



# COMMITTEE MEMORANDUM

ITEM NO. 2
---------------

**DATE:** March 15, 2021

**TO:** Finance and Administration Committee

**FROM:** Eric Campbell *EC*  
Chief Financial and Administrative Officer

**SUBJECT:** Recommend Approval of a Resolution Authorizing the Restructuring of the Valencia Water Division (VWD) Acquisition Interfund Loan

**AMENDED**

---

## SUMMARY

As part of the Agency's Rate Plan Study, it was determined that a restructure of the Valencia Water Division (VWD) Acquisition Interfund Loan would benefit the customers of the legacy VWD while still achieving full recovery of the principal at loan maturity. The restructure will reduce the interest rate to reflect the Agency's recent cost of capital, modify the payment structure and extend the maturity of the loan by five years.

## DISCUSSION

As part of the Valencia Water Company (VWC) dissolution authorization (January 9, 2018), and to assure compliance with Section 4(k) of SB634 the following actions were finalized:

1. Refinancing existing VWC loans through the issuance of 2018A revenue refunding bonds through the Upper Santa Clara Valley Joint Powers Authority (JPA), and
2. Establishment of an Interfund Loan of the Valencia Water Division to pay the debt service associated with the 2018A revenue refunding bonds, and
3. Establishment of an Acquisition Interfund Loan of the Valencia Water Division to reimburse the wholesale system for the purchase of the stock of the Company.

The two interfund loans will fully be paid by the customers of VWD.

The Interfund Loan repayment for the 2018A issuance matches the payment schedule of the bonds. Since these bonds are not currently eligible for refinancing, no change is currently proposed.

For the Acquisition Interfund Loan, Resolution SCV-09 established the Acquisition Interfund Loan between VWD and the wholesale system to reimburse the Agency for the prior purchase of the stock of VWC.

The Agency had used a combination of 2006A and 2011A bond proceeds for the purchase of the VWC stock. At the time the combined interest rate of the bond issues was 4.5 percent, and this was used to set the interest rate for the repayment of the Acquisition Interfund Loan. Since the purchase of the VWC stock, the 2006A and the 2011A bond issues have been refinanced, most recently as part of the 2020A bond issuance. The weighted average of the Agency's existing debt is 2.55% which is comparable to the interest rate currently available in the bond

market. Staff recommends the restructuring of the Acquisition Interfund Loan include an interest rate of 2.55% as this is reflective of the Agency's cost of capital.

In addition, staff recommends restructuring the payment schedule to smooth out impacts to the VWD customers, while still allowing the full repayment of the Acquisition Interfund Loan over time.

By reducing the interest rate, modifying the payment structure and extending the maturity of the loan by 5 years, the legacy debt fixed charge for VWD customers will be reduced. For example, a ¾" meter service will have an initial legacy debt charge of \$6.50/month rather than \$11.05/month. This restructure and resulting reduction in VWD legacy debt charge is factored into the draft proposed five-year rate plan that was recently presented to the Board. This approach allows the Agency to transition to unified rates sooner, while significantly mitigating the impacts to VWD customers.

The revenues collected from VWD customers to pay the Acquisition Interfund Loan will be credited to the general operating fund (60%) and Facility Capacity Fees (40%) and can be used to fund capital improvement projects and pay debt service.

### **FINANCIAL CONSIDERATIONS**

Exhibit A presents the current remaining schedule of payments for the two VWD interfund loans on the left side, and the payments with proposed restructuring on the right side. Over the life of the loan, there will be a net \$9.2 million reduction of interest. The annual payments for the Acquisition Interfund Loan will go from the current annual payment of \$4.7 million through fiscal year 2043 to \$2.2 million for fiscal years 2022-2026, increase incrementally for 10 years from \$2.3 million to \$4 million in FY 2035 and then level payments through maturity in fiscal year 2048 of \$4.2 million.

As noted above, the Interfund Loan payment schedule is tied to the 2018A revenue refunding bond schedule, and no change is currently proposed as these bonds are not yet eligible for refinancing.

The restructured Acquisition Interfund Loan will be payable at such times and in such principal and interest amounts equal to installment payments to be made by the Agency for the 2020A bond issuance debt payments upon approval of the attached repayment schedule.

A draft payment schedule for the Restructured Acquisition Interfund Loan is attached as Exhibit A.

### **RECOMMENDATION**

That the Finance and Administration Committee recommends the Board of Directors approve a resolution authorizing the restructuring of the VWD Acquisition Interfund Loan as presented.

RP

Attachments

**EXHIBIT A**

**Santa Clarita Valley Water Agency (formerly the CLWA) -  
Acquisition Interfund Loan Repayment Schedule  
Related to Purchase of Valencia Water Company**

**Acquisition Interfund Loan Repayment Assumptions**

Purchase Price / Loan Amount	<b>\$58,600,000</b>
Date of Purchase / Loan Accrual Begins	<b>12/21/2012</b>
Original Interfund Loan Interest Rate	<b>4.50%</b>
Loan Refinancing date	<b>1/22/2021</b>
Refinanced Interfund Loan Interest Rate	<b>2.55%</b>

**Interfund Loan Repayment Schedule - Total**

Year #	FY Ending	Original Interfund Loan					Restructured Interfund Loan				
		Loan Payments (Total)	Principal Paid	Interest Paid	Interest Accrued @ Pref Rate of Return	Loan Ending Balance (net of FY payments)	Loan Payments (Total)	Principal Paid	Interest Paid	Interest Accrued @ Pref Rate of Return	Loan Ending Balance (net of FY payments)
	<b>12/21/2012</b>	<b>(\$58,600,000)</b>					<b>(\$58,600,000)</b>				
0.5	6/30/2013	-	-	-	1,379,910	59,979,910	\$0	\$0	\$0	\$1,379,910	\$59,979,910
1	6/30/2014	798,600	-	798,600	2,551,200	61,732,510	\$798,600	\$0	\$798,600	\$2,551,200	\$61,732,510
2	6/30/2015	798,600	-	798,600	2,777,963	63,711,873	\$798,600	\$0	\$798,600	\$2,777,963	\$63,711,873
3	6/30/2016	798,600	-	798,600	2,867,034	65,780,307	\$798,600	\$0	\$798,600	\$2,867,034	\$65,780,307
4	6/30/2017	798,600	-	798,600	2,960,114	67,941,821	\$798,600	\$0	\$798,600	\$2,960,114	\$67,941,821
5	6/30/2018	798,600	-	798,600	3,057,382	70,200,603	\$798,600	\$0	\$798,600	\$3,057,382	\$70,200,603
6	6/30/2019	4,717,595	1,585,067	3,132,528		68,615,536	\$4,717,595	\$1,585,067	\$3,132,528		\$68,615,536
7	6/30/2020	4,687,595	1,657,607	3,029,988		66,957,929	\$4,717,595	\$1,657,607	\$3,059,988		\$66,957,929
8	6/30/2021	4,717,595	1,733,468	2,984,127		65,224,461	\$3,424,319	\$1,733,468	\$1,690,851		\$65,224,461
9	6/30/2022	4,717,595	1,812,800	2,904,795		63,411,661	\$2,217,595	\$559,695	\$1,657,900		\$64,664,766
10	6/30/2023	4,717,595	1,895,763	2,821,832		61,515,898	\$2,217,595	\$574,104	\$1,643,491		\$64,090,662
11	6/30/2024	4,717,595	1,982,523	2,735,072		59,533,375	\$2,217,595	\$588,885	\$1,628,710		\$63,501,777
12	6/30/2025	4,717,595	2,073,253	2,644,342		57,460,122	\$2,217,595	\$604,045	\$1,613,550		\$62,897,732
13	6/30/2026	4,717,595	2,168,136	2,549,459		55,291,986	\$2,217,595	\$619,596	\$1,597,999		\$62,278,136
14	6/30/2027	4,717,595	2,267,361	2,450,234		53,024,626	\$2,372,827	\$792,270	\$1,580,556		\$61,485,865
15	6/30/2028	4,717,595	2,371,127	2,346,468		50,653,499	\$2,538,925	\$980,360	\$1,558,565		\$60,505,505
16	6/30/2029	4,717,595	2,479,641	2,237,954		48,173,858	\$2,716,649	\$1,185,031	\$1,531,619		\$59,320,475
17	6/30/2030	4,717,595	2,593,122	2,124,473		45,580,736	\$2,906,815	\$1,407,531	\$1,499,284		\$57,912,944
18	6/30/2031	4,717,595	2,711,797	2,005,798		42,868,939	\$3,110,292	\$1,649,199	\$1,461,093		\$56,263,745
19	6/30/2032	4,717,595	2,835,903	1,881,692		40,033,036	\$3,328,012	\$1,911,468	\$1,416,544		\$54,352,277
20	6/30/2033	4,717,595	2,965,688	1,751,907		37,067,348	\$3,560,973	\$2,195,877	\$1,365,096		\$52,156,400
21	6/30/2034	4,717,595	3,101,413	1,616,182		33,965,935	\$3,810,241	\$2,504,071	\$1,306,170		\$49,652,329
22	6/30/2035	4,717,595	3,243,349	1,474,246		30,722,586	\$4,076,958	\$2,837,816	\$1,239,141		\$46,814,513
23	6/30/2036	4,717,595	3,391,781	1,325,814		27,330,805	\$4,242,281	\$3,077,787	\$1,164,495		\$43,736,726
24	6/30/2037	4,717,595	3,547,007	1,170,588		23,783,798	\$4,242,281	\$3,157,024	\$1,085,257		\$40,579,702
25	6/30/2038	4,717,595	3,709,336	1,008,259		20,074,462	\$4,242,281	\$3,238,301	\$1,003,980		\$37,341,401
26	6/30/2039	4,717,595	3,879,094	838,501		16,195,368	\$4,242,281	\$3,321,671	\$920,610		\$34,019,730
27	6/30/2040	4,717,595	4,056,621	660,974		12,138,747	\$4,242,281	\$3,407,187	\$835,094		\$30,612,543
28	6/30/2041	4,717,595	4,242,272	475,323		7,896,475	\$4,242,281	\$3,494,905	\$747,377		\$27,117,638
29	6/30/2042	4,717,595	4,436,420	281,175		3,460,055	\$4,242,281	\$3,584,880	\$657,401		\$23,532,758
30	6/30/2043	3,538,197	3,460,055	78,142		0	\$4,242,281	\$3,677,173	\$565,109		\$19,855,585
31	6/30/2044						\$4,242,281	\$3,771,841	\$470,440		\$16,083,744
32	6/30/2045						\$4,242,281	\$3,868,947	\$373,335		\$12,214,797
33	6/30/2046						\$4,242,281	\$3,968,552	\$273,729		\$8,246,245
34	6/30/2047						\$4,242,281	\$4,070,722	\$171,559		\$4,175,523
35	6/30/2048						\$4,242,281	\$4,175,523	\$66,759		\$0

**[This page intentionally left blank.]**

RESOLUTION NO. \_\_\_\_\_

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE SANTA CLARITA VALLEY WATER AGENCY  
AUTHORIZING THE RESTRUCTURING OF THE VALENCIA  
WATER DIVISION ACQUISITION INTERFUND LOAN**

**WHEREAS**, on January 9, 2018 the Santa Clarita Valley Water Agency (“Agency”) adopted Resolution No. SCV-09 and authorized the Valencia Water Division Acquisition Interfund Loan for the Valencia Water Division (“VWD”) to reimburse the wholesale water system for moneys advanced to acquire the common stock of Valencia Water Company; and

**WHEREAS**, this was done as part of the dissolution of the Valencia Water Company and to comply with certain requirements in the Santa Clarita Valley Water Agency Act (SB 634); and

**WHEREAS**, the Board of Directors has determined that a restructure of the Acquisition Interfund Loan would benefit the customers of the legacy VWD while still achieving full recovery of the principal at loan maturity.

**NOW, THEREFORE**, the Board of Directors of the Santa Clarita Valley Water Agency hereby finds, determines, declares and resolves as follows:

**SECTION 1.** The Board hereby authorizes the restructuring of the Valencia Water Division Acquisition Interfund Loan as described in the schedule attached hereto as Exhibit A, which hereby replaces Exhibit A to Resolution No. SCV- 09.

**SECTION 2.** All of the other provisions of Resolution No. SCV-09 remain unchanged. This resolution and Resolution No. SCV-09 may be amended in the future by motion and majority vote of the Board.

**SECTION 3.** This resolution shall take effect immediately.

**[This page intentionally left blank.]**