



Santa Clara Valley Water District

File No.: 20-0682

Agenda Date: 8/11/2020

Item No.: 2.9.

BOARD AGENDA MEMORANDUM

SUBJECT:

Receive Information and Authorize Staff to Proceed with Negotiation and Execution of Bank Line(s) of Credit with Aggregate Stated Amount Not to Exceed \$200 Million. (Continued from July 28, 2020)

RECOMMENDATION:

- A. Receive information regarding bank line(s) of credit solicitation; and
- B. Authorize staff to proceed with negotiation and execution of bank line(s) of credit with aggregate stated amount not to exceed \$200 Million.

SUMMARY:

Executive Summary

On April 28, 2020, the Santa Clara Valley Water District's (Valley Water) Board of Directors authorized staff to proceed with issuing a request for proposal (RFP) for bank line(s) of credit up to \$200 million to provide backup liquidity for Valley Water's capital improvement program and general financing needs in light of the ongoing economic uncertainties related to the COVID19 pandemic (Resolution 20-11). The results of the RFP were presented to the Board at its meeting on June 9, 2020 where the Board directed staff to conduct additional research regarding the environmental, social and governance (ESG) policies of each of the five banks (MUFG Union Bank, JPMorgan Chase, US Bank, UBS and Bank of America) who responded to the RFP and return to the Board to present this additional analysis.

Staff evaluated the ESG ratings provided by professional ESG research firms and recommends that the Board consider the "Average/Medium" ratings that each bank received from the ESG research firms be the basis of eligibility for the bank line(s) of credit RFP (see Attachment 1 for ESG evaluation criteria). From a business terms and pricing perspective, the most favorable proposal was submitted by MUFG.

Staff requests Board approval to proceed with negotiations and execution of bank line(s) of credit for an amount up to \$180 million provided by a lead bank and an additional \$20 million syndicated loan reserved for small local banks, for a total bank line(s) of credit amount not to exceed \$200 million. Staff recommends that the order of negotiations follow the pricing and terms ranking as outlined in Table 2 below. For example, should negotiations with MUFG, the highest ranked bank, be unsuccessful, staff would begin negotiations with the next highest ranked bank, JPMorgan, and move

to the next highest ranked bank until a successful line of credit is negotiated with a lead bank. After a lead bank is selected, staff would work with the lead bank to develop a small local bank/credit union loan syndication program for \$20 million.

Analysis

Staff conducted research and reached out to each bank to obtain additional information regarding each bank's ESG policies and practices. Staff also invited the banks to review the June 9, 2020 board agenda memorandum and the recorded meeting and enquired whether the banks would like to submit any updates to their fee proposals and business terms in light of the information provided in the board meeting. The ESG information and business terms for each bank are summarized in Tables 1 and 2 below. The revised summary of key business terms proposed by the banks are provided in Attachment 2. The details of each bank's ESG response are provided in Attachments 3 - 7.

Staff recommends that the Board consider all five banks to be eligible for doing business with Valley Water from an ESG ranking perspective as they each received at least an "Average/Medium" ranking from one of the three professional ESG research firms. A summary of the typical ESG evaluation criteria is provided in Attachment 1.

Table 1 - ESG Rankings

	MUFG Union Bank	JPMorgan Chase Bank	US Bank	UBS AG, Stamford Branch	Bank of America
1. Sustainalytics ESG Risk	Medium	Medium	Medium	High	Medium
2. MSCI ESG Rating	Average	Average	Average	Average	Average
3. Corporate ESG Policy	Attach 3 p10 - 11 and 14 - 28	Attach 4 p1 links	Attach 5 P1 - 6	Attach 6 p3 - 4 and p6 - 242	Attach 7 P9 - 56
4. Santa Clara County # Employees	117	902	297	47	536
5. Bay Area # Employees	1,099	2,700	1,306	262	6,075

From a cost and business terms perspective, MUFG offers the most favorable fees and business terms. As demonstrated in Table 2 Line 4, the maximum annual undrawn fee proposed by MUFG for a \$180 million line of credit is \$860,000 lower than JP Morgan's proposal. US Bank, UBS and Bank of America each offered lower line of credit principal amounts; therefore Line 4 is not applicable to these three banks. UBS and Bank of America offered a one-year term only, which is not as favorable as the two- to three-year terms offered by MUFG and JP Morgan.

US Bank amended the offer to \$75 million maximum amount for a 1.5 to 2.5 year term, hence US Bank's ranking was updated to third place, ahead of UBS. In terms of potential early termination fee, MUFG does not impose a fee if Valley Water chooses to terminate the line of credit after one full year of contract term, whereas JP Morgan requires that the undrawn fee for the remaining contract term be paid to the bank with an early termination. This means that if Valley Water signs a three-year contract and terminates after year one, MUFG would not charge an early termination fee whereas JP Morgan would charge an early termination fee for the remaining two years term at \$1.4 million per year for a total of \$2.8 million termination fee. Note that JP Morgan's range of estimated costs per \$50 million line of credit provided in Table 2 Line 3 has been updated to a range of \$0.41 million to \$1.23 million to reflect the 0.75% index floor rate submitted by the bank as part of their business terms update after reviewing the June 9, 2020 board agenda memorandum. The index floor rate has the effect of increasing the draw fee for the line of credit. MUFG is the only bank that did not required an index floor fee. For further details of the fees and business terms, please refer to Supplemental Attachment 2.

Staff has reached out to the five banks to request extensions for the pricing proposals to accommodate the July 28, 2020 board meeting. Four of the banks have agreed to extend the proposals, except UBS, whose proposal expired on June 10, 2020.

Table 2 - Fee Proposal and Business Terms
\$ Millions (M)

	MUFG Union Bank	JPMorgan Chase Bank	US Bank	UBS AG, Stamford Branch	Bank of America
Business Terms Rankings	1	2	3	4	5
1. Max Principal	\$180	\$180	\$75	\$50	\$75
2. Tenor	2 or 3 years	1, 2 or 3 years	1.5 or 2.5 years	1 year	1 year
3. Estimated Annual Cost per \$50M Credit*	\$0.17-\$1.22	\$0.41 - \$1.23	\$0.24 - \$1.10	\$0.36 - \$0.96	\$0.38 - \$1.18
4. Undrawn Fee for \$180M Principal **	\$0.54	\$1.4	N.A (max principal \$75M)	N.A (max principal \$50M)	N.A (max principal \$75M)
5. Updated Terms	No change; proposal extended to 7/28/20	See updates in Attach 2; proposal extended to 7/28/20	See updates in Attach 6; proposal extended to 7/28/20	Proposal expired 6/10/20	No change; proposal extended to 7/28/20

*Estimated annual cost per \$50M credit is calculated based on several key assumptions, including the assumed index rates (SIFMA, 1M-LIBOR, 3M-LIBOR) as of May 22, 2020, and whether the facility will be drawn on a tax-exempt vs. taxable basis (range shown

demonstrates zero draw vs. \$50M draw for each of the banks). Actual annual costs will change pending the principal amount, future index rates and the utilization of the credit facility.

**Undrawn fee for \$180 million principal demonstrates the total undrawn fee paid to maintain up to \$180 million line of credit for an entire year. Line 4 of Table 2 is not applicable (N.A.) for US Bank, UBS and Bank of America as these banks offer maximum credit of \$75/\$50/\$75 million respectively.

Small/Local Financial Institution Participation

Staff requested each of the banks to respond to the option of acting as a lead bank to provide syndicated loan participation by small local banks/credit unions, and any other ideas the bank may have to encourage participation. Each of the bank's responses is summarized in Table 3 below.

Table 3 - Response to Loan Syndication

MUFG	MUFG will provide up to \$180 million line of credit and act as lead bank for an additional \$20 million syndicated loan to a local bank partner designated by Valley Water. The fee paid to both MUFG and the local partner must be the same to avoid bank regulatory issues, subject to additional bank counsel fees and administrative fees.
JPMorgan	JPMorgan is willing to provide \$180 million of credit and to act as lead bank in syndicating an additional \$20 million. All banks in the syndication would need to receive the same terms as JPMorgan, subject to negotiations.
US Bank	U.S. Bank is willing to enter into a syndicated Facility as Agent Bank, subject to further negotiations.
UBS	UBS would use its best efforts to consider acting as a lead bank to offer an additional \$20 million syndicated loan to small and local banks/credit unions, subject to legal review and negotiations, as well as additional bank counsel fees.
Bank of America	Bank of America is willing to act as a lead arranger with other financing partners, on the basis of several, but not joint liability, subject to parity pricing, covenants, events of defaults and remedies amongst the Lenders, and a fee approximately 0.05% of the total arranged commitment amount and estimated legal fees of \$75,000 plus \$10,000 per additional bank (assuming common bank counsel).

With the Board's approval for staff to proceed with the selection of the lead bank, staff will work with the selected bank to develop a syndicated loan for small and local banks/credit unions participation of up to \$20 million line of credit capacity.

FINANCIAL IMPACT:

Funding for the bank fees are included in the Fiscal Year 2020-2021 Budget for the following projects:

26993001 Tax-Exempt Commercial Paper (Fund 26 Safe, Clean Water Program)

95993007 Tax-Exempt Commercial Paper (Fund 61 Water Utility)

95993008 Taxable Commercial Paper (Fund 61 Water Utility)

Staff will make best efforts to manage banking fees within the adopted FY 2021 budget for debt service, but if the annual banking fees exceed \$1 million, staff may need to return to the Board with a budget adjustment in mid 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: PowerPoint
- Attachment 2: Revised Bank Proposals
- Attachment 3: MUFG ESG Response
- Attachment 4: JPM ESG Response
- Attachment 5: US Bank ESG Response
- Attachment 6: UBS ESG Response
- Attachment 7: Bank of America ESG Response

UNCLASSIFIED MANAGER:

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