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BCC Mtg. Date: March 15, 2016

February 29, 2016

TO: Mayor Teresa Jacobs
-AND-
Board of County Commissioners

FROM: Fred Winterkamp, Manager, Fiscal and Business Services *FWW*

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SUBJECT: Amended and Restated Water and Wastewater Utility Revenue Bond Resolution (the "Master Resolution")
AND
Resolution of the Orange County Board of County Commissioners (the "2016 Bond Resolution") regarding authorization for Water and Wastewater Utility Revenue Bonds, Series 2016 (the "2016 Bonds").

Background

The Master Resolution governs the flow of funds and all aspects of the issuance of bonds for the Orange County Water and Wastewater Utility (OCU). The 2016 Bond Resolution supplements the Master Resolution to set forth the specific details and issuance parameters of up to \$95,000,000 of "series" 2016 Bonds (each financing requires a separate supplemental series resolution to authorize each series of bonds issued under the Master Resolution). Together, these resolutions provide for authorization of the 2016 Bonds to complete the process to finance the acquisition of previously approved water and wastewater projects.

The Master Resolution requires Board approval because there are currently no outstanding OCU Bonds after the last OCU Bonds were retired in October of 2014 (only loans to OCU from the State revolving fund program currently exist). So, Board approval is needed for both the updated and modernized Master Resolution and the 2016 Bond Resolution to authorize the first new OCU bonded debt under the Master Resolution.

Reimbursement for the 2016 OCU projects

The funding process began with OCU including various system improvement and expansion projects in the current and prior OCU budgets, and also including the proceeds from the 2016 Bonds as revenues in their current budget for FY 2015-2016. Also, on December 2, 2014, the Board approved a reimbursement resolution to retain the ability under the Tax Code to fund the OCU projects with the proceeds of a future tax-exempt financing which will now be authorized by this 2016 Bond Resolution.

OCU has been using system revenues to fund the projects during the construction and/or acquisition phase, but now that many of the projects are complete it is time to issue the 2016 Bonds to lock-in the long-term financing of the projects in the current favorable low interest rate environment. While system revenues have been funding work on the projects that continues today, more than \$70 million of work is now completed, and the system revenues are being drawn below minimum target levels. The proceeds of the 2016 Bonds will reimburse the County for funds already spent in order to restore the system fund balances, which will be needed for future budgeted OCU projects, and the proceeds will

also fund the remaining projects contemplated to be financed with proceeds from the 2016 Bonds in the existing OCU budget. Using a reimbursement resolution to allow initial cash funding for projects, and then a bond issue to reimburse the cash outlays and finish the projects, is an optimal approach that avoids the expense of borrowing too soon and the uncertainty of estimating how much to borrow. The process is somewhat like a homeowner using cash or a short-term financing during construction of a home, and then locking-in the long term financing for the completed home as construction is being completed and the project costs are better known.

2016 Bonds

The 2016 Bonds will pledge OCU water and wastewater revenues for repayment over the next 20 years. Orange County's previous OCU water and wastewater bonds had very strong, AA-level credit ratings that sunset when the prior bonds were retired in 2014. The 2016 Bond Resolution provides the authorization to seek new credit ratings for the 2016 Bonds which will be a new credit evaluation of the OCU system and the amended and restated Master Resolution and 2016 Bond Resolution. OCU has utilized engineering and financial consultants to prepare an Engineer's Report of the OCU system and a Financial Feasibility Report and both reports are provided to the rating agencies and investors to help achieve the best credit ratings possible and the lowest interest cost for the 2016 Bonds.

Pursuant to Administrative Regulation 6.02.04 approved by the Board of County Commissioners on February 22, 1994, the 2016 Bond Resolution will authorize the 2016 Bonds to be sold via the competitive bid process. The County's co-financial advisors and the Orange County Comptroller recommend the competitive method of sale. Section Eight of the 2016 Bond Resolution delegates to the Mayor or County Administrator the authorization to award the 2016 Bonds to the lowest cost bidder (the "Successful Bidder", as defined in the Notice of Sale) after certain benchmarks have been achieved. For example, the 2016 Bond Resolution requires a true interest cost of 5% or less for up to \$95,000,000 of 2016 Bonds which are required to mature no later than October 1, 2037.

Resolution and Recommended Action

The Master Resolution and 2016 Bond Resolution were prepared by Nabors, Giblin & Nickerson as Sales and Utility Tax Bond Counsel. The County's co-financial advisors, Public Financial Management and M2 Management, along with County staff recommend approval of the resolutions to provide the funds for the OCU projects. The following documents are provided for Board consideration:

Master Resolution – Sets forth the OCU water and wastewater flow of funds and related covenants with bondholders such as debt coverage and system reserve cash levels. This resolution contains rate covenants that can mandate water and wastewater rate actions to maintain certain financial benchmarks for the OCU system. As was the case when the previous OCU debt existed, this resolution will once again limit certain operational alternatives now that bonded debt will once again be outstanding. The Master Resolution generally provides for one or more future issues of bonded debt that are each authorized by a separate resolution for that series of bonds.

2016 Bond Resolution - Authorizes the issuance of the 2016 Bonds pursuant to the Master Resolution and the execution of all documents related to the 2016 Bonds. The 2016 Bond Resolution also authorizes the Mayor or County Administrator to award the sale to the bidder providing the lowest true interest cost within certain parameters required to award the sale. The 2016 Bond Resolution also includes the form of the 2016 Bonds to be provided to the winning bidder at the closing. The 2016 Bond Resolution authorizes the

Mayor or County Administrator to finalize the related transaction documents, award the sale to the lowest cost responsive bidder, and execute the documents at closing. The 2016 Bond Resolution has exhibits with the 2016 Project Descriptions, and substantially completed "form of" versions of the Notice of Sale, Preliminary Official Statement and Continuing Disclosure Undertaking and these related documents are all further described as follows:

Official Notice of Bond Sale - Official document that provides information to bidders for the 2016 Bonds (i.e., date and time of the competitive sale, estimated par amount, bond counsel, financial advisors and bid requirements) and invites bids from prospective financial firms.

Form of Preliminary Official Statement (POS) - Preliminary version of the official statement which describes the proposed issue prior to final determination of the interest rates and offering prices. This document is used to disclose the details of the transaction and OCU and the pledged system revenues to investors. The document is used to market bonds and provide the required disclosure to allow an investor to make an informed decision about purchasing the 2016 Bonds. The Securities and Exchange Commission cautions all public officials to carefully review the POS to be sure that no misstatements or omissions are made that would be material to investors. To ensure a thorough and professional review, the working group includes a Disclosure Counsel firm that reviews the information and prepares the POS, and the POS is also reviewed by Bond Counsel, the County Attorney's Office, Comptroller staff, OCU staff, and County fiscal staff.

Form of Continuing Disclosure Undertaking - Preliminary version of the agreement governing the ongoing distribution by the County and OCU of subsequent financial and operating data about the pledged revenues to the marketplace. This document sets forth requirements to make special disclosures of extraordinary events such as rating changes, financial problems, and debt service payment problems.

The 2016 Bond documents are available for review in the top drawer of the BCC file cabinet in the supply room adjacent to Commissioner Thompson's office, and in the Fiscal and Business Services office. Individual briefings will be offered to each Commissioner to answer any questions they may have prior to this being presented on the discussion agenda for the March 15, 2016 Board meeting.

ACTION REQUESTED:

Approval and execution of Orange County, Florida Amended and Restated Water and Wastewater Utility Revenue Bond Resolution, and

approval and execution of Resolution of the Orange County Board of County Commissioners regarding authorization for Water and Wastewater Utility Revenue Bonds, Series 2016.

CC: Eric Gassman, CPA, Deputy County Administrator
Ray Hanson, P.E., Utilities Director
Glenn Kramer, Manager, OCU Fiscal and Operational Support