



Santa Clara Valley Water District

File No.: 19-0864

Agenda Date: 11/12/2019

Item No.: *2.8.

BOARD AGENDA MEMORANDUM

SUBJECT:

Adopt Resolution of the Board of Directors of the Santa Clara Valley Water District Authorizing the Issuance of Not-To-Exceed \$40 Million of Water System Refunding Revenue Bonds, Approving the Execution and Delivery of Certain Documents, and Authorizing Certain Acts In Connection Therewith. (PREVIOUSLY LISTED AS ITEM 8.1)

RECOMMENDATION:

- A. Adopt a Resolution AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$40 MILLION OF WATER SYSTEM REFUNDING REVENUE BONDS, TAXABLE SERIES 2019C, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH; and
- B. Authorize and direct the Chief Executive Officer, Chief Financial Officer, Treasury/Debt Officer, District Counsel, and the Clerk of the Board of Directors and such other officers and staff of the District, acting singly, to do any and all things, and to execute and deliver any and all documents, which such officers may deem necessary or advisable in order to consummate the sale and delivery of the Refunding Revenue Bonds.

SUMMARY:

Approval of staff recommendations will allow the District to issue a principal amount of up to \$40 million of Water System Refunding Revenue Bonds, Taxable Series 2019C (the "Bonds") to: (i) refund all of the currently outstanding Water Utility System Revenue Certificates of Participation, Taxable Series 2007B (the "COPs"); and (ii) pay issuance costs of the Bonds.

Refinancing Rationale

The COPs were issued on October 1, 2007, in the amount of \$53,730,000 to finance the capital cost of water utility system improvements, purchase a debt service reserve surety bond, and pay costs of issuance and underwriting costs. The COPs have a current outstanding balance of \$37,980,000 with a final payment of June 1, 2036, and are callable on any interest payment date. The COPs are variable interest rate debt that pay interest quarterly to investors based on the published 3-month London Inter-Bank Offered Rate (LIBOR) plus 0.32%.

Based on market rates as of October 3, 2019, and modeling for level annual savings, the Bonds are projected to generate \$10.6 million, or 28.0%, in net present value savings as compared to

forecasted debt service on the COPs through final maturity in 2036. The projected all-in true interest cost (which includes costs of issuance and underwriting costs) for the Bonds is 2.51% and the true interest cost (net of costs of issuance and underwriting costs) is 2.42%. In comparison, the average interest cost on the COPs was 2.87% for the twelve months ending August 21, 2019 and 2.47% for the twenty-four months ending August 21, 2019.

In addition to taking advantage of historically low interest rates, issuing the Bonds to refinance the COPs eliminates inherent interest rate risk and resolves the issue of the anticipated termination of the LIBOR benchmark. On July 27, 2017, the Financial Conduct Authority, the United Kingdom's top regulator, tasked with overseeing the LIBOR, announced the LIBOR benchmark will be phased out by the end of 2021. Absent the availability of published or quoted LIBOR rates, an alternate reference rate would need to be utilized to determine the interest rate to be applied. The trust agreement for the COPs states that the alternate reference rate would be procured by the trustee by requesting quotes from major banks in New York City. It is understood that this will likely be difficult and problematic. Another option to deal with the LIBOR phase-out could be to utilize the alternative reference rate selected by the Alternative Reference Rate Committee, assembled by the Federal Reserve in 2017 to deal with the LIBOR phase out. The committee chose the Secured Overnight Financing Rate (SOFR), an overnight rate used to price U.S. dollar-denominated derivatives and loans, as the new benchmark. Many market participants currently believe that SOFR will supplant LIBOR over the next few years as the dominant benchmark for dollar-denominated derivatives and credit products. Repricing contracts is complex, however, because the two interest rates have several important differences. For example, LIBOR has 35 different rates, covering five currencies and seven different maturities. As of now, SOFR only publishes one rate exclusively on overnight loans. Utilizing SOFR would require approval by the trustee and owners of a majority in principal amount of the COPs. Due to the differences in the benchmark rates, an agreement on adjustments/spreads to SOFR to approximate expectations for what 3-Month LIBOR rates might have been, would be required, but may be difficult to negotiate.

Method of Sale and Financing Plan

The Bonds will be sold on a negotiated basis utilizing solely the underwriting firm Siebert, Cisneros, Shank & Co., LLC (the "Underwriter"). The Underwriter is a full-service, woman and minority owned investment banking and financial services company, founded in 1996 and headquartered in Oakland, California, and New York, New York, with offices across the country, including a municipal trading desk in Oakland. The Underwriter provides broad sales coverage to both institutional and retail investors that is expected to generate good demand for the Bonds.

The financing plan calls for the Bonds to be sold at fixed interest rates, repaid over 17 years (which matches the final maturity of the COPs), and structured with level annual debt service (i.e., principal and interest) payments. The Bonds will be issued under the District's Water Utility System Parity Master Resolution (16-10), adopted on February 23, 2016 (as amended, the "Parity Master Resolution").

Outstanding debt previously issued under the Parity Master Resolution ("Parity Debt") is currently rated 'AA+' by Fitch Ratings ("Fitch") and 'Aa1' by Moody's Investors Service ("Moody's"). Staff is

requesting ratings for the Bonds from Fitch and Moody’s and anticipates receiving similar high-grade credit ratings for this transaction.

Estimated Sources and Uses and Debt Service Costs

The estimated sources and uses of funds for the Bonds are set forth below. The total principal amount shown in the table below is based on the current financing plan, which forecasts a principal amount of Bonds that is lower than the total not-to-exceed authorization of \$40 million. The not-to-exceed authorization allows for flexibility to adjust the financing structure to buffer for market volatility.

	2019C Bonds
<u>Sources</u>	
Principal Amount of Bonds	\$ 38,320,000
District-funded 12/1/19 COPs Interest Payment	<u>280,000</u>
TOTAL	\$ 38,600,000
 <u>Uses</u>	
Payoff COPs	\$ 37,980,000
12/1/19 COPs Interest Payment	280,000
Costs of Issuance	265,000
Underwriting Costs	70,720
Additional Proceeds	<u>4,280</u>
TOTAL	\$ 38,600,000

Based on the modeling assumptions discussed above, the Bonds are projected to generate \$46,527,284 in total debt service costs (including principal repayment) over the life of the Bonds. Actual results will differ and depend on market conditions the day the bonds are priced and sold in November 2019.

Security

The obligation of the District to pay principal of and interest on the Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from Net Water Utility System Revenues pursuant to the Parity Master Resolution. Water Utility System Revenues are pledged first to the payment of maintenance and operation costs, second to the payment of debt issued pursuant to the Senior Master Resolution, and subsequently the net amount remaining is pledged to the payment of principal of and interest on Parity Debt, including the Bonds.

Financing Documents

The following financing documents, in substantially final form, are attached for Board review and/or approval: Resolution of the Board, Preliminary Official Statement (bond disclosure), Indenture of Trust, Escrow Agreement, Continuing Disclosure Agreement, and Bond Purchase Contract (Attachments 1-6).

Issuance Costs

The estimated total costs of issuance in the amount of \$265,000 will be paid from the proceeds of the debt issuance upon or shortly after closing:

<u>Description</u>	<u>Estimate</u>
Rating Fees (Fitch/Moody's)	\$ 80,000
Bond Counsel	70,000
Municipal Advisor	70,000
Trustee	15,000
Printing (Official Statement)	10,000
Contingency	20,000
Total	<u>\$ 265,000</u>

Additionally, underwriting costs in the estimated amount of approximately \$71,000 will be paid at closing to the Underwriter to reimburse expenses incurred (e.g., underwriter's counsel) and as compensation for selling the securities.

Financing Schedule

The Bonds are scheduled to be priced on November 19, 2019 and the bond sale is scheduled to close on November 26, 2019. The current financing schedule is:

<u>Description</u>	<u>Date</u>
Receive credit ratings	November 7, 2019
Board approval	November 12, 2019
Post Preliminary Official Statement	November 12, 2019
Bond Pricing and Sale	November 19, 2019
Closing	November 26, 2019

Bond Disclosure Responsibilities

The District's Board and executive team are responsible for ensuring that no material facts are omitted or misstated in the Preliminary Official Statement in accordance with federal securities laws and disclosure requirements outlined in the District's Debt Management Policy (Attachment 7).

As the primary bond offering document to potential investors, the Preliminary Official Statement must contain all material information relevant to the Bonds and the security thereof. The materiality standard is determined in context of all the facts and circumstances, and is based on whether or not there is a substantial likelihood that a reasonable or prospective investor would consider the information important in deciding whether or not to invest. Confidentiality and political considerations are not exceptions to the requirement for full disclosure. If the Board, executive team, or any District staff contributing to and/or reviewing the Preliminary Official Statement has concerns about the

accuracy or completeness of the disclosure, those concerns should be raised and discussed with the District's debt management staff immediately. Additionally, per federal securities law, the District has an obligation to provide material updates, if any, to the Official Statement up to 25 days after the closing date of the Bonds (in addition to continuing disclosure obligations laid out in the Continuing Disclosure Agreement).

For additional information on municipal disclosure responsibilities and consequences of bad disclosure, attached is a presentation entitled "Disclosure Responsibilities Under the Federal Securities Laws" made to District staff on May 1, 2018 by Stradling, Yocca, Carlson & Rauth, bond counsel for the Bonds (Attachment 8).

FINANCIAL IMPACT:

The estimated total costs of issuance in the amount of \$265,000 plus underwriter's fees of approximately \$71,000 will be paid from the proceeds of the debt issuance. The Fiscal Year 2019-20 operating budget for the Water Utility Enterprise includes sufficient funds for debt service costs for the Bonds.

CEQA:

The recommended action does not constitute a project under the California Environmental Quality Act (CEQA) because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment, as outlined in the State CEQA Guidelines, Section 15060(c)(2).

ATTACHMENTS:

- Attachment 1: Resolution
- Attachment 2: Preliminary Official Statement
- Attachment 3: Continuing Disclosure Agreement
- Attachment 4: Indenture of Trust
- Attachment 5: Escrow Agreement
- Attachment 6: Bond Purchase Contract
- Attachment 7: Debt Management Policy
- Attachment 8: Federal Securities Laws - Disclosure Responsibilities

UNCLASSIFIED MANAGER:

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