

**MINUTES OF A SPECIAL MEETING OF THE
BOARD OF DIRECTORS OF THE
OTAY WATER DISTRICT
March 23, 2016**

1. The meeting was called to order by President Thompson at 3:05 p.m.

2. ROLL CALL

Directors Present: Robak, Smith and Thompson

Directors Absent: Croucher (out-of-town on business) and Lopez (out-of-town on vacation)

Staff Present: General Manager Mark Watton, General Counsel Dan Shinoff, Asst. GM German Alvarez, Chief Financial Officer Joe Beachem, Chief of Water Operations Pedro Porras, Chief of Administration and IT Services Adolfo Segura, District Secretary Susan Cruz and others per attached list.

3. PLEDGE OF ALLEGIANCE

4. APPROVAL OF AGENDA

A motion was made by Director Robak, and seconded by Director Smith and carried with the following vote:

Ayes: Directors Robak, Smith and Thompson

Noes: None

Abstain: None

Absent: Directors Croucher and Lopez

to approve the agenda.

5. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

No one wished to be heard.

WORKSHOP

6. ADOPT RESOLUTION NO. 4297 AUTHORIZING THE ISSUANCE OF OTAY WATER DISTRICT 2016 WATER REVENUE REFUNDING BONDS, NOT-TO-EXCEED \$40,000,000, AND APPROVING THE EXECUTION AND DELIVERY OF RELATED DOCUMENTS AND TAKING OTHER RELATED ACTIONS

NECESSARY FOR THE REFINANCING OF THE 2007 CERTIFICATES OF PARTICIPATION

Finance Manager Rita Bell introduced the District's Financial Advisor, Ms. Suzanne Harrell of Harrell and Company. She indicated that Mr. Bob Whalen of Stradling Yocca Carlson & Rauth, the District's Bond and Bond Disclosure Counsel, would arrive shortly. Ms. Harrell indicated that the \$42,000,000 Certificates of Participation (COPs) issued in 2007 to finance new capital improvements, including the 640-1 and 640-2 reservoirs, are eligible for refinancing. They were originally issued for a 30-year term maturing in 2036. The average interest rate of the remaining 2007 COPs issuance is 4.29%.

She stated in current market conditions, the District can refinance the 2007 COPs at a rate of approximately 2.9% based on interest rates as of March 7, 2016. She noted that interest rates have come down slightly since then. The present value of the cash flow savings compared to the outstanding debt is approximately 8%. Total savings is approximately \$3.6 million or a 6.9% reduction in total debt service payments, which is approximately \$172,000 annually for 21 fiscal year (remaining life of the bonds).

Ms. Harrell indicated the approximate cost to refinance the bonds (pay off the existing certificates) is \$36.6 million. The cost to reissue the bonds is approximately \$150,000 and the underwriter compensation cost is \$300,000 for a total cost of \$37.05 million.

She noted that the interest rate market has been very volatile since January 21, 2016 and staff felt that the District should act as soon as possible before market conditions deteriorate and interest rates rise. Changing market conditions can change the amount of the savings. She noted if rates increase 25 basis points (from 2.90%), there would be a reduced savings of \$122,000 annually and if rates increased 40 basis points, there would be a reduced savings of \$83,000 annually (reference slide number 6 of the presentation).

Ms. Harrell indicated that staff is requesting that the board adopt Resolution No. 4297 to authorize the sale of the bonds and the form of several documents noted in the staff report (an Indenture of Trust, Escrow Agreement, Preliminary Official Statement and the Official Notice of Sale). The resolution also authorizes the General Manager and Chief Financial Officer to award the sale within certain parameters as noted below:

- Not to exceed \$40 million
- Effective Interest Rate not to Exceed 4%
- Underwriter Compensation no to exceed 1% of Bonds Issued

She presented the timeline (reference slide 8 of the presentation) and stated that the expected competitive sale of the bonds will occur on April 13, 2016.

In response to an inquiry from Director Robak, Ms. Harrell indicated that the target market for the District's bonds are generally retail and individual investors. International investors are usually not interested as they do not benefit from tax exemptions. They would benefit more from taxable investments because they do not pay income taxes in the United States. These investors would then buy taxable investments like treasuries as interest rates are higher.

Mr. Whalen discussed the Preliminary Official Statement and the board's duties under Federal Securities laws to review the key sections of the document and communicate any changes they feel are necessary to the District' staff before it is presented to prospective investors. He indicated the key sections are (as noted in the Table of Contents):

- Otay Water District
- The Water System
- Legal Matters

He indicated that these are the sections that focus on the District's credit, its ability to repay debt, and events that could impact the District's ability to collect rates to meet all the covenants of the financial documents. He noted that information will be added to the Preliminary Official Statement for a couple items. The first concerns litigation related to tiered rates and Proposition 218 (copy of the information is on the dias for each member of the board). The verbiage will note that there is a lawsuit pending and it has been determined that the litigation will not have a material impact on the District to pay obligations and meet the bond covenants. The other is information with regard to Drought Response. He stated that the document will be finalized once all comments from the board, staff, etc. have been included.

In response to an inquiry from Director Robak, Mr. Whalen indicated that the bonds maturing prior to 2026 are not pre-payable. If the District wished to prepay the longer bonds, it can do so without a prepay penalty starting on September 1, 2026. This is the typical 10-year prepay lockout period. Ms. Harrell indicated that the District could include a 5-year prepayment provision, but the District would have to pay a premium of 5% to do so. This would be weighed against the likelihood that the District would ever want to exercise a special redemption option after five (5) or seven (7) years. She stated with interest rates at historic lows, the idea that the District may be able to refinance this issuance at a savings at the end of five (5) years is much less likely than at the end of 10 years. Paying for this option, therefore, is not recommended in this particular interest rate environment.

Director Thompson commented that the annual savings in refinancing the 2007 COPs is significant and there is no unpredictability in the savings. They are

pretty much locked in. He stated that to refinance this issuance is a positive for the District and its customers.

In response to an inquiry from Director Smith, Ms. Harrell indicated that the bonds that will be issued by the District will not have a set maturity (30, 15 or 5 years). She explained that the District indicates to the investors how much it wishes to pay each year. The shorter the maturity the lower the interest rate with the 30-year being much higher. Over the term of the bond issuance, the overall interest payment on the issuance will average out to 2.90%. She stated the District wants to be sure it has plenty of serial bonds because this keeps the rate as low as possible.

Ms. Harrell requested that the board forward any comments they may have on the Preliminary Official Statement by April 5, 2016.

A motion was made by Director Smith, and seconded by Director Robak and carried with the following vote:

Ayes: Directors Robak, Smith and Thompson
Noes: None
Abstain: None
Absent: Directors Croucher and Lopez

to approve staffs' recommendation.

RECESS TO CLOSED SESSION

7. CLOSED SESSION

- a) PUBLIC EMPLOYEE PERFORMANCE EVALUATION: PERIODIC AND CUSTOMARY REVIEW IN DUE COURSE [GOVERNMENT CODE §54957.6]

TITLE: GENERAL COUNSEL

RETURN TO OPEN SESSION

8. REPORT ON ANY ACTIONS TAKEN IN CLOSED SESSION. THE BOARD MAY ALSO TAKE ACTION ON ANY ITEMS POSTED IN CLOSED SESSION

The board reconvened at 4:47 p.m. and President Thompson reported that the board met in closed session and took no reportable actions.

9. ADJOURNMENT

With no further business to come before the Board, President Thompson adjourned the meeting at 4:47 p.m.

President

ATTEST:

District Secretary