

# Plan of Finance Workshop 1: Foundational Principles and Assumptions

Reservoir Committee and Authority Board

February 26, 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

# Workshop Purpose & Objectives

## ***Purpose:***

Confirm foundational principles and identify issues to be addressed in Sites Project financing.

## ***Objectives***

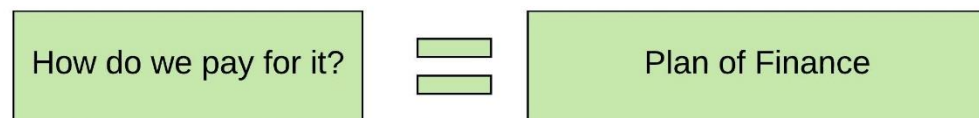
- Inform/engage finance staff from home boards.
- Review/confirm assumptions, principles, inputs that will shape and guide the ***Term Sheet for the Water Storage and Supply Services Contracts.***
- Introduce initial financing scenarios.

# Agenda

- Background and Context for Project Financing
- What do we get? Benefits, Obligations, & Risks
- How much does it cost? Cost Allocation Principles
- How do we pay for it? Financing Scenarios
- Next Steps



*"We" and "Us" represent individual agencies*



*"We" refers to all of the local agencies together*

# Background and Context

For Project Financing



# Sites Reservoir...

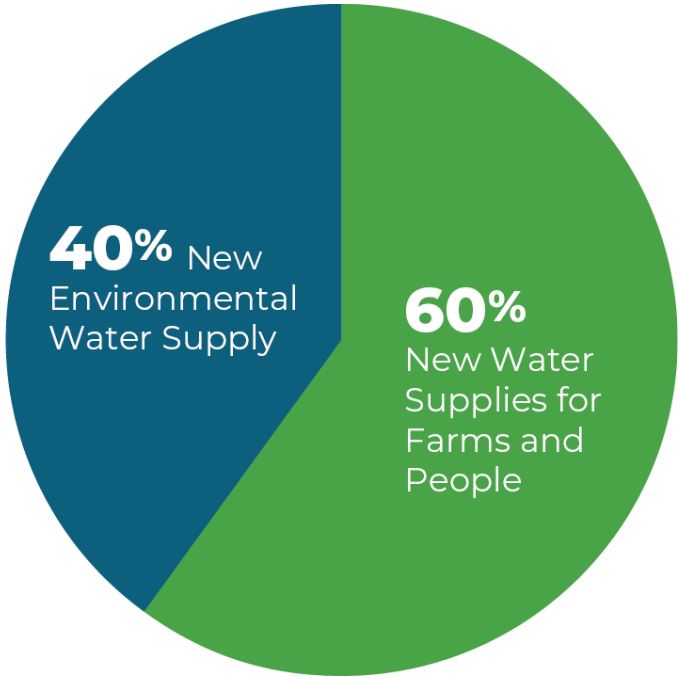
... a generational opportunity to construct a **multi-benefit water storage** project that helps restore **flexibility, reliability, and resiliency** to our water supply



# 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

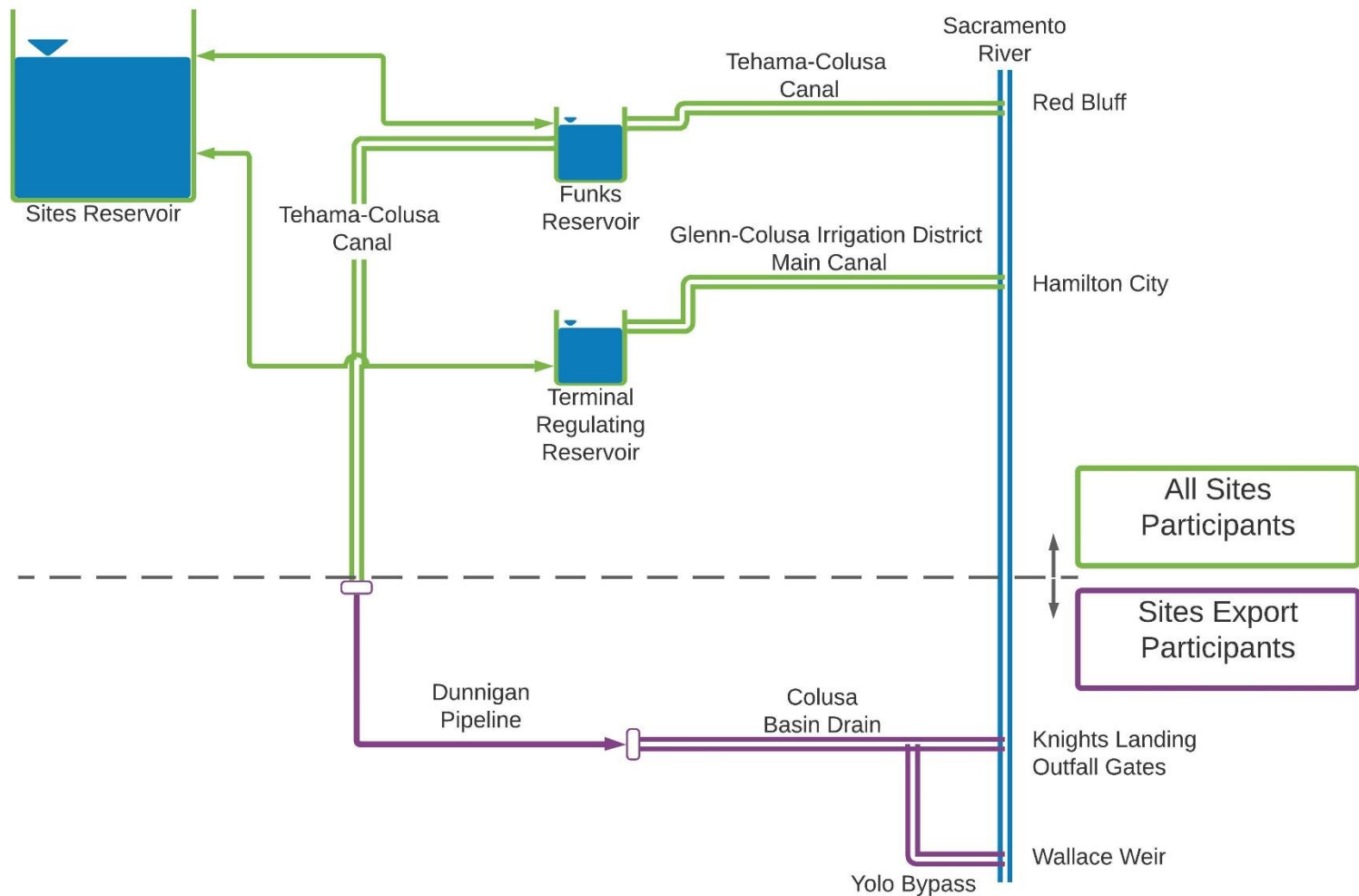
Federal and State Agencies

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





# How Sites Will Work



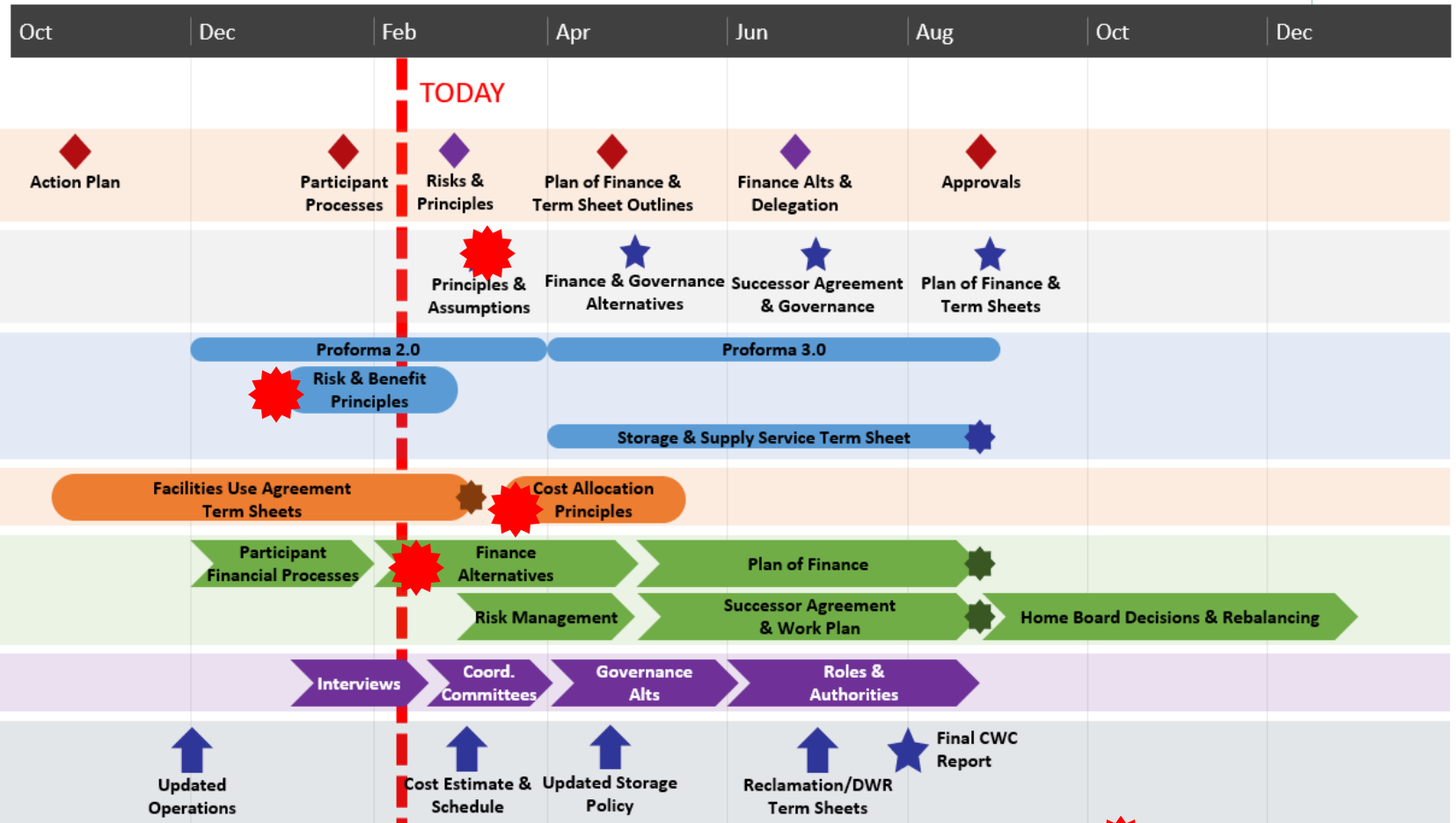
# What have we accomplished to date?

- ✓ JPA and Reservoir Committee formed
- ✓ Received funding support
  - ✓ \$37M in Participant funding to date
  - ✓ Over \$800M in Prop 1 funds
  - ✓ Over \$450M 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?

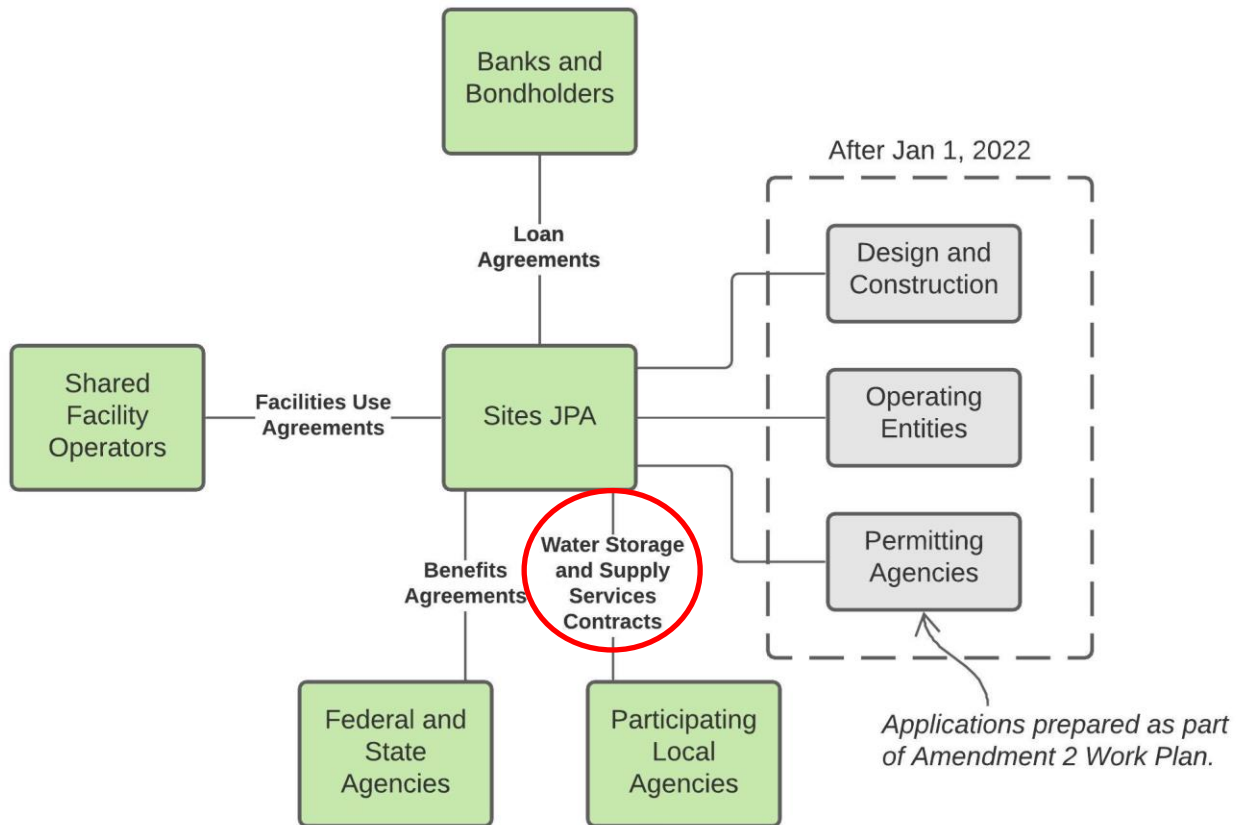
## Plan of Finance & Participation Agreements

Prop 1 Eligibility  
Deadline



★ Today's discussion

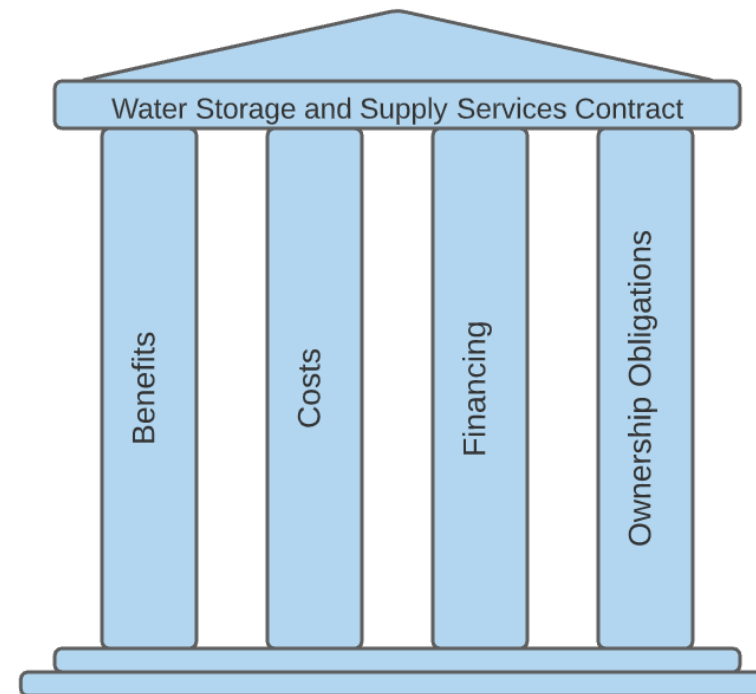
# Agreements to be Developed



# Water Storage and Supply Services Contract

## *Assumptions*

- Two Parties:  
**JPA** owns infrastructure, water rights.  
**Participants** entitled to capacity shares.
- Project allocates benefits, costs, financing obligations, ownership obligations.





Questions?

# What do we get?

Key Benefits, Obligations, and Risks



# Benefits, Obligations, and Risks -- Objectives

- Reach a common understanding of project benefits, obligations, and risks which ultimately will need to be addressed in the Water Storage and Supply Services term sheet and contract.
- Identify benefits, obligations, or risks requiring further analysis and discussion.



# Questions to Consider

- Are all key benefits accounted for?
- What risks and obligations do you worry about?
  - As a facility owner?
  - As a project participant?
  - As a participant in the JPA?
- Are benefits and obligations/risks in alignment with beneficiary pays concept?

# Long-Term (Once the Project is Up and Running)

# Once the project is up and running, what are its major benefits and who receives them?

Water Supply Storage

- Project Participants

Muni/Ag Water Supply

- Project Participants

System Reliability

- Reclamation

Other Water Supply Type Benefits?

- ????

# Once the project is up and running, what are its major benefits and who receives them? (cont'd)

Env. Storage and Water Supply  
(Public Benefit)

- CDFW
- Reclamation
- General Public

Recreation  
(Public Benefit)

- DWR
- General Public

Regional Flood Control  
(Public Benefit)

- Glenn, Colusa, Yolo Counties

Local Economic Benefits

- Glenn, Colusa, and Yolo Counties

Other Public Type Benefits

- ????

# What are the long-term obligations and risks that go along with these benefits?

	Project Participants	State Agencies	Reclamation
<i>Financial Obligations</i>			
Finance Payments <ul style="list-style-type: none"> <li>• Debt Service</li> <li>• Principal</li> </ul>	✓		
Finance Payments for Dunnigan Pipeline and Colusa Basin Drain improvements <ul style="list-style-type: none"> <li>• Debt Service</li> <li>• Principal</li> </ul>	✓ (Sites Export Participants)		
Payment of expenses through construction, capped at the maximum eligibility determination amount (\$836M)		✓	
Payment of expenses through construction, capped at 25%			✓

# What are the long-term obligations and risks that go along with these benefits? (cont'd)

	Project Participants	State Agencies	Reclamation
<i>Financial Obligations (cont'd)</i>			
Payment of Project O&M costs	✓	(no direct O&M payments under Prop 1)	✓
<i>Future Obligations</i>			
Renewals & Replacements	✓	???	???
Future Expansion	???	???	???
<i>Risks</i>			
Failure to Collect Loan Payments from Project Participants	✓  (JPA with costs allocated to remaining project participants)		

# What are the long-term obligations and risks that go along with these benefits? (cont'd)

	Project Participants	State Agencies	Reclamation
<i>Risks (cont'd)</i>			
Insufficient supply/storage	✓	✓	✓
Dam Failure	✓	???	???
Partner Facility Failure	✓ (risk is for failure to receive project benefits)	✓ (risk is for failure to receive project benefits)	✓ (risk is for failure to receive project benefits)
<i>Other Obligations and Risks?</i>			

# Development Phase (Inception through Construction)



# During the project's development phase, what are its major benefits and who receives them?

Obtaining a Water Right

- Project Participants
- CDFW
- Reclamation

Securing State and Federal Funding

- Project Participants

Securing and Acquiring Reservoir Site and Securing Partner Facility Agreements

- Project Participants
- CDFW
- Reclamation

Local Employment (Construction)

- Glenn, Colusa, and Yolo Counties







Other Development Benefits?

- ????

# What are the obligations and risks that go along with these benefits?

	Project Participants	State Agencies	Reclamation
<i>Financial Obligations</i>			
Cost of Water Right Acquisition (pre-project financing)	✓	✓	✓
Cost of Land Acquisition (included in project financing)	✓	✓ (pay-go)	✓ (pay-go)
Finance Payments (during construction) <ul style="list-style-type: none"> <li>Debt Service</li> </ul>	✓		
Finance Payments (during construction) for Dunnigan Pipeline and Colusa Basin Drain improvements <ul style="list-style-type: none"> <li>Debt Service</li> </ul>	✓ (Sites Export Participants)		

# What are the obligations and risks that go along with these benefits? (cont'd)

	Project Participants	State Agencies	Reclamation
<i>Risks</i>			
Failure to Collect Finance Payments from Project Participants	 (JPA with costs allocated to remaining project participants)		
Construction Cost Overruns			 (Would Require Congressional Appropriation)
Construction Delay (deferred benefits)			
<i>Other Obligations and Risks?</i>			
Predecisional Working Document – For Discussion Purposes Only			

# Questions to Consider

- Are all key benefits accounted for?
- What risks and obligations do you worry about?
  - As a facility owner?
  - As a project participant?
  - As a participant in a JPA?
- Are benefits and obligations/risks in alignment with beneficiary pays concept?

# How much does it cost?

Cost Allocation Principles



# Project Costs -- Objectives

- Review participant shares and conceptual allocation of capital costs.
- Discuss how we will allocate costs to participants in a manner that reflects which facilities will be used by each participant.
- Identify which costs can be shared with state and federal agencies.

# What is our share of costs up to project financing?

Participant	Amendment 2		Successor Agreement	Participant	Amendment 2		Successor Agreement
	Participation (AF)	% Participation	at \$350/AF		Participation (AF)	% Participation	at \$350/AF
Antelope Valley-East Kern	500	0.30%	\$0.2M	La Grande WD	1,000	0.60%	\$0.4M
Carter MWC	300	0.18%	\$0.1M	MWD of Southern CA	50,000	29.83%	\$17.5M
City of American Canyon	4,000	2.39%	\$1.4M	Reclamation District 108	4,000	2.39%	\$1.4M
Coachella Valley WD	10,000	5.97%	\$3.5M	Rosedale-Rio Bravo	500	0.30%	\$0.2M
Colusa County	10,000	5.97%	\$3.5M	San Bernardino Valley	21,400	12.77%	\$7.5M
Colusa County WD	10,073	6.01%	\$3.5M	San Geronio Pass	14,000	8.35%	\$4.9M
Cortina WD	450	0.27%	\$0.2M	Santa Clara Valley	500	0.30%	\$0.2M
Davis WD	2,000	1.19%	\$0.7M	Santa Clarita Valley	5,000	2.98%	\$1.8M
Desert WA	6,500	3.88%	\$2.3M	Westside WD	5,375	3.21%	\$1.9M
Dunnigan WD	2,972	1.77%	\$1.0M	Wheeler Ridge-Maricopa	3,050	1.82%	\$1.1M
Glenn-Colusa ID	5,000	2.98%	\$1.8M	Zone 7 WA	10,000	5.97%	\$3.5M
Irvine Ranch WD	1,000	0.60%	\$0.4M	<b>Public Water Agency Total</b>	<b>167,620</b>	<b>100.00%</b>	<b>\$58.7M</b>

# What is our total capital cost obligation?

\*prior to refinement to account for which facilities each participant will use

Participant	Long-term Commitment
	\$3B – \$5B Total
Antelope Valley-East Kern	\$6M–\$11M
Carter MWC	\$3M–\$7M
City of American Canyon	\$47M–\$91M
Coachella Valley WD	\$117M–\$228M
Colusa County	\$117M–\$228M
Colusa County WD	\$117M–\$229M
Cortina WD	\$5M–\$10M
Davis WD	\$23M–\$46M
Desert WA	\$76M–\$ 148M
Dunnigan WD	\$35M–\$68M
Glenn-Colusa ID	\$58M–\$114M
Irvine Ranch WD	\$12M–\$23M

Participant	Long-term Commitment
	\$3B – \$5B Total
La Grande WD	\$12M–\$23M
MWD of Southern CA	\$583M–\$1.1B
Reclamation District 108	\$47M–\$91M
Rosedale-Rio Bravo WD	\$6M–\$11M
San Bernardino Valley	\$249M–\$487M
San Gorgonio Pass WA	\$163M–\$319M
Santa Clara Valley WD	\$6M–\$11M
Santa Clarita Valley WA	\$58M–\$114M
Westside WD	\$63M–\$122M
Wheeler Ridge-Maricopa	\$36M–\$69M
Zone 7 WA	\$117M–\$228M
<b>Public Water Agency Total</b>	<b>\$2B – \$4B</b>
California Water Commission	\$836M
Bureau of Reclamation	\$210M – \$350M

*Principal only, no interest or financing expenses included*



# What costs are shared with state and federal agencies?

## Participants

- Pay annual debt service plus operations, maintenance, and replacement costs
- Use of facilities varies

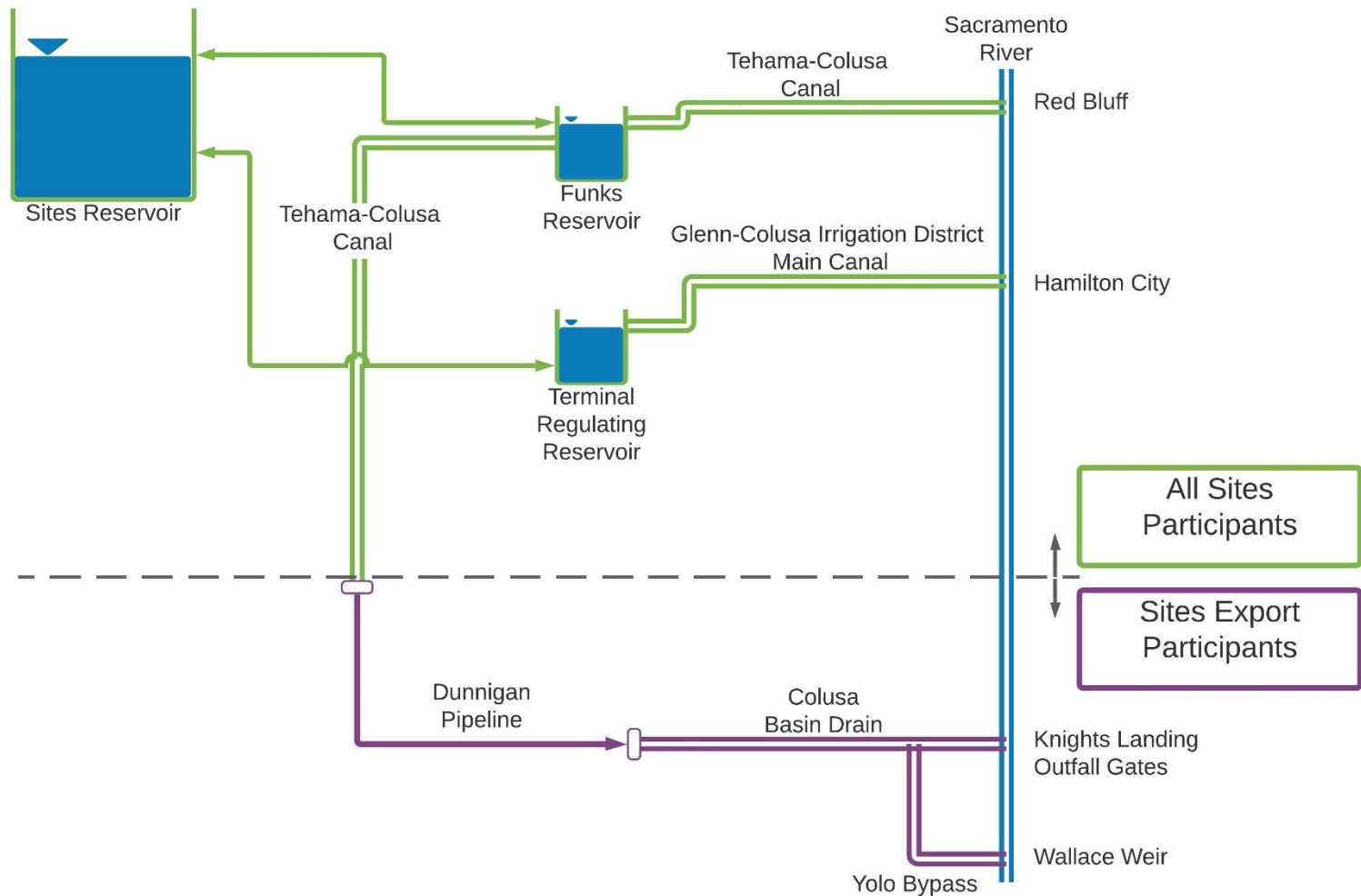
## State

- Maximum conditional eligibility determination of \$836M (fixed)
- Prop 1 dollars cannot pay directly for O&M
- Uses all facilities

## Federal

- Feasibility indicates up to 25% investment
- Requires congressional appropriations
- Possibly can pay directly for O&M
- Uses all facilities

# Which Participants use which facilities?



# Discussion Question

- Are there any concerns about the allocation approach?

# How do we pay for it?

Financing Scenarios



# Project Financing Discussion -- Objectives

- Review lessons learned from previous financing effort
- Discuss preferred financing scenario and approach to evaluating alternative financing scenarios
- Identify key points to the successor agreement

# Lessons Learned: 2018 Interim Financing Effort

## Lenders

- Commercial lender interest varied
- Lenders' criteria/concerns:
  - ✓ Uncertainty around permitting and water rights was an issue
  - ✓ Credit diversity among Participants presented challenges
  - ✓ **Participants with credit ratings should secure a high % of loan obligation**
  - ✓ Project pro forma was important

## Participants

- Insufficient certainty on permitting and securing water rights prevented proceeding to lender solicitation
- Individual agency funding processes were not understood and resulted in schedule impacts
- **Inconsistent briefing of the home boards delayed approvals**
- ~18 months of “preparation for financing” is needed due to separate tracks to secure funding

# Financing Overview

High level of participation from rated Participants is critical

- 10 of 23 project Participants have credit ratings
- 65% of project subscription comes from Participants with credit ratings

Sites Participants	Acre Foot Participation	Percentage Participation
Antelope Valley-East Kern WA	500	0.3%
Carter MWC	300	0.2%
City of American Canyon	4,000	2.4%
Coachella Valley WD	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	6,500	3.9%
Dunnigan WD	2,972	1.8%
Glenn-Colusa ID	5,000	3.0%
Irvine Ranch WD	1,000	0.6%
La Grande WD	1,000	0.6%
Metropolitan Water District of SC	50,000	29.8%
Reclamation District 108	4,000	2.4%
Rosedale-Rio Bravo WD	500	0.3%
San Bernardino Municipal WD	21,400	12.8%
San Geronio Pass WA	14,000	8.4%
Santa Clara Valley WD	500	0.3%
Santa Clarita Valley WA	5,000	3.0%
Westside WD	5,375	3.2%
Wheeler Ridge - Maricopa WSD	3,050	1.8%
Zone 7 WA	10,000	6.0%
<b>Total</b>	<b>167,620</b>	<b>100.00%</b>

Rated Participants shaded in blue.

# Financing Vehicles

## Interim Financing Options

- Bank line of credit
- WIFIA loan
- Other

## Permanent Financing Options

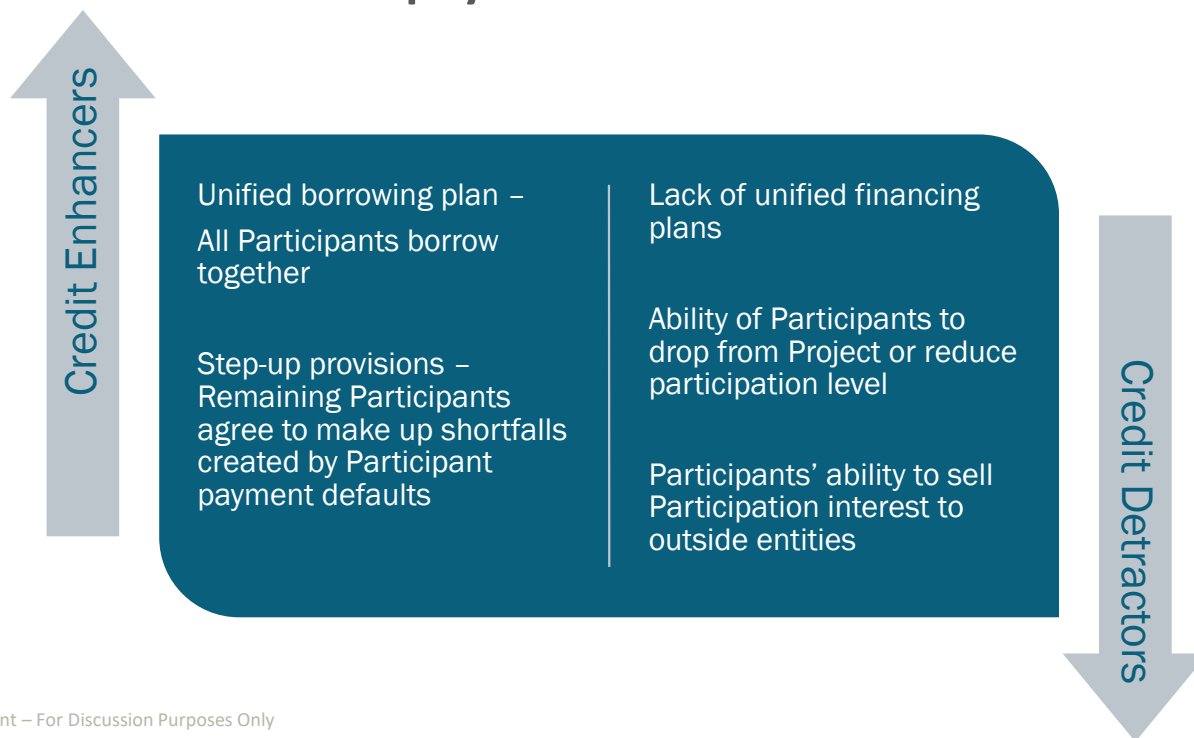
- Long-term bonds
- WIFIA loan(s)
- USDA loan (intertie)
- TIFIA loan (roads/bridge)
- Other



# 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 Project Participants must be of sufficient credit quality to provide a strong likelihood of loan repayment**



# Financing Options

## Preferred Case - Single Finance Plan

- Authority responsible for issuing all Project debt
- Debt secured by Water Storage & Supply Services Contracts
- Service Contract payments cover fixed and variable O&M, R&R, capital improvements and debt service
- Service Contracts 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

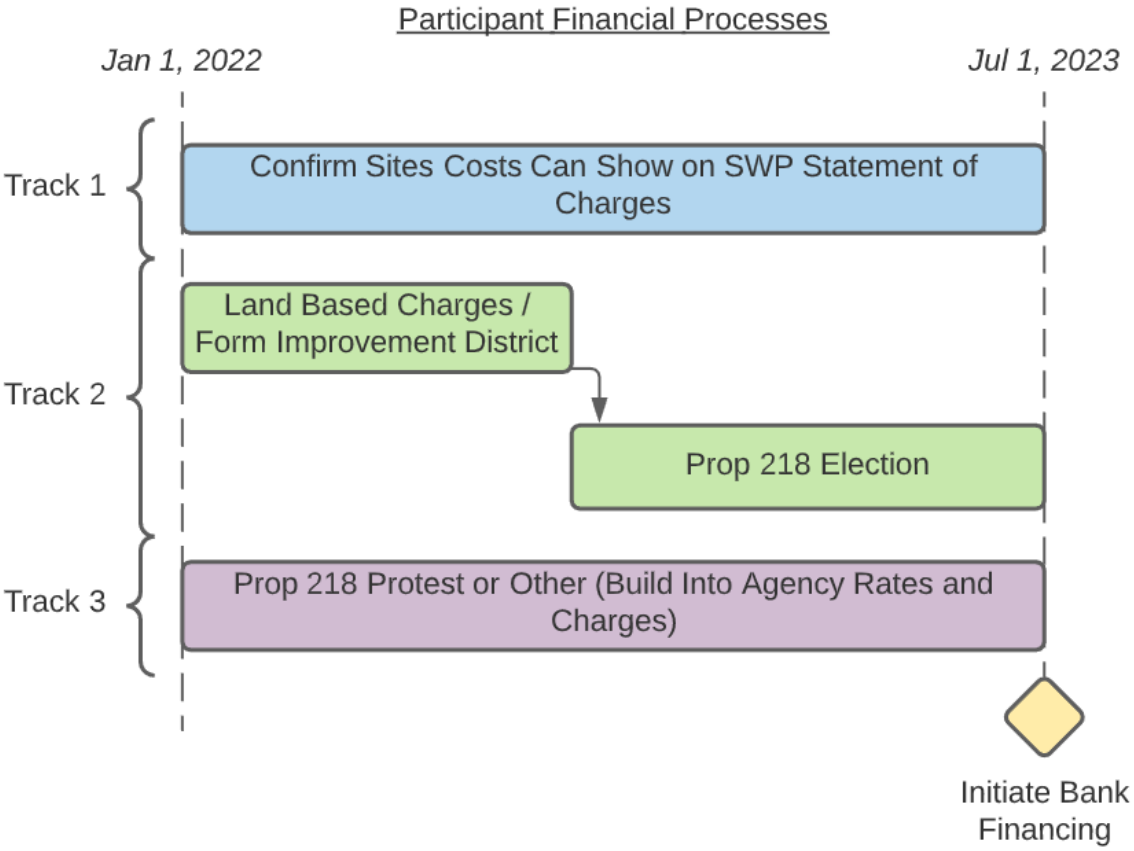
## Alternative Case – Pay-As-You-Go

- Participants may opt out of Authority construction financing in favor of independent borrowing or cash funding
- 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

# Discussion Questions

- Are there other financing scenarios or considerations?
- What information is needed for future discussions and home board decisions?

# Successor Agreement: Preparation for Financing



- Successor Agreement will include requirements for agencies to secure funding for their share of the project
- Authority will monitor progress and support agencies, communication will be critical

# Successor Participation Agreement Key Points

- Preceded by conversion to storage-based participation and a rebalancing
- Goes through the end of Phase 2, water right acquisition milestone, mid-2023
- At least 75% commitment for successor agreement (weighted by participation)
- Cash call split into three progress payments with 75% approvals to move forward
- Budget for activities to finish Phase 2 including local, state, and federal funding

# Next Steps

Activities and Workshops



# Next Steps

## Team

- Follow up on specific concerns
- Refine and develop financing scenarios

## Next Workshop: April/May

- Financing Scenarios
- Governance Approaches

# Next Steps (cont'd)

Homework Assignments – Due March 15 to JP  
(jrobinette@brwncald.com)

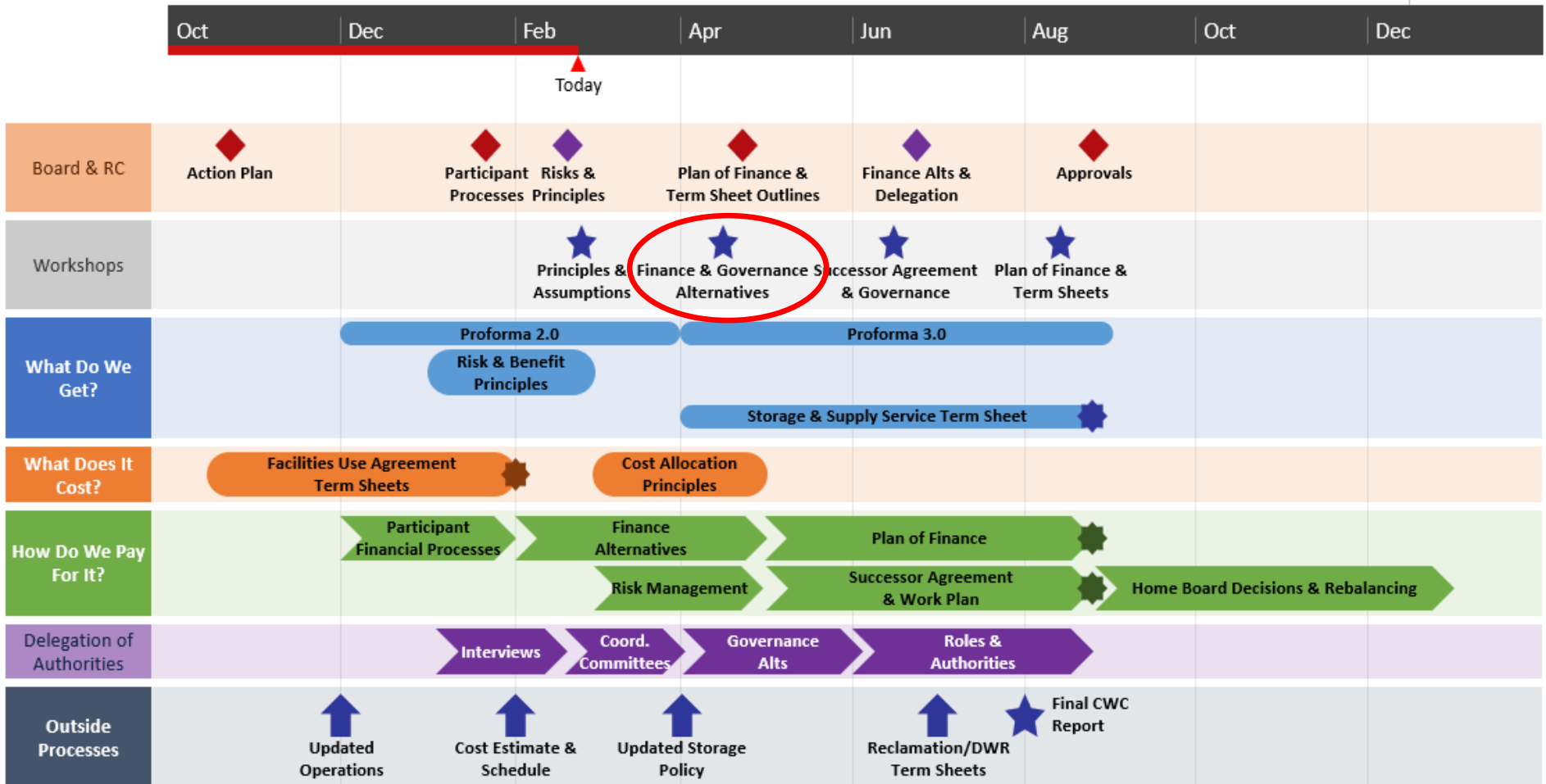
- Any additional issues or concerns to be addressed in the Term Sheet, Plan of Finance, and Successor Agreement
  - Benefits
  - Obligation
  - Risks
  - Costs/Cost Allocation
  - Financing Scenarios
- Who on your team will be reviewing and working with the financial model?



# Road Map

## Plan of Finance & Participation Agreements

Prop 1 Eligibility Deadline





Questions?