



# Cambria Community Services District



## Wastewater Revenue Certificates of Participation, Series 2022A

### Summary of Financing & Resolutions

August 31, 2022



# Presentation Outline

## Financing Overview

- Financing Team
- The Project
- Recommended Financing Being Pursued
- Debt Financing Overview
- Key Legal Covenants

## Resolutions

- Summary of Resolutions & Related Documents
- Updated Schedule





# Financing Team

- **Brandis Tallman, a Division of Oppenheimer & Co. Inc.** *Underwriter*

- Rick Brandis, Managing Director, Public Finance Investment Banking
- 35+ Years of Experience
- California Special Districts Association (CSDA) Finance Corporation



**CSDA**  
Finance Corporation

- **Kutak Rock LLP** *Bond Counsel & Disclosure Counsel*

- Albert Reyes, Partner
- 20+ Years of Experience
- California Special Districts Association (CSDA) Finance Corporation



**CSDA**  
Finance Corporation

- **Bartle Wells Associates** *Municipal Advisor*

- Alex Handlers, Principal
- 20+ Years of Experience
- MSRB-Registered MA & Board Member of the National Association of Municipal Advisors



**BARTLE WELLS ASSOCIATES**  
INDEPENDENT PUBLIC FINANCE ADVISORS





# Key Parties & Roles

- **Bond Counsel & Disclosure Counsel: Kutak Rock (Albert Reyes)**
  - Drafts legal documents & official statement
  - Provide legal opinions that a) debt meets requirements tax-exempt debt issuance, and b) debt is issued in compliance with legal requirements
- **Underwriter: Brandis Tallman / Oppenheimer (Rick Brandis & Michael Garcia)**
  - Markets debt to potential investors & establishes prices & interest rates
  - Provides debt proceeds to Trustee on behalf of District
- **Municipal Advisor: Bartle Wells Associates (Alex Handlers)**
  - Coordinates financing process, provides advice regarding debt issuance to help ensure debt is issued on favorable terms and conditions
  - Has a fiduciary responsibility to represent CCSD's interests throughout the process
- **Trustee: The Bank of New York Mellon Trust**
  - Represents bondholders; receives payments and forwards to investors
  - Holds project fund and disburses funds to CCSD as requested
- **CSDA Finance Corporation**
  - Temporary third-party needed to legally facilitate the debt issuance process





# The Project

- District has a lot of aging infrastructure and equipment that need to be replaced and upgraded
- Improvements honed & prioritized based on a multi-year collaborative assessment process involving the District, PG&E and its subcontractor partners Southland Energy and MKN & Assoc
- Projects and benefits detailed in an *Investment Grade Audit Report* updated August 22, 2022
- Project funding from debt financing: \$12.1 million
  - Base Project: \$10.95 million for a range of wastewater treatment plant improvements
  - Add'l Funding: \$1.15 million to help fund other wastewater system improvements (e.g. lift stations)
  - CCSD planning to fund other necessary improvements on a pay-as-you-go basis over time as funding becomes available each year
- Projects designed to address existing deficiencies, improve reliability and operational efficiency, replace and upgrade aging equipment, improve ability to meet future regulatory requirements





# Recommended Financing Being Pursued

- Wastewater Revenue Certificates of Participation
  - Commonly called “Certificates” or “COPs”
  - Very similar to “Bonds” with same legal covenants for CCSD
  - Widely used by California agencies and special districts
- Benefits of using COPs
  - Lowest-cost financing option for District
  - Access to tax-exempt municipal bond market
  - Allows for repayment terms of 30 years (or more)
- *Similar legal structure to CCSD’s prior wastewater debt including the 1999 installment purchase contract & 2010 refunding loan agreement*



# Debt Financing Overview

- Financing will be sized to provide \$12.1 million for wastewater capital projects + costs of issuance and potential debt service reserve fund (if needed)
- Tax-exempt fixed interest rates (rates will be locked in)
- 30-year repayment term
  - 18 months of interest-only payments to accommodate phase-in of sewer rate increases
  - Level annual debt service payments in future years
- Debt can be refinanced on a tax-exempt basis after approx. 8-10 years (tbd)
- Anticipate use of bond insurance & a reserve surety bond to reduce debt payments; bond insurance will be bid out closer to issuance date
- CCSD can use project funds for eligible wastewater system capital improvements & can revise which prioritized improvements are funded if ever needed



# Key Legal Covenants

- Secured by a lien solely on the Net Revenues of District's wastewater system
  - Net Revenues = Total Revenues – Operating & Maintenance Expenses
  - Net Revenues must be adequate to pay debt service and provide a small additional buffer to provide a little financial cushion to investors
- Rate Covenant: CCSD covenants to adopt & levy wastewater rates & charges as needed to generate Net Revenues  $\geq$  120% of annual debt service
  - Net Revenues must be adequate to pay debt service and provide a small additional buffer for debt repayment to investors
  - Legal documents allow for a *Rate Stabilization Fund* to help meet the 120% debt service coverage requirement (if needed)
- Additional Debt Test: CCSD cannot issue additional parity debt unless it has the financial security to repay outstanding debt plus new debt
  - Net Revenues from prior year + Additional Revenues must be  $\geq$  1.20x Maximum Annual Debt Service (accounting for outstanding and new debt)
  - Additional Revenues can include revenues from rate increases and growth
  - No legal limitations on issuing “subordinate” debt (e.g. vehicle or equipment lease)



# Resolutions for Board Consideration



- Resolution 60-2022 - Authorizes CCSD to Issue Financing
- Resolution 61-2022 - Approves Debt Management & Disclosure Policies



# Resolution 60-2022

## ■ Resolution 60-2022 Authorizes CCSD to Issue Financing

- Authorizes CCSD to issue financing subject to max amount & various parameters
- Max amount \$14M includes a) \$12.1M for Project + b) \$400K for costs of issuance, underwriting fees, & bond insurance, + c) \$800K for cash-funded reserve if needed, + d) \$700K buffer for bond pricing (goal is to obtain lowest-cost financing to CCSD)
- Approves of the **“form of”** legal documents subject to final revisions authorized by designated Officers of the District with approval of District counsel
- Authorizes District to finalize and execute financing documents

## ■ Installment Purchase Contract *Between CSDA Finance Corp. & Cambria CSD*

- Authorizes debt proceeds to be used by Cambria CSD to build the Project
- Details Cambria CSD’s requirements to make installment payments to “purchase” the project over time (installment payments often called “debt payment”)
- Details key terms and legal covenants of Cambria CSD

## ■ Trust Agreement *Between Trustee, CSDA Finance Corp & Cambria CSD*

- Authorizes Trustee to issue “Certificates” & details Trustee obligations

## ■ Purchase Contract *Between Underwriter & Cambria CSD*

- Details final terms under which Underwriter purchases the Certificates and provides funding to Cambria CSD (via the Trustee); signed after pricing to “lock in” numbers



# Resolution 60-2022 (continued)

## ■ Preliminary & Final Official Statements (POS & OS)

- Offering document provided by Underwriter to investors describing the Certificates, legal covenants, the District and its wastewater system and finances
- Must include all material information for investors to make an informed decision
- POS is circulated to prospective investors prior to sale; Final OS is completed after pricing and incorporates final interest rates, debt service & other info

## ■ Continuing Disclosure Certificate *Issued by Cambria CSD*

- Details updated financial information that CCSD must provide to MSRB each year so future investors will have access to updated information

## ■ Other Related Provisions

- Authorizes District to obtain bond insurance and a reserve surety bond
- Authorizes District to modify financial covenants if necessary or desirable (e.g. if required by the bond insurer), subject to advice of the municipal advisor, District counsel, and special counsel
- Permits District to reimburse itself from debt proceeds for wastewater project expenditures incurred prior to issuance of the financing



# Resolution 60-2022 (continued)

## ■ Exhibit A - Good Faith Estimates

- Financing estimates based on recently-updated debt projections
  - All-In True Interest Cost: 4.50% represents net interest rate on project funds received by District accounting for all financing costs including bond insurance
  - Finance Charges: \$400,000
    - Issuance Costs: Est: \$170,000 for Municipal Advisor, Bond & Disclosure Counsel, Trustee, Rating Agency, and other miscellaneous fees
    - Underwriter & Related Fees: Est.\$120,000 for Underwriter, Underwriter's Counsel, Regulatory Fees
    - Bond Insurance & Reserve Surety Bond: Est. \$110,000
  - Amount of Proceeds to District: \$12.1 million for wastewater capital improvements
  - Total Payment Amount: Gross payments estimated to total approx. \$22.4 million over full repayment term (excludes any savings from future refinancings and excludes any discounting of payments to current dollars due to inflation)



# Resolution 61-2022

## ■ Resolution 61-2022 Approves Debt Management & Disclosure Policies

- California Government Code 8855(i)(1) requires adoption of a Debt Management Policy in compliance with CDIAC requirements prior to issuing new debt
- Disclosure policies help ensure compliance with federal and state securities laws

## ■ Debt Management Policy

- Incorporates CCSD's existing Debt Management Policy as well as additional provisions needed to comply with California Government Code
- The revised policy also includes one proposed revision to an existing policy:
  - For financial planning purposes, the minimum targeted annual debt service coverage ratio is reduced from the current level of 1.85 to a more reasonable and achievable level of 1.40 that is still significantly above minimum requirements

## ■ Disclosure Policy & Procedures

- Designed to support compliance with federal and state securities laws and to promote best practices and accuracy in disclosures relating to debt securities issued by CCSD





# Updated Financing Schedule

- July 11** Joint Meeting of Resources & Infrastructure Committee and Finance Committee
- Aug 31** Board Meeting: Consider adoption of 2 resolutions:  
1) Resolution authorizing financing & approving form of legal/debt documents  
2) Resolution adopting debt management & disclosure policies
- Mid-Sept** Rating agency online meeting with S&P Global Ratings
- Late Sept** Obtain bond rating & bid out bond insurance & reserve surety bond
- Late Sept** Finalize and post POS for investors; begin bond marketing period
- Early Oct** Bond pricing, finalize debt amount & interest rates, sign Purchase Agreement
- Mid/Late Oct** Finalize & sign documents; Closing and receipt of funds



# Questions & Discussion

