



## Finance, Affordability, Asset Management, and Efficiency Committee

# Antelope Valley East Kern (AVEK) High Desert Water Banking Program Plan of Finance Authorization

Item 8-2

May 13, 2025

## Item 8-2

# Summary

### Subject

Adopt CEQA determination that the proposed action was previously addressed in the adopted 2017 Mitigated Negative Declaration, Addenda Nos. 1, 2 and 3 and related CEQA actions; and adopt resolution that (1) authorizes the execution and delivery of an amended and restated agreement between Antelope Valley-East Kern Water Agency and Metropolitan for the High Desert Water Bank Program, (2) approves the project financing, and (3) authorizes the General Manager and the Assistant General Manager/Chief Financial Officer and Treasurer to negotiate, execute, and deliver various related agreements and documents

### Purpose

Provide the Board with staff's recommended plan of finance and recommend adoption of the authorizing resolution

### Next Steps

Issue JPA bonds in July 2025

In the fourth quarter of 2025, staff will have additional cost estimates for arsenic and nitrate treatment, for Board review and approval

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### Key Actions by the Board to Date for the HDWB Program

## Background

- In April 2019, the Board authorized the General Manager to execute the HDWB Agreement with AVEK for capital costs up to \$131 million
- In September 2023, the Board authorized additional funding of up to \$80 million for various costs, bringing the total project cost to \$211 million
- This estimated project cost **does not** include additional costs for water quality treatment for arsenic and nitrate. These costs, and potentially others, will be brought back to the Board once alternatives are finalized
- This estimated project cost also does not reflect a System Conservation Implementation Agreement with the United States Bureau of Reclamation (“USBR”) to provide \$82 million in funding for the Water Bank in exchange for Metropolitan leaving 168,000 AF of conserved Colorado River water in Lake Mead

## Key Components of the Proposed Authorizing Resolution

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## The Proposed Resolution

- The proposed resolution authorizes the design, acquisition, construction and installation of the HDWB through the issuance of bonds by the AVEK Finance Authority
  - Bonds financed through the AVEK Finance Authority are supported by Metropolitan's underlying credit and expected to result in comparable interest rates to Metropolitan's subordinate lien revenue bonds
- The Amended and Restated HDWB Agreement includes required payment provisions and a schedule of installment payments to the JPA that will match the debt service on the JPA bonds
- The expiration date of the HDWB Agreement will be extended to September 20, 2057, to match the maturity of the bonds to be issued

# Project Financing Approach

**An Alternative  
Plan of Finance**  
Finance staff and the  
financing team  
elected to use a third-  
party Joint Powers  
Authority to issue  
bonds for the AVEK  
HDWB Program

- The Board authorized debt financing of the HDWB Program in the past two Adopted Budgets to reduce upfront cash expenditures
- The JPA approach will preserve Metropolitan's debt capacity and incrementally improve debt coverage when compared to revenue bonds directly issued by Metropolitan
  - As obligor to the JPA issue, Metropolitan will pay the JPA installment payments representing debt service on the JPA bonds
  - The interest component of the installment payments will be treated as an operating expense, and the principal component will be paid on parity with our subordinate lien debt
- Metropolitan expects to borrow approximately \$131 million through the issuance of JPA bonds. Annual debt service is estimated to be approximately \$10.4 million. Additional JPA debt may be issued if current HDWB construction cost estimates are increased
- Proceeds will, in part, redeem \$99.4 million of short-term notes issued to fund HDWB capital costs



## An Alternative Plan of Finance

Finance staff and the bond financing team elected to use a third-party Joint Powers Authority (JPA) to issue the long-term debt for the AVEK HDWB Program

## The HDWB Interim Financing Plan

- As of April 1, 2025, Metropolitan has paid approximately \$106.0 million for AVEK capital costs and approximately \$1.0 million for AVEK O&M expenses
- Metropolitan has issued \$99.4 million of outstanding Revolver Notes in multiple series since June 2023 to finance the HDWB Program per board approval
- The use of Metropolitan's short-term Revolver Note Facility was part of an interim financing plan for HDWB until issues enabling the long-term bond financing of the program were resolved
- Metropolitan paid \$1.64 million in interest cost in fiscal year 2023/24 and \$2.23 million to date for fiscal year 2024/25 for the HDWB program-related notes
- Despite an inverted yield curve, staff was able to keep the financing costs under budget by only borrowing funds through the Revolver as needed. Staff lowered the all-in carry cost of the issued Revolver Notes by \$7.5 million and \$5.9 million compared to budget assumptions in fiscal year 2022/23 and fiscal year 2023/24, respectively

# Board Options

- Option #1

Adopt CEQA determination that the proposed action was previously addressed in the adopted 2017 Mitigated Negative Declaration, Addenda Nos. 1, 2 and 3 and related CEQA actions; and adopt a resolution that: (1) authorizes the execution and delivery of an Amended and Restated Agreement between Antelope Valley-East Kern Water Agency and Metropolitan for the High Desert Water Bank Program, (2) approves the project financing, and (3) authorizes the General Manager and the Assistant General Manager/Chief Financial Officer and Treasurer to negotiate, execute, and deliver various related agreements and documents.

- Option #2

Do not adopt the resolution that authorizes the execution and delivery of an Amended and Restated Agreement between Antelope Valley-East Kern Water Agency and Metropolitan for the High Desert Water Bank Program, approves the project financing, and authorizes the General Manager and the Assistant General Manager/Chief Financial Officer and Treasurer to negotiate, execute and deliver various related agreements and documents.

# Staffs Recommendation

- Option #1



