Safe, Clean Water (SCW) Master Resolution Questions & Answers

1. **Why do we need the Board to adopt the SCW Master Resolution?**

   As part of the FY 2022 financing strategy for the SCW fund, staff is beginning work on applying for approximately $100 million of the low cost Water Infrastructure Finance and Innovation Act (WIFIA) loan in 2021 to fund certain SCW projects. The notice of funding availability is expected to be released in late April/early May 2021, and the letter of interest will be due approximately 3 months after the announcement of funding availability. The SCW Master Resolution is drafted in anticipation of the WIFIA loan application process and any additional long-term debt planned for the SCW fund to establish the debt covenants that are in Valley Water's best interests while meeting typical public finance market expectations to ensure that any public capital market debt we issue will generate strong demand and secure high credit ratings. Approval of a WIFIA loan for the SCW projects is anticipated to be brought to the Board in FY 2023 assuming that EPA selects Valley Water to apply.

   WFIA is a low cost federal loan that allows Valley Water to plan and fund projects more expediently while ensuring inter-generational equity in matching the repayment of the long-term debt with the useful life of the assets funded by the loan. Staff estimates that a $100 million WIFIA loan will save approximately $1 million in annual debt service cost, or approximately $30 million over a 30-year repayment period.

2. **What is the security pledge for SCW obligations? Why is the 1% ad valorem property taxes part of the security pledge?**

   So long as any SCW debt obligations are outstanding, and the SCW parcel tax is not repealed by voters, Valley Water must at all times levy SCW parcel tax in an amount sufficient, together with other SCW Revenues, to pay annual debt service until all outstanding debt is fully repaid.
   If the voters repeal the SCW parcel tax, then the Board would be required to allocate a portion of the 1% ad valorem property tax Valley Water receives in an amount that is sufficient to pay the annual debt service for outstanding SCW debt, until such debt is fully repaid.

   The pledge of the 1% ad valorem property taxes is required as a back stop to the SCW parcel tax in case it is repealed by voters. Without this backstop, we would not be able to assure our creditors that outstanding debt obligations will continue to be repaid if the SCW parcel tax is repealed by voters. This security pledge will help ensure that there will be sufficient revenues to repay SCW debt while achieving high credit ratings and strong investor demand and minimize interest costs.
   In short, Valley Water must maintain at least 1 times debt services coverage to repay any SCW obligations. The Master Resolution sets the legal minimum that must be maintained, but in general, the higher the ratio the stronger the credit ratings and the lower the borrowing cost.

3. **Why is the SCW security pledge different from the Water Utility Master Resolution?**

   The SCW security pledge is different from the Water Utility security pledge which is primarily based on water rates and charges which produces revenues that are variable due to volumetric and demand characteristics of water sales. The Water Utility is an enterprise fund, so the revenues generated must be used to first pay for operations and maintenance costs to ensure the enterprise will continue operating, and the revenues net of operations and maintenance costs must be in an amount at least equal to 1.25 times annual debt service. The Board targets 2.0 times debt service coverage for the Water Utility enterprise to ensure there is ample net revenues to support debt service and achieve the strong "AA+" and "Aa1" credit ratings assigned to the Water Utility debt by Fitch Ratings and Moody's Investors Service and maximize interest cost savings.

The SCW Program is a governmental fund, and the special parcel tax is levied on all properties within the county, based on land use type. This is a different type of revenue source, one that is not dependent on "ongoing operations" to generate the revenues and generally more stable; in addition, the revenue pledge include a portion of the 1% ad valorem property taxes which is another relatively stable source of revenues. Hence the SCW security pledge sets a legal minimum of only 1 times debt service coverage to ensure Valley Water will be able to meet the debt service coverage test. The Master Resolution sets the legal minimum that must be maintained, but in general, the higher the ratio the stronger the credit ratings and the lower the borrowing cost.

4. Will the SCW receive "AA+/Aa1" credit ratings similar to Water Utility?

Staff expects to receive strong credit ratings with the proposed covenants per the SCW Master Resolution. Staff will be working to obtain a credit rating to include as part of the WIFIA loan application process.

5. Did we establish a SCW master resolution for Measure B, the Safe, Clean Water and Natural Flood Protection Program passed by voters on November 6, 2012, which included the authority to issue debt?

Measure S, passed by voters on November 3, 2020, replaced Measure B and authorized Valley Water to levy the special parcel tax with periodic Board review of the amount necessary to fund ongoing operations, maintenance and capital project costs planned under the SCW program. If Valley Water had attempted to apply for the low-cost WIFIA loan under the Measure B authorization, staff would have sought Board adoption of the SCW master resolution prior to applying for the WIFIA loan.

6. Does Board approval of the SCW Master Resolution obligate Valley Water to any debt obligations for the SCW Program?

Board approval of the SCW Master Resolution does **<u>not</u>** obligate Valley Water to enter into any debt obligations for the SCW program. Staff will present specific proposals for debt issuances, including the WIFIA loan application, for Board consideration and approval for each planned debt issuance.