



# Santa Clara Valley Water District

---

**File No.:** 18-0200

**Agenda Date:** 5/8/2018

**Item No.:** 8.2.

---

## BOARD AGENDA MEMORANDUM

### **SUBJECT:**

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 in a Combined Aggregate Principal Amount not to Exceed \$225 Million, and Resolution Regarding Intention to Issue Tax-Exempt Obligations for Water Utility Enterprise.

### **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 IN A COMBINED AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$225 MILLION;
- B. Authorize the Chief Executive Officer, or Chief Financial Officer 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 the District to execute such other instruments, documents and papers as are necessary to carry out this Commercial Paper Program for Fiscal Year 2018-19;
- D. Authorize the District Counsel to execute the TRANS; and
- E. Adopt the Resolution Regarding INTENTION TO ISSUE TAX-EXEMPT OBLIGATIONS.

### **SUMMARY:**

Each fiscal year, the Board is legally required to adopt a new resolution reauthorizing the execution and delivery of Tax Revenue Anticipation Notes (TRANS) to support the District's existing Commercial Paper (CP) program (Program), which currently includes the authority to issue commercial paper (CP) notes and revolving certificates. Additionally, Board approval of a resolution of intention to issue tax-exempt obligations is required to allow the District to reimburse itself for certain eligible costs of the Water Utility Capital Improvement Program (CIP) from future debt proceeds.

If the Board does not approve the resolution reauthorizing the TRANS, the Program will need to be deactivated and all outstanding short term debt will need to be repaid upon maturity for CP notes (within no more than 270 days) and immediately for the revolving certificates. Such an action would cause delays to the Water Utility and Safe, Clean Water CIPs.

The recommended action with respect to the intention to issue tax-exempt obligations does not obligate the District to issue any debt; rather, it provides the District flexibility to reimburse costs from

---

future tax-exempt debt proceeds. The expected maximum amount of the Water Utility project costs to be reimbursed is \$124.5 million, which is equal to the FY 2018-19 Capital Project Budget, including expected project carryovers, to be adopted by the Board on May 8, 2018.

The recommended actions are in compliance with Executive Limitation 4.7 regarding debt management for the District.

### **Commercial Paper Program**

The Program has a maximum principal issuance capacity of \$225 million, and is supported by a \$150 million Letter of Credit (LOC) from Bank of Tokyo Mitsubishi UFJ, LTD. (BTMU) for the issuance of CP notes and a \$75 million Revolving Line of Credit from Wells Fargo Bank, National Association (WFB) for the issuance of revolving certificates.

#### Background

On January 13, 2015, the Board adopted a resolution authorizing the execution and delivery of various agreements for a \$150 million Letter of Credit (LOC) supporting the CP program. The LOC from BTMU was extended to February 11, 2019 after the expiration of the initial three year term on February 12, 2018 in accordance with the Board approved authority for the CEO to enter into extensions subject to amendments to the Reimbursement Agreement that are mutually acceptable to BTMU, the District, and the Public Facilities Financing Corporation (PFFC) (Resolution 15-02).

On December 13, 2016, the Board adopted a resolution authorizing the execution and delivery of up to \$75 million of short-term revolving certificates (Revolvers) pursuant to the Certificate Purchase and Reimbursement Agreement with WFB. The Revolver Agreement has an initial term of three years expiring on January 17, 2020, with the option for extensions subject to amendments to the Reimbursement Agreement that are mutually acceptable to WFB, the District, and the PFFC.

#### Analysis

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

The obligation of the District to make payments of principal of and interest on the TRANS is a general obligation of the District. The District will also pledge Net Water Utility System Revenues of the District on a subordinate basis to the payment of bonds and contracts of the District 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. The TRANS do not constitute a debt of the District 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 Program to meet the needs for tax-exempt and taxable debt issuances, the tax-exempt TRAN authorization is established at \$190 million and the taxable TRAN authorization is \$135 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 uncollected taxes, income, revenue, cash receipts and other monies of the District. The actual debt issuances are limited to an aggregate total of \$225 million, for both tax-exempt and taxable CP.

The long-term strategy is to issue CP notes and/or revolving certificates to provide short-term, just-in-time funding for capital expenditures. As the outstanding short term debt reaches the Program capacity, the outstanding debt is refunded with long-term debt to be repaid over the life of the improvements. Most recently, the District refunded \$148 million of outstanding CP with long term bonds on March 30, 2016. Staff is currently anticipating a refunding of Program debt with long-term bonds in fall 2018.

CP is a source of low cost short-term debt issued at a variable interest rate and remarketed periodically. For the most recent 12 months, the District paid interest rates ranging from a low of 1.28% to a high of 1.58% for taxable CP (no tax-exempt CP was issued during this time). Revolvers have not yet been issued but are anticipated to be issued in FY 2018-19 to provide capacity to finance budgeted Safe Clean Water Program costs. Revolvers are another source of low cost short term debt for which interest rates are based on a floating interest rate index (1-month LIBOR) that tracks closely to the CP interest rates. For reference, the interest rate on Revolvers issued on January 2, 2018 would have ranged from 1.33% (tax-exempt) to 1.56% (taxable).

For the Water Utility Program, the issuance of long-term debt helps keep water charges low and stable over the long-term while resulting in inter-generational equity and allows for the completion of capital projects in a timely manner. The water charge study shows that Water Utility finances will be healthy despite the issuance of debt, assuming that forecasted water charge increases are implemented. For the Safe, Clean Water Program, issuing debt will allow the projects to be completed earlier as it bridges the timing difference between when the voter approved special parcel tax revenues are collected versus the desired project delivery schedule based on the Board approved CIP. The Safe, Clean Water special parcel tax was approved by voters on November 6, 2012 and has a sunset date of June 30, 2028.

Due to the statutory limitations in the District Act regarding short-term borrowing, the District is required to issue CP notes and Revolvers in conjunction with the PFFC. The PFFC Board adopted the resolution authorizing the issuance of CP notes 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 the District 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 allow for the sale of the Revolvers in addition to CP notes.

## **FINANCIAL IMPACT:**

---

The CP Program is an on-going activity of the District. The estimated annual maintenance cost of the program, including interest and the estimated costs associated with the Program (e.g. banking, legal and other related fees) is \$7.9 million which has been included in the FY 2018-19 Operating Budget.

**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, Intent to Issue Tax-Exempt Obligations

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068