



November 27, 2018

**TO:** LOCSO Board of Directors  
**FROM:** Director Chris Womack, Ad Hoc Committee Member  
**SUBJECT:** **Agenda Item 12C – 12/6/2018 Board Meeting**  
Ad Hoc Committee Report Regarding Refinancing Wastewater Assessment District No. 1 Bonds

**President**  
Vicki L. Milledge

**Vice President**  
Marshall E. Ochylski

**Directors**  
Charles L. Cesena  
Louis G. Tornatzky  
Christine M. Womack

**General Manager**  
Renee Osborne

**District Accountant**  
Robert Stilts, CPA

**Unit Chief**  
Scott M. Jalbert

**Battalion Chief**  
Greg Alex

**DESCRIPTION**

We are currently paying 5% interest on two bonds maturing 2023 and 2033. While this was the market rate when we issued the bonds, currently we could refinance the bonds and pay around 3.6%. This would save us \$1.3 million over 15 years. We get nothing of value by overpaying. Some lucky bond holders are just getting more interest than they should.

We can only refund these bonds on the interest payment date. The next one is March 2, 2019. It takes time to get bond refunding in place. We have enough time if we act promptly. We should absolutely refinance as soon as possible. If we wait savings could decrease.

See attached letter for a more thorough analysis.

***Motion: I move that the Board take action to hire a municipal advisor and bond counsel and provide direction to staff to bring back a resolution for adoption at the Board's January 2019 meeting.***

***or,***

***Motion: I move that the Board NOT make any changes to the Bonds at this time.***

**DISCUSSION**

Refinancing the 2002 Bonds at today's interest rates will achieve debt service savings of approximately \$140,000 per year from 2020-2033, for total savings of \$1.96 million. These savings are net of all issuance costs and assume no extension of the final maturity.

At today's rates, this refinancing will yield NPV Savings of approximately \$1.54 million, which equals 13.40% of the principal amount of the 2002 Bonds being refinanced. A refinancing that generates NPV Savings of more than 10% is considered "very good".

The costs of issuance for this refinancing are expected to equal approximately \$235,000 including fees and expenses for Bond & Disclosure Counsel, Underwriter, Municipal Advisor, Rating Agency, and miscellaneous other fees and expenses. All costs of issuance are payable from bond proceeds upon closing. If

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for any reason the refinancing fails to close, then all fees will be waived and the District will not be billed, with one possible exception. A portion of the Rating Fee estimated at \$10,000 may be non-contingent.

Additionally, it is anticipated that all or a portion of the Refunding Bonds will be insured pursuant to a policy of municipal bond insurance, if it is determined that such insurance increases savings by more than the cost of the insurance policy. Bond insurance will cost approximately \$104,000 payable from proceeds, fully contingent upon closing.

From start to finish, the entire process of issuing the Refunding Bonds will take approximately 12-14 weeks to complete. That means the process needs to commence soon if the 2002 Bonds are to be redeemed on March 2, 2019. If the refinancing is not completed by March 2, 2019, then the next date on which the 2002 Bonds may be redeemed is September 2, 2019.

The proposed Municipal Advisory Fee for this refinancing is \$30,000 payable from proceeds, fully contingent upon a successful closing. If for any reason the refinancing fails to close, then the fee will be waived and the District will owe nothing. Additionally, all out-of-pocket costs and expenses will be the sole responsibility of the Municipal Advisor. The District will not be asked to reimburse any out-of-pocket costs or expenses.

FAC will review this item at their December 3, 2018 meeting and a verbal report of will be provided to your Board when this item is heard.

#### **FINANCIAL IMPACT**

Total savings conservatively could be \$1.3 million or more.

Attachments

**November 18, 2018**

**Christine Womack, Director**  
Los Osos Community Service District

Dear Ms. Womack,

Thank you for calling me, and for sharing that Mayor Glass of Petaluma referred me to you. Following-up our conversation, I reviewed the Wastewater Assessment District No. 1 Bonds and the possibility of refinancing those bonds at lower interest rates, as discussed below. Per your request, I have copied Marshall Ochylski and Renee Osborne on this email.

### **Background**

The Los Osos Community Services District issued \$17,990,000 of Assessment District Bonds in November 2002, to finance wastewater system improvements. The 2002 Bonds are secured by and payable from assessments that are levied on approximately 4,192 parcels located in Wastewater Assessment District No. 1. Currently \$12,000,000 of the 2002 bonds remain outstanding with a final maturity of September 2, 2033.

The 2002 Bonds may be refunded, or optionally redeemed, on March 2, 2019 at par.

An opportunity now exists to refinance the 2002 Bonds at lower interest rates, much the same as when a homeowner refinances their mortgage. At current market interest rates the Community Services District can issue Refunding Bonds at a 'true interest cost' of approximately 3.65% as compared to an average coupon rate of 5.00% on the outstanding 2002 Bonds being refinanced.

### **Financial Impact**

Refinancing the 2002 Bonds at today's interest rates will achieve debt service savings of approximately \$140,000 per year from 2020-2033, for total savings of \$1.96 million. These savings are net of all issuance costs and assume no extension of the final maturity.

Another measure of the savings from a bond refinancing is **Net Present Value Savings**, which equals total savings adjusted for the time value of money and the costs of issuance. "NPV Savings" is considered a better measure of the 'economic benefit' of a refinancing.

At today's rates, this refinancing will yield NPV Savings of approximately \$1.54 million, which equals 13.40% of the principal amount of the 2002 Bonds being refinanced. A refinancing that generates NPV Savings of more than 10% is considered very good.

***Attached is a brief 'Refinancing Analysis' with further details.***

Bear in mind, the actual savings from this refinancing will not be determined until the Refunding Bonds are sold to investors, which occurs at the very tail-end of the process. Thus, if interest rates rise before the bond sale then the savings may be less than expected. Moreover, if interest rates rise sharply, then it is possible the savings may be insufficient to warrant proceeding with the refinancing, in which case the refinancing may be cancelled, or delayed until a later date. In any event, the District may cancel the refinancing at any time prior to the bond sale, for any reason, at no cost to the District.

#### **Method of Sale; Costs of Issuance**

There are three methods by which local public agencies such as the CSD issue bonds: competitive public sales, negotiated public sales and direct private placements.

Given the security for the bonds, as well as the size, term and presumed creditworthiness, a negotiated public sale would most likely produce the best overall result, meaning the lowest possible interest rates and the maximum possible debt service savings. However, it would also be prudent to simultaneously explore the option of a private placement, in case circumstances change and it is determined that a private placement yields superior results.

The costs of issuance for this refinancing are expected to equal approximately \$235,000 including fees and expenses for Bond & Disclosure Counsel, Underwriter, Municipal Advisor, Rating Agency, and miscellaneous other fees and expenses. All costs of issuance are payable from bond proceeds upon closing. If for any reason the refinancing fails to close, then all fees will be waived and the District will not be billed, with one possible exception. A portion of the Rating Fee estimated at \$10,000 may be non-contingent.

Additionally, it is anticipated that all or a portion of the Refunding Bonds will be insured pursuant to a policy of municipal bond insurance, if it is determined that such insurance increases savings by more than the cost of the insurance policy. Bond insurance will cost approximately \$104,000 payable from proceeds, fully contingent upon closing.

**Timetable**

From start to finish, the entire process of issuing the Refunding Bonds will take approximately 12-14 weeks to complete. That means the process needs to commence soon if the 2002 Bonds are to be redeemed on March 2, 2019. If the refinancing is not completed by March 2, 2019, then the next date on which the 2002 Bonds may be redeemed is September 2, 2019.

**Proposed Fee for Municipal Advisory Services**

My proposed Municipal Advisory Fee for this refinancing is \$30,000 payable from proceeds, fully contingent upon a successful closing. If for any reason the refinancing fails to close, then the fee will be waived and the District will owe nothing. Additionally, all out-of-pocket costs and expenses will be the sole responsibility of the Municipal Advisor. The District will not be asked to reimburse any out-of-pocket costs or expenses.

For your reference, I have attached some background information on myself.  
May I stop by your office sometime to introduce myself and discuss the refinancing?  
I am available at your convenience.

Very truly yours,

*Steven Gortler*

Steven Gortler  
268 Bush Street, #3911  
San Francisco, CA 94104  
(415) 298-3319  
steven.gortler@att.net

cc: **Marshall Ochylski**, Finance Advisory Committee Chair  
**Renee Osborne**, General Manager



**Los Osos Community Services District  
Wastewater Assessment District No. 1  
Limited Obligation Improvement Bonds**

**Refinancing Analysis**

**November 18, 2018**

Prepared by Steven Gortler  
Telephone (415) 298-3319  
Email: [steven.gortler@att.net](mailto:steven.gortler@att.net)



## ***Outstanding Wastewater Assessment District No. 1 Bonds***

<b>Date of Issuance</b>	Nov 7, 2002
<b>Original Par Amount</b>	17,990,000
<b>Outstanding Par Amount</b>	12,000,000
<b>Final Maturity</b>	Sep 2, 2033
<b>Optional Redemption</b>	Mar 1, 2019

## *Estimated Debt Service Savings*

12-Mo. End 9/2	Outstanding Bonds				Refunding Bonds			Debt Service Savings
	Principal	Interest	Reserve	Total	Principal	Interest	Total	
2019	0	286,125		286,125	70,000	214,581	284,581	1,544
2020	585,000	572,250		1,157,250	590,000	427,063	1,017,063	140,188
2021	615,000	543,000		1,158,000	615,000	403,463	1,018,463	139,538
2022	645,000	512,250		1,157,250	640,000	378,863	1,018,863	138,388
2023	675,000	480,000		1,155,000	655,000	359,663	1,014,663	140,338
2024	710,000	446,250		1,156,250	680,000	333,463	1,013,463	142,788
2025	745,000	410,750		1,155,750	715,000	299,463	1,014,463	141,288
2026	780,000	373,500		1,153,500	750,000	263,713	1,013,713	139,788
2027	820,000	334,500		1,154,500	790,000	226,213	1,016,213	138,288
2028	865,000	293,500		1,158,500	830,000	186,713	1,016,713	141,788
2029	905,000	250,250		1,155,250	870,000	145,213	1,015,213	140,038
2030	950,000	205,000		1,155,000	910,000	101,713	1,011,713	143,288
2031	1,000,000	157,500		1,157,500	945,000	71,000	1,016,000	141,500
2032	1,050,000	107,500		1,157,500	980,000	37,925	1,017,925	139,575
2033	1,100,000	55,000	(911,564)	243,436	100,000	3,625	103,625	139,811
	<b>11,445,000</b>	<b>5,027,375</b>	<b>(911,564)</b>	<b>15,560,811</b>	<b>10,140,000</b>	<b>3,452,669</b>	<b>13,592,669</b>	<b>1,968,142</b>





## *Estimated Net Present Value Savings*

<b>Net Present Value (NPV) Savings</b>	<b>1,538,684</b>
Par Amount of Refunded Bonds	11,445,000
<b>NPV Savings / Refunded Par Amount</b>	<b>13.4%</b>



## *Estimated Sources & Uses of Funds*

**Sources of Funds:**

Par Amount of Bonds	10,140,000
Original Issue Premium (Discount)	731,379
Transfer from Prior Reserve Fund	911,564
<b>Total Sources</b>	<b>11,782,943</b>

**Uses of Funds:**

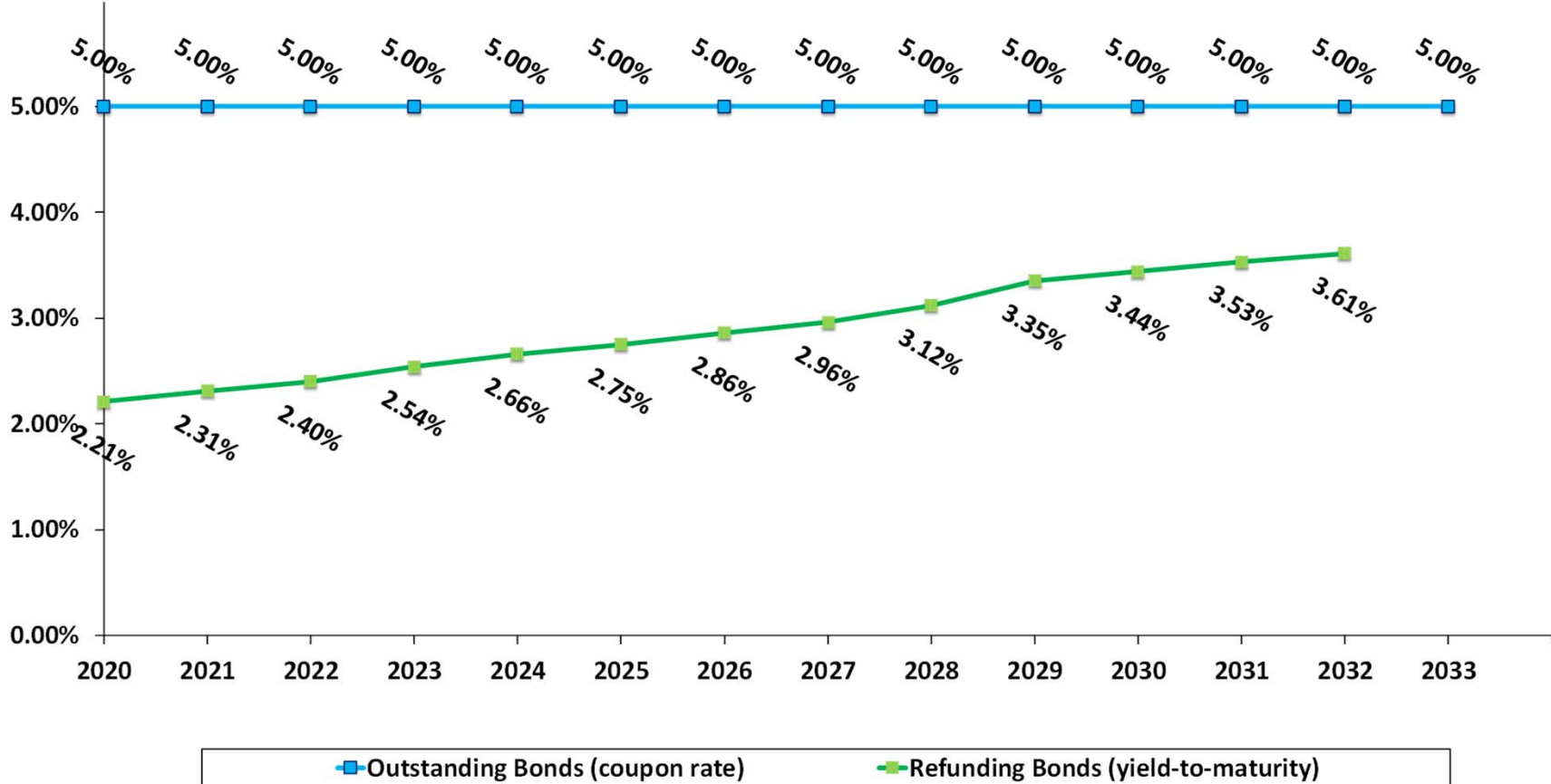
Deposit to Escrow Fund	11,445,000
Estimated Costs of Issuance	337,943
<b>Total Uses</b>	<b>11,782,943</b>



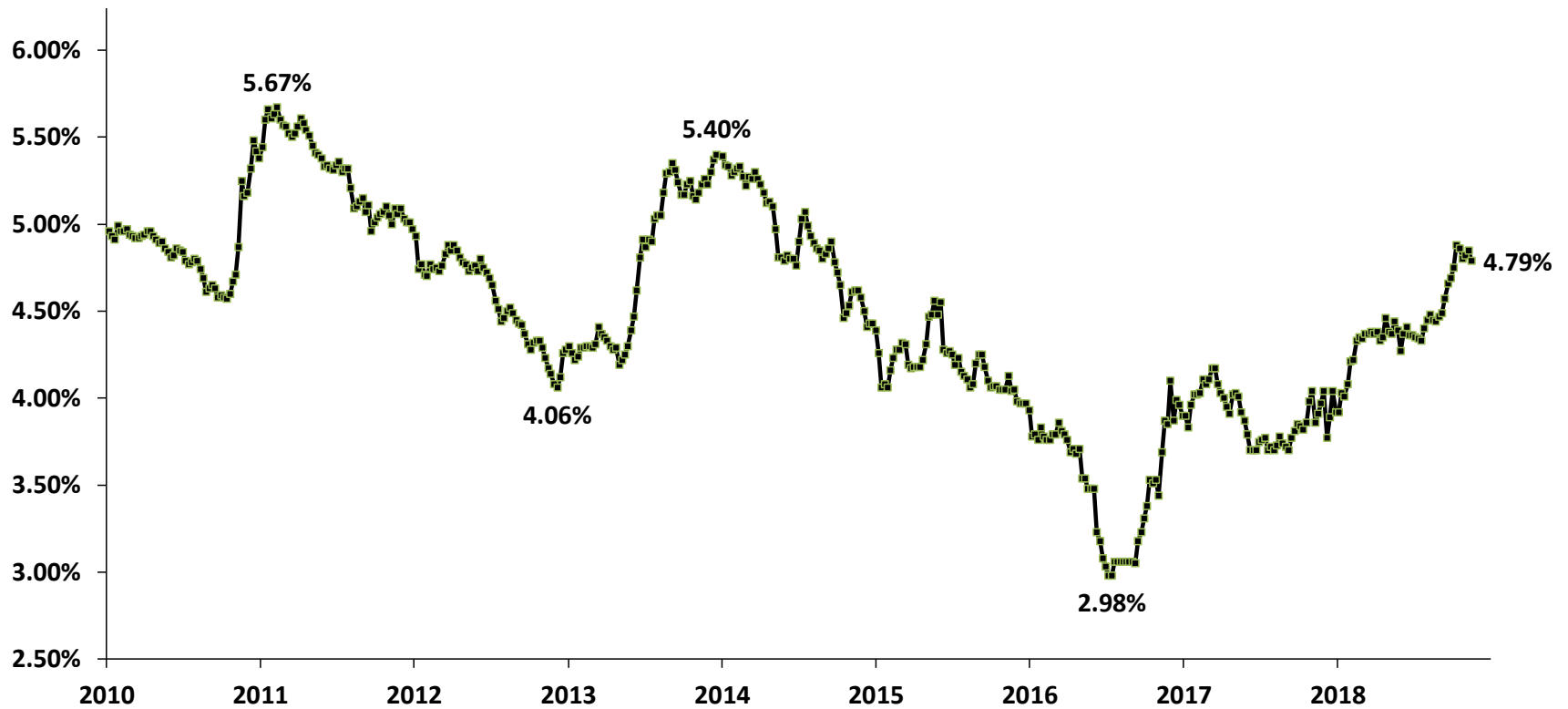
## *Estimated Costs of Issuance*

	<u>Estimated Fee</u>
<b>Credit Enhancement:</b>	
<i>Bond Insurance (100 bps)</i>	78,940
<i>Reserve Fund Surety (2.50%)</i>	25,350
<b>Sub-Total</b>	<b>104,290</b>
<b>Bond &amp; Disclosure Counsel</b>	65,000
<b>Underwriter (0.60%)</b>	60,840
<b>Municipal Advisor</b>	30,000
<b>Reassessment Engineer</b>	22,500
<b>Rating Agency</b>	17,500
<b>Underwriters Counsel</b>	15,000
<b>Trustee &amp; Escrow Agent</b>	5,000
<b>Verification Agent</b>	2,500
<b>Financial Printer</b>	2,500
<b>Contingency</b>	12,813
<b>Sub-Total</b>	<b>233,653</b>
<b>TOTAL</b>	<b>337,943</b>

## Interest Rate Comparison: Outstanding Bonds vs. Refunding Bonds



## Historical Trends in Municipal Bond Interest Rates (Bond Buyer Revenue Bond Index)



Date: XXXXXXXX  
Agenda Item: XXX  
( ) Approved  
( ) Denied  
( ) Continued to

**RESOLUTION NO. 201X-XX**

**A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT  
AUTHORIZING THE COMMENCEMENT OF PROCEEDINGS FOR THE ISSUANCE OF BONDS,  
DESIGNATING CONSULTANTS AND AUTHORIZING AND DIRECTING CERTAIN ACTIONS  
WITH RESPECT THERETO – WASTEWATER ASSESSMENT DISTRICT NO. 1**

**WHEREAS**, on April 19, 2001 the Board of Directors (the "Board") of the Los Osos Community Services District (the "District") adopted Resolution No. 2001-07 expressing its intent to form the Wastewater Assessment District No. 1 (the "Assessment District") in accordance with the provisions of the Municipal Improvement Act of 1913, in order to finance certain wastewater improvements (the "Improvements");

**WHEREAS**, the District is authorized, under the proceedings to form the Assessment District, to levy special assessments on property in the Assessment District (the "Assessments"), in order to provide funds to pay the debt service on bonds issued by the District to finance the Improvements;

**WHEREAS**, on November 7, 2002, the District issued \$17,990,000 initial principal amount of Los Osos Community Services District Wastewater Assessment District No. 1 Limited Obligation Improvement Bonds (the "Assessment Bonds") under the provisions of the Improvement Bond Act of 1915 to provide funds to finance the Improvements;

**WHEREAS**, the District has determined that, due to prevailing financial market conditions, it would be advantageous at this time for the District to refund the outstanding Assessment Bonds; and

**WHEREAS**, it is appropriate at this time that the Board formally authorize the commencement of proceedings to prepare the documents needed to issue reassessment bonds (the "Refunding Bonds") and to use the proceeds thereof to refund the outstanding Assessment Bonds, and to appoint a bond and disclosure counsel and designate an underwriter in connection therewith.

**NOW, THEREFORE, THE BOARD OF DIRECTORS OF LOS OSOS COMMUNITY SERVICES DISTRICT DOES HEREBY RESOLVE, DECLARE AND DETERMINE AN ORDER AS FOLLOWS:**

1. Officers and officials of the District are hereby authorized to proceed with the preparation of documents necessary to provide for the issuance and sale of the Refunding Bonds and the redemption of the Assessment Bonds. All primary legal documents to which the District will be a party related to the Refunding Bonds and the redemption of the Assessment Bonds shall be subject to the final approval thereof by the Board at a subsequent meeting of the Board.
2. \_\_\_\_\_ is hereby designated as bond counsel and as disclosure counsel to the District, and \_\_\_\_\_ is hereby designated as municipal advisor to the District, each in connection with the issuance and sale of the Refunding Bonds and the redemption of the Assessment Bonds. The President of the Board is hereby authorized and directed to execute an agreement with each such firm for its services with respect to the Refunding Bonds and the redemption of the Assessment Bonds, as approved by the President upon consultation with the General Manager; provided that any and all compensation payable to such firms shall be contingent upon the sale and issuance of the Refunding Bonds and shall be payable solely from the proceeds of the Refunding Bonds.
3. \_\_\_\_\_ is hereby designated as underwriter in connection with the issuance and sale of the Refunding Bonds.
4. The President, the General Manager, the District Legal Counsel and all other appropriate officials of the District are hereby authorized and directed to execute such other agreements, documents and certificates as may be necessary to effect the purposes of this Resolution.

On the motion of Director \_\_\_\_\_, seconded by Director \_\_\_\_\_,  
and on the following roll call vote, to wit:

Ayes: \_\_\_\_\_  
Nays: \_\_\_\_\_  
Absent: \_\_\_\_\_  
Conflicts: \_\_\_\_\_

The foregoing resolution is hereby passed, approved, and adopted by the Board of Directors of the Los Osos  
Community Services District this XX day of XXXXXX 201X.

\_\_\_\_\_  
Vicki Milledge  
President, Board of Directors  
Los Osos Community Services District

ATTEST:

APPROVED AS TO FORM:

\_\_\_\_\_  
Renee Osborne  
General Manager and Secretary to the Board

\_\_\_\_\_  
Roy Hanley  
District Legal Counsel