



**San Diego County
Water Authority**

Our Region's Trusted
Water Leader

Update on Potential De-Annexation Issues

Special Board Meeting
June 11, 2019

Mark J. Hattam
General Counsel

Update on Potential De-Annexation Issues

- On May 23 we reported that we had been informed by Rainbow General Manager Kennedy that both Rainbow and Fallbrook may soon file with LAFCO to seek to de-annex from the Water Authority.
- Our reporting was done in the context of having to re-do financial disclosures that have now been redrafted and will be voted on in the next agenda item.

Update (Cont'd)

- What we were told understandably raised many questions. This is a brief public update from the Water Authority General Counsel's office:
 1. To our knowledge, no formal actions have been taken by Rainbow or Fallbrook to de-annex. No applications have yet been filed at LAFCO.
 2. It is possible such actions may never be taken. That is up to Rainbow and Fallbrook. We simply reported what we had been told.

Update (Cont'd)

3. To try and get caught up on publicly available information, we sent Public Records Act requests to the local LAFCO, Rainbow, and Fallbrook. We expect to receive documents this month. Hopefully, the documents produced will let the Water Authority and the public know more about what may be planned.
4. Many persons, including the media, have inquired about how a de-annexation would work. We are still analyzing the many issues involved. If applications do ever get filed, we will publicly address the matter.

Update (Cont'd)

5. As we move forward, our office and the rest of the Water Authority will continue to protect the interests of our member agency ratepayers, and the public they all serve.



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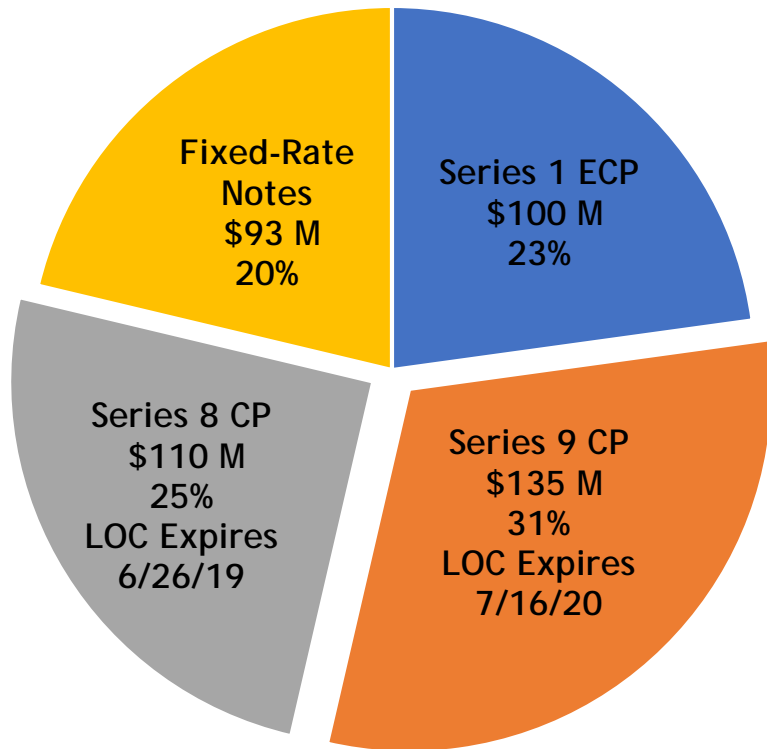
Selection of Liquidity Facilities Supporting the Tax Exempt Commercial Paper Program

Special Board of Directors' Meeting
June 11, 2019

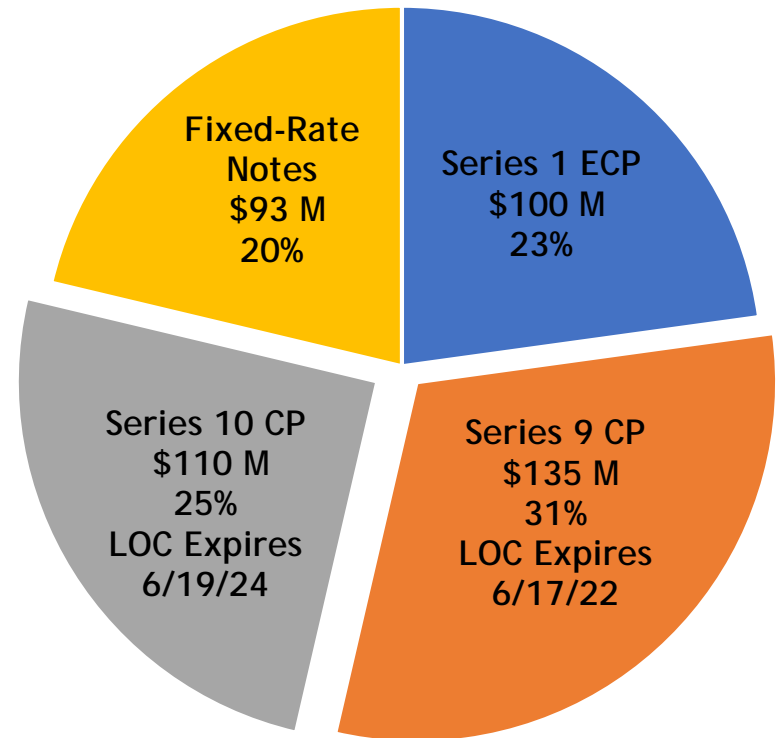
Lisa Marie Harris, Director of Finance/Treasurer

Short-Term Debt Portfolio*

Current Short-Term Debt (\$438M)



Recommended Short-Term Debt (\$438M)



*Annual short-term Debt Service approximately \$14 million

Commercial Paper LOC Request for Proposal

- Series 8 Liquidity Facility Expires on June 26, 2019
- Series 9 Liquidity Facility Expires on July 16, 2020
- To Replace the Series 8 CP Program, Issued a RFP for a Series 10 Liquidity Facility
- Five Firms Submitted Proposals

**Goldman
Sachs**

**Bank of America
Merrill Lynch**



**WELLS
FARGO**



**SUMITOMO MITSUI
BANKING CORPORATION**



**BANK OF THE WEST
BNP PARIBAS**



Liquidity Facility Evaluation Criteria & Goals

- Evaluation Criteria
 - Fees and overall cost
 - Terms and conditions and credit ratings
 - How well the paper trades in the market
 - Presence in public finance
 - Diversification of banks

- Goals
 - Minimize cost of funds and reduce debt
 - Maintain bank and product diversification
 - Stagger expiration/maturity dates
 - Maintain similar interest rate risk

Recommended Short-Term Debt Strategy

- Select **Bank of the West** as the Series 10 Liquidity Provider Through 6/19/24
 - Acceptable terms and conditions
 - Maintains bank diversification
 - Second lowest cost for a 5-year facility saving \$55k annually
- Proactively Extend **Bank of America** as the Series 9 Liquidity Provider Through 6/17/22
 - Acceptable terms and conditions
 - Maintains bank diversification
 - Saves future RFP and issuance costs
 - Extension saves \$135k annually
- **The Recommended Selection and Extension Will Save the Water Authority \$190k Annually**

Strong Credit Ratings Affirmed

- Standard & Poor's AAA Stable Outlook
- Fitch AA+ Stable Outlook
- Moody's Aa2 Stable Outlook

Credit Highlights

- A Board & Management team that has maintained stable operations, adhered to adopted policies and executed strategic plans
- Satisfactory reserves that will help moderate future rate increases
- For decades Authority committed to managing through scarcity; drought management planning is strong
- Authority maintains most of the best industry practices & well embedded in daily operations and practices
- Authority continues to plan for unavoidable increases in purchased water prices & non-discretionary costs such as OPEB and Pension Costs

Today's Actions

- Adopt Resolution 2019-___ authorizing the issuance and sale of short-term revenue certificates and approving Bank of the West as the liquidity provider for the Series 10 Commercial Paper Notes.
- Adopt Resolution 2019-___ authorizing the extension of the term of the liquidity agreement with Bank of America, N.A., as the liquidity provider for the Series 9 Commercial Paper Notes.