Big Bear Area Regional Wastewater Agency

Updated Funding and Financing Plan

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Delivered.

August 26, 2026

Introduction to NHA Advisors

NHA assists public agencies statewide with funding large-scale infrastructure projects.

NHA's Role in Helping the Agency

Develop a financing plan for the Project → Present financing plan to the Agency → Execute upon the Agency's selected financing plan

Recent Large-Scale Utility Capital Funding Plans

Oxnard	•$100M Water
San Buenaventura	•$715M Water & WW
Pajaro Valley WMA	•$160M Water
Palmdale Water District	•$300M Water
Hayward	•$520M Wastewater
Stockton East Water District	•$315M Water
North of River Sanitary District No. 1	•$190M Wastewater

<u>NHA Advisors is the fiduciary for the Agency</u>

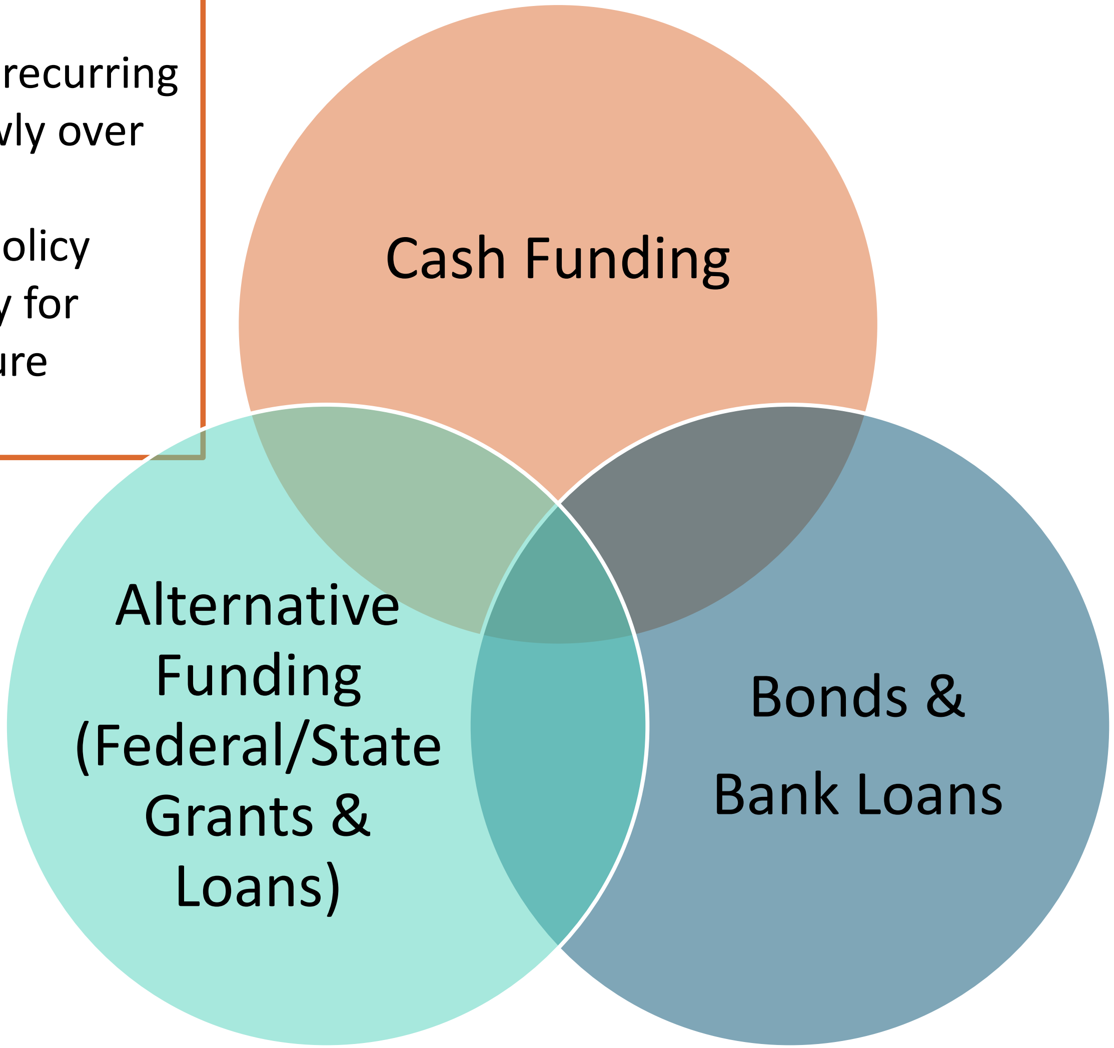
Categories of Funding Sources

"Pay-As-You-Go"

- Often used to fund small and recurring projects, or projects built slowly over time
- Generational equity may be policy concern (ratepayers today pay for improvements benefiting future ratepayers)

Below-Market-Rate Funding & Grants

- Federal/State money requires compliance with Federal/State materials sourcing & prevailing wage requirements
- Timing of funds uncertain



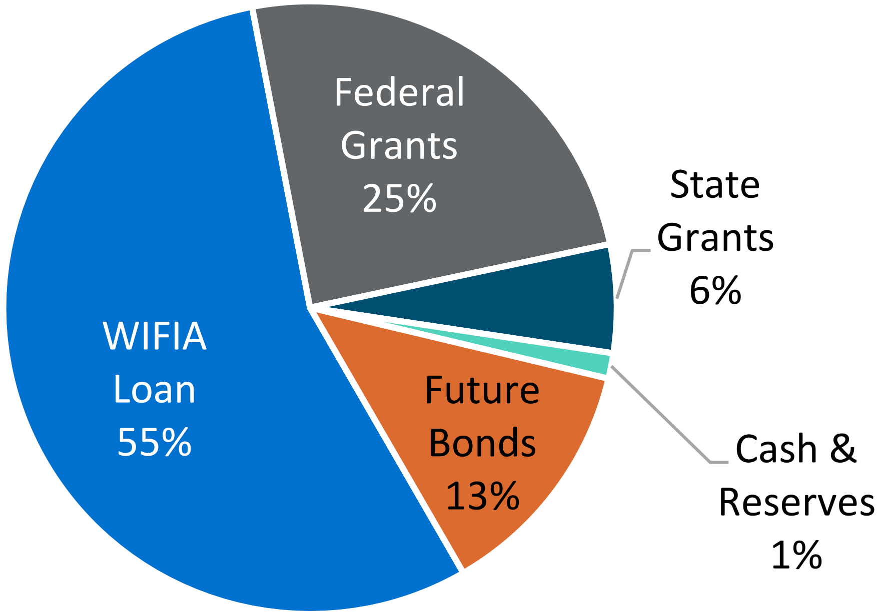
Bonds and Bank Loans

- Most accessible source of outside funding (capital markets)
- Higher cost of borrowing than State/Federal programs
- Timing generally 3-4 months to deliver funding

Phase 1 Greenspot Recharge Project Funding Need

- Project Funding Need
  - $81.4M remaining project cost
    - $7.1M already spent in FYEs 2023-2026
    - $88.5M total estimated cost (including contingen
- Project Funding Sources
  - Historically, Agency has utilized a combination of cas reserves, grant funding, and a short-term constructi loan
  - Agency has a total of $26.9M of identified grant func (31% of total cost)
    - Agency has drawn approximately $4.4M of these grant funds to date

Phase 1 Greenspot Recharge Project
Estimated Funding Sources



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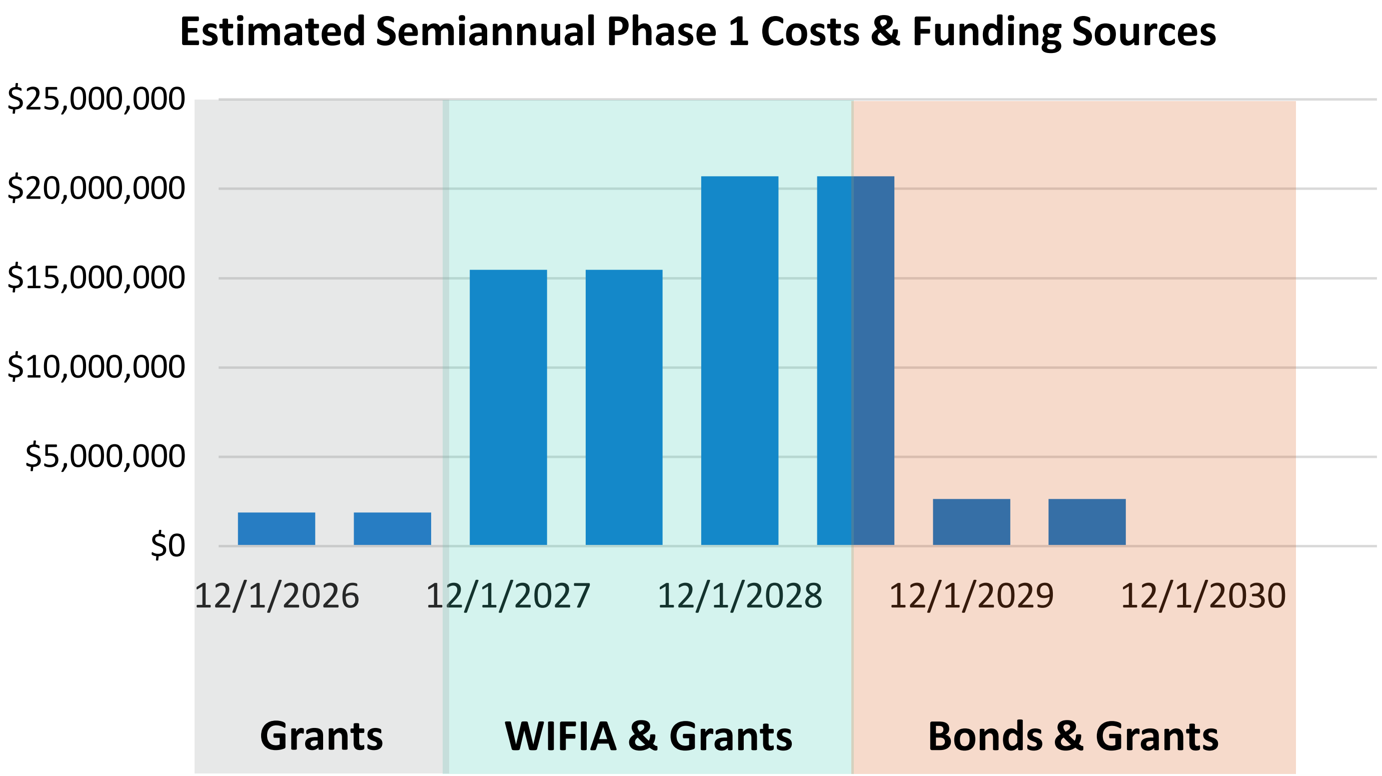
Cost and Funding Detail

Sources of Funding	Prior Expenditures (As of 5/31/26)	Remaining Expenditures	Total
WIFIA Loan	$0	$48,999,000	$48,999,000
Revenue Bonds	$0	$11,466,840	$11,466,840
Agency Cash Costs (Interim Loan)	$680,736	$0	$680,736
Previously Incurred Eligible Costs (Paid with Cash)	$508,431	$0	$508,431
Grant: CA State DWR Prop 1 IRWM DCI	$500,000	$0	$500,000
Grant: CA State DWR Prop 1 IRWM Round 1	$3,995,725	$567,613	$4,563,338
Grant: Federal USBR Title XVI FY 2022	$525,800	$1,074,200	$1,600,000
Grant: Federal USBR Title XVI FY 2023 & 2024	$0	$17,319,655	$17,319,655
Grant: Federal STAG FY 2022	$960,000	$0	$960,000
Grant: Federal STAG FY 2023 & 2024	0	$2,000,000	$2,000,000
TOTAL SOURCES	**$7,170,692**	**$81,427,308**	**$88,598,000**

Project Costs	Prior Expenditures (As of 5/31/26)	Remaining Expenditures	Total
Total Capital Costs (Planning, Design, Property Purchase, Construction)	**$6,489,956**	**$80,960,308**	**$87,450,264**
Total Financing Costs	$284,485	$467,000	$751,485
Other: Interest Paid on 2023 Construction Funding Loan	$396,251	$0	$396,251
TOTAL USES	**$7,170,692**	**$81,427,308**	**$88,598,000**

Summary of Construction Cost Timing & Funding

- Project costs are expected to increase the latter half of calendar year 2027 (period ending 12/1/2027 in the graph)
- Agency will close its WIFIA loan as soon as possible and will delay drawing until the Board approves the construction contract (requiring a 4/5ths vote)
    - At which time, the Agency could use the WIFIA loan to address capital costs
- Remaining costs (through June 2030) would be funded with a combination of a future bond/bank loan and grant disbursements



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Agency's WIFIA Loan History

BBARWA applied for a $62.6M WIFIA loan in June 2023

- WIFIA Loan funding process started and stopped a couple of times from 2023-2025
- In August 2025, BBARWA staff presented the Board with a $50.6M WIFIA Loan Agreement and other accompanying documents
- Agency Board did not approve the WIFIA loan at that time

Since August 2025, the Agency's WIFIA loan has been on "pause"

Agency staff are in process of discussing with EPA regarding re-defining the "project" and updating the WIFIA loan size

- Given project delays and change in scope, WIFIA staff will need to re-examine the credit and may come back with some additional terms
- Current estimated WIFIA sizing is $48.999M (*subject to change*)

WIFIA Loan Considerations and Benefits

Interest Rate	• Not a subsidized or “below” market rate loan program; current (July 2026) 35-year rate would be ~5.15-5.20% • Rate is not a function of the credit rating
Interest Rate Reset	• One-time option to reduce the interest rate should rates go down • Agency loses this option once it draws $1 of WIFIA money or once its Project exceeds 51% complete
Draw Schedule Loan	• Interest only accrues on the actual amounts drawn, not the full loan amount
Deferred Start of Repayments	• Not required to make WIFIA payments during Project construction and can defer payments up to 5 years after completion • Accrued interest over that period is added to the loan principal; amortized over loan term

WIFIA Loan Considerations and Benefits - Continued

Long-Term	• Up to 40-years available: must be paid off within 35 years of project completion, after accounting for 5-year construction window
Flexible Structuring	• Loan can be structured in a variety of ways, including back-loading as necessary to wrap around scheduled payments on other debt
Re-Amortization	• Agency will have the option to re-structure the WIFIA loan after closing should changes in the financing plan occur
Early Prepayment	• Agency can prepay the WIFIA loan at any time after project completion, with no penalty

Rate Covenant and Debt Service Coverage

- When an issuer sells utility revenue bonds, it covenants with bond investors or lender that it will raise rates as needed (or reduce expenses as needed)
  - Ensures that there are enough net revenues to pay debt service and provides for cushion ("debt service coverage")
- Debt service coverage calculation is defined in the bond covenants (see below)
- Common covenants range from 110% to 125%
  - Agency's Compass Bank Loans require a 120% rate covenant
  - Anticipated 110% covenant for the subordinate WIFIA loan & matching bonds/bank loan

Standard Net Revenue Calculation

Net Revenues = Gross Revenues – Operating Costs*

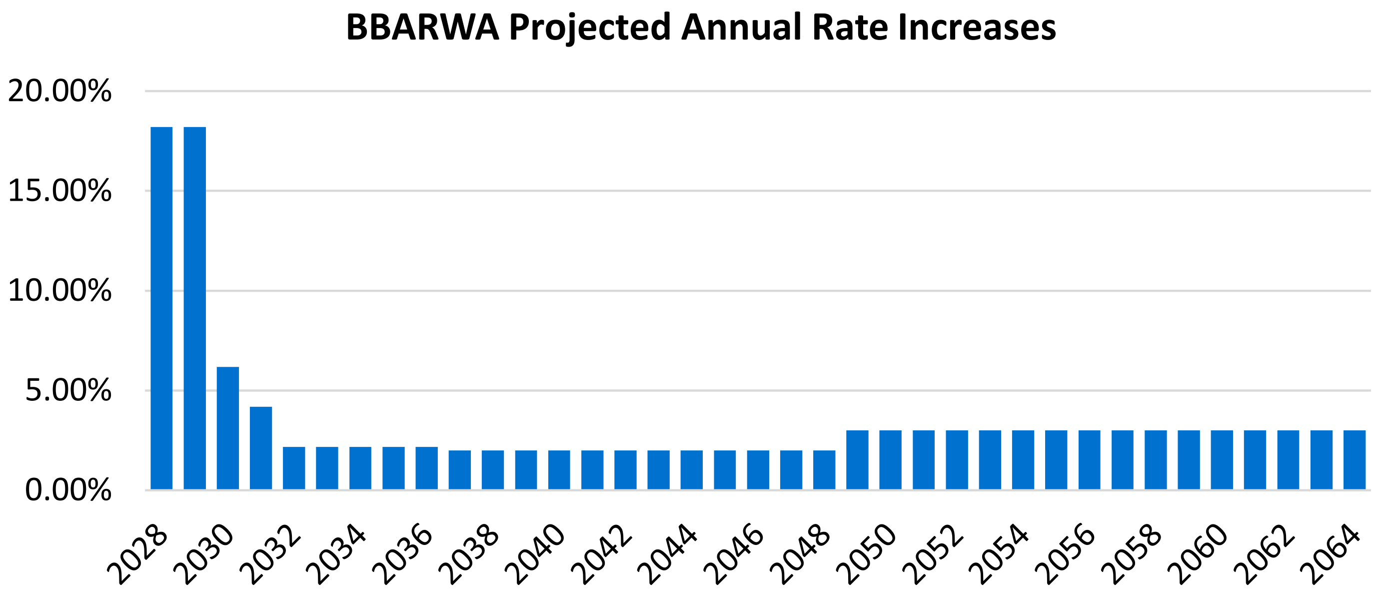
Debt Service = Principal + Interest Payments

$$\text{Debt Service Coverage} = \frac{\text{Net Revenues}}{\text{Debt Service}}$$

* **Operating Costs** exclude depreciation and intangible expenses and replacement and capital expenses

Estimated Future Rate Increases To Support Debt Service

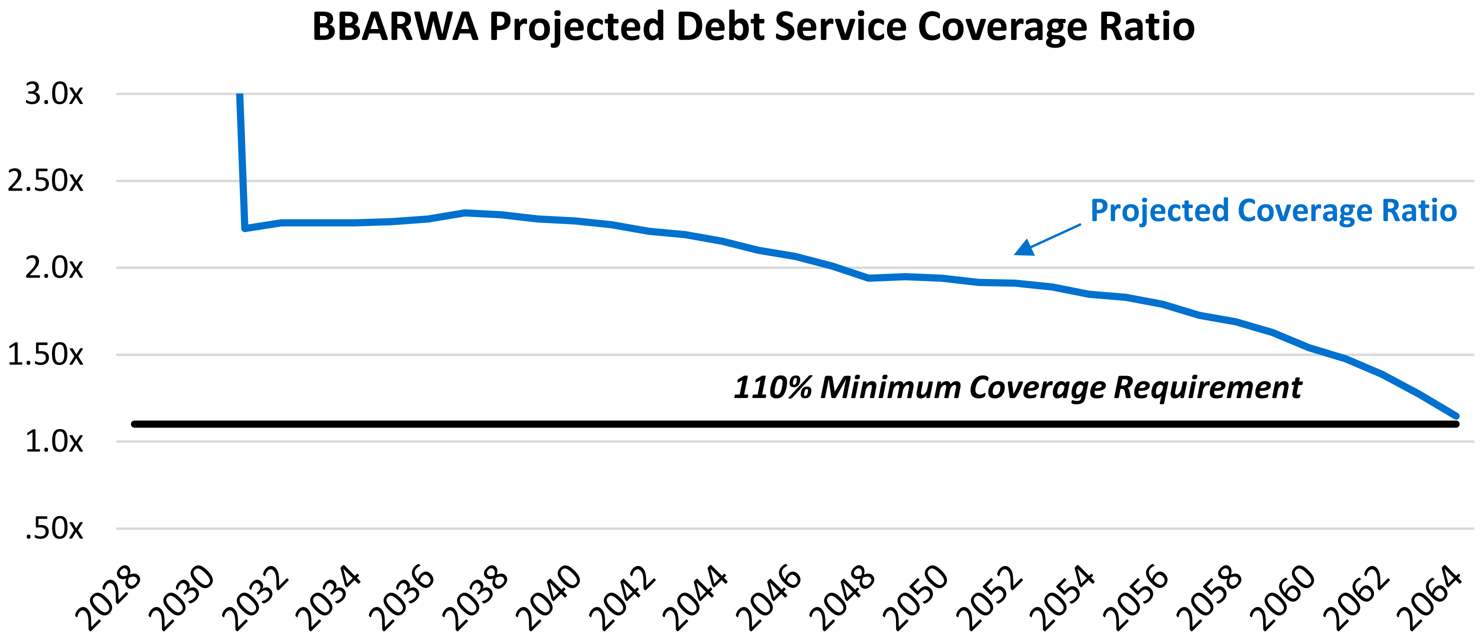
- Two future 18% rate increases are required in fiscal years 2028 and 2029
  - Rate increases projected to be 6% in 2030, 4% in 2031, and equal to or less than 3% in future years
  - Rate Increases calculated to provide capacity for future ~$4M/year debt payments
- Calculations based on a projected 5% annual O&M cost increase
- Current rate ($446.27/EDU) is approximately 0.6% of local Median Household Income (MHI)
  - 2025 MHI values from Census Bureau
  - Projected 2036 Rate ($756.32/EDU) is approximately 1.1% of 2025 MHI



Note: NHA Advisors is not performing the role of a rate consultant; these calculations are estimates for the purposes of sizing and structuring debt

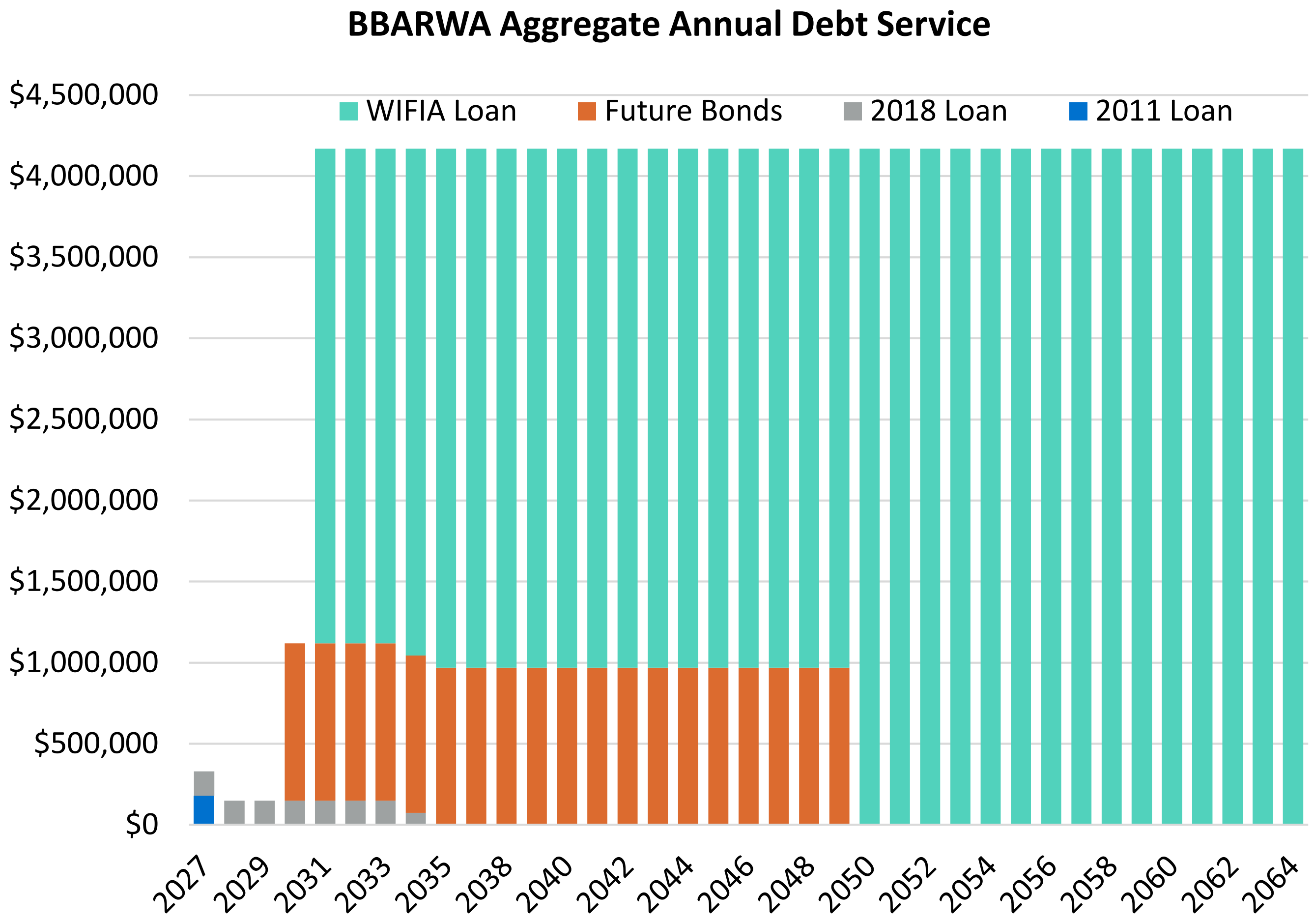
Projected Long-Term Debt Service Coverage

- Projected coverage decreases significantly as new debt service payments come online in 2031
  - Gradual decrease through the term of the projection
- Debt service coverage projected to remain above 200% through 2045
  - Maintaining coverage higher than the minimum required reduces risk of a covenant default, increases the Agency's credit strength
  - Amounts above the 110% requirement are the Agency's funds and are available for any legal purposes (including capital projects)



Aggregate Debt Service Structure

- Minimal debt service during construction through FYE 2030
  - Debt service steps up steeply to ~$4.2M/year by FYE 2031
  - Structured for level aggregate debt, with the WIFIA loan debt service repayments “wrapping around” the future bonds/bank loan repayments
    - Assumes a 5.2% WIFIA Loan rate and 5.5% future bonds/ bank loan rate
    - Assumes final **future** project cost of $81.4M (i.e., all contingency used)



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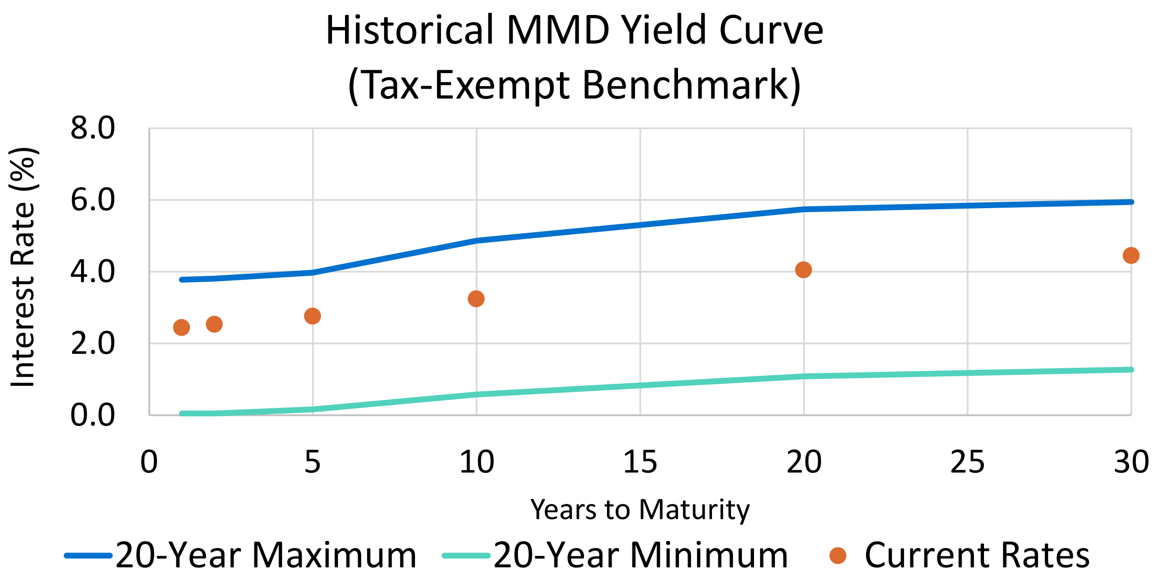
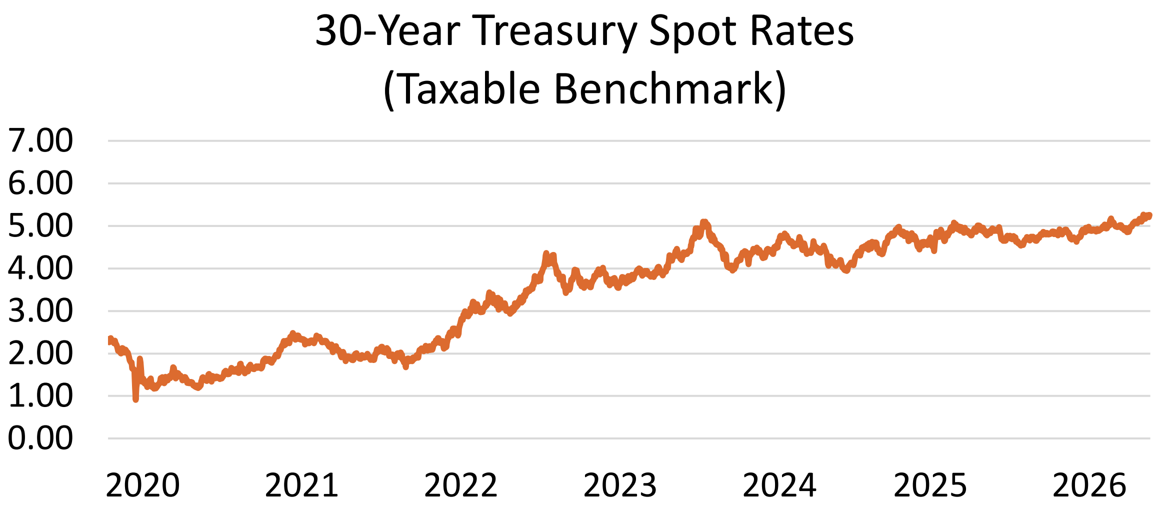
Interest Rate Considerations

- We do not know the direction of future interest rates, nor have ability to influence them
  - Fed can change short-term rates through rate adjustments (FOMC meetings)
  - But market views on inflation effectively control the direction of long-term rates
- Despite recent increases in rates from historical lows in 2020-2021, current long-term tax-exempt rates are within the maximum and minimum ranges over the last 20 years
- Rather than focusing on interest rates, issuers should develop a financing plan around a **debt payment structure** that works for the issuer’s finances, while preserving flexibility to refinance <u>**if**</u> rates decrease in the future
  - Waiting for interest rates to decrease before financing a project can expose an issuer to additional construction cost inflation risk





Conclusion

Based on NHA's analysis, the Agency has a realistic Financing Plan for funding the $81.4M remaining Greenspot Recharge Project costs

- A WIFIA Loan offers a combination of options and flexibility that are unique in the capital markets
  - Agency stands to benefit from several key features: draw schedule loan, long-term amortization, deferral of repayment, and (potentially) interest rate reset
- Under the anticipated schedule of rate increases, the Agency will be well-positioned to exceed its rate covenant, maintain debt service coverage, and make timely debt service payments during the repayment term

Caveats and Disclaimers

- *NHA prepared this Financing Plan in its role as the Agency's municipal financial advisor based on information currently available*
- *We view the core underlying assumptions in the Agency's financial forecasts to be reasonable, based on historic trends and the Agency's unique revenue and expense profile*
- *Significant differences between projected financial results and actual financial results will impact affordability of the Project*
- *Material Project cost changes will require updates to this Financing Plan*

Staff Recommendations

- Staff recommends that the Governing Board consider the following actions, or a combination thereof:

Receive and file the updated Funding and Financing Plan for the Greenspot Recharge Project;

Direct staff to bring back reconsideration of the WIFIA loan at the next appropriate Governing Board meeting; and

Direct staff to continue pursuing the funding and financing options identified in the updated Funding and Financing Plan