

Plan of Finance Workshop 3: Successor Agreement & Governance

Reservoir Committee and Authority Board

June 18, 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

April Workshop

- Reviewed and discussed financing alternatives and credit issues
- Introduced Guiding Principles and Preliminary Terms
- Discussed the timing and triggers for future governance changes

Workshop Purpose & Objectives

Purpose:

Review and discuss key elements of the Successor Agreement, Amendment 3 activities, and governance triggers and principles.

Objectives

- Highlight important elements of the Successor Agreement
- Review and confirm anticipated local funding tracks
- Provide update on lender financing
- Receive guidance and direction on long-term governance principles and options
- Identify home board information needs

Agenda

- Background and Context for Project Financing
- What are we doing next and how do we pay for it? Successor Agreement
- How do we make decisions? Governance and Delegation Principles
- Next Steps

Background and Context

For Project Financing



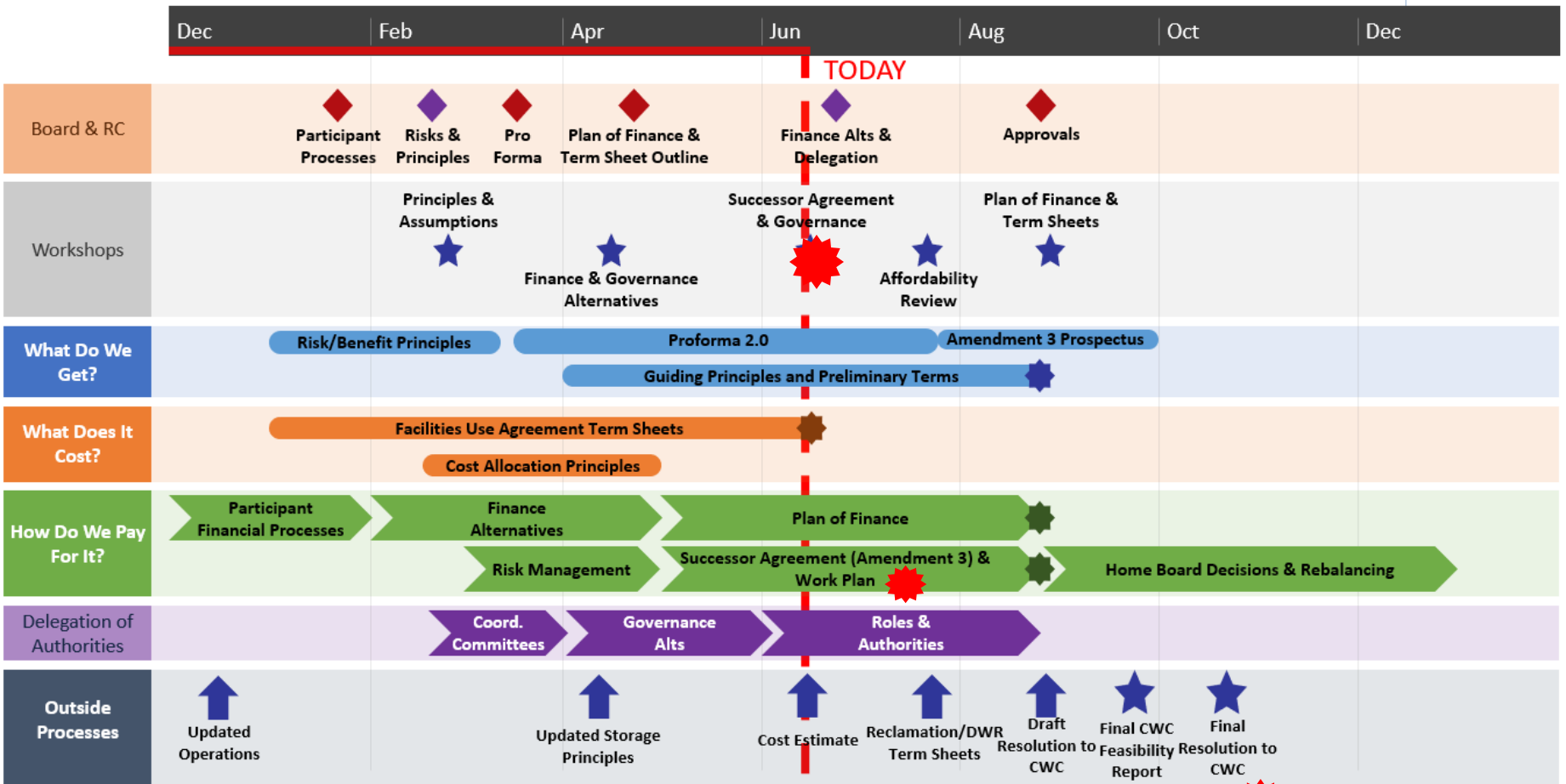
What have we accomplished to date?

- ✓ 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 CWC and Reclamation for state and federal benefits and financial support of the project
- ✓ Conducting technical discussions for coordinating operations with DWR and Reclamation. Defining use terms for TCCA and GCID facilities.
- ✓ Initiated work to support water right application, CEQA/NEPA compliance, and permit acquisition
- ✓ Right-sized the project

What are the next big steps?

Plan of Finance & Participation Agreements

Prop 1 Eligibility Deadline



 Today's discussion

Direction received

- Create a cost allocation framework based on which participants use which facilities (All / Downstream)
- The JPA does not issue debt prior to making sufficient progress in advancing the project (such as securing a water right) and after approval from both bodies
- Continue discussions with money center and ag credit banks to assess availability and estimated cost of credit

Direction received (cont'd)

- Further develop and refine the concept of a Sufficiency Pledge and Liquidity Reserve and test these concepts with potential lenders
- Staff proceed with developing Guiding Principles and Preliminary Terms (GPPT) focusing on the definition of principles and terms important to participant near-term decision making

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



How (where and when) will questions be answered?

Attachment A

Near-term Considerations

Amendment 3 Work Plan

- Scope, schedule, and budget
- Participant share of the cost?

Rebalancing

- Conversion to storage-based participation

State and Federal Participation

- Commitment of funding

Long-term Considerations

What do we get?

- Benefits and Obligations (participants, state, federal)
- Asset Definition

How much does it cost?

- Capital Cost
- Operations and Maintenance Cost

How do we pay for it?

- Cost of Capital
- Securing Revenue
- Risk of Default



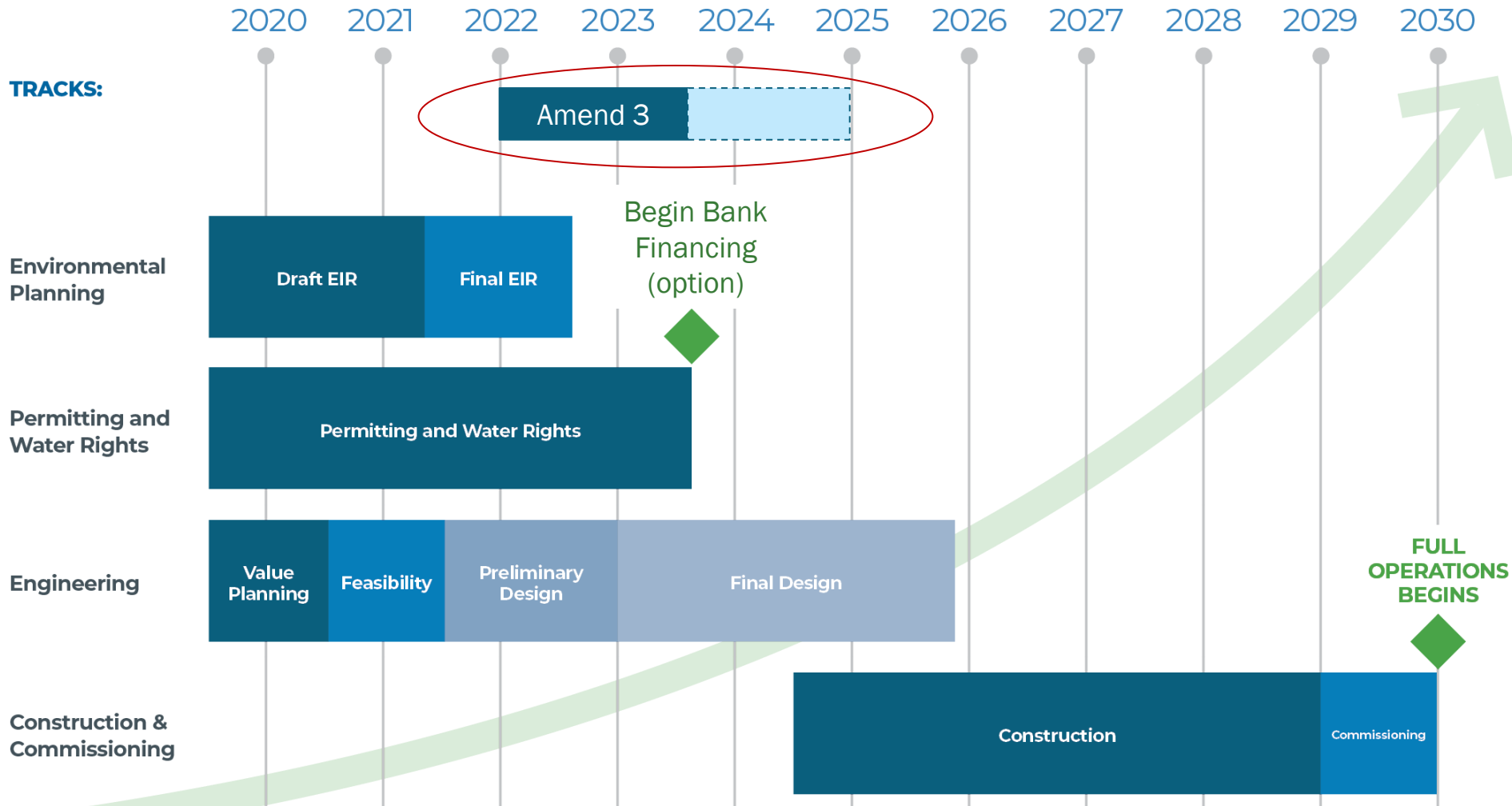
Questions?

What are we doing next and how do we pay for it?

Amendment 3 Participation Agreement and Work Plan

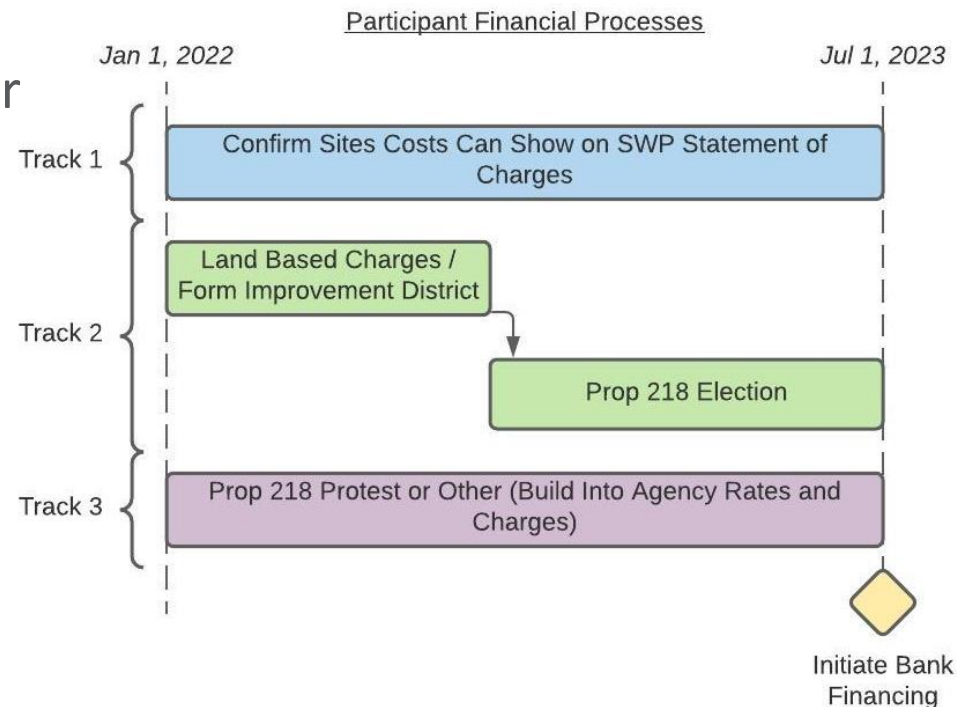


Phase 2, Amendment 3 in the Project Schedule



Phase 2, Amendment 3 Participation Agreement

- 18- or 36-month duration, depending on work plan direction
- Agencies ready to secure revenue for financing (funding tracks) at end of first 18 months (with check-ins)
- Conversion to storage-based participation
- Cash calls paid in two or three installments upon reapproval / amendment of work plan with 75% majority at RC and AB
- Rebalancing prior to Amendment 3 execution and prior to financing



Amendment 3 Rebalancing Process

No planned changes from previous outreach and onboarding priority system adopted during the Amendment 2 process:

1. The goal is total Sac Valley participation of ~25%. Priority is given to current, prior and new Sac Valley participants in that order.
2. Existing Reservoir Committee participating members (with sub-priorities by seniority)
3. Prior Reservoir Committee participating members (with sub-priorities by exit date)
4. Nonparticipants. Priority for new participants outside of Sac Valley.

No planned material changes to “Sites Reservoir Project, Phase 1 & 2 Funding Credit and Reimbursement Policy”

Work Plan Options

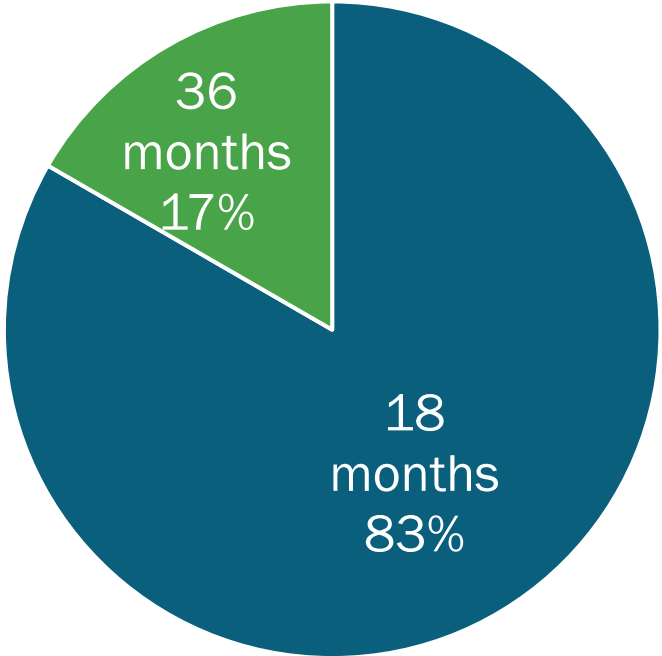
Option	Total Est'd Cash Call	Anticipated # of Cash Calls	Approximate Amt Due Per Cash Call	Holds 2030 Date?
18-month schedule	\$350/af	2	Jan 22 - \$150/af Jan 23 - \$200/af	Yes
36-month schedule w/annual cash calls	\$400/af	3	Jan 22- \$100/af Jan 23 - \$140/af* Jan 24 - \$160/af* <i>*or possible bank financing</i>	Challenging

Cash calls are based on current, yield-based subscription levels

2021 Affordability Soft Call Survey

- 12 respondents
- Unit Cost Range: \$650- \$1400/AF
- Participation levels largely expected to remain the same

Amendment 3 Work Period Duration



Work Plan Scope



First 18 months includes securing **key permits** and the **water right** in both options



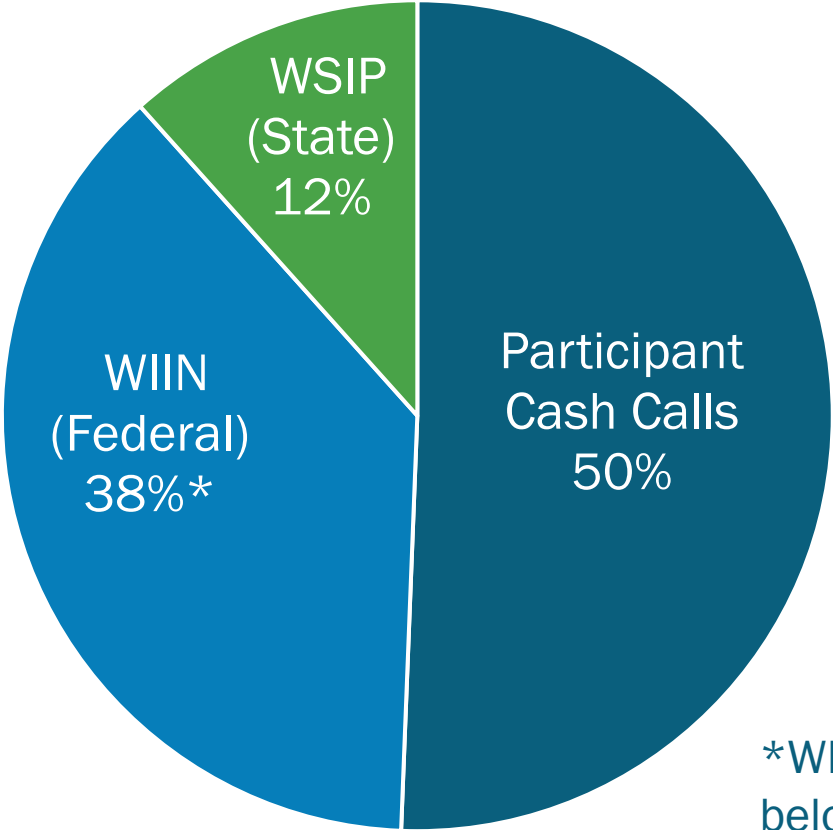
The most significant expense activities are **engineering** work needed to secure key permits and **geotechnical investigations** (over 50% of spend)



There is an option to enter **interim financing sooner** than the end of the work plan, after acquisition of the water right

Work Plan Funding Sources (36 months, Estimate)

Estimated Spend \$120-130M



*WIIN Act Funding remains below 25% overall

Amendment 3 Work Plan Duration (18 months)

Pros

- More certainty on project completion milestone
- Reduced overall cost
- Other?

- Assumes partners / regulators are on same schedule
- Reduced time for completing local funding tracks
- Other?

Cons

Amendment 3 Work Plan Duration (36 months)

Pros

- Reduced annualized cash call amount (compared to 18 month plan)
- Time to establish consensus for agreement development with outside partners and regulators
- Other??

- Cost of delay
- Affordability implications
- Other??

Cons

Next Steps: Amendment 3 Agreement and Work Plan Development

- *Complete: Objectives and preliminary org chart reviewed at April meetings*
- *Complete: High level cost estimates reviewed at May meetings*
- **June 15th**: Soft Call Survey responses due
- **June 18th**: Discussion amongst participants at joint workshop, 18- or 36-month agreement
- **June 23rd**: Direction to staff at joint meeting, 18- or 36-month
- **June 29th**: Informational session on ag structuring options (i.e. Improvement Districts, “Track 2”)

Discussion Questions

- Would rebalancing be allowed during the 36-month agreement?
- Are you ready to commit to a local funding track and ready to start?

How do we pay for it?

Update to Financing Options



Financing Options Update

An update to the April Financing Options Memo

Interim Financing

- Lender feedback: (1) Money Center, (2) Farm Credit
 - Single plan of finance
 - Multiple finance plans
 - Updated credit spreads

Permanent Financing

- No change to report in permanent/construction financing options

Interim Financing: Potential Default Risk

Assumption: \$300M interim credit facility, \$4.5M in annual interest (current rates)

Example Defaulting Cases	% of Participation	Annual Shortfall
5 Smallest Ag Participants	2.5%	\$115k
7 Smallest Ag Participants	6.1%	\$275k
3 Largest Ag Participants	15.2%	\$680k

A 10,000AF participant would have to cover ~6% of the annual shortfall (\$7-47k) until the default is corrected

How do we make decisions?

Governance and Delegation Principles



Objectives

1. Confirm the expected timing of governance discussions and revisions.
2. Provide initial concepts for future governance and decision-making.
3. Discuss near term actions.
 - Governance language to include in the Guiding Principles and Preliminary Terms document
 - Joint RC/AB meetings starting in 2022

Next step:

Incorporate governance principles to be included in the Guiding Principles and Preliminary Terms.

Framing – Triggers for Governance Changes discussed at last workshop

- Acquisition of Water Right and Major Permits
 - **Begins Phase 3** – Final Design and Land Acquisition
 - Could include interim financing
 - Expected mid-2023
- Project Financing & Construction Contracts
 - **Begins Phase 4** – Construction
 - Expected mid-2024
- Project Commissioning
 - **Begins Phase 5** – Operations
 - Expected 2029/2030

Framing – Oversight and Decision-making

Phase	3 Design & Financing	4 Construction	5 Operations
Responsibilities & Obligations	<p>Design</p> <p>Land acquisition</p> <p>Permit Compliance</p>	<p>Construction</p> <p>Lands management</p> <p>Financial Commitments</p>	<p>Operations</p> <p>Utility management</p>
Assets & Agreements	<ul style="list-style-type: none"> • Water right & permits • Participation agreements • State & Federal funding • Bank financing agreements 	<ul style="list-style-type: none"> • Water right & permits • Lands • Financing agreements • State & Federal funding 	<ul style="list-style-type: none"> • Water right & permits • Lands • Facilities/Recreation • Contracts & agreements
Key Governance Issues	<ul style="list-style-type: none"> • Land acquisition • Design – cost/risks • Management & staffing 	<ul style="list-style-type: none"> • Construction/risk mgmt • Lands management • Contracts & agreements 	<ul style="list-style-type: none"> • Operations/risk mgmt • Water marketing

Framing – Governance Considerations

For each Phase:

- Who pays for and owns the assets?
- Who assumes/manages the risks?
- Who sets policy direction?
- Would existing statutes have to change ?

Governance/Decision-making Mechanisms

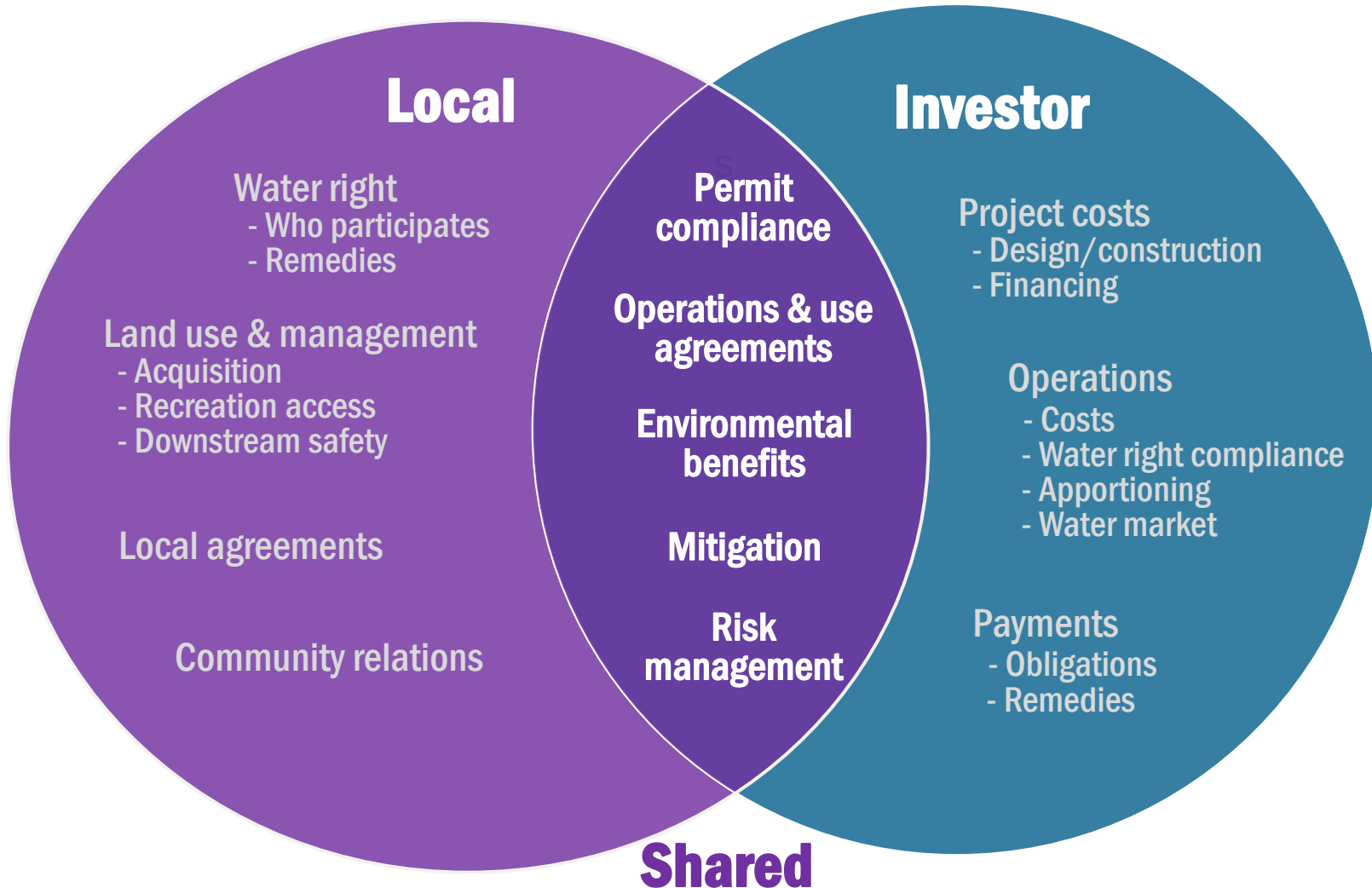
1. JPA Terms and Bylaws

- Board Size and Authorities
- Representation
- Voting Procedures
- Delegation of Authorities & Delegated Entities – Definition of what constitutes a “material change”
- Reporting and Accountability

2. Agreements and Contracts

- Terms and requirements
- Non-conformance procedures

Governance Interests



Food for Thought: Governance Options

1. Continue current AB and RC structure

- Adjust what constitutes “material change” (Section 12) through each Phase within the existing bylaws.

For example:

- Delegate authority to RC to decide any cost or schedule change within 25% of baseline (currently the limit is 10%)

Pros:

- Greater control over project activity affecting cost to investors

Cons:

- May affect public perception of project outcomes

Food for Thought: Governance Options

2. Combine AB/RC into one large board

- Specific voting procedures for important issues

For example:

- Only the AB members have final say on matters involving water right permit and land policy decisions

Pros:

- Keeps the local perspective in the mix on all decision making

Cons:

- Gives agencies that ARE NOT paying the bills a vote in financial matters that don't directly affect them.

Food for Thought: Governance Options

3. Holding company approach

- Delegation of specific responsibilities to a separate entity with its own governance and reporting structure.

For example:

- Managing entity governed by the investors for reservoir construction and operations.

Pros:

- Explicit delegation of authority and control for certain responsibilities

Cons:

- Reduces visibility of partnership

Proposed Governance Language For Guiding Principles and Preliminary Terms Document

1. Recognize that local Sacramento Valley leadership and project investors from outside of the local area are both equally essential for project success and have governance needs that must be met.
2. Identify that project governance and decision-making needs to evolve to meet the needs of future phases—design (Phase 3), construction (Phase 4), and operations (Phase 5).
3. Commit to making agreed upon governance adjustments during the upcoming Amendment 3 work period to coincide with the start of Design Phase 3 (~mid 2023)

What other governance principles should guide future discussions?

Include each of these points within the language of the final Guiding Principles and Preliminary Terms to be accepted by the RC/AB in October 2021.

Small Change for Amendment 3 Work Period

Maintain Existing Governance Structure



Proposed Decision-making Approach for Amendment 3

- No changes to structure or bylaws
- Monthly joint meetings of Board & Reservoir Committee
- Continued development of policies & procedures

Next Steps on Governance

1. Develop principles and key issues to be incorporated into the Guiding Principles and Preliminary Terms
2. Review with Board and RC in July
3. Include support for governance discussion and revisions in Amendment 3 work plan

Next Steps

Activities and Workshops



Next Steps

Team

- Follow up on specific concerns
- Continue developing Amendment 3 Participation Agreement and Work Plan
- Develop governance principles for the Guiding Principles and Preliminary Terms

Next Steps

Homework Assignments – Due July 1st to JP
(jrobinette@brwncald.com)

- Additional issues or concerns to be addressed in the Plan of Finance, Amendment 3 Participation Agreement, and Guiding Principles and Preliminary Terms

Next Steps

Near Term

- June 23rd: Joint Reservoir Committee/Authority Board Meeting
- June 29th: Ad Hoc Ag District Structuring Options Workgroup

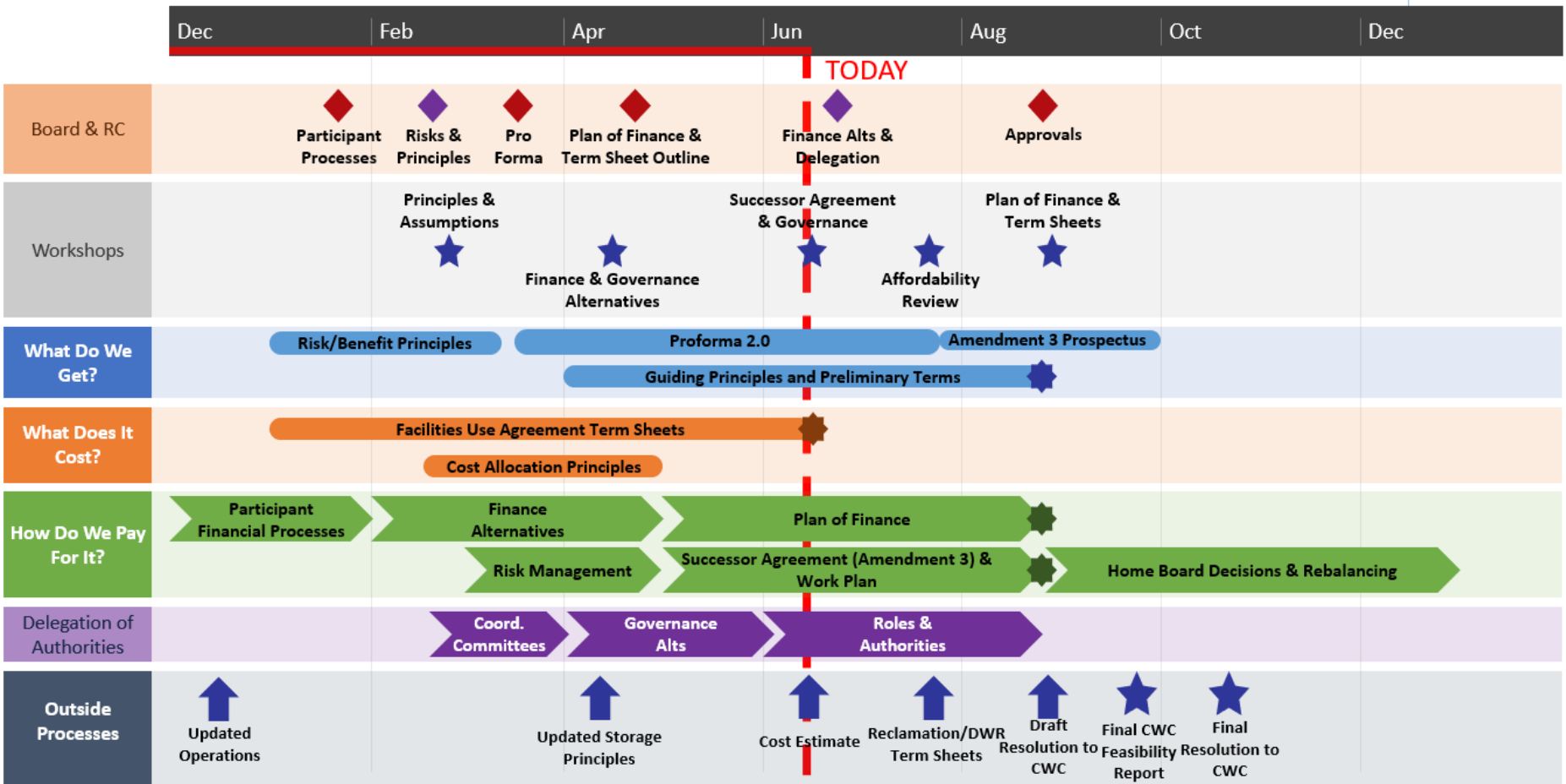
Longer Term

- July 23rd Workshop: Affordability Review
- August: Draft 75% Non-Public Cost Share Resolution
- September 2nd Workshop: Plan of Finance and Term Sheets
- October: Submit 75% Non-Public Cost Share Resolution to CWC

Road Map

Plan of Finance & Participation Agreements

Prop 1 Eligibility Deadline





Questions?