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SCV WATER

Santa Clarita Valley Water Agency

Finance & Administration Committee Meeting

November 15, 2021

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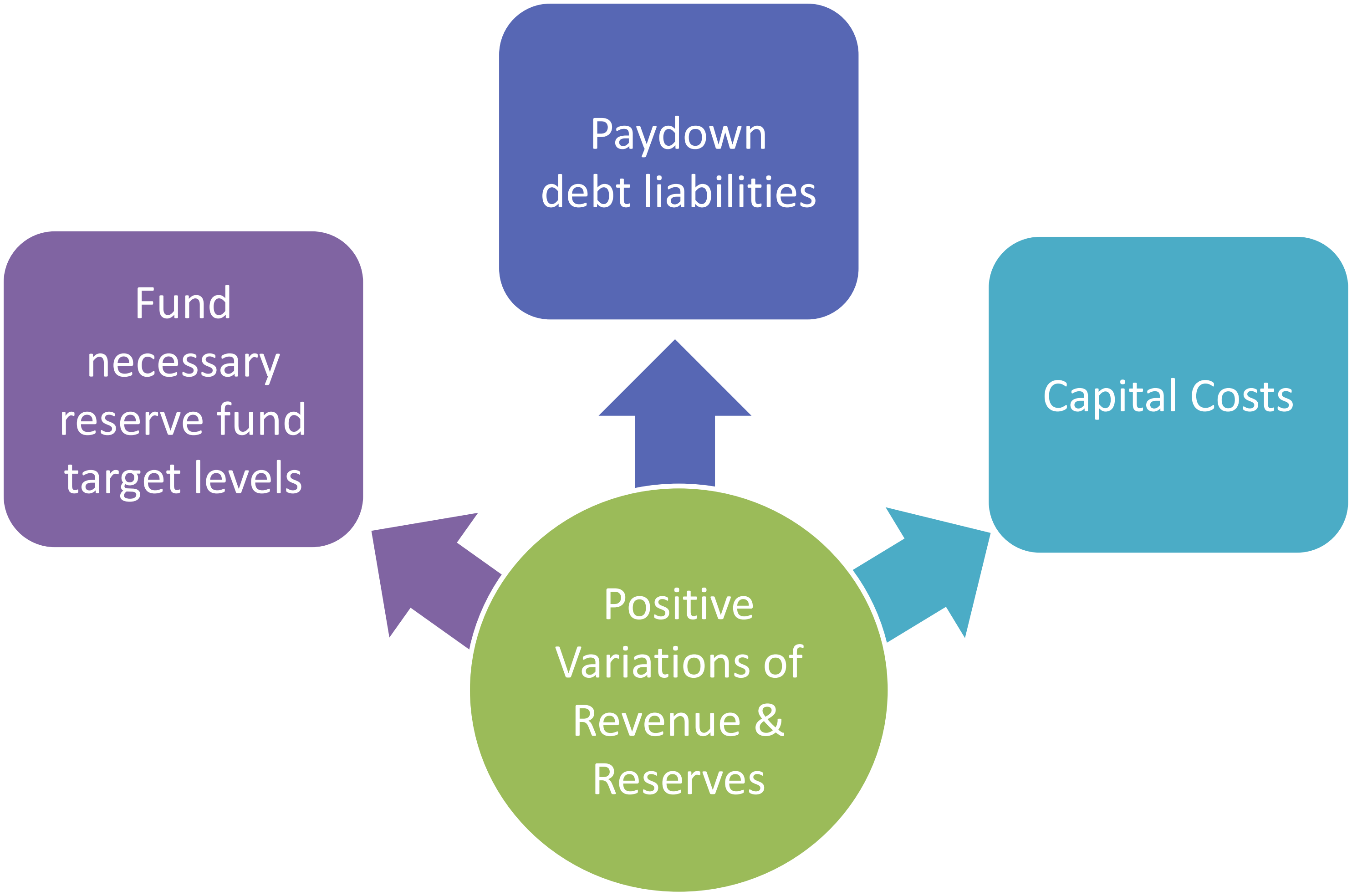
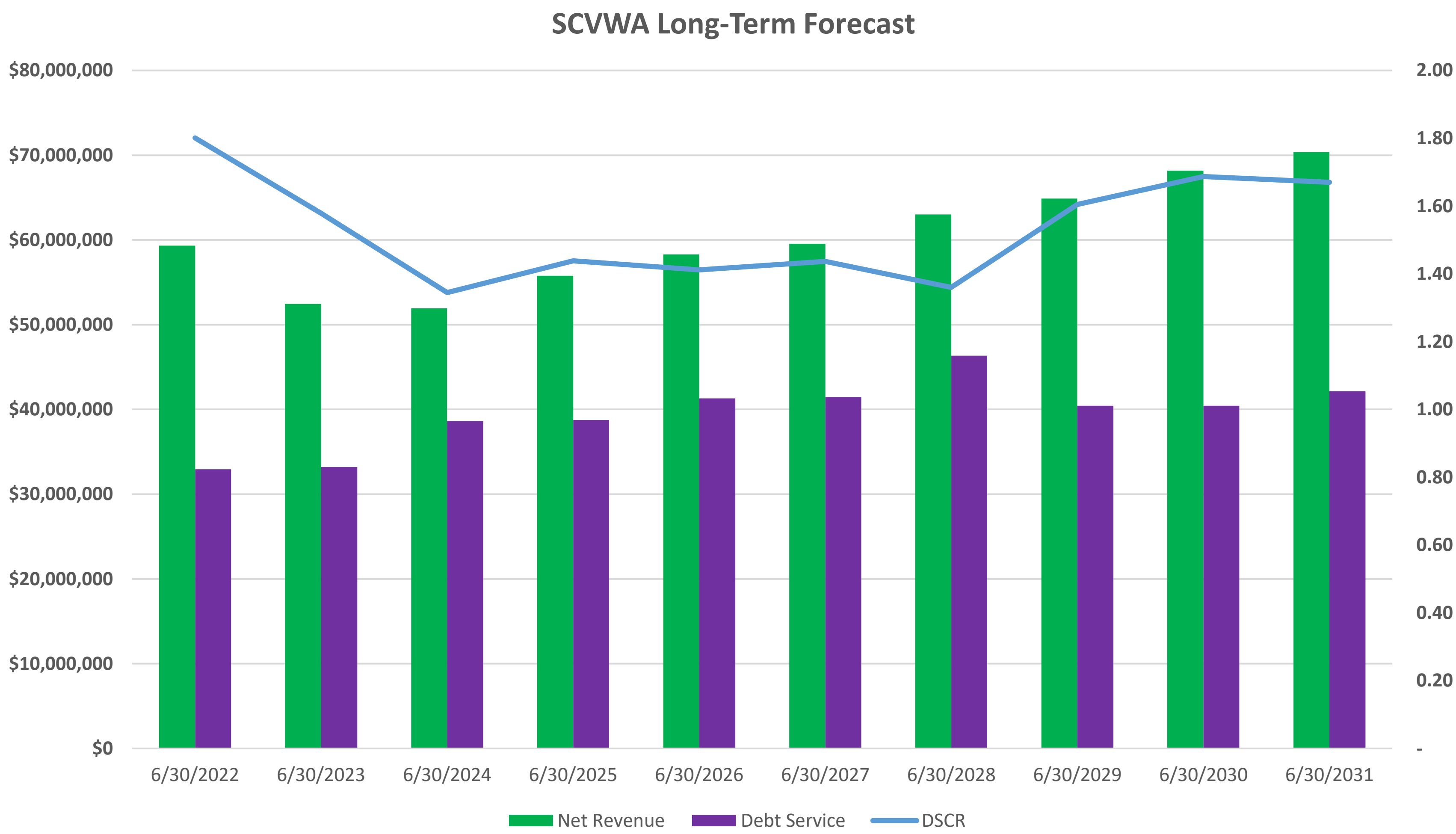
STRATEGIC USES OF CASH



SCVWA Long-Term Forecast



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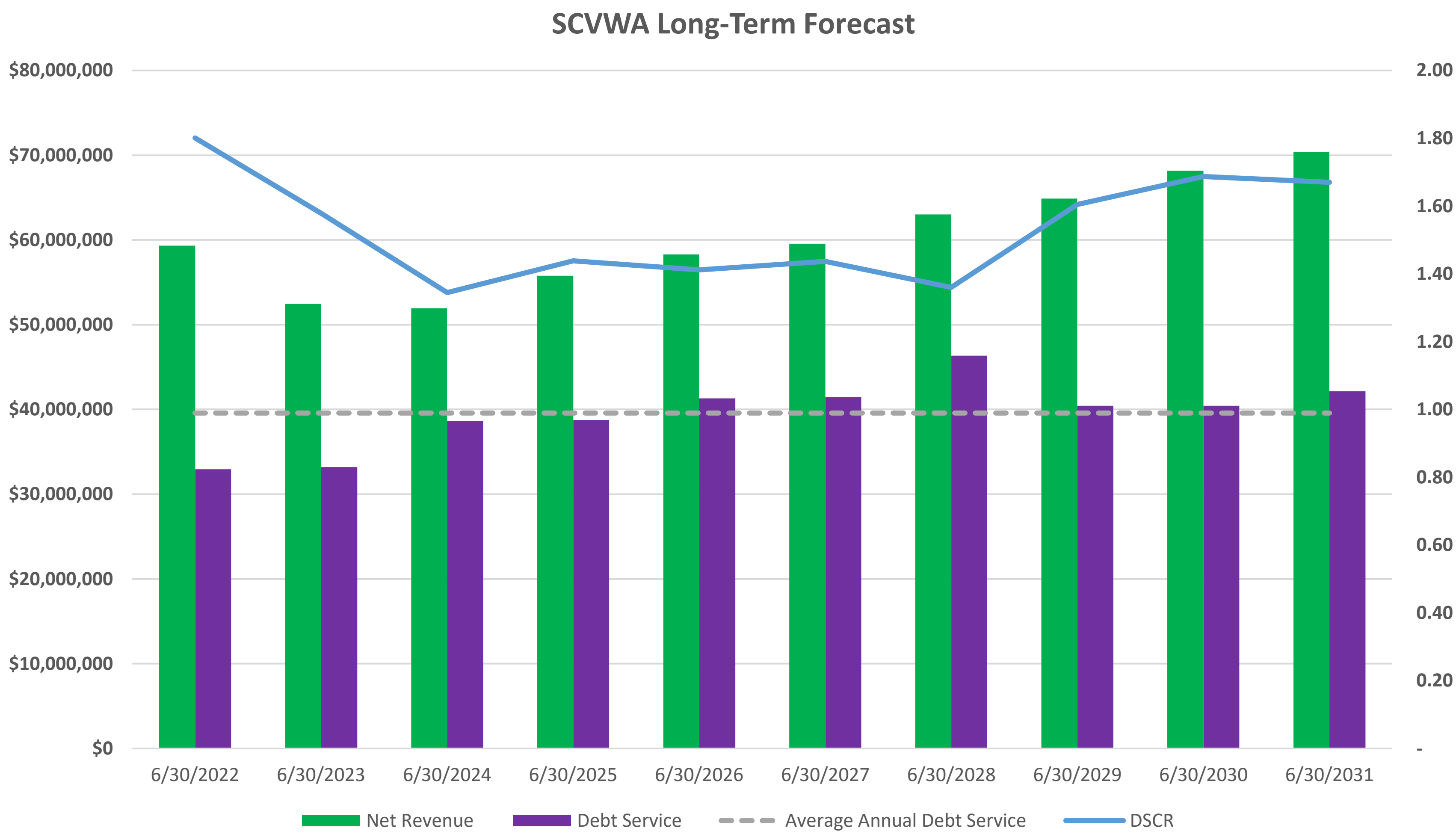
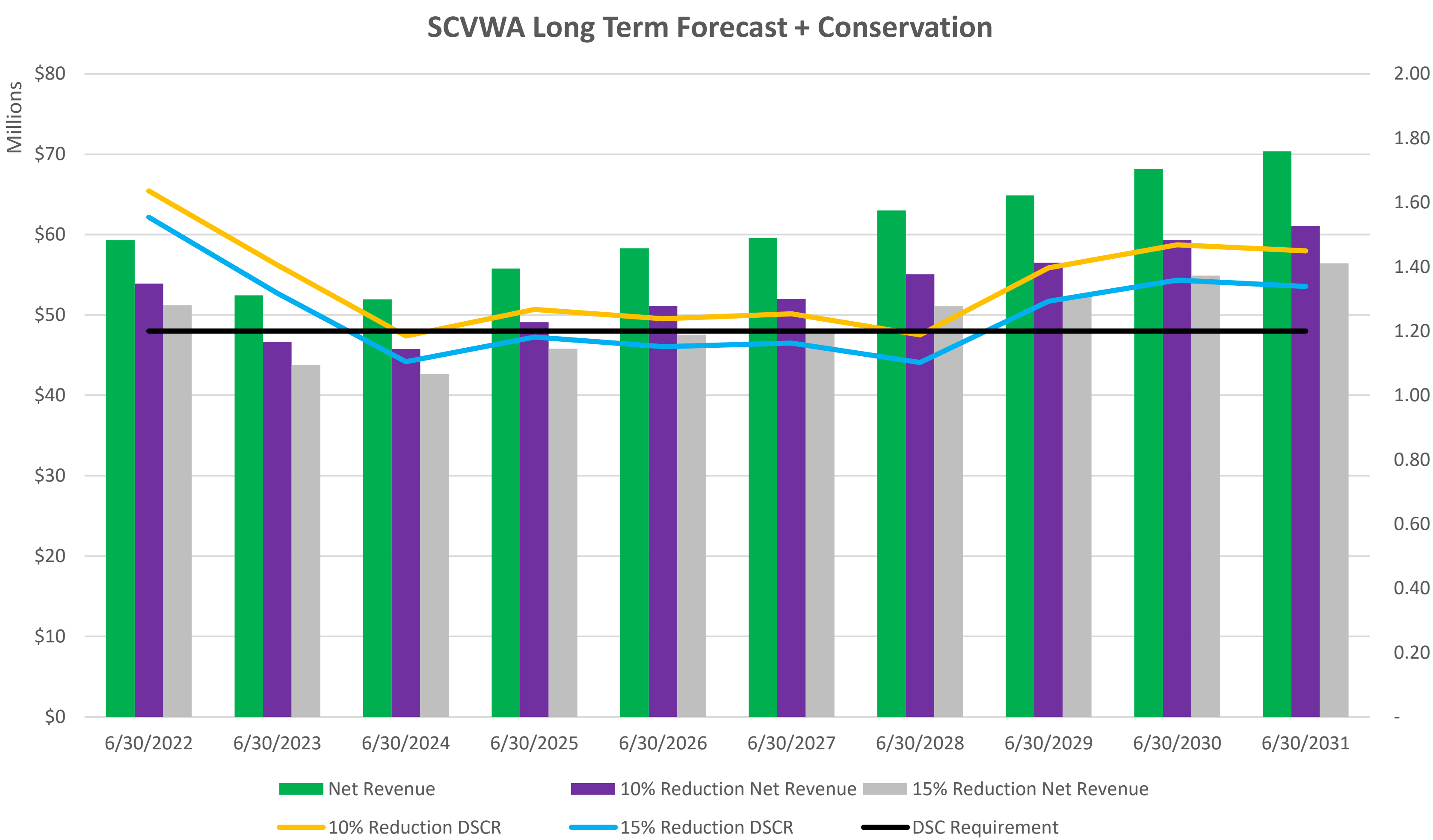
SCVWA Long-Term Forecast



Long Term Revenue Forecast with Consideration of Conservation



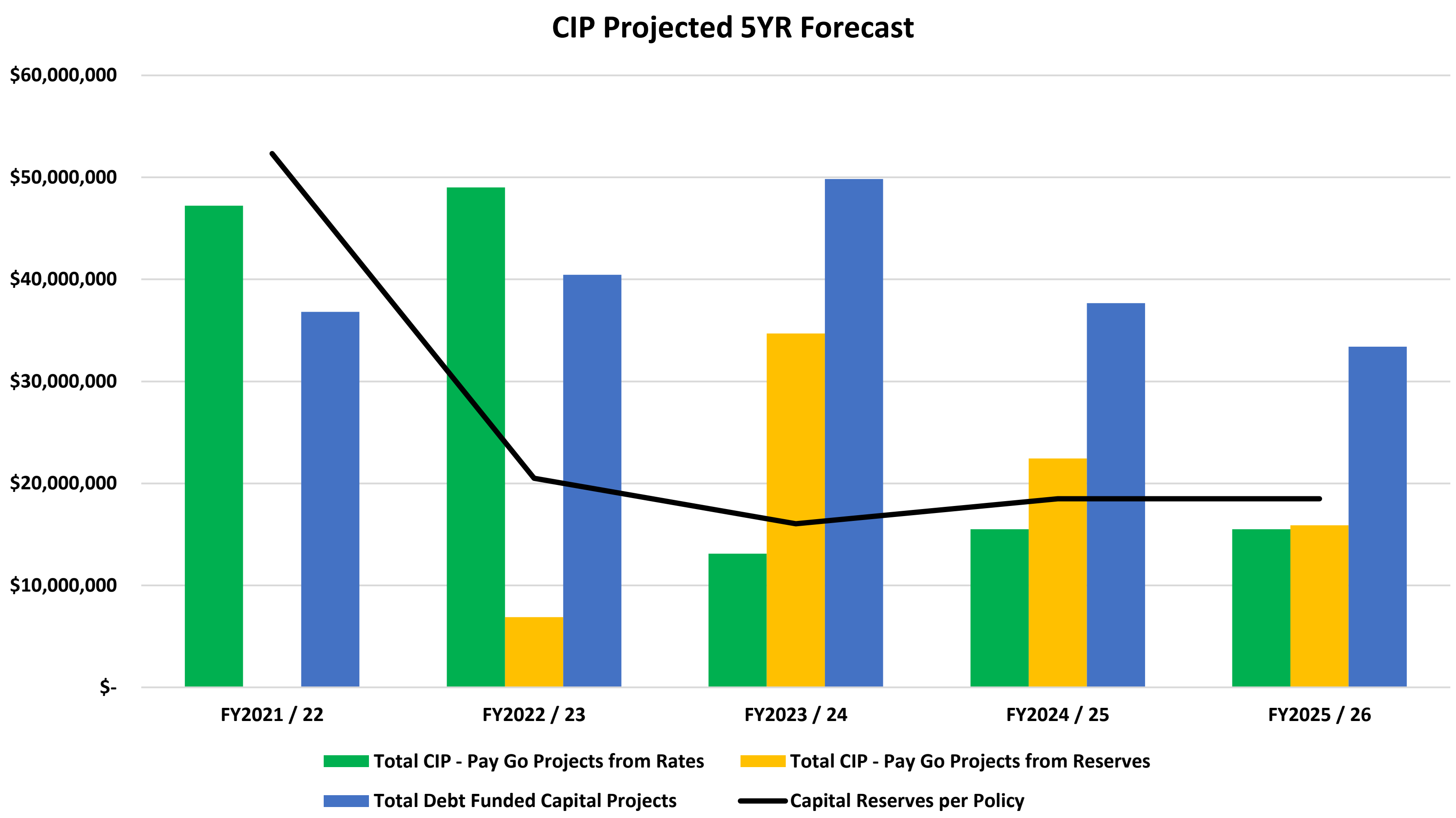
SCVWA UNRESTRICTED RESERVES

- SCVWA forecasts reserves funded at 100% target levels over the 5YR forecasted period

RESERVE	BUDGET FY 2020/21	PROPOSED BUDGET FY 2021/22	PROPOSED BUDGET FY 2022/23	PROJECTED BUDGET FY 2023/24	PROJECTED BUDGET FY 2024/25	PROJECTED BUDGET FY 2025/26
Capital	$ 43,484,506	$ 52,322,516	$ 20,505,140	$ 16,028,922	$ 18,492,738	$ 18,479,826
Emergency/Disaster	$ 25,216,799	$ 28,187,867	$ 28,742,788	$ 28,306,465	$ 29,652,126	$ 31,650,088
Operating	$ 28,114,615	$ 39,175,065	$ 39,814,145	$ 41,986,502	$ 43,814,518	$ 46,655,611
Revenue Rate Stabilization	$ 16,927,954	$ 15,242,577	$ 16,324,788	$ 20,221,236	$ 21,630,199	$ 23,147,578
Water Supply Reliability	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 6,000,000
TOTAL	**$ 119,743,874**	**$ 140,928,025**	**$ 111,386,861**	**$ 112,543,125**	**$ 119,589,581**	**$ 125,933,103**

Carryover		$ -	$ -	$ -	$ -	$ -
Utilization		$ (13,133,817)	$ (29,802,139)	$ -	$ -	$ -
Carryover Balance	$ 42,935,956	$ 29,802,139	$ -	$ -	$ -	$ -
TOTAL	$ 162,679,830	$ 140,928,025	$ 111,386,861	$ 112,543,125	$ 119,589,581	$ 125,933,103
Days Cash		609	473	461	468	463

Capital Improvement Program



SCVWA Unrestricted Reserves

- In order to 100% fund Pay Go CIP – additional reserves would need to be utilized to meet the funding gap
  - Results in reduced Days Cash and underfunded reserve policy levels

RESERVE	BUDGET FY 2020/21	PROPOSED BUDGET FY 2021/22	PROPOSED BUDGET FY 2022/23	PROJECTED BUDGET FY 2023/24	PROJECTED BUDGET FY 2024/25	PROJECTED BUDGET FY 2025/26
Capital	$ 43,484,506	$ 52,322,516	$ 20,505,140	$ 16,028,922	$ 18,492,738	$ 18,479,826
Emergency/Disaster	$ 25,216,799	$ 28,187,867	$ 28,742,788	$ 28,306,465	$ 29,652,126	$ 31,650,088
Operating	$ 28,114,615	$ 39,175,065	$ 39,814,145	$ 41,986,502	$ 43,814,518	$ 46,655,611
Revenue Rate Stabilization	$ 16,927,954	$ 15,242,577	$ 16,324,788	$ 20,221,236	$ 21,630,199	$ 23,147,578
Water Supply Reliability	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 6,000,000
TOTAL	**$ 119,743,874**	**$ 140,928,025**	**$ 111,386,861**	**$ 112,543,125**	**$ 119,589,581**	**$ 125,933,103**

Carryover		$ -	$ -	$ -	$ 77,849,143	$ 55,403,330
Utilization		$ (13,133,817)	$ (29,802,139)	$ (34,693,982)	$ (22,445,814)	$ (15,886,936)
Carryover Balance	$ 42,935,956	$ 29,802,139	$ -	$ (34,693,982)	$ 55,403,330	$ 39,516,394
TOTAL	$ 162,679,830	$ 140,928,025	$ 111,386,861	$ 77,849,143	$ 55,403,330	$ 39,516,394
Days Cash		609	473	319	217	145

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CIP Funding Sources

- To ensure the lowest cost of capital is available to Agency we would follow the strategy outlined below by analyzing each funding mechanism and comparing and contrasting financial outcomes of each possible alternative.

1
- **Pursue Grants from Federal and State Agencies**

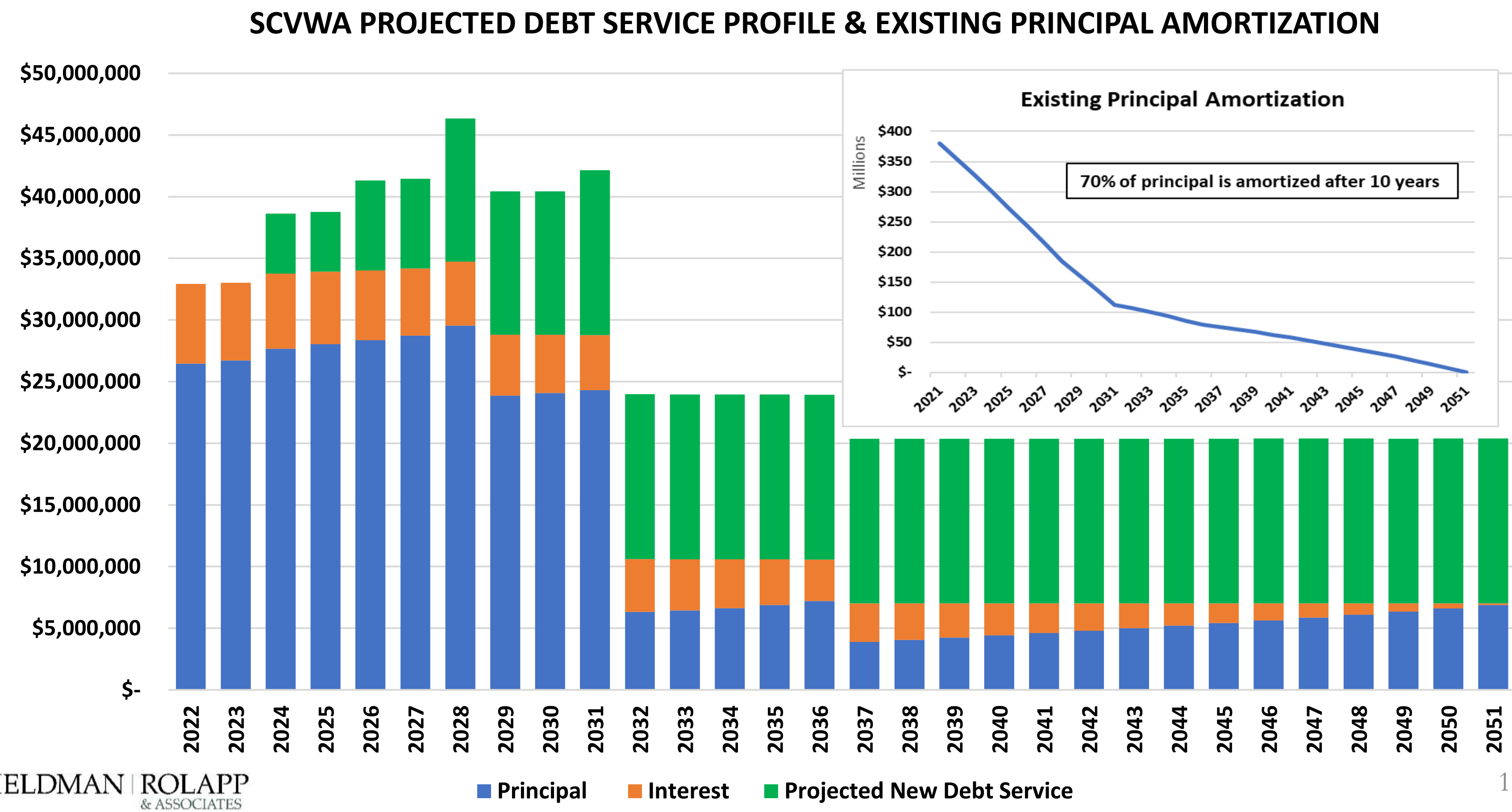
2
- **Weigh the Impacts of using Reserves and Debt vs Issuing Debt**
  - May reduce interest expense, especially for taxable debt, while maintaining prudent reserves levels for operations and credit ratings

3
- **Pursue Low Interest Loans from the Federal and State Agencies**

4
- **Issue Lowest-Cost Debt**
  - Structuring debt to achieve optimal credit ratings
  - Using interim financing options (commercial paper, lines of credit and notes) to their utmost advantage
  - Issuing variable rate debt
    - *Self liquidity vs. bank liquidity*
    - *Analyze the use of reserves to hedge interest rate exposure*
    - *Explore the use of interest rate swaps to limit interest rate exposure*
  - Issuing fixed rate debt
  - Forward purchase agreements
    - *Rate locks*
    - Negotiating fees and debt pricing
      - *Underwriters' compensation*
      - *Other consultant fees*

SCVWA Projected Debt Profile

- Series 1999A: noncallable
- Series 2018A: callable on 8/1/2028 with $22.5 million prepayable
- Series 2020A: callable on 8/1/2025 with $46.78 million prepayable and on 8/1/2028 with $24.995 million prepayable
- Series 2020B: callable on 8/1/2028 with $45.785 million prepayable



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General Framework

- Work with Engineering to identify critical capital and repair and replacement projects
- Identify CIP funding available from reserves and Pay Go revenue
  - Are there other strategic uses for cash reserves?
- What projects should be debt financed vs. cash funded?
  - Existing Vs Future Users
- What percent of CIP should SCVWA strive to fund?

APPENDIX

SCVWA Debt Outstanding

Debt Obligations	1999A	2018A	2020A	2020B
Outstanding Balance	$104,450,000	$26,735,000	$78,440,000	$154,705,000
Purpose of Debt	(i) finance the acquisition of the certain capital improvements of the Agency (ii) pay certain costs of issuance.	(i) Refinance certain notes previously issued by the Valencia Water Company and which are obligations of the Valencia Water Division of the SCVWA (ii) pay certain costs of issuance.	(i) finance the acquisition of the certain capital improvements for the SCVWA (ii) refund certain outstanding obligations of the agency (iii) pay certain costs of issuance of the 2020A Bonds.	(i) Advance refund certain outstanding obligations of the Agency (ii) pay certain costs of issuance of the 2020B Bonds.
Prepayment Option	Non-Callable	August 1, 2028 at par ($22.5 million outstanding at call date)	August 1, 2028 at par for maturities 2033- 2040 ($24.995 million) August 1, 2025 at par for maturities after 2040 ($46.78 million)	August 1, 2028 at par ($45.785 million outstanding at call date)
Taxable/Tax-exempt	Tax-exempt Series	Taxable Series	Tax-exempt Series	Taxable Series
Outstanding Ratings (S&P/Fitch)	AA+/AA	AA (S&P)	AA/AA-	AA/AA-

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5-Year Strategic Plan

Strategic Plan Elements
Vision Where the organization wants to be in the future
Mission The purpose of the organization
Goals Organization-wide desires that support achievement of the vision
Strategies The approaches required to achieve goals
Objectives The outcomes required to achieve goals.
Action Items/Key Performance Indicators The activities, plans or programs developed to measure achievement of objectives

Goal E – Financial Resiliency
Maintain a long-range, transparent, stable and well-planned financial condition, resulting in current and future water users receiving fair and equitable rates and charges **KEY PERFORMANCE INDICATORS**
1. Maintain existing bond ratings
2. Meet debt service coverage ratio
3. Meet reserve fund targets
4. Actual costs compared to project budget
5. Actual costs compared to annual budget
6. Number and magnitude of change orders for major capital

Credit Rating Criteria

Credit Rating

Customers: Classification & Wealth

Governance: Establishing Policy and Rate Setting

Management: Abilities to Plan and Execute

Financial Ratios: Coverage, Days' Cash, Free Cash/Depreciation

Capital Needs: Funding Sources, Amounts and Timing

Legal Structure: Additional Bonds Test & Rate Covenant

Policies: Debt, Reserve & Investment

RATING AGENCY SCALE

Moody's	S&P	Fitch	Credit Worthiness
Aaa	AAA	AAA	An obligor has EXTREMELY STRONG capacity to meet its financial commitments.
Aa1	AA+	AA+	An obligor has VERY STRONG capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree.
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	An obligor has STRONG capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	An obligor has ADEQUATE capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	

S&P Report July 10, 2020

- S&P assigned a rating of AA+ to the Agency's senior lien debt and AA to all other outstanding debt
- Summary of the Agency's credit profile:
  - *extremely strong all-in debt service coverage exceeding 1.7x through 2024.*
  - *Extremely strong liquidity position…about 1,250 days cash on hand*
  - *The debt profile is moderately leveraged with a pro forma* [at] *39.2% debt-to-capitalization ratio with the expectation that this will rise slightly over the next five years.*
  - *Strong financial management assessment…adequate policies in all key areas.*

FITCH REPORT JULY 9, 2020

- Fitch assigned a rating of AA with a Positive Outlook to the Agency's Senior Lien debt and AA- to all other outstanding debt
- Summary of the Agency's credit profile:
  - [Has] *moderate net leverage and is expected to remain near current levels in the near term even with proposed borrowing amounts*
  - *Rates are considered affordable for the vast majority of the population*
  - [Has] *a very low cost burden and moderate life cycle investment needs supported by adequate capital investment*

Reserve Policy Target Levels

<u>Policy Statement:</u>

The Agency will have sufficient unrestricted reserves to maintain or improve its credit ratings, ensure that operating and maintenance costs will be paid in a timely manner, to pay debt service obligations, and to invest in needed capital improvements and equipment replacement on a timely basis

Reserve Requirements	
Reserve	**Target**
Operating	120 days of annual budgeted operating expense, including debt service
Capital (Pay-go)	Upcoming year budget for pay-go projects
Water Supply Reliability	The cost to produce 10,000-acre feet from the Agency's banking program in a dry year
Revenue Rate Stabilization	20% of annually budgeted operating revenues
Emergency	120 days of operating expenses, excluding debt service

Questions and Further Discussion