

Plan of Finance Workshop 2: Financing Alternatives & Governance

Reservoir Committee and Authority Board

April 23, 2021



Project Financing Action Plan Goals

- Goal 1** Provide information necessary to secure your agency's commitment to the next round of funding; and framework of future commitments.
- Goal 2** Develop agreements and commitments acceptable to individual agencies and to the project, as a whole, including:
- ✓ Successor Agreement
 - ✓ Plan of Finance
 - ✓ JPA Governance
 - ✓ Contracts
 - ✓ Security and certainty for JPA, participants, and lenders

Financing Action Plan Update

February Workshop

- Received input on benefits, obligations, risks, cost allocations, and the preferred finance option
- Action items to be addressed as part of future workshops/supporting material

Workshop Purpose & Objectives

Purpose:

Confirm financing alternatives, introduce guiding principles, and discuss governance as part of Sites Project financing.

Objectives

- Receive guidance and direction on financing alternatives
- Receive guidance and direction on the framing of Guiding Principles and Preliminary Terms for local agency participants
- Receive guidance and direction on long-term governance and delegation timing
- Identify home board information needs

Agenda

- Background and Context for Project Financing
- How do we pay for it? Financing Alternatives
- What do we get? Guiding Principles and Preliminary Terms
- How do we make decisions? Governance and Delegation Principles
- Next Steps

Background and Context

For Project Financing



Sites Reservoir...

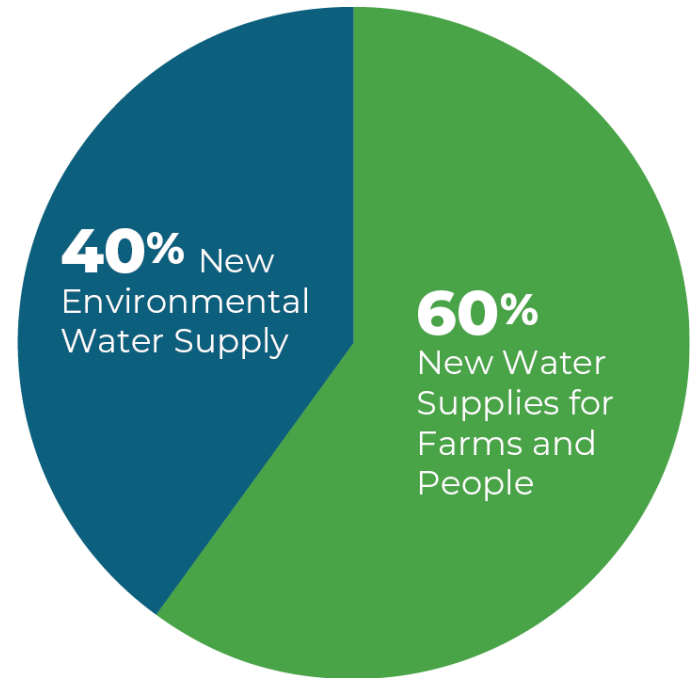
... a generational opportunity to construct a **multi-benefit water storage** project that helps restore **flexibility, reliability, and resiliency** to our water supply



Resilient Water Supply

SITES PROJECT WATER SUPPLY

Year Type	Water Supply (thousand acre- feet*)
Wet	80-90
Above Normal	92-292
Below Normal	190-296
Dry	398-429
Critically Dry	308-348
Long-Term Average	207-260



*1,000 acre-feet serves about 2,000-3,000 households or supports 200-500 agricultural acres annually.

Broad Statewide Participation



30 Agencies

9 JPA Members

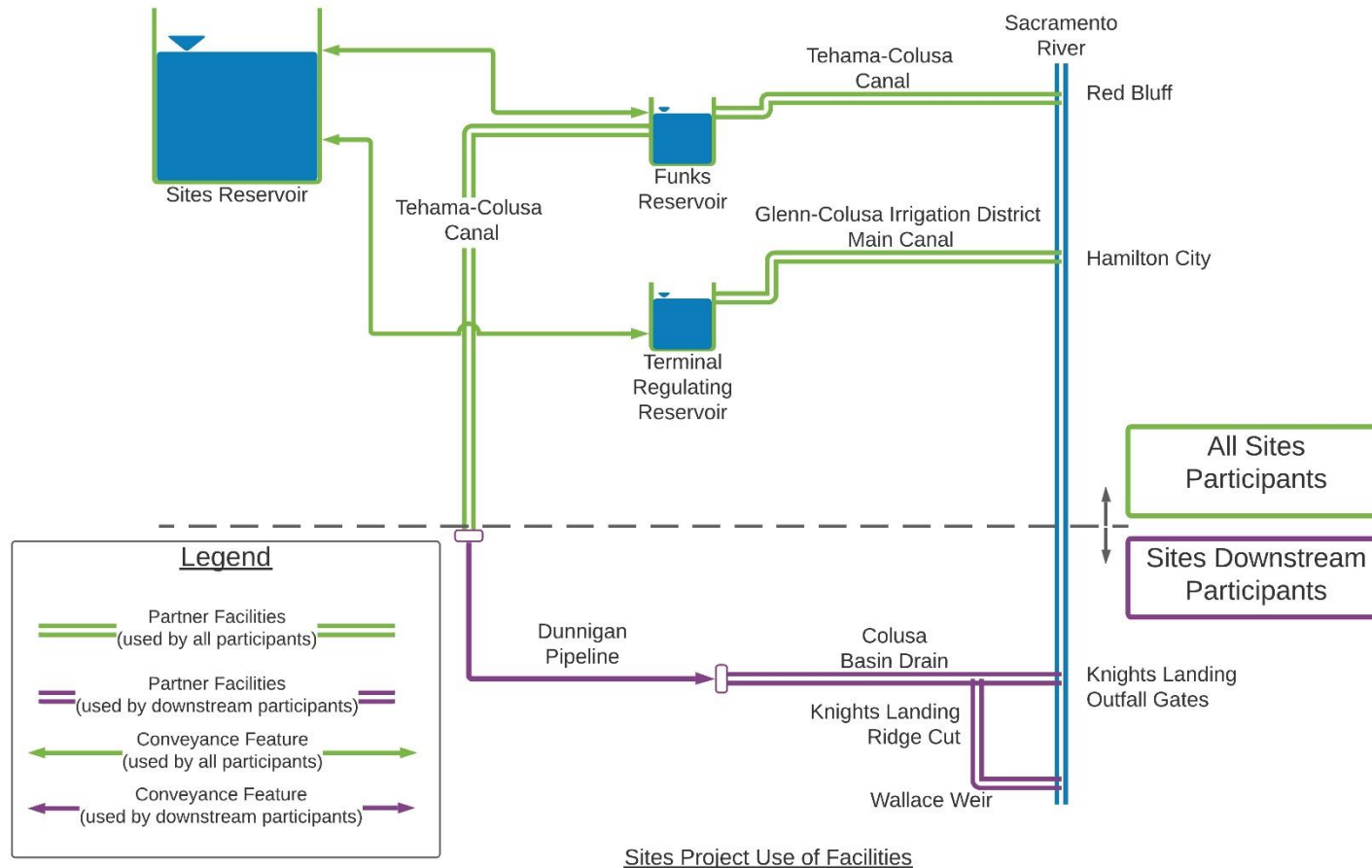
23 Reservoir Committee Members

Federal and State Agencies

Serving ~24.5 million people and
500,000+ acres of farmland



How Sites Will Work



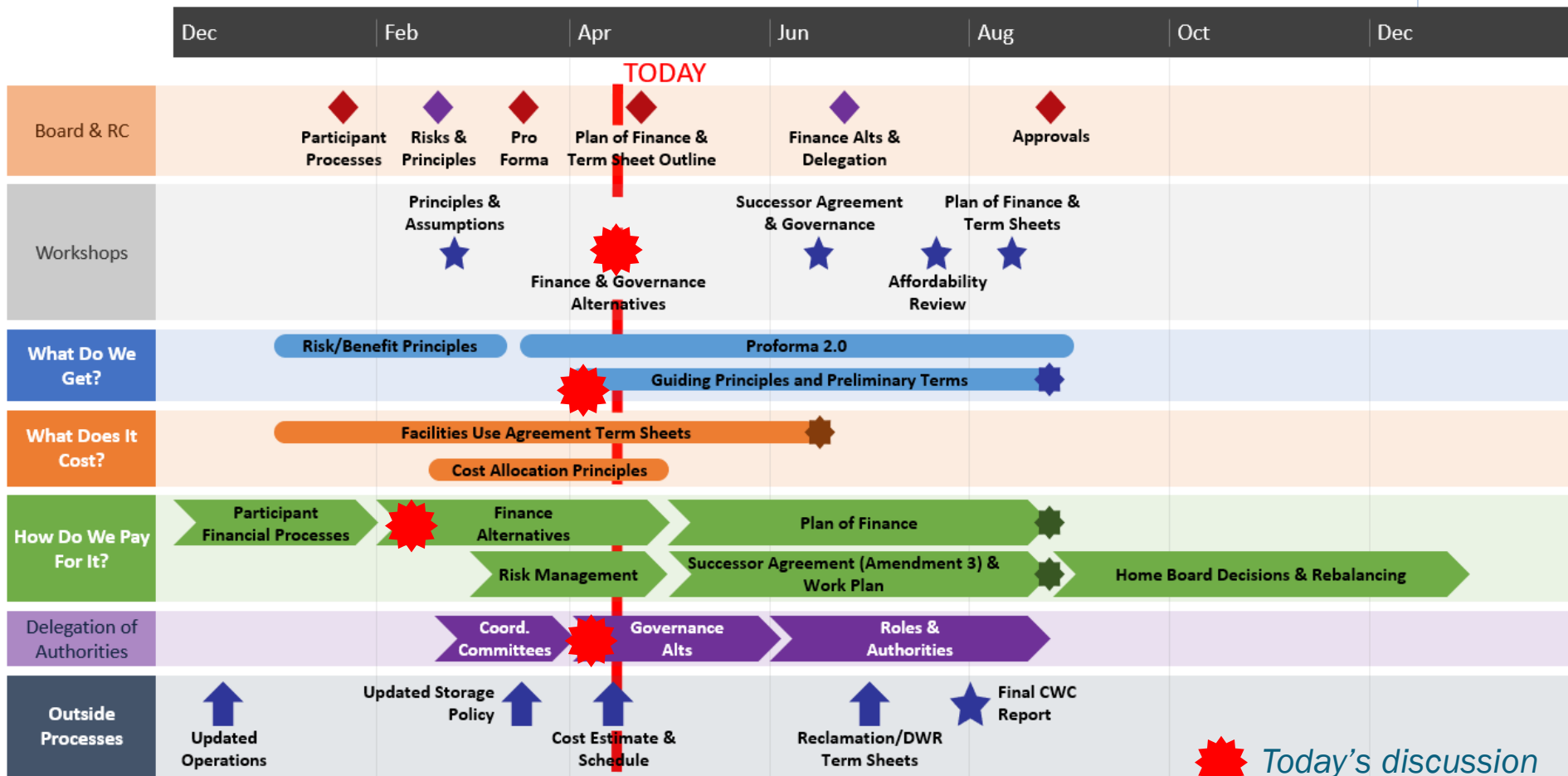
What have we accomplished to date?

- ✓ JPA and Reservoir Committee formed
- ✓ Received funding support
 - ✓ \$37M in Participant funding to date
 - ✓ Over \$800M in Prop 1 funds
 - ✓ Over \$440M USDA loan
 - ✓ Over \$24M in WIIN Act appropriations, feasibility complete
- ✓ Negotiating agreements with CDFW and Reclamation for state and federal benefits and financial support of the project
- ✓ Negotiating agreements for use of partner facilities and operations with DWR and Reclamation
- ✓ Initiated work to support water right application and CEQA/NEPA compliance
- ✓ Right-sized the project

What are the next big steps?

Plan of Finance & Participation Agreements

Prop 1 Eligibility
Deadline





Questions?

How do we pay for it?

Financing Alternatives



Financing Alternatives Overview

Financing Before Project Construction

- Cash calls
- Short-term bank line of credit
- WIFIA loan

Project Construction Financing

- WIFIA loan(s)
- USDA loan (intertie)
- Long-term bonds

Financing Before Project Construction

Cash Calls

- Currently planned until mid-2023
- Periods covered and amounts still being evaluated
- Enables continued Project participation without long-term commitments

Short-Term Bank Line of Credit

- Available once key permits and water rights are secured
- Variable interest rate
- Can be interest-only (no principal repayment) until refinanced
- Must be refinanced with long-term financing
- Current interest rate of 1.50% - 1.75% (3.00% used in modeling)

WIFIA Loan

Project Construction Financing

WIFIA Loans

- Can be used for pre-construction and construction costs
- Can finance up to 49% of project costs
- Total federal assistance limited to 80% of costs
- Maximum loan term of 35 years from project completion
- Principal payments must begin within 5 years of project completion
- Two-step application process with 18+ month lead time for loan execution
- Interest rate is equivalent US Treasury rate plus .01%, currently 2.38% (3.50% used in modeling)

Project Construction Financing

USDA Rural Development Loan

- Approved in 2018 for up to \$449 million for canal intertie facilities
- Loan tied to participation of rural Project Participants
- Can only be used to refinance intertie facilities costs after completion
- Requires 25% Participant step-up in event of shortfalls in debt service payments
- Maximum loan term of 40 years
- Interest rate lesser of 3.875% or loan rate determined at time of closing, currently 2.25% (3.875% used in modeling)

Project Construction Financing

Long-Term Municipal Bonds

- Fixed rate bonds purchased by investors through public sale
- Require investment grade credit ratings
- Comprehensive bond disclosure document required
- Debt service payments every 6 months
- Level annual debt service with a 30 to 40-year final maturity
- Participants may be required to make debt service payments to Authority 6 months or more in advance
- May require step-ups or additional liquidity reserves to cover Participant shortfalls in debt service payments
- Current interest cost of roughly 3.50% for single, unified finance plan (5.00% used in modeling)

Estimated Borrowing Costs

Type of Debt	Current Estimated Borrowing Cost	Modeling Assumption
Short-Term Bank Line of Credit	1.50% - 1.75%	3.00%
WIFIA Loan	2.38%	3.50%
USDA Rural Development Loan	2.25%	3.875%
Long-Term Municipal Bonds	3.50%	5.00%

Credit Profile of Sites Participants

- 11 of 23 project Participants have credit ratings
- 65% of Project subscription comes from Participants with credit ratings
- Two largest Participants are both rated and account for 43% of total subscription
- 25% of total subscription from North-of-Delta Participants and 75% from South-of-Delta Participants

Sites Participants	Credit Ratings (Moody's/S&P/Fitch)	Acre Foot Participation	Percentage Participation
Antelope Valley-East Kern WA	A1/AA/NR	500	0.3%
Carter MWC		300	0.2%
City of American Canyon	NR/AA/NR	4,000	2.4%
Coachella Valley WD	NR/AA+/AAA	10,000	6.0%
Colusa County		10,000	6.0%
Colusa County WD		10,073	6.0%
Cortina WD		450	0.3%
Davis WD		2,000	1.2%
Desert WA	NR/AA/NR	6,500	3.9%
Dunnigan WD		2,972	1.8%
Glenn-Colusa ID		5,000	3.0%
Irvine Ranch WD	Aa1/AAA/AAA	1,000	0.6%
La Grande WD		1,000	0.6%
Metropolitan Water District of S	Aa1/AAA/AA+	50,000	29.8%
Reclamation District 108		4,000	2.4%
Rosedale-Rio Bravo WD	NR/A/NR	500	0.3%
San Bernardino Municipal WD	NR/AAA/NR	21,400	12.8%
San Geronio Pass WA		14,000	8.4%
Santa Clara Valley WD	Aa1/AA/AA+	500	0.3%
Santa Clarita Valley WA	NR/AA/AA-	5,000	3.0%
Westside WD		5,375	3.2%
Wheeler Ridge - Maricopa WSD		3,050	1.8%
Zone 7 WA	NR/AA+/AA+	10,000	6.0%
Total		167,620	100.00%

Rated Participants shaded in blue

Credit Drivers

- **Who Will Be Obligated to Repay Debt**
- **Preferred Case - Single Finance Plan**
 - Authority responsible for issuing all Project debt
 - Debt secured by Project Agreements
 - Project Agreement payments cover fixed and variable O&M, R&R, capital improvements and debt service
 - Project Agreements include limited “step-up” provisions
- **Alternative Case – Multiple Finance Plans**
 - Same as Preferred Case except Authority structures multiple, parallel debt offerings based on credit ratings
 - Debt issued for group of Participants rated “A” or better
 - Debt issued for group of Participants rated less than “A” or not rated
 - Authority coordinates the issuance of all Project debt to assure that funding is available for construction when needed
- **Alternative Case – Pay-As-You-Go**
 - Participants may opt out of Authority construction financing in favor of independent borrowing or cash funding; must be completed concurrently with Authority financings
 - Participants must still make periodic payments to cover O&M, R&R and subsequent capital costs
 - Pay-Go Participants still committed to limited “step-up” provisions

Credit Drivers

- **Contract Provisions**
 - **Take-or-Pay vs. Take-and-Pay Obligations**
 - Lenders will expect Participants to make non-contingent take-or-pay commitments
 - **Participation Off-Ramps**
 - Once external borrowing begins, no participation off-ramps will be allowed
 - **Sufficiency Pledge**
 - Lenders will want additional security in Project Agreements and bond documents to address Participant shortfalls in debt service payments and to ensure long-term Project viability
 - Traditional pledge similar to State Water Project
 - Contribute to a liquidity reserve to cover payment defaults

Credit Drivers

Project Sufficiency Waterfall

**Project Participant Defaults on
Debt Service Payment**



Project Participants can volunteer to meet the obligations
(XX days)



If no volunteers, Authority seeks outside entities
(XX days)



If no acceptable outside entities, all non-defaulting Participants comply with
sufficiency pledge (XX days)

Financing Hurdles/Risks

- DWR Statements of Charges
- Federal Participation
- Litigation
- Delays
- Permitting
- Water Rights

Rationale for Selecting a Preferred Financing Scenario

- **Plan of Finance**
 - Authority must be able to secure Project funding when needed
 - Borrowers' repayment pledge must be unconditional
 - Pool of borrowers must be of sufficient credit quality to provide a strong likelihood of loan/debt repayment
- **Credit Enhancers**
 - Unified borrowing plan – All Participants borrow together
 - Shortfall contingencies – Remaining Participants agree to make up debt service shortfalls by either funding reserves or agreeing to pay their share of shortfall when/if needed
- **Credit Detractors**
 - Lack of unified financing plans
 - Ability of Participants to drop from Project or reduce participation level
 - Participants' ability to sell Participation interest to outside entities

Plan of Finance likelihood of success

Likelihood of success in securing financing varies based on the approach taken

	Single Finance Plan	Multiple Finance Plans	Pay-As-You-Go
Pre-Construction			
Bank Line of Credit			
WIFIA Loan			
Construction			
WIFIA Loan			
USDA Loan			
Long-Term Bonds			

Securing Revenue to Meet Debt Service

Participants have one or more ways to secure funds to pay debt service on Project debt

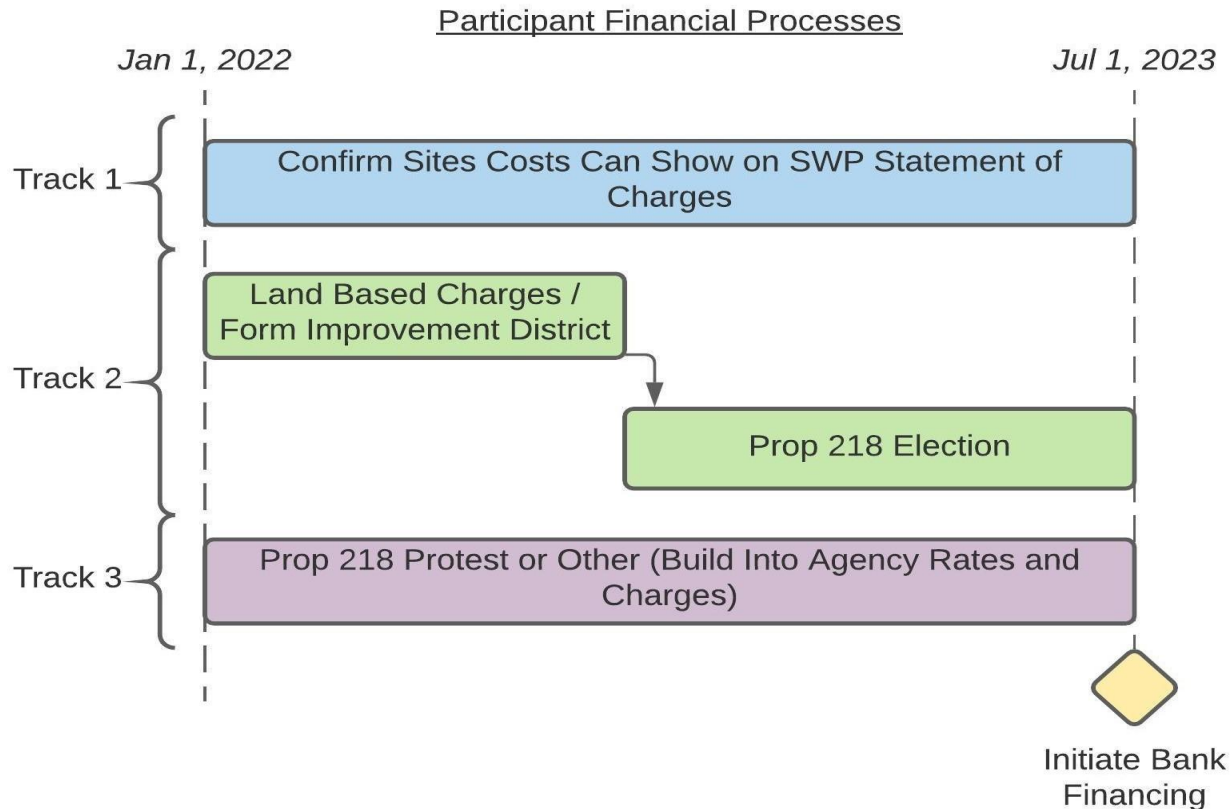
Include costs on Participant's DWR SWP
Annual Statement of Charges

Levy benefit assessments or other land-
based charges

Incorporate the costs into current water
rates and charges

Securing Revenue to Meet Debt Service

All approaches will require significant lead time to execute



Direction Received

- Continue discussions with major banks to maintain their interest in the Project and stay informed of their likely lending requirements.
- Engage in discussions on behalf of the smaller agricultural Participants with regional or specialty banks or other lenders that have a history of lending to smaller or agricultural entities to assess the availability and estimated cost of credit
- Further develop and refine the concept of a Sufficiency Pledge and Liquidity Reserve and test these concepts with potential lenders.

Questions to Consider

- Are the financing alternatives feasible?
- Are there other financing alternatives that should be explored?

What do we get?

Guiding Principles and Preliminary Terms



Objectives for Today

Define approach to developing guiding principles and preliminary terms

Confirm previous direction items based on:

- February Workshop Feedback
- Budget & Finance Committee Direction

Identify Areas requiring further discussion

- Emphasis on assurances necessary for next round of funding
- Items to defer to later

Guiding Principles and Preliminary Terms Purpose

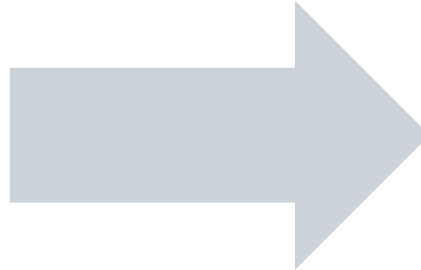
Purpose: establish principles to help guide development of the Contract between the Sites Reservoir Project Joint Powers Authority (JPA) and the Participants

Key aspects

- Mutual understanding of the allocation of project benefits, costs, risks, financing obligations, and ownership obligations
- Parties will work cooperatively and in good faith to follow the principles
- Resolve issues to establish the Contract by approximately Summer 2023, prior to initiating project financing
- Work in progress, will align with final adopted Plan of Finance and other project changes

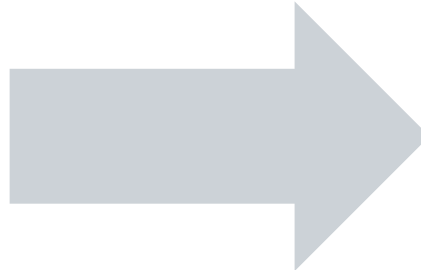
Approach

Water Storage and
Supply Services
Contract



Sites Reservoir
Benefits and
Obligations Contract

Contract Term Sheet



Guiding Principles and
Preliminary Terms
(GPPT)

Why the new approach?

- Emphasis on assurances necessary for next round of funding while providing flexibility moving forward
- Feedback from February Workshop and direction on the Storage Policy, now Storage Principles

Which guiding principles are we focusing on developing?

Roles and Responsibilities

- Risk management

Project Assets and Ownership

- Conditions for disposition of the asset rights

Beneficiary Pays

- Use of facilities
- Ongoing: State/Federal O&M and cost overrun coverage

Financing

- Group financing and pay-go
- Sufficiency pledge

Leasing of Storage and Sales of Water

- Consistent with storage principles, important for offsetting costs

Minimum Contract Term, Successor Agreements, and Changes

- Term will coincide with length of financing agreement

Other???

Integrating Workshop Feedback/ B&F Committee Direction

Workshop Feedback

- 1.2.2 – “meaningful input into definition and management of risks and obligations”
- 4.2.3 – “...financing agreement to include a ‘Project Sufficiency Pledge...’
- Related Agreements - “proportionately share Project risks, obligations, and benefits... consistent with beneficiary pays...”

B&F Committee Direction

- 3.1 – “Project costs should be allocated consistent with the flow of Project benefits and obligations”
- 4.1 – “JPA will issue debt...at such time that the JPA has secured the water right...”

What can impact the development of guiding principles?



Items for further development

Roles and Responsibilities

- Milestones to consider changes to governance

Project Assets and Ownership

- Saleable asset
- Constraints on sale pricing
- Priority of offering

Leasing and Storage and Sales of Water

- Pricing constraints
- “Shop here first” and priority of offering

Financing

- Remaining in sync with Plan of Finance
- Sufficiency pledge

Minimum Contract Term, Successor Agreements, and Changes

- Project offramps at different milestones
- Changes in the regulatory environment and permit conditions

Questions to Consider

What principles are critical to flesh out before the next round of funding?

Are we defining enough about the long-term benefits and obligations for your agency to commit to the next round of funding?

How do we make decisions?

Governance and Delegation Principles



Approved Documents Establishing Roles

Fourth Amended and Restated Joint Exercise of Powers Agreement

- Mar-23-17 Approved

Reservoir Project Agreement

- Apr-1-19 Approved
- Oct-18-19 First Amendment Approved
- Apr-22-20 Second Amendment Approved

Bylaws

- Nov-21-16 Phase 1 Approved
- Nov-17-18 Phase 2 Approved

Current Roles Of The Authority Board

Section 4.1 of the 2016 Bylaws and Section 10 of the 2018 Bylaws:

- **Environmental Review and Permitting**
 - CEQA lead agency and work with USBR for NEPA lead
 - Permit applicant, negotiation and acceptance of permit conditions, permit compliance
 - Commitment to mitigation
- **Project Design**
 - Dam safety compliance
 - Development of renewable power and pumped storage
- **Funding**
 - Proposition 1 grant compliance
 - Approve a financial plan
- **Agreements and Changes**
 - Review decisions at the Project Agreement level to ensure they are in the best interest of the Sites Reservoir Project
 - Establish decision making thresholds by specific topic areas to be addressed by the Reservoir Committee
 - Approve the Reservoir Project Agreement and amendments
 - Determination of Material Changes that affect cost and water supply benefits
- **Assets**
 - Acquire property and rights-of-way
 - Hold title to water rights
- **Outreach**
 - Outreach with elected officials, general public, NGO's and tribes
- **Oversight**
 - Oversight of employees and consultant contracts

Current Roles Of The Reservoir Committee

Section 3 of the 2019 Reservoir Project Agreement:

- Setting policy for the RC
- Recommend actions for the AB to take
- Determine payments (and timing) per participation percentages each fiscal year
- Authorize payments consistent with adopted work plan and budget
- Approve all other actions needed to carry out the project development
- Material actions require both the Reservoir Committee approval and the AB approval

Questions for Today

Governance and Delegation

- Is current governance structure and delegation sufficient for future decisions?
- Does it need to evolve? If so, when?

Home Board Decision-making

- What do your home boards need to know about future governance and decision-making to execute the Successor Agreement?

What We Heard from the Coordinating Committees

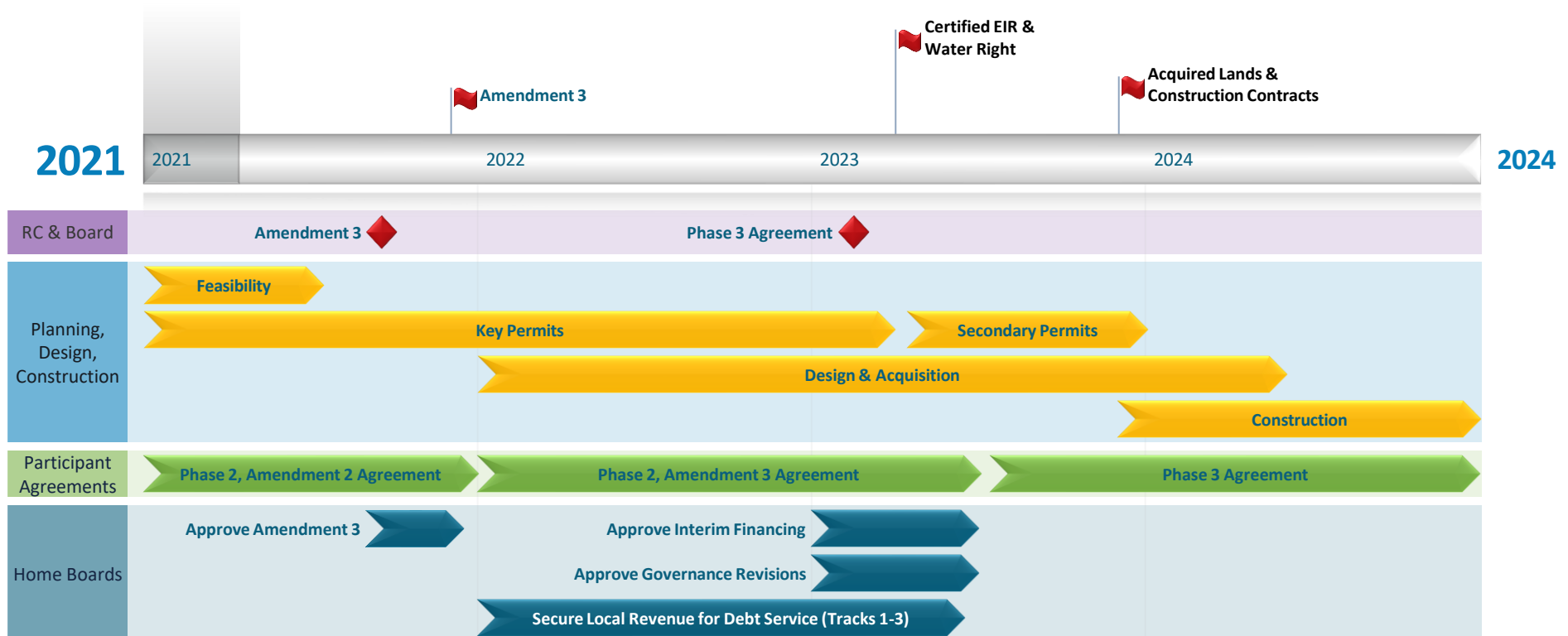
General Agreements and Observations

- The project and the Board/RC responsibilities will evolve substantially in future phases.
- The timing is good to begin discussion of these issues (before financing).
- Maintaining local representation through all phases is important for success.

Initial Areas for Attention

- Aligning liabilities, responsibilities, and decision-making
- Nimble decision-making
- Staffing to oversee design, construction, and operations
- Learn from good and bad of other programs

Decision-making & Entitlement Milestones



Entitlement Milestone: Certified EIR, Permits, and Water Right

Establishes an asset (water right) and encumbers the Project with legal conditions

Obligations

- Design, construct, and operate the project in compliance with EIR and permitting commitments
- Water right compliance responsibilities

Activities

- **Legal:** Resolve lawsuits (if any) related to adequacy of environmental compliance
- **Design:** Award design contracts and approve design contract changes
- **Permitting:** Certify compliance with Mitigation and Monitoring Plan and permits for this phase
- **Organization:** Establish the organization that will secure financing to fund and operate
- **Financing:** Secure financing for construction phase (state, federal and participant funds)
- **Communications:** Clearly communicate anticipated construction schedule (no surprises)

Entitlement Milestone: Acquired Lands and Construction Oversight

Creates facility operations and ownership responsibilities

Obligations

- Design and construction decision-making
- Significant financial exposure
- Workplace health and safety

Activities

- **Construction:** Award construction contracts and approve construction contract changes
- **Legal:** Resolve lawsuits (if any) from land acquisition
- **Permitting:** Certify compliance with Mitigation and Monitoring Plan and permits for this phase
- **Communications:** Communicate anticipated construction schedule
- **Operations:** Adopt operations rules and reporting for all partners
- **Funding:** Manage revenues and payments
- **Land Acquisition and Management:** Secure access to all lands and right of way necessary and adopt public access plan and recreation plan
- **Risk Management:** Adopt a risk management strategy

Entitlement Milestone: Long-term Operations

Establishes the Project as an independent utility

Obligations

- Comply with water right, permits, operating agreements, and service agreements
- Technical, management, and financial capacity

Activities

- **Legal:** Resolve lawsuits (if any) from construction claims
- **Permitting:** Certify compliance with Mitigation and Monitoring Plan and permits for this phase
- **Operations:** Operate reservoir
- **Funding:** Manage revenues and payments
- **Land Management:** Manage public access and grazing leases (if any) and recreation plan

Governance Next Steps

June Workshop – Recommendations for

- Key milestones for Board role adjustments
- Approaches/options to consider for change

August

- Summary of governance issues for future resolution

Workshop Discussion

Governance and Delegation

- Is current governance structure and delegation sufficient for future decisions?
- Does it need to evolve? If so, when?

Home Board Decision-making

- What do your home boards need to know about future governance and decision-making to execute the Successor Agreement?

Next Steps

Activities and Workshops



Next Steps

Team

- Follow up on specific concerns
- Continue developing financing scenarios, guiding principles, and preliminary terms
- Develop governance approaches

Next Workshop: June 18th

- Successor Agreement (and Work Plan)
- Governance Approaches

Next Steps (cont'd)

Homework Assignments – Due May 7 to JP
(jrobinette@brwnncald.com)

- Any additional issues or concerns to be addressed in the Guiding Principles and Preliminary Terms, Plan of Finance, and Successor Agreement
 - Financing Scenarios
 - Guiding Principles and Preliminary Terms
 - Governance Approaches

Next Steps (cont'd)

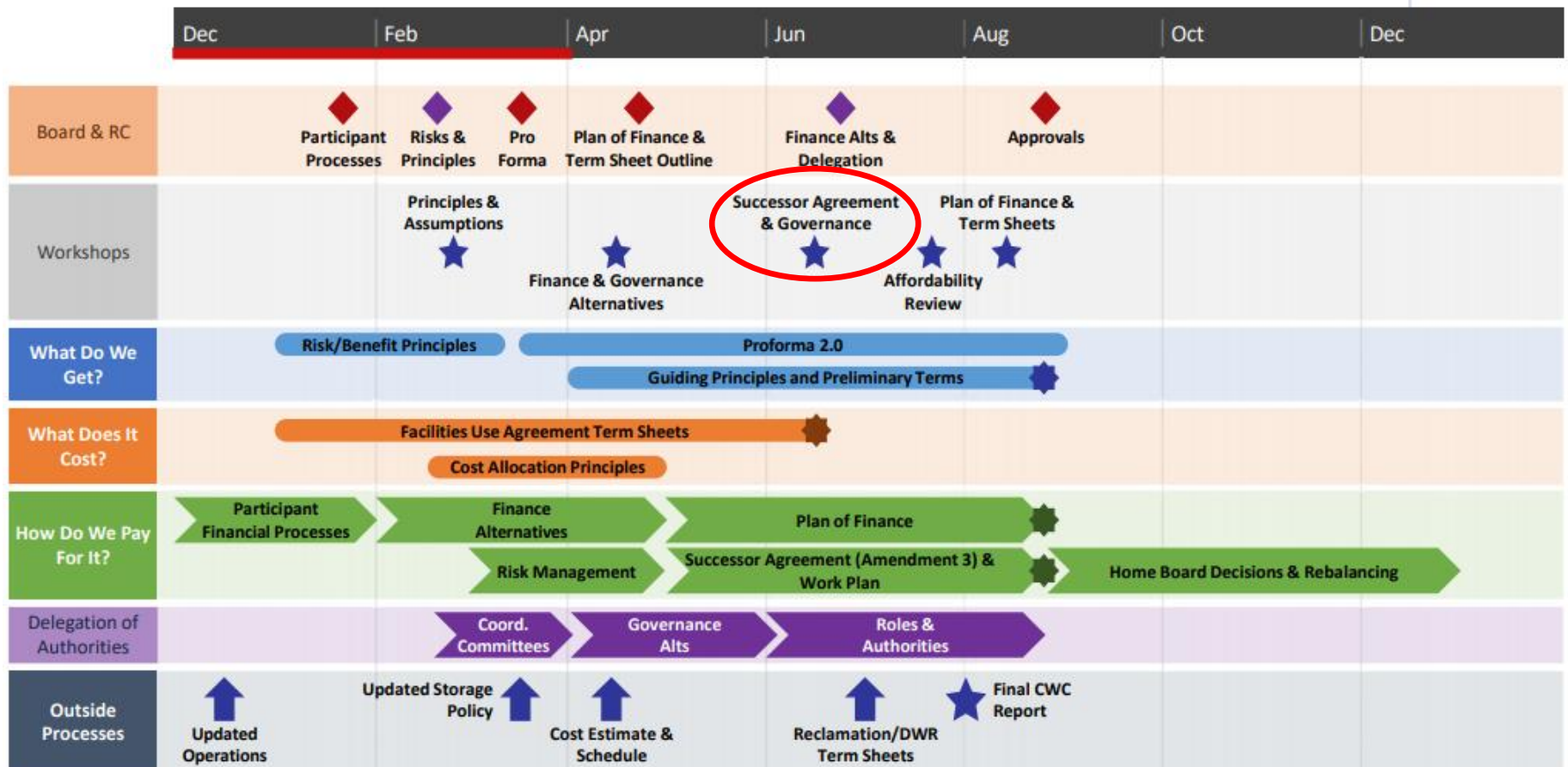
Workshop Dates

- June 18, Successor Agreement and Governance
- July 23, Affordability Review
- September 2, Plan of Finance and Term Sheets

Road Map

Plan of Finance & Participation Agreements

Prop 1 Eligibility Deadline





Questions?