIL AND THE PASADENA PUBLIC FINANCING AUTHORITY: ADOPTION OF A RESOLUTION APPROVING AN INSTALLMENT PURCHASE AGREEMENT, INDENTURE OF TRUST, A WATER INFRASTRUCTURE FINANCE AND INNOVATION ACT ("WIFIA") LOAN AGREEMENT, AND A WIFIA LOAN TERM SHEET WITH RESPECT TO THE ISSUANCE BY THE PASADENA PUBLIC FINANCING AUTHORITY OF NOTES IN AN AGGREGATE PRINCIPAL AMOUNT NOT-TO-EXCEED $111,050,791 AND OTHER MATTERS PERTAINING THERETO, AND AUTHORIZE THE CITY MANAGER TO AMEND CONTRACT WITH PFM FINANCIAL ADVISORS LLC FOR A NEW TOTAL NOT-TO-EXCEED $350,000.**

ADOPTION OF A RESOLUTION APPROVING AN INSTALLMENT PURCHASE AGREEMENT, INDENTURE OF TRUST, A WIFIA LOAN AGREEMENT, AND A WIFIA LOAN TERM SHEET WITH RESPECT TO THE ISSUANCE OF NOTES IN AN AGGREGATE PRINCIPAL AMOUNT NOT-TO-EXCEED $111,050,791 AND OTHER MATTERS PERTAINING THERETO.

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the action proposed herein is not a "project" subject to the California Environmental Quality Act (CEQA) pursuant to California Public Resources Code Section 21065 and within the meaning of State CEQA Guidelines Section 15378;

2. Adopt a Resolution approving an Installment Purchase Agreement, Indenture of Trust, a WIFIA Loan Agreement, and WIFIA Loan Term Sheet with respect to the issuance by the Pasadena Public Financing Authority of Notes in an aggregate principal amount not-to-exceed $111,050,791 and other matters pertaining thereto; and

3. Authorize the City Manager to amend contract no. 32211 with PFM Financial Advisors LLC ("PFM") to increase the contract amount by $100,000 to support the expanded WIFIA loan advisory services for a total not-to-exceed amount of $350,000.

It is recommended that the Pasadena Public Finance Authority:

1. Adopt a Resolution approving an Installment purchase Agreement, Indenture of Trust, a WIFIA Loan Agreement, and WIFIA Loan Term Sheet with respect to the issuance of Notes in an aggregate principal amount not to exceed $111,050,791 and other matters pertaining thereto.

BACKGROUND:

On July 22, 2025, Pasadena Water and Power ("PWP") applied to the U.S. Environmental Protection Agency's ("EPA") Water Infrastructure Finance and Innovation Act ("WIFIA") loan program for an amount not-to-exceed $111,050,791 to help finance three critical Water Infrastructure Program ("WIP") projects: the Sunset Reservoir Complex, Advanced Metering Infrastructure, and Water Distribution Mains. The WIFIA program offers significant advantages, including low-cost capital, reduced interest rate risk, flexible draw and repayment options, and no prepayment penalty. These benefits support accelerated system upgrades, reduce exposure to rising costs and emergency repairs, and ultimately lower long-term costs for PWP ratepayers.

During the 2024–2029 cost-of-service and revenue requirement analysis completed in 2023, PWP determined that accelerating capital investment would place pressure on rates if funded through traditional just-in-time adjustments. Although municipal bonds are the standard financing tool, staff evaluated the WIFIA program as an alternative and found that its lower cost of capital, flexible draw structure, and deferred repayment features would provide more than $10 million in net-present-value savings when compared to a similarly structured bond. Other flexibility, like the one-time rate reset provision (where if the rate is lower prior to the draw down of funds, the lower rate will be utilized) makes it advantageous to proceed with the loan agreement and carefully manage cash flows for the lowest cost financing mechanism.

The WIFIA loan process includes three stages: submitting a non-binding letter of intent, completing the application, and negotiating terms prior to closing. PWP submitted its letter of intent and was invited to apply on December 20, 2024. PWP is now in the loan negotiation phase in which loan terms are being finalized and the interest rate will be set the day of loan closing.

WIFIA Program Overview

The WIFIA program, administered by the EPA, provides long-term, low-interest loans for water and wastewater infrastructure projects. Designed as a flexible, patient source of capital, WIFIA addresses investor concerns related to long project horizons, liquidity, predictability, and risk. The program can finance up to 49% of eligible project costs,

provided total federal support does not exceed 80%. Loan interest rates are fixed at closing and are equal to the U.S. Treasury rates of a similar maturity to the loan plus one basis point. WIFIA's benefits include advantageous provisions related to only paying interest on amounts drawn on the loan, reduced interest rate risk through a fixed closing rate (with a one-time reset option before any draws), and the ability to prepay without penalty. Its most significant advantage is flexibility in draw and repayment terms. Borrowers can defer repayment for up to five years after substantial project completion and take up to 35 years to repay, easing near-term debt service. Interest accrues only on funds actually drawn, reducing carrying costs. The decision to pursue WIFIA financing also considered compliance obligations. Projects receiving WIFIA funds, including components not directly financed by WIFIA, must meet all applicable federal requirements. Key requirements affecting overall cost and feasibility include the National Environmental Policy Act ("NEPA"), American Iron and Steel provisions, Davis-Bacon wage rules, and Build America, Buy America mandates. These compliance costs are incorporated into the overall project budget along with an appropriate contingency.

Projects Funded through the WIFIA Loan

The WIFIA loan structure provides the City with flexibility, including the ability to draw only the funds needed for approved contracts without incurring penalties on unused loan capacity. As with all capital projects, any draws would follow Council consideration of contracts and required environmental clearances. The loan will support PWP's approved Water System Capital Improvement Program ("CIP"): Sunset Reservoir Complex, Advanced Metering Infrastructure ("AMI"), and Water Distribution Mains. The Sunset Reservoir Complex involves replacing 130-year-old reservoirs with new prestressed concrete facilities and constructing a new groundwater treatment plant. The AMI project will replace about 18,000 meters and retrofit approximately 20,000 more for advanced metering. The Water Distribution Mains project will replace roughly 15 miles of aging water mains.

PWP has selected to administer the loan as one project, entitled "Water Infrastructure Program."

Capital Project:	Amount
Sunset Complex Project (CIP 01075)	$95,805,017
Water Distribution Mains (CIP 01080)	$66,530,500
Advanced Metering Infrastructure (Water Portion) (CIP 01078)	$26,721,458
Program Contingency	$36,757,942
WIFIA Loan Program Participation Expenses	$819,350
Total Project Costs:	**$226,634,267**
WIFIA Loan Amount (49%)	**$111,050,791**

The annual loan servicing fee is about $26,000 during construction and decreases to roughly $10,000 per year after substantial completion.

Benefits of Participation for Ratepayers

The WIFIA program will give PWP a more flexible and resilient financing strategy for its accelerated capital reinvestment needs. Many water system assets have reached critical condition, and while the projects within the WIP offer strong long-term returns, relying solely on pay-go funding creates cash-flow and liquidity challenges. By incorporating long-term debt financing, extending repayment horizons, and allowing more time to adjust revenue requirements, PWP can maintain safe, reliable, and competitively priced water service for customers.

Interest Rate Context. WIFIA loan interest rates are based on U.S. Treasury rates of similar maturity to which EPA adds one basis point. Because Treasury securities are taxable, the WIFIA rate is currently higher than the tax-exempt rate PWP would receive on a traditional municipal revenue bond. A comparison of nominal interest rates alone therefore does not favor WIFIA. The value of the WIFIA loan to ratepayers lies in its structural features, which provide refinancing flexibility, protection against rising interest rates, and the ability to ease short-term rate pressure through a gradual phase-in of debt service. These features are described below.

Prepayment and Refinancing Flexibility. Tax-exempt municipal bonds are typically issued with a 10-year optional call date, meaning the bonds generally cannot be refinanced or retired early until approximately 10 years after issuance. The WIFIA loan may be prepaid, in whole or in part, at any time without penalty. Because the first loan payment is not due until June 1, 2037, approximately 10 years from closing, PWP retains the ability to refinance at any point during the construction and deferral period if favorable market conditions present themselves. This can be accomplished through either refinancing with tax-exempt bonds should tax-exempt rates prove advantageous, subject to applicable federal tax requirements, or through a rate refinancing through EPA which would lower the WIFIA Loan rate. It is worth noting that the refinancing through EPA is a feature that EPA has been amenable to allowing borrowers and is subject to certain conditions – one of the most prominent being that the loan has not been drawn upon. This allows PWP to act on savings opportunities sooner than a traditional bond structure would permit.

Interest Rate Ceiling and One-Time Rate Reset. The WIFIA interest rate is fixed at loan closing and applies to all future draws, regardless of how market rates move during the multi-year construction period. The closing rate effectively serves as a ceiling: if interest rates rise before funds are drawn, PWP's borrowing cost does not increase. By comparison, a bond-financed program of this duration would either require borrowing the full amount up front and paying interest on unspent proceeds, or issuing multiple series of bonds, each priced at prevailing market rates at the time of sale. In addition, the WIFIA loan includes a one-time interest rate reset option; if market rates decline before the first disbursement, PWP may reset the loan to the lower rate. Together, these provisions protect ratepayers from rising rates while preserving the ability to benefit from falling rates.

Capitalized Interest and Gradual Rate Implementation. Interest on the WIFIA loan will be capitalized during construction and the deferral period, meaning interest accrues and is added to the loan balance rather than paid from current revenues. No debt service payments are due until June 1, 2037. This approximately 10-year window allows PWP to phase in the revenue requirement for the loan through measured annual rate adjustments, rather than absorbing the estimated $10.5 million in new annual debt service over this time. This approach eases short-term rate pressure and helps customers avoid rate shock while critical infrastructure is constructed. Capitalizing interest does increase the total amount repaid over the life of the loan; however, the ability to prepay without penalty allows PWP to reduce that cost if surplus funds or refinancing opportunities become available.

Comparison of Key Financing Terms

Feature	Tax-Exempt Revenue Bonds	WIFIA Loan
Interest rate basis	Tax-exempt municipal market rates	U.S. Treasury rate of similar maturity (taxable basis) + 1 basis point, fixed at closing
Early repayment or refinancing	Generally not permitted until the call date, typically 10 years after issuance	Prepayment permitted at any time without penalty. One-time refinancing through EPA permitted under certain conditions prior to initial loan disbursement.
Exposure to rising rates during construction	Each bond issue priced at market rates at the time of sale	Closing rate serves as a ceiling for all draws
Benefit if rates fall	Limited until the call date	One-time rate reset before the first draw; prepayment at any time.
Interest cost during construction	Interest paid on the full issue amount from the date of issuance	Interest accrues only on amounts drawn
Start of debt service	Typically within the first year after issuance	June 1, 2037, with interest capitalized until then
Rate impact	Larger near-term rate adjustments	Gradual phase-in over approximately 10 years to ease short-term rate pressure

Taken together, these features provide value to ratepayers that is not captured in a simple comparison of interest rates, and they support the recommendation that the

WIFIA loan is the most advantageous financing mechanism for the Water Infrastructure Program. And, while this is advantageous, PWP will continue to consider conventional financing mechanisms as well as use of cash reserves.

Council Authorization Requirement

EPA requires governing-body approval before executing:

- The WIFIA Loan Agreement
- The WIFIA Term Sheet
- The Installment Purchase Agreement
- The Indenture of Trust
- All associated documents such as continuing disclosure obligations, federal compliance certifications, NEPA-related documents, and loan administration agreements

PFM Financial Advisors LLC Contract Amendment

On January 10, 2022, the City Council approved a contract with PFM Financial Advisors LLC ("PFM") to provide independent registered municipal advisory services for the Water and Power Department ("PWP"). Contract no. 32211 established a three-year term with two optional one-year extensions, for a total contract amount not-to-exceed $250,000. On March 14, 2025, the City Manager authorized staff to exercise both optional one-year extensions, extending the contract through June 21, 2027. The activity of the contract includes several refinancing and savings opportunities as well as a review of current financial needs and markets to identify future savings and strategies, such as WIFIA. Given the level of activity and transactions, it is expected that the total amount of the fees will exceed the authorized $250,000 with this and other transactions anticipated in the amount of $100,000. An RFP for a new contract is currently under development.

COUNCIL POLICY CONSIDERATION:

The recommendations are consistent with the City Council's strategic goals to maintain fiscal responsibility and stability.

ENVIRONMENTAL ANALYSIS:

CEQA excludes, from environmental review, actions that are not "projects" as defined by California Public Resources Code (PRC) CEQA Guidelines Section 21065 and within the meaning of CEQA Guidelines Section 15378. PRC Sections 21065 and CEQA Guidelines Section 15378 define a project as an action which may cause either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. CEQA Guidelines Section 15378(b) excludes from the definition of "project" administrative activities of governments that will not result in direct or indirect physical changes in the environment. The actions proposed herein,

authorizing the preparation and execution of documents related to the WIFIA loan, including amendment to increase an existing contract to account for the additional funding, is an administrative activity, and therefore is not a "project" as defined by CEQA. Since the action is not a project subject to CEQA, no environmental document is required.

FISCAL IMPACT:

The total cost of this action is estimated to be $242,000 for the cost of issuance relating to the WIFIA Loan, which includes the $100,000 for the contract amendment with PFM Financial Advisors related to this transaction.

Funding for the contract amendment will be addressed by the utilization of existing appropriations in the Water Fund (402) operating budget. Funding for the WIFIA loan program participation expenses will be addressed by the utilization of existing appropriations in the Sunset Reservoir Improvements (01075), Advanced Metering Infrastructure (01078) and Distribution Mains (01080) CIP budgets. Ongoing annual service fees will be addressed in future budget cycles. It is anticipated that the total cost of this action will be expended in FY 2027. There is no impact to the General Fund.

Fiscal Impact Summary

Issuance Cost Estimates	
Bond Counsel	$40,000
Financial Advisor*	$100,000
Rating Agency Fees	$20,000
Credit Fee	$56,000
Servicing Fee	$26,000
Estimated Fiscal Impact of this Transaction	**$242,000**

* Council action in this report includes the contract with PFM Financial Advisors to support the preparation and closing of this loan.

Based on PWP's current projected draw schedule for the loan, interest and principal payments on the WIFIA loan would begin on June 1, 2037, with an estimated payment of $6.9 million and increase to $11.6 million annually from June 1, 2038, through 2067, if the full loan amount is utilized. Actual debt service will depend on the timing of loan disbursements and the total amount drawn. Debt service obligations associated with the WIFIA loan will be incorporated into future budget planning processes.

Pursuant to Senate Bill 450, the true interest cost of this financing is currently estimated to be 5.5%. The amount of proceeds to be received by the City is estimated to be $111,050,791. The total principal and interest payment amount is estimated to be $356,484,128 to the final maturity of the WIFIA Loan. The finance charge associated with this transaction is estimated to be $401,482.

Respectfully submitted,

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Concurred by:

KARIN SCHNAIDER
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Treasurer

Attachments: (3)
Attachment A: WIFIA Loan Agreement and Term Sheet
Attachment B: Installment Purchase Agreement
Attachment C: Indenture of Trust