



ADMINISTRATION COMMITTEE

Agenda Report

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Agenda Item No: 4.

FROM: Robert Thompson, General Manager
Originator: Wally Ritchie, Director of Finance

SUBJECT:

WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2023A AND SERIES 2024A

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

- A. Authorize 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 up to \$39,180,000 of Wastewater Refunding Revenue Obligations, Series 2014A; and
- B. Authorize 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 up to \$127,510,000 of Wastewater Refunding Revenue Obligations, Series 2015A.

BACKGROUND

A portion of Orange County Sanitation District's (OC San) debt portfolio will soon be subject to optional redemption. As interest rates are lower than the coupons on the outstanding debt, there is the potential opportunity to refinance the outstanding debt to reduce interest costs for OC San. The Wastewater Refunding Revenue Obligations Series 2014A (2014 Revenue Obligations) are subject to optional redemption on February 1, 2024 and the Wastewater Refunding Revenue Obligations Series 2015A (2015 Revenue Obligations) are subject to optional redemption on August 1, 2024. Under current market conditions, a refunding of the outstanding \$39,180,000 of 2014 Revenue Obligations would generate more than 3% net present value savings (the minimum percentage required by OC San's debt policy) and a refunding of the outstanding \$127,510,000 of 2015 Revenue Obligations would also generate more than 3% net present value savings.

RELEVANT STANDARDS

- OC San Debt Policy - Financial Management 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

PROBLEM

The 2014 Revenue Obligations and 2015 Revenue Obligations are currently accruing interest at 5.00% rates, which are higher than current market yields. The 2014 Revenue Obligations will soon be available for optional redemption on February 1, 2024 and not refunding the 2014 Revenue Obligations on, or before, such date would result in OC San paying above market rates on the 2014 Revenue Obligations. The 2015 Revenue Obligations will be available for optional redemption six months later than the 2014 Revenue Obligations, on August 1, 2024, and not refunding the 2015 Revenue Obligations on, or before, such date would result in OC San paying above market rates on the 2015 Revenue Obligations.

PROPOSED SOLUTION

Assuming current market conditions as of June 28, 2023, OC San could refund the 2014 Revenue Obligations for present value debt service savings, net of all costs, of approximately \$1.25 million (equal to 4.1% of refunded principal) with a refunding amortization structured with the objective of providing level annual debt service savings.

Assuming current market conditions as of June 28, 2023, OC San could refund the 2015 Revenue Obligations for present value debt service savings, net of all costs, of approximately \$20.92 million (equal to 16.4% of refunded principal) with a refunding amortization structured with the objective of providing level annual debt service savings.

TIMING CONCERNS

The Tax Cuts and Jobs Act of 2017 eliminated the ability of issuers to conduct advance refundings (more than 90 days prior to the optional redemption date) on a tax-exempt basis. Therefore, Tuesday, November 7, 2023 is the earliest practical closing date for a tax-exempt refinancing of the 2014 Revenue Obligations which is 86 days (90 days would be Friday, November 3, 2023; however, municipal bond transactions rarely close on Fridays or Mondays) before the February 1, 2024 optional redemption date. A refunding after February 1, 2024 would result in OC San continuing to pay interest costs above current market yields.

The earliest practical closing date for a tax-exempt refinancing of the 2015 Revenue Obligations is Tuesday, May 7, 2024 which is 86 days before the August 1, 2024 optional redemption date. A refinancing closing earlier than May 7, 2024 could be accomplished by means of a forward refunding or taxable refunding; however, those financing structures would subject OC San to higher borrowing cost which would reduce net present value savings by an estimated \$4.7-16.5 million from the \$20.92 million cited in the Proposed Solution section.

RAMIFICATIONS OF NOT TAKING ACTION

Not refunding the 2014 Revenue Obligations or the 2015 Revenue Obligations would result in OC San continuing to pay above market interest costs.

PRIOR COMMITTEE/BOARD ACTIONS

December 2021 - Approved Resolution No. OC SAN 21-23, 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.

May 2021 - Approved 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 INFORMATIONOutstanding Revenue Obligations

OC San currently has eight series of debt issuances outstanding (including the 2014 Revenue Obligations and 2015 Revenue Obligations) in the par amount of \$789,750,000 as shown in the table below:

	Outstanding Par Amount ⁽¹⁾
Series 2022A Refunding	\$81,620,000
Series 2021A Refunding	111,770,000
Series 2017A Refunding	65,815,000
Series 2016A Refunding	126,855,000
Series 2015A Refunding⁽²⁾	127,510,000
Series 2014A Refunding⁽³⁾	39,180,000
Series 2010C	157,000,000
Series 2010A	80,000,000
Total:	\$789,750,000

(1) As of June 30, 2023

(2) 2015 Revenue Obligations

(3) 2014 Revenue Obligations

Depending on market conditions, staff is proposing to refund in November 2023 up to \$39,180,000 of the 2014 Revenue Obligations maturing in years 2024 through 2027 with annual coupon rates of 5.00%, as shown in the table below:

Series	Maturity	Principal Amount	Coupon
2014A	02/01/2024	\$ 9,085,000	5.00%
2014A	02/01/2025	\$ 9,545,000	5.00%
2014A	02/01/2026	\$ 10,025,000	5.00%
2014A	02/01/2027	\$ 10,525,000	5.00%
	Total:	\$ 39,180,000	

Depending on market conditions, staff is proposing to refund in May 2024 up to \$127,510,000 of the 2015 Revenue Obligations maturing in years 2028 through 2031 and 2034 through 2037 with annual coupon rates of 5.00%, as shown in the table below:

Series	Maturity	Principal Amount	Coupon
2015A	02/01/2028	\$15,240,000	5.00%
2015A	02/01/2029	16,045,000	5.00%
2015A	02/01/2030	15,965,000	5.00%
2015A	02/01/2031	6,215,000	5.00%
2015A	02/01/2034	17,180,000	5.00%
2015A	02/01/2035	18,040,000	5.00%
2015A	02/01/2036	18,940,000	5.00%
2015A	02/01/2037	19,885,000	5.00%
	Total:	\$127,510,000	

Timeline

Assuming that the Board of Directors approves pursuing the refinancing of the 2014 Revenue Obligations and the 2015 Revenue Obligations, staff will return to the Administration Committee in September 2023 and March 2024 with financing documents for final approval to complete the refinancing for the 2014 Revenue Obligations and 2015 Revenue Obligations, respectively. The refinancing of the 2014 Revenue Obligations and 2015 Revenue Obligations are expected to close in November 2023 and May 2024, respectively. For each refinancing, there is the possibility that interest rates may change at the time of approval of the financing documents and based on then market conditions, staff may recommend a modified refinancing plan. The refundings of the 2014 Revenue Obligations and 2015 Revenue Obligations will be sold on a competitive basis in order to obtain the lowest financing costs possible.

Staff and consultants will be available to answer any questions at the Administration Committee meeting.

The following summarizes the remaining major steps to be completed for the debt refinancings:

September 2023 (2014 Revenue Obligations):

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

October 2023 (2014 Revenue Obligations):

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

November 2023 (2014 Revenue Obligations):

- Closing
- Begin debt administration

March 2024 (2015 Revenue Obligations):

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

April 2024 (2015 Revenue Obligations):

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

May 2024 (2015 Revenue Obligations):

- Closing
- Begin debt administration

All costs involved with the refinancing, including costs for Norton Rose Fulbright, Special Counsel and Disclosure Counsel and Public Resources Advisory Group, Municipal Advisor, will be paid from the proceeds of the new refunding issues.

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:

N/A