

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

## SITES PROJECT AUTHORITY 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, **among other things**, securing **the agreements necessary to obtain** Project financing. ~~and the~~ 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 **Nationally Recognized Statistical Rating Organization such as Standard & Poor’s or Moody’s in order to execute** ~~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. **Investment grade credit ratings will also enable Sites to pay lower interest rates on notes and revenue bonds issued in the capital market.**

Maintaining adequate cash reserves is viewed by the rating agencies as an essential component of sound financial management as **reserves** ~~they~~ help ensure an entity’s ability to meet its financial obligations. **This** ~~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 that 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 are 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 **(and subsequent debt issuances)**. 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:

- Financing Obligations ~~Fixed Project Costs~~: Financing Obligations represent the Participant's share of principal and interest to be paid by Sites for any financing used to fund the Project, including a WIFIA loan. Each Participant will agree to pay the Sites Authority semi- annually one year in advance 100% of the projected ~~Fixed Project Costs~~ Financing Obligations allocated to such Participant (e.g., payments made on January 1 will be for Financing Obligations Fixed Project Costs budgeted for the six-month period beginning on January 1 of the following year).
- Fixed Project Costs: Fixed Project Costs include capital costs and replacement costs that are not funded with a Sites financing. 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., payment made on January 1 will be for Fixed Project Costs budgeted for the six-month period beginning on January 1 of 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.

Sites Authority will establish the following reserve accounts to ensure the timely payment of obligations.

### **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 **Finance Obligations**, 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 **Financing Obligations**, 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~~ **Finance Obligations** plus an amount not in excess of 10% of ~~the~~ current annual Participant Fixed Operation and Maintenance Costs. Additional details on the Liquidity Reserve **are as stated** in the Master Resolution.

The Liquidity Reserve will not be governed by this ~~WIFA~~ 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 **Financing Obligations**, 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 **or any other**

### shortfall in Sites ability to meet Variable Operation and Maintenance costs.

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 5-10% 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 **Financing Obligations**, 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.

### Insurance Reserve

Sites Authority will be acquiring appropriate insurance policies to cover its liability during construction and operation of the Project. Sites may elect to provide general liability coverage for all contractors to more effectively manage the risks associated with construction and will need to ensure sufficient funds are available to meet deductibles and other costs of such insurance. Sites will establish a reserve and fund such reserve in an amount to ensure that insurance can be acquired in a cost-effective manner. The amount required will be determined as part of the insurance procurement process. Sites will also evaluate other insurance to manage risk, including self-insurance, which will affect the

amount needed to be placed in the insurance reserve.

**4. Policy Term:**

This Policy will be reviewed as needed in connection with the development and execution of the WIFIA loan and any future Sites financing, 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 in 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.