

Infante, Lucinda

From: Brian Thomas <thomasb@pfm.com>
Sent: Tuesday, September 30, 2014 3:01 PM
To: Breaux, Gary M; CKao@valleywater.org; Walthall, Brent; Patterson, Roger K (RPatterson@mwdh2o.com)
Subject: BDCP_Pre-Construction_Financing_Simple_Term_Sheet_09-30-14_v5_clean.docx
Attachments: BDCP_Pre-Construction_Financing_Simple_Term_Sheet_09-25-14_v4_redline-ckredits.docx; BDCP_Pre-Construction_Financing_Simple_Term_Sheet_09-30-14_v5_clean.docx

Clean and redline of document, incorporating Brent and Cindy's comments.

Talk to you soon.

Brian

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**Bay Delta Conservation Plan (BDCP)
State Water Project Contractors
Pre-Construction Funding Agreement**

Draft Term Sheet
Simple

Department of Water Resources
And
Metropolitan Water District

September 18, 2014

Description of the transaction. The State Water Project Contractors (SWP Contractors) prefer to finance the SWP share of Pre-Construction Costs, rather than funding on a pay as you go basis. Therefore, Metropolitan has agreed that it will finance the initial phase of Pre-Construction Costs on behalf of the SWP Contractors in order to ensure the project proceeds. The basic structure of the transaction is as follows:

- a. **Metropolitan Financing.** Metropolitan will issue Commercial Paper or other forms of debt to fund the SWP Contractor share of Pre-Construction Cost. To the extent that commercial paper is used, Metropolitan intends to use its existing Commercial Paper authority. The existing program is authorized up to \$400 million outstanding at any one time, plus accrued interest. Metropolitan, on behalf of the SWP Participating Contractors, will pay all costs associated with the Commercial Paper program or other debt issued, including interest and principal, commercial paper dealer costs, standby and/or letter of credit fees, legal, financial advisory fees, rating agency fees, etc. Metropolitan will manage the debt program to ensure that funds are available for requisition and that interest costs are as low as possible. Metropolitan will notify the Participating SWP Contractors of the type of debt to be issued, and if the debt is a variable rate instrument, will provide regular reports (at least quarterly) of the interest rate incurred.
- b. **Capitalized Interest.** Metropolitan intends to fund principal and interest payments, and all other costs associated with the debt from debt proceeds for a period of three to five years.
- c. **DWR Pre-Construction Costs.** The proceeds from the debt issuance to be utilized to fund Pre-Construction activities will be requisitioned by DWR through the Design Construction Enterprise (DCE). Requisitions will be subject to the control of the DCE and the processes and procedures approved by the DCE.
- d. **SWP Participating Contractors.** Other SWP Contractors (in addition to Metropolitan) will agree to participate in the funding of Pre-Construction Costs to ensure progress (Participating SWP Contractors). The Participating SWP

contractors would execute Pre-Construction Funding Agreements with DWR. The Participating SWP Contractors would agree to pay their share of debt service associated with the funding of the Pre-Construction Costs. The Participating SWP Contractors share of debt service will be based on the cost allocation formula developed by the SWC and approved by each Participating SWP Contractor Table A amounts of the SWP Participating Contractors. SWP Participating SWP Contractors, including Metropolitan, with a minimum of 3,000,000 acre-feet of Table A amounts would be necessary to proceed with Pre-Construction Financing.

- e. **DWR Takeout Financing.** ~~Once-If~~ DWR is able to issue debt and fund Pre-Construction activities, DWR would pay Metropolitan sufficient funds to retire all outstanding debt and costs and fees associated with managing the program (if any). At this point, ongoing funding of Pre-Construction and Construction costs would be financed by DWR.
- f. **Metropolitan Takeout Financing.** If DWR is unable to issue debt and/or the project is delayed or discontinued, Metropolitan will replace or restructure the debt over a longer time period and reimburse itself for costs and fees associated with the pre-construction financing. Metropolitan will consult with the Participating SWP Contractors prior to making decisions about replacing or restructuring the debt to ensure all Participating SWP Contractors are aware of the structure of the long-term debt financing. In addition, Metropolitan will notify the Participating SWP Contractors of the annual debt service, true interest cost and allocated shares of principal and interest within one week of closing. Metropolitan will provide preliminary indications and debt service schedules within two days of pricing. At the time that Metropolitan issues long-term debt or restructures debt into a longer term mode, or at any time thereafter, any Participating SWP Contractors will be able to pay down its~~their~~ share of outstanding debt in total, reducing the size of the takeout financing and fulfilling ~~that~~ Participating SWP Contractor's obligation to fund any debt issued to finance Pre-Construction costs.
- g. **DWR Billing.** If Metropolitan is required to fund principal and interest associated with ongoing debt as a result of DWR's inability to issue takeout financing as described above, then DWR would bill each Participating SWP Contractor's share of debt service on the annual Statement of Charges, and will take steps to collect such amounts under the same authorities and in the same manner as ~~similar to the~~ other amounts on the Statement of Charges. ~~The Statement of Charges would include a monthly charge equal to 1/12th of the annual principal and interest payments due in the following year.~~ Since Metropolitan will be funding interest, principal and other costs associated with the pre-construction financing program proceeds, SWP Participating Contractors would not be billed for any debt service costs for approximately three to five years.

- h. **Credit Mechanism.** DWR would credit or pay Metropolitan amounts equal to the amounts collected from the Participating SWP Contractors to pay for debt service in the year following collection of annual principal and interest payments.

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- a. **Metropolitan Financing.** Metropolitan will issue Commercial Paper or other forms of debt to fund the SWP Contractor share of Pre-Construction Cost. To the extent that commercial paper is used, Metropolitan intends to use its existing Commercial Paper authority. The existing program is authorized up to \$400 million outstanding at any one time, plus accrued interest. Metropolitan, on behalf of the SWP Participating Contractors, will pay all costs associated with the Commercial Paper program or other debt issued, including interest and principal, commercial paper dealer costs, standby and/or letter of credit fees, legal, financial advisory fees, rating agency fees, etc. Metropolitan will manage the debt program to ensure that funds are available for requisition and that interest costs are as low as possible. Metropolitan will notify the Participating SWP Contractors of the type of debt to be issued, and if the debt is a variable rate instrument, will provide regular reports (at least quarterly) of the interest rate incurred.
- b. **Capitalized Interest.** Metropolitan intends to fund principal and interest payments, and all other costs associated with the debt from debt proceeds for a period of three to five years.
- c. **DWR Pre-Construction Costs.** The proceeds from the debt issuance to be utilized to fund Pre-Construction activities will be requisitioned by DWR through the Design Construction Enterprise (DCE). Requisitions will be subject to the control of the DCE and the processes and procedures approved by the DCE.
- d. **SWP Participating Contractors.** Other SWP Contractors (in addition to Metropolitan) will agree to participate in the funding of Pre-Construction Costs to ensure progress (Participating SWP Contractors). The Participating SWP

contractors would execute Pre-Construction Funding Agreements with DWR. The Participating SWP Contractors would agree to pay their share of debt service associated with the funding of the Pre-Construction Costs. The Participating SWP Contractors share of debt service will be based on the cost allocation formula developed by the SWC and approved by each Participating SWP Contractor. Participating SWP Contractors, including Metropolitan, with a minimum of 3,000,000 acre-feet of Table A amounts would be necessary to proceed with Pre-Construction Financing.

- e. **DWR Takeout Financing.** If DWR is able to issue debt and fund Pre-Construction activities, DWR would pay Metropolitan sufficient funds to retire all outstanding debt and costs and fees associated with managing the program (if any). At this point, ongoing funding of Pre-Construction and Construction costs would be financed by DWR.
- f. **Metropolitan Takeout Financing.** If DWR is unable to issue debt and/or the project is delayed or discontinued, Metropolitan will replace or restructure the debt over a longer time period and reimburse itself for costs and fees associated with the pre-construction financing. Metropolitan will consult with the Participating SWP Contractors prior to making decisions about replacing or restructuring the debt to ensure all Participating SWP Contractors are aware of the structure of the long-term debt financing. In addition, Metropolitan will notify the Participating SWP Contractors of the annual debt service, true interest cost and allocated shares of principal and interest within one week of closing. Metropolitan will provide preliminary indications and debt service schedules within two days of pricing. At the time that Metropolitan issues long-term debt or restructures debt into a longer term mode, or at any time thereafter, any participating SWP Contractor will be able to pay down its share of outstanding debt in total, reducing the size of the takeout financing and fulfilling that Participating SWP Contractor's obligation to fund any debt issued to finance Pre-Construction costs.
- g. **DWR Billing.** If Metropolitan is required to fund principal and interest associated with ongoing debt as a result of DWR's inability to issue takeout financing as described above, then DWR would bill each Participating SWP Contractor's share of debt service on the annual Statement of Charges, and will take steps to collect such amounts under the same authorities and in the same manner as other amounts on the Statement of Charges. Since Metropolitan will be funding interest, principal and other costs associated with the pre-construction financing program proceeds, SWP Participating Contractors would not be billed for any debt service costs for approximately three to five years.
- h. **Credit Mechanism.** DWR would credit or pay Metropolitan amounts equal to the amounts collected from the Participating SWP Contractors to pay for debt service in the year following collection of annual principal and interest payments.