

June 22, 2020

ORLAND-ARTOIS WATER DISTRICT UPDATES

Orland-Artois Water District (OAWD or the District) is currently undergoing potential District changes affecting the payment framework, and the District boundaries. The first part of the newsletter will be discussing the 9d & Central Valley Project (CVP) Construction loan conversions. The latter part of this letter will be discussing annexations into the District.

BACKGROUND

OAWD was built as part of the Central Valley Project, and has been delivering water for irrigation since the late 1970's. In order to pay for the costs of Construction, the District borrowed \$45,209,200 from Reclamation. The amount borrowed is reflected in two 40-year, interest free loans.

The loan District landowners are most familiar with is the District Infrastructure 9d system loan. The 9d loan is for the costs of District diversions and lift stations off the TC Canal, and the metered turnouts, pipelines and associated structures and equipment for the delivery of irrigation water. This loan is paid by the Landowners with the \$19.94 per acre Assessment Charge which is billed annually and paid in two installments. The 9d loan is scheduled to be paid off mid-2032.

The second loan is for the District's share of CVP Construction: the dams, canals, and associated facilities which capture and convey water to the District diversions on the Tehama-Colusa Canal. The CVP Construction Loan is repaid by a component in the water rate. For 2020 this amount is \$34.37 per acre-foot of water. In the past the payment of this loan was subsidized and the per acre-foot amount was not collected because the District had "Ability to Pay Relief". Reclamation determined that the District was eligible for "Ability to Pay Relief" due to the results of studies done every 5 years. In October of 2018 the "Ability to Pay Study" resulted in the loss of relief for the District due to the high number of acres planted in high value crops (the District is now 74% orchards). The cost of CVP Construction is now being paid by water users at \$34.37 per acre-foot. This loan is scheduled to be paid off in 2030 and is based on the projected deliveries to that time.

The District's current 25-year Water Service Contract sets the terms for the CVP Construction loan and the amount of water the District is allocated, 53,000 acre-feet annually. This contract is due to be renegotiated in 2030. The renegotiation process is long and expensive and requires an environmental document. In today's world it would be difficult to retain the current amount of water and the terms of the contract could change.

WIIN Act of 2016 Section 4011

In December of 2016 the Water Infrastructure Improvement for the Nation Act (WIIN Act) was passed. Section 4011 of the WIIN Act has language which allows for the prepayment of Water Service Contracts and conversion of said contracts from 25-year contract to a permanent contract. The converted contract can be paid with a lump sum or over 3 years. To convert the District's Water Service Contract a 60 Day Public Review of the amended contract is required. The District's amended contract is currently in Public Review. After Public Review, it will need to be validated by the court in Glenn County.

RRA and Subsidized Loans

Because these loans are interest free, they are considered a subsidy and the District falls under the Reclamation Reform Act (RRA) of 1982. Under RRA, district landowners can use project water to irrigate no more than 960 acres, District Land can only benefit Entities with 25 or less owners, and foreign ownership is restricted. Lands over 960 acres become "excess" and cannot receive project water and lands benefiting more than 25 require Full Cost Water to be charged. Once land becomes "excess" it stays that way even when sold or the ownership is changed. To change the "excess" designation, the land has to go through a process with Reclamation which includes sale price approval. This process is long and expensive. If the District is paid out, meaning the interest free loans are paid or refinanced, the District is no longer under RRA restrictions and can deliver project water to all its land.

Loan Conversion

District staff is currently working on a plan to refinance its two loans with 20-year Bank Loans. The District has retained the services of a Municipal Advisor and, along with most of the districts in the Tehama-Colusa Canal Authority (TCCA), has been investigating different financial options. They have looked at tax free municipal bonds, bank loans with several banks, and USDA loans. At this time, 20-year bank loans look very good. This could change and the District will keep all options in mind and strive to get the best deal possible for its landowners, current and future. To date, the loans combined would be approximately \$14,700,000.00.

| | |
|-------------------------------------|-------------------|
| Original Balance for Both Loans | \$45,209,200.00 |
| Paid in Assessments | -\$16,189,275.00 |
| Subsidized with ATP Relief | -\$12,546,551.00 |
| Paid by water use to Sept. 30, 2020 | -\$1,593,374.00 |
| Balance Due for Both Loans | ~ \$14,700,000.00 |

Today, a landowner using 1 acre-foot of water per acre is paying \$19.94 for the Assessment and \$85.50 (\$34.37 for CVP Construction) per acre. That is a total of \$105.44 per acre for Water, CVP Construction and District infrastructure. The refinancing plan District staff is working on will convert the two loans to interest bearing and extend them 10 to 12 years. The Directors have given staff a not to exceed amount of \$60.00 per acre for both loans in total and the \$34.37 CVP Construction Component will be removed from the water rate reducing the cost of water by that amount per acre-foot. For those using 1 acre-foot per acre or more, costs will be reduced as compared to previous years.

For 2020, of the 28,918 District acres, 22,926 acres have applied for water. Of the 5,992 remaining acres, 741 are excess and cannot use project water, 1123 are deemed Full Cost (the 2020 FC water rate is \$238/AF) and are using groundwater or are fallow. The remaining 4,128 acres are either in transition to orchards or using groundwater for a variety of reasons. The most common reasons are that the District water rate is too high compared to pumping or groundwater requires less filtering. A reduced water rate will solve most of these issues. The projected time line for completing the process is early November of 2020 and an example of annual costs are following:



| Charges | Current | Low Rate 3.1% | High Rate 4.1% |
|-------------------------------------|-----------------|----------------|-----------------|
| Assessment 9d Loan (per acre) | \$19.94 | \$18.86 | \$24.23 |
| CVP Construction (per acre) | \$0.00 | \$20.38 | \$26.19 |
| Water Rates (per AF) | \$85.50 | \$51.50 | \$51.50 |
| Total using 1 af/ac of water | \$105.44 | \$90.74 | \$101.92 |

| Current Conditions | Water Usage AF/ACRE | | |
|-------------------------------|---------------------|--------------------|--------------------|
| 100 Acre Ranch | 1 | 2 | 3 |
| Assessment 9d Loan (Per Acre) | \$1,994.00 | \$1,994.00 | \$1,994.00 |
| CVP (AF) | \$0.00 | \$0.00 | \$0.00 |
| Water Rate (includes CVP) | \$8,550.00 | \$17,100.00 | \$25,650.00 |
| Total | \$10,544.00 | \$19,094.00 | \$27,644.00 |

| Low Rate Scenario 3.1% | Water Usage AF/ACRE | | |
|-------------------------------|---------------------|--------------------|--------------------|
| 100 Acre Ranch | 1 | 2 | 3 |
| Assessment 9d Loan (Per Acre) | \$1,886.00 | \$1,886.00 | \$1,886.00 |
| Low Rate CVP (Per Acre) | \$2,038.00 | \$2,038.00 | \$2,038.00 |
| Remaining Water (Per AF) | \$5,150.00 | \$10,300.00 | \$15,450.00 |
| Total | \$9,074.00 | \$14,224.00 | \$19,374.00 |

| High Rate Scenario 4.1% | Water Usage AF/ACRE | | |
|-------------------------------|---------------------|--------------------|--------------------|
| 100 Acre Ranch | 1 | 2 | 3 |
| Assessment 9d Loan (Per Acre) | \$2,423.00 | \$2,423.00 | \$2,423.00 |
| High Rate CVP | \$2,619.00 | \$2,619.00 | \$2,619.00 |
| Remaining Water (Per AF) | \$5,150.00 | \$10,300.00 | \$15,450.00 |
| Total | \$10,192.00 | \$15,342.00 | \$20,492.00 |

GROUNDWATER SUSTAINABILITY

Groundwater Sustainability has become an important topic. The groundwater in the District area of influence is declining and restrictions and/or added costs on pumping groundwater may be in the near future. The only cures to declining water tables are recharge or to stop pumping. If growers stop pumping, they have few alternatives, use surface water or stop farming. The latter will be hard on the local economy. To avoid this OAWD believes that the increased use of surface water will help protect groundwater so it will be available in dry years when surface water is not. In 2019 the district had access to 65,000 acer-feet of contract and transferred water; total water deliveries were about 34,000 acre feet. The total water needs for the crops in the district was about 77,500 acre-feet. About 43,700 acre-feet of groundwater was pumped, of that, 31,000 acre-feet could have been surface water, thereby saving the groundwater. The District believes that converting these loans and reducing the cost of surface water will increase its use and promote Groundwater Sustainability.

NEXT STEPS

For the District to charge a “Land Based Charge” it will need to complete a Prop 218 Process. The District has chosen to proceed with a Majority Protest Process. This means that the District will send all of the information to its landowners and they will have the 45 days to protest the charge, the protest is based on parcels. A successful protest requires 50% +1 parcels to protest. If the 218 Process is successful, there will be a public hearing and the Directors will make the final decision on the new Charge and set the not to exceed amount for the Charge, \$60/acre. The 2020 Prop 218 Process will include the 2020 Operations Charge. The Operations Charge requires a new 218 Process every 5 years. The last one was completed in 2015 for 2016 to 2020.

For those with tenants, CVP Construction is a component of the water rate being converted to a “Land-Based Charge” as is the current “Operations Charge”.

DISTRICT EXPANSION

The District is in the process of annexing 760 acres into the District. These annexations are by two landowners and the land is next to the TC Canal. A new canal-side facility will be constructed for each landowner to deliver water from the canal. These facilities will be constructed, operated, and maintained by the landowners. The only equipment the District will maintain is a meter and valve at each facility. The annexed 760 acres will be charged for the Operations Charge and for CVP Construction. Water for annexed lands will be excess water from the District or transferred water from other contractors. All costs to provide water to annexed lands will be reflected in water rate for annexed lands.

The last 4 years the District has had an abundance of excess water. The District has procured transfers for water into the District every year in order to have it available in short water years. For 2020, with a 50% allocation, there will be enough water for the water users needs at a reasonable rate, and we did not have to go looking for high priced water. District expansion will make it easier to keep transferred water in the system. If the groundwater is saved for dry years, it will be available when surface water is not. Having a second water source is an advantage to those growing permanent crops and for financing, it can be very important.

All annexation costs are paid by the annexing landowner in advance. Annexed lands will pay for their own water delivery system and have a separate year to year water contract for excess or transferred water. Current Landowners access to District water and the delivery of that water will not be affected by annexations. The only effect future annexations will have on current landowners will be the increased number of acres the Operations Charge and the repayment of CVP Construction is based on.

The policies, agreements, and resolutions for annexing land into the District are on the District Website, oawd.org. Click the Forms tab and then the Annexation Information tab.

If you have any questions, please call the District office at 530-865-4304

BENEFITS AND NEGATIVES FOR CVP LOAN CONVERSION

| BENEFITS | NEGATIVES |
|---|---|
| <ul style="list-style-type: none"> • Reduced water rate and the elimination of the Full Cost rate. This benefit will increase surface water use which will protect groundwater for dry years when surface water is in short supply. The Sustainable Ground Water Act of 2014 will be affecting the pumping of groundwater in coming years. • Relief from RRA will allow more acres to be irrigated with project water and allow for District expansion. New lands will be responsible for their share of the CVP construction but will not use the current delivery system and will not be entitled to water under the current Water Service Contract. <u>Annexed lands will pay for their own water delivery system and have a separate year to year water contract for excess or transferred water.</u> New lands will also be responsible for their share of the District Operation’s costs thereby spreading the costs of District operations over more acres, thus reducing the per acre cost. Relief from RRA makes annexing land into the District easier. • Water users using 1 acre-foot or more will realize lower total annual District costs. • No more RRA Forms or audits! For those of you who are required to submit RRA forms and for the office staff, this is an important benefit for costs and time savings. • Converting the 25-year Water Service Contract to a permanent contract will avoid the costs and work to renegotiate in 2030 and <u>avoid the risk of losing a portion of the 53,000 acre-feet of Contract water the District is now entitled.</u> | <ul style="list-style-type: none"> • Increased per acre costs for non-water users. The CVP construction was previously a water rate and will be converted to a land-based charge. • Extending the payment of the loans an additional 10 to 12 years. The 9D Loan and 9E Loan are currently scheduled to be paid off in Mid-2032, and 2030, respectively. The refinancing will create a longer payment term if the District proceeds with a 20-year bank loan. • Loans will bear interest. The previous loans were non-interest bearing. The refinanced loans will have interest, which means there will be an increased payment, however it will be spread over a longer time period. |