



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Treasurer-Tax Collector
Department No.: 065
For Agenda Of: 8/18/2020
Placement: Departmental
Estimated Time: 10 mins
Continued Item: No
If Yes, date from:
Vote Required: 4/5

TO: Board of Directors, Laguna County Sanitation District
FROM: Department Harry E. Hagen, CPA, CPFA, CFIP, CGIP, CPFO, ACPFIM
Director(s) Treasurer-Tax Collector
Scott D. McGolpin, PE
Director, Public Works
Contact Info: Kimberly A. Tesoro, CPA, CPFO, CFIP, CGIP
Assistant Treasurer-Tax Collector, (805) 568-2153
Julie A. Hagen, CPA, CPFO
Deputy Director, Public Works, (805) 568-3010

SUBJECT: Financing for the Laguna County Sanitation District Wastewater Reclamation Plant Phase 1 Upgrade – Third and Fourth Supervisorial Districts

County Counsel Concurrence

As to form: Yes

Other Concurrence: Debt Advisory Committee

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Directors:

- a) Adopt a resolution authorizing the execution and delivery of a 2020 Installment Sale Agreement, a Trust Agreement, an Official Notice of Sale, and Contract of Purchase; approving execution of an Assignment Agreement and Certificates of Participation to finance certain capital improvements to the sanitation system of the District; approving an Official Statement for said Certificates of Participation; authorizing the execution and delivery of a Continuing Disclosure Agreement; adopting a Debt Management Policy for the District; and authorizing certain other actions in connection with the financing in an aggregate principal amount not to exceed \$30,000,000, a term not to exceed 21 years, and a true interest cost not to exceed 4.0%;
- b) Authorize the Treasurer-Tax Collector to abandon this issuance if market conditions are deemed financially unfavorable;

- c) Approve Budget Revision Request No. 0007173 establishing appropriations in the amount of \$31,400,000 to the Laguna County Sanitation District Enterprise Fund for current year costs: Other Charges (\$900,000), and Services and Supplies (\$500,000) funded by debt proceeds and release of retained earnings; and
- d) Determine that the above actions are government funding mechanisms and/or fiscal activities that are not a project under the California Environmental Quality Act (CEQA) pursuant to section 15378(b)(4) of the CEQA Guidelines.

Summary Text:

This item is on the agenda in order to consider financing for the Laguna County Sanitation District Phase 1 Wastewater reclamation plant.

On July 2, 2020, the Debt Advisory Committee received an update on a proposed public financing approach for the Laguna County Sanitation District Phase 1 Wastewater Reclamation Plant Upgrade project based on construction bids received May 28, 2020. The Committee recommended that the Board approve financing for the project through the issuance of Laguna County Sanitation District Sanitation System Revenue Certificates of Participation (COPs) in a principal amount not to exceed \$30 million to be repaid over a term not to exceed 21 years. This action recommends funding the project with the proposed financing mechanism in tandem with Laguna County Sanitation District available capital reserves.

Background:

The Laguna County Sanitation District (District) is a dependent special district of the County and is administered in the Public Works Department, Resource Recovery and Waste Management Division. It is responsible for providing wastewater services for the Orcutt and unincorporated Santa Maria area as provided by its LAFCO recognized territorial boundaries. Most of the reclamation plant and associated pipeline infrastructure was constructed in 1959 with upgrades in 1974, 1986, and 2001. Because capital assets are managed by function and useful life, they are planned for replacement over time due to age, wear, changes in regulatory standards, and compatibility with future needs. For this reason, the District commissioned a master plan study and presented it to the Board of Directors in 2011. The master plan recommended improvements, upgrades, and replacement of facilities to meet the objective of planning for current and future service needs. Current needs include a Phase 1 plant upgrade to replace obsolete facilities and maintain a treatment capacity of 3.7 million gallons per day (mgd). A future Phase 2 capacity upgrade is intended to serve future customers with an expanded capacity of up to 5.0 mgd. Costs associated with the recommended improvements were also evaluated.

Carollo Engineers, Inc. was retained in 2014 to define the Phase 1 upgrade project scope and in 2015 to perform engineering and prepare plans and specifications. The project modifies the reclamation plant by installing new headworks, biological treatment, secondary clarifiers, and various other improvements including a new laboratory and operations building, that will integrate with the existing tertiary treatment facilities constructed in 2001. The project was approved pursuant to CEQA in 2018 and environmental mitigation was completed in 2019. A shortlist of qualified bidders was prepared in March 2019 and the project was let for bidding in December 2019. Bids were opened May 28, 2020 and the lowest responsible and responsive bid was submitted by W.M. Lyles Company in the amount of

\$53,063,500. Including professional services, construction contingency, and insurance the total project cost is estimated to be \$66.1 million.

Funding for the Phase 1 Upgrade project is proposed to be a combination of District capital reserves and 2020 Revenue COPs. In 2011, the District previously entered into an Installment Sale Agreement (the "2011 Agreement") in connection with its Solar Project loan. There is no obligation of the County's General Fund to pay the debt service on the 2011 Agreement. The 2011 Agreement is payable solely from installment payments made by the District from net sewer charges and other revenues after the payment of District operations and maintenance expenses. The proposed issuance of 2020 Revenue COPs will also be payable from District net revenues and will not be an obligation of the County's General Funds. The issuance will be on a tax-exempt basis with an aggregate principal amount not to exceed \$30 million, a term not to exceed 21 years, and a true interest cost not to exceed 4.0%. The Treasurer would not expect to exercise the authority to issue the 2020 Revenue COPs without further Board direction if there are substantial changes to: market conditions; other significant project parameters; or the financing documents.

The County financing team is comprised of staff from the offices of the Treasurer-Tax Collector, Public Works Department, Auditor-Controller, County Counsel, and the County Executive Office. Outside financing team members appointed by the County include: KNN Public Finance, LLC as the Municipal Advisor; Orrick, Herrington and Sutcliffe as special legal counsel; Stradling, Yocca, Carlson & Rauth as Disclosure Counsel; US Bank, NA as Trustee; and an underwriter expected to be awarded through a competitive bid process pursuant to the Official Notice of Sale. In the event that the Treasurer-Tax Collector determines that it is in the best interest of the County to sell the 2020 Revenue COPs via a negotiated method of sale, an underwriter will be selected through a competitive procurement process and a Contract for Purchase would be executed on the sale date.

The following information is made available in accordance with recently enacted California legislation (Senate Bill 450 Chapter 625 of the 2017-2018 Session of the California Legislature as codified in Government Code Section 5852.1) to provide certain public disclosures related to the 2020 Revenue COPs. All figures are estimates and are subject to bond sale and market conditions:

- A. **True Interest Cost of the 2020 Revenue COPs.** Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the true interest cost of the 2020 Revenue COPs, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the COPs, is 2.178%.
- B. **Finance Charge of the 2020 Revenue COPs.** Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the finance charge of the COPs, which means the sum of all fees and charges paid to third parties (or costs associated with the 2020 Revenue COPs), is \$330,863.
 - o Cost of Issuance: \$222,013
 - o Underwriters' Discount: \$108,850
- C. **Net Proceeds of the Revenue COPs.** Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the amount of proceeds expected

to be received by the District for sale of the 2020 Revenue COPs less the finance charge of the 2020 Revenue COPs described in B. is \$28,000,000.

- D. Total Payment Amount for the 2020 Revenue COPs.** Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the total payment amount, which means the sum total of all payments the District, through the payment of principal and interest, will make to pay debt service on the 2020 Revenue COPs plus the finance charge of the 2020 Revenue COPs described in paragraph B. above not paid with the proceeds of the 2020 Revenue COPs calculated to the final maturity of the 2020 Revenue COPs, is \$35,206,747.

Performance Measure:

This project ensures that the District will be able to operate treatment plant facilities in accordance with Regional Water Quality Control Board Waste Discharge Requirements and Master Recycling Permit with an anticipated planning life of 50 years.

Fiscal and Facilities Impacts:

The debt service will be appropriated annually in the Laguna County Sanitation District budget and paid semi-annually beginning in the 2020-2021 fiscal year. There is no impact to the General Fund.

Fiscal Analysis:

The final interest rate and annual required debt payments will be fixed at the time of sale of the Revenue COPs. Based on current market conditions, the true interest cost is expected to be 2.178%. Total gross debt service payments are approximately \$35,206,747 with an average annual gross debt service of \$1.72 million. The 2020 Revenue COPs are payable from installment payments made by the District from net utility charge revenues. These numbers are current estimates and will be fixed at pricing based on the market conditions at that time.

Special Instructions:

Please return two full sets of signed resolutions to Kimberly Tesoro in the Treasurer-Tax Collector's office. These documents will be forwarded to Special Counsel for inclusion with the closing documents.

Attachments:

- Attachment 1. Resolution of the Board of Directors authorizing the execution and delivery of a 2020 Installment Sale Agreement, a Trust Agreement, an Official Notice of Sale, and Contract of Purchase; approving execution of an Assignment Agreement and Certificates of Participation to finance certain capital improvements to the sanitation system of the District; approving an Official Statement for said Certificates of Participation; authorizing the execution and delivery of a Continuing Disclosure Agreement; adopting a Debt Management Policy for the District; and authorizing certain other actions in connection with the financing.
- Attachment 2. Installment Sale Agreement
- Attachment 3. Trust Agreement
- Attachment 4. Notice of Sale

- Attachment 5. Contract of Purchase
- Attachment 6. Assignment Agreement
- Attachment 7. Preliminary Official Statement
- Attachment 8. Continuing Disclosure Agreement
- Attachment 9. Debt Management Policy
- Attachment 10. Budget Revision Request
- Attachment 11. Presentation

Authored by:

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