

Requested Action:

Review and comment on the Financing Action Plan progress including updated financing alternatives, an outline of the Water Storage and Supply Services Contract (Contract) Guiding Principles and Preliminary Terms, and updated Road Map.

Detailed Description/Background:

The Project Financing Action Plan, approved in October 2020, provides the scope and budget to meet the 75% local cost share requirement for Prop 1 by January 1, 2022 and provide participants with assurances related to Project benefits, obligations, risks, costs, and financing. The action plan includes Authority Board and Reservoir Committee approval of a Water Storage and Supply Services Contract Term Sheet, a Plan of Finance and a Successor Agreement.

Staff has developed a memo discussing financing alternatives for discussion at the April 23 workshop as a precursor to the Plan of Finance. The memo was created with input from potential lenders and identifies existing funding sources and possible sources for interim and long-term financing as well as key provisions impacting the eventual contracts. Key takeaways include:

- **Cost of Capital:** Current rates for a line of credit, a WIFIA loan, and tax-exempt fixed rate bonds are on average 1% to 1.5% lower than those assumed in the financial models to date.
- **Interim and Long-term Financing:** A combination of a bank line of credit and a WIFIA loan, if awarded, are recommended for interim financing (pre-construction). If awarded, the WIFIA loan has the lowest interest rate of all long-term (construction) financing options considered and can fund up to 49% of the total project cost, with the balance funded by Prop 1, the USDA loan, and tax-exempt fixed rate bonds. Whether funding construction with the proceeds of long-term bonds or a WIFIA loan, the Authority and Participants will need to decide how to pay debt service during the construction period before the Participants receive the expected water storage and delivery benefits of the Project.
- **Finance Options:** Three options for a credit structure to cover debt service obligations are discussed, with the preferred option being a single financing plan. Options for multiple finance plans pooling similarly rated agencies and pay-as-you-go approaches are also discussed. All options and combinations of options include provisions for covering project shortfalls.

- **Credit Drivers:** Project shortfalls, or defaults, will need to be covered by a project sufficiency pledge with either an agreement to cover shortfalls or a liquidity reserve funded by all participants. In the event of a shortfall, a waterfall process would occur in three steps including (1) participants volunteering to meet the obligation and receive the associated entitlement, (2) backfilling with an external entity, or (3) all non-defaulting parties covering their proportional share of obligations and receiving their share of project entitlements.
- **Securing Revenue:** There continue to be three tracks for participants securing revenue to meet project obligations including (1) funding through State Water Project statement of charges, (2) funding through special benefit assessments, and (3) funding through current water rates and charges. Project debt service obligations should be treated as an operations and maintenance expense, similar to the terms of the State Water Project and Central Valley Project contracts.
- **Feasibility Hurdles / Risks:** the following have been identified as important for both project participants and lenders in evaluating project financing:
 - Individual participants securing revenue to meet project obligations.
 - Federal participation level.
 - Authority and litigation in the bonding process.
 - Key permits and water rights.

Staff met with the Budget and Finance Committee on April 9th to discuss the financing alternatives memo and a presentation on the Water Storage and Supply Services Contract Guiding Principles and Preliminary Terms for development in this phase. The committee provided direction to staff including:

- 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.
- Proceed with developing Guiding Principles and Preliminary Terms (GPPT) for the Water Storage and Supply Services Contract (formerly “Term

Sheet”) to focus on the definition of principles and terms important to participant near-term decision making.

The workshop scheduled for April 23rd will include a discussion on finance and governance alternatives. The following workshops are scheduled to support execution of the Project Financing Action Plan:

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

Prior Action:

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

Fiscal Impact/Funding Source:

None.

Staff Contact:

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Attachments:

Attachment A - Updated Plan of Finance and Participation Agreements Road Map

Plan of Finance & Participation Agreements

 Prop 1 Eligibility
Deadline

