

# Plan of Finance Workshop Ag District Structuring

Reservoir Committee and Authority Board

April 15, 2022



# Objectives

- Discuss options for Structuring Ag District Participation
- Discuss timeline for Financing activities

# Introductory Remarks

JP Robinette and Doug Brown



# Results of Amendment 3 Rebalancing

99% response rate (subscription basis)

87% of Participants remaining at same participation level

Unsubscribed amount: 900 – 1100 AF

- subject to Board discussion



# Preliminary Results of Project Repayment Annex Responses

Water Rates and Charges		Land Based Charges within an improvement district	Special Benefit Assessment		SWP Statement of Charges	Pay-Go
Prop 218 Not Required	Prop 218 Required		District wide	Levied on certain lands		
Santa Clara Valley WA	Coachella Valley WD	Dunnigan WD	Rosedale Rio Bravo WSD	Colusa County WD	Desert WA	Irvine Ranch WD
Zone 7	Glenn-Colusa ID	Wheeler Ridge-Maricopa WSD**		Westside WD	San Bernardino Valley MWD	
Santa Clara Valley WD				LaGrande WD	San Geronio Pass WA	

**Undecided/No response**  
 Antelope Valley-East Kern WA  
 City of American Canyon  
 Colusa County  
 Cortina WD  
 Davis WD  
 MWD of Southern CA  
 Reclamation District 108\*

\*Undecided – could do District-wide or via County improvement district

\*\*Land based charges imposed via recorded Benefits and Obligations Contracts on Certain Lands and approved via a Prop 218 election (or waiver, if applicable)

# Considerations for JPA, other Participants, lenders

## Authority

- Clear legal authority and structure for collection of revenues
- Clear remedies in event of Participant payment defaults
- Options for water use/reallocation in event of Participant payment defaults

## Districts

- Who is signing the agreement with the JPA?
- Level of district liability
- Clear legal framework for revenue collection
- Clear remedies in event of landowner defaults (including shutting off water)
- Options for water use/reallocation in event of payment defaults
- No unintended consequences for non-participating landowners

## Lenders

- Clear legal authority and structure for collection of revenues
- Clear remedies in event of Participant payment defaults
- Strong/diverse group of borrowers that can handle construction period cost obligations

## Other Participants

- Nature of security pledge
- Nature of payment default remedies

# Wheeler Ridge Maricopa Water Storage District Case Study

Preparations for Financing – Doug Brown and Robert Kunde  
(Attachment A)



# Case Study

- Sites Reservoir benefits and obligations contract between Sites Project Authority and the Wheeler Ridge-Maricopa Water Storage District (the “Sites Project Contract”) that sets forth the District’s participation in the Sites Reservoir Project, including the District’s obligation to make payments under the Sites Project Contract.
- Primary source of District revenues for the payment of the District’s obligations under the Sites Project Contract will be land based charges that are approved by participating landowners via Proposition 218 election or a Proposition 218 waiver, if applicable.
- Secondary source of District revenues for the payment of the District’s obligations under the Sites Project Contract will be proceeds of foreclosure by the District on land of the participating landowners securing the deed of trust (1) referred to in the seventh bullet point below. Such proceeds would include the proceeds of the disposition of contract rights to receive State Water Project water (if applicable) appurtenant to such land to the extent proceeds exceed any delinquent SWP charges.

(1) The use of a Deed of Trust has been proposed to but not yet formally endorsed by the Wheeler Ridge Board of Directors. The Deed of Trust shortens the timeline for land foreclosure which is important for meeting the bond payment schedule.



# Case Study Cont'd

- The District will be responsible for completing any necessary Proposition 218 compliance activities
- The District will enter into benefits and obligations contracts with participating landowners (the “Wheeler Ridge Benefits and Obligations Contract”) setting forth the terms by which such landowners will receive Sites Reservoir Project water and storage from the District, the obligation of such landowners to make payments for Sites Reservoir Project water and storage, and the remedies in the event of landowner default including foreclosure
- Wheeler Ridge Benefits and Obligations Contracts shall include deeds of trust on participating landowners’ property. (1)
- Wheeler Ridge Benefits and Obligation Contracts are expected to include the appropriate remedies for non-performance by participating landowners, including, but not limited to, the discontinuation of Sites Reservoir Project water and storage benefits and [State Water Project or other District water sources (2)] to the defaulting participating landowner for a failure to pay Proposition 218 compliant land based charges as well as Sites Reservoir Project operation and maintenance payments.

(1) The use of a Deed of Trust has been proposed to but not yet formally endorsed by the Wheeler Ridge Board of Directors. The Deed of Trust shortens the timeline for land foreclosure which is important for meeting the bond payment schedule.

(2) Discontinuation of SWP water service in the event of a Sites default is still under consideration

# Wheeler Ridge Discussion

**April 15, 2022 Sites Ag Finance Workshop**

**Wheeler Ridge-Maricopa Water Storage District**

**Presentation on Collateral, Defaults and Related Issues**

## **Wheeler Ridge-Maricopa Water Storage District**

- 1959 District formed to obtain an imported water supply
- 1960s Entered into Water Service Contracts with growers to provide a water supply. Contracts were recorded as a lien against growers' lands to serve as collateral for water charges in the event of non-payment. Charges are not collected through property taxes.
- 1971 Water deliveries commence from State Water Project
- 2016 District joins Sites Reservoir Project Committee for Phase 1
- 2019 District moves to subscription model i.e. individual growers can contract for Sites services through the District. There is no longer District-wide participation.
- 2022 About 72,000 acres of growers' lands served by Contracts with capacity to serve additional 18,000 acres with temporary water service

# Wheeler Ridge Principles

## **Three fundamental principles for District**

1. Ensure that growers not investing in the Sites Project are protected from financial liability if there is a Sites participating grower default.
2. Minimize costs to Sites grower participants (to help with ag affordability)
3. Provide adequate collateral for Sites loans

# Wheeler Ridge Collateral Requirements

## **Discussions regarding collateral requirements**

From August 31, 2021 to January 10, 2022, the Board-established Sites Ad Hoc Committee met four times with staff, General Counsel, Sites Bond Counsel and Sites grower participants. The goal was to provide Collateral obligation information to grower participants timely for their Amendment 3 funding decision.

# Wheeler Ridge Collateral Options Considered

## **Collateral options considered**

Identify and obligate sufficient Investor Collateral, as determined by District, to cover Sites obligations, which could include some combination (not necessarily all) of the following:

4. The Sites Assets (during construction) - consists of rights to future assets (sell water in storage, lease storage, sell storage) - hard to appraise during construction
5. The Sites Assets (during operation) - the value of water in storage, ability to sell water in storage, ability to lease storage space to others, ability to sell storage space to others
6. Land liened under a Water Service Contract and appurtenances (buildings, irrigation system, crops, etc)
7. Land liened without a Water Service Contract
8. Land and/or other assets, including Investor assets outside the District, acceptable to the District.
9. The SWP water (allocated current year supply) and long term water supply available under the Water Service Contract
10. Grower 2nd Priority Water stored in Kern Water Bank
11. A Letter of Credit

# Wheeler Ridge Matrix of Options

## SITES PROJECT AUTHORITY AGRICULTURAL DISTRICT STRUCTURING INFORMATIONAL SESSION (6/29) SUMMARY

Sites Project Authority staff, the Municipal Advisor and Bond Counsel met with various Reservoir Committee Members (primarily agricultural agencies) on June 29, 2021. There was a discussion of six options for agricultural districts to structure their participation in the Sites Project financing. Based on the discussion and follow-up communication, the financing options matrix has been revised as follows:

### Financing Options Matrix

	<b>Party to Agreement with the Authority</b>	<b>Source of Revenues for Repayment</b>
<b>District Wide Obligation</b>		
Option 1 (District revenues)	District	District revenues (i.e., water rates and charges, land based charges, etc.)
Option 2 (Land based charges only)	District	Land based charges levied on all land in the District
<b>District Obligation/Participating Landowners only</b>		
Option 3 (Land based charges levied on an improvement district)	District	Land based charges levied within an improvement district formed by the District including only those portions of the District electing to participate in the Sites Project and approving the land based charges
<b>Land Based Charges Levied by JPA</b>		
Option 4 (Land based charges levied by a joint exercise of powers authority)	District	Land based charges would be levied by a joint exercise of powers authority on portions of the District electing to participate in the Sites Project and approving the land based charges

# Wheeler Ridge District Approach

## **District Decision**

12. On January 12, 2022, the Board of Directors directed staff to pursue the Sites Collateral matter with Investors and the Sites Project based on Option 3 of the Matrix.
13. Consistent with Option 3, the District will pledge only those revenues and assets of participating growers, and not general revenues, to fulfill Sites obligations.
14. The District would not form an Improvement District, but rely on recorded Benefits and Obligations Contracts with participating growers to record a lien on growers' lands to serve as collateral for Sites water charges in the event of non-payment.
15. While not formally endorsed, the use of a Deed of Trust in favor of the District, with existing landowner debtors subordinating their loans, was important in order to turn a 3.5 year process to take title to the liened land into a 120 day process.
  - a. The Deed of Trust may not survive a bankruptcy, so the District contract lien, which survives bankruptcy, is still needed.
16. The Sites lien would be subordinate to the District Water Service Contract lien.

# Wheeler Ridge Collateral Options Effects

## **Effect on Collateral Options.**

Election of Option 3 reduced the Collateral options:

17. The Sites Assets (during construction) - consists of rights to future assets (sell water in storage, lease storage, sell storage) - hard to appraise during construction
18. The Sites Assets (during operation) - the value of water in storage, ability to sell water in storage, ability to lease storage space to others, ability to sell storage space to others
19. Land liened under a Water Service Contract and appurtenances (buildings, irrigation system, crops, etc)
20. Land liened without a Water Service Contract
- ~~21. Land and/or other assets, including Investor assets outside the District, acceptable to the District.~~
22. For lands with Water Service Contracts, the SWP water (allocated current year supply) and long term water supply available under those Contracts
- ~~23. Grower 2nd Priority Water stored in Kern Water Bank~~
- ~~24. A Letter of Credit~~



# Wheeler Ridge Open Questions about Collateral

## **To Be Determined**

25. How much land would be needed for Collateral?
26. What would happen if the liened land and appurtenances, when monetized, were not sufficient to fully cure the default?

# Wheeler Ridge Related Issues

## Related Issues

27. Procedure for partial payment e.g. default by one participating grower, but District forwards payments from non-defaulting growers to Sites. Options in order of preference:
  - a. Rely on the Sites Liquidity Reserve to make up any shortfall while District pursues monetization of land and other collateral
  - b. District to collect Sites charges from growers 1 year in advance of Sites billing allowing time to enact Plan of Finance Project Sufficiency Waterfall and monetization of lane lien in the event of default.
  - c. Establish a Delinquency Reserve Fund from surcharges on participating growers (the most expensive option - reduces ag affordability - a double charge since the Liquidity Reserve will be part of the Sites charges)
28. Proposition 218 election
  - a. Opinion of District Counsel is that recorded land liens serve as de facto approval of Sites charges that eliminate the need for a Proposition 218 election a.k.a. the Proposition 218 waiver.
  - b. Establishing an Improvement District or Proposition 218 election adds cost, and restricts future transfers of Sites Benefits and Obligations within the District since other interested lands would not be part of the Improvement District formation or Proposition 218 election.

# Panel Discussion



# Next Steps



# Quarterly Two-Way Check Ins Process

## June 2022



*Same process is anticipated for subsequent quarterly check-ins (Sept & Dec 2022)*

# Next Steps

## Team

- Begin scheduling individual two-way check ins (June 2022)

## Districts

- Respond to Soft Call Survey for Quarterly Check Ins

# Next Steps

## Near Term

June:

- Financing Action Plan Update (June Joint Meeting)
- Individual Two-Way Financing Check Ins

## Longer Term

- July Workshop: Guiding Principles Review and Kick-off for Contract Development
- October: Amendment 3 Work Plan Update
- November: Financing Proposal for Rating Agencies (WIFIA Loan Indicative Rating)

**Questions?**