



ADMINISTRATION COMMITTEE

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Agenda Report

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Agenda Item No: 21.

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

SUBJECT:

WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2021A

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

- A. Adopt Resolution No. OC SAN 21-09 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, 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"; 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 \$163,775,000.

BACKGROUND

Outstanding Revenue Refunding Certificate Anticipation Notes, Series 2018A

The borrowing cost on the current outstanding Revenue Refunding Certificate Anticipation Notes, Series 2018A (2018A CANs), is fixed for 33.5 months and the entire \$102,200,000 plus interest becomes due and payable on August 15, 2021. The Orange County Sanitation District (OC San) is responsible for a total repayment, including interest due of \$104,755,000 or OC San could choose to refinance the 2018A CANs.

In March 2006, OC San issued \$200 million of variable rate Certificates of Participation (COP), Series 2006 (2006 COPs). Alternatively, OC San could have issued debt, at an estimated cost of 4.54%, on a fixed rate basis in 2006 ("2006 Fixed Rate"). For the initial 27 months through August 2008, the average variable rate on the 2006 COPs was 2.95% or 0.22% less than the SIFMA index (weekly market index of tax-exempt variable rate obligations). As the global financial crisis took hold

of the markets in the late summer of 2008, there was a significant increase in the variable rate borrowing cost to OC San, including many other municipal variable rate borrowers, with the 2006 COPs averaging 4.29% (or 1.56% above the SIFMA index) for the period between September 2008 and December 2008. The amount of the variable rate cost increase above the SIFMA index can be attributed to the weakened financial strength of the bank, DEPFA Bank plc, that was providing liquidity support on the 2006 COPs. Even with the increase in interest rates during this period of unprecedented stress, the 4.29% average cost was still lower than the 2006 Fixed Rate of 4.54%.

In December 2008, OC San proactively refunded the 2006 COPs with the fixed rate Refunding COP Series 2008C Certificate Anticipation Notes (2008C CANs) yielding 0.98% for a one-year period to reduce its exposure to then higher and more volatile variable rate costs and to avoid relying on liquidity support from weakening banks. The issuance of the 2008C CANs allowed OC San to redeem the 2006 COPs at an all-in cost of less than 1.25% and avoid paying a bank rate of 4.75% which would have been effective starting a month later. Since the 2008C CANs issuance, OC San completed five additional one-year refinancings at progressively lower yields, followed by two 25-month refinancings starting in 2014, and with the most recent 33.5-month refinancing in 2018, as summarized below:

Series	Principal Amount	Maturity	Yield	All-in Cost
2009B	\$ 165,865,000	1 Year	0.370%	0.559%
2010B	154,665,000	1 Year	0.360	0.525
2011B	143,205,000	1 Year	0.225	0.399
2012C	131,700,000	1 Year	0.210	0.410
2013A	129,625,000	1 Year	0.170	0.390
2014B	120,850,000	25.0 months	0.320	0.523
2016B	109,875,000	25.5 months	0.840	1.002
2018A	102,200,000	33.5 months	1.940	2.134

Outstanding Wastewater Refunding Revenue Obligations, Series 2011A

In October 2011, OC San issued \$147,595,000 of fixed rate Wastewater Refunding Revenue Obligations, Series 2011A (2011A Revenue Obligations) to refund outstanding debt. With current tax-exempt interest rates lower than the coupons on the 2011A Revenue Obligations, a refunding could provide attractive savings to OC San. The current outstanding amount of the 2011A Revenue Obligations is \$75,370,000, of which \$61,575,000 maturing on and after February 1, 2022 are callable on August 1, 2021.

New Wastewater Refunding Revenue Obligations, Series 2021A

On March 24, 2021, the Board of Directors authorized the General Manager to pursue a fixed rate refunding of the 2018A CANs and 2011A Revenue Obligations. Approval of the recommended actions and the associated documents will enable the staff to complete the refundings.

RELEVANT STANDARDS

- OC San District Debt Policy - Financial Management Policy and Procedure 201-3-1; restructuring outstanding debt is desirable and refunding to achieve debt service savings
- Easy access to low-cost credit

PROBLEM

2018A CANs

The 2018A CANs are due and payable on August 15, 2021 in the amount of \$104,755,000. The 2018A CANs were issued with a short-term 33.5-month rate with the expectation that upon maturity the issue would be refinanced.

2011A Revenue Obligations

The interest rates payable on the 2011A Revenue Obligations are higher than current market yields.

PROPOSED SOLUTION

The issuance of up to \$163,775,000 of Wastewater Refunding Revenue Obligations, Series 2021A would allow OC San to (1) repay the 2018A CANs while restructuring the amortization to result in level annual repayments through 2036 (the final maturity of the original 2006 COPs) at a low cost (1.42% based on market conditions as of April 23, 2021) and avoids using \$105 million of reserves for such purpose and (2) refund up to \$61,575,000 of the 2011A Revenue Obligations with a matching refunding amortization structure for net present value debt service savings of approximately \$7.51 million (equal to 12.2% of refunded principal), based on market conditions as of April 23, 2021.

TIMING CONCERNS

2018A CANs

The OC San must complete a refinancing by no later than August 15, 2021; otherwise, \$105 million of reserves will be required to repay the 2018A CANs.

2011A Revenue Obligations

OC San can optionally early redeem the 2011A Revenue Obligations on August 1, 2021. If the 2011A Revenue Obligations remain outstanding past August 1, 2021, OC San would pay interest costs above current market yields.

RAMIFICATIONS OF NOT TAKING ACTION

2018A CANs

Not taking action by August 15, 2021 would require OC San to use its reserves to repay the 2018A CANs or result in an "Event of Default" due to the non-repayment to lenders. The economic

ramification of an Event of Default would result in a downgrade in credit ratings, reduced access to capital and higher costs of borrowing.

2011A Revenue Obligations

Not refunding the 2011A Revenue Obligations would result in OC San continuing to pay above market interest costs.

PRIOR COMMITTEE/BOARD ACTIONS

March 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 (1) an amount sufficient to refund \$102,200,000 of Revenue Refunding Certificate Anticipation Notes, Series 2018A maturing on August 15, 2021 and (2) an additional amount sufficient to refund, subject to market conditions, up to \$61,575,000 of Wastewater Refunding Revenue Obligations, Series 2011A.

September 2018 - The Board of Directors adopted Resolution No. OCSD 18-17, authorizing the execution and delivery by the Sanitation District on an Installment Purchase Agreement, a Trust Agreement and a Continuing Disclosure Agreement in connection with the execution and delivery of OC San Revenue Refunding Certificate Anticipation Notes, Series 2018A, such notes evidencing principal in an aggregate amount of not to exceed \$109,875,000, 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 notes and authorizing the execution of other 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 2021A 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 2021A Revenue Obligations, OC San's Municipal Advisor, Public Resources Advisory Group, estimates, based on market conditions as of April 23, 2021 and subject to changing market conditions which may result in the figures being higher or lower, the following:

- a) true interest cost of 1.22%;
- b) sum of all fees and charges paid to third parties of \$795,662;
- c) net proceeds of \$163,865,000; and
- d) total payments of \$175,555,171

Legal Authorization and Approvals

The Board of Directors of OC San 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 OC San and the Corporation meets after an adjournment of the OC San Board.

The OC San Resolution authorizes the execution and delivery of certain legal documents and the execution and delivery of Wastewater Refunding Revenue Obligations, Series 2021A, evidencing principal in an aggregate amount of not to exceed \$163,775,000 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, 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.”

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 2021A, AUTHORIZING THE EXECUTION AND DELIVERY OF SUCH REVENUE OBLIGATIONS EVIDENCING PRINCIPAL IN AN AGGREGATE AMOUNT OF NOT TO EXCEED \$163,775,000 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 2021A debt issuance:

May:

- Board of Directors approval of legal and disclosure documents
- Financing Corporation approval of legal and disclosure documents

June:

- Request ratings from bond rating agencies
- Rating agency discussions

July:

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

- Resolution No. OC SAN No. 21-09
- Financing Corporation Resolution No. FC-XX
- 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
- Draft 2011A Revenue Obligations Escrow Agreement
- Draft 2018A CANs Escrow Agreement