



ADMINISTRATION COMMITTEE

Administration Building
10844 Ellis Avenue
Fountain Valley, CA 92708
(714) 593-7433

Agenda Report

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Agenda Item No: 11.

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

SUBJECT:

WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2022A

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

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 (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.

BACKGROUND

A portion of the Orange County Sanitation District's (OC San) Wastewater Refunding Revenue Obligations Series 2012A and Series 2012B (2012 Revenue Obligations) are subject to optional redemption on February 1, 2022. As interest rates are now lower than in 2012, there is the potential opportunity to refinance some of the outstanding 2012 Revenue Obligations to reduce interest costs for OC San. Under current market conditions, a refunding of \$107,315,000 of the 2012 Revenue Obligations would generate more than 3% net present value savings (the minimum percentage required by OC San's debt policy).

RELEVANT STANDARDS

- OC San 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

\$107,315,000 of the 2012 Revenue Obligations are currently accruing interest at rates ranging from 3.00% to 4.00%, which are higher than current market yields, and will soon be available for optional redemption on February 1, 2022. Not refunding the 2012 Revenue Obligations subject to optional redemption by February 1, 2022 would result in OC San paying above market rates on \$107,315,000 of 2012 Revenue Obligations.

PROPOSED SOLUTION

OC San could refund up to \$107,315,000 of the 2012 Revenue Obligations for present value debt service savings, net of all costs, of approximately \$21.7 million (equal to 20.2% of refunded principal), based on current market conditions as of September 29, 2021, 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, November 3, 2021 is the earliest closing date for a tax-exempt refinancing of the callable 2012 Revenue Obligations which is 90 days before the February 1, 2022 optional redemption date. A closing earlier than February 1, 2022 would subject OC San to additional costs, known as negative arbitrage, as refunding proceeds would be borrowed at a higher cost than invested to February 1, 2022, at low short-term interest rates. A refunding past February 1, 2022 would result in OC San continuing to pay interest costs above current market yields.

RAMIFICATIONS OF NOT TAKING ACTION

Not refunding the 2012 Revenue Obligations would result in OC San continuing to pay above market interest costs.

PRIOR COMMITTEE/BOARD 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.

September 2018 - Approved Resolution No. OCSD 18-17, authorizing the execution and delivery by the Sanitation District of an Installment Purchase Agreement, a Trust Agreement and a Continuing Disclosure Agreement in connection with the execution and delivery of Orange County Sanitation District 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 INFORMATION2012 Revenue Obligations

OC San currently has 10 series of debt issuances outstanding (including the two series of 2012 Revenue Obligations) in the par amount of \$879,355,000 as shown in the table below:

	Outstanding Par Amount ⁽¹⁾
Series 2021A Refunding	\$ 133,510,000
Series 2017A Refunding	65,815,000
Series 2016A Refunding	136,830,000
Series 2015A Refunding	127,510,000
Series 2014A Refunding	56,080,000
Series 2012B Refunding ⁽²⁾	8,170,000
Series 2012A Refunding ⁽²⁾	100,645,000
Series 2011A Refunding	13,795,000
Series 2010C	157,000,000
Series 2010A	80,000,000
Total:	\$ 879,355,000

(1) As of September 1, 2021

(2) 2012 Revenue Obligations

Depending on market conditions, staff is proposing to refund up to \$107,315,000 of the 2012 Revenue Obligations maturing in years 2023 through 2026 and 2031 through 2033 with annual coupon rates ranging between 3.00 to 4.00%, as shown in the table below:

Series	Maturity	Principal Amount	Coupon	Call Date
2012B	02/01/2023	\$ 1,605,000	4.00%	02/01/2022
2012B	02/01/2024	1,630,000	3.00%	02/01/2022
2012B	02/01/2025	1,715,000	3.00%	02/01/2022
2012B	02/01/2026	1,720,000	3.00%	02/01/2022
2012A	02/01/2031	28,990,000	3.00%	02/01/2022
2012A	02/01/2032	29,055,000	4.00%	02/01/2022
2012A	02/01/2033	42,600,000	4.00%	02/01/2022
	Total:	\$ 107,315,000		

Timeline

Assuming that the Board approves pursuing the refinancings of the 2012 Revenue Obligations, staff will return to the Administration Committee in December 2021 with financing documents for final approval to complete the refinancings by February 1, 2022. There is the possibility that interest rates may change before December and, at the time of approval of the financing documents and based on then market conditions, staff may recommend a modified refinancing plan. The refunding of the two

series (Series 2012A and Series 2012B) comprising the 2012 Revenue Obligations can be combined into a single refunding issuance which will minimize issuance costs while being sold on a competitive basis in order to obtain the lowest financing cost possible.

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

Following is a chart summarizing the remaining major steps to be completed for the debt refinancings:

<p>December:</p> <ul style="list-style-type: none">- Board approval of legal and disclosure documents- Financing Corporation approval of legal and disclosure documents- Request ratings from bond rating agencies <p>January:</p> <ul style="list-style-type: none">- Receive ratings from rating agencies- Marketing and sale through a competitive sale process- Closing- Begin debt administration

All costs involved with the refinancings, 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 issue.

ATTACHMENT

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

- Presentations from Administration Committee 10/13/2021