

# Proposed FY 2018 Financing Plan

Board of Directors

October 24, 2017

# Agenda

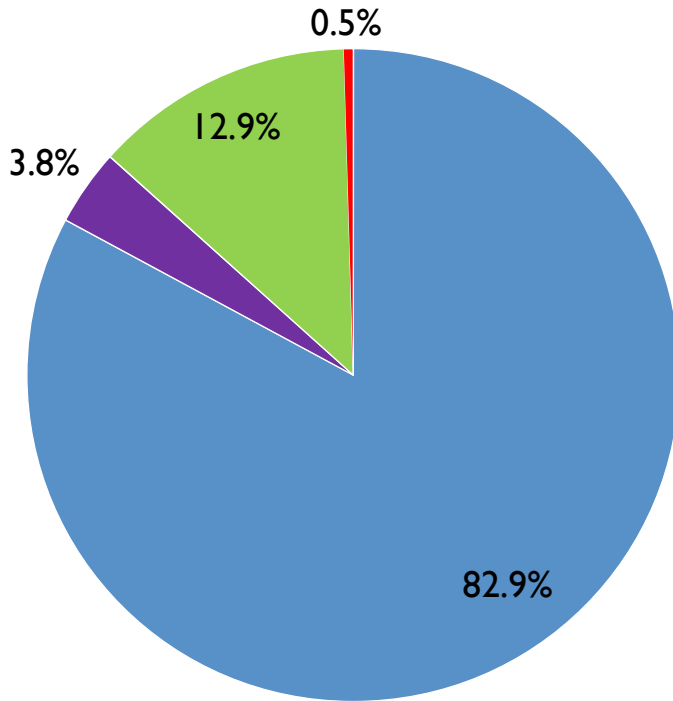


- Debt Composition
- Credit Ratings
- FY17 Accomplishments
- Proposed Financings for FY18
- Recommendation

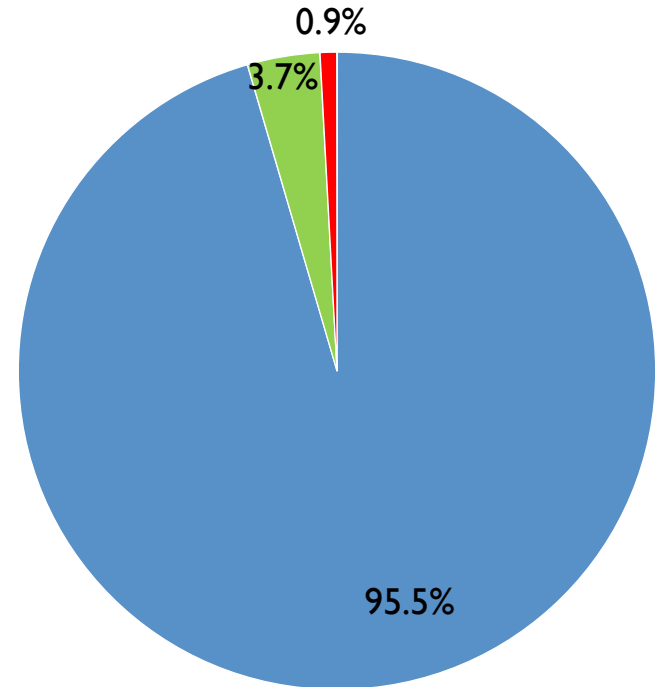
# Debt Composition



**Outstanding Water System Debt as of June 30, 2017**  
**\$2.79 Billion**



**Outstanding Wastewater System Debt as of June 30, 2017**  
**\$408.63 Million**



- Fixed Rate Revenue Bonds
- Commercial Paper
- Synthetic Fixed Rate Revenue Bonds
- State Parity Loans

- Fixed Rate Revenue Bonds
- Commercial Paper
- General Obligation Bonds

# District Credit Characteristics



- Credit Strengths:
  - Cash reserves are above rating agency medians
  - Prudent financial and debt management
  - Service area is large and relatively wealthy
- Credit Challenges:
  - Relatively low debt service coverage ratio compared to other highly rated entities
  - Elevated level of outstanding debt

	<b>Water</b>	<b>Wastewater</b>
<b>Current Ratings</b>		
S&P	AAA	AAA
Moody's	Aa1	Aa2
Fitch	AA+	AA+

# Maintaining District Credit Quality



- Maintaining District's credit ratings requires careful management of strengths and challenges
- Cash reserves must be managed prudently
  - Rate Stabilization Fund should be deliberately managed and only be used to smooth the potential effects of rate increases
- Debt service coverage should always meet or exceed minimum policy level
  - An improvement to 2.0x could elicit a ratings upgrade
- Debt issuance should be at or below policy level

# FY17 Debt Issuance



Category	Description	Proposed Size of Issuance	Actual Issuance
Administration of Existing Debt Portfolio	1. Renewed standby bond purchase agreement (SBPA) for Water bonds Series 2008 A-1 and A-4	\$56.7 million	\$56.7 million
New Money Needs	2. Issue additional “new money” Water and Wastewater Revenue Bonds	Water: \$111 million Wastewater: \$24 million	Water: \$231 million Wastewater: \$18.3 million
Potential Market Opportunities	3. Authorization for opportunistic Water and Wastewater restructurings for de-risking and fixed rate refundings	Based on market opportunities	Water: \$264 million Wastewater: \$51.1 million

# FY17 Debt Issuance



- Sold \$495 million in Water System revenue bonds
  - Our bonds attracted a significant premium (investors paying more than \$100 for \$100 worth of bonds) of \$105.1 million
  - With the premium, we were able to finance \$275 million of capital projects and issue \$332.6 million of refundings
  - The refundings saved the District \$33.9 million in debt costs over the next 20 years through 2037
- Sold \$69.4 million in Wastewater System revenue bonds
  - The premium for WW was \$13.2 million
  - The sale provided \$20.5 million for capital and \$61.6 million for refundings
  - The WW refundings saved the District \$8.1 million in debt costs over the next 12 years through 2029

# FY18 Proposed Debt Issuance



Category	Description	Issue/ Approximate Size	Date of Board Action	Pricing or Issuance Date
Administration of Existing Debt Portfolio	A. Extend or replace U.S. Bank Standby Bond Purchase Agreement for Water Series 2008A-2 and A-3	Water 2008A-2: \$24.3 million Water 2008A-3: \$24.3 million	4/24/2018	6/15/18
New Money Needs	B. 1) Issue additional “new money” Water and Wastewater Revenue Bonds	None expected	N/A	N/A
	2) Enter into SRF loans	Approximately \$41 million	Various	TBD
Potential Market Opportunities	C. Opportunistic Water and Wastewater restructurings for de-risking and fixed rate refundings	Based on market opportunities	TBD	TBD

Note: Dates are approximate and subject to change.



# A - Administration of Existing Debt Portfolio



- Extend or replace U.S. Bank Standby Bond Purchase Agreement for Water Series 2008A-2 and A-3
  - Water Revenue Bonds 2008A-2 and A-3 are variable rate demand bonds (VRDBs)
  - VRDBs require standby bond purchase agreements (SBPAs) for backup liquidity
  - Current SBPAs with U.S Bank for these series expire July 2, 2018 and must be renewed or replaced beforehand
  - Subject to change, staff expects to issue an RFP in the early Spring and bring a proposal to the Board in April

# B - New Money Needs



- We do not anticipate the need to issue new money bonds in 2018
- We sized the new money portion of the 2017 bonds for both Water and Wastewater to be sufficient to provide liquidity for FY17 and FY18
- The decision to sell two years worth of bonds in FY17 locked in currently low interest rates and saved an estimated \$700,000 in the cost of issuance
- Pursuing State Revolving Fund (SRF) Loans:
  - Both Drinking Water SRF and Clean Water SRF
  - Interest rate 50% of State GO Bond rate (1.7% currently)
  - Expected loans to be entered into in FY18: \$41 million
  - Additional applications submitted: \$27 million

# C - Potential Market Opportunities

- Staff continues to look for opportunistic Water and Wastewater restructurings for de-risking and refundings
- Currently, it is not expected that there will be significant opportunities during FY18

Transaction	Criteria
Restructure for de-risking	“Cost Neutral” = maximum NPV cost is greater of: <ul style="list-style-type: none"><li>• 0.75% of refunded par (net of swap termination and cost of issuance)</li></ul> <u>or</u> <ul style="list-style-type: none"><li>• \$250,000</li></ul>
Fixed rate refunding	Minimum NPV savings = 3.00% refunded par

# Recommendation



- Approve the proposed financing plan

# Questions



# Delta Update

Board of Directors

October 24, 2017

# Agenda



- WaterFix update
- State Board activities
- Delta Ecosystem update
- Delta Stewardship Council
- Delta levee strategies

# WaterFix - Project Description



- 3 Sac River intakes, 3000 cfs/each
- Twin 40' diameter tunnels, 30 miles in length
- Modern fish screens
- Gravity flow option
- ≈\$17 billion construction and mitigation costs
  - 55% share to SWP
  - 45% share to CVP
- 10% design
- Operations Plan not formalized



# WaterFix – Step by Step...



- ✓ • Final EIR certified
- ✓ • Incidental Take Permits and Biological Opinions issued
- ? • \$\$\$ Commitment of participants
- ? • Consistency with Delta Plan
- ? • State Board approval of new point of diversion
- ✓ • LAWSUITS

# WaterFix – State Board Process



- DWR & USBR need SWRCB approval of a water rights change petition
- EBMUD filed protest against the change petition (1 of 130)
- Hearings began in July 2016
  - Part 1 concluded summer 2017
  - Part 2 begins January 2018
- State Board decision likely in 2018

# Water Quality Control Plan Update



- Purpose – to ensure beneficial uses of water in the Bay-Delta are protected
- Last major update in 1995
- Current update is major and is likely to include additional Delta outflow requirements
- 4 Phases
  1. San Joaquin
  2. Sacramento and East Side Tributaries
  3. Amend water rights to implement new plan
  4. Adopt flow objectives with regulatory effect

# Water Quality Control Plan Update



- Phase 1 (San Joaquin)
  - Sept '16 – draft Substitute Environmental Document (SED)
  - Fall '16 – Spring '17 – public review/comments/workshops
  - Oct '17 – final SED and proposed changes to Bay-Delta Plan
  - Dec '17 – certification of Final SED & adoption of changes
- Phase 2 (Sac & East Side)
  - Oct '16 - working draft Scientific Basis Report
  - Dec '16 – public workshops/comments
  - Oct '17 – Final Scientific Basis Report
  - Late '17 – Draft SED and proposed changes to Bay-Delta Plan
  - Early '18 – certification of Final SED & adoption of changes

# Water Quality Control Plan Update



- District Actions

- December 2016 – comment letter on working draft scientific basis report
- April 2017 – joint comment letter with other Lower Mokolumne stakeholders
- April 2017 – present – ongoing meetings with SWRCB and other Lower Mokolumne stakeholders

# Delta Ecosystem Update



- Many Delta species still suffering from drought and other stressors
- Mokolumne salmon fishery is doing well
- EcoRestore – 6 projects initiated since 2016

- Delta Stewardship Council - Delta Plan
  - Sacramento Superior Court decision in June 2016 invalidated Plan, Plan remains in place during appeal process
  - Plan amendments, including addition of conveyance language, may resolve Court's objections
- Delta levee studies
  - DSC – Delta Levee Investment Strategy
  - DPC – Delta Flood Risk Management Assessment District Feasibility Study

# Next Steps



- Continue participation in SWRCB hearings regarding WaterFix petition
- Continue participation in legal action challenging WaterFix EIR
- Continue participating in WQCP Update proceedings
- Participate in future DSC & DPC levee investment discussions