File No.: 19-0417 **Agenda Date:** 5/14/2019
Item No.: 8.1.

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 $150 Million, Resolution Regarding Intention to Issue Tax-Exempt Obligations for Water Utility Enterprise, and Resolution Regarding Intention to Issue Tax-Exempt Obligations for Safe, Clean Water 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 IN A COMBINED AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $150 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 2019-20;
D. Authorize the District Counsel 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 or District) 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 Commercial Paper (CP) program (CP Program). Additionally, Board approval of a resolution 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 (Safe, Clean Water) Program from future debt proceeds.

If the Board does not approve the resolution reauthorizing the TRANs, the CP Program will need to be deactivated and all outstanding CP certificates will need to be repaid upon maturity (within no

more than 270 days). Such an action would cause delays to the Water Utility and Safe, Clean Water Capital Improvement Programs (CIPs).

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 $152.8 million. The anticipated annual maximum amount of the Safe, Clean Water project costs to be reimbursed is $70.0 million. These capital outlay amounts, which include expected project carryovers, are from the draft FY 2019-20 Operating and Capital Budget, which is scheduled to be recommended for adoption by the Board on May 14, 2019.

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 municipal financing transactions.

Commercial Paper Program

The CP Program has a maximum principal issuance capacity of $150 million, and is supported by a $150 million Letter of Credit (LOC) from MUFG Bank, Ltd. (MUFG) (formerly known as The Bank of Tokyo Mitsubishi UFJ, Ltd.).

<u>Background</u>

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 the CP Program. The LOC from MUFG is valid through December 13, 2019 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, Valley Water, and the Public Facilities Financing Corporation (PFFC).

<u>Analysis</u>

Debt proceeds from the CP 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 Valley Water. Per Board approval on January 13, 2015, the CP Program was directed to be utilized to fund eligible Water Utility and Safe, Clean Water expenditures only. The repayment of the CP Program debt will be allocated between Water Utility and Safe, Clean Water funds based on actual issuance for the respective funds.

The obligation of Valley Water to make payments of principal of and interest on the 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. 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 CP 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 Valley Water. The actual debt issuances are limited to an aggregate total of $150 million, for both tax-exempt and taxable CP.

The long-term strategy is to issue CP certificates to provide short-term, just-in-time funding for capital expenditures. As the outstanding short-term debt reaches the CP Program capacity, the outstanding debt is refunded with long-term debt to be repaid over the life of the improvements. In keeping with this strategy, staff received Board approval on March 26, 2019 to issue long-term bonds to refund $97.3 million of CP certificates previously issued for the Water Utility Enterprise.

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, Valley Water paid interest rates ranging from a low of 1.47% to a high of 1.72% for tax-exempt CP, and a low of 1.85% to a high of 2.62% for taxable CP.

For the Water Utility Program, the 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 Safe, Clean Water projects is expected to be achieved through a combination of pay-as-you-go, where project costs are paid from the special parcel taxes that have already been collected, and debt financing which will be repaid over time through June 30, 2028. The timing and amount of debt financing is dependent on the incurrence of Safe, Clean Water capital project costs. The Safe, Clean Water special parcel tax was approved by voters on November 6, 2012 and has a sunset date of June 30, 2028. The Safe, Clean Water Program ensures that critical projects continue to be provided to the community in many areas including ensuring safe reliable water for the future; reducing toxins, hazards and contaminants in our waterways; protecting water supply and local dams from the impacts of earthquakes and natural disasters; restoring fish, bird, and wildlife habitat; and providing flood protection to homes, businesses, schools, streets, and highways.

Due to the statutory limitations in the District Act regarding short-term borrowing, Valley Water is required to issue CP certificates in conjunction with the PFFC. 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 expand the CP Program to allow for the sale of revolving credit certificates in addition to CP certificates (the bank facility that enabled the issuance of revolving credit certificates was terminated by Valley Water and PFFC effective as of June 30, 2018).

FINANCIAL IMPACT:
The CP Program is an on-going activity of Valley Water and associated costs are budgeted annually as costs of operations. The estimated cost of the CP Program, including interest and other costs associated with the program (e.g. banking, legal and other related fees), in FY 2019-20 is $6.8 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, Obligations for WUE
Attachment 3: Resolution, Obligations for SCW

UNCLASSIFIED MANAGER:
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