# Santa Clara Valley Water District

Valley Water

**File No.:** 16-0586 **Agenda Date:** 5/9/2017
**Item No.:** 3.2.

## BOARD AGENDA MEMORANDUM

**SUBJECT**:
Resolution Authorizing the Execution and Delivery of a Tax-Exempt Tax and Revenue Anticipation Note and a Taxable Tax and Revenue Anticipation Note to Support a Commercial Paper Program in a Combined Aggregate Principal Amount not to Exceed $225 Million, and Resolution Regarding Intention to Issue Tax-Exempt Obligations.

**RECOMMENDATION**:

A. Adopt the Resolution AUTHORIZING THE EXECUTION AND DELIVERY OF A TAX-EXEMPT TAX AND REVENUE ANTICIPATION NOTE AND A TAXABLE TAX AND REVENUE ANTICIPATION NOTE (TRANs) TO SUPPORT A COMMERCIAL PAPER PROGRAM IN A COMBINED AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $225 MILLION;

B. Authorize the Interim Chief Executive Officer, the Chief Operating Officer - Administration, or Chief Financial Officer to execute the TRANs, and the Certificate as to Uncollected Taxes, Income, Revenue, Cash Receipts and Other Money;

C. Authorize the Interim Chief Executive Officer, District Counsel, and such other chief executives of the District to execute such other instruments, documents and papers as are necessary to carry out this Commercial Paper Program for Fiscal Year 2017-18;

D. Authorize the District Counsel to execute the TRANs; and

E. Adopt the Resolution Regarding INTENTION TO ISSUE TAX-EXEMPT OBLIGATIONS

**SUMMARY**:

Each fiscal year, the Board is legally required to adopt a new resolution reauthorizing the execution and delivery of Tax Revenue Anticipation Notes (TRANs) to support the existing Commercial Paper (CP) Program. Additionally, Board approval of a resolution of intention to issue tax-exempt obligations is required to allow the District to reimburse itself for certain eligible costs of the Water Utility Capital Improvement Program (CIP) from future debt proceeds.

If the Board does not approve the resolution reauthorizing the TRANs, the CP Program will need to be deactivated, all outstanding CP debt will need to be repaid upon maturity (within no more than 270 days), and certain early termination fees would be payable if such termination occurred prior to

January 17, 2018 per the Certificate Purchase and Reimbursement Agreement. Such an action will cause delays to the Water Utility CIP.

The recommended action with respect to the intention to issue tax-exempt obligations does not obligate the District to issue any debt; rather, it provides the District flexibility to reimburse costs from future tax-exempt debt proceeds. The expected maximum amount of the Water Utility project costs to be reimbursed is $137.455 million, which is equal to the projected FY 2017-18 Capital Project Budget, including expected project carryovers, to be adopted by the Board on May 9, 2017.

The recommended actions are in compliance with Executive Limitation 4.7 regarding debt management for the District.

**Commercial Paper Program**

The CP Program has a maximum program capacity of $225 million, supported by a $150 million Letter of Credit (LOC) from Bank of Tokyo Mitsubishi UFJ, LTD. (BTMU) and a $75 million Revolving Line of Credit from Wells Fargo Bank, National Association (WFB).

Background

On January 13, 2015, the Board adopted a resolution authorizing the execution and delivery of various agreements for a $150 million Letter of Credit (LOC) supporting the CP Program. The LOC from BTMU has an initial term of three years expiring on February 12, 2018, with the option for extensions subject to amendments to the Reimbursement Agreement that are mutually acceptable to BTMU, the District, and the Public Facilities Financing Corporation (PFFC).

On December 13, 2016, the Board adopted a resolution authorizing the execution and delivery of up to $75 million of short-term revolving certificates (Revolver) pursuant to the Certificate Purchase and Reimbursement Agreement with WFB. The Revolver has an initial term of three years expiring on January 17, 2020, with the option for extensions subject to amendments to the Reimbursement Agreement that are mutually acceptable to WFB, the District, and the Public Facilities Financing Corporation (PFFC).

The CP proceeds may be used for any District purposes, including, but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District. Per Board approval on January 13, 2015, the CP program can be utilized to fund eligible Water Utility and Safe, Clean Water Program expenditures. The repayment of the CP debt will be allocated between Water Utility and Safe, Clean Water funds based on actual CP issuance for the respective funds.

The obligation of the District to make payments of principal and interest on the TRANs is a general obligation of the District. The District will also pledge Net Water Utility System Revenues of the District on a subordinate basis to the payment of Bonds and Contracts of the District to additionally secure the payment of the principal of and interest on the TRANs, all in accordance with the Water Utility Parity System Master Resolution No. 16-10 adopted by the Board of Directors on February 23, 2016. The TRANs do not constitute a debt of the District or the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

To ensure flexibility in utilizing the CP Program to meet the needs for tax-exempt and taxable debt issuances, the tax-exempt TRANs authorization is established at $225 million and the taxable TRANs authorization is $95 million. This is in compliance with Article 7.6, Chapter 4, Part 1, Division 2, Title 5 of the California Government Code which allows TRANs to be issued (principal and interest) in an amount up to 85% of uncollected taxes, income, revenue, cash receipts and other monies of the District. The actual CP issuances will be limited to an aggregate total of $225 million, for both tax-exempt and taxable CP.

The long-term strategy is to issue CP to provide short-term just-in-time funding for capital expenditures. As the outstanding CP reaches the program capacity, the outstanding CP would then be refunded with long-term debt to be repaid over 30 years. For the Water Utility Program, the issuance of long-term debt helps keep water charges low and stable over the long-term while resulting in inter-generational equity, and allows for the completion of capital projects in a timely manner. The water charge study shows that Water Utility finances will be healthy despite the issuance of debt, assuming that forecasted water charge increases are implemented. For the Safe, Clean Water Program, issuing debt allows the projects to be completed earlier as it bridges the timing difference between when the voter approved special parcel tax revenues are collected versus the desired project delivery schedule based on the Board approved CIP. The Safe, Clean Water special parcel tax was approved by voters on November 6, 2012 and has a sunset date of June 30, 2028.

CP is a source of low cost short-term debt issued at a variable interest rate and remarketed periodically. For FY 2015-16, the District paid interest rates ranging from a low of 0.01% for tax-exempt CP to a high of 0.45% for taxable CP. This low interest rate resulted in year-to-date interest expense of approximately $185,000 for FY 2015-16. The District refunded $148 million of outstanding CP with long term bonds on March 30, 2016.

Due to the statutory limitations in the District Act regarding short-term borrowing, the District is required to issue CP in conjunction with the PFFC. The PFFC Board adopted the resolution authorizing the issuance of CP on May 10, 2012 (Resolution No. PFFC 12-001), and adopted Amendments No. 1 and No. 2 to Resolution No. PFFC 12-001 on December 10, 2014. On January 28, 2016, the PFFC adopted Resolution No. PFFC 16-001 to authorize certain amendments to the commercial paper program pursuant to the Water Utility Parity System Master Resolution No. 16-10 adopted by the District Board on February 23, 2016.

**FINANCIAL IMPACT**:
The CP program is an on-going activity of the District. The estimated annual maintenance cost of the program including interest and the estimated costs associated with the CP Program (e.g. banking, legal and other related fees) is $7.9 million which has been included in the FY 2017-18 Operating Budget.

**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**:
Attachment 1: Resolution, TRANs
Attachment 2: Resolution, Tax-Exempt Obligations

**UNCLASSIFIED MANAGER:**
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