



Legislation Text

File #: 2022-0690, **Version:** 1

To: Board of Directors, Sonoma County Water and Wastewater Financing Authority, and Board of Directors, Sonoma Valley County Sanitation District

Department or Agency Name(s): Sonoma Valley County Sanitation District

Staff Name and Phone Number: Lynne Rosselli 524-3771; Jake Spaulding 975-5146

Vote Requirement: Majority

Supervisory District(s): First

Title:

Sonoma County Water and Wastewater Financing Authority 2022 Revenue Bonds (Sonoma Valley County Sanitation District Wastewater Projects)

Recommended Action:

- A) Adopt Resolution of the Governing Board of the Sonoma County Water and Wastewater Financing Authority Authorizing the Issuance of Revenue Bonds in an Initial Aggregate Principal Amount Not to Exceed \$30,000,000 in Connection with Financing and Refinancing Certain Wastewater System Improvements of the Sonoma Valley County Sanitation District, Authorizing and Directing Execution of an Indenture of Trust, an Installment Sale Agreement and Certain Other Documents, Authorizing the Sale of Bonds, Approving an Official Statement, and Authorizing Other Related Actions (First District).
- B) Adopt Resolution of the Board of Directors of the Sonoma Valley County Sanitation District Approving, Authorizing and Directing Execution of Certain Financing Documents and Directing Certain Related Actions in Connection with Financing and Refinancing Certain Improvements to the District's Wastewater System (First District).

(First District)

Executive Summary:

Approval of this item would authorize the Governing Board of the Sonoma County Water and Wastewater Financing Authority (Authority) and the Board of Directors of the Sonoma Valley County Sanitation District (District) to each adopt a resolution to authorize the issuance by the Authority of up to \$30,000,000 of tax-exempt revenue bonds (2022 Revenue Bonds), which will be secured by installment payments to be made by the District to the Authority under an installment sale agreement. The bonds will be issued for two purposes: to refund the \$5,960,000 outstanding previously issued 2013 Revenue Bonds of the Authority (the "2013 Bonds"), subject to favorable market conditions at the time the 2022 Revenue Bonds are sold, and to provide \$15,000,000 to finance new money facilities needs that will increase the reliability and life of the District's sanitation system. Approval of this item would include a declaration of the District's intent to reimburse prior capital sanitation system project expenditures from proceeds of the 2022 Revenue Bonds, when issued.

The 2022 Revenue Bonds are payable from and secured by a first pledge of and lien on revenues received by the Authority under the Installment Sale Agreement ("Agreement"), consisting primarily of installment

payments made by the District under the Agreement between the Authority and the District. The District's Installment Payments are payable from and secured by net revenues generated by the wastewater enterprise system.

Discussion:

The Sonoma County Water Agency, the Russian River County Sanitation District, and the Sonoma Valley County Sanitation District (District) are parties to a Second Amended Joint Exercise of Powers Agreement, dated as of June 30, 2004, relating to the Sonoma County Water and Wastewater Financing Authority (Authority). The Authority has the power to issue bonds to finance public capital improvements.

On November 13, 2013, the Authority and District authorized the sale of the 2013 Bonds in a principal amount of \$15,000,000 to refund the outstanding previously issued 1998 Revenue Bonds of the Authority and to provide funds for the Napa-Sonoma Salt Marsh Pipeline Project. The Authority and District will be able, subject to favorable market conditions, to achieve further present value debt service savings currently estimated as approximately \$235,976, by using a portion of the 2022 Revenue Bonds to refund the 2013 Bonds. This "refinancing" will allow the District to pay a lower interest rate on the remaining 2013 Bond debt and generate annual cash flow and total present value savings.

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

This agenda item requests that adoption of the Resolutions to authorize the issuance of up to \$30,000,000 of 2022 Revenue Bonds to (i) refund, in whole or in part, the outstanding \$5,960,000 2013 Bonds, subject to favorable market conditions at the time the 2022 Revenue Bonds are sold, and (ii) \$15,000,000 to finance facilities and improvements to increase the reliability and life of the District's sanitation system including, but not limited to, the following projects: Trunk Main Replacement Phase 4C, Trunk Main Replacement 5A, Trunk Main Replacement 5B, Headworks Rehabilitation, Clarifiers-Seismic Retrofit, Influent/Effluent Pumping and Piping Upgrade, Hooker Creek Trunk Main Seismic Mitigation, 8th St E Recycled Water Pipeline, Chase St. Bridge Sewer Replacement, Local Hazard Mitigation Expenditures, and any other projects set forth in the District's Long Range Financial Plan, together with amounts needed pay costs of issuing the 2022 Revenue Bonds. The 2022 Revenue Bonds would be repaid from net revenues from the District's sanitation system.

The District and KNN Public Finance, LLC have been monitoring interest rates and as of June 17, 2022 estimate that the 2022 Revenue Bonds will have a true interest cost (including cost of issuance) of approximately 3.77% assuming the issuance will obtain a credit rating in the "AA" category from the rating agencies. The 2013 Bonds have a credit rating of "AA" from Standard and Poor's and "AA" from Fitch Ratings. The District is planning to solicit credits rating from Standard and Poor's and Fitch Ratings for the 2022 Revenue Bonds. The

2022 Revenue Bonds are currently structured to have a 25-year amortization, with fiscal year annual debt service of approximately \$450,121 in FY 2022-23, \$2,222,000 in FY 2023-24, \$1,711,375 in FY 2024-25, and then dropping to roughly \$1,285,833 through FY 2036-37. The annual payments step down to approximately \$964,807 per year between FY 2037-2038 and the final maturity in FY 2047-48 due to the portion of the 2022 Revenue Bonds associated with the refunding ending in FY 2036-37, which is one year earlier than the final maturity of the existing 2013 Bonds.

The District and KNN Public Finance, LLC are continuously evaluating the benefits of a competitive versus negotiated sale. For a competitive sale, District and KNN Public Finance, LLC would structure the bond offering. Underwriters would review the offering, determine the interest rates 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, the District would select an underwriter before the sale date, and the selected underwriter would assist in structuring the bond offering and determining the interest rate based on market conditions. 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 interest rate. Competitive sales may result in a lower interest rate for the offering through the competitive bidding process. Based on current market conditions, the District and KNN Public Finance, LLC expect to offer the 2022 Revenue Bonds by competitive sale, but the attached resolutions permit a negotiated sale in case the market for the 2022 Revenue Bonds is such that a negotiated sale is more advantageous.

The District'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: an Indenture; an Installment Sale Agreement; a Preliminary Official Statement; an Official Notice of Sale; a Continuing Disclosure Certificate; and a Bond Purchase Agreement in the event that the District elects to proceed with a negotiated sale (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 August 1, 2022.

The distribution of the Preliminary Official Statement by the District 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 The Districts 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 2013 Bonds must generate positive net present value savings.

The District proposes to carry out the bond issuance now in order to take advantage of the current interest rate environment to refinance the 2013 Bonds accruing an average annual savings of approximately \$45,034 in interest expense per year between FY2023-24 and FY2036-37, and secure low-cost funding up to \$15,000,000 for planned sanitation system facilities. The actual total interest cost will be determined by the municipal bond market at the time of sale.

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

Strategic Plan:

N/A

Prior Board Actions:

11/13/2012: 2013 Revenue Bond Issuance for Sonoma Valley County Sanitation District

06/15/2004: Second Amended Joint Exercise of Powers Agreement (deleting Forestville County Sanitation District as a party to the Agreement due to its dissolution).

06/01/1998: First Amended Joint Exercise of Powers Agreement creating the Sonoma County Water and Wastewater Financing Authority (Sonoma County Water Agency, Forestville County Sanitation District, Russian River County Sanitation District and Sonoma Valley County Sanitation District).

FISCAL SUMMARY

Expenditures	FY 22-23 Adopted	FY23-24 Projected	FY 24-25 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 2022 Revenue Bonds (fiscal agent fees, legal fees and other issuance costs) are estimated at up to \$376,500 and will be payable from the proceeds of the 2022 Revenue Bonds. Combined principal and interest payments are estimated at approximately \$450,121 in FY 2022-23, \$2,222,000 in FY 2023-24, \$1,711,375 in FY 2024-25, and then dropping to roughly \$1,285,833 through FY 2036-37. The annual payments step down to approximately \$964,807 between FY 2037-2038 and the final maturity in FY 2047-48 due to the portion of the 2022 Revenue Bonds associated with the refunding ending in FY 2036-37. Debt service will be paid by the Authority from installment payments received from the District, which will be paid from the net revenues of the sanitation system. The payments will be based on bond amortization schedules, and will be amortized over the life of the 2022 Revenue Bonds.

Staffing Impacts:			
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

Bond Resolution R2

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

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