

Agenda Items 02-02 and 02-03 Final Guiding Principles & Indicative Credit Rating Financial Documents

Reservoir Committee

November 18, 2022



Final Guiding Principles

Item 2.2

Requested Action

Adopt the Final Guiding Principles and Preliminary Terms as supporting materials for the WIFIA loan application and to serve as the basis for the drafting of the Sites Reservoir Benefits and Obligations Contract.

The Final Guiding Principles....

- ✓ Serve as the **foundation for drafting the Sites Reservoir Benefits and Obligations Contract** and will inform development of similar contracts for State and Federal participation
- ✓ Guide the **basic mechanics** for allocating benefits and costs, collecting payments, and remedying defaults prior to advancing further into the WIFIA Loan application process

By approving the Final Guiding Principles, Participants are....

- Representing their **mutual understanding** of the allocation of Project benefits, costs, risk, financing obligations, and ownership obligations
- Agreeing to take the document to their respective homeboards to receive further **feedback and input**
- Working **cooperatively and in good faith** to consider the feedback and input and work to resolve identified issues to establish the Contract prior to initiating Project Financing

Approving the Final Guiding Principles is not a commitment of Participants to any particular requirement in the Contract

Updates following October 28th Workshop

Proposed change which is incorporated:

- 4.2.3 – add the following verbiage: “The Project Sufficiency Pledge may be established through the Liquidity Reserve, as defined in the Master Resolution. The allocation of each Participant’s share of the Liquidity Reserve or the Project Sufficiency Pledge will be defined in the Contract.”

Other key themes deferred to Contract (refer to Attachment B in staff report)

Master Resolution & Indicative Credit Rating Financial Documents

Item 2.3



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.

Criteria Used in Development of Indicative Credit Rating Supporting Documents

- ✓ 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 Participants **to avoid defaults** (sell or lease storage, sell water) and provide time for the Sites Authority to remedy defaults through the default “waterfall”.

What is the Authority's approach to securing an investment grade indicative credit rating?

Materials to be packaged together with other Project-related documents

Master Resolution (Attachment A)

- Describes the approach to prioritize payments/proposed financial covenants for lenders.
- Dictates the requirements and conditions precedent before issuing debt and while debt is outstanding.
- Will inform elements of the Sites Reservoir Benefits and Obligations Contract.
- May be revised by the Sites Authority 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
- Intended to represent the minimal financial reserves required (Not binding and is not a comprehensive listing of reserves the Project may require)

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))