



# Santa Clara Valley Water District

**File No.:** 20-0482

**Agenda Date:** 6/9/2020

**Item No.:** \*8.1.

## SUPPLEMENTAL BOARD AGENDA MEMORANDUM

### **SUBJECT:**

Results of Solicitation of Bank Line(s) of Credit with Aggregate Stated Amount Not-To-Exceed \$200 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;
- B. Provide staff with direction on the bank(s) with which to proceed with negotiations and execution of line(s) of credit; and
- C. \*Reserve \$20 million of the \$200 million Line of Credit capacity for local financial institutions headquartered in the Bay Area each having total assets not to exceed One Billion Dollars.

### **SUMMARY:**

On May 22, 2020, staff received five proposals in response to the Request for Proposals (RFP) for Bank Line(s) of Credit up to \$200 million. Staff evaluated the proposals with the assistance of Santa Clara Valley Water District's (Valley Water) Municipal Advisor, Public Resources Advisory Group, and outside bond counsel, Stradling, Yocca, Carlson and Rauth, and recommends that the Board consider the following rankings of the proposals, from most favorable (1) to least favorable (4), and provide staff direction to proceed with negotiations with the selected bank(s). The rankings are based on a comprehensive review of the proposals, including the proposed principal amount, tenor, pricing, and terms and conditions. MUFG Union Bank, N.A. is ranked most favorable because of several key factors:

(a) MUFG is willing to offer credit up to the full \$200 million per the RFP versus the others who were only willing to offer a fraction of the maximum credit amount. This affords staff the flexibility to analyze our credit needs, with the Board's direction, and negotiate for a principal amount that best meets our business needs;

(b) MUFG had the lowest unutilized fee for maintaining the line of credit among the five proposals. Staff anticipates the utilization rate of the line of credit to be for short term duration

to meet temporary increases in funding needs prior to issuing long-term debt to refund outstanding short-term debt, therefore it's more cost effective to select a credit line with the lowest unutilized fee; and

(c) MUFG offered terms and conditions that were better than the other banks, such as a two or three-year initial term (vs. one-year term from other banks), no floor on the index rate, 5-year term out period, etc.

The rankings and key terms of the proposals are summarized in the table below. A more in-depth summary of the proposals is provided in Attachment 1 for the Board's review.

<b>\$ Millions (M)</b>	<b>MUFG Union Bank, N.A.</b>	<b>JPMorgan Chase Bank, N.A.</b>	<b>UBS AG, Stamford Branch</b>	<b>US Bank**</b>	<b>Bank of America, N.A.</b>
<b>Ranking</b>	1	2	3	3	4
<b>Max Principal</b>	\$200	\$200	\$50	\$50	\$75
<b>Tenor</b>	2 or 3 years	1, 2 or 3 years	1 year	1 year	1 year
<b>Estimated Annual Cost per \$50M Credit*</b>	\$0.17-\$1.22	\$0.41 - \$0.97	\$0.36 - \$0.96	\$0.24 - \$1.10	\$0.38 - \$1.18

\*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.

\*\*US Bank provided verbal indications only.

#### Small Local Bank Outreach Efforts

In order to meet the Board's direction to increase outreach efforts to small local banks to encourage their participation in this solicitation, staff called and emailed each of the 47 small local banks and credit unions with less than \$1 billion in total assets that are registered with the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA) as headquartered in the counties of Santa Clara, Alameda, San Mateo, and San Francisco. Staff also called two additional small local banks located in Santa Clara County with over \$1 billion in assets (Technology and Meriwest) to encourage local participation. Staff published advertisements from May 1 through May 22, 2020 in The Bond Buyer (an independent information resource serving the municipal finance community) and the Small Business Exchange (a business information hub for small, disadvantaged, and minority-, woman-, and disabled veteran-owned businesses). A summary of the local bank contact logs is provided in Attachment 2, and the RFP is included in Attachment 3.

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Staff clearly articulated the message that small local banks are encouraged to submit proposals of any loan size, secured or unsecured, and pricing is not the deciding factor for proposals. Staff received the following feedback from a few of the local banks, while the majority of the local banks did not provide any feedback despite the follow-ups from staff.

Given the Board's clear direction to support local financial institutions, staff recommends that \$20 million of the \$200 million Line of Credit capacity be reserved for such institutions. Staff will continue to reach out to the local financial institutions to encourage participation in the Line of Credit program to meet the Board's direction to support local business.

Local Bank	Feedback
Avid bank (San Jose)	This is not in their "wheelhouse" and they would like to thank the Board for the opportunity, but they will not be able to respond.
Provident Credit Union (San Jose)	Unfortunately, at this time we do not offer commercial lending for businesses
Community Bank of the Bay (Oakland)	Thank you for the opportunity but we are too small to offer credit to Valley Water
Summit Bank (Oakland)	They commend the Board for trying to increase local business, but smaller banks can't offer the same level of expertise that the larger banks can, which have municipal banking divisions that understands industry need.
Bank of San Francisco	Thank you but they are not able to submit a proposal at this time

**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)

**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:**

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Supplemental Attachment 1: Bank Proposals Summary  
Supplemental Attachment 2: Small Local Bank Contact Log  
Supplemental Attachment 3: RFP for Bank Line of Credit

**UNCLASSIFIED MANAGER:**  
Darin Taylor, 408-630-3068