Office of Jenine Windeshausen Placer County Treasurer-Tax Collector



NEWS RELEASE

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<u>Treasurer's Financing Proposal for Middle Fork American River Project</u> FERC License Process Unanimously Approved by Board of Supervisors

Placer County Treasurer Jenine Windeshausen on Tuesday presented the Placer County Board of Supervisors with a proposal for financing the new Federal Energy Regulatory Commission license (FERC) for the Middle Fork American River Hydroelectric Project. The Board of Supervisor's unanimously approved the proposal.

The Middle Fork Project has been operating under a FERC license issued in 1963, which will expire in 2013. The process to obtain the next license is expected to take seven years to complete at an estimated cost of \$32 million. A major component of the licensing process is an organized stakeholder outreach and input process involving at least 69 different government agencies, local business and economic interests and community groups identified to date. Field studies necessary to obtain the new license include at least 31 different environmental, recreational and cultural resource studies.

Windeshausen has worked collaboratively with Placer County Water Agency (PCWA) and Placer County Staff to construct internal financing of the relicensing costs. A source of financing is needed because there are no power revenues available until 2013 when a long-term power purchase contract with PG&E expires. PG&E financed the project construction in the early 1960s by purchasing revenue bonds issued by PCWA. Under the 1960s-era financing agreement PG&E agreed to pay the project operations and maintenance costs and the debt service on the bonds in exchange for all of the power produced by the project until 2013.

To facilitate the financing of the project's new license costs and long-term operation of the project, PCWA and the County entered into a joint powers agreement which was unanimously approved at a joint meeting of the PCWA Board of Directors and

the Board of Supervisors on January 10 of this year. The agreement established the Middle Fork Project Finance Authority. Windeshausen's proposal calls for the Authority to issue a bond, which will be purchased as a market rate investment for the Treasurer's Investment Pool. Since there are no project revenues available until at least 2013, the bond will work like a line of credit that the Authority can use to pay licensing costs between now and 2013. The Authority is entitled to take quarterly draws on the bond and will borrow an additional amount to pay interest only until 2015. In 2015, the outstanding principal will be amortized for 21 years and the Authority will begin making principal and interest debt service payments.

Unlike the financial markets, the Treasurer is willing to provide flexible-borrowing terms that will allow the Authority to take draws on an as needed basis. As a result, the Authority will only need to pay interest on the outstanding balance; instead of being required to borrow the entire estimated \$32 million today. This approach will result in significant interest savings for the Authority and the citizens of Placer County. The staff feasibility study revealed that investment bankers would want the entire \$32 million borrowed up front creating greater interest costs over time. Windeshausen said "the win/win is that the Treasury depositors, (schools, the County and special districts) will receive a market rate of return on the bond, while the Authority will save more than an estimated \$15 million in financing costs by only borrowing what they need when they need it."

Windeshausen's report to the Board of Supervisors included a summary and conclusions from a rigorous yearlong due-diligence process that included both financial and physical evaluations of the project. An independent international engineering firm conducted the physical evaluation and an assessment of historic operations and maintenance records. A San Francisco Bay Area firm specializing in energy economics and financial feasibility conducted the financial evaluation. The evaluations concluded that the project has been well maintained and can be expected to operate for the next 40 years with a record similar to what has been experienced since the project was constructed. One of the conclusions of the fiscal evaluation was that the Treasurer's bond could be paid off after funding \$30 million in reserves by 2020 with a 95.5% level of confidence. Windeshausen stated that "the due diligence process concluded that the

Middle Fork Project is a strong and secure project with a proven 40-year track record. While accommodating the cash flow needs of the licensing process, this financing will compensate the Treasury's depositors with a market rate of return based on a sound project".

Located west of Lake Tahoe near the headwaters of the American River, the Middle Fork Project consists of French Meadows and Hell Hole Reservoirs, seven dams, five powerhouses and 24 miles of tunnels. The Placer County Board of Supervisors, acting in their capacity as the directors of the Placer County Water Agency (PCWA), was responsible for constructing and operating the project for seven years. Through a legislative amendment to the PCWA Act, PCWA was spun off from the Board of Supervisors in 1974 with its own independently elected Board of Directors. The legislative amendment retained a long-term role in the Middle Fork Project for the Board of Supervisors by requiring the Board of Supervisors to approve all future energy contracts and any expenditure of energy revenues.

Actions taken by the Board of Supervisors yesterday included unanimous approval for the Treasurer to purchase the Authority's bond. State law requires that the Board approve any investment by the Treasurer that matures in more than five years. The Board also unanimously approved a letter to the Treasurer confirming the County's legal interest in the project and confirming its delegation of authority and conveyance of certain rights including rights to future revenues from the project from the Board of Supervisors to the new finance Authority.

Supervisor Bill Santucci stated that the financing plan was a "brilliant idea". PCWA General Manager Dave Breninger acknowledged Windeshausen's leadership and professional guidance in developing this financial alternative for the licensing process. Windeshausen said "I am pleased to be a part of this important public project and proud of the collaborative effort with the County and PCWA. It was a great team effort."

The financing proposal will be presented to the Placer County Water Agency Board of Directors for its review and approval on Thursday, March 23. The Authority Board of Directors is scheduled to take final action on the financing plan on Monday, March 27.