

Agenda
Sacramento Suburban Water District
Board Workshop

3701 Marconi Avenue, Suite 100
Sacramento, California 95821

Monday, January 9, 2012
6:00 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

Public Comment

Items for Discussion and Action

1. Resolution 12-01 Authorizing an Application for Funding Assistance Through the Bureau of Reclamation's WaterSMART Water and Energy Efficiency Grant Program
Consider adopting the subject resolution to apply for grant funding.

2. Interest Rate Swap
Consider options on the District's interest rate swap and provide direction to staff.

Adjournment

I certify that the foregoing agenda for the January 9, 2012 special meeting of the Sacramento Suburban Water District Board of Directors was posted by January 5, 2012 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.

Robert S. Roscoe
General Manager/Secretary
Sacramento Suburban Water District



Agenda Item: 1

Date: January 5, 2012

Subject: Resolution No. 12-01 Authorizing an Application for Funding Assistance Through the Reclamation's WaterSMART and Energy Efficiency Grant Program

Staff Contact: Warren Jung, Manager Engineering Services
Robert Roscoe, General Manager

Recommended Board Action:

Adopt Resolution No. 12-01 Authorizing an Application for Funding Assistance Through the Reclamation's WaterSMART and Energy Efficiency Grant Program.

Discussion:

In November 2011, the Bureau of Reclamation released a Grant Funding Opportunity Announcement (FOA) under the cost-share funding for water and energy-efficient projects. The total amount of available funding for projects through the FOA has not been determined until Congress approves the final 2012 appropriations. Per the FOA, the Federal share of any one project shall not exceed 50% of the total project cost. Sacramento Suburban Water District can submit a funding request under one of two FOA funding groups.

- Up to \$300,000 in Federal funds for smaller, on-the-ground projects such as meter retrofits.
- Up to \$1,500,000 in Federal funds for larger phased on-the-ground projects that may take 3 years to complete.

Staff is proposing to apply for funding in both categories. For the smaller on the ground projects, staff proposes a \$300,000 grant for accelerating meter retrofits and for a larger project staff is looking at a \$300,000 for energy conservation projects such as a possible in-conduit hydroelectric project. The applications are due January 19, 2012.

To pursue the grant, Sacramento Suburban Water District is required to adopt a resolution for inclusion with the funding application. Staff has contracted Brown and Caldwell to prepare the grant application at a not-to-exceed fee of \$19,200 to assist in preparing the application.

Fiscal Impact:

Estimated cost a not-to-exceed amount of \$19,200 would be offset with the potential grant return of \$300,000 for meter retrofit acceleration and \$500,000 for energy conservation projects.

Resolution No. 12-01

January 5, 2012

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Strategic Plan Alignment:

Leadership – 5.C. Participate in regional water management partnerships (e.g. RWA, SGA).

SSWD demonstrates leadership by taking the lead role in coordination of the grant application with other area water purveyors.

RESOLUTION NO. 12-01

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SACRAMENTO SUBURBAN WATER DISTRICT AUTHORIZING AN APPLICATION FOR FUNDING ASSISTANCE THROUGH THE BUREAU OF RECLAMATION'S WATERSMART WATER AND ENERGY EFFICIENCY GRANT PROGRAM

WHEREAS, the United States Bureau of Reclamation ("Reclamation") has implemented the WaterSMART Program to provide eligible agencies and organizations with grants to encourage water conservation and water use efficiency, increase the use of renewable energy and improve energy efficiency, benefit endangered and threatened species, facilitate water markets, and carry out activities to address climate-related impacts on water or prevent any water-related crisis or conflict;

WHEREAS, Reclamation has solicited proposals from public water suppliers and other water users for a new round of grant funding under the WaterSMART Program, which proposals are due on or before January 19, 2012;

WHEREAS, the Board of Directors of the Sacramento Suburban Water District ("SSWD") has identified itself as an eligible applicant under Reclamation's WaterSMART Water and Energy Efficiency Grant Program; and

WHEREAS, SSWD is interested in pursuing grant funding assistance under the WaterSMART Program in the amount of \$600,000 for the following projects: (1) acceleration of the SSWD's water meter retrofit program (\$300,000) and (2) in-conduit hydroelectric generation facilities (\$300,000) (the "Projects").

NOW, THEREFORE, be it resolved by the Board of Directors as follows:

1. The Board has reviewed the scope and purpose of SSWD's grant funding application, finds that the Projects will serve both the needs of the District's ratepayers and satisfy the goals of the WaterSMART Program, and, on that basis, supports staff's submittal of the grant funding application to Reclamation.
2. SSWD is capable of funding the minimum 50-percent cost share required to obtain grant funding under the WaterSMART Water and Energy Efficiency Grant Program.
3. The General Manager of SSWD is hereby authorized to apply for grant funding from Reclamation's WaterSMART Program as part of a regional collaborative effort and to execute any related documents, including entering into a grant funding agreement with Reclamation and any regional partners.

4. The General Manager and staff are directed to take all other actions necessary to secure funding for the Projects under the WaterSMART Water and Energy Efficiency Grant Program.

PASSED AND ADOPTED by the Board of Directors of the Sacramento Suburban Water District on the 9th day of January 2012, by the following vote:

AYES:

NOES:

ABSENT:

By: _____
Thomas C. Fellenz
President, Board of Directors
Sacramento Suburban Water District

I hereby certify that the foregoing resolution was duly and regularly adopted and passed by the Board of Directors of Sacramento Suburban Water District at a regular meeting hereof held on the 9th day of January 2012.

(SEAL)

By: _____
Robert S. Roscoe
General Manager/Secretary
Sacramento Suburban Water District



Agenda Item: 2

Date: January 5, 2012

Subject: Interest Rate Swap

Staff Contact: Daniel A. Bills, Finance Director

Recommended Action:

Direct staff as appropriate for the interest rate swap (the “Swap”), and bring the terms of the new transaction to a future board meeting for review and approval.

Discussion:

The District is exploring a potential counterparty substitution (“novation”) and restructuring of the Swap entered into between itself and Citibank, N.A. (“Citibank”) which currently hedges the Series 2008A2 bonds (the “2008A2 Bonds”) and Series 2009A bonds¹ (the “2009A Bonds”). Staff has contacted Mr. Peter Shapiro, Managing Director, of Swap Financial Group, LLC for purposes of obtaining a list of alternatives and pricing information that might be available to the District on its Swap. Swap Financial Group served as the District’s advisor on the Swap when it was originally purchased in 2005 and again in 2008 when the Swap was amended as part of the 2008 debt refinancing. Swap Financial Group’s analysis will be presented in greater detail at the Board meeting. However, viable alternatives for the District to consider include: (1) substituting Citibank with another financial institution as the counterparty to the Swap (a “novation”), (2) terminating the portion of the Swap related to the 2009A Bonds, and (3) either restructuring the Swap or issuing a new off-market swap to fully hedge the 2009A Bonds¹.

¹Presently, half of the Swap is allocated to the 2008A2 Bonds and the other half is allocated to the Series 2009A Bonds, but is only a partial hedge of the 2009A Bonds (i.e., the notional amounts and term of that portion of the Swap do not match the principal amounts and maturities of the 2009A Bonds). The District currently has investments that it can use to hedge the 2009A Bonds and, therefore, does not necessarily need to have that portion of the Swap in place, but does need the other half of the Swap in place to continue hedging the 2008A2 Bonds. (A more robust history and background on the District’s debt issuance’s and use of the Swap were presented at the December Board meeting, Agenda Item 10.)

Counterparty Substitution

Citibank has offered to pay the costs for obtaining a new counterparty to the Swap. Citibank is currently rated A1 by Moody's and A+ by S&P, with a negative outlook issued by both rating agencies. Having a new Swap counterparty with an improved credit rating is advantageous to the District, primarily in the long term. As the Swap is currently heavily in favor of Citibank, rates would need to move substantially before the District were to be in a receiving position. Nevertheless, the offer to execute a "novation" to a swap counterparty with a better credit rating at minimal or no cost to the District is advantageous.

Partial Termination

The current notional amount of the swap is \$66.6 million, of which \$33.3 million serves as a hedge for the 2009A Bonds (the "2009A Hedge"). As of November 14, 2011, the cost of terminating the portion of the swap for the 2009A Hedge was \$4.84 million. While the District would have to make an upfront payment to Citibank in approximately this amount upon termination of the 2009A Hedge (the final price would be calculated based on market conditions at closing), the District would then benefit by paying the floating rate on the 2009A Bonds rather than the currently higher fixed rate on the 2009A Hedge. The difference between the floating bond rate and the fixed swap rate applied to the notional amount of the 2009A Hedge over its remaining life produces a benefit of \$4.82 million, which equates to approximately \$4.45 million on a present value basis. Thus, the termination cost is substantially offset by the benefit of no longer having to pay the fixed swap rate once the 2009A Hedge is terminated.

Restructuring

In order to fully hedge both the 2008A2 Bonds and the 2009A Bonds, the Swap would need to be amended by increasing the current notional amount from \$66.6 million to \$75.3 million, amending the amortization schedule to match the amortization of the bonds, and extending the termination date from November 1, 2028 to November 1, 2034. As of November 14, 2011, restructuring the Swap to fully hedge both series of bonds results in a fair value of (\$14.42 million) vs. a current fair value of (\$9.67 million). Thus, the District would actually receive an upfront payment of approximately \$4.75 million in order to amend the Swap. However, there is a slight added risk associated with amending the Swap. This results from an increase in the fair value of the Swap against the District, which increases the District's risk of having to post collateral. (The District would have to post collateral at its current ratings if the fair value of the Swap exceeds \$20 million. If the District were downgraded one notch to AA- or Aa3, it would have to post collateral if the fair value exceeds \$15 million.)

New Issuance

As an alternative to restructuring the Swap in order to fully hedge both the 2008A2 Bonds and the 2009A Bonds, a new swap could be issued to hedge the 2009A Bonds, with half the Swap maintained to hedge the 2008A2 Bonds. The notional amount of the new swap would be \$42 million. The amortization schedule would match the amortization of the 2009A Bonds and the termination date would be the same as the 2009A Bonds - November 1, 2034. If spending \$4.84 million from reserves to terminate the existing 2009A hedge proves too costly, issuing the new swap with a fixed rate that is higher than market would provide a premium to the District that

could pay for the cost of partial termination. A rate equal to the current Swap's fixed rate would generate a \$4.75 million payment to the District. An additional advantage to the District would be having individual swap's hedging each piece of District variable rate debt, which would make subsequent refinancing simpler.

Variable Rate Debt Management and the Swap

The District has thus far issued primarily variable-rate bonds in its history as it has been significantly cheaper to do so than to issue fixed-rate bonds. Since variable-rate bonds were first issued in 2004, had the District issued fixed-rate bonds at the time of each issuance as opposed to issuing variable-rate bonds the District would have spent \$10.6 million extra in interest expense through 2011 (source: Citibank). Issuing variable-rate bonds though has certain risks, namely: interest rate (market) risk, credit risk, tax risk, renewal risk, and basis risk to be specific. By choosing to manage such risks as opposed to pricing them away through issuing fixed-rate debt, the District has saved significantly to date.

Of the risks mentioned, two of the more significant risks the District is exposed to by issuing variable-rate debt are interest rate risk and credit risk. As part of managing its interest rate risk the District entered into the Swap contract with Citibank. In so doing, the District assumed credit risk from Citibank if they should prove unable to pay the District, if, in the future, the terms of the Swap contract require settlement in favor of the District. Such risks are routinely evaluated.

Fiscal Impact:

Minimal to \$4.8 million dependent on the alternative selected.

Strategic Plan Alignment:

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



Interest Rate Swap Transaction

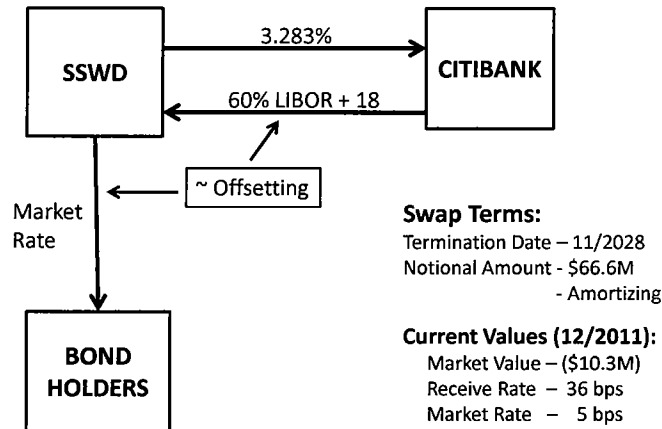
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SWAP HISTORY

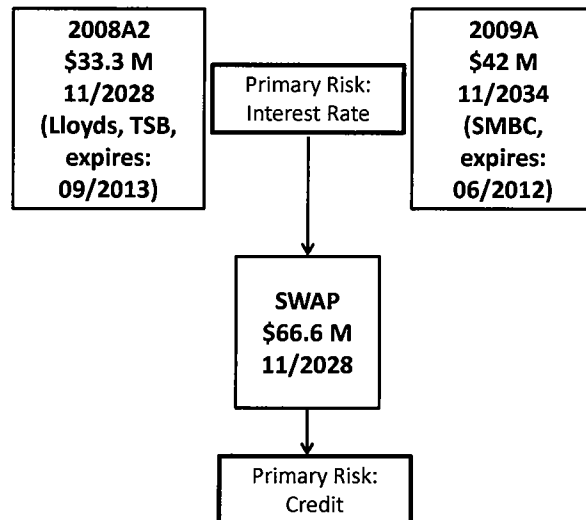
- **2005: Issued along with variable rate debt**
 - Interest rate risk hedging tool
 - Creates “synthetic” fixed rate debt
 - Goal was to achieve overall lower debt service costs
 - Savings, relative to issuing fixed rate, \$9.0M thru 2010
- **2008: Variable rate debt refunding**
 - Swap retained to hedge Series 2008A1 and 2008A2
- **2009: Series 2008A1 refunded as fixed rate**
 - Swap retained to hedge variable rate bonds: 2008A2 and 2009A
 - Swap is only a partial hedge of 2009A bond

SWAP STRUCTURE



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VARIABLE DEBT



4

SWAP DECISION

- Substitution
- Partial Termination
- Restructure
- Partial Termination & Off-Market Issuance

SUBSTITUTION

- “Novation” Costs: Paid by Citibank
- Citibank credit ratings: A1, A and A+, negative outlook
- Investment Policy Credit Minimum: “A”

PARTIAL TERMINATION

- ½ of SWAP (\$33.3M)
- Cost: ~ \$4.8M
- Cost Recovery (At Current Market Rates):
\$0.2M/Month or ~ 2 Year Payback
- 2009A (\$42M):
 - Hedge With Investments
 - Minimum Reserves Required: ~ \$30M
(assuming traditional tax : tax-free trading ratios)

RESTRUCTURE

- Set Swap Terms to Match Variable Rate Debt
 - 2008A2, \$33.3M, Normal Amortization, 11/2028
 - 2009A, \$42M, “Wrapped” Amortization, 11/2034
- Rates:

	<u>Current</u>	or	<u>“Off-Market”</u>
Fixed:	3.283%		?%
Basis:	60% LIBOR + 18		60% LIBOR + 18
Price:	(\$4.7M)		~ 0?
- Same collateral posting requirement

PARTIAL TERMINATION/NEW ISSUANCE

- ½ of SWAP (\$33.3M) (Remaining Hedges 2008A2)
 - Cost: ~ \$4.8M
- 2009A (\$42M)
 - Issue Off-Market:
 - Rates:

Fixed:	3.283%
Basis:	60% LIBOR + 18
Price:	(\$4.7M)
- Advantage:
 - Reserve Level Unencumbered
 - Future Refinancing Simpler
 - More Straightforward Annual Reporting

DIRECTION TO STAFF

- Implement Selected Option
- Bring to Future Meeting