



SUMMARY REPORT

Agenda Date: 4/30/2019

To: Board of Directors

Department or Agency Name(s): Sonoma County Water Agency

Staff Name and Phone Number: Michael Thompson 707 521-1863

Vote Requirement: 4/5th

Supervisory District(s): All

Title:

9:00 A.M. - Water Revenue Bonds, 2019 Series A

Recommended Action:

- A) Adopt a Tenth Supplemental Ordinance authorizing issuance of Revenue Bonds in an initial aggregate principal amount not to exceed \$14,500,000 to finance certain water system improvements.
- B) Adopt a Resolution approving a preliminary official statement and authorizing a final official statement; authorizing the sale of bonds, the fixing of interest rates and the execution and delivery of a bond purchase agreement; authorizing execution of a continuing disclosure agreement; authorizing, if appropriate, acquisition of a bond insurance policy; and authorizing certain designated officers to do all other things deemed necessary or advisable to carry out transactions contemplated by the Tenth 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 \$14,500,000 of tax-exempt revenue bonds (2019 Revenue Bonds) to finance facilities and improvements to increase the reliability and capacity of Sonoma Water's water transmission system.

Discussion:

This agenda item requests that the Board of Directors of Sonoma Water adopt a resolution to authorize the issuance of up to \$14,500,000 of 2019 Revenue Bonds to finance facilities and improvements to increase the reliability and capacity of Sonoma Water's water transmission system, the costs of which exceed the available funds in Sonoma Water's Common Facilities and Sonoma Aqueduct Capital Funds. Sonoma Water proposes to raise additional capital from the bond issuance to pay for the capital costs of planned water transmission system facilities, including, but not limited to, the following projects: Mark West Creek Crossing Hazard Mitigation; Mirabel-River Road Fiber Optic Line; Russian River Crossing Hazard Mitigation; Sonoma Booster Station Pumping and Electrical Upgrades; Mirabel Dam Bladder Replacement; Wohler Pump 11 Replacement; Wohler Pump 4 Replacement; Warm Springs Dam Hydro-turbine Retrofit; Caisson 6 Valve Replacement and Vault; Mainline Valve at Vinehill Ranch; Mirabel Chlorine Building Water Line; Mirabel Pump 8 Replacement; River Diversion System Motor Control Center Replacement; Ely Booster Pump Station Flood Protection; Petaluma Aqueduct Relocation for Caltrans Marin Sonoma Narrows Segment C2 Project; and Santa Rosa Aqueduct-Santa Rosa Creek Crossing Hazard Mitigation, together with any other improvements that are approved to be financed with proceeds of the 2019 Revenue Bonds by the Board of Directors of Sonoma Water, together with amounts needed to fund a debt service reserve account for the bonds and pay costs of

issuing the bonds.

The 2019 Revenue Bonds would be repaid from net revenues from Sonoma Water's water transmission system. The issuance of 2019 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.

Sonoma Water and its financial advisor, KNN Public Finance, have been monitoring interest rates and currently estimate that the 2019 Revenue Bonds will have a true interest cost (including cost of issuance) of approximately 3.14% assuming the issuance will obtain a credit rating of "AA+" from Standard and Poor's, which is the current rating on the 2015 Revenue Bonds. Sonoma Water is planning to solicit ratings from Standard and Poor's for this transaction. The bonds are currently structured to have a 20-year amortization, with level fiscal year annual debt service of approximately \$842,000 starting with FY2020/2021, and final maturity in 2039.

Sonoma Water and KNN Public Finance are continuously evaluating the benefits of a competitive versus negotiated sale. For a competitive sale, Sonoma Water and KNN Public Finance 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 expect to offer the 2019 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 2019 Revenue Bonds and the offering and sale of the 2019 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); and a Tenth Supplemental Ordinance. (These documents are on file with the Clerk of the Board.) These will be updated based on the structure of the offering and the final interest rates and debt service schedules for the 2019 Revenue Bonds as a result of the bond pricing, which is anticipated to occur the week of May 6, 2019. Under the current schedule, the bond closing is anticipated to occur the week of May 21, 2019.

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 2019 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 2019 Revenue Bonds. If the Board concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the 2019 Revenue Bonds, it must adopt a resolution that 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 2019 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 resolution evidences the approval by the Board of the financing documents and the issuance of the 2019 Revenue Bonds, subject to the following maximum parameters: the principal amount of the 2019 Revenue Bonds may not exceed \$14,500,000, and the true interest cost of the 2019 Revenue Bonds may not exceed 12.0%.

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.

Sonoma Water and KNN Public Finance met with the Sonoma County Debt Advisory Committee on March 27, 2019 to present the bond offering proposal and to recommend that the Board adopt the resolution authorizing issuance of the 2019 Revenue Bonds. The Committee approved the proposed bond issuance.

Prior Board Actions:

10/06/15 Resolution No. 15-0401 approving a preliminary official statement and authorizing a final official statement; authorizing the sale of bonds, the fixing of interest rates and the execution and delivery of a bond purchase agreement; authorizing execution of a continuing disclosure agreement; authorizing, if appropriate, acquisition of a bond insurance policy; and authorizing certain designated officers to do all other things deemed necessary or advisable to carry out transactions contemplated by the Ninth Supplemental Ordinance.

FISCAL SUMMARY

Expenditures	FY 18-19 Adopted	FY19-20 Projected	FY 20-21 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 \$357,000 and will be payable from bond proceeds. Principal and interest estimated at \$842,000 beginning in FY 2020/2021 will be paid from the Water Transmission System 2019 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:			
Position Title (Payroll Classification)	Monthly Salary Range (A - I Step)	Additions (number)	Deletions (number)
N/A			

Narrative Explanation of Staffing Impacts (If Required):

N/A

Attachments:

Resolution R1

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. Tenth Supplemental Ordinance