

**Requested Action:**

Review and comment on April workshop follow-up activities, feedback from workshop participants, and next steps in preparation for the June Plan of Finance workshop.

**Detailed Description/Background:**

A joint Authority Board and Reservoir Committee workshop was held on April 23, 2021 to discuss project financing alternatives, development of guiding principles and preliminary terms, and project governance. A summary of key discussion items and staff’s follow-up items from the workshop are included in Attachment A. Staff has also received feedback from some participants and a request for more time from others as they evaluate the workshop materials.

The planned duration of the project financing action plan is approximately half complete. Significant progress has been made in answering the three big questions for participants: (1) what do we get? (2) how much does it cost? and (3) how do we pay for it?

Broadly, the three big questions are answered for participants through the development of the Sites Reservoir Benefits and Obligations Contract Guiding Principles and Preliminary Terms (GPPT) and the Plan of Finance as shown in Figure 1. Attachment B shows the updated roadmap and schedule for the development of these materials. The team is on-track to meet this schedule.

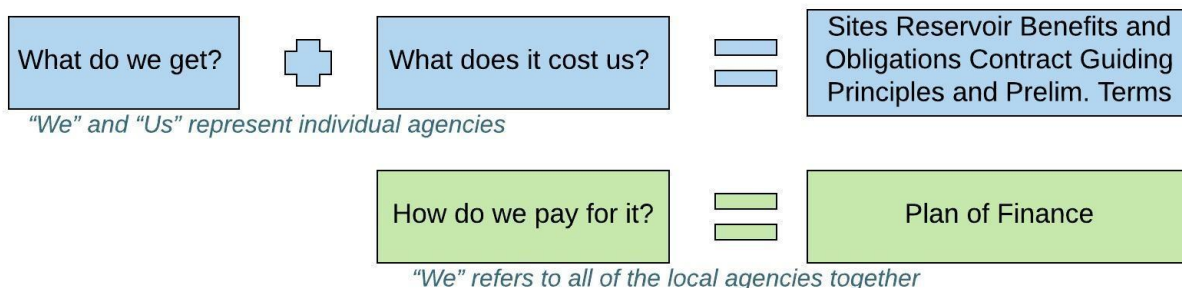


Figure 1 - GPPT and Plan of Finance answer the “three big questions”

In preparation for the June workshop focused on the successor agreement and work plan (Phase 2, Amendment 3) and the July workshop on affordability, staff has developed a list of long-term and near-term considerations for participants

to consider when evaluating the agreement and funding request. Staff intends to focus the content of the June and July workshops on providing updates or answers in the following areas.

**Long-term Considerations:**

What do we get?

- Benefits: what is the amount of the two primary benefits of the project, new water supply and storage capacity, each participant receives?
- Obligations: how are project risks and obligations shared amongst the participants and the other agreements?
- Asset Definition: what are the options and constraints for selling/leasing storage capacity and selling/leasing water supply?
- Roles and Responsibilities: how might the governance of the project change as the project progresses, and what are the milestones that trigger these changes?

How much does it cost?

- Capital Cost: what is each participant's share of the project's updated capital cost estimate?
- Operations and Maintenance Cost: what is each participant's share of the updated cost estimates for variable and fixed O&M costs?

How do we pay for it?

- Cost of Capital: what is the range of cost of capital based on the financing options being considered, and what is the resulting range of annual debt service obligations for each participant?
- Securing Revenue: when will costs occur (cash flow), and will each participant be ready with secure revenue to cover its share of project debt service and OM&R costs?
- Risk of Default: how much exposure does each participant assume in the event of participant default(s), and what are the steps available to prevent or mitigate this risk?

**Near-term Considerations:**

- Work Plan: is the right scope, schedule, and budget being considered for the next phase of work, and what is each participant's share of the cost and timing of the cash calls?
- Rebalancing: what is the impact of participants adjusting their level of investment, and what impact does the basis of participation converting from yield to storage have, if any?
- State and Federal Participation: is the project on-track to remain eligible for Prop 1 funding, and what is the timing for the federal participation/appropriation to be finalized?

Staff met with the Budget and Finance Committee on May 12th to discuss the April workshop and the next steps of the action plan. The committee provided

direction on the long-term and near-term considerations, which have been incorporated into this staff report.

**Prior Action:**

October 21, 2020: Project Financing Action Plan approved by the Authority Board.

**Fiscal Impact/Funding Source:**

None.

**Staff Contact:**

JP Robinette

**Attachments:**

Attachment A – Financing Action Plan Workshop 2 Summary

Attachment B – Updated Plan of Finance and Participation Agreements Roadmap

## **Summary of Key Issues for Follow-up Study & Discussion**

Plan of Finance Workshop #2 – Finance & Governance Alternatives  
April 23, 2021, 9:30 am -12 pm


### **1. Plan of Finance Approaches and Guiding Principles**

- a. Clarify the level of financial risk associated with each new cash call. Reservoir Committee (RC) representatives need to communicate to home boards the level of financial risk and method for measuring it as financial commitments progress.
- b. Clarify how the “Project Sufficiency Waterfall” would be executed and identify other approaches for managing financial risk.
- c. Define/quantify pre-Waterfall and Waterfall risk management mechanisms, such as the ability to sell or transfer water. Continue to develop these options further, including new and hybrid options. Follow up with Colusa County Water District, Metropolitan, and San Bernardino to discuss potential financing strategies.
- d. Costs unique for some users, such as downstream wheeling costs, should be described within “Beneficiary Pays” section of the Guiding Principles. Under Beneficiary Pays, add “respective project costs,” such as O&M costs.
- e. Identify and consider approaches or mechanisms for establishing the Sites project as an asset to appear on participants’ balance sheets.
- f. Consider framing issues in the context of costs, yield, and assurances when communicating with participants.

### **2. Governance and Delegation Principles**

- a. The trigger points for potential changes in governance procedures are accurate, with the water right, bank financing, letting construction contracts, and operation being the critical milestones.
- b. Develop a menu of governance options with pros and cons to assist in evaluation. There are many ways to achieve appropriate authority or control for both local, Sacramento Valley interests and investors. This is a balancing act. Suggestions and considerations for further investigation include the following:
  1. Consider how board member representation correlates to their level of investment. There should be protections on both sides of the investment share, where large agencies don’t drive the entire project, but small investors can’t dictate terms. Investment share should be tied to decision-making.
  2. The Sites JPA currently delegates responsibilities to the RC in the bylaws. There could be further delegation and another option is to merge the two boards and designate voting criteria on critical issues.
  3. Compliance with Prop 1 statutory requirements for JPA make-up is necessary. Discussion is required if we seek to alter these conditions.
  4. The contract terms are an important mechanism for defining the roles and responsibilities between the JPA and other facilities partners for operations and between the JPA and investors for services and payments.
  5. There are important principles about protection of local interests in the JPA formation documents that all participants wish to always respect.

# Plan of Finance & Participation Agreements

 Prop 1 Eligibility  
 Deadline

