



Topic: **Reservoir Committee Agenda Item 3-3** **2018 Oct 18**

Subject: **Proposed Changes to the Phase 2 Work Plan** (and associated changes to both the near-term funding requirements and the participation agreement)

Requested Action:

1. Discussion and possible direction to staff regarding proposed changes to the Phase 2 work plan, which if implemented would also affect technical effort, associated near-term funding requirements, and the requirements in the proposed Phase 2 Reservoir Project Agreement
2. As a result of the decision for item 1 above, consider a 1-month time extension to the completion of Phase 1 from February 28 to March 31, 2018 to implement a revised strategy for Phase 2 (i.e. 2019 through 2021).

Detailed Description/Background:

1. Amend Phase 2 Work Plan: On October 4, a group of six water agencies, including both Sacramento Valley and south of the Delta interests, participated in a meeting to discuss the approved project development plan for Phase 2 and the associated participation in the Project. The consensus was to request staff evaluate an alternative development strategy; one that would lessen the near-term funding requirements while obtaining greater operational certainty and modify the project’s financing and repayment in a manner that would not adversely affect the Project’s ability to meet key statutory milestones.

In response, staff have developed two alternatives that modify the tasks to be addressed and prioritize and have reduced, but varying, funding requirement in 2019 and 2020. Each alternative provides a technical approach while attempting to reduce the range of Project operational uncertainty and meeting statutory milestones. Using the current work plan as “Plan A”, the two alternatives for discussion and possible consideration are:

Plan B: Focus 2019 efforts to consult with federal and state resource agencies regarding operations and permitting while delaying other long-lead time activities; which are primarily related to engineering design and completing the environmental analysis process. This will result in “back-loading” these items in subsequent years.

Plan C: Similar to Plan B, but focuses on additional effort with federal and state resource agencies regarding operations and permitting to improve the certainty while reducing the delay primarily in the engineering design and environmental analysis efforts.

In addition to deciding which, if any, option should be pursued, the following topics also need to be discussed and direction provided to staff:

a. Target Funding Levels:

- Baseline: For 2019, the estimated draw from the proposed Bank Credit Facility is approximately \$57.8 million with additional contributions provided by Proposition 1 (cost-share for environmental review and permit acquisition) and congressional appropriations from WIIN Act (cost-share for pre-construction activities). Interest payments by participants on the Bank Credit Facility adds \$2.8 million; with the amounts in subsequent years increasing.
- Alternative: Varies by alternative for both the amount of funding required from both participants and cost-sharing from Proposition 1 and WIIN Act.

b. Requirements in the Phase 2 Reservoir Project Agreement:

- Baseline: Decision points at the end of Phase 2A (Dec. 2020) (refer to Section 12) and end of Phase 2B (Dec. 2021), respectively.
- Alternative: Decision points in Dec. of each year: 2019 (not 12 months), 2020, 2021.

c. Near-term and/or Interim Funding Method:

- Baseline: Financed through a line of credit for either all of Phase 2 or only Phase 2A.
- Alternative: Self-funded through periodic cash calls

NOTE: If financing should continue to be pursued, an amendment to the Bank Credit Facility RFP will be needed. On October 8, the proposal due date of October 10 was extended to allow time for them to incorporate any revised requirements and allow the selection to occur at the respective November monthly meetings of the Reservoir Committee and the Authority.

d. Construction Financing Method:

- Baseline: Three methods have been developed: capitalized interest, interest only, and amortize immediately
- Alternative: Select one method, preferably the interest only method along with no pre-payment penalty for principle.

2. Time Extension: Based on direction provided on near-term funding (refer to item 1b), additional time will be needed to either prepare agreements based on periodic cash calls or to reflect alternative decision points, a revised draw schedule, and revised participation costs based on a dollar per acre-foot.

Prior Reservoir Committee Action:

Work Plan: On July 20, 2018, the Reservoir Committee approved the Workplan and Monthly Cashflow Analysis for Phase 2 for use in developing the Phase 2 Finance Plan, preparing an exhibit to both the Phase 2 Reservoir Project Agreement and Phase 2 Procurement Request for Qualifications (RFQ-18-04), and to be used as the basis for developing the fiscal year 2019 budget.

Agreement: On August 16, 2018, the Reservoir Committee approved the Phase 2 Reservoir Project Agreement for form and substance and authorized its release to member agencies for their consideration.

Financing: On August 16, 2018, the Reservoir Committee approved the Bank Facilities Request for Proposal (RFP) and authorize its release. This RFP requested, among other things, pricing of a combined Phase 2A and 2B and pricing solely for Phase 2A.

Schedule: On August 16, 2018, the Reservoir Committee approved a two-month time extension to have Phase 1 complete on February 28, 2019.

Fiscal Impact/Funding Source:

None

Staff Contact:

Jim Watson

Attachments:

None.