



Santa Clara Valley Water District

File No.: 22-0437

Agenda Date: 5/10/2022

Item No.: 9.1.

BOARD AGENDA MEMORANDUM

SUBJECT:

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 to Support a Commercial Paper Program and Other Short-Term Obligations, Adopt the Resolution Regarding Intention to Issue Tax-Exempt Obligations for Water Utility Enterprise, and Adopt the Resolution Regarding Intention to Issue Tax-Exempt Obligations for Safe, Clean Water and Natural Flood Protection Program.

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 AND OTHER SHORT-TERM OBLIGATIONS;
- B. Authorize the Chief Executive Officer, or Chief Financial Officer (in each case, including any acting, interim or otherwise appointed such officer as the case may be) to execute the TRANS, and the Certificate as to Uncollected Taxes, Income, Revenue, Cash Receipts and Other Money;
- C. Authorize the Chief Executive Officer, District Counsel, and such other chief executives of Valley Water (in each case, including any acting, interim or otherwise appointed such officer as the case may be) to execute such other instruments, documents and papers as are necessary to carry out this short-term debt financing program for Fiscal Year 2022-23;
- D. Authorize the District Counsel (including any acting, interim or otherwise appointed such officer as the case may be) to execute the TRANS;
- E. Adopt the Resolution Regarding INTENTION TO ISSUE TAX-EXEMPT OBLIGATIONS FOR WATER UTILITY ENTERPRISE; and
- F. Adopt the Resolution Regarding INTENTION TO ISSUE TAX-EXEMPT OBLIGATIONS FOR SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION PROGRAM.

SUMMARY:

Each fiscal year, the Board of the Santa Clara Valley Water District (Valley Water) is legally required to adopt a new resolution reauthorizing the execution and delivery of Tax Revenue Anticipation Notes (TRANS) to support Valley Water's existing short-term debt financing program (Short Term Debt Program) (see Attachment 1), which currently allows for the issuance of commercial paper (CP) certificates and revolving line of credit certificates. Additionally, Board approval of resolutions of intention to issue tax-exempt obligations is required to allow Valley Water to reimburse itself from

proceeds of tax-exempt obligations for certain eligible capital costs of the Water Utility Enterprise and Safe, Clean Water and Natural Flood Protection (SCW) Program from future debt proceeds (see Attachments 2-3).

If the Board does not approve the resolution reauthorizing the TRANS, the Short Term Debt Program will need to be deactivated which will result in Valley Water not being able to issue new short-term debt in Fiscal Year (FY) 2022-23 as planned and require all outstanding CP and revolving line of credit certificates to be repaid upon maturity. The impact of not taking action would likely increase financing costs and result in delays to the Water Utility and SCW Capital Improvement Programs.

The recommended actions with respect to the resolutions of intention to issue tax-exempt obligations do not obligate Valley Water to issue any debt; rather, they provide Valley Water flexibility to reimburse costs from future tax-exempt debt proceeds. The anticipated annual maximum amount of the Water Utility project costs to be reimbursed is \$310 million. The anticipated annual maximum amount of the SCW project costs to be reimbursed is \$96 million. These capital outlay amounts, which include expected project carryovers, are from the draft FY 2022-23 Operating and Capital Budget, which is scheduled to be recommended for adoption by the Board on May 10, 2022.

The recommended actions are in compliance with Executive Limitation 4.7 regarding debt management for Valley Water, and certain Internal Revenue Service regulations applicable to tax-exempt municipal financing transactions.

Short Term Debt Program

Valley Water's Short Term Debt Program has a maximum principal issuance capacity of \$320 million and is supported by (1) a \$150 million Letter of Credit (LOC) from MUFG Bank, Ltd. (MUFG Bank) and (2) \$170 million of revolving lines of credit from a banking syndicate led by U.S. Bank National Association (U.S. Bank) that includes three local Bay Area banks, First Foundation Bank, Bank of San Francisco, and Community Bank of the Bay (collectively, the "Syndicate").

Background

On January 13, 2015, the Board adopted Resolution No. 15-02 authorizing the execution and delivery of various agreements for a \$150 million Letter of Credit (LOC) supporting Valley Water's CP program (CP Program). The LOC from MUFG Bank is effective through December 10, 2024 and may be extended in accordance with the resolution granting authority for the Chief Executive Officer to enter into extensions subject to certain conditions and amendments to the Reimbursement Agreement that are mutually acceptable to MUFG Bank, Valley Water, and the Santa Clara Valley Water District Public Facilities Financing Corporation (PFFC).

In response to the ongoing economic uncertainties related to the COVID-19 pandemic that emerged in March 2020, and to create a secondary source of liquidity to manage Valley Water's CIP, the Board adopted Resolution 20-11 on April 28, 2020 to establish revolving bank lines of credit. On October 13, 2020, the Board authorized staff to proceed with the execution of a bank line or lines of credit with the Syndicate for a combined not to exceed amount of \$200 million. On October 30, 2020, Valley

Water entered into a \$170 million line of credit agreement with the Syndicate for a three-year term through October 27, 2023. Lines of credit may be extended thereafter in accordance with Resolution No 20-11 granting authority for the Chief Executive Officer, Chief Financial Officer, or Treasury and Debt Officer to enter into extensions subject to certain conditions and amendments to the line of credit agreements that are mutually acceptable to the Syndicate, Valley Water, and the PFFC.

Analysis

Debt proceeds from the Short Term Debt Program may be used for any Valley Water purposes, including, but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water. Per Board approval on January 13, 2015, the Short Term Debt Program was directed to be utilized to fund eligible Water Utility and SCW expenditures only. The repayment of Short Term Debt Program debt is allocated between Water Utility and SCW funds based on actual issuance for the respective funds.

The obligation of Valley Water to make payments of principal of and interest on the Tax and Revenue Anticipation Notes (TRANs) is a general obligation of Valley Water. Valley Water has also pledged Net Water Utility System Revenues of Valley Water on a subordinate basis to the payment of bonds and contracts of Valley Water 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, as amended from time to time. The TRANs do not constitute a debt of Valley Water 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 Short Term Debt Program to meet the needs for tax-exempt and taxable debt issuances in FY 2022-23, the tax-exempt TRAN authorization is established at \$225 million and the taxable TRAN authorization at \$160 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 the budgeted uncollected taxes, income, revenue, cash receipts and other monies of Valley Water which will be available for the payment of the principal and interest on the TRANs. Actual debt issuances are currently limited, however, to an aggregate total of \$320 million for both tax-exempt and taxable short-term debt due to the capacity to borrow against the MUFG Bank LOC and the lines of credit. The aggregate issuance amount could increase in the future if the Board authorizes additional credit facilities.

The long-term strategy is to issue short-term debt to provide just-in-time funding for capital expenditures which avoids the issuance and repayment of long-term debt earlier than necessary and having unused debt proceeds prior to future spending on projects. As the outstanding short-term debt reaches the Short Term Debt Program capacity, the outstanding debt is refunded with long-term debt to be repaid over the life of the improvements.

CP certificates issued to the open market under the MUFG Bank LOC are a source of low-cost short-term debt issued at a variable interest rate and remarketed periodically. For the most recent 12 months, Valley Water paid interest rates ranging from a low of 0.06% to a high of 0.42% for tax-exempt CP certificates. No taxable CP certificates were issued in the past 12 months but interest

rates on taxable certificates in 2020, when interest rates were higher, ranged from a low of 0.17% to a high of 1.65%. Valley Water has not issued any line of credit certificates since entering into the line of credit agreement in October 2020 and has no draws planned for the remainder of FY 2021-22.

For the Water Utility Program, the periodic issuance of long-term debt helps keep water charges lower and more stable over the long-term while resulting in inter-generational equity and allows for the completion of capital projects in a timely manner. The timing and amount of debt financing is dependent on the incurrence of Water Utility capital project costs.

Funding for SCW projects is primarily from the special parcel tax authorized by voters through the passage of Measure S in November 2020. The timing and amount of debt financing is dependent on the incurrence of SCW capital project costs.

PFFC Short Term Debt Program Authorization

Due to the statutory limitations in the District Act regarding short-term borrowing, Valley Water is required to issue CP and line of credit certificates in conjunction with the PFFC. In addition to Valley Water Board authorizations, the PFFC Board was required to provide its authorizations, accordingly. The PFFC Board adopted the resolution authorizing the issuance of CP certificates 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 CP Program pursuant to the Water Utility Parity System Master Resolution No. 16-10 adopted by Valley Water's Board on February 23, 2016. On November 10, 2016, the PFFC adopted Resolution No. PFFC-16-005 to amend and restate Resolution No. PFFC-12-001, as previously amended, to supplement the CP Program to allow for the sale of revolving credit certificates in addition to CP certificates. On April 17, 2020, the PFFC Board adopted Resolution No. 20-01 authorizing the solicitation, negotiation of, and execution and delivery of various agreements for a bank line or lines of credit.

ESG Policy

At its August 11, 2020 meeting, the Board approved the addition of Executive Limitation 4.7.7 to stipulate that Valley Water can only do business with banks that have an Environmental, Social and Governance (ESG) risk rating of "Average/Medium" or better from at least one professional ESG research company. Small and local banks/credit unions located within the nine Bay Area counties with total assets at or below \$10 billion are exempt from this provision. MUFG Bank and U.S. Bank both meet the ESG policy requirement. The other banks in the Syndicate - First Foundation Bank, Bank of San Francisco, and Community Bank of the Bay - are all exempt from the policy.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item.

FINANCIAL IMPACT:

The Short Term Debt Program is an on-going activity of Valley Water and associated costs are budgeted annually as costs of operations. The estimated cost of the Short Term Debt Program, including interest and other costs associated with the program (e.g. banking, legal and other related fees), in FY 2022-23 is \$9.6 million. Upon the future issuance of CP certificates and other debt obligations, certain eligible capital expenditures initially paid for by Valley Water will be reimbursable from proceeds of these obligations.

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, Authorizing TRANS

Attachment 2: Resolution, Water Utility Obligations

Attachment 3: Resolution, SCW Obligations

UNCLASSIFIED MANAGER:

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