



# Lake Agassiz Water Authority

## LAWA Financial Advisory Committee

AE2S Fargo Offices  
4170 28th Avenue S.

**March 6, 2019**

### Draft Agenda

- |             |       |  |
|-------------|-------|--|
| 10:00 a.m.  | I.    | Introductions  |
| 10:03 a.m.  | II.   | Approval of Minutes  |
|             | A.    | <b>November 20, 2017</b>                                     |
| 10:05 a.m.  | III.  | Project Update   |
| 10:20: a.m. | IV.   | Financial Planning Progress Update:                          |
|             | A.    | Current Project Financial Model Inputs/Outputs               |
|             |       | 1. Financing Terms   |
|             |       | 2. Schedule  |
|             |       | 3. Cost-Share Scenarios                                      |
|             |       | 4. Drought Operating Costs                                   |
|             |       | 5. Branch Pipeline Considerations                            |
|             | B.    | Bill Impacts Analysis Overview and Summary (all nominations) |
| 11:20 a.m.  | V.    | Legislative Update   |
|             | A.    | Legislative Request  |
|             | B.    | Funding Priorities   |
|             | C.    | Key Legislation Summary                                      |
| 11:35 a.m.  | VI.   | Other Key State Considerations Moving Forward                |
|             | A.    | Long-term RTF Funding  |
|             | B.    | Drought Operating Costs                                      |
| 11:50 a.m.  | VIII. | Next Steps and Action Items                                  |
| 12:00 p.m.  | IX.   | Adjourn  |

The following minutes are in draft form subject to review and approval by the Lake Agassiz Finance Committee at its next meeting.

17-12

**LAKE AGASSIZ WATER AUTHORITY  
FINANCE COMMITTEE**

**Advanced Engineering and Environmental Services  
Grand Forks, North Dakota  
November 20, 2017**

A meeting of the Lake Agassiz Water Authority (LAWA) Finance Committee was held on, November 20, 2017, at Advanced Engineering & Environmental Services, Grand Forks, North Dakota. The meeting was called to order by Vice Chair Storstad at 11 a.m.

The meeting was recorded to assist with compilation of the minutes.

**ATTENDING**

A copy of the registration sheet is attached to these minutes as Annex I.

**INTRODUCTIONS**

Maureen Storstad, Vice Chair, asked everyone in attendance to introduce themselves and identify who they are representing.

**CONSIDERATION OF MINUTES**

**Motion by Keith Mykleseth to dispense with a reading of the May 16, 2017, Finance Committee minutes and approve them as distributed. Second by Ken Vein. Upon voice vote, motion carried.**

**PROJECT UPDATE**

Merri Mooridian, Secretary, provided an update on the status of the Red River Valley Water Supply Project (RRVWSP).

**FINANCIAL MODELING UPDATE**

Stephen Auton-Smith, Ernst & Young Infrastructure Advisors (EYIA), provided an overview of the meeting context for today.

Klair White, EYIA, updated the committee on ongoing work from a financial modeling perspective.

**Revisions to the Base Case**

Ongoing analysis of project costs, revenues and delivery methods by Garrison Diversion and its advisors, as well as feedback from the LAWA, has contributed to the continued refinement of the RRVWSP Base Case financial model.

The Base Case assumes that construction is completed over an ~17.5 year period through to 2034 (or 15.5 years excluding the current biennium, during which works represent only ~2% of capex).

The revised Base Case incorporates updated assumptions and cost estimates in respect to the following:

Capital expenditure profiles	Cash available for reserves (recycling of DSCR delta)
Asset maintenance during construction	Revised interest rates on municipal borrowing
Out of warranty repairs	Updated opex cost profiles
Long-term indexation risk	

The net impact of these revisions is a \$513 million increase in total nominal project costs through to December 2065.

Shawn Gaddie, AE2S Nexus, said when talking Base Case and Acceleration, everything discussed here is operated under the assumption that the state would pay cash in equal increments of \$150 million as we consider all the other factors that would affect project cost. That ultimately drives what is the 17.5-year schedule. This Base Case was understanding all the financial implications essentially to the localities should that be the way the state chooses to finance or pay for their portion of the project. When talking scenarios later, everything that is presented is somewhat in the context of how to change off of Base Case given how this drives the financial picture and what are the value added considerations that we could overlay under different sets of assumptions.

### **Reaffirming the Case for Acceleration**

The benefits of an accelerated construction profile (approximately seven years, or five excluding current biennium) to bring the RRVWSP online almost ten years earlier than under the current anticipated program can be broadly categorized as follows:

- Socioeconomic benefits of enhanced drought mitigation
- Financial saving and risk benefits
- Reducing regulatory risk
- Contracting flexibility

### **Market Sounding**

Garrison Diversion and its advisors conducted a market sounding exercise to better understand construction contractor views on the ability to accelerate and the potential risks that a professional and experienced construction contractor could or would bear under different schedules.

Among the contractors surveyed, feedback indicated that:

- The pipeline asset can be built most efficiently over an average 4-7 year period

- Should the public sector wish to transfer maximum risk to the private sector (for example, to secure price and date certainty) this was said to potentially be achievable for up to an ~4 year construction profile

As such, the risk environment – largely related to labor, materials and escalation – is reduced for the public sector the shorter the construction period but will continuously increase beyond ~4 years as the private sector becomes less willing and able to absorb such risks.

### Base Case versus Accelerated Case

Ms. White also reviewed project cost outcomes and cash flow impacts of Base Case versus Accelerated Case scenarios, as well as net present value (NPV) and alternative financing approaches for the state. In addition, she reviewed scenarios for project cost analysis, NPV analysis, a cash flow impact summary and provided an overview of acceleration benefits analysis outcomes.

Acceleration Case: Additional Locality Considerations:

- Municipal bridge financing
- Private sector bridge financing
- Public private partnership (P3)

### **Impact of Key Parameter Variables**

Mr. Auton-Smith said that a number of parameters are being looked at primarily from a locality perspective to understand what the cash flow impact to the localities might be of a different risk sharing environment with the state. This is done to understand orders of magnitude and potential value to the localities and consequently impacts to the state.

### **Scenario Outcomes**

Ms. White referred to and explained the different assumptions for each of the four agreed scenarios plus the Base Case, which reflect a combination of loans and parameters.

### **END USER ALLOCATION MODELING PROCESS**

Mr. Gaddie provided a PowerPoint presentation describing the end user allocation modeling process.

### **RRVWSP Funding and Financing Plan Components**

Project Cost Allocation Approach

- Allocation methodology development
- Considering nomination amount type and access to the core project
- Evaluation of cost to users for secondary delivery infrastructure (i.e., branch pipelines)

## Recap of Core Project Cost Allocation Process

- Benefits Determination Methodology Considers Three Key Parameters of Proposed Project Service for Each User:

Water supply need  
Benefit of access  
Project user groups

## Core Project End User Cost Allocation

- Based on access to and need for the project

Prevalent domestic shortage  
Moderate domestic shortage  
Large industrial needs  
Redundant supply/small industrial needs

## Core Project Draft Cost Allocation Scenarios

- Total annual allocation to the localities  
Not including drought mitigation costs or branch pipelines

## **2017-2019 FINANCIAL PLANNING SCHEDULE AND MILESTONES REVIEW**

Mr. Gaddie referred to the 2017-2019 Proposed Work Plan/Schedule, including key outreach and coordination and the main financial planning tasks.

Mr. Gaddie stated that all of the assumptions within the financial model are now refined, but there is more work to do. The financial team is at the front-end of the process and beginning to overlay those costs down to the users.

Ms. Mooridian reported that the LAWA Board has given AE2S Nexus direction to look at options for achieving the cost share this biennium, which could include rolling it into the capital debt service. Legally, the funds for the RRVWSP are a grant included in HB1020, but politically, a cost share was anticipated this biennium.

Steve Burian, AE2S, commented that it looks like the legislature will allow a deferral and include the 2017-2019 cost share in with the big project.

## **FINANCIAL PLANNING TASK ORDER APPROVAL RECOMMENDATIONS**

Ms. Mooridian referred to and reviewed the table listing EYIA and AE2S Nexus task order responsibilities. The main tasks include:

1. State & Local Funding & Financing/Financial Alternatives Evaluation and Financial Modeling
2. User Cost Allocation Methodology Refinement and Modeling
3. Project End User Evaluations and Feasibility Reviews

4. Contracting Structure Evaluation and Market Outreach
5. Financing Structure Evaluation and Rating Agency Engagement
6. Project Participation Agreement Development Support
7. Preferred Financial Plan Development
8. Outreach and Coordination

#### **EYIA Statement of Work**

Ms. Mooridian presented the task order for financial modeling from EYIA. The cost of this task order is \$508,872.

#### **Black & Veatch Financial Planning**

Ms. Mooridian also presented the task order for financial planning from Black & Veatch, and in particular, AE2S Nexus. The cost of this task order is \$512,175.

**Motion by Todd Feland to recommend approval of the following task orders to the LAWA Board: 1) EYIA Statement of Work in the amount of \$508,872 and 2) Black & Veatch Financial Planning in the amount of \$512,175. Second by Jerry Blomeke. Upon voice vote, motion carried.**

#### **WRAP UP**

There being no further business to come before the committee, the meeting adjourned at 1:45 p.m.

---

Maureen Storstad, Co-Chair

---

Merri Mooridian, Secretary

