



Santa Clara Valley Water District

File No.: 20-0803

Agenda Date: 9/8/2020

Item No.: *2.7.

BOARD AGENDA MEMORANDUM

SUBJECT:

Adopt Resolution Authorizing the Issuance of Not to Exceed \$120 Million Water System Refunding Revenue Bonds, Authorizing the Execution and Delivery of Not to Exceed \$155 Million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents, and Authorizing Certain Acts in Connection Therewith. (Continued from August 25, 2020)

RECOMMENDATION:

- A. Adopt the Resolution AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$120 MILLION REFUNDING REVENUE BONDS, AUTHORIZING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$155 MILLION REVENUE CERTIFICATES OF PARTICIPATION, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS, AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH; and
- B. Authorize and direct the Chief Executive Officer, Assistant Chief Executive Officer-Operations, Chief Financial Officer, Treasury and Debt Officer, District Counsel, the Clerk of the Board, and such other officers and staff of the Santa Clara Valley Water 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 and the Revenue Certificates of Participation.

SUMMARY:

Approval of staff recommendations will allow the Santa Clara Valley Water District ("Valley Water") (a) to issue a principal amount of up to \$120 million of Water System Refunding Revenue Bonds, Series 2020A (Tax-Exempt) and Series 2020B (Taxable) (the "2020A Bonds" and the "2020B Bonds," respectively and collectively, the "Bonds"); and (b) cause the Santa Clara Valley Water District Public Facilities Financing Corporation to execute and deliver up to \$155 million of Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2020C (Tax-Exempt) and Series 2020D (Taxable) (the "2020C Certificates" and the "2020D Certificates," respectively and collectively, the "Certificates") (the Bonds and Certificates, together, the "Obligations"). The proceeds of the Obligations will be used to: (i) refund the currently outstanding Commercial Paper Certificates, Series A (Tax-Exempt) and Series B (Taxable) issued to finance projects for the water utility system (the "Outstanding CP"); (ii) acquire and/or construct, or reimburse the cost of the acquisition or construction of, certain water utility system capital improvements; and (iii) pay costs of issuance of the Obligations.

Method of Sale and Financing Plan

The Obligations will be sold on a negotiated basis utilizing a team of underwriters including Siebert, Cisneros, Shank & Co., LLC (“Siebert”) as the senior manager, and Piper Sandler & Co. (“Piper”) and Alamo Capital as co-managers (collectively, the “Underwriters”). Siebert is a full-service, woman- and minority-owned investment banking and financial services company, founded in 1996 and headquartered in Oakland, California, with offices across the country, including a municipal trading desk in Oakland. Piper is an investment bank and institutional securities firm with offices around the country, including San Francisco, California. Alamo Capital is a small, woman-owned firm based in Walnut Creek, California. The Underwriters provide broad sales coverage to both institutional and retail investors that is expected to generate good demand for the Obligations. Both Siebert and Piper have provided information illustrating the firms’ commitments to corporate social responsibilities and policies, including diversity and inclusion in hiring, governance, and procurement, community involvement, and environmental stewardship.

The financing plan calls for the Obligations to be sold at fixed interest rates, repaid over 30 years, and structured with level annual debt service (i.e., principal and interest) payments. The Obligations will be structured to result in low borrowing costs while achieving certain business objectives and flexibility by utilizing financial structuring techniques. The structuring techniques may include amortizing the Certificates sooner than the Bonds to minimize the additional cost of certificates of participation compared to revenue bonds; deferring principal and/or capitalizing interest in the near term to provide groundwater rate relief; adjusting coupons; providing for flexibility to redeem the bonds prior to maturity; and other financial structuring techniques. The final structure of the Obligations will be determined during the pricing period in September pending market conditions, investor demand, and the interest rate environment.

The Obligations will be issued under the Valley Water’s Water Utility System Parity Master Resolution (16-10), adopted on February 23, 2016 (as amended, the “Parity Master Resolution”). The authority to issue the revenue refunding Bonds is provided in Section 25.1 of the District Act and Sections 53580-53589.5 of the California Government code. Section 5 of the District Act provides Valley Water the authority to execute and deliver an Installment Purchase Agreement, which will secure the Certificates to be executed and delivered by the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Financing Corporation”), for the acquisition and/or construction of new facilities or improvements.

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

Estimated Sources and Uses of Bond Proceeds

The estimated sources and uses of funds for the Obligations 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 Obligations that is lower than the total not-to-exceed authorization of \$275 million (\$120 million of Bonds and \$155 million of Certificates). The not-to-exceed authorization allows for flexibility to adjust for differing financing structures and to buffer against market volatility.

	2020 Bonds	2020 Certificates	Total
Sources			
Principal Amount	\$ 97,415,000	\$ 122,830,000	\$ 220,245,000
Net Original Issue Premium/(Discount)	7,564,511	13,075,816	20,640,327
TOTAL	\$ 104,979,511	\$ 135,905,816	\$ 240,885,327
Uses			
Commercial Paper	\$ 104,655,000	\$ -	\$ 104,655,000
New Project Funds	-	135,500,000	135,500,000
Costs of Issuance	194,613	245,387	440,000
Underwriters' Fee	125,549	158,303	283,852
Miscellaneous	4,349	2,126	6,475
TOTAL	\$ 104,979,511	\$ 135,905,816	\$ 240,885,327

Good Faith Estimated Costs

Pursuant to State Senate Bill 450, Siebert provided the following good faith estimates with respect to the Obligations: (1) the "true interest cost" is currently estimated to be 2.50%; (2) the "finance charge" (which means the sum of all fees and charges paid to third parties) is estimated to be \$723,852; (3) the "amount of proceeds" received by Valley Water (which is net of the finance charge) is estimated to be \$240,161,475; and (4) the "total payment amount" (which means the sum of all debt service payments to the final maturity) is estimated to be \$345,179,776. Estimates are based on market conditions as of July 20, 2020. Actual results will differ depending on market conditions on the day the Obligations are priced and sold in September 2020.

Security

The obligation of Valley Water to pay principal of and interest on the Bonds and the Installment Purchase Agreement is secured by a pledge of and lien on Valley Water's 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 payments associated with \$17.3 million of outstanding 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 and Certificates.

Financing Documents

The following financing documents, in substantially final form, are attached for Board review and/or approval: Resolution of the Board, attached to which are the Preliminary Official Statement, Continuing Disclosure Agreements, Indenture of Trust (Bonds), Trust Agreement (Certificates), Installment Purchase Agreement, Bond Purchase Contract, and Certificate Purchase Contract (Attachments 1-8).

Issuance Costs

The estimated total costs of issuance in the amount of \$440,000 will be paid from the proceeds of the debt issuances upon or shortly after closing:

Description	Estimate
Rating Fees (Fitch/Moody's)	\$ 189,500
Bond Counsel	150,000
Municipal Advisor	70,000
Trustee	15,000
Printing (Official Statement)	4,000
Contingency	11,500
Total	\$ 440,000

Additionally, underwriting costs in the estimated amount of approximately \$284,000 will be paid at closing to the Underwriters to reimburse expenses incurred (e.g., underwriter's counsel) and as compensation for selling the securities.

Financing Corporation Approval

Valley Water is required to cause the Certificates to be executed and delivered through the Santa Clara Valley Water District Public Facilities Financing Corporation. The Financing Corporation approved the resolution authorizing the Certificates and related matters on August 19, 2020.

Financing Schedule

The Obligations are scheduled to be priced on September 1-2, 2020, and the sale is scheduled to close on September 16, 2020. The current financing schedule is as follows:

Description	Date
Financing Corporation approval	August 19, 2020
Board approval	August 25, 2020
Receive credit ratings	August 26, 2020

Post Preliminary Official Statement	August 26, 2020
Bond Pricing and Sale	September 1-2, 2020
Closing	September 16, 2020

Valley Water Disclosure Responsibilities

Valley Water’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 Valley Water’s Debt Management Policy (Attachment 9).

As the primary securities offering document to potential investors, the Preliminary Official Statement must contain all material information relevant to the Obligations 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 Valley Water 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 Valley Water’s Chief Financial Officer and the debt management staff immediately. Additionally, per federal securities law, Valley Water has an obligation to provide material updates, if any, to the Official Statement up to 25 days after the closing date of the Obligations (in addition to continuing disclosure obligations laid out in the Continuing Disclosure Agreement).

For additional information on municipal disclosure responsibilities and consequences of non-compliance with securities laws, attached is a presentation entitled “Disclosure Responsibilities Under the Federal Securities Laws” made to Valley Water staff, and board-members of Valley Water and the Financing Corporation, on July 7, 2020 by Stradling, Yocca, Carlson & Rauth, bond counsel for the Obligations (Attachment 10).

FINANCIAL IMPACT:

The estimated total costs of issuance in the amount of \$440,000 plus underwriter’s fees of approximately \$284,000 will be paid from the proceeds of the debt issuance. The Fiscal Year 2020-21 operating budget for the Water Utility Enterprise includes sufficient funds for debt service costs for the Obligations.

CEQA:

The recommended action does not constitute a project under 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 Agreements
- Attachment 4: Indenture of Trust (Bonds)
- Attachment 5: Trust Agreement (Certificates)
- Attachment 6: Installment Purchase Agreement
- Attachment 7: Bond Purchase Contract
- Attachment 8: Certificate Purchase Contract
- Attachment 9: Debt Management Policy
- Attachment 10: Federal Securities Laws - Disclosure Responsibilities
- *Supplemental Agenda Memo
- *Supplemental Attachment 1: Board Feedback August 25, 2020
- *Supplemental Attachment 2: Updated Preliminary Official Statement
- *Supplemental Attachment 3: Updated Financing Schedule

UNCLASSIFIED MANAGER:

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