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Agenda Report Details (With Text)

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Title:	WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2021A				
Sponsors:	Lorenzo Tyner				
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Attachments:	1. Agenda Report, 2. Financing Corporation Resolution No. FC-28, 3. Draft Installment Purchase Agreement, 4. Draft Trust Agreement				

Date	Ver.	Action By	Action	Result
5/26/2021	1	BOARD OF DIRECTORS		

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

SUBJECT:

WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2021A

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

Adopt Resolution No. FC-28 entitled: “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.”

BACKGROUND

On March 24, 2021, the Orange County Sanitation District Board of Directors authorized the General Manager to pursue a fixed rate refunding of the callable Wastewater Revenue Refunding Revenue Obligations, Series 2011A and the maturing Revenue Refunding Certificate Anticipation Notes, Series 2018A. Approval of the recommended actions and the associated documents will enable the staff to complete the refunding process. The Financing Corporation is required to adopt the Resolution to complete the refunding.

RELEVANT STANDARDS

- The Financing Corporation is required to adopt the Resolution to complete the refunding. A Financing Corporation is required by the structure of the Revenue Obligations and was formed in April 2000 solely to satisfy this need.

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 the Orange County Sanitation District 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 Orange County Sanitation District 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

The Orange County Sanitation District can optionally early redeem the 2011A Revenue Obligations on August 1, 2021. If the 2011A Revenue Obligations remain outstanding past August 1, 2021, the Orange County Sanitation District would pay interest costs above current market yields.

RAMIFICATIONS OF NOT TAKING ACTION

2018A CANs

Not taking action by August 15, 2021 would require the Orange County Sanitation District 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 the Orange County Sanitation District continuing to pay above market interest costs.

PRIOR COMMITTEE/BOARD ACTIONS

September 2018 - The Board of Directors of the Orange County Sanitation District Financing Corporation adopted Resolution No. FC-27, authorizing the execution and delivery by the Corporation of an Installment Purchase Agreement and a Trust Agreement in connection with the execution and delivery of Orange County Sanitation District Revenue Refunding Certificate Anticipation Notes, Series 2018A, authorizing the execution and delivery of such notes evidencing principal in an aggregate amount of not to exceed $109,875,000 and authorizing the execution of other necessary documents and related actions.

ADDITIONAL INFORMATION

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. Drafts of these two Resolutions are available for review on the Orange County Sanitation District's webpage, as described in the "Attachments" section below. 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 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 OTHER NECESSARY DOCUMENTS AND RELATED ACTIONS."

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:

- Financing Corporation Resolution No. FC-28
- Draft Installment Purchase Agreement
- Draft Trust Agreement