



# Santa Clara Valley Water District

**File No.:** 19-0219

**Agenda Date:** 3/26/2019  
**Item No.:** 2.10.

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## BOARD AGENDA MEMORANDUM

### **SUBJECT:**

Resolution of the Board of Directors of the Santa Clara Valley Water District Authorizing the Issuance of Not To Exceed \$120 Million of Water System Refunding Revenue Bonds, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Acts In Connection Therewith.

### **RECOMMENDATION:**

- A. Adopt a Resolution AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$120 MILLION OF WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2019A AND TAXABLE SERIES 2019B, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH; and
- B. Authorize and direct the Chief Executive Officer, 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.

### **SUMMARY:**

Approval of staff recommendations will allow the District to issue a principal amount of up to \$120 million of Water System Refunding Revenue Bonds, Series 2019A (Tax-Exempt) and Series 2019B (Taxable) (the "2019A Bonds" and the "2019B Bonds," respectively, and collectively, the "Bonds") to: (i) pay the portion of the currently outstanding Commercial Paper Certificates, Series A (Tax-Exempt) and Series B (Taxable) issued to finance projects for the water utility system (the "CP Certificates"); and (ii) pay issuance costs of the Bonds.

### Method of Sale and Financing Plan

The Bonds will be sold on a negotiated basis utilizing a team of underwriters including Stifel, Nicolaus & Company, Inc. ("Stifel"), Barclays Capital Inc. and Fidelity Capital Markets (collectively, the "Underwriters"). The Underwriters are members of the District's underwriter pool, which was established in 2012 pursuant to a competitive request for qualifications process (CAS File FS10-2013). The Underwriters provide broad sales coverage to both institutional and retail investors that is expected to generate good demand for the Bonds.

The financing plan calls for the Bonds 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 Bonds will be issued under the District's Water Utility System Parity Master Resolution (16-10), adopted on February 23, 2016 (as amended, the "Parity Master Resolution").

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 Bonds 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 Bonds are set forth below, and are based on market conditions as of February 4, 2019 plus a 0.25% interest rate cushion. This estimate forecasts an all-in true interest cost of 4.5% for the Bonds. Actual results will differ, depending on market conditions on the day the bonds are priced and sold in April 2019.

The total principal amount shown in the table below is based on the current financing plan, which forecasts a principal amount of Bonds that is lower than the total not-to-exceed authorization of \$120 million. The not-to-exceed authorization allows for flexibility to adjust the financing structure to buffer for market volatility.

	<u>2019A Bonds</u>	<u>2019B Bonds</u>	<u>Total</u>
Sources:			
Principal Amount of Bonds	\$ 16,565,000	\$ 81,360,000	\$ 97,925,000
Net Original Issue Premium/(Discount)	2,511,015	-	2,511,015
<b>TOTAL</b>	<b>\$ 19,076,015</b>	<b>\$ 81,360,000</b>	<b>\$ 100,436,015</b>
Uses:			
Commercial Paper Repayment	\$ 19,000,000	\$ 81,000,000	\$ 100,000,000
Costs of Issuance	54,977	270,023	325,000
Underwriters' Fee	17,668	86,776	104,444
Additional Proceeds	3,370	3,201	6,571
<b>TOTAL</b>	<b>\$ 19,076,015</b>	<b>\$ 81,360,000</b>	<b>\$ 100,436,015</b>

Proceeds from the issuance of the Bonds will be used to repay the outstanding CP Certificates which will free-up capacity in the District's commercial paper program to finance on-going capital costs. CP Certificates were issued to reimburse the District for certain eligible Water Utility System project costs incurred through December 2018. The Rinconada Water Treatment Plant Reliability Improvement, 10-Year Pipeline Inspection and Rehabilitation, and Anderson Dam Seismic Retrofit projects account for approximately 73% of the amount financed by the CP Certificates, with numerous other treatment, transmission, storage, and recycled water projects in the District's Capital Improvement Program making up the remaining amount.

#### Security

The obligation of the District to pay principal of and interest on the Bonds is secured by a pledge of and lien on 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 payment of 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.

### Financing Documents

The following financing documents, in substantially final form, are attached for Board review and/or approval: Resolution of the Board, Preliminary Official Statement (bond disclosure), Indenture of Trust, Continuing Disclosure Agreement, and Bond Purchase Contract (Attachments 1-5).

### Issuance Costs

The estimated total costs of issuance in the amount of \$325,000 will be paid from the proceeds of the debt issuance upon or shortly after closing:

<u>Description</u>	<u>Estimate</u>
Rating Fees (Fitch/Moody's)	\$ 156,000
Bond Counsel	75,000
Municipal Advisor	72,500
Trustee	7,500
Printing (Official Statement)	5,000
Contingency	9,000
<b>Total</b>	<b><u>\$ 325,000</u></b>

Additionally, an underwriters' fee in the estimated amount of approximately \$104,000 will be paid at closing to the Underwriters to reimburse expenses incurred (e.g., bank counsel) and as compensation for selling the securities.

### Financing Schedule

The Bonds are scheduled to be priced on April 9, 2019 and the bond sale is scheduled to close on April 25, 2019. The current financing schedule is:

<u>Description</u>	<u>Date</u>
Receive credit ratings	March 22, 2019
Board approval	March 26, 2019
Post Preliminary Official Statement	April 2, 2019
Bond Pricing and Sale	April 9, 2019
Closing	April 25, 2019

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**Bond Disclosure Responsibilities**

The District'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 District's Debt Management Policy (Attachment 6).

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

For additional information on municipal disclosure responsibilities and consequences of bad disclosure, attached is a presentation entitled "Disclosure Responsibilities Under the Federal Securities Laws" made to District staff on May 1, 2018 by Stradling, Yocca, Carlson & Rauth, bond counsel for the Bonds (Attachment 7).

**FINANCIAL IMPACT:**

The estimated total costs of issuance in the amount of \$325,000 plus underwriter's fees of approximately \$104,000 will be paid from the proceeds of the debt issuance. The Fiscal Year 2018-19 operating budget for the Water Utility Enterprise includes sufficient funds for debt service costs for the Bonds.

**CEQA:**

The recommended action does not constitute a project under the 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: Indenture of Trust
- Attachment 4: Continuing Disclosure Agreement
- Attachment 5: Bond Purchase Contract

Attachment 6: Debt Management Policy

Attachment 7: Federal Securities Laws - Disclosure Responsibilities

**UNCLASSIFIED MANAGER:**

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