



Memorandum

Date: July 13, 2017

To: Board of Directors

From: Dan Bills, Finance Director

Subject: Letter of Credit Extension with Sumitomo Mitsui Banking Corporation

Since the July 17, 2017 Regular Board Meeting Agenda was posted, new information has been received by staff relating to the Letter-of-Credit support from Sumitomo Mitsui Banking Corporation which is due to expire in June 2018. Staff will request that the Board approve a late addition to the agenda when they meet on Monday at the July 17, 2017 Regular Board Meeting. A 4/5ths vote of the Board of Directors will be required to add this item to the Agenda. The staff report is attached.



Agenda Item: X

Date: July 13, 2017

Subject: Letter of Credit Extension with Sumitomo Mitsui Banking Corporation

Staff Contact: Daniel A. Bills, Finance Director

Recommended Board Action:

1. Authorize the District's Financing Team to review the Letter-of-Credit (LOC) Extension offer from Sumitomo Mitsui Banking Corporation (SMBC). Financing Team consists of:
 - a. Bond Counsel – Stradling, Yocca, Carlson & Rauth – Doug Brown, Esq. *
 - b. Financial Advisor – Fieldman, Rolapp & Associates – Robert Porr
 - c. Remarketing Agent & Underwriter – Citigroup Global Markets *
 - d. District's Counsel – Bartkiewicz, Kronick & Shanahan
 - e. Trustee – MUFG Union Bank, N.A. *

2. Direct staff to analyze the LOC offer and bring the results to the first Board meeting after the analysis is complete.

*Paid upon successful closure of transaction.

Discussion:

After the Board materials were delivered on Thursday, July 13, 2017, in discussions with the District's Financial Advisor, staff learned the details of an SMBC offer to extend its LOC with the District for another 3 to 5 years. Currently, the District's LOC with SMBC is set to expire on June 30, 2018 for which the District is paying 45 basis points per annum. The new offer from SMBC is for 3 to 4 years at 45 basis points per annum or 5 years at 48 basis points. As the offer from SMBC will expire in August 2018, staff will need to assemble the Financing Team prior to the next regularly scheduled Board meeting to have sufficient time to analyze the three options and be prepared to present the results to the Board. As interest rates are expected to rise over the near term, staff believes early action to lock in the current offer may save ratepayers money.

Background

In December 2004, the District issued \$42 million of variable-rate debt primarily for the purpose of constructing surface water infrastructure assets in the District's South Service Area (SSA). In the municipal financial markets, variable-rate debt and its counter-part – fixed-rate debt, often trade poorly due to the limited number of potential investors and the liquidity concerns of such investors. Accordingly, investors require that municipal debt be liquid (i.e., available to willing buyers). Variable-rate debt meets this test in two ways – 1) rates are reset and sale eligibility is weekly, and 2) when accompanied by a LOC, a willing buyer is always there.

The District currently has a LOC on its variable-rate debt (Series 2009A) with SMBC. The LOC's term will expire on June 30, 2018. The District currently pays SMBC a Facility-Fee for the LOC of 45 basis points (bps) per annum or roughly \$189,000 per year. As the LOC will expire in 2018, staff requested the District's Financial Advisor, Fieldman, Rolapp & Associates, to begin discussions with SMBC on extending/renewing the LOC.

Fiscal Impact:

Upfront costs are estimated at \$35,000.

Strategic Plan Alignment:

Finance - 4.F. Monitor the District's debt portfolio to manage debt risk and minimize District costs.