

Plan of Finance Workshop Credit and Reserves

Reservoir Committee and Authority Board

October 28, 2022



Workshop Objective and Agenda

Receive an update on the Authority's activities related to **securing an indicative credit rating** to support a WIFIA Loan application and discuss upcoming actions and the financing schedule

What you need for this meeting:

- Indicative Credit Rating Overview
- Guiding Principles and Preliminary Terms
- Draft Master Resolution
- Draft WIFIA Reserve Policy
- Draft Debt Management Policy

3 Paths to Investor Commitment

From April 2022 Amendment 3 Schedule Roll-out

Construction



Investor Commitment – July 2024



What do we get?

- Water Right Permit
- Participant Specific Model
- ESA Permits

December 2023

What does it cost?

- Updated Project Cost Estimate
- Geo Work Packages 3 & 4
- Mitigation Cost Estimate
- Land Cost Established

July 2024

How do we pay for it?

- **Indicative Credit Rating (Submit Nov 2022)**
- Finalize WIFIA Application
- Benefits and Obligations Contracts
- WIFIA Negotiations

March 2024

Indicative Credit Rating Overview

Attachment A

What is the Indicative Credit Rating?

Required as part of the WIFIA application

The Authority will engage Standard & Poors (S&P) to provide an indicative rating assessment

The indicative rating assessment:

- Is a **confidential**, unpublished, unmonitored, point-in-time opinion of the potential credit rating of a proposed debt issuance
- Includes **2-3 hypothetical scenarios** considering security features, Participation mix, project scope, proposed debt covenants, and financial projections

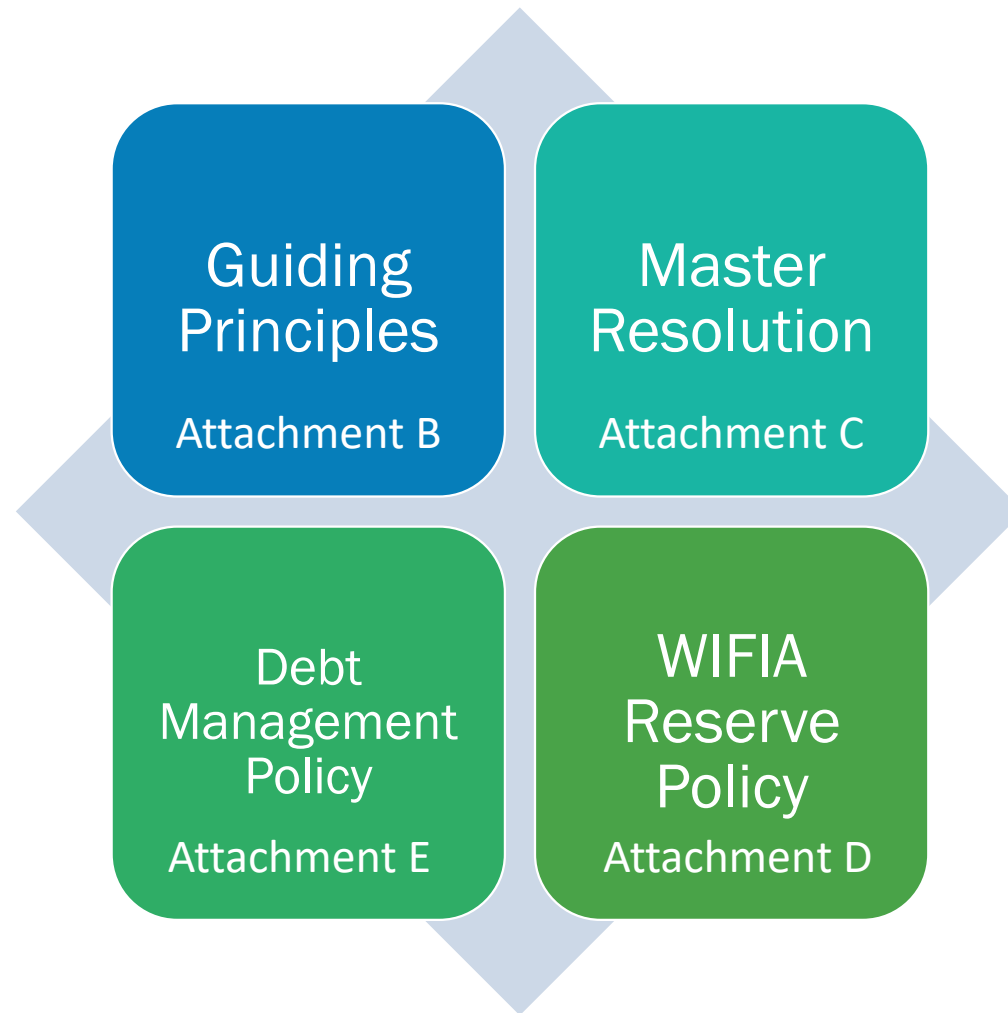
Information provided for the indicative rating is not public and will not be reflected in an issuer's or Participant's current ratings

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





Guiding Principles and Preliminary Terms (B)

Reminder: Intent of Guiding Principles

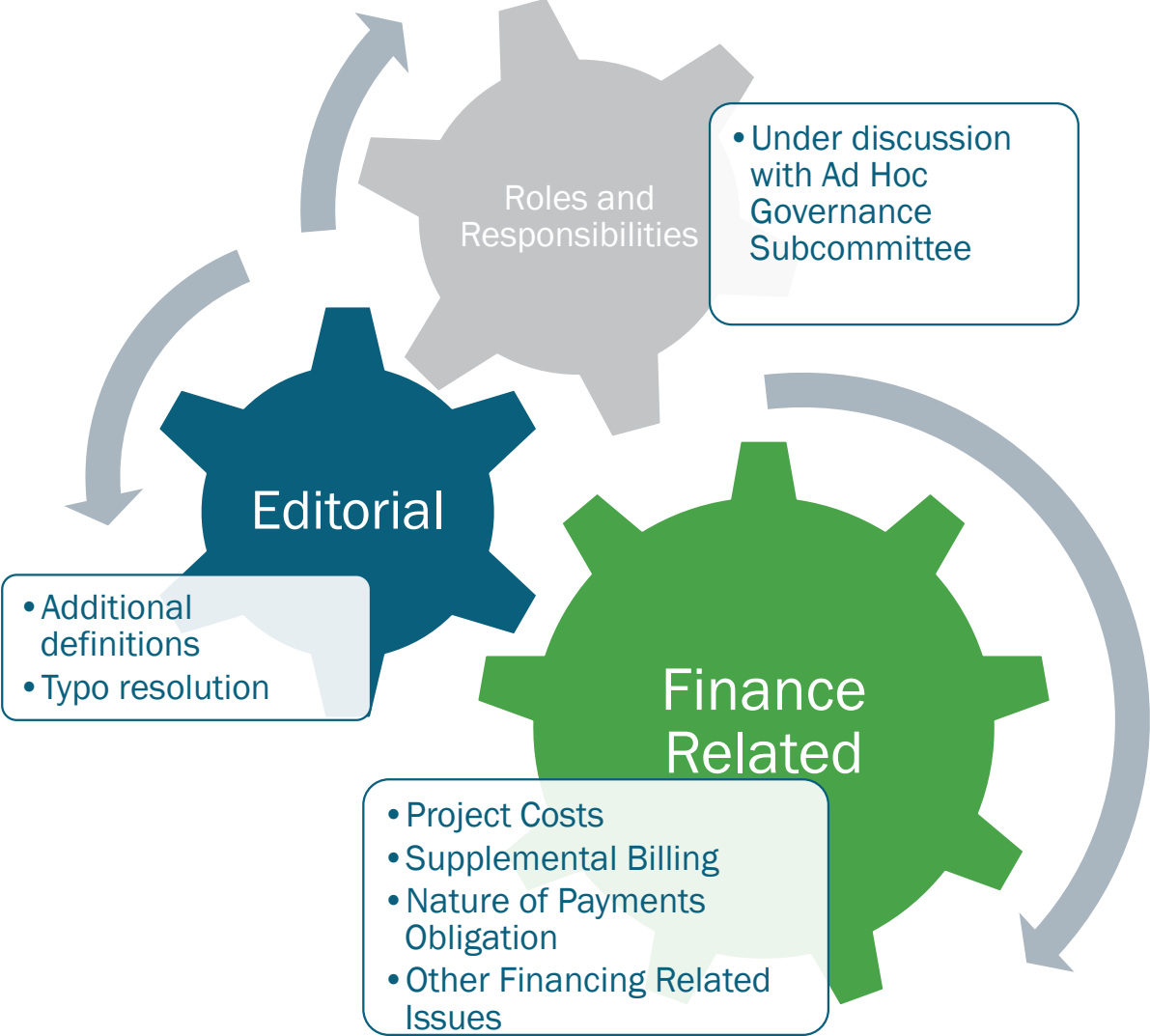
What it is

- Snapshot in time
- Starting point for drafting the Benefits and Obligations Contract
- Supporting documentation to Indicative Credit Rating (for WIFIA)

- Binding upon adoption

What it isn't

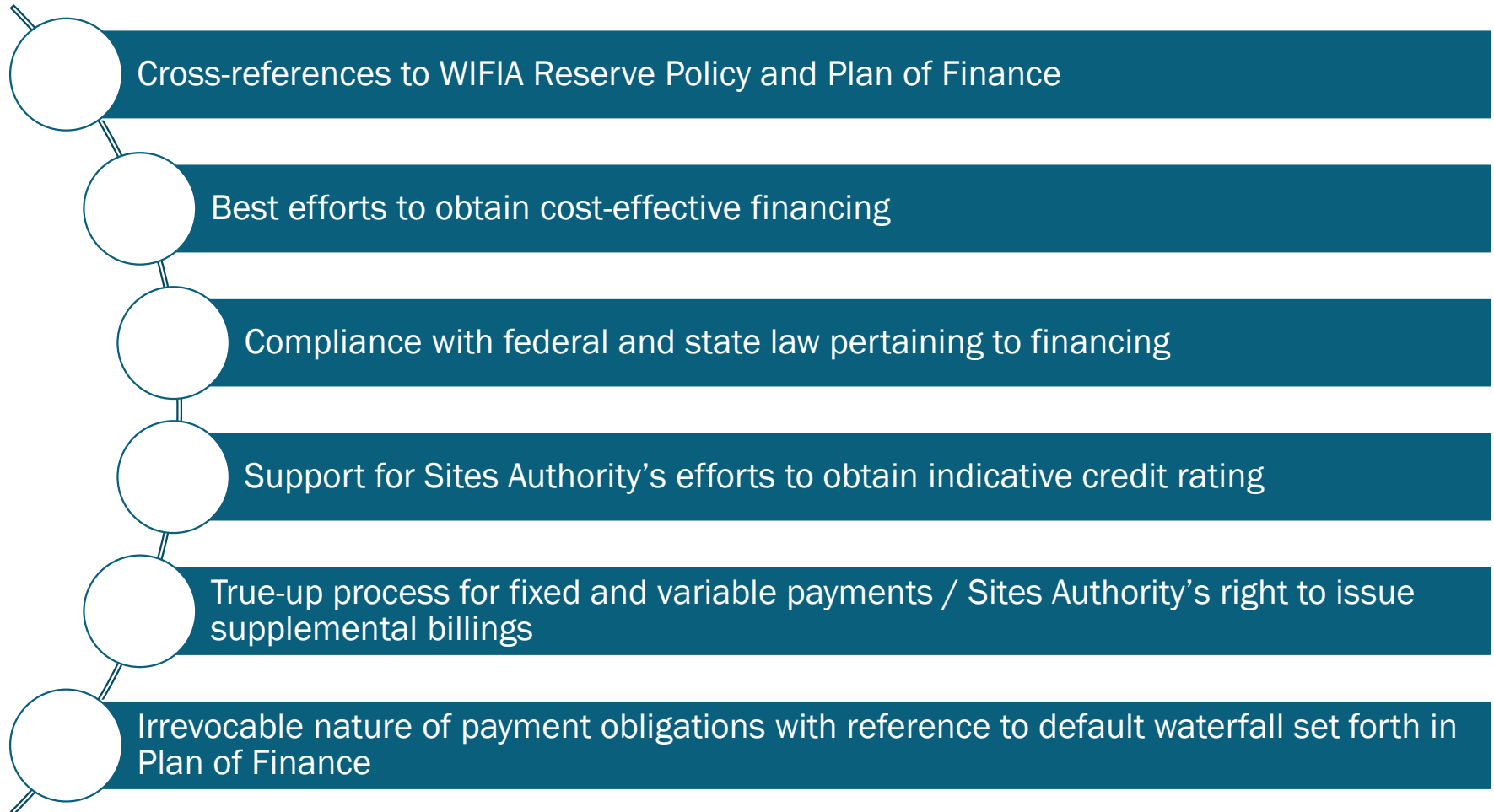
Summary of Comments Received



Summary of Changes

- Strengthened language around Related Agreements
- Expanded Storage Provisions (accounting for losses)
- Addressed financing comments that may impact indicative rating
- Identified additional principles (to be developed in the Benefits and Obligations Contract):
 - Conveyance
 - Power Generation
 - Demand exceeding availability

Summary of Finance-Related Additions



What's Next

- Bring Guiding Principles for adoption at November meetings
- Initiate drafting the Benefits and Obligations Contract (beginning early 2023)



Master Resolution (C)

Master Resolution

Serves two primary purposes:

- Provides the rating agency with the legal structure for future loans and other debt and a basis for rating such loans or other debt investment grade at a minimum
- Provides a legal structure to underpin the WIFIA Application

Master Resolution

- Sets forth the allocation of Revenues received by the Sites Authority
- Includes certain credit related features such as a rate sufficiency covenant and a liquidity reserve
- Provides certain minimum requirements that need to be met to issue additional project obligations

The Master Resolution can be amended by the Sites Authority at any point prior to the Sites Authority incurring a loan or other debt, including to conform to the final Benefits and Obligations Contracts and rating agency requirements and to reflect negotiations with EPA relating to the WIFIA Loan



WIFIA RESERVE POLICY (D)

Draft WIFIA Reserve Policy Overview

- WIFIA Loan requires investment grade credit rating; minimum investment grade rating requires demonstrating adequate capacity for payment of financial commitments
- Maintaining adequate cash reserves is essential to credit rating because they ensure sufficient funds on hand to pay obligations on time

Draft WIFIA Reserve Policy

- Collection of projected Fixed Project and Fixed O&M Costs semi-annually one year in advance
 - Liquidity Reserve under Master Resolution should be sufficient to mitigate risk of shortfall
- Collection of projected Variable O&M Costs semi-annually six months in advance, requires additional reserve to mitigate risk
- Variable O&M Reserve, target of 25% of projected costs associated with filling reservoir in a wet year after a critically dry year (\$12.5 million)
 - 25% target based on unratable percentage of Participant mix
- Periodic true-ups of all costs incurred and revenues collected
- Subject to change based on feedback from S&P



DEBT MANAGEMENT POLICY (E)

Draft Debt Management Policy

Required to comply with Government Code Section 8855(i) and must include :

- Purpose for debt and use
- Types of debt that may be issued
- Relationship of debt and integration with issuer's CIP or budget, if applicable
- Policy goals related to issuer's planning goals and objectives
- Internal control procedures to ensure proceeds of debt will be directed to the intended use

Draft debt policy closely follows form policy prepared by Authority's Bond Counsel:

- ✓ All debt must be Board approved; management can deviate from policy with Board authorization
- ✓ Failure to comply with policy does not affect validity/authorization of any debt

Once adopted, debt policy **is not** legally binding. The Master Resolution is the legal document that dictates the requirements and conditions precedent before issuing debt and while debt is outstanding.

Financing/Funding Track Updates



Update on Progress of Securing Revenues

- Rates and Charges
- Sacramento Valley Ag (& other Ag Participants)
- State Water Project Statement of Charges

To Phase 3
Working Draft
(as of 10/28/2022)

Final 6 months, 2024

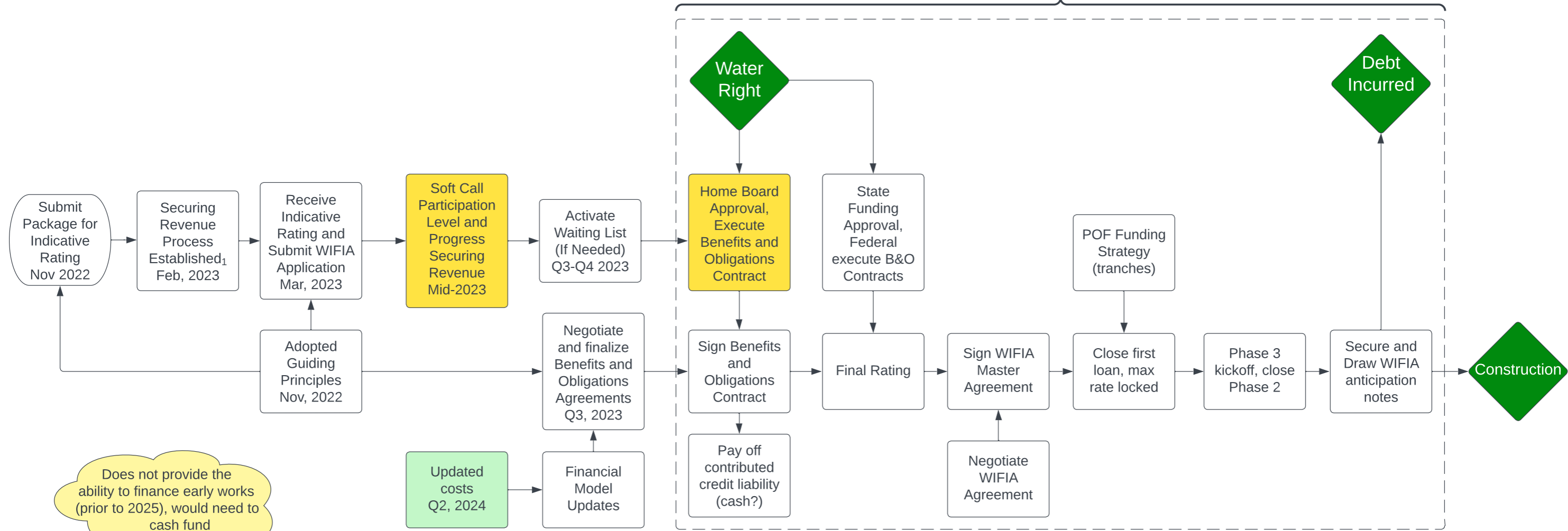


Diagram Key

- Sites Authority Process
- Home Board Process
- ◆ Major Milestone

Notes:
 1) amendments drafted and approved in form by DWR and State Water Contractors as needed, CCFCWCD Zone of Benefit Formed and any required annexation started, Land-Based Assessment voting processes started, Sites accounted for in rate planning

Next Steps



Next Steps

November:

- 11/1: Return completed Participant Info Request Form
- 11/4: Provide feedback on indicative rating documents
- WIFIA Ad Hoc Subcommittee: address workshop comments, finalize indicative rating package
- Reservoir Committee/Authority Board: Adopt Master Resolution, Debt Mgmt. Policy, WIFIA Reserve Policy, Guiding Principles