



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 5/10/2022

To: Board of Directors, Sonoma County Water Agency
Department or Agency Name(s): Sonoma County Water Agency
Staff Name and Phone Number: Lynne Rosselli 524-3771
Vote Requirement: 4/5th
Supervisorial District(s): All

Title:

Water Revenue Bonds, 2022 Series A

Recommended Action:

- A) Hold a noticed public hearing on the adoption of the Eleventh Supplemental Ordinance
- B) Adopt an Eleventh Supplemental Ordinance authorizing issuance of Revenue Bonds in an initial aggregate principal amount not to exceed \$30,000,000 to finance and refinance certain water system improvements.
- C) Adopt a Bond Resolution approving a preliminary official statement and authorizing a final official statement; authorizing the sale of bonds through competitive or negotiated sale; authorizing execution of a continuing disclosure agreement; authorizing the refinancing of prior bonds; authorizing, if appropriate, acquisition of a bond insurance policy; declaring the official intent of the Sonoma County Water Agency to reimburse certain prior expenditures from proceeds of the bonds; and authorizing certain designated officers to do all other things deemed necessary or advisable to carry out transactions contemplated by the Eleventh Supplemental Ordinance.

(4/5th Vote Required)

Executive Summary:

Approval of this item would authorize the Sonoma County Water Agency (Sonoma Water) to issue up to \$30,000,000 of tax-exempt revenue bonds (2022 Revenue Bonds) to refund the outstanding 2012 Series A Bonds for present value savings and finance facilities and improvements to increase the reliability and capacity of Sonoma Water's water transmission system. Approval of this item would include a declaration of Sonoma Water's intent to reimburse prior capital water project expenditures from proceeds of the 2022 Revenue Bonds, when issued.

Discussion:

On June 19, 2012, the Board of Directors of Sonoma Water authorized the sale of \$15,500,000 of Water Revenue Bonds, 2012 Series A to refinance all outstanding previously issued Water Revenue Bonds, 2003 Series A. Sonoma Water is able to achieve further present value debt service savings of approximately \$240,000 by using a portion of the 2022 Revenue Bonds to refund the 2012 Series A Bonds. This "refinancing" will allow Sonoma Water to pay a lower interest rate on the remaining 2012 Series A bond debt and generate annual cash flow and total present value savings.

Sonoma Water also proposes to raise additional capital from the proceeds of the 2022 Revenue Bonds to pay for the capital costs of planned water transmission system facilities, and is requesting Board authorization to use a portion of the proceeds to reimburse expenditures made by Sonoma Water for water transmission system facilities before the date of issuance of the bonds. The attached Bond Resolution includes a declaration of Sonoma Water's intent to make such reimbursements in order to comply with United States Income Tax Regulations.

This agenda item requests that the Board of Directors of Sonoma Water adopt the Eleventh Supplemental Ordinance and Bond Resolution to authorize the issuance of up to \$30,000,000 of 2022 Revenue Bonds to (i) refund, in whole or in part, the outstanding 2012 Series A Bonds and (ii) finance facilities and improvements to increase the reliability and capacity of the Water Agency's water transmission system including, but not limited to, the following projects: Bennett Valley Fault Crossing, Ely Booster Pump Station Flood Protection, Kawana-Ralphine SBS Pipeline, Mark West Creek Crossing Hazard Mitigation, Mirabel-River Road Fiber Optic Line, Ralphine Tanks Flow Thru Conversion, River Diversion System Motor Control Center Replacement, Russian River Crossing Hazard Mitigation, Sebastopol and Occidental, and Todd Road Wells Rehabilitation and Aquifer Storage and Recovery, Seismic Retrofit of Storage Tanks, Sonoma Booster Station Pumping and Electrical Upgrades, and Santa Rosa Creek Crossing Hazard Mitigation, Warm Springs Dam Hydro-turbine Retrofit, Wilfred Booster Pump Station Upgrade, Wohler Plant Access Road Retaining Wall, and any other projects set forth in Sonoma Water's Water Transmission Long Range Financial Plan, together with amounts needed to fund a debt service reserve account for the bonds and pay costs of issuing the bonds.

The 2022 Revenue Bonds would be repaid from net revenues from Sonoma Water's water transmission system. The issuance of 2022 Revenue Bonds for these purposes is authorized by Sonoma Water's enabling statute, the Sonoma County Flood Control and Water Conservation District Act (the Agency Act), the Restructured Agreement for Water Supply among Sonoma Water and its eight prime water contractors, and Sonoma Water's master bond ordinance.

As required by the Agency Act, the Board will hold a public hearing prior to considering the Eleventh Supplemental Ordinance. The public hearing notice estimated that the principal amount of the 2022 Revenue Bonds would not exceed \$25 million, but staff, upon consultation with Sonoma Water's municipal advisor, KNN Public Finance, LLC, recommend increasing this amount in order to be able to maximize the proceeds of the 2022 Bonds given current interest rates.

Sonoma Water and KNN Public Finance have been monitoring interest rates and currently estimate that the 2022 Revenue Bonds will have a true interest cost (including cost of issuance) of approximately 3.18% assuming the issuance will obtain a credit rating of "AAA" from Standard and Poor's, which is the current rating on the 2019 Revenue Bonds. Sonoma Water is planning to solicit a credit rating from Standard and Poor's for this transaction. The bonds are currently structured to have a 25-year amortization, with level fiscal year annual debt service of approximately \$1,685,000 starting with FY2023-24 through FY2031-32 and then dropping to approximately \$900,000 per year through the final maturity of FY2047-48. The step down in annual payments is due to the portion of the bonds associated with the refunding ending in FY2031-32, which is one year earlier than the final maturity of the existing 2012 Series A bonds.

Sonoma Water and KNN Public Finance, LLC are continuously evaluating the benefits of a competitive versus negotiated sale. For a competitive sale, Sonoma Water and KNN Public Finance, LLC would structure the bond offering. Underwriters would review the offering, determine how much interest they need to pay in order to resell the bonds to investors, and submit a competitive bid on the offering. In a negotiated sale, in lieu of multiple underwriting groups competitively bidding on the offering, Sonoma Water would select an underwriter before the sale date, and the selected underwriter would assist in structuring the bond offering. Negotiated sales allow for greater flexibility when the offering is released so that it can be better timed in the market to get the best rate. Competitive sales may result in a lower interest rate for the offering through the

competitive bidding process. Based on current market conditions, Sonoma Water and KNN Public Finance, LLC expect to offer the 2022 Revenue Bonds by competitive sale.

Sonoma Water's Bond Counsel and Disclosure Counsel firm, Jones Hall, have prepared the necessary legal and disclosure documents necessary for the issuance of the 2022 Revenue Bonds and the offering and sale of the 2022 Revenue Bonds to investors, which include: a Preliminary Official Statement; an Official Notice of Sale; a Bond Purchase Agreement in the event that Sonoma Water elects to proceed with a negotiated sale; a Continuing Disclosure Agreement (attached as an appendix to the Preliminary Official Statement); Irrevocable Refunding Instructions in order to carry out the refunding of the 2012 Series A Bonds; and an Eleventh Supplemental Ordinance. (These documents are on file with the Clerk of the Board.) These are approved as to form and will be updated based on the structure of the offering and the final interest rates and debt service schedules for the 2022 Revenue Bonds as a result of the bond pricing, which is anticipated to occur the week of May 16, 2022.

The distribution of the Preliminary Official Statement by Sonoma Water is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the 2022 Revenue Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2022 Revenue Bonds. If the Board concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the 2022 Revenue Bonds, the attached Bond Resolution authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been "deemed final."

The Securities and Exchange Commission ("SEC"), the agency with regulatory authority over Sonoma Water's compliance with the federal securities laws, has issued guidance as to the duties of the Board with respect to its approval of the Preliminary Official Statement. In its "Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors" (Release No. 36761 / January 24, 1996) (the "Release"), the SEC indicated that, if a member of the Board has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the 2022 Revenue Bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the Preliminary Official Statement. In the Release, the SEC indicated that the steps that a member of the Board could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

The attached Bond Resolution evidences the approval by the Board of the financing documents and the issuance of the 2022 Revenue Bonds, subject to the following parameters: the principal amount of the 2022 Revenue Bonds may not exceed \$30,000,000, the true interest cost of the 2022 Revenue Bonds may not exceed 6.0%, and the refunding of the 2012 Series A Bonds must generate positive net present value savings.

Sonoma Water proposes to carry out the bond issuance now in order to take advantage of the current low interest rate environment to secure low-cost funding for planned water transmission system facilities. The actual total interest cost will be determined by the municipal bond market at the time of sale.

Agenda Date: 5/10/2022

Sonoma Water and KNN Public Finance, LLC met with the Sonoma County Debt Advisory Committee on April 22, 2022 to present the bond offering proposal and to recommend that the Board adopt the Eleventh Supplemental Ordinance and Bond Resolution authorizing issuance of the 2022 Revenue Bonds. The Committee approved the proposed bond issuance.

Strategic Plan:

N/A

Prior Board Actions:

06/19/2012: Resolution No. 12-0337 Of The Board Of Directors Of The Sonoma County Water Agency, Eighth Supplemental Resolution Providing For The Issuance Of Not To Exceed \$15,500,000 Principal Amount Of Sonoma County Water Agency Water Revenue Refunding Bonds, 2012 Series A.

06/19/2012: Resolution No. 12-0338 Of The Board Of Directors Of The Sonoma County Water Agency Approving A Preliminary Official Statement And Authorizing A Final Official Statement; Approving An Official Notice Of Sale And Authorizing The Sale Of Bonds And The Fixing Of Interest Rates; Authorizing Acquisition Of A Bond Insurance Policy And/or A Reserve Account Surety Bond, If Appropriate; Authorizing And Approving Refunding Instructions; And Authorizing Certain Designated Officers To Do All Other Things Deemed Necessary Or Advisable To Carry Out The Transactions Authorized And Approved Herein.

FISCAL SUMMARY

Expenditures	FY 21-22 Adopted	FY22-23 Projected	FY 23-24 Projected
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:

Costs associated with issuing the revenue bonds (fiscal agent fees, debt issuance costs) are estimated at up to \$375,000 and will be payable from bond proceeds. Principal and interest estimated at \$1,685,000 beginning in FY 2023-24 through FY 2031-32 and then dropping to \$900,000 through FY 2047-48 will be paid from the Water Transmission System 2022 Revenue Bond Funds which are funded by water rates. The payments will be based on bond amortization schedules, and will be amortized over the life of the bonds.

Staffing Impacts:

Agenda Date: 5/10/2022

Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

N/A

Attachments:

Bond Resolution R1

Eleventh Supplemental Ordinance

Related Items "On File" with the Clerk of the Board:

1. Preliminary Official Statement
2. Official Notice of Sale
3. Bond Purchase Agreement
4. Continuing Disclosure Agreement
5. Irrevocable Refunding Instructions
6. Long Range Financial Plan