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& ASSOCIATES

SCV WATER

SANTA CLARITA VALLEY WATER AGENCY

Finance Committee Meeting

September 20, 2021

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Debt 101 Overview

Introduction

TYPES OF DEBT

	MATURITY	INTEREST RATE MODE	INTENT
INTERIM DEBT	NOT MORE THAN 5 YEARS AFTER CLOSING	FIXED OR VARIABLE	PROVIDE FUNDING FOR A SHORT PERIOD OF TIME UNTIL PERMANENT FUNDING CAN BE ARRANGED.
PERMANENT DEBT	MORE THAN 5 YEARS AFTER CLOSING	FIXED OR VARIABLE	PROVIDE FUNDING FOR EXTENDED PERIOD, UP TO 30 YEARS

INTERIM DEBT

- Interim obligations are primarily issued for the following:

1. Cash flow borrowing - The cash inflows received provide for the funding of operations until revenues are received. Not typical or recommendable for utility issuers.
2. Use of interim obligations are used to provide funds immediately for capital purposes – for example, an expensive unexpected project that needs to move forward, but costs could be uncertain, or awaiting to complete a rate study to fund long term debt. The agency would use an interim debt to fund the project to be later retired with permanent debt.

- Revolving line of credit – bank facility where borrower draws funds as needed for projects; principal can be repaid any time and facility is restored to full amount. Most likely to be an adjustable rate; interest is payable periodically usually monthly.
- Commercial paper – fixed-rate security with a maturity of no greater than 270 days; principal is issued as needed for projects and can be retired periodically (issuer's discretion). Maturities can vary, *e.g.*, 7 days up to 270 days; with each maturity borrower pays interest.
- Short-term Notes sold in public market; usually at a fixed interest rate with a maturity up to 5 years.

PERMANENT DEBT

- Generally, long term bond issues will not fully mature for as long as 30 years
- Long term, fixed-rate bonds usually are issued in $5,000 denominations.
- Required to cover the repayment of interest and principal on a debt for a particular period.
- Long-term, fixed-rate bond issues typically include both *serial bonds* and *term bonds*.
- Serial bonds do not utilize sinking funds, and instead rely on the revenues generated from the project that the bond is used to fund, making them popular for certain municipal bonds.
- Term bonds tend to have maturity dates in 20 years or more. Bonds that all mature on the same date. Term bonds are structured the face value (principal) must be repaid to the bondholders.

GENERAL OBLIGATION BONDS

- Voter approved levy of *ad valorem* tax on real property to generate revenues
- Ad Valorem taxes were levied by State Water Contractors used to finance the State Water Project
- Rarely used by utilities in California: Prop 218 requires a cost of service nexus/methodology for water rates
  - Questionable nexus between use of water and ad valorem tax
  - Requires vote of property owners, so timing can be delayed to place the tax on the ballot

REVENUE BONDS

What are Revenue Bonds?

- The term "revenue bonds" refers to the category of municipal bonds that fund the revenue-generating government projects, such as pipelines and treatment plants. These types of bonds are usually issued by government agencies for projects having both operating revenues and expenses.
- <u>Long Tenure</u>: Since these bonds are used for funding long-term projects, the maturity period often falls in the range of 20 to 30 years. These bonds suit investors with a longer investment horizon.

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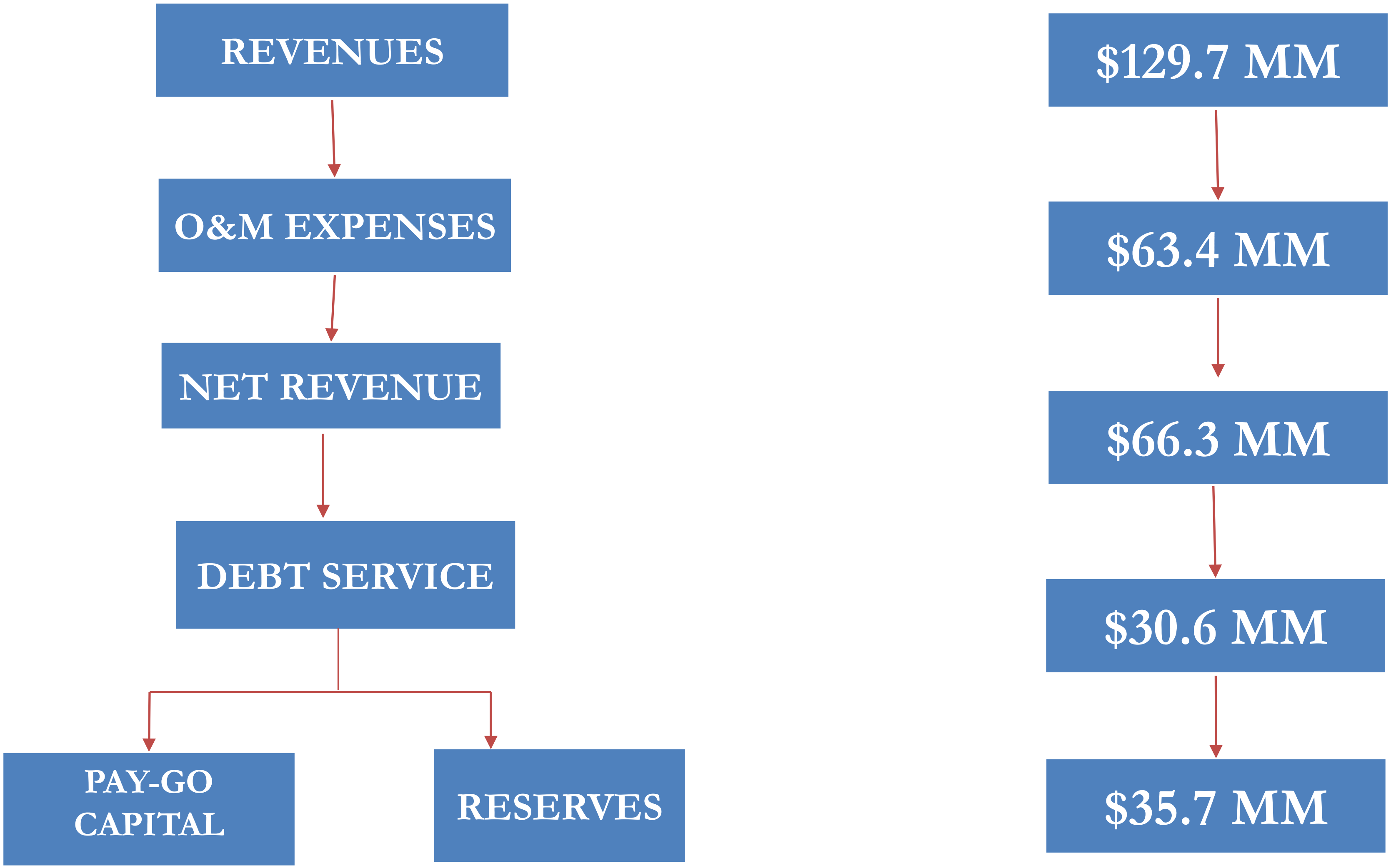
REVENUE BONDS FLOW OF FUNDS



Types of Interest Rate Modes

Long-Term Debt

Short-Term Debt

Both Fixed-Rate & Variable Rate

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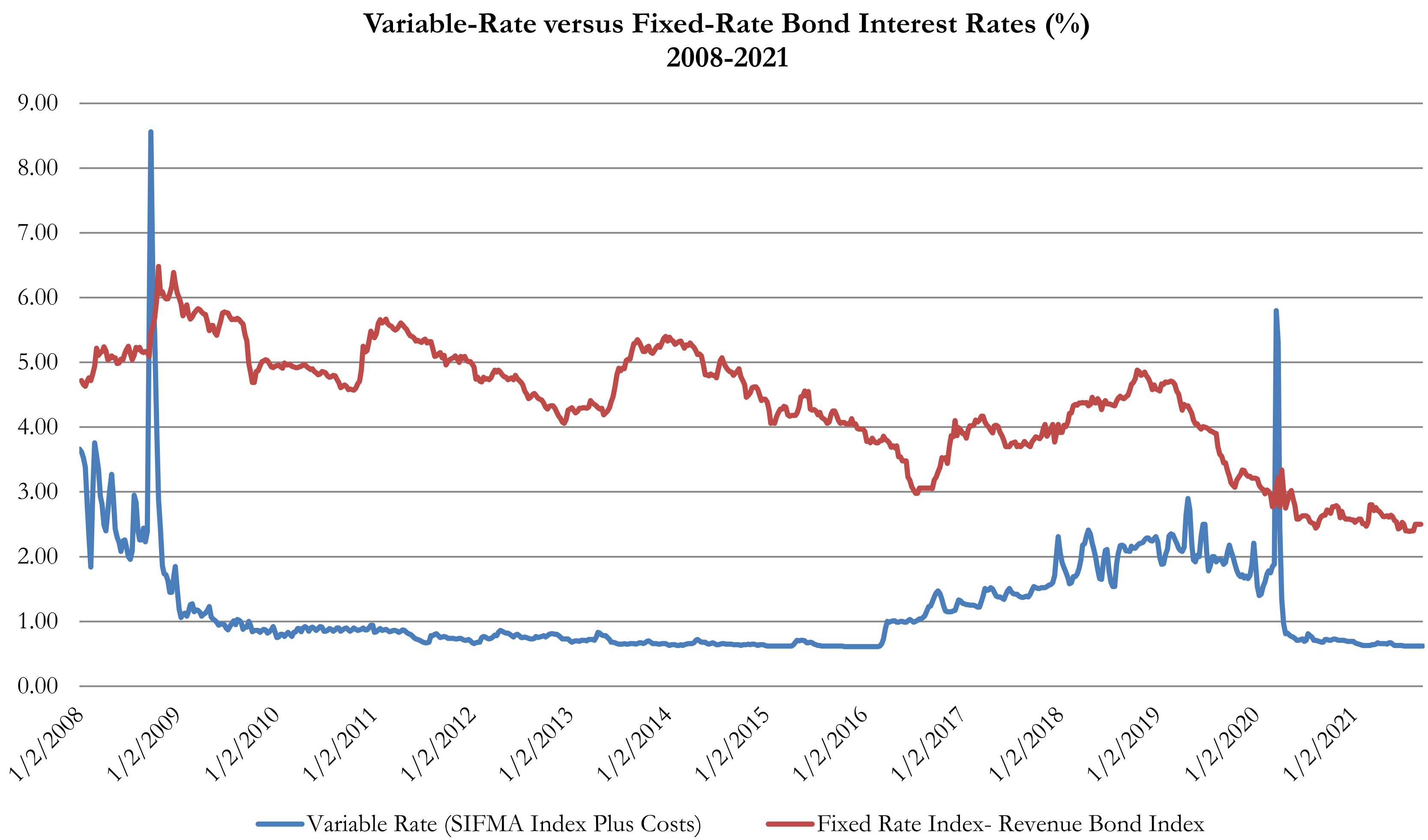
VARIABLE & FIXED RATES



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STRUCTURE OF FIXED-RATE REVENUE BONDS

- Long term revenue bonds usually mature in 20 to 30 years. Typically, bonds are amortized the full life of the issue rathe than at one time.
- Revenue Bonds can be either fixed-rate debt or variable-rate debt.
- Enterprise revenues are pledged and available to pay operating cost, debt service capital expenditures.

1. Combined retail divisions and wholesaler into a single credit
2. Legal limitations on revenue generation- rates are subject to Prop 218
3. Financial covenants restrict amount of future debt issued; historical projected debt service coverage test must be met.

Maturity (Aug 1)	Principal Amount	Yield
2022	$2,400,000	0.120%
2023	2,050,000	0.130
2024	2,215,000	0.180
2033	2,210,000	0.990
2034	5,270,000	1.060
2035	5,530,000	1.110
2036	2,155,000	1.180
2037	2,270,000	1.230
2038	2,395,000	1.270
2039	2,515,000	1.330
2040	2,650,000	1.370

$19,540,000 Term Bonds due August 1, 2045, Yield 1.560%
$27,240,000 Term Bonds due August 1, 2050, Yield 1.640%

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VARIABLE-RATE DEBT

- Issuing variable rate debt primarily consists of debt securities with nominal long-term maturities in which the interest rate is reset by a remarketing agent on a periodic basis (e.g., daily, weekly, monthly or annually).
- Variable rate debt can be used as a tool for interim financing or to provide asset/liability balance to an enterprise's operations.
- Variable-rate municipal debt is generally sold to institutional investors in minimum denominations of $100,000 or more and interest is payable more frequently than fixed-rate debt.

Government Sponsored Debt

STATE WATER RESOURCES CONTROL BOARD (SWRCB)

- What does SWRCB do?
- *"To preserve, enhance, and restore the quality of California's water resources and drinking water for the protection of the environment, public health, and all beneficial uses, and to ensure proper water resource allocation and efficient use, for the benefit of present and future generations."*

CALIFORNIA WATER BOARDS
State Water Resources Control Board

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Source: State Water Resources Control Board

STATE WATER RESOURCES CONTROL BOARD (SWRCB)

The Clean Water State Revolving Fund (CWSRF) program is a federal-state partnership that provides communities low-cost financing for a wide range of water quality infrastructure projects that address their highest priority water quality needs.

Eligible projects; Construct municipal wastewater facilities, Control nonpoint sources of pollution, build decentralized wastewater treatment systems, create green infrastructure projects, protect estuaries, and fund other water quality projects.

The Drinking Water State Revolving Fund (DWSRF) makes funds available to drinking water systems to pay for infrastructure improvements. This program is funded through federal and state money and subject to state laws and additional federal regulations.

The program provides:

- Low-interest construction loans: interest rate = ½ the State's GO Bond rate.
- Loan repayments can range from 20 to 30 years and typically require level debt service. In some cases, partial loan forgiveness is offered.

CALIFORNIA WATER BOARDS
State Water Resources Control Board

Source: State Water Resources Control Board

WATER INFRASTRUCTURE & FINANCE INNOVATION ACT (WIFIA)

What is WIFIA?

The Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) established the WIFIA program, a federal credit program administered by the US EPA for eligible water and wastewater infrastructure projects.

What projects are eligible under WIFIA financing?

- Projects that are eligible for the Clean Water SRF and the Drinking Water SRF
- Enhanced energy efficiency projects at drinking water and wastewater facilities
- Brackish or seawater desalination, aquifer recharge, alternative water supply, and water recycling projects
- Drought prevention, reduction, or mitigation projects
- Acquisition of property if it is integral to the project or will mitigate the environmental impact of a project
- A combination of projects secured by a common security pledge or submitted under one application by an SRF program
- 49% of eligible costs can be funded by WIFIA
- Secure 51% funding from cash, SRF Loan, or trading debt

EPA United States Environmental Protection Agency

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Source: United States Environment Protection Agency

WIFIA PROGRAM

- **WIFIA loans offer a low, fixed interest rate**
- A single fixed rate is established at closing. Based on US Treasury rate on the date of closing calculated using the weighted average life of the loan.
- Rate is not impacted by borrower's credit or loan structure.
- Investment grade ratings required.
- **WIFIA loans provide flexible financial terms**
- Customized repayment schedules.
- Long repayment period have a length of up to 35 years.
- Deferred payments may be deferred up to 5 years after the project's substantial completion.
- Prepayable at any time ($1 million minimum).
- Subordination under certain circumstances, WIFIA may take a subordinate position in payment priority, increasing coverage ratios for senior bond holders.

Source: United States Environment Protection Agency

Process for Typical Issuance

Sample Debt Process Schedule

Step 1: Either Engineering identifies funding needs for capital improvement projects, or refunding opportunity is identified:

Month 1	Month 2	Month 3	Month 4	Month 5
Presentation of plan of finance at Finance Committee. Finance Committee recommends moving forward to Board	Update Finance Committee Draft legal documents, (Indenture, Installment sale agreement) disclosure document	Finalize documents Fin. Cmte. & Board approval of legal documents Prepare credit materials and meet with rating agencies	Finalize disclosure document Fin Cmte. & Board approve transaction and rating process complete	Market debt to investors Price Debt and close transaction

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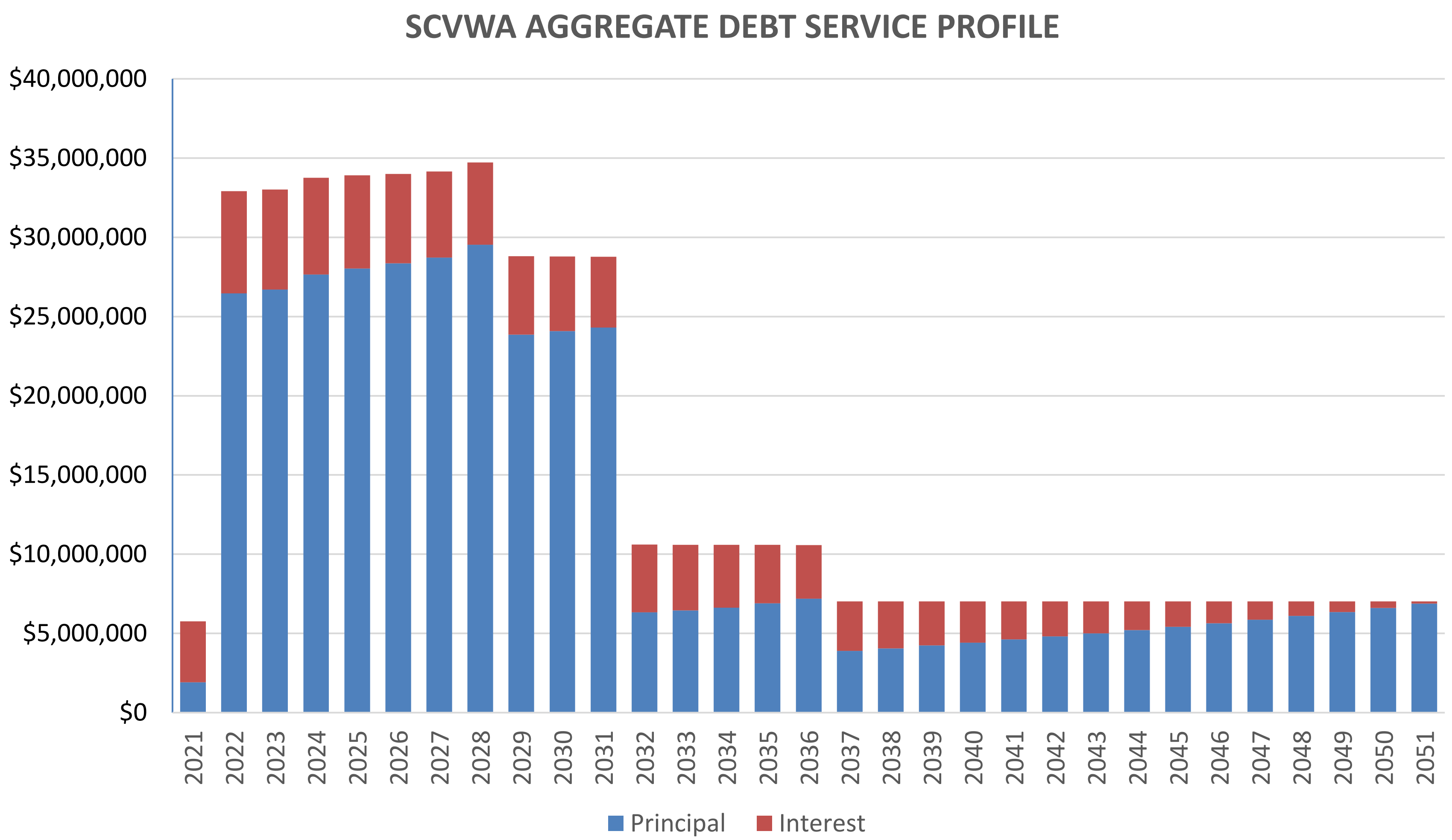
DEBT SERVICE- PRINCIPAL & INTEREST



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QUESTIONS AND FURTHER DISCUSSION