



# Santa Clara Valley Water District

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**File No.:** 20-0526

**Agenda Date:** 6/23/2020

**Item No.:** \*8.4.

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## **SUPPLEMENTAL BOARD AGENDA MEMORANDUM**

### **SUBJECT:**

Receive Information and Provide Direction to Staff on Solicitation of Bank Line(s) of Credit with Aggregate Stated Amount Not To Exceed \$180 Million.

### **REASON FOR SUPPLEMENTAL MEMORANDUM:**

This report conveys additional information received after the initial report was released, consistent with Executive Limitations Policy EL-7-10-5.

### **RECOMMENDATION:**

- A. Receive information regarding bank line(s) of credit solicitation; and
- B. Provide staff with direction on the bank(s) with which to proceed with negotiations and execution of line(s) of credit.

### **SUMMARY:**

#### **Executive Summary**

This supplemental memorandum provides detailed information regarding the environmental, social and governance (ESG) policies of the five banks that have responded to Santa Clara Valley Water District's (Valley Water) request for proposal (RFP) for bank line(s) of credit up to \$200 million. Staff is seeking the Board's direction on which bank(s) to proceed with negotiations and execution of bank line(s) of credit.

#### **Background**

On April 28, 2020, Valley Water Board of Directors authorized staff to proceed with issuing a RFP for bank line(s) of credit up to \$200 million to provide backup liquidity for Valley Water's capital improvement program and general financing needs in light of the ongoing economic uncertainties related to the COVID19 pandemic (Resolution 20-11). The results of the RFP were presented to the Board at its meeting on June 9, 2020 where the Board directed staff to conduct additional research regarding the ESG policies of each of the five banks (MUFG Union Bank, JPMorgan Chase, US Bank, UBS and Bank of America) who responded to the RFP and return to the Board to present this additional analysis.

**Analysis**

Staff conducted additional research and reached out to each bank to obtain their responses to the ESG questions. Staff also invited the banks to review the June 9, 2020 board agenda memorandum and the recorded meeting and enquired whether the banks would like to submit any updates to their fee proposals and business terms in light of the information provided in the board meeting. The ESG and business terms for each bank are summarized in Tables 1 and 2 below. The ESG analysis provided by BankTrack is included in Supplemental Attachment 1. The revised summary of key business terms proposed by the banks are provided in Supplemental Attachment 2. The details of each bank's ESG response are provided in Supplemental Attachments 3 - 7.

**Table 1 - ESG Rankings**

	<b>MUFG Union Bank</b>	<b>JPMorgan Chase Bank</b>	<b>US Bank</b>	<b>UBS AG, Stamford Branch</b>	<b>Bank of America</b>
<b>1. Banktrack (max 10)</b>	2	3.5	Not rated	5.5	1.5
<b>2. Sustainalytics (max 100%)</b>	55.19	82.28	28.53	66.14	62.10
<b>3. MSCI ESG (max AAA)</b>	BBB	BB	BB	AA	BB
<b>4. Corporate ESG Policy</b>	Attach 3 p10 - 11 and 14 - 28	Attach 4 p1 links	Attach 5 P1 - 6	Attach 6 p3 - 4 and p6 - 242	Attach 7 P9 - 56
<b>5. Santa Clara County # Employees</b>	117	902	297	47	536
<b>6. Bay Area # Employees</b>	1,099	2,700	1,306	262	6,075

The definitions of the three ESG Benchmarks are as follows:

1. BankTrack's Human Rights Benchmark evaluates 50 of the largest private sector commercial banks globally against a set of 14 criteria based on the requirements of the UN Guiding Principles on Business and Human Rights by examining four aspects of banks' implementation of the Guiding Principles: their policy commitment, human rights due diligence (HRDD) process, reporting on human rights and their approach to access to remedy (Source: [https://www.banktrack.org/campaign/banks\\_and\\_human\\_rights](https://www.banktrack.org/campaign/banks_and_human_rights))
2. Sustainalytics's overall percentile rank is assigned to the company based on its environmental,

social and governance (ESG) total score relative to its industry peers. For the top 1% the percentile is 99%; for the bottom 1% the percentile is 1%. This is Sustainalytics' most comprehensive percentile rank. Aggregate ESG performance encompasses a company's level of preparedness, disclosure and controversy involvement across all three ESG themes. (Source: Bloomberg Sustainalytics Ranking; <https://www.sustainalytics.com>)

- MSCI ESG Ratings aim to measure a company's resilience to long-term, financial relevant ESG risks by exploring 37 ESG key issues, including climate change, natural resources, pollution & waste, environmental opportunities, human capital, product liability, stakeholder opposition, social opportunities, corporate governance, and corporate behavior. MSCI uses a rules-based methodology to identify industry leaders and laggards based on the scale of "AAA" - Leader vs. "A, BBB, BB" - Average, vs. "B, CCC" - Laggard. (Source: <https://www.msci.com/esg-ratings>).

**Table 2 - Fee Proposal and Business Terms**  
\$ Millions (M)

	MUFG Union Bank	JPMorgan Chase Bank	US Bank	UBS AG, Stamford Branch	Bank of America
<b>Business Terms Rankings</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>1. Max Principal</b>	\$180	\$180	\$75	\$50	\$75
<b>2. Tenor</b>	2 or 3 years	1, 2 or 3 years	1.5 or 2.5 years	1 year	1 year
<b>3. Estimated Annual Cost per \$50M Credit*</b>	\$0.17-\$1.22	\$0.41 - \$1.23	\$0.24 - \$1.10	\$0.36 - \$0.96	\$0.38 - \$1.18
<b>4. Undrawn Fee for \$180M Principal **</b>	\$0.54	\$1.4	N.A (max principal \$75M)	N.A (max principal \$50M)	N.A (max principal \$75M)
<b>5. Updated Terms</b>	No change	See updates in Attach 2	See updates in Attach 6	No change	No change

\*Estimated annual cost per \$50M credit is calculated based on several key assumptions, including the assumed index rates (SIFMA, 1M-LIBOR, 3M-LIBOR) as of May 22, 2020, and whether the facility will be drawn on a tax-exempt vs. taxable basis (range shown demonstrates zero draw vs. \$50M draw for each of the banks). Actual annual costs will change pending the principal amount, future index rates and the utilization of the credit facility.

\*\*Undrawn fee for \$180 million principal demonstrates the total undrawn fee paid to maintain up to \$180 million line of credit for an entire year. Line 4 of Table 2 is not applicable (N.A.) for US Bank, UBS and Bank of America as these banks offer maximum credit of \$75/\$50/\$75 million respectively.

From a cost and business terms perspective, MUFG offers the most favorable fees and business terms. As demonstrated in Table 2 Line 4, should Valley Water negotiate a \$180 million line of credit, MUFG’s maximum annual undrawn fee is \$860,000 lower than JP Morgan’s proposal. US Bank, UBS and Bank of America each offered lower line of credit principal amounts; therefore Line 4 is not applicable to these three banks. UBS and Bank of America offered a one-year term only, which is not as favorable as the two- to three-year terms offered by MUFG and JP Morgan. US Bank amended the offer to \$75 million maximum amount for a 1.5 to 2.5 year term, hence US Bank’s ranking was updated to third place, ahead of UBS. In terms of potential early termination fee, MUFG does not impose a fee if Valley Water chooses to terminate the line of credit after one full year of contract term, whereas JP Morgan requires that the undrawn fee for the remaining contract term to be paid to the bank with an early termination. This means that if Valley Water signs a three-year contract and terminates after year one, MUFG would not charge an early termination fee whereas JP Morgan would charge an early termination fee for the remaining two years term at \$1.4 million per year for a total of \$2.8 million termination fee. Note that JP Morgan’s range of estimated costs per \$50 million line of credit provided in Table 2 Line 3 has been updated to a range of \$0.41 million to \$1.23 million to reflect the 0.75% index floor rate submitted by the bank as part of their business terms update after reviewing the June 9, 2020 board agenda memorandum. The index floor rate has the effect of increasing the draw fee for the line of credit. MUFG is the only bank that did not required an index floor fee. For further details of the fees and business terms, please refer to Supplemental Attachment 2.

**Small/Local Financial Institution Participation**

Staff requested each of the banks to respond to the option of acting as a lead bank to provide syndicated loan participation by small local banks/credit unions, and any other ideas the bank may have to encourage participation. Each of the bank’s responses is summarized in Table 3 below.

**Table 3 - Response to Loan Syndication**

<b>MUFG</b>	MUFG will provide up to \$180 million line of credit and act as lead bank for an additional \$20 million syndicated loan to a local bank partner designated by Valley Water. The fee paid to both MUFG and the local partner must be the same to avoid bank regulatory issues, subject to additional bank counsel fees and administrative fees.
<b>JPMorgan</b>	JPMorgan is willing to provide \$180 million of credit and to act as lead bank in syndicating an additional \$20 million. All banks in the syndication would need to receive the same terms as JPMorgan, subject to negotiations.
<b>US Bank</b>	U.S. Bank is willing to enter into a syndicated Facility as Agent Bank, subject to further negotiations.
<b>UBS</b>	UBS would use its best efforts to consider acting as a lead bank to offer an additional \$20 million syndicated loan to small and local banks/credit unions, subject to legal review and negotiations, as well as additional bank counsel fees.

<b>Bank of America</b>	Bank of America is willing to act as a lead arranger with other financing partners, on the basis of several, but not joint liability, subject to parity pricing, covenants, events of defaults and remedies amongst the Lenders, and a fee approximately 0.05% of the total arranged commitment amount and estimated legal fees of \$75,000 plus \$10,000 per additional bank (assuming common bank counsel).
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Depending on the Board's direction on the selection of the Lead Bank, staff will work with the selected bank to develop a syndicated loan for small and local banks/credit unions participation of up to \$20 million line of credit capacity.

**FINANCIAL IMPACT:**

Funding for the bank fees are included in the Fiscal Year 2020-2021 Budget for the following projects:

- 26993001 Tax-Exempt Commercial Paper (Fund 26 Safe, Clean Water Program)
- 95993007 Tax-Exempt Commercial Paper (Fund 61 Water Utility)
- 95993008 Taxable Commercial Paper (Fund 61 Water Utility)

Should the annual banking fee exceed \$1 million, staff may not be able to absorb this cost increase within the adopted FY 2021 Budget for debt service and may need to return to the Board with a budget adjustment in mid FY 2021.

**CEQA:**

The recommended action does not constitute a project under CEQA because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

**ATTACHMENTS:**

- \*Supplemental Attachment 1: BankTrack
- \*Supplemental Attachment 2: Revised Bank Proposals
- \*Supplemental Attachment 3: MUFG ESG Response
- \*Supplemental Attachment 4: JPM ESG Response
- \*Supplemental Attachment 5: US Bank ESG Response
- \*Supplemental Attachment 6: UBS ESG Response
- \*Supplemental Attachment 7: Bank of America ESG Response

**UNCLASSIFIED MANAGER:**

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