



AGENDA ITEM NO. 3.A.

DATE: October 11, 2016
TO: Board of Directors
FROM: Tammy Rudock, General Manager

SUBJECT: CONSIDER RESOLUTION 2016-20 APPROVING THE FORM AND AUTHORIZING AND DIRECTING THE EXECUTION OF CERTAIN INSTALLMENT SALE FINANCING DOCUMENTS IN CONNECTION WITH THE FINANCING OF THE ACQUISITION AND CONSTRUCTION OF CERTAIN IMPROVEMENTS AND FACILITIES WITHIN THE DISTRICT'S WATER SYSTEM, AUTHORIZING AND DIRECTING DISTRIBUTION OF A NOTICE OF INTENTION, A NOTICE OF SALE AND A PRELIMINARY OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF CERTIFICATES OF PARTICIPATION RELATED THERETO, AND DIRECTING CERTAIN ACTIONS WITH RESPECT THERETO

RECOMMENDATION

Approve Resolution 2016-20 approving the form and authorizing and directing the execution of certain installment sale financing documents in connection with the financing of the acquisition and construction of certain improvements and facilities within the District's water system, authorizing and directing distribution of a Notice of Intention, a Notice of Sale and a Preliminary Official Statement in connection with the related offering and sale of Certificates of Participation (the "COPs"), and directing certain related actions.

FISCAL IMPACT

Approximately \$1,045,000 debt service payment each fiscal year, for thirty (30) years, payable in two (2) equal installments each year beginning May 15, 2017. The COPs maturing on and after December 1, 2027, are callable on December 1, 2026 at par (100% of outstanding principal plus accrued interest).

Issuance Details:

Based on the Bond Market as of October 6, 2016, (actual amount to be determined by competitive bid):

- The par amount of the COPs is estimated at \$20,000,000;
- The structure of the pricing of the Bonds is estimated to produce premiums in excess of \$600,000;

- The “all in” true interest rate is estimated at 3.2%;
- The project fund is estimated to be approximately \$20,000,000; and
- The Debt Service Coverage Covenant is 1.30 and the Additional Bonds Test is also 1.30.

Attached are the following updated summaries from the Municipal Finance Advisor:

- Public Offering Summary, Premium 30-Years;
- Pay-Go Summary; and
- Recent Public Financing Comparisons.

Estimated Issuance Costs

All costs are contingent unless otherwise negotiated and will be paid from proceeds of the COPs at closing:

- The total cost of issuance consisting of Underwriter Discount, Bond and Disclosure Counsel, Municipal Advisor, Public Financing Corporation, Trustee, Rating Agency, Water Consultant, and Miscellaneous is estimated at \$438,578.

BACKGROUND

The Mid-Peninsula Water District (MPWD) has completed several strategic projects during the past 24 months, each of them building upon the other, in order to best consider the entire MPWD system and its capital infrastructure rehabilitation and improvement needs, namely:

- Construction standards and specifications;
- Water hydraulic modeling and capital program development;
- Water capacity charges update; and
- Water financial plan and rate study, including a 2016 update.

First, senior Operations staff, management, and the District Engineer teamed up and revised its construction standards and specifications. These were important not only for consistent construction application throughout the MPWD system for future operations and maintenance, but also in preparation for any major capital improvement program. They are posted at the MPWD website.

Next, in preparation of a meaningful capital program, the same team systematically reviewed the MPWD’s infrastructure and developed a water hydraulic model to identify deficiencies. This was an 18-month process and one in which institutional knowledge of the MPWD system blended with engineering know-how and management experience resulting in the development of a comprehensive list of needed capital projects within the MPWD system. A distribution system analysis was developed by the District Engineer for each project, including an engineering cost estimate. Nearly 90 capital projects were identified, totaling over \$50 million. Operations staff selected several pertinent criteria for evaluating the projects for prioritization. That priority list resulted in the MPWD’s proposed Capital Improvement Program (CIP). A 5-year CIP was developed from this list. The water hydraulic model is a valuable tool for operations and maintenance analyses, development assessments and fire flow reviews, and is maintained to keep it current.

Third, the MPWD hired an independent public finance consultant, Bartle Wells Associates, to work with staff for review and update of the MPWD's development impact fees and structure. That nearly 9-month process was thoroughly vetted by the Board of Directors to ensure transparent stakeholder and customer participation and input. The result was a Water Capacity Charges Update dated March 20, 2015 (posted at the MPWD website), and adopted by the Board of Directors per Ordinance No. 112 dated April 23, 2105. Not only were water capacity charges updated for new development requiring a "buy-in" to the MPWD system for its added service impact, but the MPWD also created water demand offset fees to manage the new demand within its available regional water system supply from San Francisco Public Utilities Commission (SFPUC). This is in addition to the new development requirements to comply with current building codes requiring high efficient water fixtures. These supplemental revenues depend upon the level of proposed development within the MPWD service area, but are additional resources for capital projects and water conservation/educational programs and public outreach.

Finally, the MPWD updated its water financial plan and reviewed its rates and structure, again with the assistance of Bartle Wells Associates. A rate workshop was held on March 26, 2015. A water financial plan and rate study was presented and adopted by the Board of Directors on May 26, 2015, including phased increases to the monthly fixed system charge and within the tiered structure. Further provisions adopted were pass-through of additional increases by SFPUC to projected wholesale water rates, and emergency water shortage rates should the MPWD experience a significant decrease in its water commodity revenues as a result of greater water use reductions due to a drought.

Water Finance and Rate Update

In FY 2015/2016, water conservation efforts resulted in lower revenue receipts and associated purchased water costs. Therefore, the MPWD contracted with Bartle Wells Associates to update its 2015 finance and rate study in order to adequately prepare for the FY 2016/2017 budget process. The Board received an updated financial report on April 24, 2016. The cash flow projections were decreased as a result of the reduced water consumption, while at the same time considering rate increases effective July 1, 2016. Bartle Wells Associates also took into consideration the potential for a debt financing, and concluded that an annual debt service payment of \$1,045,000 could be achieved, even with the reduced cash flow projections. Lastly, excess revenues were forecasted resulting in sufficient coverage required for a debt financing.

5-Year CIP and Financing Options

Since the completion of the above critical projects and since 2015, the MPWD has publicly engaged in discussions around options for implementing a CIP, funding alternatives, and financing details at the following Board meetings:

- October 11, 2016
- September 22, 2016
- August 25, 2016
- June 23, 2016
- May 26, 2016
- April 28, 2016

- March 24, 2016
- February 25, 2016
- January 28, 2016
- December 16, 2015
- November 16, 2015.

Prioritized projects were presented to and accepted by the Board as a capital program. Staff has been working with its municipal finance advisor, Wulff Hansen & Company, since January 2016, to identify potential options for financing a 5-year CIP. The Board of Directors considered three (3) 5-Year CIP alternatives at its regular meeting on May 26, 2016. They selected Alternative One totaling \$20,000,000 and approved Resolution No. 2016-06, which is attached, including the authorized 5-Year CIP.

MPWD Comprehensive System Analysis and CIP FY 2016/2017 Update

As a result of the detailed capital infrastructure modeling and analyses performed, the District Engineer and staff created a report entitled *MPWD Comprehensive System Analysis and Capital Improvement Program FY 2016/2017 Update*, which was adopted by the Board at its regular meeting on May 26, 2016 (via Resolution No. 2016-06). It is posted at the MPWD website.

During the summer of 2016, the District Engineer and staff developed an added section to the *MPWD Comprehensive System Analysis and Capital Improvement Program FY 2016/2017 Update*, including their asset management analysis of MPWD water mains and storage tanks and annual pay-go reinvestment requirements. The added section was presented to the Board during its regular meeting on August 25, 2016.

DISCUSSION

Last month the MPWD Board of Directors authorized the financing of a portion of its 5-Year CIP and directed staff and its financing team to move forward and bring back the documents for review and consideration.

A competitive bid process was initiated for a trustee, and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), was selected.

The following documents (summary descriptions below) are attached and part of the MPWD's proposed financing package:

1. **Resolution 2016-20 approving the form and authorizing and directing the execution of certain Installment Sale financing documents in connection with the financing of the acquisition and construction of certain improvement and facilities within the District's water system, authorizing and directing distribution of a Notice of Intention, a Notice of Sale and a Preliminary Official Statement in connection with the offering and sale of Certificates of Participation related thereto, and directing certain actions with respect thereto**—Once approved, this resolution will authorize the General Manager, District Counsel, and Bond Counsel to finalize the legal wording of the financing documents and coordinate execution of the documents by the General Manager and/or designed officers. A follow-up financing report will be provided

to the Board of Directors by the Municipal Finance Advisor team at the Board's December 15, 2016 regular meeting.

2. **Notice of Intention**—As required by California law, the notice of intention is published in the *Bond Buyer*, a municipal bond industry newspaper, and provides notice to the prospective bidders of the COPs of the time, date and location of the competitive sale.
3. **Notice of Sale**—The notice of sale is a summary of the financing (see Preliminary Official Statement below) providing some of the highlights of the issue, including some basic information about the District, the terms of the financing and parameters for bidding. It is circulated to all prospective bidders.
4. **Installment Sale Agreement**—This is the agreement pursuant to which the District “purchases” the financed project from the Public Property Financing Corporation of California (the “Corporation”), an independent entity that assists issuers in COP financings. The term of this agreement is through December 1, 2046. This agreement requires the District to make semi-annual installment payments, which include a principal component and an interest component. The payments made by the District will be assigned by the Corporation to the Trustee which will execute and deliver the COPs to the successful bidder. The District's installment payments will be used to make the debt service payments on the COPs.
5. **Trust Agreement**—This is the agreement pursuant to which the Trustee will hold, invest and disburse certificate proceeds for the project and will collect installment payments from the District for disbursement to the investors.
6. **Continuing Disclosure Certificate**—Since the COPs will continue to be purchased and sold by investors in the secondary market, all issuers of municipal securities are obligation to provide information to the market so that financial and operating data of the District is kept up to date. This document sets for the obligations of the District in providing this information.
7. **Preliminary Official Statement**—This is the offering document (similar to a prospectus) which provides a detailed description of the District, the issue, and the sources of payment. This document permits prospective investors to make an informed investment decision regarding a purchase of the COPs

ESTIMATED SCHEDULE

October 11	Board approval of documents and POS, authorization to issue Notice of Sale, and designation of officers to execute final documents
October 14	Initiate bond rating process
October 20	Bond rating calls
October 26	Receipt of bond rating

October 28 Finalize bond size and POS and NOS (Notice of Sale)
November 2 Post NOS mail POS to bidders
November 15 Receive bids; award sale
November 30 Pre-close bond issue
December 1 Close bond issue
December 15 Report sale results to MPWD Board

Attachments: Resolution 2016-20
 Public Offering Summary, Premium 30-Years;
 Pay-Go Summary; and
 Recent Public Financing Comparisons
 Notice of Intention
 Notice of Sale
 Installment Sale Agreement
 Trust Agreement
 Continuing Disclosure Certificate
 Preliminary Official Statement

BOARD ACTION: APPROVED:_____ DENIED:_____ POSTPONED:_____ STAFF DIRECTION:_____

UNANIMOUS_____ ZUCCA_____ WARDEN_____ STUEBING_____ VELLA_____ LINVILL_____