



PANOCHÉ WATER DISTRICT

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August 25, 2021

Dear growers,

With the growing season winding down and harvest well underway, we turn our attention to the future and planning for the 2022 irrigation season. This has been a year of great challenge and change for the District and I write today to update you on a few key milestones including availability of supplemental water, the Contractual Obligation Assessment, and changes in District governance.

SUPPLEMENTAL WATER

The availability of supplemental water this year, as in all years similar to this, is largely governed by regulatory decisions made by the State Water Resources Control Board and National Marine Fisheries Service. In June, the State Board and Service implemented standards to address salmon temperature management and Delta water quality that adversely impacted the ability of Reclamation and the Department of Water Resources to move transfer water from eastern and northern California into the San Joaquin Valley, where it is needed most. The primary effect of the drought related regulatory requirements does not preclude the transfers from occurring but delays the movement of that water until the forthcoming fall.

As a result of our ongoing efforts, the District will have available 9,200 acre-feet of supplemental water, equivalent to about a 10% CVP allocation, for use later this year or into the next. The water will need to be used in the District as Reclamation prohibits the transfer of transferred water. This water is reschedulable, subject to the Storage Priorities laid out in Reclamation's existing Rescheduling Guidelines¹. Current forecasts suggest it is unlikely San Luis Reservoir will fill this winter; therefore, at this time, it appears the potential of loss is low. However, it is important to note that the Guidelines and forecasts are subject to change so the District will monitor San Luis conditions closely to help manage the risk and keep growers apprised.

This water is being made available on a subscription basis at a price of \$1,150 per acre-foot. District Operations & Maintenance costs and rescheduling fees are in addition to the water price and will be billed upon usage. For those subscribing, the cost of the water will be invoiced along with the September 15th August Usage Billing and payable by October 15th, at which time the water will become useable. If demand exceeds supply, the water will be allocated to subscribers on a pro-rata acreage basis. ***If you are interested in acquiring this water or should have any questions, please contact Josh Marquez or Sandra Reyes prior to September 10th.***

¹ <https://panochewd.specialdistrict.org/files/d0b9dcb18/USBR+San+Luis+Reservoir+Final+Rescheduling+Guidelines.pdf>

CONTRACTUAL OBLIGATION ASSESSMENT

After landowners approved the Contractual Obligation Assessment by approximately 87% during our recent Proposition 218 election process, District staff and consultants have since worked to successfully secure about \$18,611,000 in bond funding to fulfill the District's commitments to the United States. Standard & Poor's Global Ratings analyzed the District and assigned a BBB+ credit rating. While S&P looked favorably upon the District and its current management, the existential risk of prolonged drought, as reported upon by the likes of the New York Times and Wall Street Journal, weighed on the committee's decision. None the less, on the day we went to market, demand for the District's bond offerings outstripped availability. This allowed our Underwriter, Wells Fargo Bank, to secure more favorable terms ultimately resulting in a true interest cost of approximately 3.04%. This rate was significantly better than what we used for planning purposes and will ultimately result in a reduced average, annual, debt service cost per acre from what was approved by landowners. For those of you interested, the District's 2021 Bond Official Statement can be found on our website².

As for next steps, to reduce administrative costs and potentially avail ourselves of the Fresno and Merced counties' Teeter Plans, which would ensure full receipt of the assessment revenue, the District has requested the counties include the Contractual Obligation Assessment on their bi-annual property tax billing beginning this November. The initial assessment will be the \$38.09 per acre approved by voters. After the District has covered its annual bond payments and covenants, any remaining assessment revenue will be refunded to landowners. If the District has maintained a delinquency rate of less than 10 percent after 3 years, we will then be eligible to request participation in the Teeter Plans and to reevaluate the annual assessed amount consistent with our 2021 Bond Indenture and Installment Purchase Agreement, other covenants, and all regulatory requirements.

The Board of Directors has been steadfast in its determination to address and resolve the challenges of the past. Just since my arrival in October 2017, the Board has held more than 80 meetings to devise and implement the guidance and culture necessary to reinstate confidence in the District's standing with our neighbors, state and federal partners, and, above all, you the growers. Satisfaction of our commitments to the United States marks an historic milestone by resolving significant risks of the past, alleviating the administrative burden of the Reclamation Reform Act reporting requirements for growers and the District alike, and, most importantly, securing in perpetuity the water supply and conveyance and storage capacity provided by the Central Valley Project at the lowest annualized cost per acre. I'd like to thank the Board, our consultants, and District staff for the tremendous effort and skill they all brought forward to realize this opportunity – this is a momentous time, indeed.

DISTRICT GOVERNANCE

After having helped secure a more stable future for the District, Vice-President Suzanne Redfern-West announced her retirement from the Board of Directors after almost 28 years of service. It is hard to overstate the impact of Sue's contributions to the District. From her unprecedented vision of a collaborative approach towards addressing the District's drainage needs to her work on the Water

² <https://panochewd.specialdistrict.org/files/bb926df2b/20210804+-+Panoche+Financing+Authority-Panoche+Water+District+2021+Bonds+Official+Statement.pdf>

Education Foundation's Board of Directors, she has consistently strived to improve understanding of the Westside's vital contributions to the region, state, and nation. Sue is genuinely a leader of gifted quality. While personally saddened by the news, I deeply appreciate Sue's desire to pursue other interests and of the personal sacrifices she has made to serve the District so well. As it is fitting, we will recognize Sue in greater depth in the near future.

In turn, I welcome Mr. Steve Fausone to the Board of Directors. At their August 10th meeting, the Board appointed Steve to fulfill Sue's term, which runs until December 2022. Steve brings extensive skill and knowledge stemming from his 32 years working on the Westside, much of it serving as business manager for Redfern Ranches, and will complement the Board's work well. I encourage everyone to reach out and thank Steve for his willingness to serve.

As always, if you should have any questions or comments, please feel free to contact me directly.

Yours truly,

A handwritten signature in blue ink, appearing to read 'Ara Azhderian', is written over a light blue rectangular background.

Ara Azhderian