



ADMINISTRATION COMMITTEE

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Agenda Report

File #: 2024-3534

Agenda Date: 3/27/2024

Agenda Item No: 8.

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

SUBJECT:

WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2024A

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

- A. Adopt Resolution No. OC SAN 24-01 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 an Escrow Agreement in connection with the Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2024A, authorizing the execution and delivery of such Revenue Obligations evidencing principal in an aggregate amount of not to exceed \$157,605,000, 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 \$157,605,000.

BACKGROUND

In August 2014, the Orange County Sanitation District (OC San) issued \$85,090,000 of fixed rate Wastewater Refunding Revenue Obligations, Series 2014A (2014A Revenue Obligations) to refund outstanding debt. \$30,095,000 of the remaining outstanding 2014A Revenue Obligations are callable as of February 1, 2024.

In February 2015, OC San issued \$127,510,000 of fixed rate Wastewater Refunding Revenue Obligations, Series 2015A (2015A Revenue Obligations) to refund outstanding debt. All \$127,510,000 of the remaining outstanding 2015A Revenue Obligations are callable on August 1, 2024.

On July 26, 2023, the Board of Directors authorized the General Manager to pursue fixed rate refundings of the 2014A Revenue Obligations and 2015A Revenue Obligations. OC San considered a standalone refunding of the 2014A Revenue Obligations in the fall of 2023; however, due to

unfavorable market conditions at the time, the refunding was postponed. Since the fall of 2023, interest rates have fallen by approximately 1.00% which would allow OC San to generate attractive savings from a refunding of the 2014A Revenue Obligations, and also the 2015A Revenue Obligations. Approval of the recommended actions and the associated documents will enable staff to complete the refunding.

RELEVANT STANDARDS

- Comply with 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 interest rates payable on the 2014A Revenue Obligations and 2015A Revenue Obligations are higher than current market yields.

PROPOSED SOLUTION

The issuance of up to \$157,605,000 of Wastewater Refunding Revenue Obligations, Series 2024A would allow OC San to refund up to all of the outstanding 2014A Revenue Obligations and 2015A Revenue Obligations using a refunding amortization structured with the objective of providing level annual debt service savings (in years with principal maturing) and to generate net present value debt service savings of approximately \$24.6 million (equal to 15.6% of refunded principal), based on market conditions as of February 26, 2024.

TIMING CONCERNS

OC San can optionally early redeem the 2014A Revenue Obligations as of February 1, 2024 and the 2015A Revenue Obligations starting on August 1, 2024. If the 2014A Revenue Obligations or 2015A Revenue Obligations remain outstanding past the earliest optional redemption dates, OC San would pay interest costs above current market yields.

RAMIFICATIONS OF NOT TAKING ACTION

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

PRIOR COMMITTEE/BOARD ACTIONS

July 2023 - 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 up to \$39,180,000 of Wastewater Refunding Revenue Obligations, Series 2014A and 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 up to \$127,510,000 of Wastewater Refunding Revenue Obligations, Series 2015A.

December 2014 - Adopted Resolution No. OCSD 14-19 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, an Escrow Agreement and a Continuing Disclosure Agreement in connection with the execution and delivery of Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2015A, authorizing the execution and delivery of such Revenue Obligations evidencing principal in an aggregate amount of not to exceed \$150,000,000, 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 that the Orange County Sanitation District Financing Corporation approved the documents supporting and authorizing the Revenue Obligations in an aggregate amount not to exceed \$150,000,000.

June 2014 - Adopted Resolution No. OCSD 14-08, authorizing the execution and delivery by the District of an Installment Purchase Agreement, a Trust Agreement, an Escrow Agreement and a Continuing Disclosure Agreement in connection with the execution and delivery of Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2014A, authorizing the execution and delivery of such Revenue Obligations evidencing principal in an aggregate amount of not to exceed \$225,000,000, 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 that the Orange County Sanitation District Financing Corporation approved the documents supporting and authorizing the Revenue Obligations in an aggregate amount not to exceed \$225,000,000.

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.

For the anticipated issuance of 2024A Revenue Obligations, OC San's Municipal Advisor, Public Resources Advisory Group, estimates, based on market conditions as of February 26, 2024, and subject to changing market conditions which may result in the figures being higher or lower, the following:

- a) true interest cost of 2.596%;
- b) sum of all fees and charges paid to third parties of \$771,861;
- c) net proceeds of \$159,472,627; and
- d) total payments of \$188,903,933

Legal Authorization and Approvals

The OC San Board of Directors and 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 are the same as the Board of Directors of OC San, and the Corporation meets after an adjournment of the OC San Board meeting.

Following is a list of the remaining steps to be completed for the issuance of the Wastewater Refunding Revenue Obligations, Series 2024A debt issuance:

March 2024:

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

April 2024:

- Marketing and sale through a competitive sale process

May 2024:

- 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 24-01
- Proposed Financing Corporation Resolution No. FC-30
- Draft Installment Purchase Agreement
- Draft Trust Agreement
- Draft Escrow Agreement (Series 2014A)
- Draft Escrow Agreement (Series 2015A)
- Draft Notice of Intention to Sell
- Draft Official Notice Inviting Bids
- Draft Preliminary Official Statement
- Draft Continuing Disclosure Agreement