

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM
Approval Date: December 19, 2018

Request to Approve Amendment, Restatement and Extension of Initial Resolution
Reflecting Official Intent to Issue Revenue bonds

Prepared by: *Solomita Malko*

Applicant: Poseidon Resources (Channelside) LP	Amount Requested: \$95,000,000
Project Location: City of Carlsbad (San Diego County)	Application No.: 884
	Initial Resolution No.: 16-02
	Prior Action: Original IR approved on 2/16/2016

Summary. Poseidon Resources (Channelside) LP and/or its affiliates (the “Company”) request approval of an amendment, restatement and extension of Initial Resolution (IR) 16-02 for an amount not to exceed \$95,000,000 to finance the acquisition, construction, improvement, renovation, rehabilitation and/or installation of intake piping, outflow piping and other facilities functionally related to the intake, outflow, production and treatment of water by the Claude “Bud” Lewis Carlsbad Desalination Plant (the “Project”).

The Company’s current request to increase the IR amount reflects (i) increased costs related to advancing the development of the Project, (ii) increased engineering, procurement, and construction costs as a result of inflation, and (iii) the current requirement for a multi-phased project to ensure compliance with new regulations. The original IR was approved by the CPCFA Board on February 16, 2016 for a total amount of \$50,000,000.

Borrower. The Company was organized in Delaware on April 15, 2003. The Company is a project development specialist that partners with water agencies to deliver water infrastructure projects. Its primary focus is on the development of large-scale reverse osmosis seawater desalination plants.

The principal stockholders of the Company are as follows:

Poseidon Resources Channelside Holdings LLC	99.9%
Poseidon Resources Channelside GP, Inc.	<u>00.1%</u>
Total:	<u>100%</u>

Legal Questionnaire. The Staff has reviewed the Company’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed in the Legal Status portion of the Application that raises questions concerning the financial viability or legal integrity of this applicant.

Project Description. The Company anticipates using bond proceeds to construct an intake and screening structure for supplying 127 million gallons per day (“mgd”) of seawater to the intake

pump station, as well as an intake, screening and discharge structure for supplying up to 196 mgd of seawater to the discharge channel for dilution of brine from the seawater reverse osmosis process. The Company also anticipates purchasing four fish-friendly, low-impact pumps for lifting lagoon water into the discharge channel.

Volume Cap Allocation. The Company anticipates applying for volume cap allocation in the 2nd or 3rd quarter of 2019.

Financing Details. The Company anticipates the issuance of negotiated tax-exempt bonds in two phases. The first phase is expected to close in 2nd or 3rd quarter of 2019.

Financing Team.

Bond Counsel: Orrick, Herrington and Sutcliffe LLP

Underwriter: J.P. Morgan Securities LLC

Issuer's Counsel: Office of the Attorney General

Staff Recommendation. Staff recommends approval of the amendment, restatement and extension of Initial Resolution No. 16-02 for Poseidon Resources (Channelside) LP and/or its affiliates for an amount not to exceed \$95,000,000.

Note: An Initial Resolution approval is not a commitment that the Board will approve a Final Resolution and bond financing of the proposed Project.

**AMENDMENT, RESTATEMENT AND EXTENSION OF
RESOLUTION OF OFFICIAL INTENT TO ISSUE BONDS TO
FINANCE WATER FURNISHING FACILITIES FOR
POSEIDON RESOURCES (CHANNELSIDE) LP AND/OR ITS AFFILIATES**

December 19, 2018

WHEREAS, the California Pollution Control Financing Authority (the “Authority”), a public instrumentality, is authorized and empowered by the provisions of the California Pollution Control Financing Authority Act (the “Act”) to issue bonds for the purpose of defraying the cost of facilities for the furnishing of water; and

WHEREAS, at the request of Poseidon Resources (Channelside) LP, a Delaware limited partnership (the “Applicant”), and/or its affiliates (collectively, the “Company”), the Authority adopted its Initial Resolution No. 16-02 on February 16, 2016 (the “Initial Resolution”), in the amount of \$50,000,000 to assist in financing the acquisition, construction, improvement, renovation, rehabilitation and/or installation of intake piping, outflow piping and other facilities functionally related to the intake, outflow, production and treatment of water by the Claude “Bud” Lewis Carlsbad Desalination Plant, all as more fully described in the Company’s application (as amended in the amendment to the Company’s application, the “Project”), owned and operated by the Company, and have presented an estimate of the maximum cost of such Project as shown in Exhibit A attached hereto; and

WHEREAS, the Company has submitted an amendment to its application to the Authority and has requested the Authority to amend the Initial Resolution in order to update the cost estimates relating to the Project; and

WHEREAS, the Authority deems it necessary and advisable to further the purposes of the Act to amend, restate and extend the Initial Resolution; and

WHEREAS, the Authority desires to encourage the Company to provide water supply facilities and equipment which will serve the public of the State; and

WHEREAS, the Authority deems it necessary and advisable to further the purposes of the Act that the Project be constructed at the earliest practicable date, but the Company requires satisfactory assurances from the Authority that the proceeds of the sale of bonds of the Authority will be made available to finance the Project; and

WHEREAS, the Company expects to incur or pay from its own funds certain expenditures in connection with the Project prior to the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis; and

WHEREAS, subject to meeting all the conditions set forth in this Resolution the Authority reasonably expects that debt obligations in an amount not expected to exceed \$95,000,000 will be

issued and that certain of the proceeds of such debt obligations will be used to reimburse the Company for its prior expenditures for the Project; and

WHEREAS, Section 1.103-8(a)(5) and Section 1.150-2 of the Treasury Regulations require the Authority to declare its reasonable official intent to reimburse prior expenditures for the Project with proceeds of a subsequent borrowing; and

WHEREAS, Authority Resolution No. 18-01-002 delegates to the Executive Director the authority to approve initial resolutions related to bond financings;

NOW, THEREFORE, BE IT RESOLVED by the California Pollution Control Financing Authority as follows:

Section 1. The Authority finds and determines that the foregoing recitals are true and correct. For purposes of this Resolution, an “Affiliate” of the Applicant means any person or entity which controls, is controlled by, or is under common control with, the Applicant, as shown by the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through majority equity ownership, contract or otherwise. An Affiliate shall also be a “participating party” as defined in the Act.

Section 2. The Authority declares its official intent to issue, at one time or from time to time, an aggregate of up to \$95,000,000 principal amount of bonds of the Authority for the Project; including for the purpose of reimbursing to the Company costs incurred for the Project prior to the issuance of the bonds.

Section 3. The bonds will be payable solely from revenues received by the Authority pursuant to that certain Loan Agreement, dated as of December 24, 2012, by and between the Authority and the Borrower, as it may be amended and supplemented, or other agreements to be entered into between the Authority and the Company in connection with the Project. Each bond shall contain a statement to the following effect:

“Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof or any local agency is pledged to the payment of the principal of, premium, if any, or any interest on this bond.”

Section 4. The bonds shall be issued subject to the conditions that (i) the Authority and the Company shall have first agreed to mutually acceptable terms for the bonds and of the sale and delivery thereof, and mutually acceptable terms and conditions of the loan of the bond proceeds to finance the Project; (ii) all requisite governmental approvals shall have first been obtained; (iii) a Final Resolution shall have been received from the Authority; and (iv) an allocation shall have been received from the California Debt Limit Allocation Committee for any portion of the bonds which are to be sold as exempt from federal income tax.

Section 5. The Executive Director of the Authority has authority under Authority Resolution No. 18-01-002 to indicate the willingness of the Authority to proceed with and effect such financing in order to assist the Company by defraying the cost of the Project, subject to due compliance with all requirements of the law and the obtaining of all necessary consents and approvals and to meeting all other requirements of the Authority.

Section 6. It is intended that this Resolution shall constitute “some other similar official action” towards the issuance of bonds within the meaning of Section 1.103-8(a)(5) of the Treasury Regulations and “official intent” within the meaning of Section 1.150-2 of the Treasury Regulations, each as applicable under Section 103 of the Internal Revenue Code of 1986, as amended. It is also intended that this statement of “official action” or “official intent” by the Authority shall continue in full force and effect even if this Resolution ceases to be effective for other purposes.

Section 7. This Resolution shall take effect immediately upon its passage and remain in full force and effect thereafter; provided that, subject to Section 6 above, this Resolution shall cease to be effective on December 19, 2021 unless the Authority specifically adopts a further resolution extending the effective date of this Initial Resolution. The Authority will consider such extension upon receiving a specific request for such action from the Company, accompanied by any additional information requested by the Authority to supplement the Company’s application, and an explanation of the status of the Project.

Section 8. This Resolution restates and incorporates the Initial Resolution, and is intended to relate back to February 16, 2016.

EXHIBIT A

NUMBER: 16-02
LOCATION: 4590 Carlsbad Boulevard
Carlsbad, California 92008
TYPE: Water Furnishing
AMOUNT: Up to \$95,000,000