



Santa Clara Valley Water District

File No.: 22-1060

Agenda Date: 11/8/2022
Item No.: 2.10.

BOARD AGENDA MEMORANDUM

SUBJECT:

Adopt a Resolution Authorizing the Issuance of Not-To-Exceed \$120 Million Safe Clean Water Program Refunding Revenue Bonds, Authorizing the Execution and Delivery of Not-To-Exceed \$165 Million Interim Obligations and Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Acts In Connection Therewith; and Adopt a Resolution Authorizing the Issuance of Not-To-Exceed \$200 Million Water System Refunding Revenue Bonds, Authorizing the Execution and Delivery of Not-To-Exceed \$408 Million Interim Obligations and Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Acts In Connection Therewith.

RECOMMENDATION:

- A. Adopt the Resolution AUTHORIZING THE ISSUANCE OF NOT-TO-EXCEED \$120,000,000 SAFE CLEAN WATER PROGRAM REFUNDING REVENUE BONDS, AUTHORIZING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$165,000,000 INTERIM OBLIGATIONS AND REVENUE CERTIFICATES OF PARTICIPATION, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH;
- B. Adopt the Resolution AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$200,000,000 WATER SYSTEM REFUNDING REVENUE BONDS, AUTHORIZING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$408,000,000 INTERIM OBLIGATIONS AND REVENUE CERTIFICATES OF PARTICIPATION, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH; and
- C. Authorize and direct the Chief Executive Officer, Assistant Chief Executive Officer-Operations, Chief Financial Officer, Treasury and Debt Officer, District Counsel, and the Clerk of the Board of Directors and such other officers and staff of Valley Water, 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, Interim Obligations, and Revenue Certificates of Participation.

SUMMARY:

Approval of staff recommendations will allow the Santa Clara Valley Water District ("Valley Water") to issue the following debt obligations:

- Issue a principal amount of up to \$120 million of Safe, Clean Water Program System Refunding Revenue Bonds, Series 2022A (Tax-Exempt), and up to \$165 million of Interim Obligations (IOs) and Revenue Certificates of Participation (COPs), Series 2022B (Tax-Exempt) (the “SCW Obligations”) (Attachment 1); and
- Issue a principal amount of up to \$200 million of Water System Refunding Revenue Bonds, Series 2022A (Tax-Exempt) and Series 2022B (Taxable), and up to \$408 million of IOs and Revenue COPs, Series 2022C (Tax-Exempt) (the “WU Obligations”) (Attachment 2).

The proceeds of the debt obligations described above (together, the “Obligations”) will be used to: (i) refund the currently outstanding Commercial Paper Certificates, Series A (Tax-Exempt), Series B (Taxable), and the Revolving Line of Credit Series C (Tax-Exempt), issued to finance projects for the Safe, Clean Water Program and Water Utility System (the “outstanding short-term obligations”); (ii) acquire and/or construct, or reimburse the cost of the acquisition or construction of, certain Safe, Clean Water (SCW) Program and Water Utility System (WU) capital improvements; and (iii) pay costs of issuance of the SCW and WU Obligations. A summary of the financing is provided in Attachment 3 - PowerPoint presentation.

Method of Sale

The SCW Obligations are recommended to be sold on a negotiated basis utilizing a team of underwriters including Alamo Capital, Barclays Capital, Inc. (Barclays), and J.P. Morgan Securities LLC (JPM) (collectively, the “Underwriters”). Alamo Capital is a small, local firm established in 1986 located in Walnut Creek, California. With over 25 years of experience specializing in tax-exempt public finance, Alamo Capital is certified with the National Women Business Owners Corporation (NWBOC), Women’s Business Enterprise (WBE), the Small Business Enterprise (SBE) and rated A+ by the Better Business Bureau. JPM and Barclays are recommended to be included in this transaction because both firms offered the lowest overall underwriting fees in response to Valley Water’s request for information for underwriting fees issued by its Municipal Advisor, Public Resources Advisory Group on August 3, 2022. The Underwriters are in compliance with the Valley Water Board of Directors’ Executive Limitation (EL) 4.7.7, both Barclays and JPM have an Environmental, Social, and Governance (ESG) rating of “Medium” by Sustainalytics (Attachment 4) while Alamo Capital is exempt from the ESG rating because it is a local firm with total assets below \$10 billion. This is the first time SCW Obligations will be sold to the public debt market, hence a negotiated sale is recommended to ensure the credit structure can be adequately marketed to generate strong demand and low borrowing costs.

The WU Obligations are recommended to be sold on a competitive basis, which is expected to result in the lowest overall cost of financing. Valley Water has issued multiple series of Water Utility debt obligations in recent years and investors are familiar with the WU credit structure such that a competitive sale would be the most cost-effective method of sale. Staff will conduct an active outreach to small, local banks by sending direct emails to these banks to inform them of the pending competitive sale. Staff will be placing the Notice of Sale advertisements in El Observador, Chinese News, Vietnam Daily, San Jose Post, as well as the Bond Buyer, the daily municipal bond

newspaper, to ensure a broad and diverse audience of potential bidders are informed of the competitive sale. The Notice of Sale will specify minimum qualifications as follows: (1) the firm must be in compliance with EL 4.7.7 and submit a proof of an ESG rating of medium or better (small local firms are exempt); and (2) the firm is currently qualified in the California State Treasurer’s Office underwriter pool. The list of firms that will receive the direct email solicitations is included in Attachment 5.

The competitive sale and negotiated sale are the two primary methods to sell municipal securities to the public markets. In a competitive sale, the qualified underwriters would submit a firm offer to purchase the municipal securities. An award by the issuer is made to the underwriter that presented a bid with the lowest interest rate cost according to the terms of the Notice of Sale. In a negotiated sale, the issuer negotiates with and sells directly to the underwriter, who will then reoffer the securities to the public market. A negotiated sale is typically recommended for new credits sold to the market to ensure sufficient marketing of the securities by the underwriter to generate demand.

Financing Plan

The financing structure of the Obligations are summarized in the table below:

	SCW Refunding Bonds	SCW IOs/COPs	WU Refunding Bonds	WU IOs/COPs
Not-to-Exceed Amount	\$120M	\$165M	\$200M	\$408M
Purpose	Refund outstanding short-term obligations	Interim funding for SCW capital projects	Refund outstanding short-term obligations	Interim funding for WU capital projects
Repayment Term	30 years	4 years	30 years	3.5 years
Debt Service	Level, on an annual basis	Capitalized interest for 4 years, expected to be refunded at maturity	Level, on an annual basis	Capitalized interest for 3.5 years, expected to be refunded at maturity
Security	SCW Revenues pursuant to the Safe, Clean Water Master Resolution (No. 21-34)		Water Utility System Revenues pursuant to the Parity Master Resolution (No. 10 and 16-82)	
Lien Level	First Lien		First Lien	

Credit Ratings	The SCW is currently unrated as it has no long-term debt outstanding; staff anticipates ratings similar to the WU Obligations	Existing WU Obligations are rated 'Aa' by Moody's and 'AA+' by Fitch; staff anticipates similar ratings will be obtained for the WU Obligations
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Board approval of the Resolutions does not commit Valley Water to a definite course of action with regard to any particular project and does not limit Valley Water in exercising any discretion following California Environmental Quality Act (CEQA) review of the project, including (i) considering other feasible alternatives and mitigation measures to avoid or minimize project impacts, (ii) making modifications deemed necessary to reduce project impacts, or (iii) determining not to proceed with one or more component of a project. Additionally, approval of the recommended actions does not obligate Valley Water to approve the construction of any of the projects.

Estimated Sources and Uses of Bond Proceeds

The estimated sources and uses of funds for the Obligations are set forth below. The principal amounts shown in the tables below are based on current estimates, which are less than the not-to-exceed amounts set forth in the SCW and WU Resolutions. The Resolutions set forth higher not-to-exceed amounts to enable flexibility to adjust the debt issuance amounts in case there is a change in business need and/or market conditions to warrant higher issuance amounts.

	SCW Refunding Bonds	SCW IOs/COPs	Total
Sources			
Principal Amount	\$ 77,360,000	\$ 46,585,000	\$ 123,945,000
Net Original Issue Premium/(Discount)	6,118,753	3,548,380	9,667,133
TOTAL	\$ 83,478,753	\$ 50,133,379	\$ 133,612,133
Uses			
Repay Short-Term Obligations	\$ 83,158,000	\$ 2,842,000	\$ 86,000,000
New Project Funds	0	38,486,000	38,486,000
Capitalized Interest	0	8,611,505	8,611,505
Costs of Issuance	218,452	131,548	350,000
Underwriters' Fee	100,568	60,561	161,129
Miscellaneous	1,733	1,766	3,499
TOTAL	\$ 83,478,753	\$ 50,133,379	\$ 133,612,133

	WU Refunding Bonds	WU IOs/COPs	Total
Sources			
Principal Amount	\$ 122,900,000	\$ 200,805,000	\$323,705,000
Net Original Issue Premium/(Discount)	3,933,382	13,214,977	17,148,359
TOTAL	\$ 126,833,382	\$ 214,019,977	\$ 340,853,359
Uses			
Repay Short-Term Obligations	\$ 126,238,000	\$7,957,000	\$ 134,195,000
New Project Funds	0	173,093,241	173,093,241
Capitalized Interest	0	32,002,136	32,002,136
Costs of Issuance	161,359	263,641	425,000
Underwriters' Fee*	430,150	702,818	1,132,968
Miscellaneous	3,873	1,141	5,014
TOTAL	\$ 126,833,382	\$ 214,019,977	\$ 340,853,359

*WU underwriter's fee subject to competitive bid of winning qualified firm, currently showing a conservative assumption.

Good Faith Estimated Costs

Pursuant to California Government Code Section 5852.1, the good faith estimates with respect to the SCW Obligations are as follows: (1) the "true interest cost" is currently estimated to be 4.047%; (2) the "finance charge" (which means the sum of all fees and charges paid to third parties) is estimated to be \$511,129; (3) the "amount of proceeds" received by Valley Water (which is net of the finance charge) is estimated to be \$133,101,004; and (4) the "total payment amount" (which means the sum of all debt service payments to the final maturity) is estimated to be \$188,259,444.

The good faith estimates with respect to the WU Obligations are as follows: (1) the "true interest cost" is currently estimated to be 4.401%; (2) the "finance charge" (which means the sum of all fees and charges paid to third parties) is estimated to be \$1,557,968; (3) the "amount of proceeds" received by Valley Water (which is net of the finance charge) is estimated to be \$339,295,391; and (4) the "total payment amount" (which means the sum of all debt service payments to the final maturity) is estimated to be \$443,769,682.

Estimates are based on market conditions as of September 7, 2022, plus 0.50%. Actual results will differ depending on market conditions on the pricing dates for the SCW and WU obligations which are expected to occur in November/December 2022.

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 Bond Indenture, Installment Purchase Agreement, Trust Agreement, Purchase Contracts, Notice of Sale, Preliminary Official Statements, Continuing Disclosure Agreements and Assignment Agreements (Attachments 6-12). The financing documents have been set up to allow the Obligations to be sold by either a competitive sale, negotiated sale, or private placement. The method of sale for the Obligations shall be determined based on market conditions to ensure Valley Water can achieve the lowest overall cost of financing.

Issuance Costs

The estimated total costs of issuance in the amount of \$775,000 will be paid from the proceeds of the debt issuances upon or shortly after closing:

<u>Description</u>	<u>Estimate</u>
Rating Fees (Fitch/Moody's)	\$250,358
Bond Counsel	285,000
Municipal Advisor	148,526
Trustee	30,000
Printing (Official Statement)	10,000
News Outlets	15,000
Contingency	36,116
Total	\$775,000

Additionally, underwriting costs in the estimated amount of approximately \$1,132,968 will be paid at closing to the Underwriters as compensation for selling the securities and to reimburse expenses incurred (e.g., underwriter's counsel, investor presentation, and certain regulatory and securities-related fees)

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 is scheduled to consider and approve the resolution authorizing the Obligations and related matters on October 28, 2022.

Financing Schedule

The current financing schedule is summarized below:

Description	SCW Obligations	WU Obligations
PFFC Meeting	10/28/2022	
VW Board Meeting	11/08/2022	
Ratings	10/21/2022	11/09/2022

Print Prelim. Official Statement	11/08/2022	11/17/2022
Pricing	11/16/2022	12/05/2022
Closing	12/06/2022	12/20/2022

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 Debt Management Policy (Attachment 13).

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 there is a substantial likelihood that a reasonable or prospective investor would consider the information important in deciding whether 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). Attachment 14 provides additional information on municipal disclosure responsibilities and consequences of non-compliance with securities laws.

Community Bank Investments

Valley Water Board has implemented an innovative financing approach which promotes small, local banks participation in Valley Water’s financing business. The Board Executive Limitation (EL) 4.7.7 requires that Valley Water only engage with banks that have an Environmental, Social, and Governance (ESG) rating from at least one professional ESG research company of at least average/medium (or its equivalent). Banks located within the nine Bay Area counties with total assets below \$10 billion are exempt from this limitation. As a result of this policy, the following banking arrangements have been established with institutions meeting these criteria:

- \$20 million in Revolving Lines of Credit from three small local California banks (Bank of San Francisco, Community Bank of the Bay and First Foundation Bank).
- \$45 million in investments in various small, local banks’ various deposits that are secured by either the Federal Depository Insurance Corporation or collateralized by Letters of Credit from the Federal Home Loan Bank of San Francisco.
- Three separate letters of credit issued by Technology Credit Union, based in San Jose, totaling \$841,000 to Valley Water to meet the U.S. Army Corp’s financial assurance

requirements for the operations of Upper Penitencia, Coyote Ridge, and Rancho Cañada de Pala Preserve watershed projects.

- Valley Water underwriting pool is limited to US investment banks with ESG ratings of medium or better with preference for small, local California banks.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item.

FINANCIAL IMPACT:

The estimated total costs of issuance in the amount of \$775,000 plus underwriter's fees of approximately \$1,132,968 will be paid from the proceeds of the debt issuance. The Fiscal Year 2022-23 operating budget includes sufficient funds for debt service costs for the Obligations in each respective fund.

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: SCW Resolution
- Attachment 2: WU Resolution
- Attachment 3: PowerPoint
- Attachment 4: ESG Ratings
- Attachment 5: Direct Email Distribution List
- Attachment 6: SCW Preliminary Official Statement
- Attachment 7: WU Preliminary Official Statement
- Attachment 8: Notice of Sale
- Attachment 9: SCW Refunding Revenue Bonds Financing Documents
 - (a) Refunding Bond Indenture of Trust
 - (b) Purchase Contracts
 - (c) Continuing Disclosure Agreements
- Attachment 10: WU Refunding Revenue Bonds Financing Documents
 - (a) Refunding Bond Indenture of Trust
 - (b) Purchase Contracts
 - (c) Continuing Disclosure Agreements
- Attachment 11: SCW IO/COP Financing Documents
 - (a) IO Installment Purchase Agreement

- (b) IO Trust Agreement
- (c) IO Purchase Contracts
- (d) IO Assignment Agreement
- (e) IO Continuing Disclosure Agreements
- (f) COP Installment Purchase Agreement
- (g) COP Trust Agreement
- (h) COP Purchase Contracts
- (i) COP Assignment Agreement
- (j) COP Continuing Disclosure Agreements

Attachment 12: WU IO/COP Financing Documents

- (a) IO Installment Purchase Agreement
- (b) IO Trust Agreement
- (c) IO Purchase Contracts
- (d) IO Assignment Agreement
- (e) IO Continuing Disclosure Agreements
- (f) COP Installment Purchase Agreement
- (g) COP Trust Agreement
- (h) COP Purchase Contracts
- (i) COP Assignment Agreement
- (j) COP Continuing Disclosure Agreements

Attachment 13: Debt Management Policy

Attachment 14: Federal Securities Laws - Disclosure Responsibilities

UNCLASSIFIED MANAGER:

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