

# Finance Action Plan Progress Review and Next Steps

Reservoir Committee and Authority Board

September 2, 2021



# Workshop objectives

## Objectives


- Understand the Authority's approach to remaining eligible for Prop 1 Funding
- Understand what it means to review and execute Amendment 3

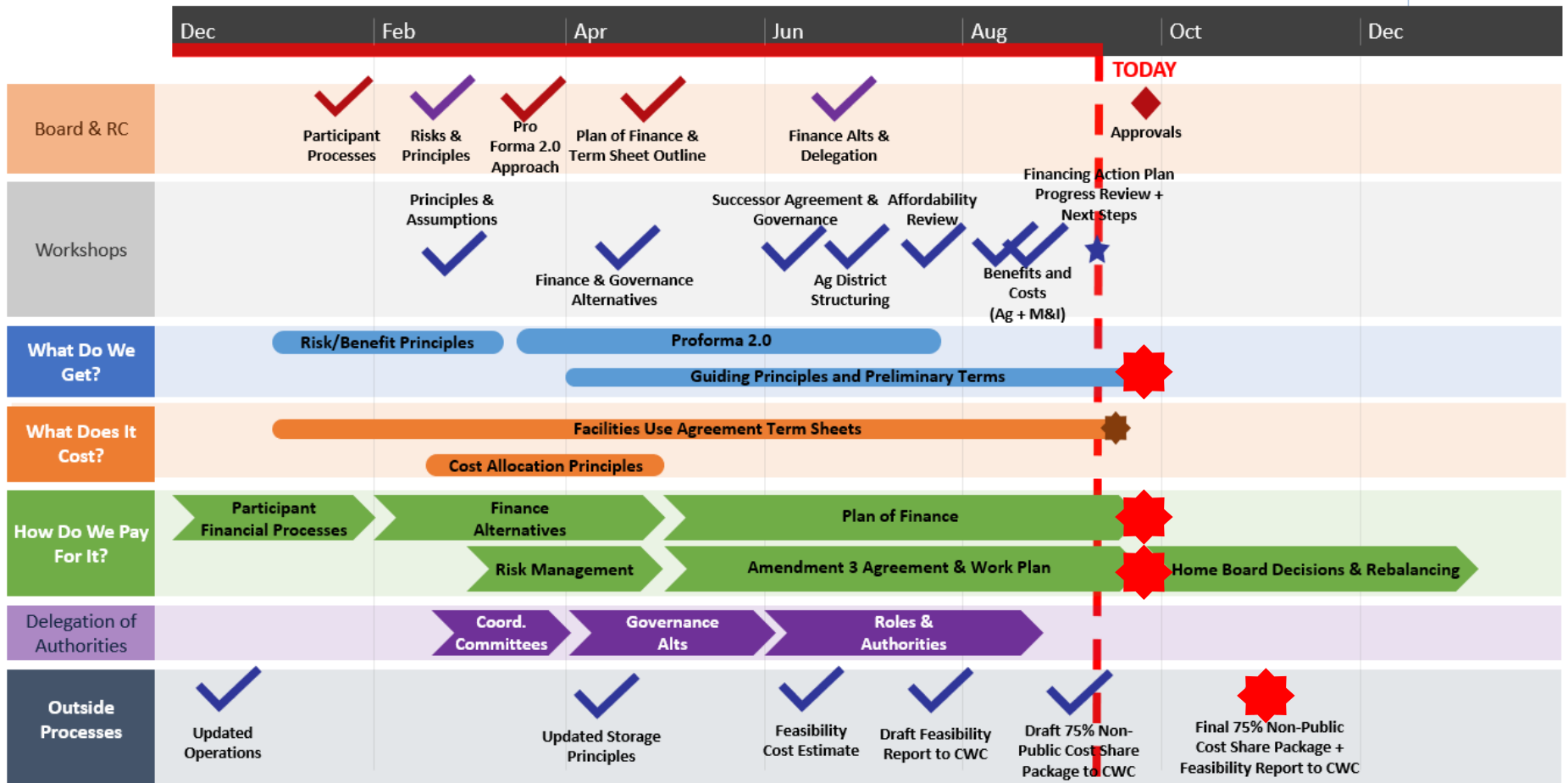
## The “Three Big Questions”

- What do we get?
- What does it cost us?
- How do we pay for it?

# We have come a long way this year


## Plan of Finance & Participation Agreements

 Prop 1 Eligibility Deadline



# The last two months have focused on the agency way of looking at affordability

## Annual costs

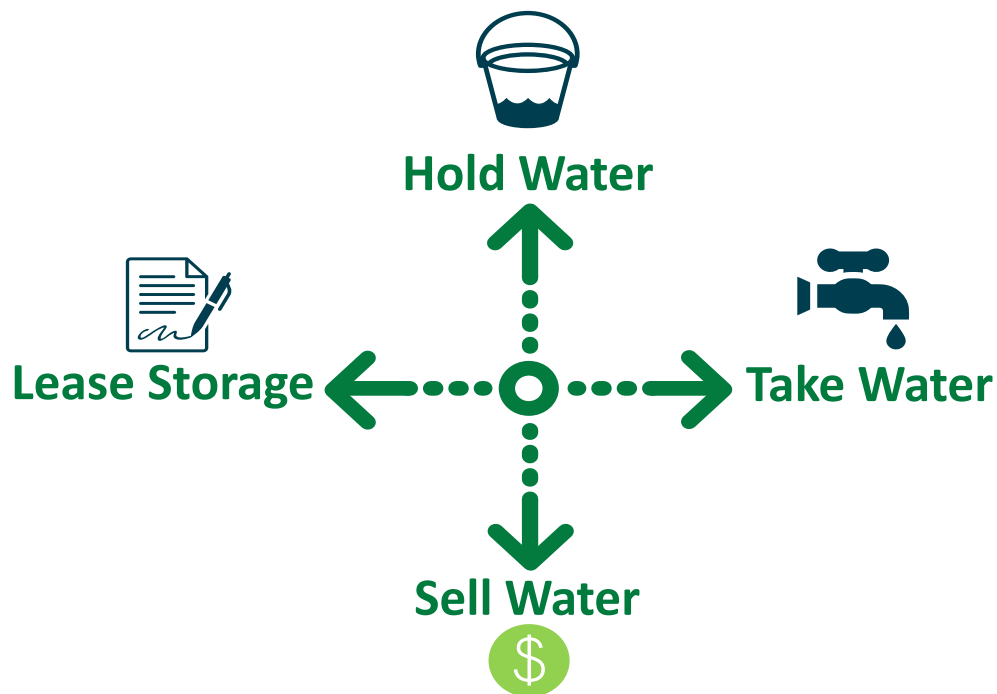
- Fixed costs 
- Variable costs

## Annual revenues

- Water sales
- Storage leasing
- Avoided costs

## Annual benefits

- Storage: hydrology-based
- Deliveries: **operating decisions-based**



**You decide.**

# What moves the needle on affordability?

## Agricultural Business

### Operating Decisions: Increased Demand

- Transfers: delivered and within reservoir
- Use of water in wetter year types

### Costs

- Debt service (if financed)
- Avoided costs (other options)

### Revenues

- Transfer pricing
- Leasing storage

## Municipal Water Agencies

### Constraints

- The Delta, carriage water
- South of Delta storage
- Regulatory changes

### Costs

- Debt service (if financed)
- Avoided costs (other options)
- Conveyance, where you are in California

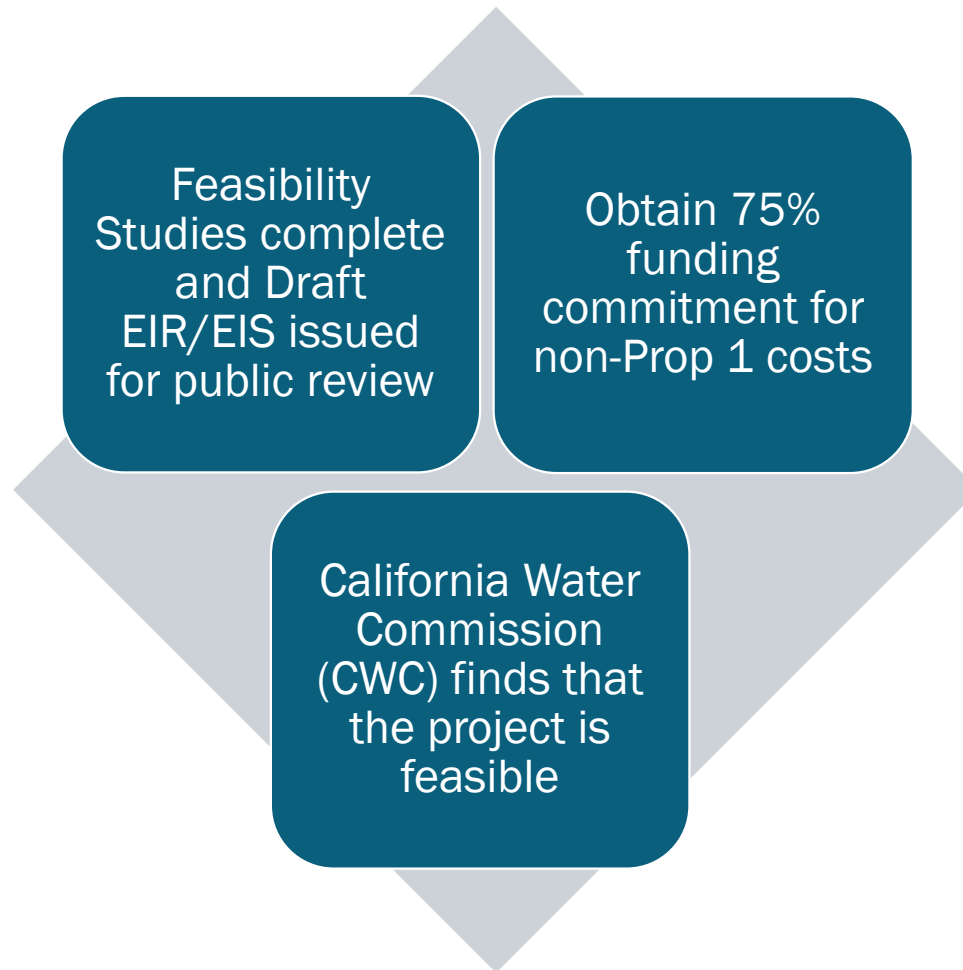


# Proposition 1 Eligibility Requirements



# What are the Prop 1 Eligibility Requirements?

by January 1, 2022



# What is the 75% commitment?

## Prop 1 Commitment – Public Benefits

- Ecosystem Improvements
- Delta Water Quality Improvements
- Flood Control Benefits
- Emergency Response

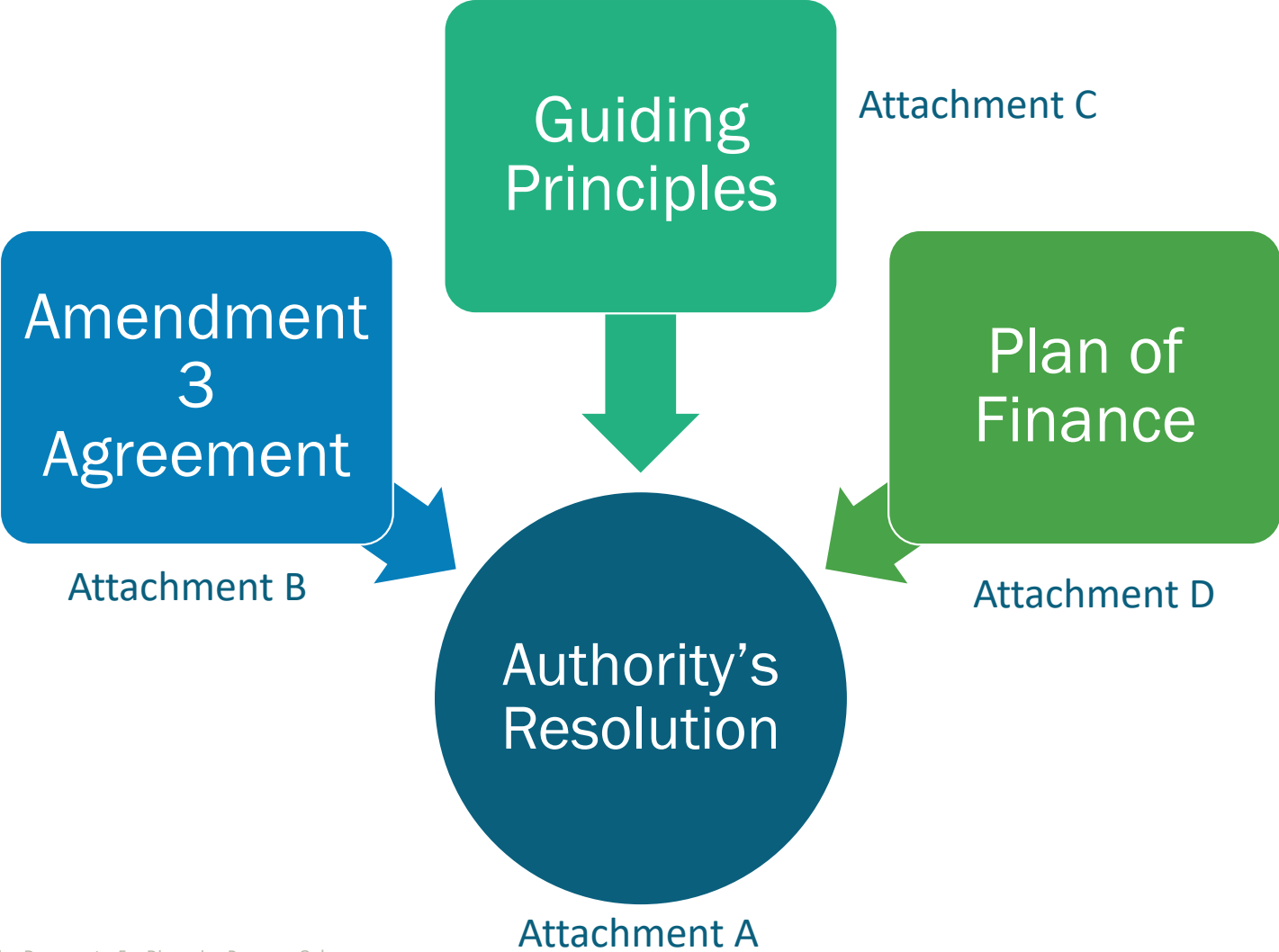
## 75% Commitment - Other Benefits

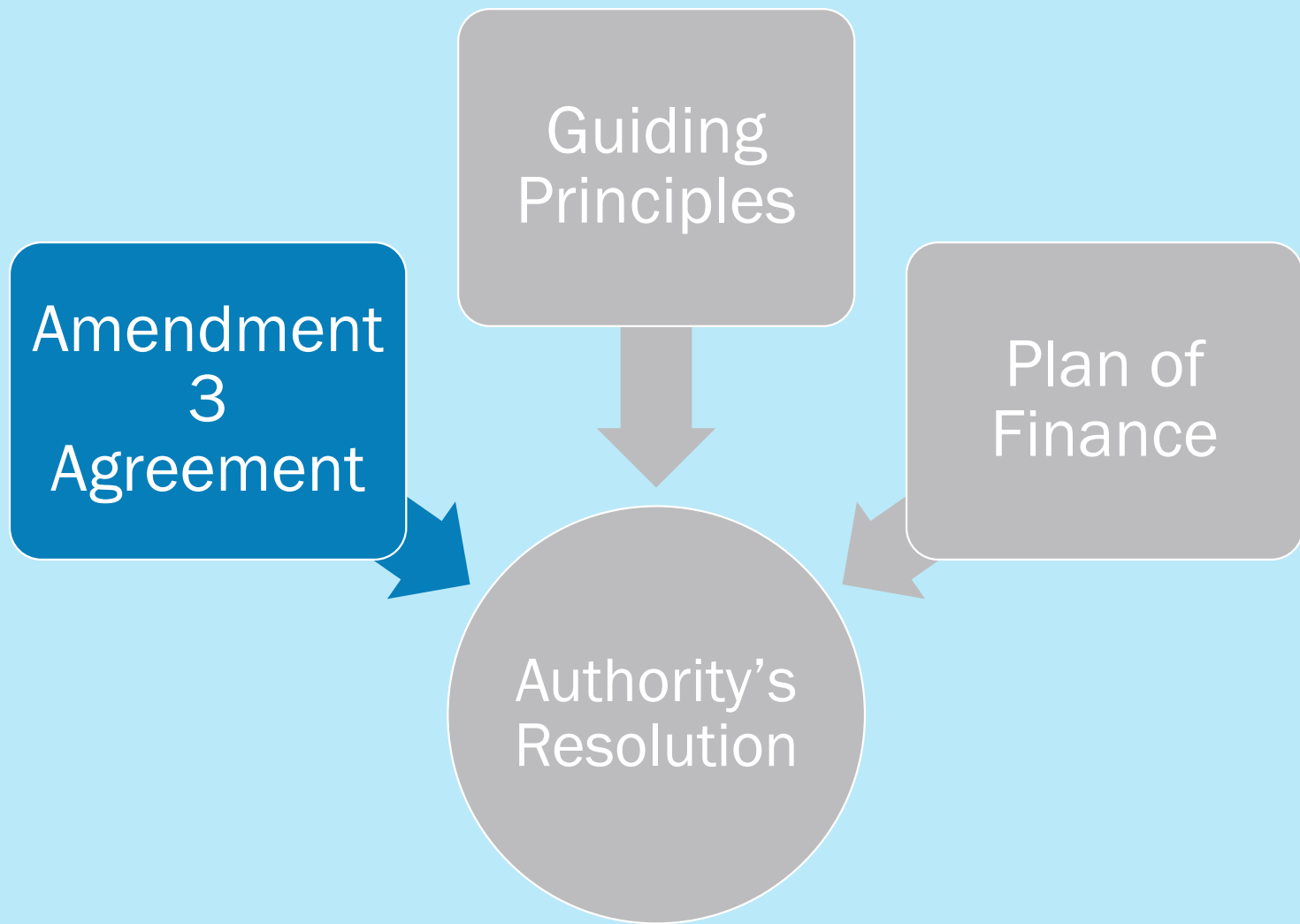
- Water Supply (to Participants)
- Water Supply Storage (for Participants)
- Local Economic Benefits
- Reclamation Investment

**“The Director of the Department receives commitments from not less than 75 percent of the non-public benefit cost shares of the project”**



# What is the Authority's approach to satisfying the 75% commitment?






# Third Amendment to 2019 Reservoir Project Agreement (B)

# What is different about Amendment 3?

Amendment 3...

- is longer than prior agreements, covering work through the **end of 2024**
- asks Participants to be **ready to finance by mid-2023** by
  - identifying how they will secure revenue to fund all project costs
  - agreeing to progress updates (two-way)
- includes **annual adjustment** opportunities for budget and schedule (pace) 

# When can agencies change their participation level?

Agencies can change their participation **two times**:

- A. While executing Amendment 3
- B. Prior to entering into a new agreement (**with financing**)

If there is capacity for new Participants, letters of interest are **prioritized** based on:

1. Goal is Sac Valley participation of **25%** (current, prior, then new)
2. Existing Reservoir Committee members
3. Prior Reservoir Committee members
4. New Participants outside of Sac Valley

# Project Payment Annex (Exhibit C)

<b>Expected Source(s) of Repayment For Authority Financing (Check Each Box That Applies):</b>	<input type="checkbox"/> Amounts Collected Through Department of Water Resources Project Annual Statement of Charges	<input type="checkbox"/> Water Rates and Charges (Proposition 218 Compliance Required)	<input type="checkbox"/> Water Rates and Charges (Proposition 218 Compliance Not Required)	<input type="checkbox"/> Special Benefit Assessment-Districtwide	<input type="checkbox"/> Land-Based Charges Imposed Within an Improvement District
<b>If An Improvement District, Has It Been Formed?</b>	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<b>If no, is it anticipated to be formed by June 30, 2023?</b> <input type="checkbox"/> Yes <input type="checkbox"/> No		
<b>If A Special Benefit Assessment, Has the Special Benefit Been Approved In An Amount To Pay Debt Service On The Authority Financing?</b>	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<b>If no, is it anticipated to be presented for landowner approval by June 30, 2023?</b> <input type="checkbox"/> Yes <input type="checkbox"/> No		
<b>Does the District Have A Debt Management Policy Compliant With Section 8855(i) of the California Government Code?</b>	<input type="checkbox"/> Yes	<input type="checkbox"/> No			

# Deep dive into track 2 with Bond Counsel

Some Districts have **landowners who are investing in Sites**, and those who are not. When it comes time to finance project costs, a structure that balances credit-worthiness with District-wide risk management must be in place.

June info session to discuss options for structuring these Districts:


- Four options are being advanced
- Base case is land based charges levied on an improvement district

Next steps:

- Explore remedies, including policies related to water deliveries
- Assist Districts with filling out the project payment annex including review of existing financing documents

# What does your vote on Amendment 3 mean?

## Reservoir Committee

- Right work plan to **achieve investor goals**, right pace 
- Recommend the work plan, which includes the budget, for approval by the Authority Board
- **Agree to take Amendment 3 to home-board for consideration**, determination of participation level, and execution and be ready to pay the April 1 invoice

## Authority Board

- Right agreement to continue to cover Participant share of project costs and right assumptions for other funding sources
- **Securing revenue** will meet the requirements for financing the project and **not become “critical path”**
- Approve sending Amendment 3, with exhibits, to Participants to execute
- Provides **basis for CWC** to determine Sites remains eligible for Prop 1 funding

# Discussion questions



**What kinds of information will be needed during the annual adjustments to the work plan?**

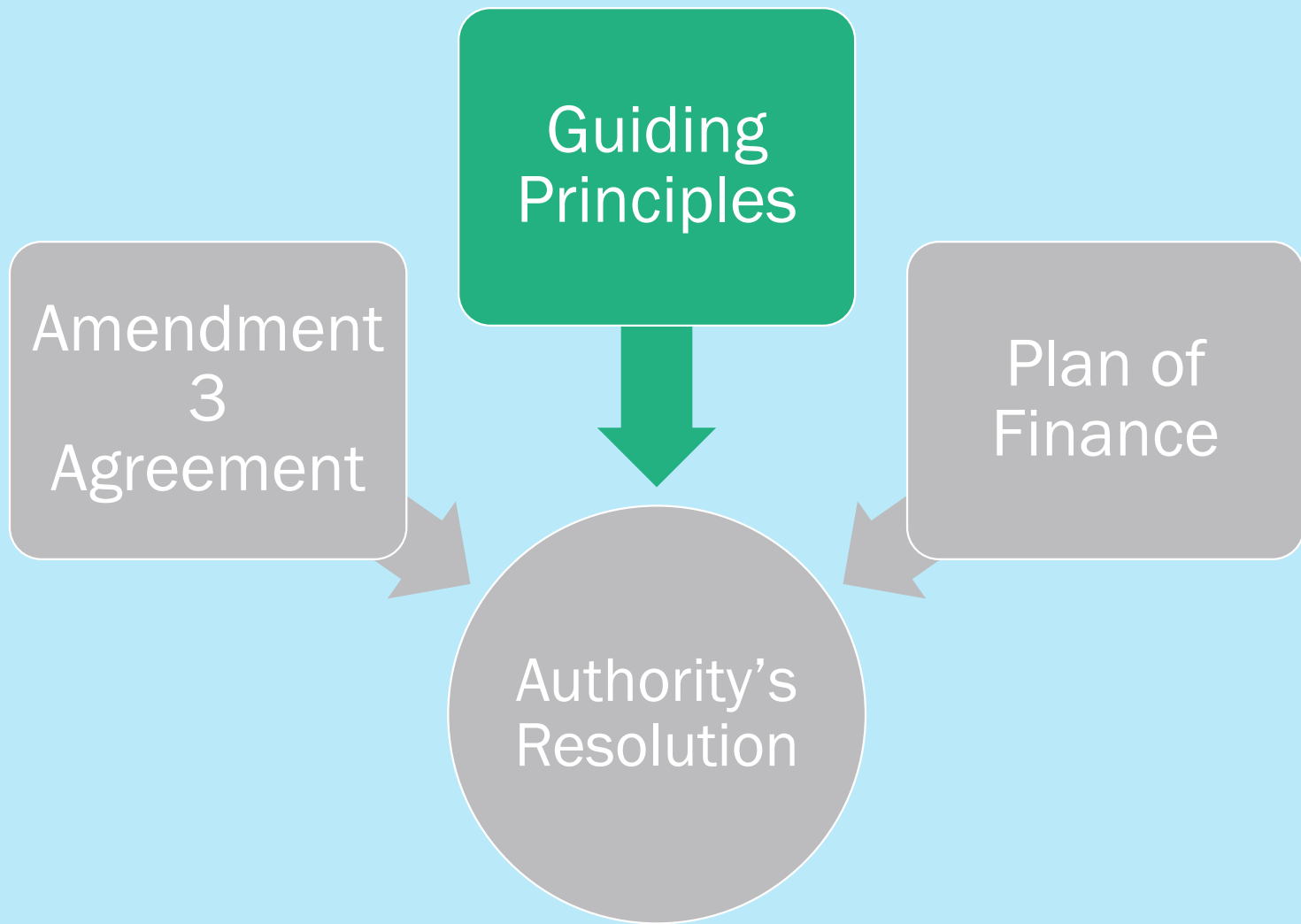


**What do you see as the critical path to ramping up?  
Ex: regulatory processes, securing revenue, etc.**



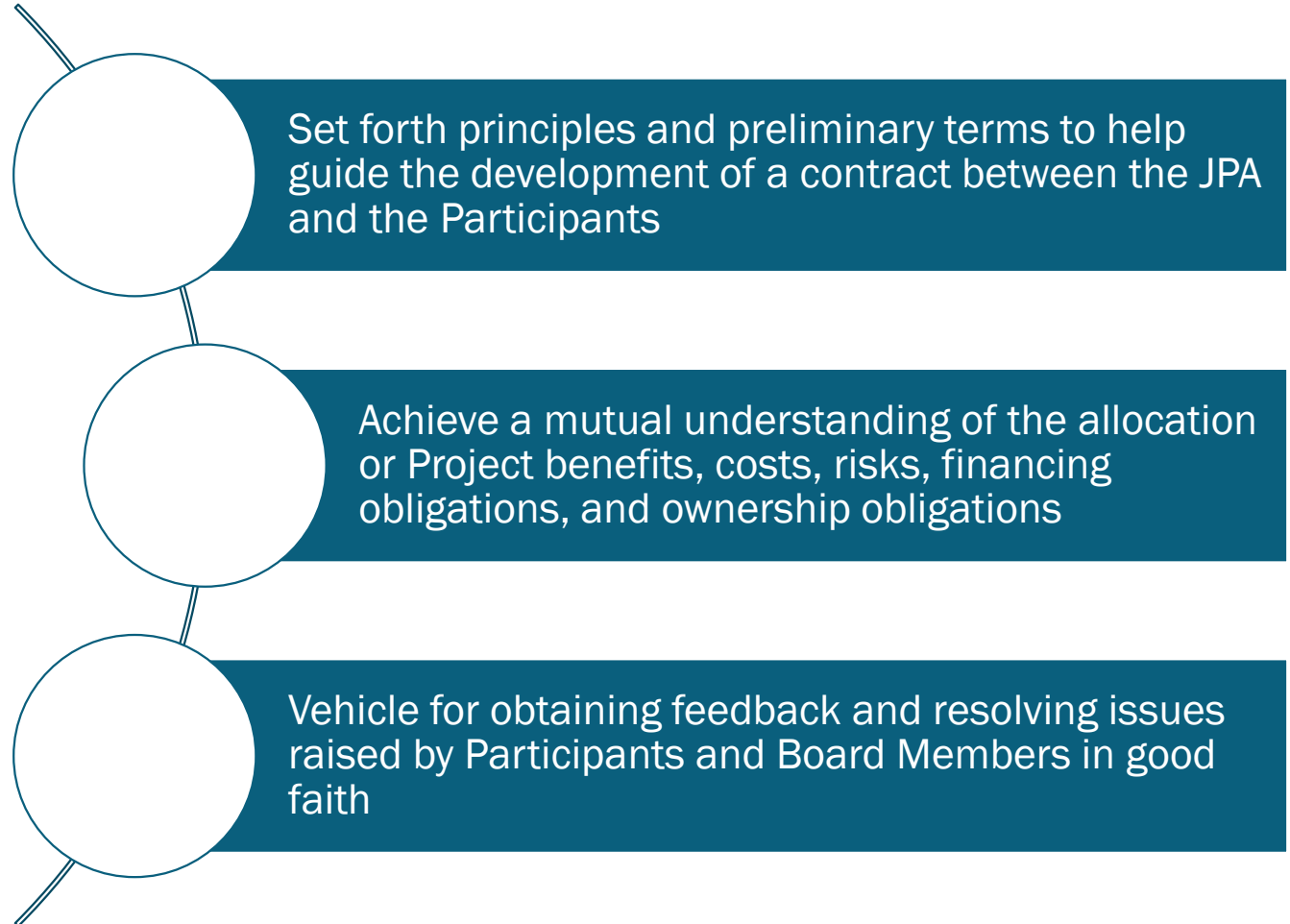
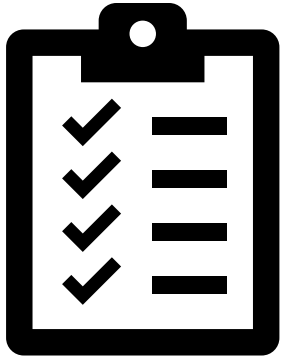
**What type of support should the Authority provide to Participants on securing revenue?**





# Sites 2021 Guiding Principles and Preliminary Terms (C)

# Purpose of the Guiding Principles document



# Topics covered by the Guiding Principles



# Related Agreements



- Intent is for state and federal agencies to share in project costs, risks, and obligations proportionately to the benefits that they receive
- Today's discussion is focused on the agreement between the JPA and Participants

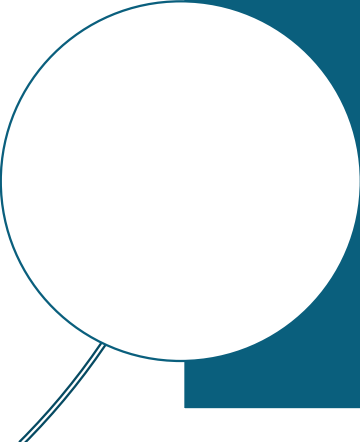
# Beneficiary Pays

- Means project costs should be allocated consistent with the flow of benefits and obligations
- Principle applies across all agreements being developed by the JPA, i.e., with Participants, with state agencies, and with the federal government

# Roles and Responsibilities: As currently defined



JPA will act as developer and operator of the Project with *meaningful* input from Participants.



Participants will cover Project costs (except for those allocated to the state agencies and federal government), assume certain risks and obligations, and provide input to the JPA

# Roles and Responsibilities: The Future



Changes to roles and responsibilities (governance) will be considered prior to initiation of each subsequent Project Phase

In principle, such changes must reflect **the fact** that Sacramento Valley leadership and participation from outside of the Sacramento Valley are essential to Project success and have governance needs that must be met

The “shared interests” diagram accurately represents interests and any changes to the existing governance and decision making would require approval of the JPA via a change to the JPA governing documents and bylaws

# Discussion questions



**Do you have any issues with how the Related Agreements will reflect the Beneficiary Pays Principle?**



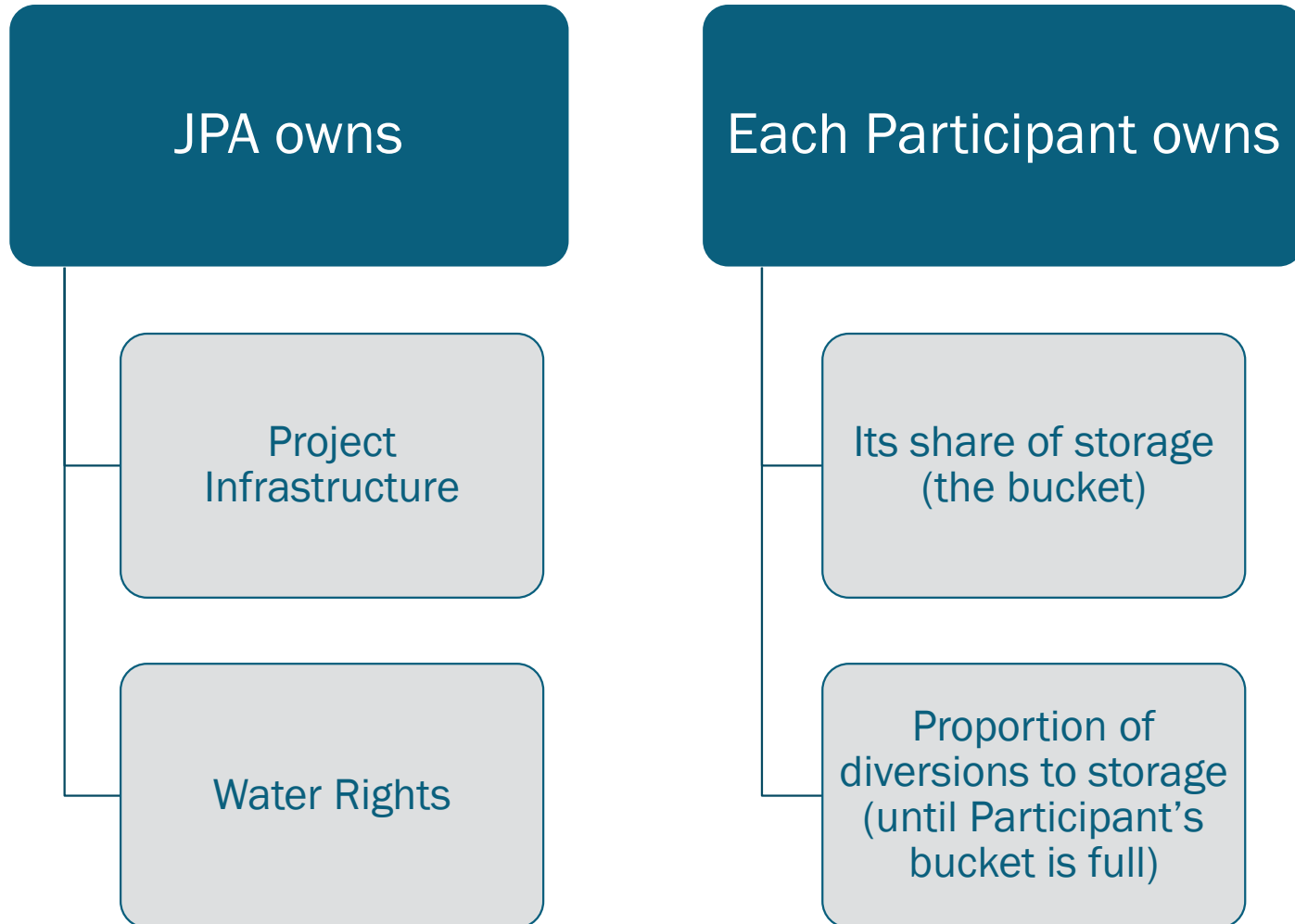
**Do you have any questions about the current roles and responsibilities of the JPA and Participants?**



**What is the best means for Participants to provide meaningful input to the JPA?**



# Project Assets, Ownership, and Water Market



# A Sites storage account is an asset owned by the Participant

With your Sites storage account, you get:

1. Storage in the largest watershed in the state **which reduces your portfolio's hydrological risk**
2. The ability to time releases **to help the environment of the Delta**
3. An off-stream reservoir **that does not spill**

It gets better with:

1. More storage south of the Delta
2. A changing climate

# Lease or Sale of Storage and Sales of Water




Subject to certain conditions, a decision to lease or sell storage can be made by each individual Participant



Lease or sale of storage provides a “pre-default” mechanism to help a Participant cover costs



# Lease or Sale of Storage: What the Guiding Principles currently say



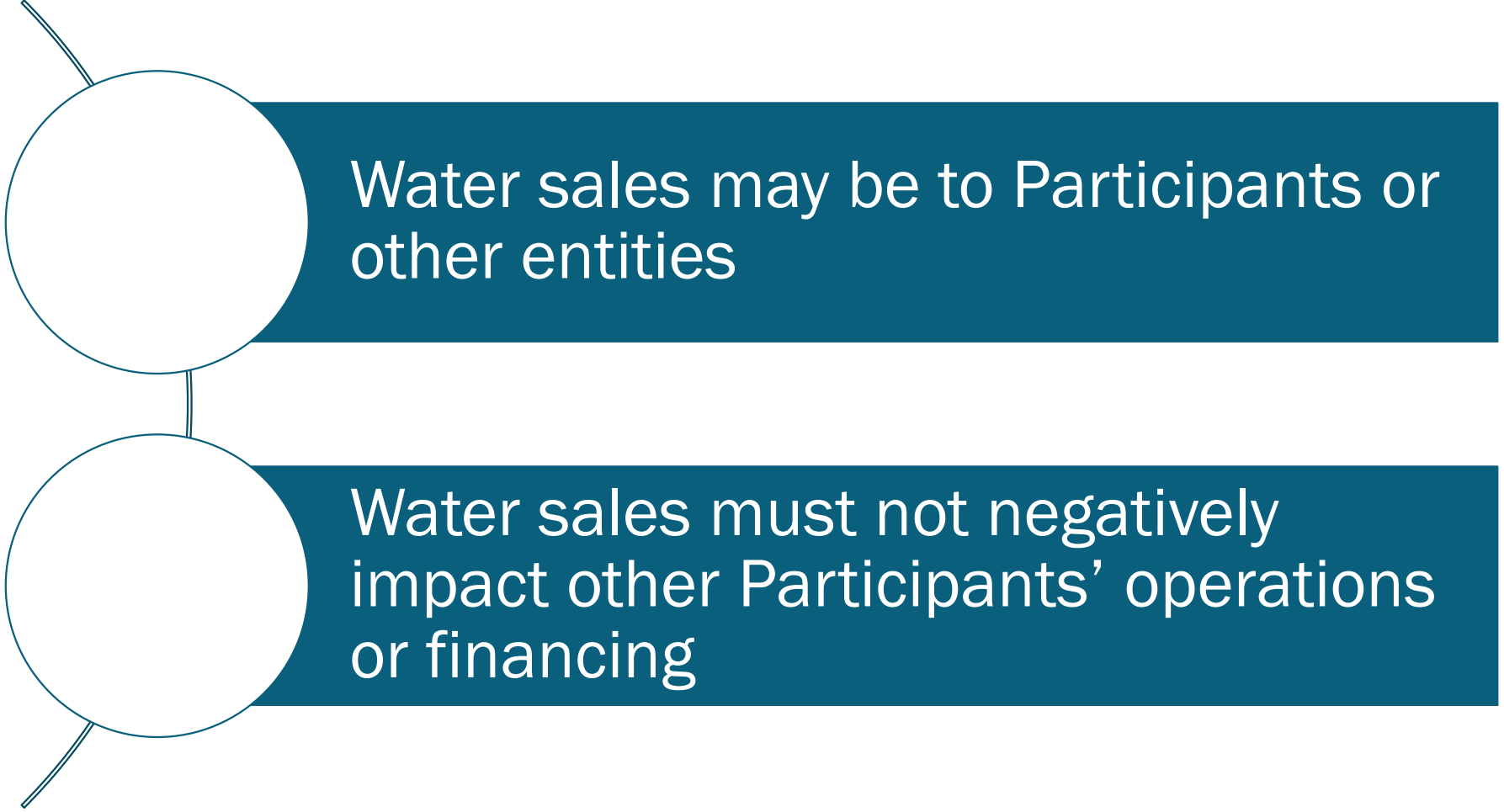
Lease agreements must specify rights to stored water at the beginning and end of the lease period and would likely be for a multi-year term

Lease or sales agreements must specify how capacity constraints will limit withdrawals from storage and how reservoir losses will be accounted for, consistent with JPA policies and procedures

Sales agreements cannot result in a change to ratings, violate any agreed to financing covenants or otherwise pose a risk to Project financing

Payments from lease or sales are “net” any payments owed the JPA

# Water Sales: What the Guiding Principles currently say




Water sales may be to Participants or other entities

Water sales must not negatively impact other Participants' operations or financing

# Structure of Water Market

## The Guiding Principles currently say...

- Sites Participants have right of first refusal for purchase or lease of storage
- JPA approval of any sale or lease of storage is required
- Terms of sale or lease are largely at the discretion of the Participant offering storage for sale or lease, or offering water for sale
- Selling Participant sets the price “at the dam face”; JPA sets the price for wheeling 
- JPA plays an administrative but not a policy role in the sale or lease of storage / sale of water

## Which means, as currently written...

- Participants have no obligation to sell or lease share of storage to other Participants at a specified price
- Participants have no obligation to “buy Sites water first”

# Discussion questions: Sale or Lease of Storage / Water Sales



Is the distinction between owning a storage right versus owning the right to a specified amount of water clear to you? Do you understand that losses and constraints will affect the amount of water you can receive?



Do you think the “Right of First Refusal” should apply to just storage (as currently drafted) or to water sales as well?



Do you think the JPA should play a more active role in the “Sites Water Market” (i.e., by setting pricing)?



Would you like to see a “buy Sites water first” provision? With this type of arrangement, who would you see setting the price for water “at the dam face”?

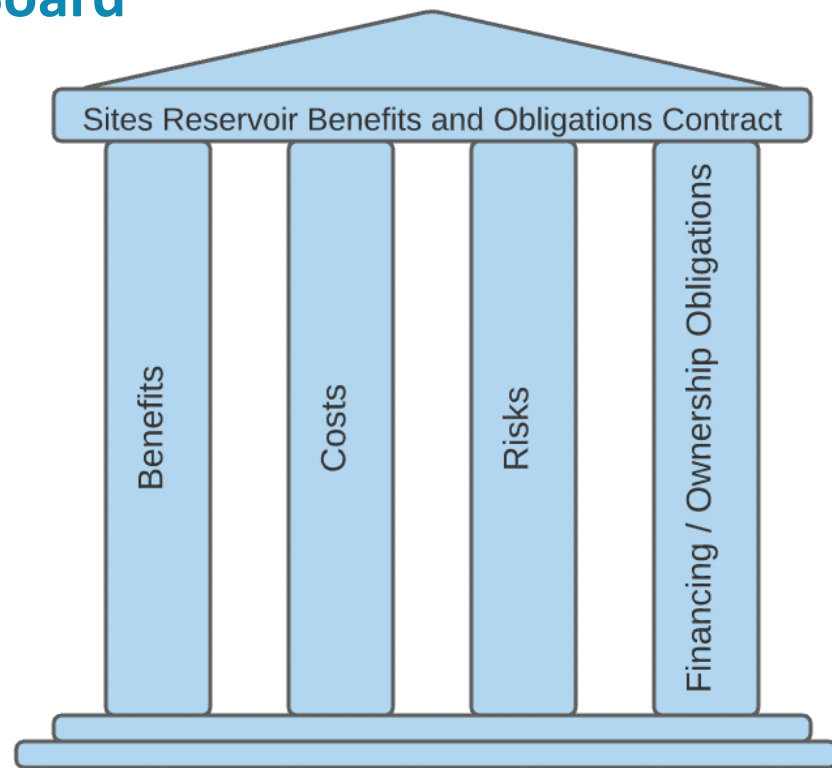
# What does your vote on the Guiding Principles mean?

## Reservoir Committee and Authority Board

Agree that the document represents a mutual understanding of project:

- Benefits
- Costs
- Risks
- Financing and ownership obligations

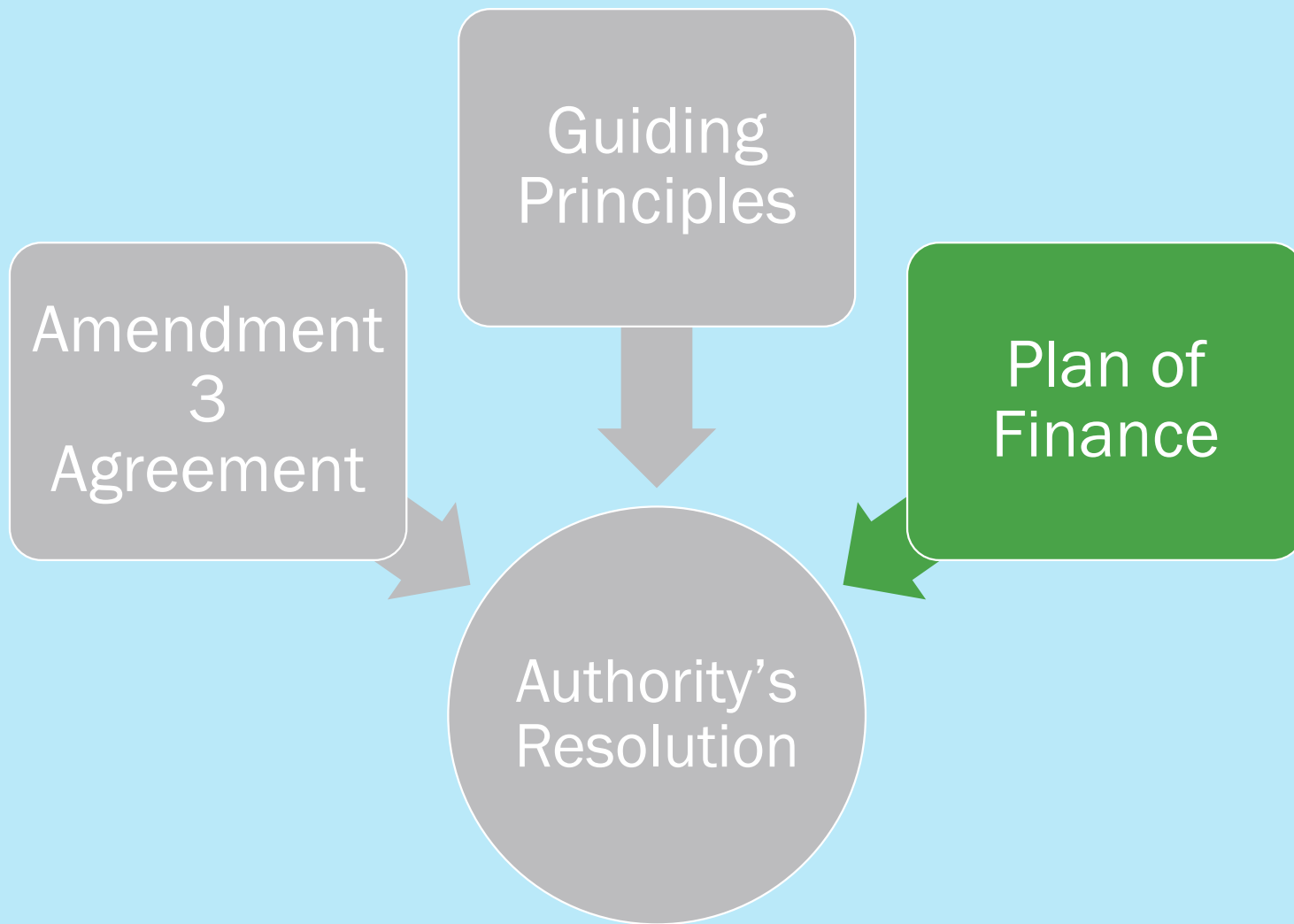
Agree to take the document to agency management and governing bodies to receive their input and work cooperatively to establish a common contract by approximately **Summer 2023**.







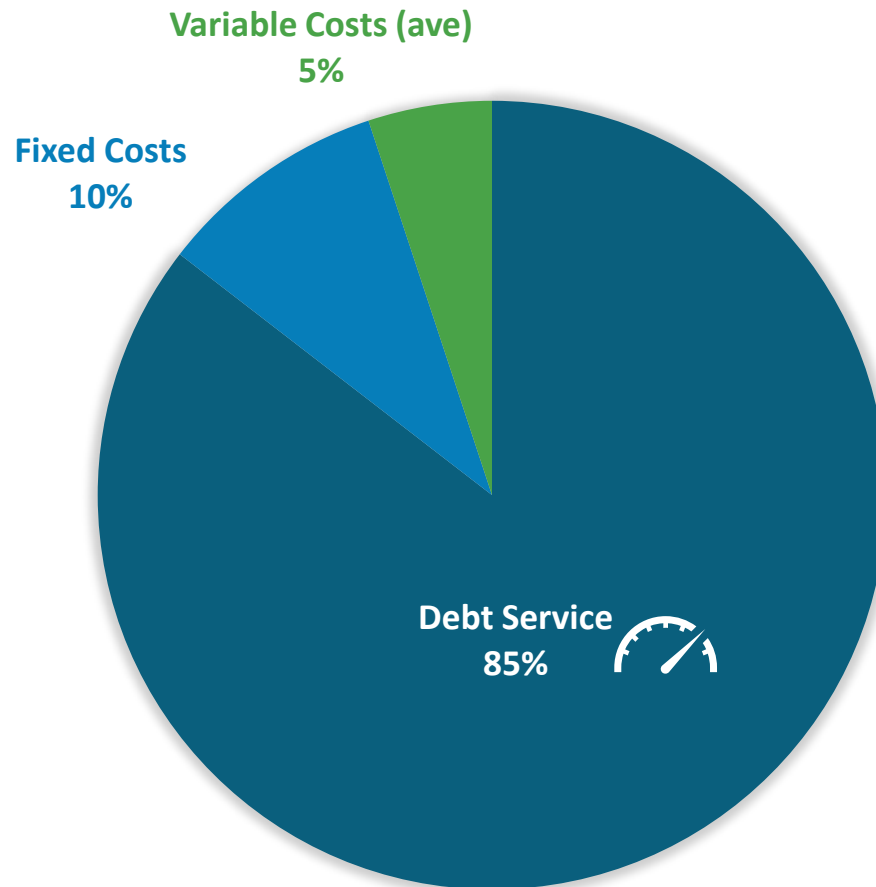
Break



# Sites 2021 Plan of Finance (D)

# Debt service is the biggest annual cost

## FINANCING PARTICIPANTS ANNUAL PROJECT COSTS



# The Plan of Finance builds on what we have heard throughout the year

## Two options: pooled financing or pay-as-you-go ("pay-go")

### For **financing Participants**

- WIFIA and Bank Line options for Participant share of preconstruction funding
- Participant share of construction costs covered with combination of USDA loan, WIFIA loan, and long-term tax-exempt bonds

### For **pay-go Participants**

- Pay cash or arrange own financing to pay share of costs in advance to the Authority

For **all Participants**, there will be terms related to ensuring the Authority has sufficient funding to meet its obligations (sufficiency pledge)

# Understanding how Participants want to pay is important

The agencies participating in Authority-issued debt will impact:

- The **feasibility** of borrowing
- The **interest rate** 

The Authority needs to understand your agency's:

- Preferred approach (finance or pay-go)
- Openness to participating in pooled financing

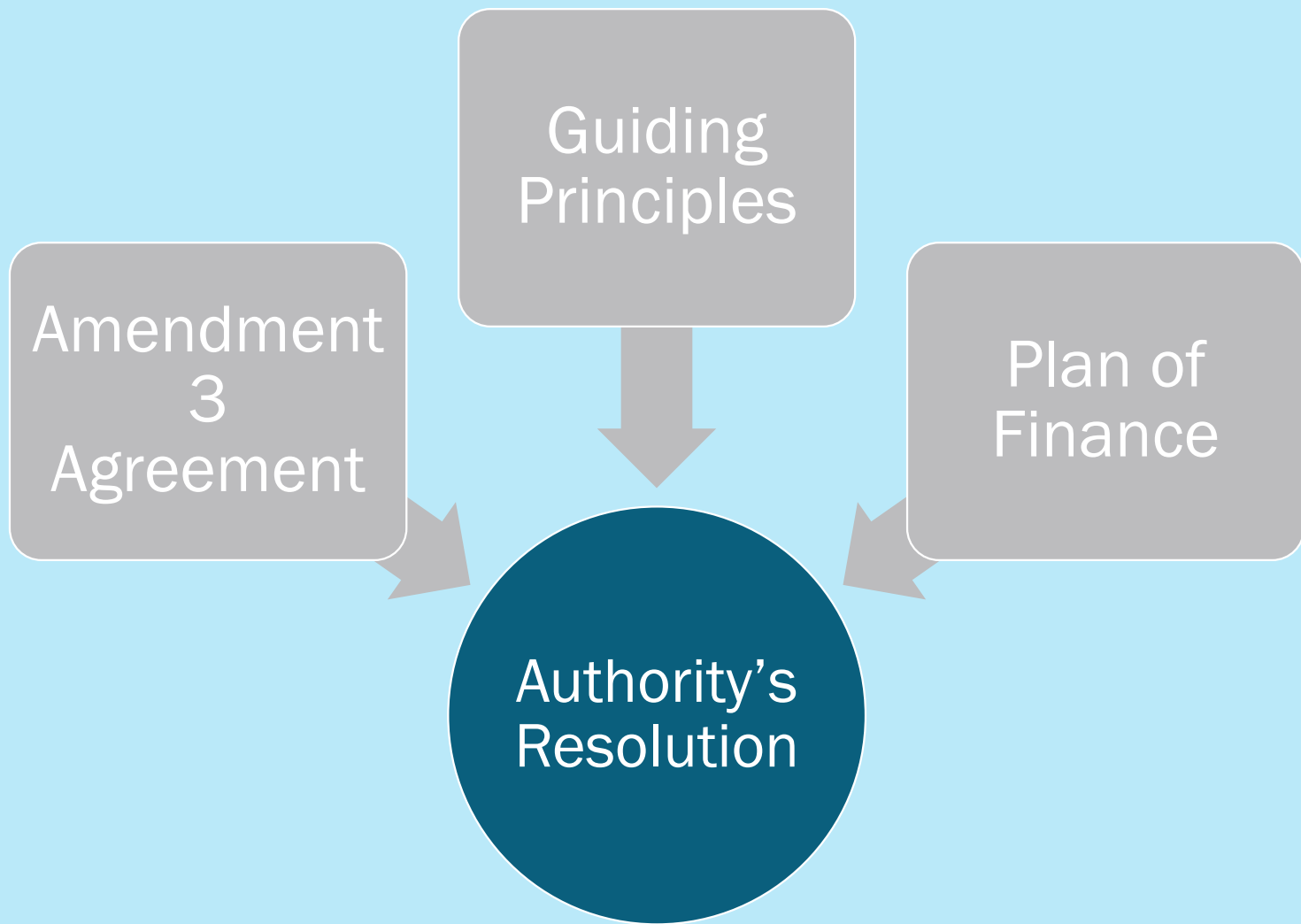
# What does your vote on the Plan of Finance mean?

## Reservoir Committee

- Agree with general financing principles included in the plan
- Accept the preliminary financing options provided (group finance and pay-go) and acknowledge that pay-go may or may not be an option
- Acknowledge that the critical path to external financing requires each Participant to secure its revenue stream and provide audited financials
- Acknowledge the need for all Participants to agree to some type of revenue sufficiency pledge for the Project
- Agree to brief home boards on the above

## Authority Board

- Agree with general financing principles included in the plan
- Accept the preliminary financing options provided (group finance and pay-go)
- Agree with the concepts presented regarding security structure including the need for a revenue sufficiency pledge



# Sites Resolution Confirming 75% Commitment (A)

# The resolution is based on our progress and achievements

## Achievements

- ✓ JPA and Reservoir Committee formed
- ✓ Adopted Strategic Plan
- ✓ Approved Value Planning Report (Project Right-Sizing)
- ✓ Approved Feasibility Project Cost Estimate
- ✓ Authorized release of Revised Draft EIR/Supplemental Draft EIS for public review and comment
- ✓ Funding Support
  - ✓ \$43.8M from Participants
  - ✓ \$449M USDA Loan
  - ✓ \$836M in Prop 1 funds
  - ✓ \$100M committed by Reclamation
  - ✓ Submitted WIFIA Letter of Interest

## Forthcoming Approval

- Amendment 3 Agreement
- Guiding Principles
- Plan of Finance



# What does your vote on the resolution mean?

## Reservoir Committee

- Agree that the facts, including achievements, past and future funding, and progress made in defining the project and improving certainty are accurate and representative of the Participants' investing position
- Recommend that the Authority approves the resolution and submits it to the California Water Commission

## Authority Board

- Agree that the facts, including the recommendation from the Reservoir Committee, demonstrate the Authority's commitment to:
  - Fund not less than 75% of the non-public benefit cost share of the project
  - Be a proponent and facilitator to design, fund, permit, construct, manage, operate, and maintain the project
- Submit the resolution to the California Water Commission (to coordinate with DWR)

*All subject to Authority CEQA review*

# Next Steps



# Near Term Actions

✓ September 2<sup>nd</sup> : Financing Action Plan Progress Review and Next Steps

- Provide feedback on documents to JP ([jrobinette@brwncald.com](mailto:jrobinette@brwncald.com)) by **Monday 9/13**

September 22<sup>nd</sup> Joint Meeting:

- Amendment 3 Agreement and Work Plan
- Approve and Authorize submission of the following to CWC:
  - CWC Feasibility Report
  - Plan of Finance
  - Guiding Principles
  - Authority 75% Commitment Resolution

October: Submit CWC Feasibility Report and 75% Commitment Package

# Longer Term Activities

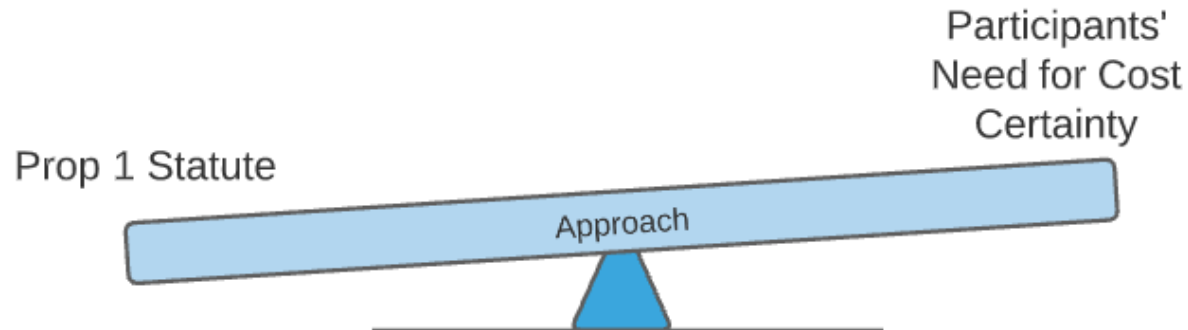
## Encumbering Prop 1 Funds

### Approach - Amendment 3 Work Plan (18-month work)

- Complete Final EIR/EIS
- Develop Agreements for Administration of Public Benefits (with CDFW and DWR)
- Obtain Key Permits

### Key Considerations:

- Timing the State's investment with that of the Participants
- Precedent for self-defining how the statute will be met
  - 75% Commitment





Questions?