



Meeting: **Joint Reservoir Committee & Authority Board**
Agenda Item 2.4

March 18, 2022

Subject: **Funding Credit and Reimbursement Policy Updates**

Requested Action:

Consider authorizing revisions to the Funding Credit and Reimbursement Policy to incorporate an opportunity cost fee for new participants, key terms related to a waiting list for interested participants, and discuss the priority system for admitting new participants.

Detailed Description/Background:

The Authority's Funding and Credit Reimbursement Policy (FCR Policy) establishes rules and procedures related to the equitable contribution of funds for Project development and exchanges in participation levels between Participants. The policy plays an important role in the rebalancing process. The FCR Policy does not apply to state or federal participation.

The Authority is in the process of rebalancing as current participants establish their participation levels while evaluating and executing the Third Amendment to 2019 Reservoir Project Agreement (Amendment 3). Decisions on participation levels are due on March 31, 2022. Staff has continued to conduct a "soft call" to determine anticipated participation levels and has conducted outreach to potential new participants. Staff has received letters of interest to join the project from new participants (Attachment A). Currently, letters of interest identifying new participation exceeds available capacity in the project. This process has resulted in the following three proposed revisions to the Authority's FCR Policy.

Establish an Opportunity Cost Fee for new participants

Early Reservoir Committee Participant cash contributions resulted in the Authority making significant progress studying, defining, permitting, and securing state and federal funding for the Sites Reservoir Project. These cash contributions tied up Participant funds that could have been used for other investments. The FCR Policy stipulates that previous participants are to be reimbursed when doing so will not have an adverse impact on the financial viability or overall implementation of the Project.

The Budget and Finance Joint Committee (Committee) evaluated a range of interest rates to assume for the time-value-of-money and is recommending the Authority charge new participants joining during this rebalancing an Opportunity

Cost Fee of \$15.21 per acre-foot, based on an assumed fixed 3% investment return rate and the schedule of prior cash contributions. The Committee recommends applying revenue generated by this fee during the Amendment 3 rebalancing to paying down the long-term credit reimbursement liability (current balance is \$8.8 million). The Opportunity Cost Fee would apply to new participants only. More detail about the Opportunity Cost Fee can be found in Attachment B.

A future Implementation Risk Fee considering the risk associated with securing an asset (such as a Water Right) was also discussed with the Committee. It was recommended for the Committee to continue discussing the Implementation Risk Fee and the timing of applying the fee.

Establish key terms related to a waiting list of new participants

The FCR Policy will be updated to clarify the establishment of a waiting list for new participants. Agencies that have submitted a letter of interest before March 31, 2022, and are not invited to participate by that date will be placed on a waiting list. Maintaining a waiting list provides assurances that the project will remain fully subscribed, particularly at the time of financing. A waiting list also provides an option to Reclamation investment. Staff is proposing two incentives to agencies placed on the waiting list, including:

- Waiver of any 'buy-in' fees subsequent to the Opportunity Cost Fee that the Authority may decide to implement in the future (these participants would only be subject to the 2022 Opportunity Cost Fee).
- Authority will endeavor to include place of use/points of re-diversion for waiting list participants in its water right application.

Consider a priority system for allocating available capacity to participants

The FCR Policy should be updated to clarify the priority system for considering the allocation of available Project participation capacity. Following the priority system established by the Authority in 2020, Letters of interest submitted for new participants, should capacity become available, could be considered for invitation to join the Project according the following priorities:

1. The goal is total Sacramento Valley participation of ~25%. Priority is given to current, prior and new Sacramento Valley participants in that order.
2. Current Reservoir Committee participating members (with sub-priorities by seniority).
3. Prior Reservoir Committee participating members (with sub-priorities by exit date).
4. New participants outside of Sacramento Valley.

Along with these priorities for local agency participation, consideration would need to be given to the Reclamation investment priority relative to the local agency participation priority.

The Budget and Finance Committee recommended continued discussion on the priority system and targeting approval in April 2022.

Prior Action:

August 26, 2020: Approved the revised Funding Credit and Reimbursement Policy to expand the application of the policy to Phase 2, provide flexibility for allowing incremental Project Agreements and associated participation changes, recognize federal and state participation and clarify/specify previous provisions and requirements.

Fiscal Impact/Funding Source:

Remaining fully subscribed provides assurances that project revenue assumptions are met for the Amendment 3 Work Plan. The opportunity cost fee represents revenue not accounted for in the A3 work plan which will be applied to the \$8.8 million long-term credit reimbursement liability.

Staff Contact:

JP Robinette

Primary Service Provider:

Project Controls

Attachments:

Attachment A – Interested Participants as of March 10, 2022

Attachment B – Opportunity Cost Fee Frequently Asked Questions

Sites Reservoir Project
Letters of Interest Received as of March 10, 2022

| Prospective Participant | Requested Participation (AF) | Cumulative Requested Participation (AF) |
|---|-------------------------------------|--|
| Glenn County | 1,000 | – |
| Woodland Davis CWA ² | 5,000 | 6,000 |
| City of Napa | 4,000 | 10,000 |
| Wheeler Ridge Maricopa WSD ³ | 200 | 10,200 |
| Pacific Resources MWC ⁴ | 2,000 | 12,200 |
| Madera County GSA | 10,000 | 22,200 |
| Westlands WD | 10,000 | 32,200 |

1. Requested participation amounts shown in annualized acre feet (AF)
2. Indicated possibility for lower participation, higher project participation level shown
3. Existing participant indicating interest
4. Returning participant indicating interest

Opportunity Cost Fee FAQs

What is the Opportunity Cost Fee?

The Opportunity Cost Fee is a one-time charge to new Reservoir Project Agreement Members beginning in 2022 to account for the risk and lost return on conventional financial investments that early Reservoir Project Agreement Members have assumed by funding work to advance the Sites Reservoir Project.

Who is subject to the Opportunity Cost Fee?

Starting in 2022, all new Reservoir Project Agreement Members will be charged the Opportunity Cost Fee upon execution of the applicable Reservoir Project Agreement.

Why impose the Opportunity Cost Fee?

All Reservoir Project Agreement Members are expected to pay to participate in the project on an equivalent basis. The Opportunity Cost Fee is being imposed to account for the value associated with the risk and lost return on investment assumed by early Reservoir Project Agreement Members as part of the equivalent basis.

How is the Opportunity Cost Fee calculated?

The Opportunity Cost Fee is calculated by applying a 3% fixed interest rate to the schedule of cumulative cash contributions on the Reservoir Project Agreement participation basis of dollars-per-acre-foot. The Opportunity Cost Fee will be established for 2022 and will be updated each year based on future cash contributions through the completion of Phase 2.

| Year | Cash | Cummulative | Opportunity | Annual Fee | Opportunity Cost Fee | |
|------|--------------|--------------|-------------|------------|----------------------|-----------|
| | Contribution | Contribution | | | Cost Rate | Increment |
| | \$/AF supply | \$/AF supply | | \$/AF | | |
| 2017 | \$32.84 | \$32.84 | 3.00% | \$0.99 | \$0.99 | \$0.16 |
| 2018 | \$15.66 | \$48.50 | 3.00% | \$1.46 | \$2.44 | \$0.39 |
| 2019 | \$60.00 | \$108.50 | 3.00% | \$3.26 | \$5.70 | \$0.91 |
| 2020 | \$0.00 | \$108.50 | 3.00% | \$3.26 | \$8.95 | \$1.44 |
| 2021 | \$100.00 | \$208.50 | 3.00% | \$6.26 | \$15.21 | \$2.44 |
| 2022 | \$100.00 | \$308.50 | 3.00% | \$9.26 | \$24.46 | \$3.92 |
| 2023 | \$140.00 | \$448.50 | 3.00% | \$13.46 | \$37.92 | \$6.08 |
| 2024 | \$160.00 | \$608.50 | 3.00% | \$18.26 | \$56.17 | \$9.01 |

The Opportunity Cost Fee applicable to a new member will be determined for the year that the new member provides a letter of interest to participate in the project and collected upon executing the Reservoir Project Agreement.

How will the Opportunity Cost Fee be applied?

The Opportunity Cost Fee will be an additional charge on the first invoice based on the participation of the new member.

How will the Opportunity Cost Fee be used?

Revenue generated by the Opportunity Cost Fee will be applied to reduce the long-term liability of credit reimbursements.

Is the Opportunity Cost Fee eligible for reimbursement under the Funding and Credit Reimbursement Policy?

No, only the Reservoir Project Agreement participation contributions are eligible for reimbursement.