



**SPECIAL
BOARD OF DIRECTORS
SAN LORENZO VALLEY WATER DISTRICT
AGENDA
June 6, 2019**

MISSION STATEMENT: Our Mission is to provide our customers and future generations with reliable, safe and high quality water at an equitable price; to create and maintain outstanding service and community relations; to manage and protect the environmental health of the aquifers and watersheds; and to ensure the fiscal vitality of the San Lorenzo Valley Water District.

Notice is hereby given that a special meeting of the Board of Directors of the San Lorenzo Valley Water District will be held on **Thursday, June 6, 2019 at 5:30 p.m.**, SLVWD, 13057 Highway 9, Boulder Creek, CA 95006.

1. Convene Meeting/Roll Call

2. Additions and Deletions to Agenda:

Additions to the Agenda, if any, may only be made in accordance with California Government Code Section 54954.2 (Ralph M. Brown Act) which includes, but is not limited to, additions for which the need to take action is declared to have arisen after the agenda was posted, as determined by a two-thirds vote of the Board of Directors (or if less than two-thirds of the members are present, a unanimous vote of those members present).

3. Unfinished Business:

Members of the public will be given the opportunity to address each scheduled item prior to Board deliberations. The Chairperson of the Board may establish a time limit for members of the public to address the Board on agenda items.

4. New Business:

Members of the public will be given the opportunity to address each scheduled item prior to Board deliberations. The Chairperson of the Board may establish a time limit for members of the public to address the Board on agenda items.

a. FINANCING TERMS AND CONDITIONS

Discussion and possible action by the Board directing staff to move forward with the proposed financing.

5. Adjournment

Certification of Posting

I hereby certify that on June 5, 2019 I posted a copy of the foregoing agenda in the outside display case at the District Office, 13060 Highway 9, Boulder Creek, California, said time being at least 24 hours in advance of the special meeting of the Board of Directors of the San Lorenzo Valley Water District (Government Code Section 54954.2).

Executed at Boulder Creek, California on June 5, 2019.

Holly Hossack, District Secretary

M E M O

TO: Board of Directors
PREPARED BY: Director of Finance
SUBJECT: Financing Terms & Conditions
DATE: June 6, 2019

BACKGROUND:

In 2018, the District researched multiple lenders to facilitate multiple lending options in the near future. MCM was the selected firm and helped with funding the Probation Tank project and then contracted to facilitate the future USDA bridge loan and Lompico AD loan.

We have been in contact the past few months, continuing to look at the most advantageous options. Current market rates have become significantly more favorable.

Another factor is the workload associated with the USDA loan process is a lot more burdensome and constricting. For example, if the current review of relocating the Swim Tanks become viable, that project will likely need to be pulled from the USDA package, or significantly delay the process.

Another aspect that we had begun to talk about was ways to help mitigate the high interest rates with the unfunded pension liability. The below is factoring a portion for that.

Financing proposal:

\$6M – Capital Projects, mainly being the ones itemized in the USDA package

\$2M – Lompico AD funding for capital projects

\$2.5M – Unfunded Pension Liability

\$10.5M Total Amount

RECOMMENDATIONS:

It is recommended, by motion of the Board, to direct staff to continue the financing process for Option B of the attached terms and conditions sheet. This will allow staff and the consultant to proceed to get final terms and agreements to bring back to the Board for a formal resolution and agreement.

May 29, 2019

Stephanie Hill
Director of Finance & Business Services
San Lorenzo Valley Water District
13060 CA-9, Boulder Creek, CA 95006

VIA EMAIL: shill@slvwd.com

Re: Updated Short Term & Long Term Note for the USDA Project

Dear Stephanie:

Municipal Capital Markets Group (“MCM”) is a registered investment bank with considerable underwriting experience for funding rural water / sewer projects in California, as well as collaborative relationship with the USDA- Rural Development to achieve the most aggressive rates and terms for rural borrowers. We have an engagement agreement from November to fund the Probation Tank as well as work with the USDA to fund the District’s capital improvements. We have performed the necessary credit and legal due diligence in contemplating the options highlighted herein which should save the District time and cost when deciding which direction is more advantageous. In the alternative funding “Option B”, we are using the same contemplated credit backstop as the USDA loan using solely District revenues.

In comparing the two options, we have used the same principal amounts to show the differences. **Option A** contemplates an integration of the USDA structure utilizing a 40 year bond and an interim financing, whereas **Option B** leverages a funding strategy without the USDA, which will mitigate legal costs (from the issuance in Q4 2018), and requires no reserve or contingency fund in contrast to the USDA debt option. In addition, we estimate that in Option B the District can save approximately ~\$1,000,000 by not requiring a reserve/contingency fund.

Attached is market data to highlight the current market rate conditions favorable for Option B (although we are flexible in any direction your board decides). Please do not hesitate to call with questions and we look forward to working with the SLVWD team.

Sincerely,



Christopher R. Perlitz
Managing Director
Municipal Capital Markets Group, Inc.
cperlitz@municapital.com
T (303) 779-4900 (ext. 6)



Terms:

Option A: USDA Direct Loan, Interim Financing for +/- \$6,000,000, Long Term Revenue Note for ~\$4,500,000

Interim Loan

Principal Amount: +/- \$6,000,000
Not to exceed interest rate: **3.20% Fixed**
Term: Estimated at 2 Years
Interest Rate Type: Fixed to Maturity
Estimated Closing Date: July/August 2019
Effective Rate: **2.04%**
(Effective Rate is a by-product of earnings from construction funds earning an estimated 2.50%).

USDA Loan

Principal Amount: +/- \$6,000,000
Rate: **4.00% Fixed**
Term: 40 Years
Interest Type: Fixed to Maturity
Estimated Closing: Construction Completion

Principal Amount: +/- \$4,500,000
Not to exceed interest rate: **3.00% Fixed**
Term: 30 Years
Interest Rate Type: Fixed to Maturity
Estimated Closing Date: July/August 2019

Option B: Revenue Bond (no USDA) for total a project(s) costs of ~\$10,500,000

Principal Amount: +/- \$10,500,000
Not to exceed interest rate: **3.00% Fixed**
Term: Estimated at 30 Years
Interest Rate Type: Fixed to Maturity
Estimated Closing Date: July/August 2019
*(Does **not** factor in earnings from construction fund), estimated earnings can be around 2.50%), for example, monies not spent on the project will earn an annual interest of \$25,000 per \$1,000,000.*

Issuance Cost: included in the above financing options, Investors will cover issuance costs which includes: legal / bond counsel, trustee bank fee, tax opinion, insurance (if applicable), and other cost of issuance.

Funding Date: Funding can occur within 30/60 days or less with mutually agreeable terms and conditions. The funding date the USDA will depend on satisfying USDA Letter of Conditions and Qualification Checklist.



Maturity Date: Mutually approved timeline agreed to by SLVWD, MCM, and USDA (if applicable).

Interest Payment: Payable at maturity, annually, semi-annually, or other dates mutually agreeable to all parties.

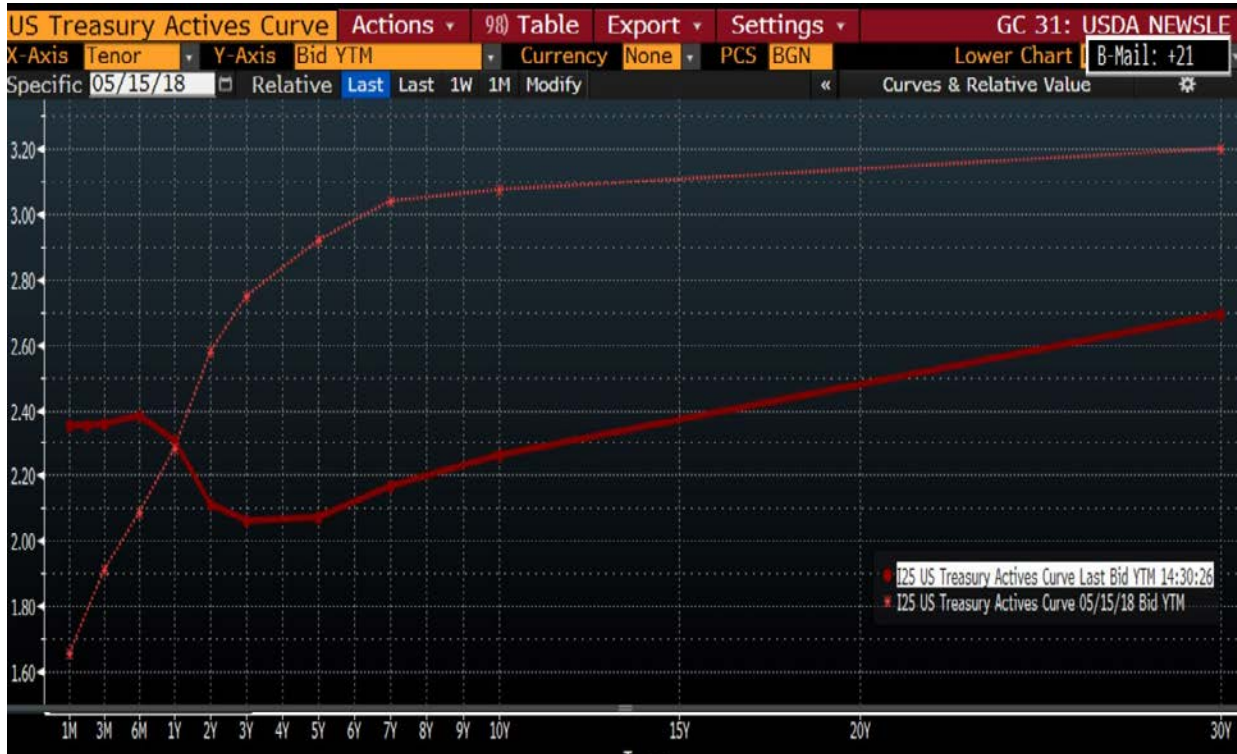
Additional Debt Test: The District shall provide a rate covenant on future debt on parity with these Notes.

No cash funded reserve requirement. The Maximum Annual Debt Service being paid for with a surety bond costing ~13,000, this cost will not be out of pocket.

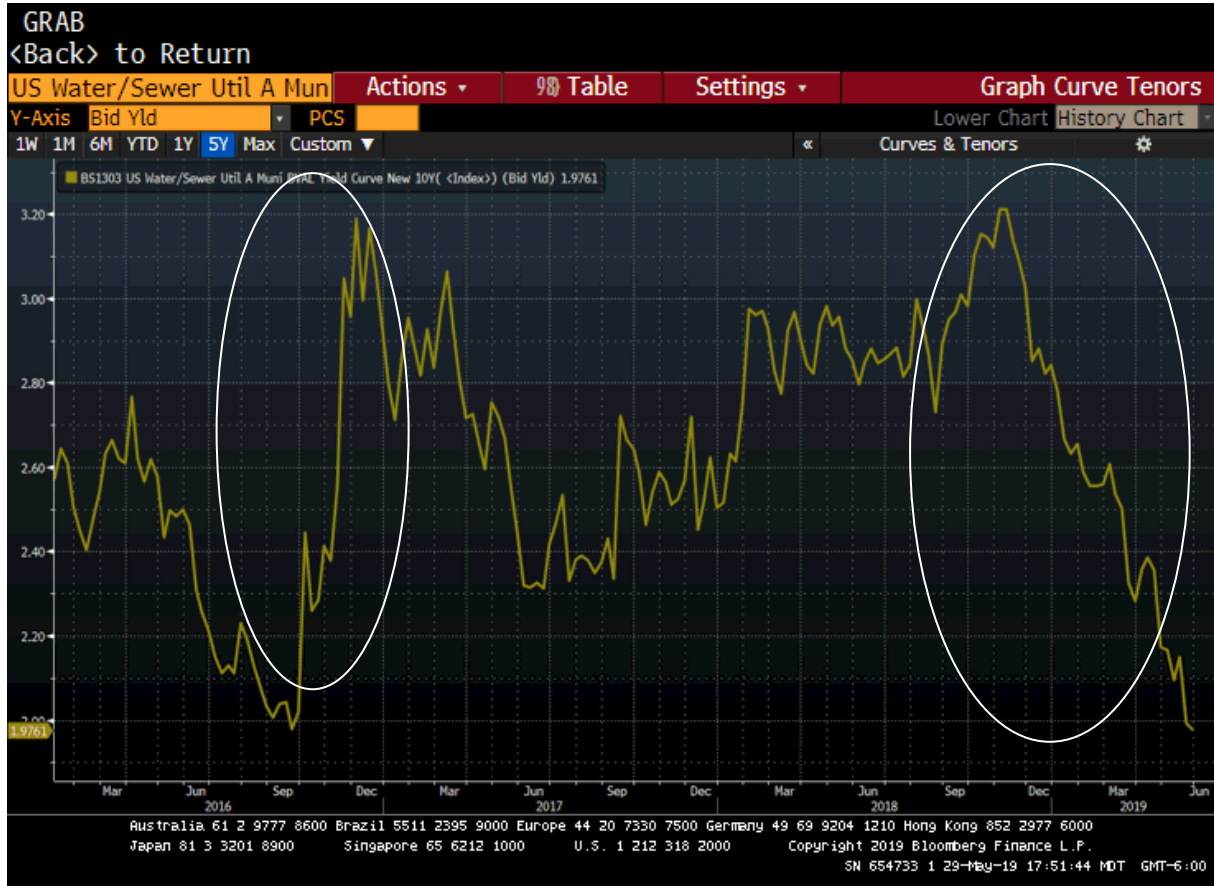
Conditions:

- Subject to legal opinions that SLVWD when entering into a loan has followed all California statutes. MCM anticipates that the tax-exempt opinion will be paid by MCM.
- Final Credit approval by MCM at its sole discretion.
- For both loan types, MCM anticipates that we will require the same security and conditions the USDA loan requires, District Revenues.
- Rates are valid for 30 days, if after 30 days we can index off MMD US Water/Sewer California Prices.

Market Trends



Over the last year, the above chart shows the US Treasury Rate changes from (5/15/18 to 5/29/19). On the long end of the curve rates have dropped, whereas on the short end of the curve rates have risen. Short terms rates impact the rate on the USDA interim loan and the long end of the curve rates impact an alternative tax-exempt long term structure (evidenced in Option B).



US Water/Sewer prices (a 10 year) have dropped significantly over the last few months. These are market trends which are indicative of the leverage for current SLVWD pricing. We estimate that the pricing since Feb. 15th has dropped by a staggering 23%. Important to note in the oval highlighting in 2016, that the rates rose significantly similar to the curve available in today's level, although the rate boost in 2016 was mostly driven by the Fed Rate increases.



Amortizations

USDA Option A

\$6,000,000 for USDA Interim @ 3.20%
 \$6,000,000 in USDA notes @ 4%
 \$4,500,000 Lompico & OPEB Liability @ 3%

Debt Service Schedule - Combined Payments

Date	Principal	Rate	USDA + Interim	Interest	Total P+I	
07/15/2019	-	-	-	-	-	Interim Loan
07/15/2020	95,000.00	3.000%	3.200%	327,000.00	422,000.00	
07/15/2021	100,000.00	3.000%	3.200%	324,150.00	424,150.00	
07/15/2022	170,000.00	3.000%	4.000%	369,150.00	539,150.00	Lompico Paid Off (10 year sunset)
07/15/2023	180,000.00	3.000%	4.000%	363,350.00	543,350.00	
07/15/2024	180,000.00	3.000%	4.000%	357,200.00	537,200.00	
07/15/2025	185,000.00	3.000%	4.000%	351,050.00	536,050.00	
07/15/2026	195,000.00	3.000%	4.000%	344,700.00	539,700.00	
07/15/2027	200,000.00	3.000%	4.000%	338,050.00	538,050.00	
07/15/2028	210,000.00	3.000%	4.000%	331,200.00	541,200.00	
07/15/2029	215,000.00	3.000%	4.000%	324,000.00	539,000.00	
07/15/2030	220,000.00	3.000%	4.000%	316,650.00	536,650.00	
07/15/2031	230,000.00	3.000%	4.000%	309,100.00	539,100.00	
07/15/2032	240,000.00	3.000%	4.000%	301,200.00	541,200.00	
07/15/2033	245,000.00	3.000%	4.000%	292,950.00	537,950.00	
07/15/2034	255,000.00	3.000%	4.000%	284,500.00	539,500.00	
07/15/2035	265,000.00	3.000%	4.000%	275,750.00	540,750.00	
07/15/2036	270,000.00	3.000%	4.000%	266,650.00	536,650.00	
07/15/2037	280,000.00	3.000%	4.000%	257,350.00	537,350.00	
07/15/2038	290,000.00	3.000%	4.000%	247,700.00	537,700.00	
07/15/2039	300,000.00	3.000%	4.000%	237,700.00	537,700.00	
07/15/2040	315,000.00	3.000%	4.000%	227,350.00	542,350.00	USDA Tail
07/15/2041	320,000.00	3.000%	4.000%	216,500.00	536,500.00	
07/15/2042	335,000.00	3.000%	4.000%	205,450.00	540,450.00	
07/15/2043	350,000.00	3.000%	4.000%	193,850.00	543,850.00	
07/15/2044	360,000.00	3.000%	4.000%	181,750.00	541,750.00	
07/15/2045	370,000.00	3.000%	4.000%	169,300.00	539,300.00	
07/15/2046	385,000.00	3.000%	4.000%	156,500.00	541,500.00	
07/15/2047	395,000.00	3.000%	4.000%	143,150.00	538,150.00	
07/15/2048	410,000.00	3.000%	4.000%	129,450.00	539,450.00	
07/15/2049	420,000.00	3.000%	4.000%	115,200.00	535,200.00	
07/15/2050	210,000.00	4.000%		100,600.00	310,600.00	
07/15/2051	220,000.00	4.000%		92,200.00	312,200.00	
07/15/2052	225,000.00	4.000%		83,400.00	308,400.00	
07/15/2053	235,000.00	4.000%		74,400.00	309,400.00	
07/15/2054	245,000.00	4.000%		65,000.00	310,000.00	
07/15/2055	255,000.00	4.000%		55,200.00	310,200.00	
07/15/2056	265,000.00	4.000%		45,000.00	310,000.00	
07/15/2057	275,000.00	4.000%		34,400.00	309,400.00	
07/15/2058	285,000.00	4.000%		23,400.00	308,400.00	
07/15/2059	300,000.00	4.000%		12,000.00	312,000.00	
Total	\$10,500,000.00	-		\$8,543,500.00	\$19,043,500.00	



Option B

\$2,000,000 Lompico @ 3%

\$10,500,000 in Revenue Bonds @ 3%

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	
07/15/2019	-	-	-	-	
07/15/2020	175,000.00	3.000%	315,000.00	490,000.00	
07/15/2021	180,000.00	3.000%	309,750.00	489,750.00	
07/15/2022	185,000.00	3.000%	304,350.00	489,350.00	
07/15/2023	190,000.00	3.000%	298,800.00	488,800.00	
07/15/2024	195,000.00	3.000%	293,100.00	488,100.00	
07/15/2025	200,000.00	3.000%	287,250.00	487,250.00	
07/15/2026	210,000.00	3.000%	281,250.00	491,250.00	
07/15/2027	215,000.00	3.000%	274,950.00	489,950.00	
07/15/2028	220,000.00	3.000%	268,500.00	488,500.00	
07/15/2029	230,000.00	3.000%	261,900.00	491,900.00	
07/15/2030	315,000.00	3.000%	255,000.00	570,000.00	
07/15/2031	325,000.00	3.000%	245,550.00	570,550.00	
07/15/2032	335,000.00	3.000%	235,800.00	570,800.00	
07/15/2033	345,000.00	3.000%	225,750.00	570,750.00	
07/15/2034	355,000.00	3.000%	215,400.00	570,400.00	
07/15/2035	365,000.00	3.000%	204,750.00	569,750.00	
07/15/2036	375,000.00	3.000%	193,800.00	568,800.00	
07/15/2037	390,000.00	3.000%	182,550.00	572,550.00	
07/15/2038	400,000.00	3.000%	170,850.00	570,850.00	
07/15/2039	415,000.00	3.000%	158,850.00	573,850.00	
07/15/2040	425,000.00	3.000%	146,400.00	571,400.00	
07/15/2041	440,000.00	3.000%	133,650.00	573,650.00	
07/15/2042	450,000.00	3.000%	120,450.00	570,450.00	
07/15/2043	465,000.00	3.000%	106,950.00	571,950.00	
07/15/2044	480,000.00	3.000%	93,000.00	573,000.00	
07/15/2045	495,000.00	3.000%	78,600.00	573,600.00	
07/15/2046	505,000.00	3.000%	63,750.00	568,750.00	
07/15/2047	525,000.00	3.000%	48,600.00	573,600.00	
07/15/2048	540,000.00	3.000%	32,850.00	572,850.00	
07/15/2049	555,000.00	3.000%	16,650.00	571,650.00	
Total	\$10,500,000.00	-	\$5,824,050.00	\$16,324,050.00	

Lompico - 10 Year
Sunset

Long Term Bonds



Comparison

Rate Difference (includes the same principal for both options)

Option A:

- **Term 40 Years @ 4%**
- Includes a USDA additional reserve fund and contingency reserve of ~\$1,000,000. The impact of the USDA reserve requirement will directly impact the annual payments and total payments.
- The effective rate or Net Interest Cost in Option A of 3.62% and a by-product of the additional \$4,500,000 blended in the amortization with the rate of 3%, interim loan at 3.20%, and the USDA rate of 4%.
- Also, note... A requirement of the USDA is that if issuers can refund or “Graduate” from their USDA direct loans, it is possible that the District will have to refund the USDA note in the next few years.
- Average life of the note: 22.46 years
- Total Principal and Interest Payments: **\$19,043,500**

Option B:

- **Term 30 Years @ 3%**
- The rate of 3% is effective throughout the terms.
- Average life of the note: 18.48 years
- Total Principal and Interest Payments: **\$16,324,050**

Debt Service Schedule - Option A

Yield Statistics

Average Life	22.466 Years
Average Coupon	3.6218153%
Net Interest Cost (NIC)	3.6218153%

Debt Service Schedule - Option B

Yield Statistics

Average Life	18.489 Years
Average Coupon	3.0000000%
Net Interest Cost (NIC)	3.0000000%