

Agenda Report

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FROM: Robert Thompson, General Manager
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SUBJECT:

WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2023A

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

- A. Adopt Resolution No. OC SAN 23-XX 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 Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2023A, authorizing the execution and delivery of such Revenue Obligations evidencing principal in an aggregate amount of not to exceed \$39,180,000, 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 \$39,180,000.

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. With current tax-exempt interest rates lower than the coupons on the 2014A Revenue Obligations, a refunding could provide attractive savings to OC San. \$39,180,000 of the remaining outstanding 2014A Revenue Obligations are payable or callable on February 1, 2024.

On July 26, 2023, the Board of Directors authorized the General Manager to pursue a fixed rate refunding of the 2014A 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

2014A Revenue Obligations

The interest rates payable on the 2014A Revenue Obligations are higher than current market yields.

PROPOSED SOLUTION

The issuance of up to \$39,180,000 of Wastewater Refunding Revenue Obligations, Series 2023A would allow OC San to refund up to all of the outstanding 2014A Revenue Obligations using a refunding amortization structured with the objective of providing level annual debt service savings and to generate net present value debt service savings of approximately \$11 million (equal to 2.8% of refunded principal or 3.7% of refunded callable principal), based on market conditions as of August 28, 2023.

TIMING CONCERNS

OC San can pay or optionally early redeem the 2014A Revenue Obligations starting on February 1, 2024. If the 2014A Revenue Obligations remain outstanding past February 1, 2024, OC San would pay interest costs above current market yields.

RAMIFICATIONS OF NOT TAKING ACTION

Not refunding the 2014A 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 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.

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 2023A Revenue Obligations, OC San's Municipal Advisor, Public Resources Advisory Group, estimates, based on market conditions as of August 28, 2023 and subject to changing market conditions which may result in the figures being higher or lower, the following:

- a) true interest cost of 2.97%;
- b) sum of all fees and charges paid to third parties of \$404,665;
- c) net proceeds of \$39,646,490; and
- d) total payments of \$42,049,050

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.

Following is a list of the remaining steps to be completed for the issuance of the Wastewater Refunding Revenue Obligations, Series 2023A debt issuance:

September 2023:

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

October 2023:

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

November 2023:

- 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 23-XX
- Proposed Financing Corporation Resolution No. FC-30
- Draft Installment Purchase Agreement
- Draft Trust Agreement
- Draft Escrow Agreement
- Draft Notice of Intention to Sell
- Draft Official Notice Inviting Bids
- Draft Preliminary Official Statement
- Draft Continuing Disclosure Agreement