



Subject: Potential Risk Fee for New Participants

Requested Action:

Review and comment on a potential risk fee for new participants.

Detailed Description/Background:

Participants have identified the potential need for a risk fee to future new Site Reservoir Project investors. Current Participants have financially invested in the Project for many years without any assurances that the project would be built. As project development advances, the risk to new Participants is reduced.

The Budget and Finance (B&F) Committee requested staff to conduct an exploratory discussion of a risk fee and determine whether continued evaluation and possible inclusion of the fee is warranted at this time. The B&F Committee met on August 12, 2021 and discussed a potential fee. The Committee requested that the item be agendized for discussion with the whole Reservoir Committee. This evaluation is at a very early stage and staff would benefit from feedback in two areas as follows.

Approach to Calculating a Risk Fee

Staff conducted a review of a risk fee and identified there are likely two fee options to consider. One based on capital costs (assets) and the other on the “cost of money.” Since the Authority currently does not have any substantive assets, this is not a viable option until the Authority has an asset such as a water right permit. The other, based on the time value of money, could be justified.

Staff evaluated the time value of money by reviewing Participant investments since the initial cash call in 2015. Cash calls through Phase 2, Amendment 2 are presented below.

Investment Year	2015	2019	2020
Cash Calls \$/AF	\$48.50	\$60	\$100

Staff looked at three different interest rates and applied them year by year to the above investment patterns:

- Average LAIF* rates - \$208.50 would be valued at \$217: \$8.50/AF premium.
- Inflation rate of 2.5% - \$208.50 would be valued at \$227: \$18.50/AF premium.
- Aggressive interest rate of 5% - \$208.50 would be valued at \$248: \$39.50/AF premium.

If there were new participants in the amount of 8,000 AF during the upcoming rebalancing, the range of new funds brought in from the risk premium would be \$68,000 - \$316,000 depending on the interest rate assumed.

Distribution of the Risk Fee

Another issue is if the Reservoir Committee decides to apply a risk fee, how would these funds be used. For example, one approach could be to use the risk fee to pay down the outstanding reimbursement liability in proportion to the timing and amount of money originally collected. This could get complicated and the total amount for distribution may not warrant this level of administrative burden. Also, it could be that increasing the reimbursement cost for potential new participants could be a disincentive to their investing in the project.

**LAIF=Local Agency Investment Fund average rates of return for respective years of investments*

Prior Action:

None.

Fiscal Impact/Funding Source:

None at this time.

Staff Contact:

Joe Trapasso

Attachments:

None.