



Requested Action:

Adopt the following documents in relation to preparing an application for WIFIA loan:

- a) Master Resolution describing the Authority's approach and priorities to collection and use of revenues to pay Authority expenses.
- b) WIFIA Reserve Policy of the Authority consistent with the Final Guiding Principles and Preliminary Terms.
- c) Debt Management Policy in compliance with Government Code requirements.

Detailed Description/Background:

In March 2022, the Sites Project Authority (Sites Authority) was invited to apply for a WIFIA loan for up to 49% of costs (estimated to be \$2.2 billion) for the Sites Reservoir Project (Project). The significant Project benefits of a WIFIA loan when compared to revenue bonds, the traditional method for financing public works water projects, include improved affordability and flexible repayment options. The Sites Authority intends to secure WIFIA loans through a Master Agreement. This approach allows funding to be received in tranches that align with Project development phases, starting as early as pre-construction. The first step to securing a Master Agreement is to complete an application by March of 2023 that is based on a debt structure and corresponding documentation and policies. Board adoption of these documents are needed to initiate the process leading to this submission early next year. Please note the proposed action is for adoption of foundational documents and not authority for the application itself.

The Budget & Finance Committee initiated an ad-hoc subcommittee, the WIFIA Joint Subcommittee, consisting of members from the Reservoir Committee and Authority Board appointed by the Budget and Finance Committee Chair, to develop the materials that will inform the Sites Authority's WIFIA application.

An Indicative Credit Rating will be sought. This is a voluntary outreach to receive the potential credit rating of a proposed debt issuance. In addition to the items proposed for action herein, information provided by Participants will be included as part of the Indicative Credit Rating process.

Staff applied the following criteria when developing the proposed documents to support the indicative credit rating:

- Achieve an investment-grade credit rating for the Sites Authority.
- Share Project risks equally amongst all storage partners.
- Establish all terms consistent with the beneficiary pays principle.
- Establish a structure that minimizes the amount of Participant cash the Sites Authority holds in reserve.
- Define processes for members to avoid defaults (sell or lease storage, sell water) and provide time for the Sites Authority to remedy defaults through the default “waterfall”.

The following documents, when packaged together with other Project-related documents, including the Final Guiding Principles and Preliminary Terms (Agenda Item 2.2) and financial modeling, represent what Sites Authority Staff, bond counsel, and municipal advisor expect are needed to secure the credit rating necessary to qualify for the WIFIA loan:

- **Master Resolution (Attachment A):** Describes the Sites Authority’s approach to prioritize payments/proposed financial covenants for lenders. This legal document dictates the requirements and conditions precedent before issuing debt and while debt is outstanding. The terms established by the Master Resolution will inform elements of the Sites Reservoir Benefits and Obligations Contract. The Master Resolution may be revised by the Sites Authority at any point prior to the Sites Authority incurring a loan or other debt.
- **WIFIA Reserve Policy (Attachment B):** Establishes and defines certain financial reserves which are intended to ensure that the Sites Authority always has sufficient funds on hand to pay its operating, capital, and debt service cost obligations on time, which is integral for the WIFIA loan. This policy is not binding and is not a comprehensive listing of reserves the Project may require but is intended to represent the minimal financial reserves required.
- **Debt Management Policy (Attachment C):** Establishes the parameters within which bonds, loans, notes, capital leases, and other forms of indebtedness may be issued and administered by the Sites Authority (in compliance with Government Code Section 8855(i)).

Staff presented an overview of these documents at the October 28, 2022 Credit and Reserves workshop and concurrence was provided to initiate the proposed action of the Authority.

Prior Action:

June 17, 2022: Reviewed and commented on Financing Action Plan Roadmap

Fiscal Impact/Funding Source:

The Amendment 3 Work Plan includes a sufficient budget to cover required resources, activities, and fees in support of the Indicative Credit Rating and the WIFIA application. Any required adjustments based on feedback during the rating process or during the WIFIA application will be considered within the Fiscal Year Budget development process.

Staff Contact:

Doug Brown/Doug Montague/JP Robinette

Primary Service Provider:

Stradling & Montague DeRose and Associates

Attachments:

Attachment A: Master Resolution

Attachment B: WIFIA Reserve Policy

Attachment C: Debt Management Policy

**BEFORE THE BOARD OF DIRECTORS OF THE
SITES PROJECT AUTHORITY**

RESOLUTION NO. 2022-___

In the Matter of:

**SITES PROJECT AUTHORITY RESOLUTION PROVIDING FOR THE PRIORITIZATION OF USE FOR
SITES PROJECT REVENUES**

WHEREAS, the Board of Directors of the Sites Project Authority (the “Board” and the “Sites Authority,” respectively), pursuant to the Sites Authority’s procedures and the California Government Code, from time to time, may adopt policy for the administration of the Sites Authority;

WHEREAS, the Sites Authority is developing a water supply and storage project commonly referred to as the “Sites Reservoir Project” and related facilities;

WHEREAS, the Sites Authority expects to receive certain revenues (as further defined below, the “Revenues”) from water supply and storage contractors, the California Department of Water Resources, the United States Bureau of Reclamation and others; and

WHEREAS, the Board, by adoption of this Master Resolution, desires to adopt guidance providing for the prioritization of use for such Revenues.

NOW, THEREFORE BE IT RESOLVED, by this Board of Directors:

Section 1. Recitals. The facts stated in the recitals above are true and correct, and the Board so finds and determines.

Section 2. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any opinion or report or other document mentioned herein or therein have the meanings defined herein. Such definitions are equally applicable to both the singular and plural forms of any of the terms defined herein:

(a) **Authorized Officer.** “Authorized Officer” means (i) the Executive Director of the Sites Authority or, if there is no officer designated as the Executive Director, the Treasurer of the Sites Authority or (ii) the highest ranking member of the finance staff of the Sites Authority; and, in each case, the written designee thereof.

(b) **Benefits and Obligations Contracts.** “Benefits and Obligations Contracts” means water supply and water storage contracts entered into by the Sites Authority with agricultural,

municipal and/or industrial water providers with respect to the Project but shall not include any agreement or arrangement for water service or water storage with DWR or Reclamation.

(c) Board. “Board” means the Board of Directors of the Sites Authority.

(d) DWR. “DWR” means the California Department of Water Resources, including any successor thereto.

(e) Fiscal Year. “Fiscal Year” means the period beginning on January 1 of each year and ending on the last day of December of such year, or any other accounting period hereafter selected and designated by the Board as the Fiscal Year of the Sites Authority.

(f) Fixed Operation and Maintenance Costs. “Fixed Operation and Maintenance Costs” mean Operation and Maintenance Costs which do not vary by the amount of water diverted, stored or released from the Project, as more particularly determined in accordance with the Benefits and Obligations Contracts.

(g) Fixed Project Costs. “Fixed Project Costs” mean capital costs, including debt service on Project Obligations, reserves established for the payment of debt service on Project Obligations, other amounts due under the Project Obligations and other payments under the Benefits and Obligations Contracts other than payments constituting Fixed Operation and Maintenance Costs and Variable Operation and Maintenance Costs of the Project, as more particularly determined in accordance with the Benefits and Obligations Contracts.

(h) Joint Powers Agreement. “Joint Powers Agreement” means the Fourth Amended and Restated Joint Exercise of Powers Agreement, effective March 23, 2017, by and among the parties set forth on the execution page thereof, as amended and supplemented from time-to-time in accordance therewith.

(i) Liquidity Reserve. “Liquidity Reserve” means “Fund _____” maintained by the Sites Authority in accordance with Section 3.5 hereof.

(j) Liquidity Reserve Requirement. “Liquidity Reserve Requirement” means, for any Fiscal Year, an amount equal to (i) 10% of the debt service payable during such Fiscal Year with respect to all Project Obligations outstanding on the first day of such Fiscal Year, plus (ii) 10% of total Fixed Operation and Maintenance Costs payable during such Fiscal Year.

(k) Master Resolution. “Master Resolution” means this resolution as this resolution may be amended from time-to-time in accordance with Section 4.3 hereof.

(l) Net Revenues. “Net Revenues” means, for any Fiscal Year, Revenues minus Operation and Maintenance Costs.

(m) Operation and Maintenance Costs. “Operation and Maintenance Costs” means costs spent or incurred for operation and maintenance of the Project, calculated in accordance with Generally Accepted Accounting Principles; but excluding in all cases depreciation,

replacement and obsolescence charges or reserves therefor and amortization of intangibles, including amortization of water rights, unrealized losses on investments, write offs of the value of impaired assets and bookkeeping entries of similar nature as well as any other non-cash expenses.

(n) Project. “Project” means a water supply and storage project commonly referred to as the Sites Reservoir Project, the entire physical infrastructure and capital improvements to be designed, constructed, commissioned, and completed by the Sites Authority.

(o) Project Obligations. “Project Obligations” means any bonds, notes, loans or other evidences of indebtedness issued or incurred by or on behalf of the Sites Authority with respect to the Project.

(p) Reclamation. “Reclamation” means the United States of America, Department of the Interior, Bureau of Reclamation, including any successor thereto.

(q) Revenue Fund. “Revenue Fund” means the “Fund ___-_____” maintained by the Sites Authority in accordance with Section 3.1 hereof, and including any other funds and accounts into which the Sites Authority deposits Revenues.

(r) Revenues. “Revenues” means, with respect to any Fiscal Year, all amounts received by the Sites Authority with respect to the Project, including but not limited to (i) (A) amounts received by the Sites Authority in connection with water supply and storage contracts with respect to the Project, including the Benefits and Obligations Contracts, (B) amounts received by the Sites Authority in connection with agreements or other arrangements entered into with DWR and Reclamation with respect to the Project, (C) other amounts received by the Sites Authority related to the operation of the Project, (D) transfers from the Liquidity Reserve as provided in Section 3.5 hereof and (E) other amounts received by the Sites Authority to the extent designated by the Board as “Revenues”, and (ii) all income from the investment of any Revenues in the (A) Revenue Fund, (B) Liquidity Reserve, and (C) any other fund or account created with respect to any Project Obligation to the extent investment earnings thereon are required by the terms of such Project Obligation to be transferred to the Revenue Fund or the Liquidity Reserve.

(s) Sites Authority. “Sites Authority” means the Sites Project Authority, an independent joint powers authority established pursuant to the Joint Exercise of Powers Agreement to exercise powers common to the Sites Authority members to, among other things, effectively study, promote, develop, design, finance, acquire, construct, manage, and operate Sites Reservoir Project and related facilities such as recreation and power generation.

(t) Variable Operation and Maintenance Costs. “Variable Operation and Maintenance Costs” means Operation and Maintenance Costs which vary by the amount of water diverted, stored or released from the Project, as more particularly determined in accordance with the Benefits and Obligations Contracts.

Section 3. Prioritization of Use for Revenues.

Section 3.1. Revenue Fund.

The Sites Authority hereby continues and agrees to maintain, so long as any Project Obligations remain unpaid, the Revenue Fund to be held by the Sites Authority. Amounts in the Revenue Fund shall be disbursed, allocated and applied solely to the uses and purposes hereinafter described in this Master Resolution, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Sites Authority.

All Revenues and all amounts on deposit in the Revenue Fund are hereby allocated to the payment of the Operation and Maintenance Costs, Project Obligations and other costs as set forth in Section 3.2. The Revenues and all amounts on deposit in the Revenue Fund shall not be used for any other purpose while any Project Obligations remain unpaid. Any investment earnings on amounts on deposit in the Revenue Fund shall be retained in the Revenue Fund.

Section 3.2. Prioritization of Use for Revenues.

All Revenues received by the Sites Authority shall be deposited into the Revenue Fund established and held by the Sites Authority pursuant to Section 3.1 hereof and allocated in the following priority:

- a. to the payment of Operation and Maintenance Costs;
- b. to the payment of senior lien Project Obligations;
- c. to replenish bond reserve funds established for senior Project Obligations, if any;
- d. to the payment of subordinate lien Project Obligations;
- e. to replenish bond reserve funds established for subordinate lien Project Obligations, if any;
- f. to restore the amount on deposit in the Liquidity Reserve to the Liquidity Reserve Requirement; and
- g. as long as the Sites Authority determines there will be sufficient Revenues to make the payments set forth in (a) through (f) above, to pay any other Project costs, including Fixed Project Costs not previously paid under (b) through (e) above, permitted by law, under the Joint Powers Agreement and the Benefits and Obligations Contracts.

Section 3.3. Project Obligations. The Sites Authority shall not issue or incur any additional Project Obligations unless the Sites Authority has certified that (i) no material event of default has occurred under any Project Obligations and is continuing, (ii) each of the Benefits

and Obligations Contracts is in full force and effect, and (iii) such additional Project Obligation is entitled to the benefits this Master Resolution.

Section 3.4. Rate Sufficiency. (a) The Sites Authority hereby covenants to establish charges under the Benefits and Obligations Contracts at the beginning of each Fiscal Year which, together with Revenues billed and collected with respect to such Fiscal Year prior to the commencement of such Fiscal Year and with other Sites Authority Revenues, are reasonably expected to be at least sufficient to yield Net Revenues, together with amounts on deposit in the Liquidity Reserve, of at least 1.00 times Project Obligation debt service payable during such Fiscal Year.

(b) So long as the Sites Authority has complied with its obligations set forth in subsection (a) above, the failure of Net Revenues to meet the threshold in the prior subsection (a) with respect to a Fiscal Year shall not constitute a default or an event of default hereunder so long as the Authority has complied with its obligation set forth in clause (a) above with respect to the following Fiscal Year.

Section 3.5. Liquidity Reserve. The Sites Authority hereby covenants and agrees to maintain, so long as any Project Obligations remain outstanding, the Liquidity Reserve to be held by the Sites Authority. Amounts in the Liquidity Reserve shall be disbursed, allocated and applied solely to the uses and purposes hereinafter described in this Master Resolution, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Sites Authority.

So long as any Project Obligations remain outstanding, the Sites Authority shall maintain in the Liquidity Reserve an amount equal to the Liquidity Reserve Requirement. On or prior to the date of incurrence of any Project Obligations, the Sites Authority shall deposit to the Liquidity Reserve an amount necessary, if any, to increase the amount on deposit in the Liquidity Reserve to the Liquidity Reserve Requirement, including in the calculation of the Liquidity Reserve Requirement any debt service payable during the then-current Fiscal Year with respect to such Project Obligations.

In the event of any deficiency in the Liquidity Reserve, the Sites Authority shall replenish such deficiency in accordance with Section 3.2 hereof.

Amounts in the Liquidity Reserve shall be withdrawn by the Sites Authority upon the written direction of an Authorized Officer solely for the purposes set forth in Sections 3.2(a), 3.2(e) and 3.2(g) hereof. Any amounts withdrawn from the Liquidity Reserve shall be deposited into the Revenue Fund and applied pursuant to Section 3.2 hereof. Any amounts in the Liquidity Reserve in excess of the Liquidity Reserve Requirement on the last day of any Fiscal Year may be transferred in accordance with the written direction of an Authorized Officer from the Liquidity Reserve to the Revenue Fund and applied pursuant to Section 3.2 hereof. Any investment earnings on amounts on deposit in the Liquidity Reserve shall be transferred on the last day of any Fiscal Year into the Revenue Fund and applied pursuant to Section 3.2 hereof.

unless such transfer would cause the amount on deposit in the Liquidity Reserve to be less than the Liquidity Reserve Requirement.

Section 3.6. Enforcement Provisions. The Sites Authority hereby covenants to enforce the Benefits and Obligations Contracts and other agreements pursuant to which the Sites Authority receives Revenues with other parties, including Reclamation and DWR, to the fullest extent necessary to assure sufficient Revenues will be available to pay all amounts with respect to Operation and Maintenance Costs and Project Obligations when due.

Section 3.7. Billing Provisions. The Sites Authority hereby covenants to bill (i) all amounts payable as Fixed Operation and Maintenance Costs under the Benefits and Obligations Contracts annually in advance in accordance with the Benefits and Obligations Contracts, (ii) all amounts payable as Variable Operation and Maintenance Costs semi-annually in advance in accordance with the Benefits and Obligations Contracts, (iii) all amounts due under Project Obligations annually in advance in accordance with the Benefits and Obligations Contracts, and (iv) all Fixed Project Costs, other than amounts due under Project Obligations, semi-annually in advance in accordance with the Benefits and Obligations Contracts.

Section 3.8. Investment. All amounts on deposit in the Revenue Fund and the Liquidity Reserve shall be invested in accordance with the Sites Authority investment policy as in effect from time-to-time.

Section 4. Miscellaneous.

Section 4.1. Benefits of this Master Resolution Limited to Certain Parties. Nothing contained herein, expressed or implied, is intended to give any person other than the Sites Authority or the parties to a Project Obligation any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the Sites Authority shall be for the sole and exclusive benefit of such other parties.

Section 4.2. Successor is Deemed Included in all References to Predecessor. Whenever the Sites Authority is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Sites Authority, and all agreements and covenants required hereby to be performed by or on behalf of the Sites Authority shall bind and inure to the benefit of the successors thereof whether so expressed or not.

Section 4.3. Amendments. Except as may be otherwise provided in a Project Obligation, the Sites Authority may amend the provisions of this Master Resolution in accordance with the provisions of the Joint Powers Agreement and the bylaws of the Authority in effect from time-to-time.

Section 4.4. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Sites Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such

portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The Sites Authority hereby declares that it would have adopted this Master Resolution, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 4.5. Repeal of Inconsistent Resolutions. Any resolution of the Sites Authority and any part of any resolution inconsistent herewith is hereby repealed to the extent of such inconsistency.

Section 4.6. Additional Covenants. Nothing in this Master Resolution shall prohibit the Sites Authority from entering into additional covenants with or for the benefit of the owners of Project Obligations.

Section 4.7. Effect. This Master Resolution shall take effect immediately.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Sites Project Authority this 21st day of November 2022 by the following vote:

AYES: Directors

NOES: Directors


ABSENT: Directors

ABSTAIN: Directors

I, Fritz Durst, Chair Authority Board of the Sites Project Authority, do hereby certify that the resolution set forth above is true and accurate copy of the resolution adopted by the Board of Directors of the Sites Project Authority at a duly called meeting of the Board on November 21, 2022 and that said resolution has not been rescinded, amended or modified and is in full force and effect as of the date hereof.

In Witness Whereof, I have executed this certificate this ___th day of _____ 2022.

Fritz Durst, Chair Authority Board, Sites Project Authority

	DOCUMENT TYPE	Policy
	DOCUMENT NO.	F06
	ADOPTED	11/21/2022
	LAST UPDATED	n/a

SITES PROJECT AUTHORITY

WIFIA Reserve Policy

1. Purpose:

The Sites Project Authority (the “Sites Authority”) is a joint exercise of powers authority responsible for the planning, design, and construction of the Sites Reservoir Project (the “Project”). Public agencies have entered into certain agreements with the Sites Authority that establish membership in the Sites Authority and participation in the Project, such agreements also include terms outlining the costs to participate in and receive benefits from the Project.

The Sites Authority currently follows the work plan outlined under the Third Amendment to 2019 Reservoir Project Agreement (“Amendment 3”). The Amendment 3 work plan involves securing Project financing and the Sites Authority has been invited by the United States Environmental Protection Agency (the “EPA”) to apply for a federal loan through the Water Infrastructure Finance and Innovation Act (“WIFIA”) to partially finance the Project. The EPA requires the assignment of an investment grade credit rating from a rating organization for the execution of a WIFIA loan. A credit rating is a forward-looking opinion about an entity’s relative creditworthiness and a minimum level investment grade credit rating indicates an entity has adequate capacity for payment of financial commitments. Maintaining adequate cash reserves is viewed by the rating agencies as an essential component of sound financial management as they help ensure an entity’s ability to meet its financial obligations. A financial reserve policy will support the Sites Authority’s fiscal discipline and will demonstrate to the rating agencies that the Sites Authority is committed to prudent financial practices.

This WIFIA Reserve Policy establishes and defines certain financial reserves which are intended to ensure that the Sites Authority always has sufficient funds on hand to pay its operating, capital and debt service cost obligations on time, which is integral to achieving an investment grade credit rating for the WIFIA loan. The reserves outlined in this policy are structured based on the Amendment 3 participants and is subject to change should there be a change in the participant mix and respective participation amounts presented to the rating agencies as part of the WIFIA loan rating package. This policy recognizes that the Sites Authority intends to enter into certain agreements with the State of California and the federal government for funding a portion of the Project in exchange for agreed upon Project benefits.

These separate agreements will define the allocation of costs, risks, obligations, and benefits between the Sites Authority and State and federal agencies. Accordingly, the State and federal government are not considered Participants for the purpose of this Reserve Policy and therefore, are not subject to the requirements/reserve contributions described in this Reserve Policy, nor can these entities avail themselves of the reserves described herein.

Separately, the provisions outlined below assume that Project participants enter into Benefits and Obligations Contracts with the Sites Authority as contemplated by the Sites Reservoir Benefits and Obligations Contract Guiding Principles and Preliminary Terms, and that a Master Resolution is adopted by the Sites Authority which would govern Sites Authority debt, including the WIFIA loan.

2. **Definitions:**

Amendment 3: The Third Amendment to 2019 Reservoir Project Agreement dated as of January 1, 2022, by and among the Sites Authority and the Amendment 3 Participants.

Master Resolution: The resolution adopted by the Board of Directors of the Sites Authority on November 21, 2022, relating to, among other things, the security provisions of the WIFIA Loan and other Sites Authority debt.

Participants: Entities listed in Exhibit A of Amendment 3, that pay to participate and receive benefits in the Sites Reservoir Project including certain Sites Authority members and other municipal entities and special districts. For purposes of this policy, the term Participants does not include State and federal agencies.

Partner Facilities: Existing conveyance facilities owned and operated by other entities that have excess capacity that can be used by Participants to access benefits of the Project.

Project or Sites Reservoir Project: The entire physical infrastructure and capital improvements to be designed, constructed, commissioned, and completed by the Sites Authority.

Sites Authority: The Sites Project Authority, an independent joint powers authority established pursuant to the Joint Exercise of Powers Agreement to exercise powers common to the authority members to, among other things, effectively study, promote, develop, design, finance, acquire, construct, manage, and operate Sites Reservoir and related facilities such as recreation and power generation.

Capitalized terms used herein and not otherwise defined herein shall have the respective meanings ascribed to such terms in the Master Resolution.

3. Policy:

As stated, the Sites Authority was formed to act as developer and operator of the Project and Participants are the entities that pay to participate and receive benefits in the Project. Participants have executed, or will execute, certain agreements with the Sites Authority to provide funding for their share of the construction and operation costs of the Project (minus those costs covered by State agencies and the federal government under separate agreements) in exchange for a proportionate percentage of the annual water diversions and storage space in the Project. Project costs are to be apportioned to each of the Participants based on a requested annualized acre-foot of storage space in the Project. For clarity, this means that a Participant receiving benefits from the Project (or from a Partner Facility) agrees to pay a pro-rated share of fixed and variable Project costs as set forth below:

- Fixed Project Costs: Each Participant will agree to pay the Sites Authority semi-annually one year in advance 100% of the projected Fixed Project Costs allocated to such Participant (e.g., payments made on January 1 will be for Fixed Project Costs budgeted for the six-month period beginning on January 1 of the following year).
- Fixed Operation and Maintenance Costs: Each Participant will agree to pay the Sites Authority semi-annually one year in advance 100% of the projected Fixed Operation and Maintenance Costs allocated to such Participant (e.g., payments made on January 1 will be for Fixed Operation and Maintenance Costs budgeted for the six-month period beginning on January 1 of the following year).
- Variable Operation and Maintenance Costs: Each Participant will agree to pay the Sites Authority the projected Variable Operation and Maintenance Costs allocated to such Participant semi-annually six months in advance (e.g., payments made on January 1 will be for Variable Operation and Maintenance Costs budgeted for the six-month period beginning on July 1 of the same year).

All charges outlined above will be billed to Participants no less than 30 days in advance of their due date.

The payment schedules outlined above only relate to those payments to be made by Participants. The allocation and payment schedule of costs assigned to State and federal agencies, as well as any possible remedial or enforcement actions for non-payment by these entities, will be defined in separate agreements with those entities.

The accounting for all categories of Project Costs will be subject to periodic true-ups as needed.

Liquidity Reserve

The Sites Authority does not expect that Participants will have difficulties making their obligated payments. However, to mitigate risks, the Sites Authority will collect Fixed Project Costs and Fixed Operation and Maintenance Costs semi-annually in advance as described above to provide ample time to address unforeseen complications and has further established certain remedial and enforcement actions which can be taken to remedy an insufficiency in funds available.

Further, the Sites Authority has established (or will establish) a restricted Liquidity Reserve under its Master Resolution that can be drawn upon as a last resort to cover an insufficiency in funds available to pay Fixed Project and Fixed Operation and Maintenance Costs previously allocated to Participants. The Liquidity Reserve is established in an amount not in excess of 10% of current annual Participant Fixed Project Costs plus an amount not in excess of 10% of current annual Participant Fixed Operation and Maintenance Costs. Additional details on the Liquidity Reserve will be found in the Master Resolution.

The Liquidity Reserve will not be governed by this WIFIA Reserve Policy but instead will be subject to the terms of the Master Resolution.

Variable Operation and Maintenance Costs Reserve

Given that payments for Variable Operation and Maintenance Costs are structured differently than Fixed Project and Fixed Operation and Maintenance Costs (i.e., only due semi-annually six months in advance vs. annually in advance), the Sites Authority has established an unrestricted Variable Operation and Maintenance Costs Reserve under this policy to mitigate the risk of revenue shortfall as a result of a Participant's inability to meet their allocated Variable Operation and Maintenance Cost obligation.

The Variable Operation and Maintenance costs Reserve target amount is set on the basis of the projected Variable Operation and Maintenance Costs associated with filling the Sites Reservoir (i.e. pumping and wheeling) in a wet year following a critically dry year. Based on the Sites Authority's current projections, it is expected that the reservoir will be filled for the first time in [20--] with estimated annual Variable Operation and Maintenance Costs of approximately \$50 million for [20--] (in [20--] dollars).

It is unlikely that all Participants in [20--] will be unable to make their allocated Variable Operation and Maintenance Costs payments as these costs are expected to comprise about 5% of the total payments to the Authority. Accordingly, to minimize the amount of Participant-generated reserves at the Sites Authority level and to more accurately reflect the potential risk of non-payment by Participants, the Variable Operation and Maintenance Costs Reserve is established as:

Target Balance: A minimum target balance of \$12.5 million (in [20--] dollars), representing 25% (approximating the participation of smaller, harder to evaluate Participant credits) of projected Variable Operation and Maintenance Costs of approximately \$50 million in [20--].

Source of Funds: The Sites Authority aims to have the minimum target balance of \$12.5 million (in [20--] dollars) in this reserve by substantial Project completion in [20--]. Required contributions to this reserve shall be assessed semi-annually to each Participant based on its Variable Operation and Maintenance Costs allocation and will be contributed in addition to and at the same time as the Participant's semi-annual Fixed Project and Fixed Operation and Maintenance payments are due, in order to be fully funded by substantial Project completion.


Usage: This reserve is established to have sufficient funds on hand to mitigate risk of non-payment on the Sites Authority's Variable Operation and Maintenance obligations due to a Participant (which for purposes of this policy does not include State or federal agencies) failing to make its allocated payment. If the reserve is used, it will be replenished through the normal annual budget process.

4. Policy Term:

This Policy will be reviewed as needed in connection with the development and execution of the WIFIA loan and any changes shall occur by way of a resolution adopted by the Authority Board.

5. Reporting:

The Variable Operation and Maintenance Costs Reserve shall be accounted for separately on the Sites Authority's accounting records, including recording in sufficient detail to delineate the sources of funds on a per Participant basis, in addition to tracking of the uses of such reserves. Advances of cash from Participants will be tracked separately to allow proper crediting to the total contributions due from each Participant. Reporting to the Authority Board and the Reservoir Committee on the status of the reserves shall be made no less frequently than annually and will typically be included in the analysis provided during the budget review and approval process.

	DOCUMENT TYPE	Policy
	DOCUMENT NO.	F03
	ADOPTED	11/21/2022
	LAST UPDATED	n/a

SITES PROJECT AUTHORITY
Debt Management Policy

1. Purpose:

This Debt Management Policy (“Debt Policy”) establishes the parameters within which bonds, loans, notes, capital leases, and other forms of indebtedness may be issued and administered by the Sites Project Authority (the “Sites Authority”).

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the Sites Authority.

The Sites Authority hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the Sites Authority’s sound financial position.
- Ensure the Sites Authority has the flexibility to respond to changes in service priorities, future revenue levels, construction, maintenance and operating expenses.
- Protect the Sites Authority’s creditworthiness.
- Ensure that the Sites Authority’s debt is consistent with its planning goals and objectives and capital improvement program or budget, as applicable.
- Ensure total debt does not constitute unreasonable burden to the Sites Authority or its Participants.

2. Definitions:

Participants (or “Reservoir Committee members”): Participants are entities that pay to participate and receive benefits in the Sites Reservoir Project, including certain Sites Authority members and other municipal entities or special districts. This Debt Policy solely contemplates debt issuance among the entirety of Participants conforming to the Joint Powers Agreement, bylaws, and project agreements. The State and Federal government is not considered Participants for the purpose of this Debt Policy.

Sites Project Authority (“Sites Authority”): The Sites Project Authority, an independent joint powers authority established pursuant to the Joint Exercise of Powers Agreement to exercise

powers common to the Sites Authority members to, among other things, effectively study, promote, develop, design, finance, acquire, construct, manage, and operate Sites Reservoir and related facilities such as recreation and power generation.

Sites Reservoir Project (“Project”): The entire physical infrastructure and capital improvements to be designed, constructed, commissioned, and completed by the Sites Authority.

3. Policy:

Purposes for Which Debt May Be Issued [Required by Gov. Code Section 8855(i)(1)(A)]

1. Long-Term Debt. Long-term debt may be issued upon approval of the Sites Authority and as authorized by the Participants to finance the construction, acquisition, and long-term maintenance of capital improvements and facilities, equipment and land to be owned and operated by the Sites Authority.
 - a. Long-term debt financings are appropriate when the following conditions exist:
 - i. When the project to be financed is necessary to provide agreed upon benefits to Participants.
 - ii. When the project to be financed will provide benefit to Participants over multiple years, at a minimum, conforming to capitalization conditions described in the Authority’s Accounting Policy.
 - iii. When total debt does not constitute an unreasonable burden to the Sites Authority or Participants.
 - iv. When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.
 - b. Long-term debt financings will not be used for current operating expenses and annual routine maintenance expenses.
 - c. The Sites Authority may use long-term debt financings subject to the following conditions:
 - i. The project to be financed must be approved by the Sites Authority upon the recommendation of the Reservoir Committee and must be reflected in executed Benefits and Obligations Contracts with Participants.
 - ii. The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not materially exceed the average useful life of the project to be financed.
 - iii. The Sites Authority estimates that sufficient revenues will be available to service the debt through its maturity.
 - iv. The Sites Authority determines that the issuance of the debt will comply with the applicable state and federal laws.
2. Short-term debt. Short-term debt may be issued to provide financing for the Sites Authority’s operational cash flows in order to maintain a steady and even cash flow balance and other purposes as permitted by the Government Code. Short-term debt

may also be used to finance short-lived capital projects or to provide interim financing for long-lived capital projects which will be refinanced to long-term debt at a time most cost efficient for Participants.

Types of Debt [Required by Gov. Code Section 8855(i)(1)(B)]

The Sites Authority may issue the following types of tax-exempt or taxable debt:

- Revenue Bonds secured by general revenues or project revenues
- Commercial Paper or other Interim Funding Notes
- Capital Leases
- Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
- Other revenue bonds and COPs
- Installment Sale or Purchase Agreements Revenue Bonds
- Bond, Grant or Loan Anticipation Notes
- Tax and Revenue Anticipation Notes
- State and Federal Loans
- Direct Bank Loans or Lines of Credit

The Sites Authority may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy, subject to conditions of the Joint Powers Agreement, bylaws and project agreements.

Relationship of Debt to Capital Improvements and Budget [Required by Gov. Code Section 8855(i)(1)(C)]

The Sites Authority is committed to long-term capital planning. The Sites Authority intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions for capital improvements and budget.

The Sites Authority shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The Sites Authority shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear, unless approved by the Sites Authority Board.

The Sites Authority shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

Policy Goals Related to Planning Goals and Objectives [Required by Gov. Code Section 8855(i)(1)(D)]

The Sites Authority is committed to long-term financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration. The Sites Authority intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the annual operations budget.

It is a policy goal of the Sites Authority to protect Participants and their constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings and the lowest practical borrowing costs.

The Sites Authority will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the Sites Authority to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

Internal Control Procedures [Required by Gov. Code Section 8855(i)(1)(E)]

When issuing debt, in addition to complying with the terms of this Debt Policy, the Sites Authority shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

Without limiting the foregoing, the Sites Authority will periodically review the requirements of and will remain in compliance with the following:

- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
- Investment policies as they relate to the use and investment of bond proceeds.
- Any continuing disclosure undertakings entered into by the Authority in accordance with SEC Rule 15c2-12, if applicable.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the Sites Authority upon the submission of one or more written requisitions by an authorized representative of the Sites Authority, or his or her written designee, or (b) by the Sites Authority, to be held and accounted for in a separate fund, general account or project account, the expenditure of which will be carefully documented by the Sites Authority.

4. Process:

This Policy governs indebtedness issued by the Sites Authority which is subject to approval by the Sites Authority. While adherence to this Policy is generally required, it is recognized that

changes in the capital markets, Sites Authority conditions and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to best achieve policy goals. The Sites Authority may approve debt that deviates from this Policy upon the recommendation of management without an amendment of this Policy.

Notwithstanding anything in this Policy to the contrary, the failure of the Sites Authority to comply with any provisions of this Policy shall not affect the authorization, validity or enforceability of any debt or other forms of indebtedness that are otherwise issued in accordance with law.

5. Policy Term:

This Policy will be reviewed as needed, and at a minimum annually, in connection with the Sites Authority's efforts to secure external Project financing. Any changes shall occur by way of a resolution adopted by the Sites Authority. This Policy will remain in effect as amended or restated in the future by the Sites Authority.