



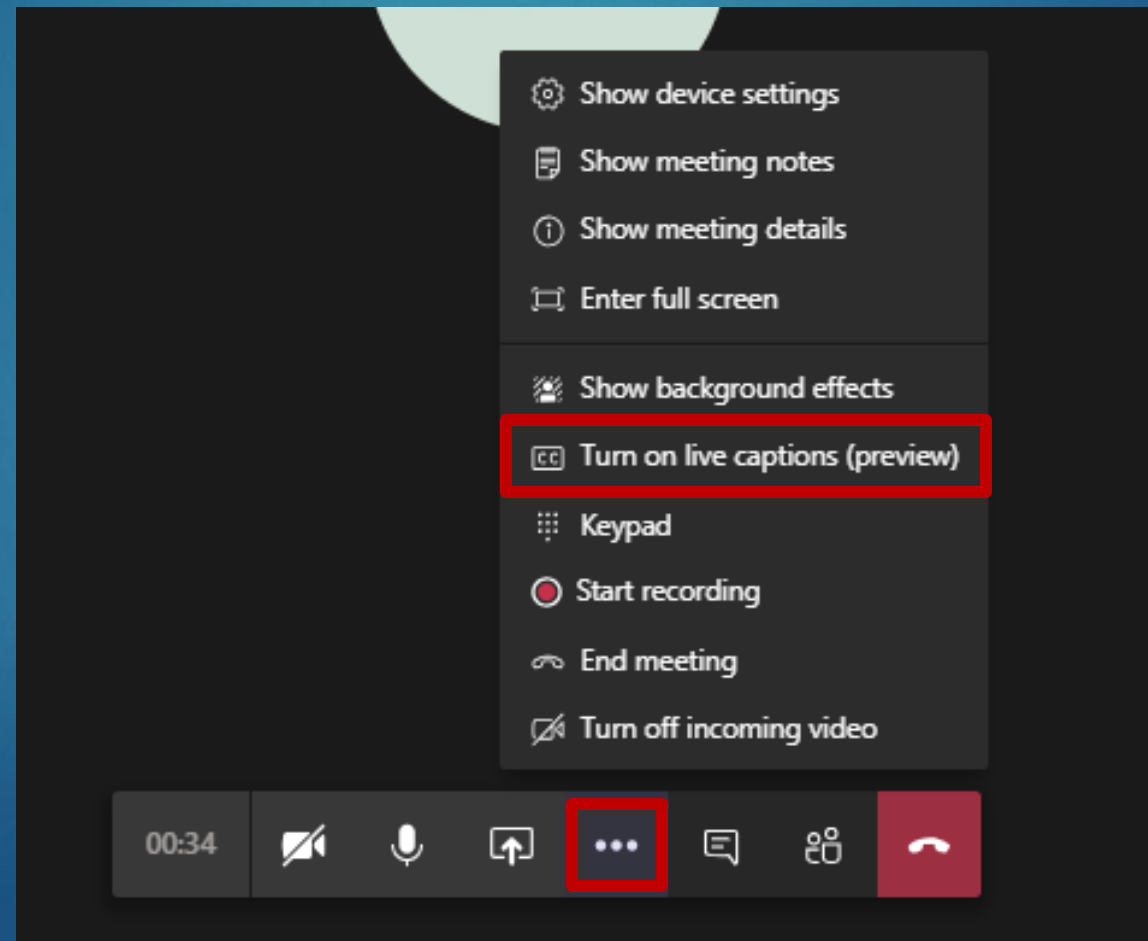
# Silicon Valley Clean Water Commission Meeting

AUGUST 16, 2021



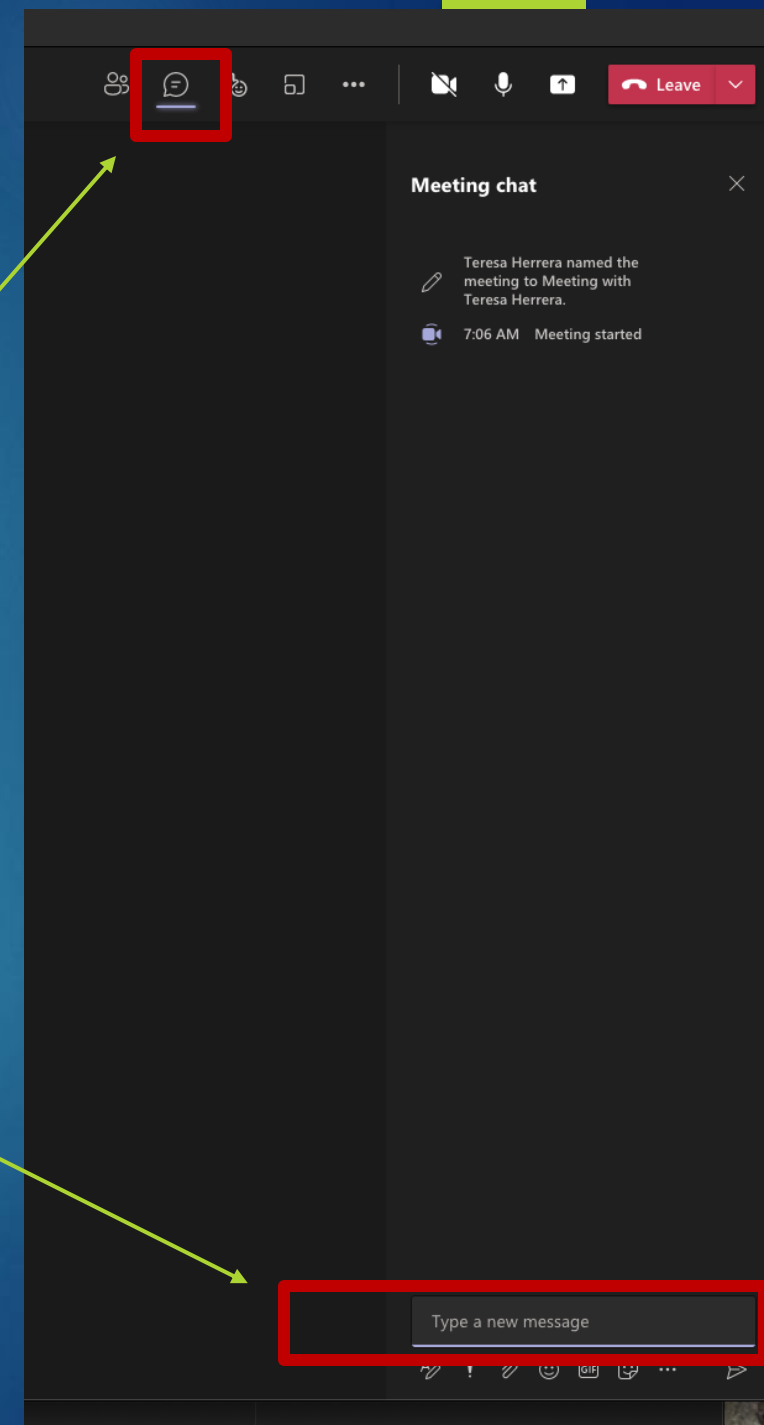
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# Provide Public Comment

- ▶ To provide public comment during the meeting:
  - ▶ Click on the meeting chat bubble
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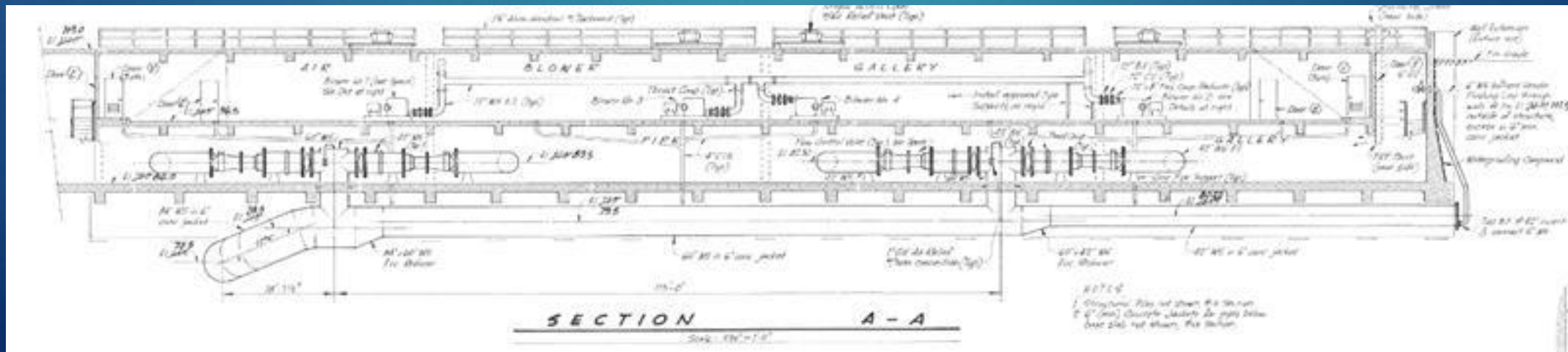




# Agenda Item 5B Manager's Report

# Under-Slab Piping Condition Assessment

- ▶ Treatment Plant built in “Layers”
- ▶ Under-slab Piping extremely difficult to access
- ▶ Engineering staff undertaking systematic condition assessment of all piping
- ▶ DMF Feed Pipe – complete
- ▶ Pipes below Chlorine Contact Tank – in progress
- ▶ Remaining Pipes – to be scheduled







# Condition of DMF Bypass Pipe







# Report on Recycled Water Activities

- ▶ Currently producing 38 million gallons per month for Redwood City
  - ▶ 171 irrigation sites
  - ▶ 0.11 Mgal industrial and commercial
  - ▶ 122 tgal to 7 dual-plumbed sites
  - ▶ 124 tgal used by SVCW
- ▶ In discussions re: nutrient removal to expand its use
- ▶ Potable Reuse Exploratory Plan PREP

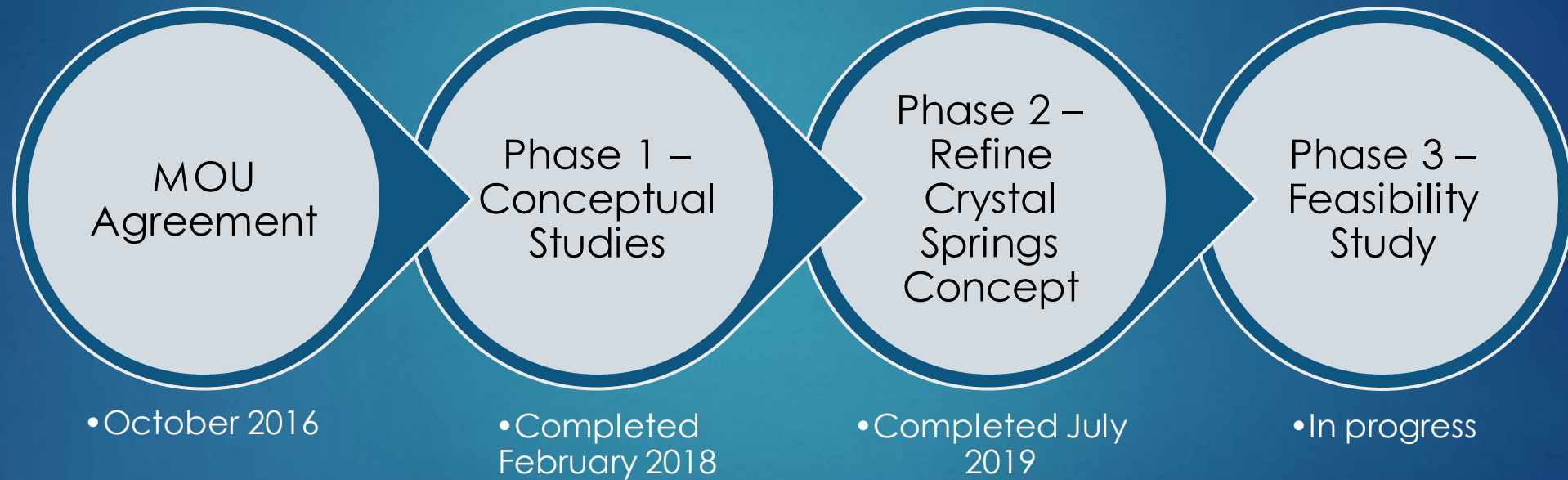
# Potable Reuse Exploratory Plan



Exploring options for use of highly purified recycled water

- Diversify local water portfolio
- Protect against drought
- Regional solution

# PREP Development



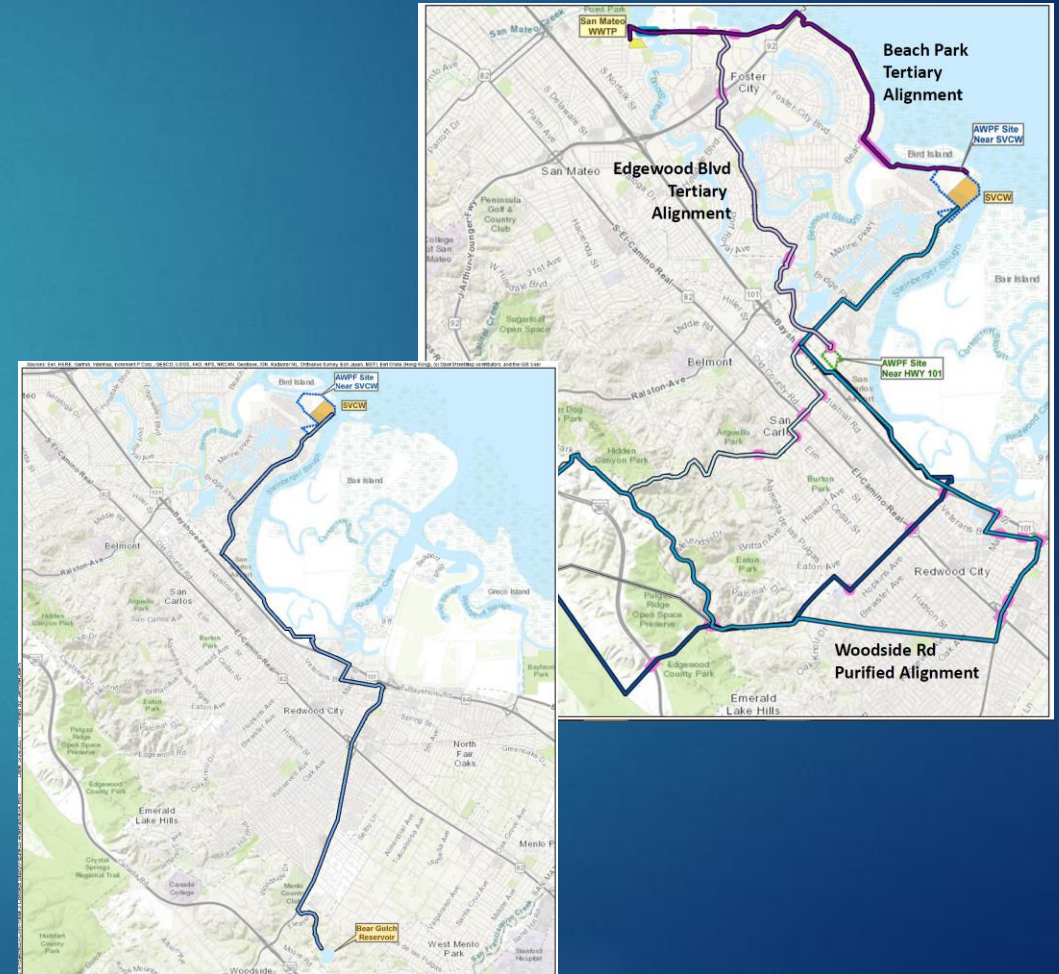


# Current Concepts

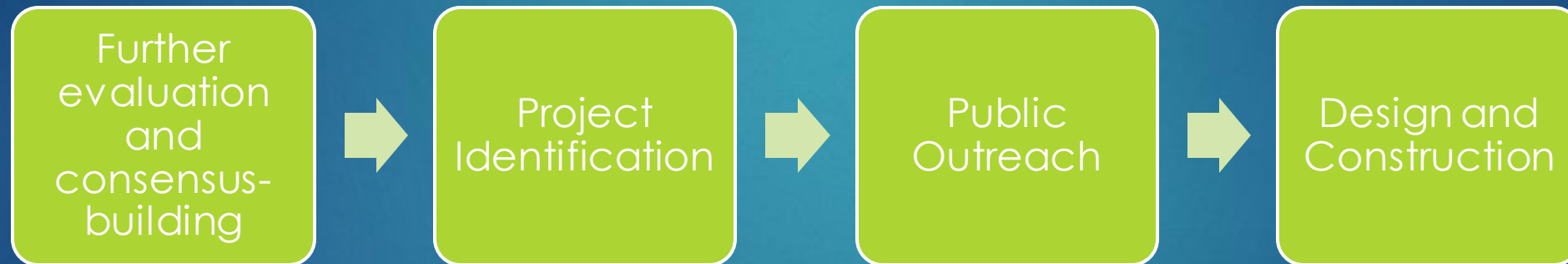
Reservoir Water Augmentation  
(6 mgd or 12 mgd) at Crystal  
Springs Reservoir

Augmentation of Bear Gulch  
Reservoir

Other direct potable reuse  
options



# Future Steps







# Agenda Item 5C2

## Investment Portfolio Annual Update



# Silicon Valley Clean Water

## Annual Investment Update

August 16, 2021

Presented By:  
**Lesley Murphy, Senior Managing Consultant**

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Management LLC

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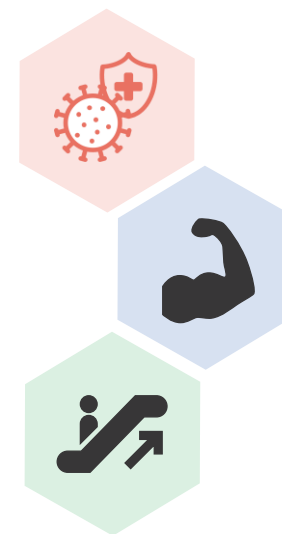


# Market Update



## Current Market Themes

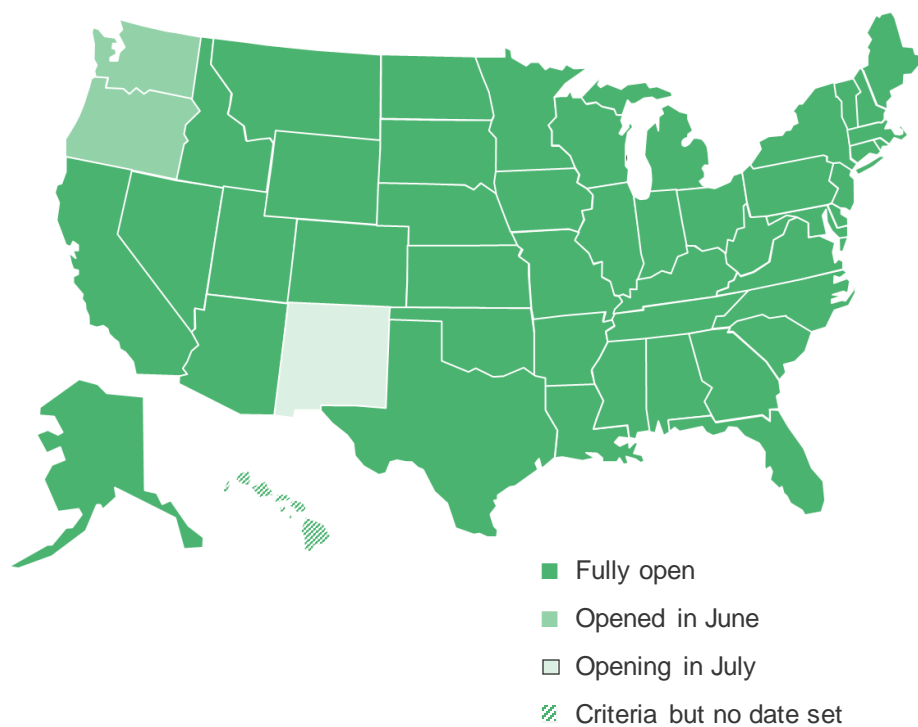
- ◆ Domestic economic conditions characterized by:
  - Widespread **deployment** of COVID vaccine, increased consumer activity
  - **Strong** GDP, solid job growth, and better-than-expected corporate earnings
  - **Escalating** inflationary readings
- ◆ Federal Reserve **accelerated** anticipated timing of interest rate increases as inflation increased
- ◆ The long end of the yield curve **steepened** significantly throughout the year, making notable progress towards pre-pandemic levels
  - Short-term yields rose from near zero but remain near **historic lows**
- ◆ The unemployment rate has **recovered** greatly since last year, dropping from 11.1% to 5.9% within the year



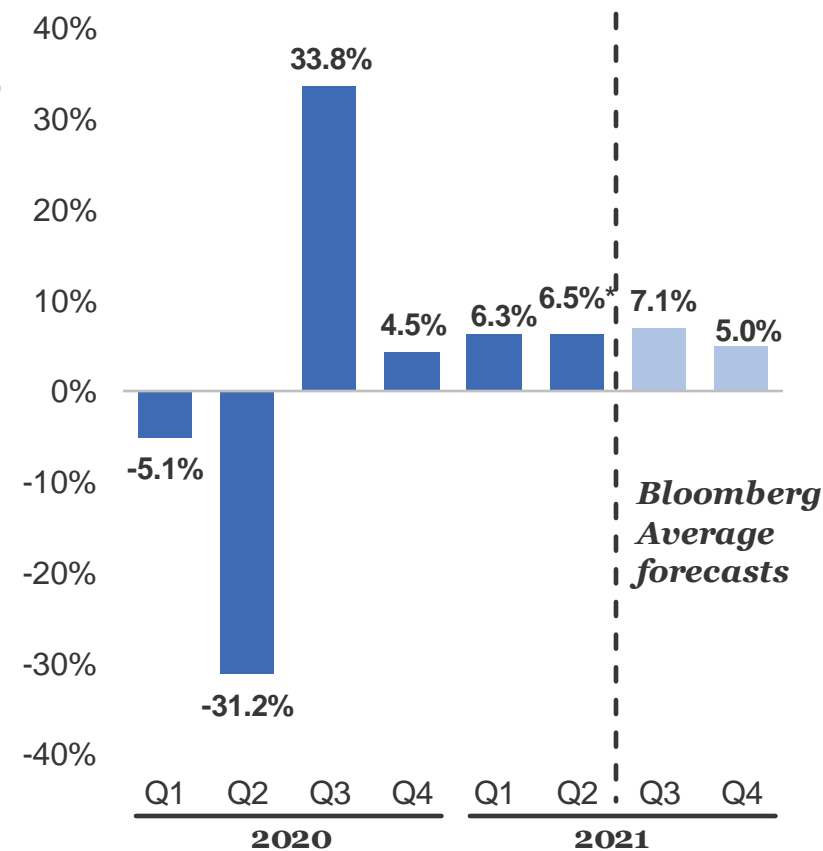


## U.S. Economy Bounces Back from COVID-Induced Slowdown

### Reopening Status of U.S. States



### U.S. GDP Forecasts Annualized Rate

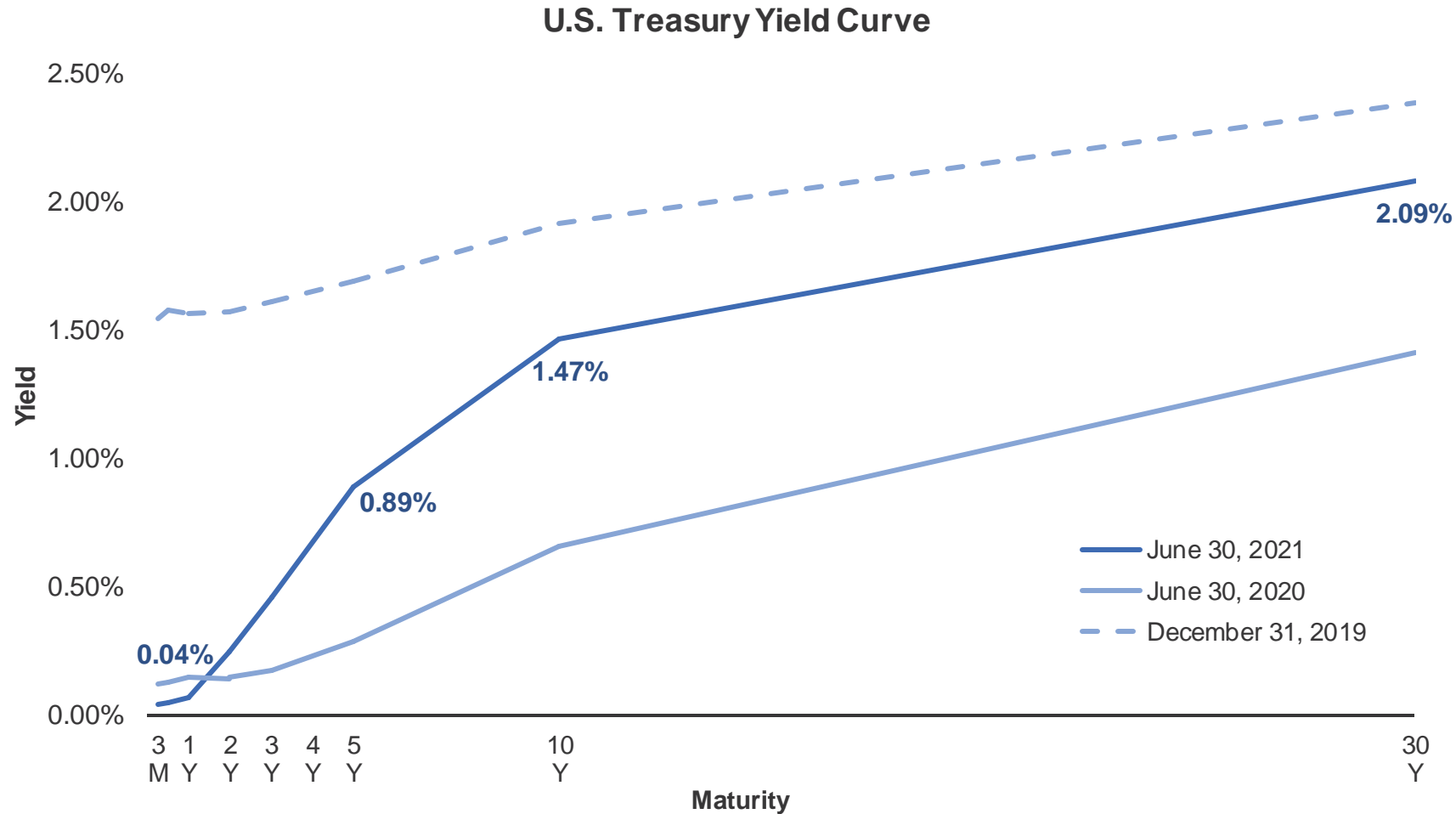


Source: New York Times (left) and Bloomberg (right), Bureau of Economic Analysis, as of June 30, 2021.

\*Advanced reading.



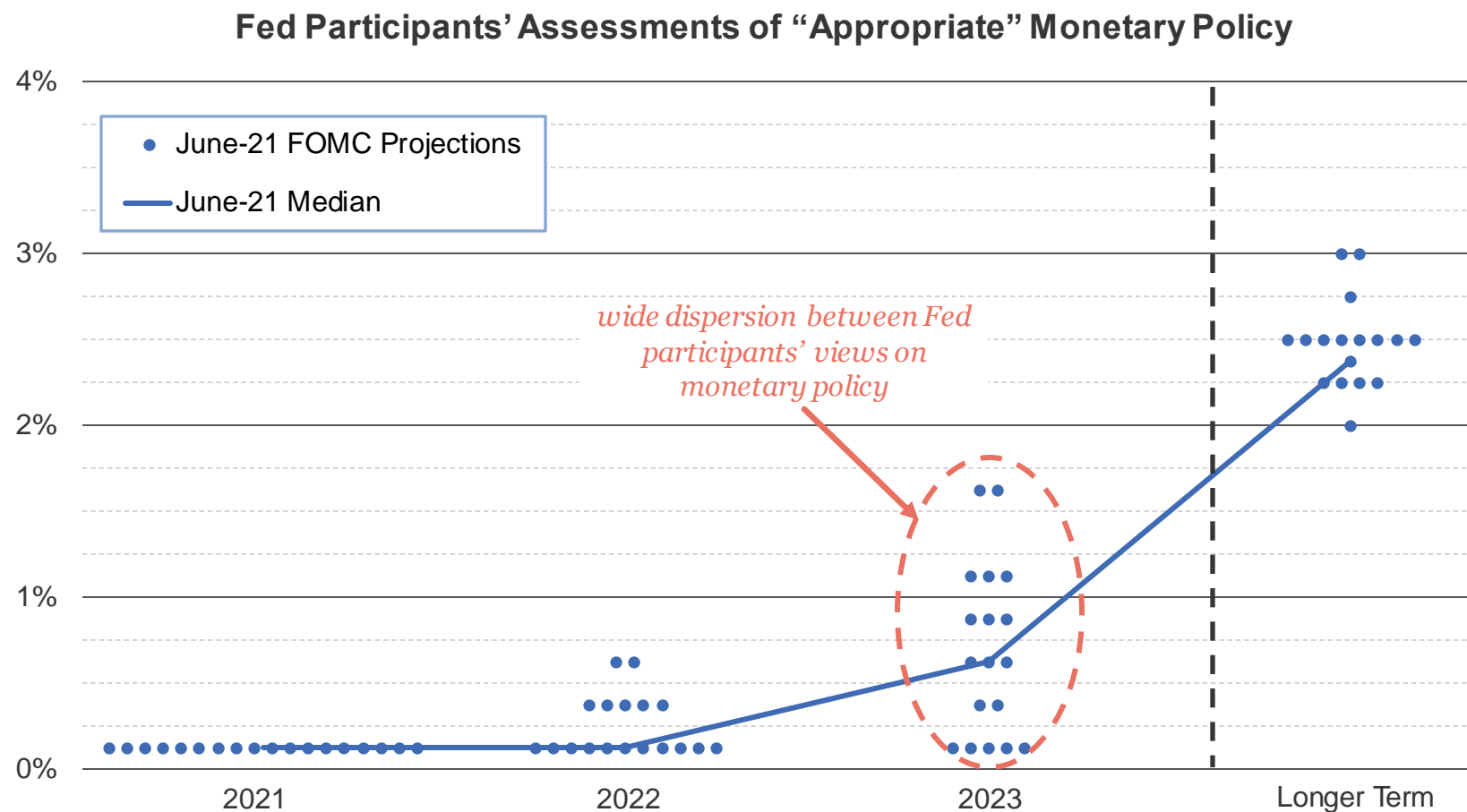
# Treasury Yield Curve Update



Source: Bloomberg, as of 6/30/2021.



## Looking Ahead: Fed's “Dot Plot” Reflects Evolving Monetary Policy Views



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year end.





# Investment Program Highlights

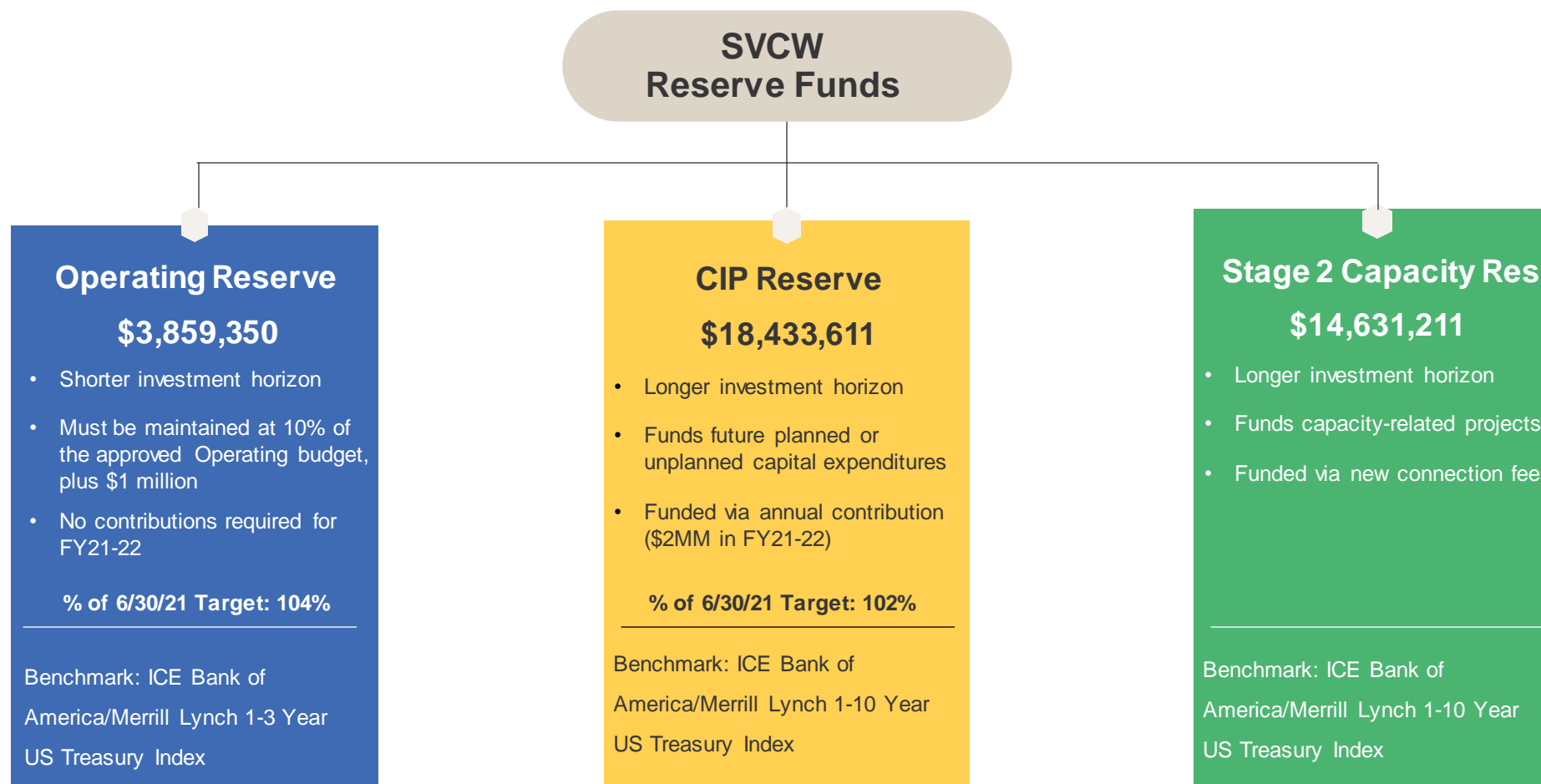


## Methods to Achieve SVCW's Investment Objectives

| Objective   | Achieved Through...  |
|---|--|
| <b>Safety</b><br><i>Safety of the principal</i> shall be the top priority in consideration of any investment undertaken by the CFO  | <ul style="list-style-type: none"><li>• High-quality investments</li><li>• Diversification by sector, issuer, and maturity</li><li>• Continual monitoring of the creditworthiness of all investment securities</li></ul>   |
| <b>Liquidity</b><br>The CFO shall keep the portfolio <i>sufficiently liquid</i> to meet the operating and capital needs of the Authority which can be reasonably anticipated from his/her experience of the Authority's operations and adopted budget | <ul style="list-style-type: none"><li>• Cash flow coordination with SVCW</li><li>• Appropriate allocation among short-term liquidity vehicles and the longer-term managed portfolios</li><li>• Investment in highly liquid securities which could readily be sold in the open market</li></ul> |
| <b>Return on Investment</b><br>Within the safety and liquidity constraints imposed by law and the Authority's own safety objective and cash flow requirements, the investment portfolio shall be designed to <i>attain the market rate of return</i>  | <ul style="list-style-type: none"><li>• Duration management</li><li>• Active trading and continual evaluation of relative value among allowable sectors</li></ul>  |



## SVCW's Reserve Fund Investment Program



*End of quarter trade-date market values of portfolio holdings plus accrued interest and money market fund balances.*



## Aggregate Portfolio: June 30, 2021 Statistics

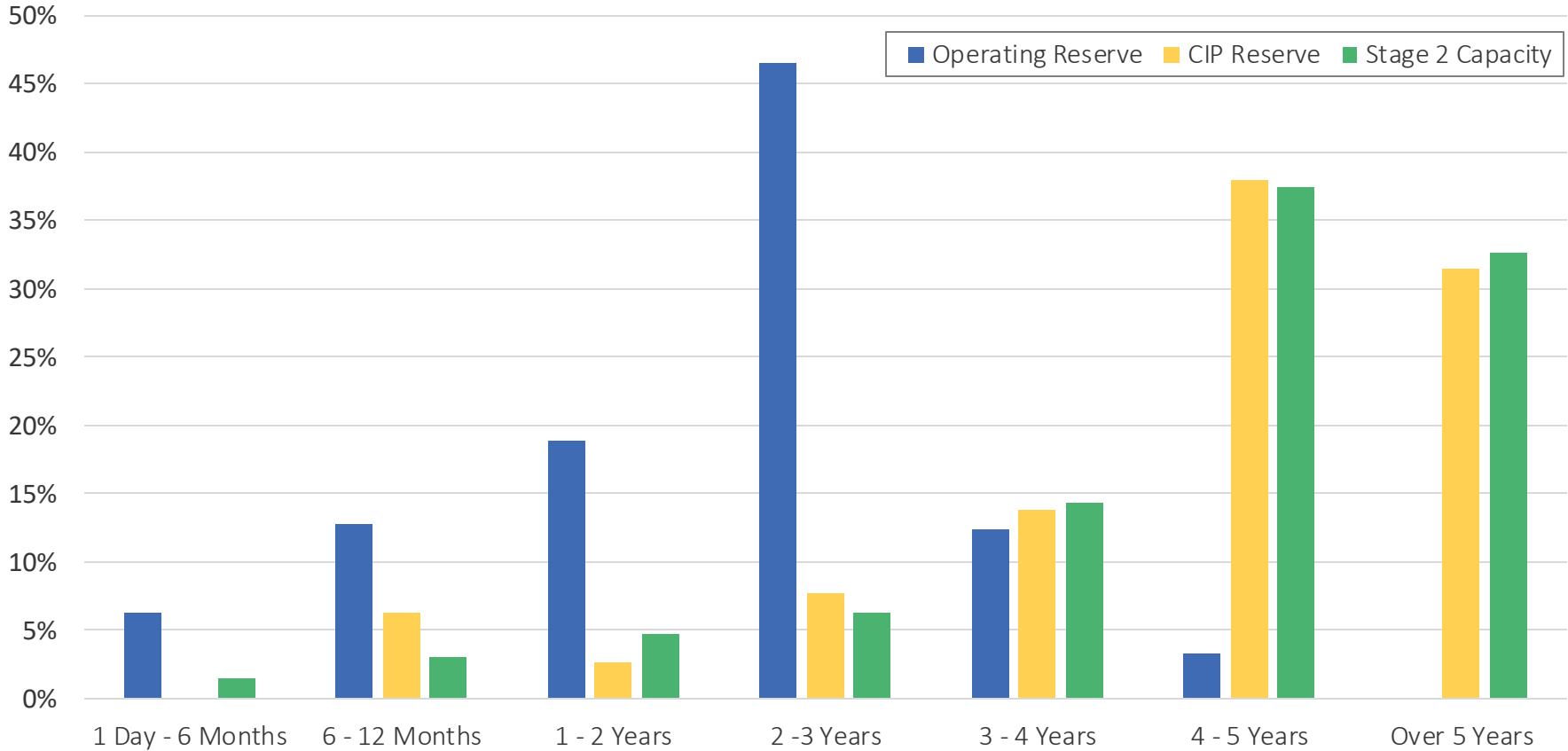
| Security Type           | June 30, 2021       | % of Portfolio | % Change YOY | Permitted by Policy |
|-------------------------|---------------------|----------------|--------------|---------------------|
| U.S. Treasury           | \$14,390,793        | 39%            | +9%          | 100%                |
| Federal Agency          | \$6,192,576         | 17%            | -2%          | 100%                |
| Federal Agency CMO      | \$3,800,354         | 10%            | -1%          | 100%                |
| Federal Agency MBS      | \$1,954,919         | 5%             | -2%          | 100%                |
| Municipal Bond          | \$1,863,227         | 5%             | +4%          | 30%                 |
| Supranationals          | \$356,912           | 1%             | +1%          | 15%                 |
| Corporate Note          | \$6,499,802         | 18%            | -2%          | 30%                 |
| Asset-Backed Securities | \$1,103,760         | 3%             | +3%          | 10%                 |
| Money Market Fund       | \$586,200           | 2%             | -8%          | 20%                 |
| <i>Accrued Interest</i> | <i>\$175,629</i>    |                |              |                     |
| <b>Total</b>            | <b>\$36,924,172</b> | <b>100%</b>    |              |                     |

*End of quarter trade-date market valuations. Details may not add up to total due to rounding. Current Investment Policy as of January 2021.*



# Maturity Distribution Reflects Portfolio Strategy

Comparison of Maturity Distributions  
As of June 30, 2021



- End of quarter trade-date market values of portfolio holdings, including accrued interest (where applicable).
- Does not include money market fund balances.





## Total Return Performance

As of June 30, 2021

|  | Yield to<br>Maturity at<br>Cost | Duration<br>(years) | Current<br>Quarter | Total Return<br>Quarter Ended |                    |
|--|---------------------------------|---------------------|--------------------|-------------------------------|--------------------|
|  |                                 |                     |                    | 1 Year                        | Since<br>Inception |
| <b>SVCW Operating Reserve Fund</b>                         | <b>1.04%</b>                    | <b>1.85</b>         | <b>0.00%</b>       | <b>0.22%</b>                  | <b>2.06%</b>       |
| <i>Benchmark: ICE BofAML 1-3 Year U.S. Treasury Index</i>  | <i>N/A</i>                      | <i>1.84</i>         | <i>-0.03%</i>      | <i>0.07%</i>                  | <i>2.01%</i>       |
| <b>Difference</b>  |                                 | <b>-</b>            | <b>+0.03%</b>      | <b>+0.15%</b>                 | <b>+0.05%</b>      |
| <b>SVCW CIP Reserve Fund</b>                               | <b>1.73%</b>                    | <b>3.68</b>         | <b>0.52%</b>       | <b>-0.20%</b>                 | <b>3.01%</b>       |
| <i>Benchmark: ICE BofAML 1-10 Year U.S. Treasury Index</i> | <i>N/A</i>                      | <i>3.85</i>         | <i>0.67%</i>       | <i>-1.12%</i>                 | <i>2.57%</i>       |
| <b>Difference</b>  |                                 | <b>-</b>            | <b>-0.15%</b>      | <b>+0.92%</b>                 | <b>+0.44%</b>      |
| <b>SVCW Stage 2 Capacity Reserve Fund</b>                  | <b>1.69%</b>                    | <b>3.68</b>         | <b>0.50%</b>       | <b>-0.20%</b>                 | <b>3.06%</b>       |
| <i>Benchmark: ICE BofAML 1-10 Year U.S. Treasury Index</i> | <i>N/A</i>                      | <i>3.85</i>         | <i>0.67%</i>       | <i>-1.12%</i>                 | <i>2.57%</i>       |
| <b>Difference</b>  |                                 | <b>-</b>            | <b>-0.17%</b>      | <b>+0.92%</b>                 | <b>+0.49%</b>      |

- Portfolio performance is gross of fees unless otherwise indicated.
- ICE Bank of America Merrill Lynch (BofAML) Indices provided by Bloomberg Financial Markets.
- The performance inception date for each of the funds is September 30, 2019.



## Current Outlook



# Current Market Outlook

## KEY TAKEAWAYS

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- ◆ The strong U.S. economic expansion is largely expected to persist, due to a vaccine-driven reopening, pent-up consumer demand, and continued fiscal and monetary support
- ◆ Uncertainties remain, particularly as the Delta variant sounds alarm bells domestically and globally; global growth outlook particularly cloudy amid vaccine shortages
- ◆ All eyes on the Federal Reserve, as Policymakers signal possible intention to accelerate rate hikes

## PORTFOLIO STRATEGY IMPLICATIONS

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- ◆ Continued focus on safety and liquidity
- ◆ Maintain surveillance of all corporate and asset-backed securities
- ◆ Utilize Treasuries as “dry powder” which can be re-allocated to other sectors should spreads become more attractive
- ◆ Relative steepness of the yield curve persists, presenting opportunity for “roll down”
- ◆ Maintain portfolio duration in line with the benchmark



## Fixed Income Sector Outlook – July 2021

| Sector                        | Our Investment Preferences | Comments   |
|-------------------------------|----------------------------|--|
| <b>COMMERCIAL PAPER / CD</b>  |                            | <ul style="list-style-type: none"> <li>Commercial paper and CD rates began to rise off historical lows after the Fed increased the IOER and RRP rates. However, issuance remained light around the end of Q2. Pockets of opportunity may present themselves over the next several months.</li> </ul>   |
| <b>TREASURIES</b>             |                            |  |
| <b>T-Bill</b>                 |                            | <ul style="list-style-type: none"> <li>T-Bill yields saw some upward pressure towards the end of June, as the Federal Reserve increased two key ultra short-term rates; it is expected that these levels will maintain into the third quarter.</li> </ul>  |
| <b>T-Note</b>                 |                            | <ul style="list-style-type: none"> <li>While the Treasury yield curve continued to flatten during June—particularly between the 2-year and 10-year—it is possible the move was overdone and will at least partially unwind moving into the third quarter. The market expects both yields to rise and the yield curve to steepen throughout the rest of 2021.</li> </ul>  |
| <b>FEDERAL AGENCIES</b>       |                            |  |
| <b>Bullets</b>                |                            |  |
| <b>Callables</b>              |                            | <ul style="list-style-type: none"> <li>Agency bullet spreads tightened slightly as Treasury yields rose in the 1-5 year area of the curve in June. With agencies trading in line with, or even through, Treasury yields and supply expected to remain subdued, the sector is unlikely to provide material added value over the coming months.</li> </ul>   |
| <b>SUPRANATIONALS</b>         |                            | <ul style="list-style-type: none"> <li>Supra spreads narrowed by the end of Q2. The seasonal slowdown in issuance this summer will limit opportunities in the sector over the near term, as the new issue market has been the best entry point into the sector over the last several months. As a result, spreads will likely remain tight until issuance picks back up.</li> </ul>  |
| <b>CORPORATES</b>             |                            |  |
| <b>Financials</b>             |                            |  |
| <b>Industrials</b>            |                            | <ul style="list-style-type: none"> <li>Corporate spreads remain at record tight despite a more hawkish tone from the June Fed meeting. Demand for credit is likely to remain strong, though valuations are rich. Accommodative monetary policy, along with a positive turn in rating trends, should continue to ensure favorable financing conditions. New issues are expected to provide the bulk of any opportunities, as valuations across the secondary market remain rich.</li> </ul> |
| <b>SECURITIZED</b>            |                            |  |
| <b>Asset-Backed</b>           |                            | <ul style="list-style-type: none"> <li>ABS spreads tightened in June, reaching record tight for both autos and credit card issues. Issuance in June was the heaviest month so far in 2021. Delinquency rates and net losses remain below expectations. Fiscal stimulus and improving employment figures may push back any increases to later in 2021 or beyond.</li> </ul>   |
| <b>Agency Mortgage-Backed</b> |                            | <ul style="list-style-type: none"> <li>MBS spreads are tight but recently found some reprieve. While prepayments are elevated, they are on a considerable slowing path, and this trend is expected to continue. Lower coupon passthroughs, most susceptible to duration extension, are likely to trail Treasuries as rates move higher. With valuations slightly more reasonable, the sector may present better opportunities than in recent quarters.</li> </ul>                          |
| <b>Agency CMBS</b>            |                            | <ul style="list-style-type: none"> <li>CMBS returns have held up well throughout the quarter. As spreads have tightened, the relative value proposition has waned, suggesting a gradual reduction in exposure.</li> </ul>  |
| <b>MUNICIPALS</b>             |                            | <ul style="list-style-type: none"> <li>While the pace of taxable issuances has slowed, overall supply remains robust, but valuations are expensive for both new issuances and secondary markets. Both selective additions and opportunistic selling may be warranted.</li> </ul>   |



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# Agenda Item 8A



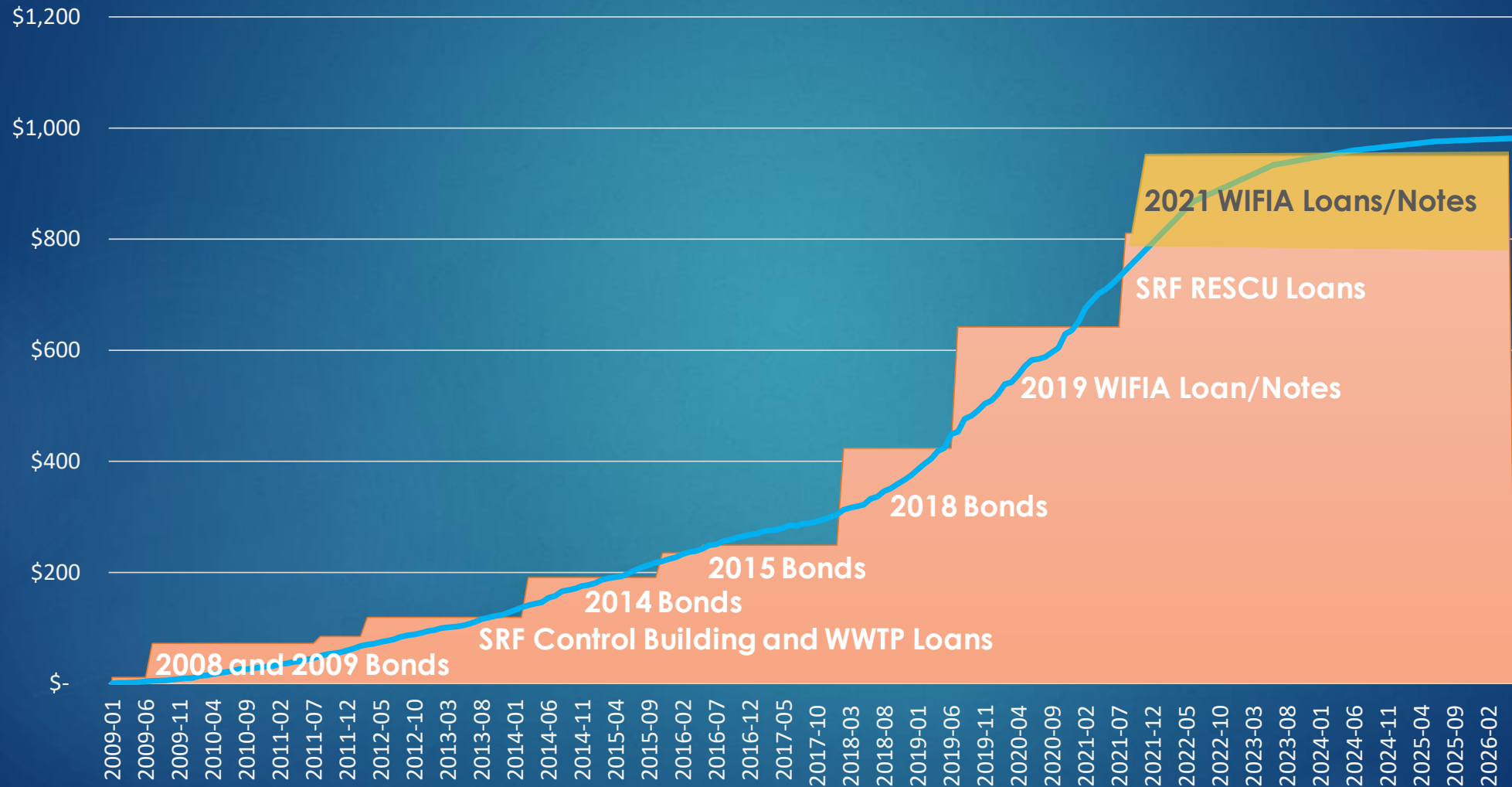
## WIFIA Loans

## 2021 A & 2021 B Notes



# CIP Expenditures & Funding (\$ Millions)

Funding Amount CIP Expenditures



# WIFIA Loans / 2021 Notes

## Execute New WIFIA Loans

2 Loans: RESCU and WWTP Improvements

- Low-cost and flexible terms
- Save ~\$19 million NPV (vs Bonds)

## Amend Existing Loan

2020 WIFIA Loan Amendment

- Meets SRF Loan terms to establish parity
- Pre-approved by WIFIA Managers

## Issue Notes

Leverage Low-Interest Rates

- Use Notes rather than WIFIA during construction
- Repay Notes upon project completion
- Save ~\$7 million NPV

# Schedule

## Members' Council & Board Schedule:

- |                             |           |
|-----------------------------|-----------|
| • Belmont                   | July 27   |
| • West Bay                  | August 18 |
| • San Carlos & Redwood City | August 24 |

## Loans / 2021A and 2021B Notes:

- |                                       |              |
|---------------------------------------|--------------|
| • Price / Execute WIFIA Loans         | August 26    |
| • Post Preliminary Official Statement | August 27    |
| • Competitive Sale of Notes           | September 14 |
| • Close Notes Issuance / Receive \$   | September 28 |

# Recommendation

- i. Adopt Resolution Authorizing Two WIFIA Loans, Amending Existing 202 WIFIA Loan, and Issuing Interim Notes
- ii. Approval of Task Order for Fieldman Rolapp Financial Advisory Services - \$165,000
- iii. Approval of Task Order for Stradling Yocca Carlson & Rauth Legal Services - 180,000



Thank You