SCV WATER FINANCING OPTIONS

OVERVIEW

SCV Water's overriding goal in issuing debt is to respond to, and provide for, the infrastructure, capital project and other financing needs of the community's water system, while ensuring that debt is issued and managed prudently to maintain a sound fiscal position and protect credit quality. Many water facilities have long life spans, measured in decades, and much of the cost is paid up front to construct them. Debt financing these facilities provides a means to spread the costs out over more of the useful service life of the facility and allow the community to pay for these assets through their water rates over time. Other capital assets are paid for with cash on hand (sometimes called "pay as you go" funding). Operating and maintenance costs are generally paid out of annual revenues and not financed.

The following are common types of debt issued by SCV Water:

- **Certificates of participation.** Under California law, a public agency such as SCV Water may finance capital facilities by issuing certificates of participation through a financing corporation, commonly called COPs. COPs provide long-term financing through an installment purchase agreement. COP's are repaid over time through water rate revenues and other Agency funds.

- **Revenue bonds**. Utilized by a Joint Powers Authority, such as the Upper Santa Clara Valley Joint Powers Authority, to issue long-term debt that can use the term "bond." Revenue bonds are a class of municipal bond issued to fund public projects which then repay investors from the income created by that project. JPA-issued debt might have the same borrowing structure and credit worthiness as COPs, but bond investors are willing to accept lower interest rates for "bonds" than for "certificates", which results in lower borrowing costs for the Agency. Many California public agencies utilize JPAs for this reason.

In general, there is not a significant difference between revenue-secured COPs and revenue bonds when the security for both forms of debt is identical (wholesale or retail revenues). However, investors have preferred revenue bonds and have therefore invested in revenue bonds at somewhat lower interest rates than for COPs, resulting in lower borrowing costs to the Agency and cost savings for customers.

In May of 2011, the Castaic Lake Water Agency (CLWA) Board of Directors, one of SCV Water's predecessor agencies, authorized forming a joint exercise of powers agreement between the CLWA and the Devil's Den Water District. The Upper Santa Clara Valley Joint Powers Authority (JPA) created by this agreement is authorized under state law to issue revenue bonds. This provides additional flexibility to obtain the lowest possible cost of debt financing for new projects as well as future refunding or refinancing opportunities.

SCV WATER FINANCING CORPORATION

Santa Clarita Valley Water Agency Financing Corporation (Corporation) is organized under the Nonprofit Public Benefit Corporation Law, duly organized and existing under and by virtue of the laws of the State of California (Section 5110 of the California Corporations Code).

Purpose:
The Corporation was originally formed in 1990 to pay for critical water infrastructure, capital investments, other long-term projects, and capital needs. The Corporation specifically provided the Agency with the ability to issue COPs, a favorable form of financing at the time.

The Corporation has not been used since the creation of the Upper Santa Clara Valley Joint Powers Authority in 2011, because the bond market typically has lower interest rates compared to COPs.

The basic structure of the Corporation is as follows:

- The Corporation is legally separate from SCV Water, but SCV Water exercises oversight responsibility over the Corporation.
- The Corporation's governing Board is made up of the SCV Water Board President and Vice President as well as two appointees of the SCV Water Board, and the SCV Water General Manager.
- The Corporation has the following officers: President, Vice-President, Secretary, and Treasurer.
- The Corporation is subject to an annual financial report.

The only additional cost of administering the Corporation is a nominal bi-annual filing fee of $40, paid to the Secretary of the State of California every other year.

UPPER SANTA CLARA VALLEY JOINT POWERS AUTHORITY

The Upper Santa Clara Valley Joint Powers Authority (JPA) is a joint exercise of powers agency between the former Castaic Lake Water Agency (CLWA) – now Santa Clarita Valley Water Agency (SCV Water) and the Devil's Den Water District (DDWD). The JPA formed in 2011 pursuant to the standard form of a Joint Powers Authority authorized by Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (also known as the Marks-Roos Local Bond Pooling Act of 1985).

Purpose:
Prior to the formation of the JPA, the Agency's capital facilities had traditionally been financed through COPs. California law generally requires a public agency to issue COPs to issue non-voter approved long-term debt. The JPA, by contrast, may issue long-term debt in the form of revenue bonds. Many California public agencies utilize JPAs for this reason. Investors increasingly have been favoring revenue bonds over COPs, which generally results in lower borrowing costs for revenue bonds and savings to customers.

The basic structure of the JPA is as follows:

- The JPA is a public entity separate from the SCV Water and the DDWD.
- The JPA's governing Board has two members appointed by SCV Water and two members appointed by the DDWD.
- The JPA has the following officers: President, Vice-President, Secretary, Executive Director and Treasurer.
- The JPA is subject to bi-annual fiscal audits and prepares quarterly financial reports.

In addition to the costs of the audit and financial reports, the only cost of administering the JPA is the nominal annual filing fee paid to the Secretary of the State of California.