

Agenda

Sacramento Suburban Water District

Finance and Audit Committee

3701 Marconi Avenue, Suite 100
Sacramento, CA 95821

Wednesday, February 7, 2018
3:00 p.m.

Where appropriate or deemed necessary, the Board may take action on any item listed on the agenda, including items listed as information items. Public documents relating to any open session item listed on this agenda that are distributed to all or a majority of the members of the Board of Directors less than 72 hours before the meeting are available for public inspection in the customer service area of the District's Administrative Office at the address listed above.

The public may address the Board concerning an agenda item either before or during the Board's consideration of that agenda item. Persons who wish to comment on either agenda or non-agenda items should fill out a Comment Card and give it to the General Manager. The President will call for comments at the appropriate time. Comments will be subject to reasonable time limits (3 minutes).

In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability-related modification or accommodation to participate in this meeting, then please contact Sacramento Suburban Water District Human Resources at 679.3972. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

Call to Order

Roll Call

Announcements

Public Comment

This is the opportunity for the public to comment on non-agenda items within the Committee's jurisdiction. Comments are limited to 3 minutes.

Items for Discussion and Action

1. Pre-Field Work Discussion with Independent Auditor
Discussion with Ms. Ingrid Sheipline of Richardson & Company, LLP.
2. Potential Refunding Opportunity – 2009B Certificate of Participation (COP)
Discussion and possible action on a potential refunding opportunity for the Series 2009B COP.
3. Proposed Revisions to Debt Management Policy, PL – Fin 011
Discussion and possible action on District's Debt Management Policy, PL – Fin 011.

Adjournment

Upcoming Meetings:

Monday, February 12, 2018 at 3:00 p.m., Facilities and Operations Committee Meeting
Monday, February 26, 2018 at 6:00 p.m., Regular Board Meeting

I certify that the foregoing agenda for the February 7, 2018, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by February 2, 2018, in a publicly-accessible location at the Sacramento Suburban Water District office, 3701 Marconi Avenue, Suite 100, Sacramento, California, and was made available to the public during normal business hours.

Daniel R. York
General Manager/Secretary
Sacramento Suburban Water District



Agenda Item: 1

Date: February 1, 2018

Subject: Pre-Field Work Discussion with Independent Auditor

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Discuss areas of focus and concerns the Committee feels are pertinent to the 2017 financial statements with the Independent Auditor. Receive Auditor confirmation audit scope.

Discussion:

As part of the Engagement Letter the Board approved last Fall, is the delegation of authority to the Committee to supervise the Auditors work on behalf of the Board. Accordingly, time is set aside at the beginning of each audit for the Committee to discuss their concerns and to gain from the Auditor a better understanding of the scope and testing that is done as part of the audit.

Fiscal Impact:

\$41,290 – per Audit Engagement Letter with Richardson & Company, LLP - \$34,920 for the audit and \$6,370 for the Board requested additional procedures.

Strategic Plan Alignment:

Finance – 4.G. Produce annual financial statements and supporting documentation to allow outside auditors to provide the District with unqualified audit opinions.

The annual financial report is a benefit to District customers as it demonstrates the District's commitment to financial transparency.



Agenda Item: 2

Date: February 1, 2018

Subject: Potential Refunding Opportunity – 2009B Certificate of Participation (COP)

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Staff proposes the Committee recommend to the full Board at the February 26, 2018 regularly scheduled Board meeting, the following:

In consultation with the District's Financial Advisor, Mr. Robert Porr of Fieldman, Rolapp & Associates and Investment Banker/Underwriter, Mr. Jonathan Ash of Citigroup, staff recommends the District proceed with an advance refunding of the 2009B COPs. Based on current market conditions, if the refunding proceeds, it is estimated the District will realize approximately \$400,000 in savings per annum, (except for the initial period which will be approximately seven months of the District's fiscal year and the final fiscal year), through 2028 when the bond matures.

Further, staff proposes utilizing the following financial service firms for the potential refunding, namely – Citigroup Global Markets Inc. as Underwriter and Investment Banker; Stradling Yocca Carlson & Rauth, A Professional Corporation as Bond Counsel; Bartkiewicz, Kronick, & Shanahan, A Professional Corporation as General Counsel; Fieldman, Rolapp & Associates as Financial Advisor, and Union Bank of California, N.A. as Trustee; and where appropriate such other firms necessary to complete a potential 2009B COP refunding.

Discussion:

Due to the current municipal market rate environment, there is an opportunity to advance refund the 2009B COPs and produce an average annual cash flow savings of approximately \$400,000 per fiscal year through 2028 (except for the initial period which will be approximately seven months of the District's fiscal year and the final fiscal year). Such savings are achieved through a combination of refinancing to lower rates (true interest cost of roughly 3.44%), achieved through a combination of shorter maturities and current market conditions, and releasing \$3.5 million of existing debt reserves that are currently outstanding to pay down existing debt. (Debt issuance costs are expected to be roughly \$300,000. Presently, \$22.1 million of the original \$36.2 million is outstanding.) Offsetting these savings is the loss of the ability to refund at a tax-exempt rate anytime in the future. If the District were to wait until 2019, it could execute a current refunding and refinance at a tax-exempt rate, however there is the risk market rates could raise over the next 19 months and the potential savings available in this market environment could be lost. (Note: tax-exempt rates would need to rise more than 196 basis points by November 2019 in order to offset the savings of issuing at a taxable rate now.)

In order to consider a refunding opportunity as financially viable, certain metrics are typically used by the financial community that serve as a minimum threshold. One metric is called “Escrow Efficiency.” This metric suggests an economic advantage may be present if the Escrow Efficiency is greater than 70%. The Escrow Efficiency for this proposed transaction is approximately 74%. The other metric is the Net Present Value or NPV. For this metric an economic advantage may exist if the NPV exceeds 3%. The NPV for this proposed transaction is approximately 5.3%. Thus, there is a refunding case to be made.

The preliminary results of the Financing Team are attached and will be presented in the following order:

1. Staff presentation – general overview.
2. Exhibit 1 - Citigroup’s analysis of the 2009B COP refunding opportunity.
3. Exhibit 2 - Fieldman, Rolapp and Associates analysis of the 2009B COP refunding opportunity as well as other issues for the District to consider concerning its debt management.

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(Proposed Refunding of Callable Maturities of Series 2009B COPs)
>> REFUNDING OF ALL BONDS + FULL PRIOR RESERVE RELEASE <<
Market Rates and Assumptions as of January 30, 2018
PRELIMINARY / SUBJECT TO CHANGE

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SOURCES AND USES OF FUNDS

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
 >> REFUNDING OF ALL BONDS + FULL PRIOR RESERVE RELEASE <<
 Market Rates and Assumptions as of January 30, 2018
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Sources:

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Bond Proceeds:	
Par Amount	19,825,000.00
Other Sources of Funds:	
Incremental DSRF Release	3,517,500.00
	<hr/>
	23,342,500.00
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Uses:

<hr/>	
Refunding Escrow Deposits:	
Cash Deposit	0.29
SLGS Purchases	23,068,541.00
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	23,068,541.29
Delivery Date Expenses:	
Cost of Issuance	180,000.00
Underwriter's Discount	89,212.50
	<hr/>
	269,212.50
Other Uses of Funds:	
Additional Proceeds	4,746.21
	<hr/>
	23,342,500.00
	<hr/> <hr/>

Note: Scale assumes market rates with an additional 15 basis point cushion to accommodate for potential volatility.

BOND SUMMARY STATISTICS

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
 >> REFUNDING OF ALL BONDS + FULL PRIOR RESERVE RELEASE <<
 Market Rates and Assumptions as of January 30, 2018
 PRELIMINARY / SUBJECT TO CHANGE

Dated Date	05/15/2018
Delivery Date	05/15/2018
Last Maturity	11/01/2028
Arbitrage Yield	3.338202%
True Interest Cost (TIC)	3.439177%
Net Interest Cost (NIC)	3.446294%
All-In TIC	3.645175%
Average Coupon	3.357047%
Average Life (years)	5.042
Duration of Issue (years)	4.537
Par Amount	19,825,000.00
Bond Proceeds	19,825,000.00
Total Interest	3,355,755.85
Net Interest	3,444,968.35
Total Debt Service	23,180,755.85
Maximum Annual Debt Service	2,969,364.75
Average Annual Debt Service	2,215,898.06
Underwriter's Fees (per \$1000)	
Average Takedown	
Other Fee	4.500000
Total Underwriter's Discount	4.500000
Bid Price	99.550000

Bond Component	Par Value	Price	Average Coupon	Average Life	PV of 1 bp change
Bond Component	19,825,000.00	100.000	3.357%	5.042	8,794.95
	19,825,000.00			5.042	8,794.95

	TIC	All-In TIC	Arbitrage Yield
Par Value	19,825,000.00	19,825,000.00	19,825,000.00
+ Accrued Interest			
+ Premium (Discount)			
- Underwriter's Discount	-89,212.50	-89,212.50	
- Cost of Issuance Expense		-180,000.00	
- Other Amounts			
Target Value	19,735,787.50	19,555,787.50	19,825,000.00
Target Date	05/15/2018	05/15/2018	05/15/2018
Yield	3.439177%	3.645175%	3.338202%

BOND PRICING

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
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 PRELIMINARY / SUBJECT TO CHANGE

Bond Component	Maturity Date	Amount	Rate	Yield	Price
Bond Component:					
	11/01/2018	2,205,000	1.950%	1.950%	100.000
	11/01/2019	2,225,000	2.530%	2.530%	100.000
	11/01/2020	2,300,000	2.630%	2.630%	100.000
	11/01/2021	2,375,000	2.820%	2.820%	100.000
	11/01/2022	2,430,000	3.060%	3.060%	100.000
	11/01/2023	1,005,000	3.210%	3.210%	100.000
	11/01/2024	1,035,000	3.350%	3.350%	100.000
	11/01/2025	1,075,000	3.450%	3.450%	100.000
	11/01/2026	1,100,000	3.530%	3.530%	100.000
	11/01/2027	1,160,000	3.630%	3.630%	100.000
	11/01/2028	2,915,000	3.730%	3.730%	100.000
		19,825,000			

Dated Date	05/15/2018	
Delivery Date	05/15/2018	
First Coupon	11/01/2018	
Par Amount	19,825,000.00	
Original Issue Discount		
Production	19,825,000.00	100.000000%
Underwriter's Discount	-89,212.50	-0.450000%
Purchase Price	19,735,787.50	99.550000%
Accrued Interest		
Net Proceeds	19,735,787.50	

Note: Scale assumes market rates with an additional 15 basis point cushion to accommodate for potential volatility.

SUMMARY OF REFUNDING RESULTS

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
 >> REFUNDING OF ALL BONDS + FULL PRIOR RESERVE RELEASE <<
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Dated Date	05/15/2018
Delivery Date	05/15/2018
Arbitrage yield	3.338202%
Escrow yield	1.936686%
Value of Negative Arbitrage	421,507.49
Bond Par Amount	19,825,000.00
True Interest Cost	3.439177%
Net Interest Cost	3.446294%
Average Coupon	3.357047%
Average Life	5.042
Par amount of refunded bonds	22,065,000.00
Average coupon of refunded bonds	5.264824%
Average life of refunded bonds	5.326
PV of prior debt to 05/15/2018 @ 3.338202%	24,099,242.72
Net PV Savings	1,174,228.42
Percentage savings of refunded bonds	5.321679%
Percentage savings of refunding bonds	5.922968%

Note: Assumes the prior DSRF is released into the Series 2018A Bonds. Assumes foregone interest earnings at 2.00%.

SAVINGS

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
 >> REFUNDING OF ALL BONDS + FULL PRIOR RESERVE RELEASE <<
 Market Rates and Assumptions as of January 30, 2018
 PRELIMINARY / SUBJECT TO CHANGE

Date	Prior Debt Service	Prior Receipts	Prior Net Cash Flow	Refunding Debt Service	Savings	Present Value to 05/15/2018 @ 3.3382020%
06/30/2019	3,222,625.00	67,614.17	3,155,010.83	2,755,171.10	399,839.73	390,450.78
06/30/2020	3,211,287.50	70,350.00	3,140,937.50	2,748,657.25	392,280.25	370,921.61
06/30/2021	3,229,325.00	70,350.00	3,158,975.00	2,765,266.00	393,709.00	360,594.83
06/30/2022	3,242,950.00	70,350.00	3,172,600.00	2,776,533.50	396,066.50	351,377.42
06/30/2023	3,227,062.50	70,350.00	3,156,712.50	2,760,867.00	395,845.50	340,188.12
06/30/2024	1,746,262.50	70,350.00	1,675,912.50	1,282,557.75	393,354.75	327,252.66
06/30/2025	1,743,362.50	70,350.00	1,673,012.50	1,279,091.25	393,921.25	317,295.52
06/30/2026	1,749,078.13	70,350.00	1,678,728.13	1,283,211.25	395,516.88	308,467.48
06/30/2027	1,734,906.26	70,350.00	1,664,556.26	1,270,252.50	394,303.76	297,767.23
06/30/2028	1,755,953.13	70,350.00	1,685,603.13	1,289,783.50	395,819.63	289,447.67
06/30/2029	3,433,750.00	3,552,675.00	-118,925.00	2,969,364.75	-3,088,289.75	-2,184,281.11
	28,296,562.52	4,253,439.17	24,043,123.35	23,180,755.85	862,367.50	1,169,482.21

Savings Summary

PV of savings from cash flow	1,169,482.21
Plus: Refunding funds on hand	4,746.21
Net PV Savings	1,174,228.42

Note: Assumes the prior DSRF is released into the Series 2018A Bonds. Assumes foregone interest earnings at 2.00%.

BOND DEBT SERVICE

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
 >> REFUNDING OF ALL BONDS + FULL PRIOR RESERVE RELEASE <<
 Market Rates and Assumptions as of January 30, 2018
 PRELIMINARY / SUBJECT TO CHANGE

Period Ending	Principal	Coupon	Interest	Debt Service
06/30/2019	2,205,000	1.950%	550,171.10	2,755,171.10
06/30/2020	2,225,000	2.530%	523,657.25	2,748,657.25
06/30/2021	2,300,000	2.630%	465,266.00	2,765,266.00
06/30/2022	2,375,000	2.820%	401,533.50	2,776,533.50
06/30/2023	2,430,000	3.060%	330,867.00	2,760,867.00
06/30/2024	1,005,000	3.210%	277,557.75	1,282,557.75
06/30/2025	1,035,000	3.350%	244,091.25	1,279,091.25
06/30/2026	1,075,000	3.450%	208,211.25	1,283,211.25
06/30/2027	1,100,000	3.530%	170,252.50	1,270,252.50
06/30/2028	1,160,000	3.630%	129,783.50	1,289,783.50
06/30/2029	2,915,000	3.730%	54,364.75	2,969,364.75
	19,825,000		3,355,755.85	23,180,755.85

SUMMARY OF BONDS REFUNDED

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
 >> REFUNDING OF ALL BONDS + FULL PRIOR RESERVE RELEASE <<
 Market Rates and Assumptions as of January 30, 2018
 PRELIMINARY / SUBJECT TO CHANGE

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Refunding Revenue Certificates of Participation, 2009B, 2009B:					
SERIAL	11/01/2018	5.000%	2,135,000.00		
	11/01/2019	4.750%	2,230,000.00		
	11/01/2020	5.000%	2,360,000.00	11/01/2019	100.000
	11/01/2021	5.000%	2,495,000.00	11/01/2019	100.000
	11/01/2022	5.250%	2,610,000.00	11/01/2019	100.000
	11/01/2023	5.250%	1,230,000.00	11/01/2019	100.000
	11/01/2024	5.500%	1,295,000.00	11/01/2019	100.000
	11/01/2025	5.625%	1,375,000.00	11/01/2019	100.000
	11/01/2026	5.625%	1,440,000.00	11/01/2019	100.000
	11/01/2027	5.625%	1,545,000.00	11/01/2019	100.000
	11/01/2028	5.000%	3,350,000.00	11/01/2019	100.000
			22,065,000.00		

ESCROW REQUIREMENTS

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
Taxable Refunding Revenue Bonds, Series 2018A
(Proposed Refunding of Callable Maturities of Series 2009B COPs)
>> REFUNDING OF ALL BONDS + FULL PRIOR RESERVE RELEASE <<
Market Rates and Assumptions as of January 30, 2018
PRELIMINARY / SUBJECT TO CHANGE

Period Ending	Principal	Interest	Principal Redeemed	Total
11/01/2018	2,135,000.00	570,500.00		2,705,500.00
05/01/2019		517,125.00		517,125.00
11/01/2019	2,230,000.00	517,125.00	17,700,000.00	20,447,125.00
	4,365,000.00	1,604,750.00	17,700,000.00	23,669,750.00

ESCROW DESCRIPTIONS

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
 >> REFUNDING OF ALL BONDS + FULL PRIOR RESERVE RELEASE <<
 Market Rates and Assumptions as of January 30, 2018
 PRELIMINARY / SUBJECT TO CHANGE

Type of Security	Type of SLGS	Maturity Date	First Int Pmt Date	Par Amount	Rate	Max Rate	Total Cost
May 15, 2018:							
SLGS	Certificate	11/01/2018	11/01/2018	2,504,541	1.590%	1.590%	2,504,541.00
SLGS	Certificate	05/01/2019	05/01/2019	314,310	1.780%	1.780%	314,310.00
SLGS	Note	11/01/2019	11/01/2018	20,249,690	1.950%	1.950%	20,249,690.00
				23,068,541			23,068,541.00

SLGS Summary

SLGS Rates File	29JAN18
Total Certificates of Indebtedness	2,818,851.00
Total Notes	20,249,690.00
Total original SLGS	23,068,541.00

ESCROW COST

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
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 Market Rates and Assumptions as of January 30, 2018
 PRELIMINARY / SUBJECT TO CHANGE

Type of Security	Maturity Date	Par Amount	Rate	Total Cost
SLGS	11/01/2018	2,504,541	1.590%	2,504,541.00
SLGS	05/01/2019	314,310	1.780%	314,310.00
SLGS	11/01/2019	20,249,690	1.950%	20,249,690.00
		23,068,541		23,068,541.00

Purchase Date	Cost of Securities	Cash Deposit	Total Escrow Cost	Yield
05/15/2018	23,068,541	0.29	23,068,541.29	1.936686%
	23,068,541	0.29	23,068,541.29	

ESCROW CASH FLOW

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
 >> REFUNDING OF ALL BONDS + FULL PRIOR RESERVE RELEASE <<
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Date	Principal	Interest	Net Escrow Receipts	Present Value to 05/15/2018 @ 1.9366861%
11/01/2018	2,504,541.00	200,959.62	2,705,500.62	2,681,562.52
05/01/2019	314,310.00	202,814.61	517,124.61	507,633.49
11/01/2019	20,249,690.00	197,434.48	20,447,124.48	19,879,344.99
	23,068,541.00	601,208.71	23,669,749.71	23,068,541.00

Escrow Cost Summary

Purchase date	05/15/2018
Purchase cost of securities	23,068,541.00
Target for yield calculation	23,068,541.00

ESCROW SUFFICIENCY

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
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 Market Rates and Assumptions as of January 30, 2018
 PRELIMINARY / SUBJECT TO CHANGE

Date	Escrow Requirement	Net Escrow Receipts	Excess Receipts	Excess Balance
05/15/2018		0.29	0.29	0.29
11/01/2018	2,705,500.00	2,705,500.62	0.62	0.91
05/01/2019	517,125.00	517,124.61	-0.39	0.52
11/01/2019	20,447,125.00	20,447,124.48	-0.52	
	23,669,750.00	23,669,750.00	0.00	

ESCROW STATISTICS

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
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Total Escrow Cost	Modified Duration (years)	PV of 1 bp change	Yield to Receipt Date	Yield to Disbursement Date	Perfect Escrow Cost	Value of Negative Arbitrage	Cost of Dead Time
Global Proceeds Escrow: 23,068,541.29	1.321	3,047.23	1.936686%	1.936686%	22,647,033.77	421,507.49	0.03
23,068,541.29		3,047.23			22,647,033.77	421,507.49	0.03

Delivery date 05/15/2018
 Arbitrage yield 3.338202%
 Composite Modified Duration 1.321

PRIOR BOND DEBT SERVICE

SACRAMENTO SUBURBAN WATER DISTRICT ('SSWD')
 Taxable Refunding Revenue Bonds, Series 2018A
 (Proposed Refunding of Callable Maturities of Series 2009B COPs)
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 PRELIMINARY / SUBJECT TO CHANGE

Period Ending	Principal	Coupon	Interest	Debt Service
06/30/2019	2,135,000	5.000%	1,087,625.00	3,222,625.00
06/30/2020	2,230,000	4.750%	981,287.50	3,211,287.50
06/30/2021	2,360,000	5.000%	869,325.00	3,229,325.00
06/30/2022	2,495,000	5.000%	747,950.00	3,242,950.00
06/30/2023	2,610,000	5.250%	617,062.50	3,227,062.50
06/30/2024	1,230,000	5.250%	516,262.50	1,746,262.50
06/30/2025	1,295,000	5.500%	448,362.50	1,743,362.50
06/30/2026	1,375,000	5.625%	374,078.13	1,749,078.13
06/30/2027	1,440,000	5.625%	294,906.26	1,734,906.26
06/30/2028	1,545,000	5.625%	210,953.13	1,755,953.13
06/30/2029	3,350,000	5.000%	83,750.00	3,433,750.00
	22,065,000		6,231,562.52	28,296,562.52



OVERVIEW OF REFUNDING REVENUE CERTIFICATES OF PARTICIPATION, SERIES 2009B POTENTIAL REFUNDING PRESENTATION

January 31, 2018

REFUNDING OF 2009B REFUNDING REVENUE
CERTIFICATES OF PARTICIPATION



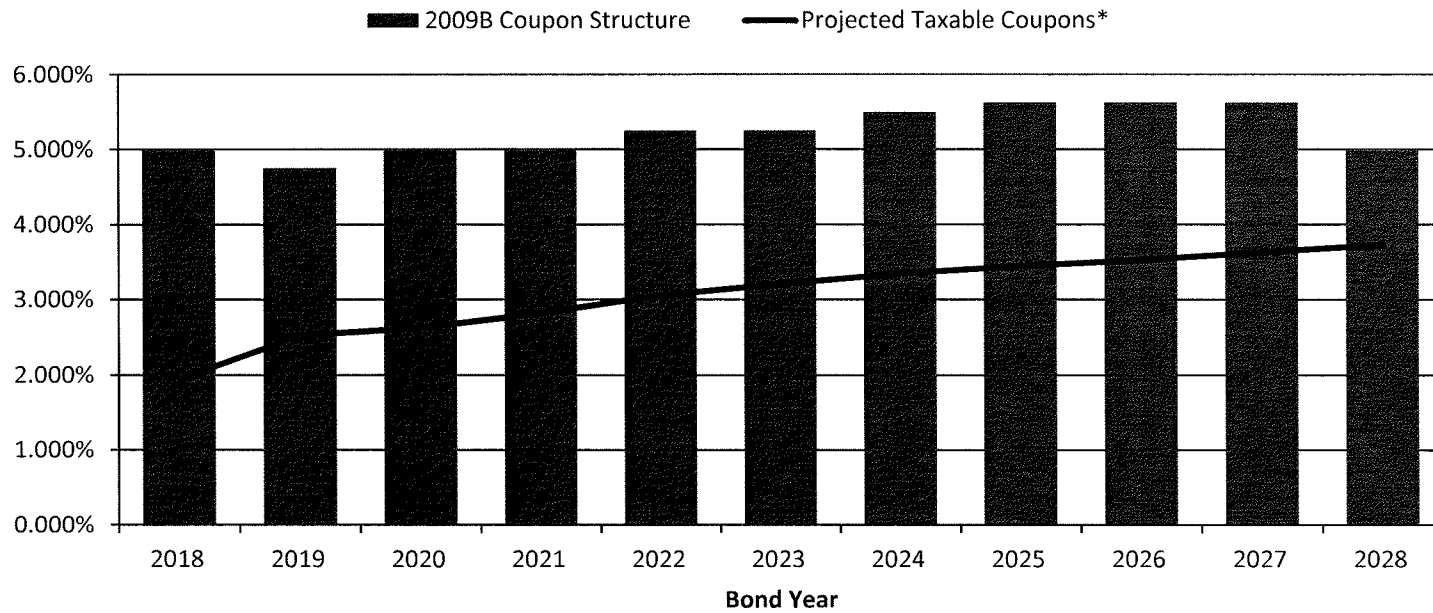
REFUNDING OVERVIEW

⇒ 2009B Refunding Revenue Certificates of Participation (“Certificates”)

- ◆ 2009B Certificates issued to refund Series 2004 Adjustable Rate Revenue COPs
 - ✓ Due to federal tax code changes in 2017, the 2009B Certificates cannot be advance refunded on a tax-exempt basis
 - ✓ Taxable refunding bonds offer an opportunity to secure savings in the current market
- ◆ ~\$22 million outstanding
- ◆ Subject to prepayment on November 1, 2019 without premium

REFUNDING OPPORTUNITY

- ◆ Interest rates range from 4.75% to 5.625%
- ◆ Industry standard suggests 3% NPV savings in total and maturity by maturity
- ◆ Industry standard suggests 70% or higher for escrow efficiency
- ✓ Escrow efficiency shows NPV savings as a percentage of total possible NPV savings with no negative arbitrage



2009B CERTIFICATES REFUNDING SAVINGS*

FY Ending	Existing 2009 Bonds Debt Service ⁽¹⁾	Refunding Debt Service	Annual Savings	Present Value Annual Savings
12/31/2018	2,673,061	2,404,684	268,377	264,310
12/31/2019	3,193,900	2,784,165	409,735	393,642
12/31/2020	3,217,975	2,807,746	410,229	380,895
12/31/2021	3,234,975	2,826,993	407,982	366,060
12/31/2022	3,225,225	2,814,595	410,630	356,008
12/31/2023	1,708,200	1,299,778	408,422	342,137
12/31/2024	1,708,625	1,297,518	411,108	332,944
12/31/2025	1,717,400	1,307,845	409,555	320,648
12/31/2026	1,705,056	1,295,585	409,471	309,889
12/31/2027	1,729,056	1,316,579	412,478	301,737
12/31/2028	(70,350)	3,039,289	(3,109,639)	(2,199,309)
Total Gross Savings				\$848,347
Net Present Value Savings				\$1,173,707
Percentage savings of refunded bonds				5.32%

- ⇒ Taxable advance refunding will generate ~\$1.2 million (5.3% of refunded amount)* in NPV savings
- ⇒ Produces annual savings between \$268,000 and \$412,000, excluding final year
- ⇒ Cost to refund the COPs (negative arbitrage) is ~\$421,000 producing an escrow efficiency of 74%

(1) Prior Debt Service reflects the prior reserve fund earning 2.00% annually

*All figures are preliminary and subject to change. Based on estimated market conditions as of January 30, 2018. Refer to Disclaimer on last page of this presentation.

SENSITIVITY ANALYSIS

- **Waiting until August of 2019 to do a tax-exempt, current refunding reduces the negative arbitrage of the certificates. Assuming tax-exempt rates remain unchanged until August 2019:**
 - ◆ Results in ~12.1% NPV savings and an escrow efficiency of 99% since a current refunding can use tax-exempt interest rates
- **Breakeven analysis shows tax-exempt rates would need to increase by approximately 1.96% to offset the higher savings of waiting until a current refunding**

Refunding Scenario	Refunding Issue Closing Date	Refunding Bond Rate ³	Average Annual Savings ⁵	NPV Savings ²	NPV % Savings ⁴	Interest Rate Cushion ⁶	Refunding Escrow Cost	Escrow Efficiency ¹
Scenario 1 Taxable	5/15/2018	3.34%	\$405,000	\$1,173,707	5.32%	NA	\$421,696	74%
Scenario 2 Tax-exempt	8/2/2019	1.89%	\$628,000	\$2,410,221	12.09%	196 bps	\$26,389	99%

1. Escrow efficiency measures impact of escrow cost (based on SLGS purchase). Shows NPV savings as percentage total possible NPV savings with no escrow cost.
2. NPV Savings in all scenarios are discounted to the same date, May 2018.
3. **Refunding bond arbitrage yield. Rate estimates are based on current market rates / coupon structure as of 1/30/2018.**
4. NPV Savings as a percentage of bonds refunded.
5. Average annual savings account for release of prior reserve fund, earning 2.00% annually. Assumes no funding of a new reserve fund.
6. Amount tax-exempt rates can increase for Scenario 2 to breakeven with prior scenario. E.g. at +1.96% rates, Scenario 2 is equal to Scenario 1 NPV savings.

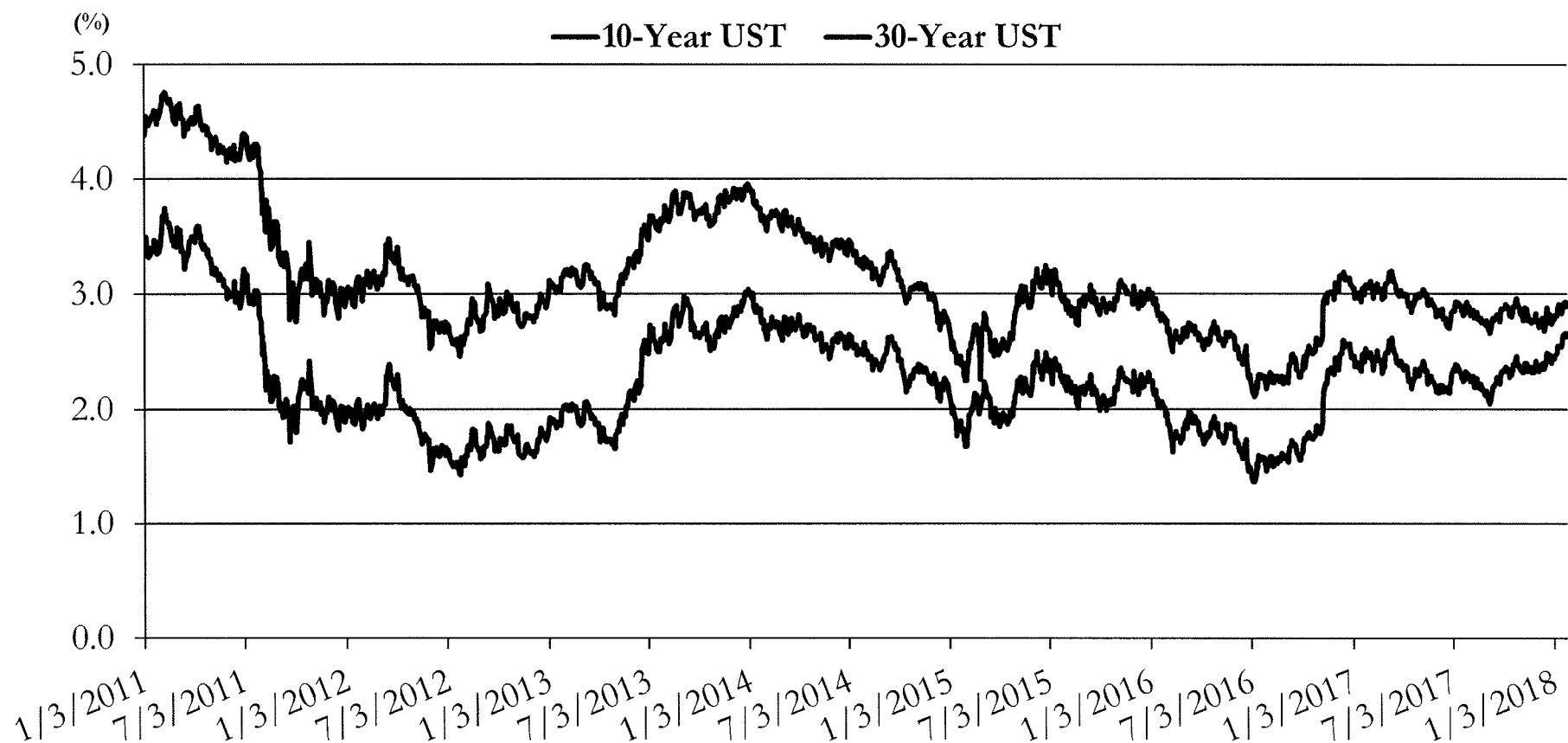


MUNICIPAL MARKET UPDATE



US TREASURY YIELDS

10-Year and 30-Year U.S. Treasury
(January 3, 2011 through January 26, 2018)



QUESTIONS AND DISCUSSION



DISCLAIMER

The scenarios are being provided for informational purposes only, and do not reflect any specific recommendation regarding a financial transaction. These materials include an assessment of current market conditions, and include Fieldman, Rolapp & Associates, Inc. assumptions about interest rates, execution costs, and other matters related to municipal securities issuance or municipal financial products. These assumptions may change at any time subsequent to the date these materials were provided. The refinancing and refunding scenarios presented herein are not intended to be inclusive of every feasible or suitable refinancing alternative.

Fieldman, Rolapp & Associates, Inc. is an SEC-registered Municipal Advisor, undertaking a fiduciary duty in providing financial advice to public agencies. Compensation contingent on the completion of a financing or project is customary for municipal financial advisors. To the extent that our compensation for a transaction is contingent on successful completion of the transaction, a potential conflict of interest exists as we would have a potential incentive to recommend the completion of a transaction that might not be optimal for the public agency. However, Fieldman, Rolapp & Associates, Inc. undertakes a fiduciary duty in advising public agencies regardless of compensation structure.



Agenda Item: 3

Date: February 1, 2018

Subject: Proposed Revisions to Debt Management Policy, PL – Fin 011

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Recommend the attached updated policy – Debt Management Policy (PL – Fin 011) - to go before the full Board for consideration at the February 26, 2018 meeting.

Discussion:

In concert with the refunding opportunity staff is asking the Committee and Board to consider a review of the District's Debt Management Policy (PL - Fin 011) be undertaken. Since last adopted, the California Debt and Investment Advisory Commission (CDIAC) of the State Treasurer's Department has issued new requirements for public agencies issuing debt. These requirements have resulted in the District adding a new section to the Policy, section 500.00, on Internal Controls. See attached.

Fiscal Impact:

None.

Strategic Plan Alignment:

Finance – 4.A. Monitor District operation through internal control procedures, documentation and such other processes necessary to ensure effective financial performance.

This policy benefits District customers by setting forth comprehensive guidelines for the financing of capital expenditures.

Sacramento Suburban Water District

Debt Management Policy

Adopted: September 15, 2014; November 21, 2016; February XX, 2018

100.00 Purpose of the Policy

This policy sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of this policy that – 1) the District obtain financing when necessary, 2) the process for identifying the timing and amount of debt or other financing be as efficient as possible, 3) the most favorable interest rate and issuance costs be obtained, and 4) when appropriate, future financial flexibility be maintained.

200.00 Policy

The issuance of long-term debt is a valuable funding resource for the District. Used appropriately and prudently, long-term debt can minimize the District's water system charges and rates over time.

To minimize dependency on debt financing for capital projects, annual renewal and replacement capital projects will be adequately funded from rates. Funding levels for capital investments will be sufficient to meet capital improvement projections needed as outlined in the current Asset Management Plans and/or Water System Master Plan. Long-term debt will be considered only for large capital improvement projects or greater than normal capital plans. The District will be managed to at least meet, and potentially exceed, the minimum and target Debt Service Coverage (DSC) requirements as imposed by bond covenants. The District will not issue long-term debt to support operating costs.

- A. Use of Long-Term Debt As a Funding Mechanism – Use of long-term debt will be minimized. The District may consider the use of long-term debt financing when it appears that a capital project, or other expenditures as deemed appropriate by the Board, is of such a magnitude that it will negatively impact the District's rates in the short-term. The benefit of long-term debt financing is that it will spread the costs of the capital asset over a longer period of time and will, therefore, approximate the useful life of the asset, and over time, charge those customers that benefit from that asset more equitably.
- B. Types of Long-Term Debt – The District will strive to utilize the type of debt that has the lowest costs, while not imposing any burdensome covenants or reporting requirements.
- C. Legal Covenants – The District will manage the water District to meet all bond covenants associated with the long-term debt. Bond covenants are legal obligations of the District.
- D. Debt Service Coverage Covenants – Long-term debt issuances typically contain legal covenants regarding DSC. A DSC ratio is an important financial measure of

the District's ability to repay the outstanding debt obligation, and is reviewed for adequacy by banks and rating agencies. Generically, the DSC ratio is the District's net operating income divided by the total annual debt service payment. For financial planning purposes, the targeted annual DSC ratio will be greater than or equal to 1.85 on all outstanding debt that carries such a covenant.

- E. Reporting Standards – The District will fully adhere to all applicable Government Accounting Standards Board (GASB) requirements and recognized best practices for the accounting treatment and disclosure of debt obligation transactions in its audited financial statements and other relevant publications.
- F. Revenue-Bonded Debt Capacity – The issuances of debt are supported by the revenues of the District. The ability of the District to fund and support revenue bonded debt will financially establish a debt level and capacity for revenue-bonded debt.

300.00 Conditions for Debt Issuance

When debt issuance is determined necessary, the District will assess the market conditions and timing for debt issuance to include issuing debt – 1) in times of favorable market conditions, 2) when Bond ratings would qualify District issuances to be investment grade, and 3) when revenues are sufficient to adequately cover expected debt service and issuance costs.

Bond credit enhancements will be considered when necessary for market acceptance and when costs are favorable to the District.

400.00 Conditions for Debt Refinancing

Debt refinancing (refunding) is an important debt management tool for the District. There are three key concepts that must be taken into consideration when evaluating a debt for refunding:

1. Financial and Policy Objectives
2. Financial Savings/Results of Financing
3. Bond Structure and Escrow Efficiency

Financial and Policy Objectives – The District may undertake a refinancing for a number of financial and/or policy objectives, including to achieve debt service savings, eliminate restrictive debt/legal covenants, restructure the stream of debt service payments, or to achieve other policy objectives. Although in most circumstances the District may undertake a refunding to obtain economic savings, it may refund an issue to restructure its debt portfolio in order to obtain budgetary/cash flow relief or to address exposure to other costs/liabilities and to extend the maturity.

Financial Savings/Results of Financing - The financial framework regarding the evaluation of refunding opportunities is to be developed and evaluated by the District Treasurer, typically to include the efforts of outside financial advisors. It is important to note that federal tax law typically permits an issuer to conduct one advance refunding over the life of a bond issue². As such, the District must take greater care (i.e., require a higher savings threshold) when evaluating an advance refunding opportunity.

In certain circumstances, lower savings thresholds may be justified. For example, when an advance refunding is being conducted primarily for policy reasons (other than economic savings), interest rates are at historically low levels or the time remaining to maturity is limited, and as such, future opportunities to achieve greater savings are not likely to occur.

Bond Structure and Escrow Efficiency¹ – The District’s debt management practices should anticipate the potential for future refundings. When debt is issued, careful attention should be paid to the bond structure to address features that may affect flexibility in the future. To that end, upon debt issuance the District shall consider: optional redemption provisions, bond coupon characteristics giving up call rights for certain maturities in exchange for a lower interest rate on the bonds, call provisions that permit the redemption of bonds in any order of maturity or on any date, call provisions that permit the issuer to call bonds at the earliest date without incurring a significant interest-rate penalty, and coupons on callable bonds priced as close to par as possible at the time of original issue.

¹ Escrow Efficiency - The lower the cost of the escrow the more efficient the escrow. Also, in order to be efficient, escrow securities need to mature or pay interest when debt service payments of the refunded escrow are due.

² Current vs. Advance Refunding - There are two types of refundings, as defined by Federal Tax laws; a current refunding in which a refunding takes place (i.e., refunding bonds are sold) within 90 days of the optional call date, and an advance refunding in which refunding bonds are sold more than 90 days prior to the first call date. federal tax law typically permits an issuer to conduct one advance refunding over the life of a bond issue.

500.00 Internal Controls

To ensure that proceeds of any debt issued in accordance with its governing documents and this Policy no disbursements shall be made without the approval of the Finance Director and/or the General Manager. For CIP projects, the draw request shall be provided to the Finance Director by the project engineer with the consent of the District’s inspector. Approval shall only be provided when the Finance Director is in receipt of an appropriate certification from the construction project manager with supporting invoices from suppliers and / or contractors evidencing appropriate expenses in connection with the project.

In the case of an issue of bonds, the proceeds of which will be used by a governmental entity other than the District, the District may rely upon a certification by such other governmental entity that it has adopted the policies described in SB 1029.

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600.00 Interest Rate Swaps

The incurring or carrying of variable-rate debt obligations by the District involves a variety of interest rate payments and other risks that interest rate swaps are available to offset, hedge, or reduce. It is the policy of the District to utilize such interest rate swaps to better manage its debt portfolio. The District will consider executing an interest rate swap transaction if it expects the swap transaction will result in any of the following:

- A. Reduce exposure to changes in interest rates on a financial transaction;
- B. Result in a significantly lower net cost of borrowing with respect to the District's debt consistent with an established target; or
- C. Manage variable interest rate exposure consistent with prudent debt practices and guidelines as approved by the Board.

Savings Target

Interest rate swaps will require a significant financial benefit or savings versus traditional fixed-rate debt. For an interest rate swap intended to produce the effect of a synthetic fixed rate transaction, the swap transaction must generate 5% or greater net present value savings compared to standard fixed-rate bonds which have the same optional redemption features.

Restrictions

The District will not enter into any swap transaction

- a) for speculative purposes.
- b) if the swap presents an extraordinary risk to the District's liquidity to terminate the agreement due to unforeseen events.
- c) if there is insufficient price transparency to allow for fair market valuation.

Provider Requirements

The transaction provider will have a credit rating of AA (or equivalent) or better from at least two nationally recognized credit rating agencies (at the time of agreement execution). The transaction provider will have a demonstrated record of successfully executing derivative transactions and have a minimum capitalization of \$2 billion.

Use of Independent Advisor

The District will use a professional advisor or designated swap representative ("Swap Advisor") to assist in the assessment, structuring, and pricing of proposed or existing interest rate swaps. The Swap Advisor will be a firm which:

- i. is a Municipal Advisor registered with the Securities and Exchange Commission;
- ii. has sufficient knowledge to evaluate the swap transaction and risks;
- iii. is not subject to a statutory disqualification;
- iv. is independent of the swap dealer or major swap participant;
- v. undertakes a duty to act in the best interests of the District;
- vi. provides appropriate and timely disclosures to the District; and
- vii. evaluates fair pricing and the appropriateness of the swap.

| **7500.00 Authority**

The General Manager and District Treasurer are responsible for adherence to this policy and regular reporting of the District's financial status. Board oversight will be accomplished through regular reporting of financial status and review of this Policy.

| **8600.00 Policy Review**

This Policy will be reviewed at least biennially.