File No.: 16-0588 **Agenda Date:** 3/14/2017
Item No.: 2.6.

BOARD AGENDA MEMORANDUM

SUBJECT:
Resolution of the Board of Directors of the Santa Clara Valley Water District Authorizing the Issuance of Not To Exceed $65 Million Water System Refunding Revenue Bonds, Series 2017A, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Acts In Connection Therewith.

RECOMMENDATION:

A. Adopt a RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT AUTHORIZING THE ISSUANCE OF NOT TO EXCEED $65,000,000 WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2017A, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH;

B. Authorize and direct the Interim Chief Executive Officer, Chief Operating Officer-Administration, 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; and

C. Approve the suspension of Wells Fargo Bank from the District's Negotiated Sale Underwriter Pool through September 27, 2017.

SUMMARY:
Approval of staff recommendations will allow the District to issue a principal amount of up to $65 million Water System Refunding Revenue Bonds, Series 2017A (2017 Bonds) to: (i) refund all of the currently outstanding Water Utility System Revenue Certificates of Participation, Series 2007A (2007A COPs); and (ii) pay costs of issuance of the 2017 Bonds.

The 2007A COPs were issued in September 2007 with a principal amount of $77.27 million. The debt proceeds were used to pay for capital costs of water utility system improvements, purchase a debt service reserve surety bond, and pay capitalized interest and costs of issuance associated with the 2007A COPs. The 2007A COPs with maturity dates on and after June 1, 2018 are subject to optional prepayment prior to the respective maturity dates on any date on or after June 1, 2017.

Based on market rates as of January 26, 2017 plus 0.50% interest rate cushion, the 2017 Bonds are expected to generate between $6.9 million or 10.4% to $9.4 million or 14.2% in Net Present Value (NPV) savings. The expected all-in true-interest-cost (TIC) is between 3.4% - 3.7% for the 2017 Bonds. The final refunding savings and TIC are subject to change, pending the market conditions, investor demand, interest rate environment and other factors on the pricing day of the debt sale.

Financing Structure/Method of Sale

The 2017 Bonds will be sold on a competitive basis to the responsible bidder whose bid produces the lowest true interest cost. Per the Government Finance Officers Association best practices, a competitive sale "…promotes the appearance of an open, fair process …[and] taxpayers have greater assurance that bonds have been awarded at the lowest possible cost…". Given the relatively small size of the transaction and the high credit ratings expected on the 2017 Bonds, it is anticipated that a competitive sale will provide the most expeditious execution and lowest overall cost to the District. The 2017 Bonds are expected to be structured with annual principal repayment at a fixed interest rate with the same final maturity date on June 1, 2037 as the 2007A COPs that are being refinanced.

The authority to issue Revenue Refunding Bonds is provided in Section 25.1 of the District Act and Sections 53580-53589.5 of the California Government code.

Estimated Sources and Uses of Bond Proceeds

The estimated sources and uses of funds with respect to the 2017 Bonds are set forth below. The total principal amount shown in the table below is based on the current financing plan, which is lower than the total not to exceed authorization of $65 million. The not to exceed authorization allows for flexibility to adjust the financing structure to buffer for market volatility.

Sources	
Principal Amount of 2017 Bonds	$57,925,000
Plus/Less Net Original Issue Premium/Discount	7,368,935
2007A Principal/Interest Due 6/1/2017	3,481,000
TOTAL	**68,774,935**
Uses	
Deposit to 2007A Escrow Fund	68,204,653
Costs of Issuance	280,000
Underwriter's Discount	289,625
Additional Proceeds	657
TOTAL	**68,774,935**

Security

The obligation of the District to pay principal of and interest on the 2017 Bonds is secured by a pledge of and lien on the District's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility System Parity Master Resolution No 16-10 approved by the Board on February 23, 2016, as amended. The obligation of the District to pay the principal of and interest on the 2017 Bonds does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Financing Documents

The following financing documents, in substantially final form, are attached for Board review and/or approval: Resolution of the Board; Indenture; Notice of Intention to Sell Securities; Official Notice of Sale and Bid Form; Preliminary Official Statement; Continuing Disclosure Agreement; Escrow Agreement; and Debt Management Policy.

Costs of Issuance

The estimated total costs of issuance in the amount of $280,000 will be paid from the proceeds of the debt issuance at closing.

	Estimate
Rating Fees (Fitch/Moody's)	$80,000
Bond Counsel	70,000
Municipal Advisor	70,000
Trustee	15,000
Printing	10,000
Verification Agent	1,750
Arbitrage Rebate Analysis Fee	10,000
Other Fees/Charges & Contingency (10%)	23,250
Total	**$ 280,000**

Financing Schedule

Pending Board approval of the financing plan, the target financing schedule is as follows:

Description	**Date**
Board approval:	3/14/2017
Ratings:	3/31/2017
Post Preliminary Official Statement:	4/3/2017

Pricing (competitive sale):	4/11/2017
Closing:	5/ 2/2017

Wells Fargo Bank Suspension

At its December 13, 2016 board meeting, the Board directed staff to provide the Board with recommendations on sanctions of financial institutions for future consideration. Staff conferred with bond counsel, municipal advisor, and District Counsel, and analyzed the potential legal implications of any such sanctions. Based on this analysis, staff recommends that the Board approve a suspension of Wells Fargo Bank from the District's Negotiated Sale Underwriter Pool through September 27, 2017. The suspension period coincides with the current sanction imposed on Wells Fargo Bank by the California State Treasurer's Office (STO). Going forward, staff will conduct annual reviews of all participants of the District's Negotiated Sale Underwriter Pool to determine if any of the participants received sanctions from the STO, and recommend further actions for the Board to consider. This procedure is documented in the District's Debt Management Policy (Attachment 6 - Debt Management Policy Section I.B.4.v. Method of Sale (page 7).

FINANCIAL IMPACT:
The estimated total costs of issuance in the amount of $280,000 will be paid from the proceeds of the debt issuance at closing.

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 of the Board
Attachment 2: Indenture
Attachment 3: Notice of Intention to Sell Securities
Attachment 4: Official Notice of Sale and Bid Form
Attachment 5: Preliminary Official Statement
Attachment 6: Continuing Disclosure Agreement
Attachment 7: Escrow Agreement
Attachment 8: Debt Management Policy

UNCLASSIFIED MANAGER:
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