



# Santa Clara Valley Water District

**File No.:** 20-0374

**Agenda Date:** 4/28/2020

**Item No.:**

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## BOARD AGENDA MEMORANDUM

### **SUBJECT:**

Adopt the Resolution Authorizing the Solicitation and Negotiation of and Execution and Delivery of One or More Lines of Credit, Credit Agreement, Fee Letter and Related Documents and Actions.

### **RECOMMENDATION:**

- A. Adopt the Resolution AUTHORIZING THE SOLICITATION AND NEGOTIATION OF AND EXECUTION AND DELIVERY OF ONE OR MORE LINES OF CREDIT, CREDIT AGREEMENT, FEE LETTER AND RELATED DOCUMENTS AND ACTIONS; and
- B. Authorize the Chief Executive Officer, Chief Financial Officer, or Treasury and Debt Officer (in each case, including any acting, interim, or otherwise appointed officer, as the case may be) or their written designees (each an "Authorized Officer"), and 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 to solicit, negotiate and execute one or more Lines of Credit, Credit Agreement, Fee Letter, and such other agreements, documents and certificates, including to provide for covenants, representations and warranties of the District, as may be necessary to effectuate each Line of Credit, Credit Agreement and Fee Letter, if they determine such execution and delivery is in the best interest of the District.

### **SUMMARY:**

Approval of the recommended actions would authorize Santa Clara Valley Water District (Valley Water or District) staff to expand Valley Water's existing Commercial Paper (CP) program (CP Program) by an amount not to exceed \$200 million through the solicitation and negotiation of one or more bank lines of credit. This expansion would increase Valley Water's authorized CP Program borrowing capacity from the existing \$150 million capacity to an expanded capacity of \$350 million. The additional capacity would provide for additional short-term financing of on-going capital projects as well as for back-up operating and capital funds during anticipated and unanticipated times of need. Bank lines of credit also allow Valley Water to diversify its current CP Program exposure to the market and mitigate bank credit risk that comes with the issuance of commercial paper certificates on the open market by allowing direct borrowing with banks via lines of credit.

### **Commercial Paper Program**

The CP Program is authorized to be used for eligible Water Utility and Safe, Clean Water Program

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capital expenditures. The CP Program currently 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). Under the CP Program as it's currently authorized, CP certificates, which have maturities of 270 days and less, are marketed by CP dealers to investors on the open market and are secured by MUFG's LOC should there be a failed remarketing where no investors buy any maturing CP certificates, in which case MUFG advances funds to purchase the CP certificates, although at costs that are more than the investor market typically requires (bank advance costs would have been 8% compared to CP rates incurred in FY 2020 which ranged from 1.00% to 2.38%).

### Analysis

Valley Water currently has \$50 million of CP certificates outstanding that mature on May 7, 2020. Staff has been closely monitoring the financial markets and communicating with banking institutions to gauge the continued availability of short-term financing. The recent market for commercial paper has been volatile and investors have turned to cash and Treasury bills to safeguard their liquidity positions, although this flight out of commercial paper has been somewhat tempered by recent actions taken by the Federal Reserve which is actively providing various forms of market liquidity. Should the financial markets return to more typical functioning conditions in May, staff plans on reissuing outstanding CP and issuing additional CP to reimburse eligible capital expenditures incurred for the Water Utility Enterprise in FY 2020. If conditions are atypical, and the outstanding CP cannot be sold in the capital markets in May, Valley Water's existing LOC with MUFG allows for an advance from the bank to reimburse investors for the maturing CP, with such advance repayable by Valley Water to the bank pursuant to the terms and conditions specified in the agreement.

As of March 24, 2020, Valley Water's cash and investment portfolio book value totaled approximately \$630 million, of which approximately \$120 million is in the form of cash equivalent deposits that are readily accessible to fund ongoing operations (e.g. money market account, deposit accounts, and California Local Agency Investment Fund deposits). Given the size of the portfolio, and with no current or anticipated interruptions to customer receipts or other operating revenues, staff does not currently anticipate any near-term issues in terms of meeting ongoing financial obligations during the current difficult economic conditions.

### Line(s) of Credit

To increase our financing flexibility and expediently meet any future anticipated or unanticipated operating and capital expenditure plans, staff is asking the Board to authorize the Chief Executive Officer and Chief Financial Officer (or their designees) to solicit, negotiate and execute one or more bank lines of credit (and related documents) in an amount up to \$200 million. With the Board's authorization, staff will seek formal requests for proposals from banks and work to secure one or more lines of credit with pricing and terms that serve Valley Water's best interests. Informal inquiries were previously sent to 20 banks to ascertain the availability of a line of credit. The inquiries were sent to local, regional, national and international banks. The feedback from local banks was that there may be some legal limitations in the size of the loan that may be offered to Valley Water. Nevertheless, given the Board's direction to invest in local banks, staff will incorporate consideration for local banks in the line of credit solicitation to encourage participation at a lower principal amount that complies with legal limitations governing local banks and credit unions. Although many of the

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other banks stated that the currently tight credit conditions precluded them from being able to offer a credit facility at this time, some responded positively with the potential to offer Valley Water a credit line that may meet our needs. The banks that responded positively included Bank of America, Bank of the West, JP Morgan, MUFG Bank, UBS, US Bank, and Wells Fargo Bank. Staff is actively and diligently monitoring the financial markets and is working in concert with our municipal advisor (Public Resources Advisory Group), external bond counsel (Stradling Yocca Carlson & Rauth), and District Counsel to ensure that a line of credit is negotiated with pricing and terms that will be as favorable as possible.

Proceeds of draws on bank lines of credit are anticipated to be eligible for use for any District purposes, including, but not limited to, capital and operating expenditures, investment and reinvestment, and the discharge of any obligation or indebtedness of the District.

#### Corporation Board Approval

Due to the statutory requirements in the District Act regarding short-term borrowing, Valley Water issues short-term obligations in conjunction with the Santa Clara Valley Water District Public Facilities Financing Corporation (Corporation). The Corporation Board will be asked to adopt a resolution providing the same authorization being asked of the Board. As with CP certificates that are issued, draws on bank lines of credit will be secured by the Tax and Revenue Anticipation Notes (TRANs) that the District issues annually to the Corporation. The obligation of the District to make payments on the TRANs is a general obligation of the District. Additionally, the District has pledged Net Water Utility System Revenues, on parity with the payment of all other subordinate obligations, to the payment of the TRANs.

#### **Financing Schedule**

The proposed financing schedule includes:

- April 28, 2020 - Request for Board Approval
- May 5, 2020 - Distribute Request for Proposals to Banks
- May 27, 2020 - Bank Proposals Due
- June 16, 2020 - Negotiate and Finalize Terms with Selected Bank(s)
- July 30, 2020 - Close on Credit Line(s)

#### **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 2020-21 is \$5.1 million before the addition of any lines of credit. Initial annual cost indications from banks in March 2020 for a \$100 million line of credit ranged from \$255,000 to \$1.7 million or more, depending on whether Valley Water draws on the line of credit and future interest rates associated with the index that the fee is based on (e.g. London Interbank Offered Rate/LIBOR). Pricing indications were provided during this time of great stress to banks, the economy, and financial markets due to the coronavirus

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pandemic and are moderately to significantly higher than pricing for lines of credit in the recent past. Any bank line of credit proposals will be negotiated to the best possible pricing and terms available to Valley Water at such time. Separate issuances of long-term debt that are budgeted for FY 2020-21 may be deferred pending Water Utility capital project expenditures and the associated debt service budget savings may offset the cost for the line of credit. Additionally, debt service savings that may be realized for the CP Program (as currently budgeted without any lines of credit) may be available to pay for the line of credit costs. At this time, staff is not proposing any adjustments to the proposed FY 2021 budget for debt service which is pending Board adoption on May 12, 2020. Staff will carefully monitor and manage the FY 2021 debt service budget and make best efforts to maintain the expenditures within budget. Should an increase in debt service budget be required in FY 2021, staff will present such requests as needed for Board approval in the second half of FY 2021.

**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

**UNCLASSIFIED MANAGER:**

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