

2026 Water and Wastewater Utility Revenue Bonds Overview

Background

The Board previously adopted a Water and Wastewater Master Resolution to govern the flow of funds and all aspects of bond issuance for the Orange County Water and Wastewater Utility (OCU). Each financing requires a separate supplemental resolution; therefore, approval and execution of the 2026 Bond Resolution is necessary to issue the 2026 Bonds. The proceeds of the 2026 Bonds will be used to fund the acquisition and construction of previously approved water and wastewater projects.

Reimbursement for the 2026 OCU projects

The funding process began with OCU including system improvement projects in its current and prior budgets, with the proceeds of the 2026 Bonds identified as a funding source in the FY 2025-2026 and 2026-2027 budget. In addition, on July 30, 2024, and January 13, 2026, the Board approved reimbursement resolutions to allow funding of OCU projects with proceeds from future tax-exempt financing, which will now be authorized by this 2026 Bond Resolution.

OCU initially funded projects during the construction and/or acquisition phase using system revenues; the 2026 Bonds are now needed to secure permanent, long-term financing for those capital investments. Approximately \$71.1million in work has been completed, and the bond proceeds will reimburse the County for these expenses, restoring system fund balances for future projects. The proceeds will also finance other budgeted projects on the 2026 Bond Project List. This approach, using a reimbursement resolution followed by bond issuance, avoids premature borrowing and uncertainty in estimating loan amounts, similar to a homeowner financing construction with cash or short-term loans, then securing long-term financing once costs are more certain. The 2026 Bond Resolution includes exhibits detailing the 2026 Project descriptions.

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The 2026 Bonds will be repaid with OCU water and wastewater revenues over 20 years. The 2026 Bond Resolution provides the authorization to seek credit ratings for the 2026 Bonds. Orange County's 2016, 2020, and 2025 OCU water and wastewater bonds have the highest AAA level credit ratings by Fitch Ratings, Inc., and S&P Global Ratings; the finance team will again seek ratings with both agencies. OCU has engaged consultants to prepare an Engineers Report and a Financial Feasibility Report, which will be provided to rating agencies and investors to secure the best credit ratings and lowest interest cost for the 2026 Bonds.

2026 Bond Resolution

The 2026 Bond Resolution sets transaction parameters, including a true interest cost of 4.75% or less for up to \$260,000,000 in bonds, maturing by October 1, 2046. Section Seven delegates authority to the Mayor or County Administrator to award the bonds to the lowest bidder once parameters are met and to finalize and execute the related transaction documents at closing. The 2026 Bond Resolution also contains an amendment to the Water and Wastewater Master Resolution modifying the existing covenant related to the sale and disposition of OCU assets to modernize the language and streamline the easement process. This amendment was previously approved by the Board as part of the 2025 Bond Resolution and is included in the current Bond Resolution because the 2026 bondholders must also consent to the changes.

The 2026 Bond Resolution was prepared by Nabors, Giblin & Nickerson, P.A. and Ruye H. Hawkins, P.A. as Sales Tax and Utility Revenue Co-Bond Counsel. The County's Municipal Advisor and County staff recommend approval of the 2026 Bond Resolution to provide the funds for the 2026 Projects.

2026 Bond Documents

Pursuant to Administrative Regulation 6.02.04, the 2026 Bond Resolution will authorize the 2026 Bonds to be sold via the competitive bid process. The County's Municipal Advisor and the Comptroller are aware of this method of sale choice.

The following documents are provided for Board consideration:

2026 Water and Wastewater Utility Revenue Bonds Authorizing Resolution - Authorizes the issuance of the 2026 Water and Wastewater Utility Revenue Bonds and delegates to the Mayor, or the County Administrator, the execution of all documents related to the 2026 Bonds, distribution of the Preliminary Official Statement, and delivery of the Official Statement. The resolution also provides the limited delegation and certain parameters required to award the sale by the Mayor or the County Administrator.

Form of Official Notice of Bond Sale - A public announcement issued by the County to inform potential underwriters about the upcoming bond offering. This notice provides essential details such as the sale date, time, place, bond descriptions, maturity schedules, and bidding procedures, enabling underwriters to prepare competitive bids for the bond purchase.

Form of Preliminary Official Statement (POS) - A disclosure document provided to potential investors before a municipal bond sale, detailing the bond's terms, purpose, and financial information to aid investment decisions. 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, various potential financial problems, and debt service payment problems.