



Meeting: **Plan of Finance Workshop: Credit and Reserves**

October 28, 2022

Subject: **Indicative Credit Rating Overview (Attachment A)**

Upcoming Actions

With input from the WIFIA Joint Subcommittee, Staff has prepared four documents requiring actions from the Reservoir Committee and Authority Board at the November meetings (Nov 18 and 21, respectively). Staff will recommend adoption of:

1. Master Resolution, Debt Management Policy, and WIFIA Reserve Policy for the purpose of securing an investment grade indicative credit rating from Standard and Poors (S&P).
2. Guiding Principles and Preliminary Terms for the purpose of securing an investment grade indicative credit rating from S&P and initiate drafting of the Sites Reservoir Benefits and Obligations Contracts.

Staff is providing current drafts of these documents with supporting background information, criteria, and status with the intent of identifying any substantive issues Staff should address before the November meetings. For changes to be reflected in the adopted documents, **Staff requests feedback no later than 5 pm on Nov 4.**

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, including 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 that carry a preliminary investment grade credit rating. Sites Authority staff, bond counsel, and municipal advisor surveyed other Joint Powers Authority WIFIA loan recipients and, based on this feedback and prior experience, recommended securing an Indicative Credit Rating from S&P. An investment grade rating from S&P is BBB or better.

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 Indicative Credit Rating and support the WIFIA application.

The Indicative Credit Rating is an unpublished, unmonitored, point-in-time opinion of the potential credit rating of a proposed debt issuance. Information provided by Participants as part of the Indicative Credit Rating process is not public. It will not be reflected in a Participant's current rating unless and until, the WIFIA Loan is executed and the transaction is made public.

Criteria Used in the Development of Documents

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

1. Achieve an investment-grade credit rating for the Sites Authority.
2. Share Project risks equally amongst all storage partners.
3. Establish all terms consistent with the beneficiary pays principle.
4. Establish a structure that minimizes the amount of Participant cash the Sites Authority holds in reserve.
5. 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".

Status of Documents

The following documents, when packaged together with other Project-related documents, including financial modeling, represent what Sites Authority Staff, bond counsel, and municipal advisor expect are needed to secure an Indicative Credit Rating that is investment grade.

Guiding Principles and Preliminary Terms (Attachment B): Describes how the Contract between the Sites Authority and Reservoir Committee Participants will provide for Project benefits, define obligations including cost allocation principles, and describe the basic financing preliminary terms. The document has been updated based on feedback received following the July workshop and the Participant Two-Way financing check-ins, including revisions to address financing comments that may impact the Indicative Credit Rating. The Guiding Principles are not binding and will be the starting point for drafting the Sites Reservoir Benefits and Obligations Contract, where final terms will be negotiated.

Draft Master Resolution (Attachment C): 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 be memorialized in the Sites Reservoir Benefits and Obligations Contract.

Draft WIFIA Reserve Policy (Attachment D): 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. 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 to receive an Indicative Credit Rating that is investment grade.

Draft Debt Management Policy (Attachment E): 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)). This policy is not binding and is intended to provide the level of detail required to receive an Indicative Credit Rating that is investment grade.