



ADMINISTRATION COMMITTEE

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Agenda Report

File #: 2021-2042

Agenda Date: 12/15/2021

Agenda Item No: 19.

FROM: James D. Herberg, General Manager
Originator: Lorenzo Tyner, Assistant General Manager

SUBJECT:

WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2022A

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

- A. Adopt Resolution No. OC SAN 21-23 entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District authorizing the execution and delivery by the District of an Installment Purchase Agreement, a Trust Agreement, and a Continuing Disclosure Agreement in connection with the Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2022A, authorizing the execution and delivery of such Revenue Obligations evidencing principal in an aggregate amount of not to exceed \$107,315,000, approving a Notice of Intention to Sell, authorizing the distribution of an Official Notice Inviting Bids and an Official Statement in connection with the offering and sale of such Revenue Obligations and authorizing the execution of necessary documents and related actions"; and
- B. That the Orange County Sanitation District Financing Corporation approve the documents supporting and authorizing the Revenue Obligations in an aggregate amount not to exceed \$107,315,000.

BACKGROUND

Outstanding Wastewater Refunding Revenue Obligations, Series 2012A

In March 2012, the Orange County Sanitation District issued \$100,645,000 of fixed rate Wastewater Refunding Revenue Obligations, Series 2012A (2012A Revenue Obligations) to refund outstanding debt. With current tax-exempt interest rates lower than the coupons on the 2012A Revenue Obligations, a refunding could provide attractive savings to the Orange County Sanitation District. All of the 2012A Revenue Obligations are outstanding and callable starting on February 1, 2022.

Outstanding Wastewater Refunding Revenue Obligations, Series 2012B

In August 2012, the Orange County Sanitation District issued \$66,395,000 of fixed rate Wastewater Refunding Revenue Obligations, Series 2012B (2012B Revenue Obligations) to refund outstanding debt. With current tax-exempt interest rates lower than the coupons on the 2012B Revenue Obligations, a refunding could provide attractive savings to the Orange County Sanitation District.

The current outstanding amount of the 2012B Revenue Obligations is \$8,170,000, of which \$6,670,000 maturing on, and after, February 1, 2023 are callable starting on February 1, 2022.

New Wastewater Refunding Revenue Obligations, Series 2022A

On October 27, 2021, the Board of Directors authorized the General Manager to pursue a fixed rate refunding of the 2012A Revenue Obligations and 2012B Revenue Obligations. Approval of the recommended actions and the associated documents will enable the staff to complete the refundings.

RELEVANT STANDARDS

- Comply with OC San Policy: Orange County Sanitation District Debt Policy - Financial Management Policy and Procedure 201-3-1; Net present value savings are at least three (3) percent of the par amount of the refunded bonds from refunding outstanding bonds
- Easy access to low-cost credit

PROBLEM

2012A Revenue Obligations

The interest rates payable on the 2012A Revenue Obligations are higher than current market yields.

2012B Revenue Obligations

The interest rates payable on the 2012B Revenue Obligations are higher than current market yields.

PROPOSED SOLUTION

The issuance of up to \$107,315,000 of Wastewater Refunding Revenue Obligations, Series 2022A would allow the Orange County Sanitation District to refund up to \$100,645,000 of the 2012A Revenue Obligations and \$6,670,000 of the 2012B Revenue Obligations using a refunding amortization structured with the objective a providing level annual debt service savings and to generate net present value debt service savings of approximately \$22.3 million (equal to 20.8% of refunded principal), based on market conditions as of November 18, 2021.

TIMING CONCERNS

2012A Revenue Obligations

The Orange County Sanitation District can optionally early redeem the 2012A Revenue Obligations starting on February 1, 2022. If the 2012A Revenue Obligations remain outstanding past February 1, 2022, the Orange County Sanitation District would pay interest costs above current market yields.

2012B Revenue Obligations

The Orange County Sanitation District can optionally early redeem a portion of the 2012B Revenue Obligations starting on February 1, 2022. If the 2012B Revenue Obligations remain outstanding past

February 1, 2022, the Orange County Sanitation District would pay interest costs above current market yields.

RAMIFICATIONS OF NOT TAKING ACTION

2012A Revenue Obligations

Not refunding the 2012A Revenue Obligations would result in the Orange County Sanitation District continuing to pay above market interest costs.

2012B Revenue Obligations

Not refunding the 2012B Revenue Obligations would result in the Orange County Sanitation District continuing to pay above market interest costs.

PRIOR COMMITTEE/BOARD ACTIONS

October 2021 - The Board of Directors authorized the General Manager to issue new fixed rate Certificates of Participation, to be referred to as Wastewater Refunding Revenue Obligations, in an amount sufficient to refund (1) up to \$100,645,000 of Wastewater Refunding Revenue Obligations, Series 2012A and (2) up to \$6,670,000 of Wastewater Refunding Revenue Obligations, Series 2012B.

May 2021 - The Board of Directors adopted Resolution No. OC SAN 21-09 authorizing the execution and delivery by the District of an Installment Purchase Agreement, a Trust Agreement, a Continuing Disclosure Agreement and Escrow Agreements in connection with the Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2021A, authorizing the execution and delivery of such Revenue Obligations evidencing principal in an aggregate amount of not to exceed \$163,775,000, approving a Notice of Intention to Sell, authorizing the distribution of an Official Notice Inviting Bids and an Official Statement in connection with the offering and sale of such Revenue Obligations and authorizing the execution of necessary documents and related actions.

ADDITIONAL INFORMATION

Since this is a fixed-rate debt issuance, staff is proposing to issue the refunding through a competitive sale because it is the most expeditious way to access the market and it is expected to provide the lowest costs for this given structure. All costs involved with the refunding, including costs for Public Resources Advisory Group (Municipal Advisor) and Norton Rose Fulbright US LLP (Special Counsel and Disclosure Counsel) will be paid from the proceeds of the new refunding issue.

Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) requires that the governing body of a public body obtain prior to authorizing the issuance of bonds with a term of greater than 13 months (which includes the 2022A Revenue Obligations), good faith estimates of the following information in a meeting open to the public: (a) the true interest cost of the bonds, (b) the sum of all fees and charges paid to third parties with respect to the bonds, (c) the amount of proceeds of the bonds expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the bonds, and (d) the sum total of all debt service payments on the bonds calculated to the final maturity of the bonds plus the fees

and charges paid to third parties not paid with the proceeds of the bonds. For the anticipated issuance of 2022A Revenue Obligations, the Orange County Sanitation District's Municipal Advisor, Public Resources Advisory Group, estimates, based on market conditions as of November 18, 2021 and subject to changing market conditions which may result in the figures being higher or lower, the following:

- a) true interest cost of 1.44%;
- b) sum of all fees and charges paid to third parties of \$566,650;
- c) net proceeds of \$107,321,342; and
- d) total payments of \$121,680,750

Legal Authorization and Approvals

The Board of Directors of the Orange County Sanitation District and the Financing Corporation will each be required to adopt separate Resolutions to complete this refunding. A Financing Corporation is required by the structure of the Revenue Obligations and was formed in April 2000 solely to satisfy this need. The Board of Directors of the Corporation is the same as the Board of Directors of the Orange County Sanitation District and the Corporation meets after an adjournment of the Orange County Sanitation District Board.

The Orange County Sanitation District Resolution authorizes the execution and delivery of certain legal documents and the execution and delivery of Wastewater Refunding Revenue Obligations, Series 2022A, evidencing principal in an aggregate amount of not to exceed \$107,315,000 all as spelled out in the title as follows:

“A RESOLUTION OF THE BOARD OF DIRECTORS OF THE ORANGE COUNTY SANITATION DISTRICT AUTHORIZING THE EXECUTION AND DELIVERY BY THE DISTRICT OF AN INSTALLMENT PURCHASE AGREEMENT, A TRUST AGREEMENT, AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION WITH THE ORANGE COUNTY SANITATION DISTRICT WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2022A, AUTHORIZING THE EXECUTION AND DELIVERY OF SUCH REVENUE OBLIGATIONS EVIDENCING PRINCIPAL IN AN AGGREGATE AMOUNT OF NOT TO EXCEED \$107,315,000, APPROVING A NOTICE OF INTENTION TO SELL, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL NOTICE INVITING BIDS AND AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH REVENUE OBLIGATIONS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND RELATED ACTIONS.”

The Resolution of the Corporation is somewhat shorter and simpler. It authorizes three actions that are similarly enumerated in the title as follows:

“A RESOLUTION OF THE BOARD OF DIRECTORS OF THE ORANGE COUNTY SANITATION DISTRICT FINANCING CORPORATION AUTHORIZING THE EXECUTION AND DELIVERY BY THE CORPORATION OF AN INSTALLMENT PURCHASE AGREEMENT, AND A TRUST AGREEMENT IN CONNECTION WITH THE ORANGE COUNTY SANITATION DISTRICT WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2022A, AUTHORIZING THE EXECUTION AND DELIVERY OF SUCH REVENUE OBLIGATIONS EVIDENCING PRINCIPAL IN AN AGGREGATE AMOUNT OF NOT TO EXCEED \$107,315,000 AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND RELATED ACTIONS.”

Following is a list of the remaining steps to be completed for the issuance of the Wastewater Refunding Revenue Obligations, Series 2022A debt issuance:

December:

- Board of Directors approval of legal and disclosure documents
- Financing Corporation approval of legal and disclosure documents
- Request ratings from bond rating agencies

January:

- Receive ratings from rating agencies
- Marketing and sale through a competitive sale process

February:

- Closing
- Begin debt administration

CEQA

N/A

FINANCIAL CONSIDERATIONS

N/A

ATTACHMENT

The following attachment(s) may be viewed on-line at the OC San website (www.ocsan.gov) with the complete agenda package:

- Proposed Resolution No. OC SAN No. 21-23
- Proposed Financing Corporation Resolution No. FC-29
- Draft Installment Purchase Agreement
- Draft Trust Agreement
- Draft Notice of Intention to Sell
- Draft Official Notice Inviting Bids
- Draft Preliminary Official Statement
- Draft Continuing Disclosure Agreement