

Financing Action Plan 2021 Drafts

Reservoir Committee and Authority Board

October 15, 2021



Workshop objective

Objective

- Review financing provisions and development schedule

The “Three Big Questions”

- What do we get?
- What does it cost us?
- How do we pay for it?

Amendment 3 Project Agreement



Since we last talked.....

- Added boxes to clarify annualized acre foot vs. **storage allocation**
- Expanded Project Payment Annex (Exhibit C) – special benefit assessment levied by District **on Certain Lands**
- Added Exhibit B (budget)

Latest agreement is now on the participant portal

What else is/will be on the participant portal?

- ✓ A3 Agreement with draft exhibits
- ✓ Prior agreements
- ✓ A3 work plan
- ✓ Adopted storage principles
- ✓ Feasibility Cost Estimate
- ✓ FAQ to help with agency staff report development
- 2021 achievements and what's next flyer
- 2021 Draft POF (after October meetings)
- 2021 Draft Guiding Principles (after October meetings)

2021 Draft Plan of Finance

Attachment A



The Plan of Finance builds on what we have heard throughout the year

Two options: group financing or pay-as-you-go ("pay-go")

For **group financing Participants**

- WIFIA and Bank Line options for Participant share of preconstruction funding
- Participant share of construction costs covered with combination of USDA loan, WIFIA loan, and long-term tax-exempt bonds

For **pay-go Participants**

- Pay cash or arrange own financing to pay share of costs in advance to the Authority

For **all Participants**, there will be terms and mechanisms in place related to ensuring the Authority has sufficient funding to meet its obligations (sufficiency pledge)

Understanding how Participants want to pay is important

The agencies participating in Authority-issued debt will impact:

- The **feasibility** of borrowing
- The **interest rate** 

The Authority needs to understand your agency's:

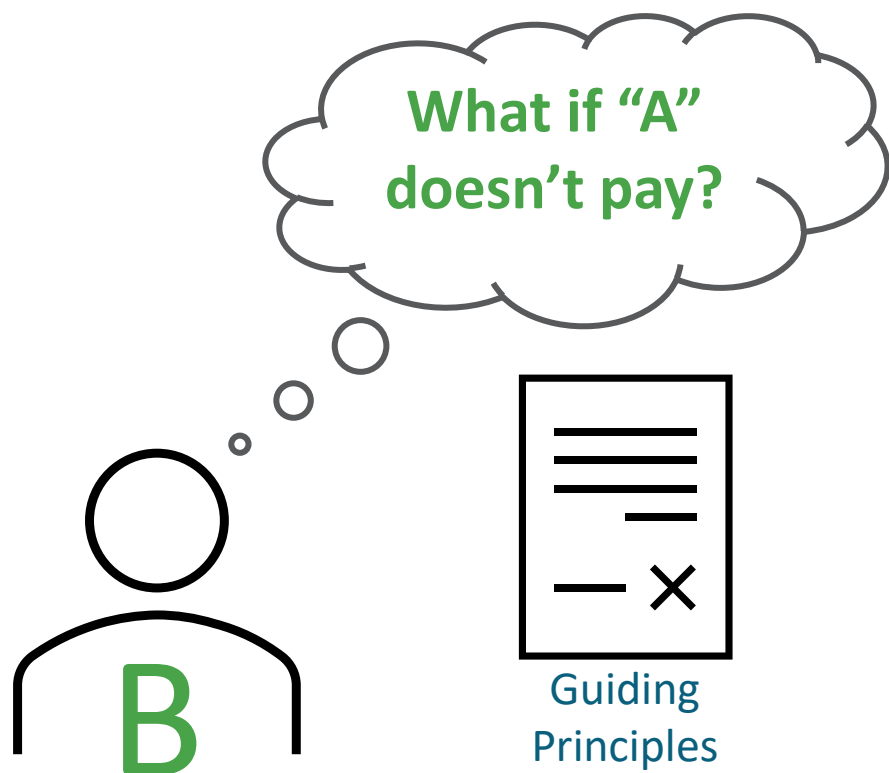
- Preferred approach (group finance or pay-go)
- Openness to participating in group financing

What happens if my agency can't pay?



- ❑ Short-term: **sell water** to cover a share of fixed costs and all variable costs when water is available (**reduces water supply**)
- ❑ Mid-term: **lease storage** to cover all fixed and variable costs (**reduces available storage**)
- ❑ Long-term: **sell storage** to eliminate obligations with opportunity to recapture **equity investment** (**lose out on appreciation**)

What happens to my agency if another can't pay?



- ❑ Opportunity to buy water, lease storage, or buy storage from “A” before a payment default occurs
- ❑ If “A” misses a payment, the default “waterfall” goes into effect
- ❑ Opportunity to “step in” to make future payments in exchange for increased storage (not paying for equity)
- ❑ If no step-in, my storage account and obligations could increase, up to a predetermined limit

Project Sufficiency Waterfall

Participant in control of asset/project rights

A

Participants and Authority monitor financial performance and ability to pay upcoming debt service. If in financial distress, Participant can: (1) **sell water**, (2) **lease storage**, (3) **sell storage**

If Participant misses payment, Project Sufficiency Waterfall goes into effect

Project Sufficiency Waterfall

B

Participants notified of payment default and allowed to volunteer to pay debt and sufficiency obligation in exchange for entitlement *

No volunteers

C

Authority seeks outside entities interested in assuming debt and obligations in exchange for entitlement (subject to approval by Authority, Reservoir Committee, lending entities) *

No outside entities interested

D

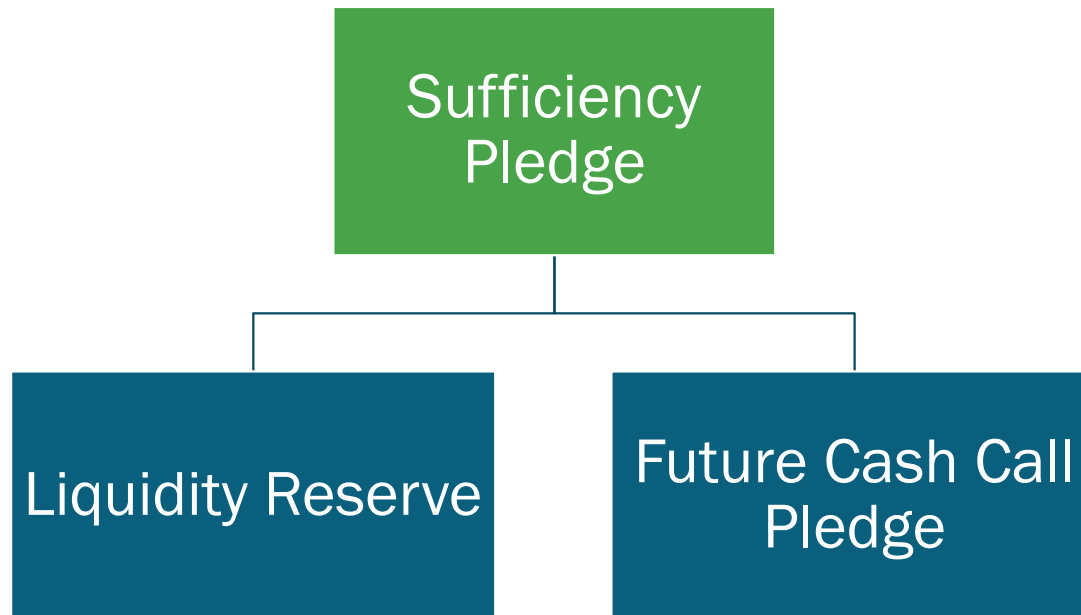
Participants comply with upon sufficiency pledge in one of two ways and will receive proportionate share of entitlements in return: (1) if Participant contributed up front to Liquidity Reserve, Liquidity Reserve is drawn upon and these Participants subsequently replenish reserve or (2) if Participant did not originally contribute to Liquidity Reserve, they committed to pay their share of debt service shortfall at this time (i.e. cash call for these Participants)

* Changes will require lender/rating agency notification and approval

Defining Sufficiency Pledge & Liquidity Reserve

Sufficiency Pledge: the **promise** to ensure funds are available to preserve project viability for any reason, applicable all participants

Liquidity Reserve or Future Cash Call Pledge: the **mechanisms** to satisfy the promise



How might the sufficiency pledge work?

- **Option 1**- Liquidity Reserve: Some/all Participants meet sufficiency pledge by funding their share of a Liquidity Reserve to cover debt service and operating shortfalls
 - Reserve could be funded from surplus amounts collected to meet debt service coverage requirements
 - If Liquidity Reserve is drawn upon to cover shortfall in debt service or operations, Participants further agree to replenish reserve in following year from collections
- **Option 2** - Future Cash Call Pledge: In lieu of participating in Liquidity Reserve, Participants with strong credit ratings can meet sufficiency pledge by committing to provide cash in the future if needed to cover shortfalls

Discussion questions



Has your agency provided a high-level briefing to their home board on the 2021 Draft Plan of Finance or Amendment 3 Project Agreement?



Any requested clarifications regarding the Amendment 3 Project Agreement?



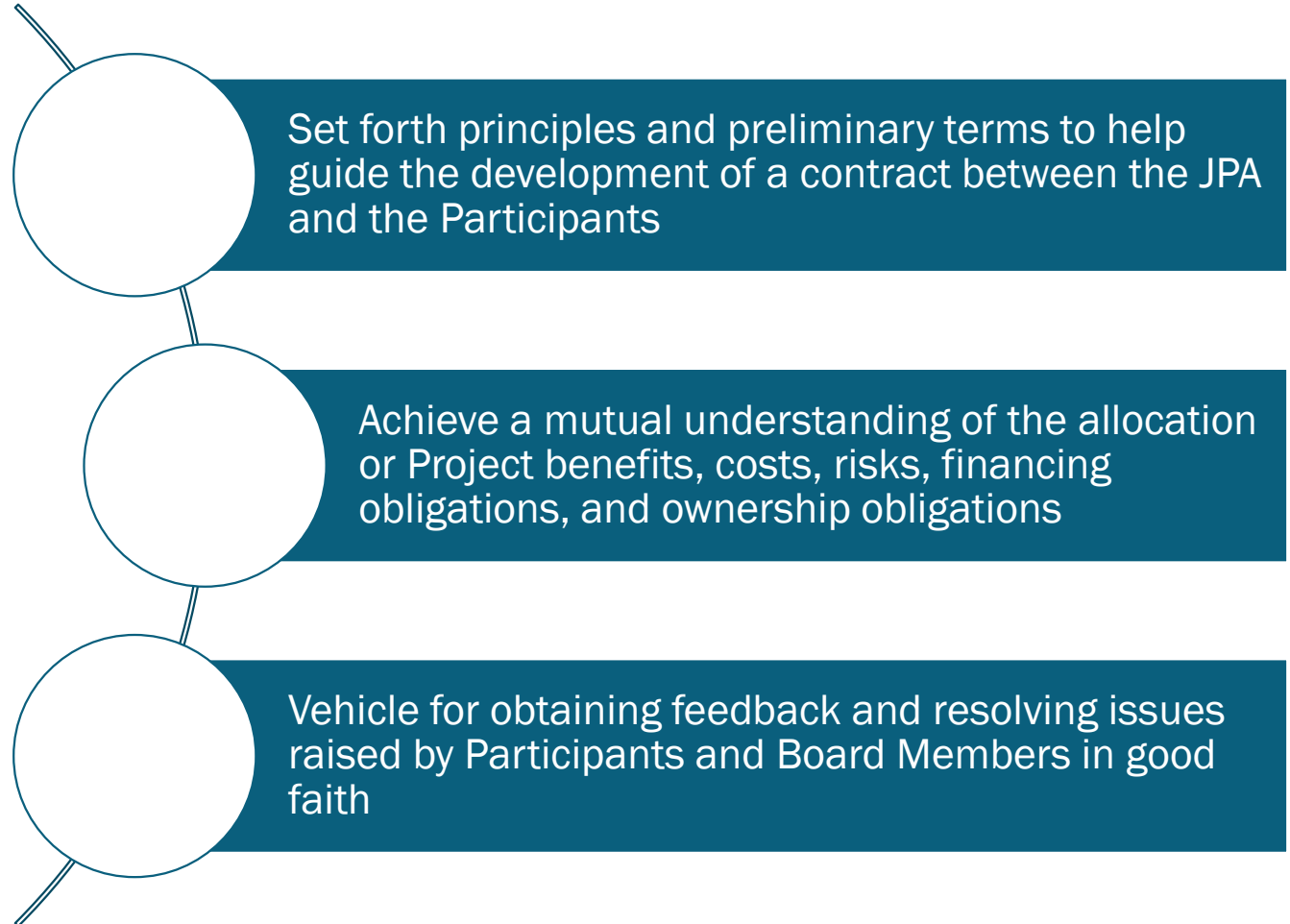
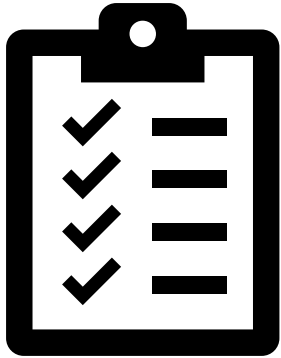
Does the 2021 Draft Plan of Finance provide sufficient detail for your agency to explore its respective issues/concerns?

2021 Draft Guiding Principles and Preliminary Terms

Attachment B



Purpose of the Guiding Principles document



Feedback and Summary of Changes

- Refinement and clarifications to certain terms and definitions
- Incorporated concept of **delegated authority** from JPA to the Reservoir Committee from current bylaws
- Strengthened / reinforced language regarding responsibilities of State agencies and federal government for payment of their shares under separate agreements
- Expanded project costs referenced in Governance Interests diagram
- Identified future principle for development related to ownership of conveyance capacity

What's Next

- Draft document is a “snapshot” of current thinking around principles that will guide the drafting of the Sites Reservoir Benefits and Obligations Contract between the JPA and Participants
- Obtain Feedback from Participants in parallel with review of the Amendment 3 Agreement (mid-October 2021 through March 2022)
 - Via survey
 - Via comment
- Drafting the Contract (beginning spring / summer 2022)

Discussion question



Does the 2021 Draft Guiding Principles provide sufficient detail for your agency to explore its respective issues/concerns?

Next Steps



Near-term Activities

October

- Respond to Amendment 3 Soft Call Survey by Wed 10/20
- Reservoir Committee & Authority Board Meetings:
 - Comment on Amendment 3 Approval Process
 - Authorize Executive Director to submit 75% Commitment Package
 - Endorse the 2021 Drafts of the Plan of Finance and Guiding Principles to begin home agency review and comment
- Submit Final Feasibility Report and 75% Commitment Package to CWC

November onward

- Take Amendment 3 Project Agreement to home boards for execution
 - Comments on Plan of Finance & Guiding Principles can be provided as part of agreement execution process

Longer-term Activities

