SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-E**

FROM: Ed Fortner, General Manager

Meeting Date: April 2, 2020

SUBJECT: 2020 Amendment to the Bond Issuance Agreement for the Improvement Area No. 1 2013 General Obligation Refunding Bond

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RECOMMENDED ACTION: Review of the Board of Directors of the Sweetwater Springs Water District Authorizing the Execution and Delivery of a First Amendment to the Bond Issuance Agreement, the Issuance of a Refunding Bond Revisiting the Refunding Bond Previously Issued, and Authorizing Certain Related Matters.

FISCAL IMPACT: Amending the existing 2013 Loan with Capital One will save the District approximately $49,000 in FYE 2021, $125,000 in FYEs 2022 through 2027, $33,000 in FYEs 2028 through 2032. The District will incur a cost of $426,000 in FYEs 2033 and 2034 (final maturity). Total savings to the District are about $90,000 with net present value savings of $236,000 or 3.85%.

DISCUSSION:

In January 2020, District staff met with Brandis Tallman, the placement agent on the Improvement District No. 1 2013 General Obligation Refunding Bond (the "Bond"), to discuss refinancing / restructuring options for the Bond as a way to lower the District's debt service and provide cash flow savings.

Given that the Bond is not callable until September 1, 2021, the District cannot refund today with a tax-exempt financing. Post recent tax reform, no tax-exempt advance refinancings are allowed. Therefore, the District has two options: (1) refund the Bond on a taxable basis; or (2) amend the bond with Capital One.

Regarding a taxable refunding, Brandis Tallman canvassed direct placement lenders for taxable interest rates. While taxable rates at historical lows, they are not low enough to offset the long escrow cost and the 2% prepayment penalty that exists on the Bond. Brandis Tallman also reached out to Capital One to explore restructuring options. Capital One provided three options: (1) same debt service structure, reducing the interest rate to 2.80%; (2) level debt service structure, reducing the interest rate to 2.85%, and (3) escalating debt service structure, reducing the interest rate to 2.88%. In all cases, Capital One will waive the prepayment penalty of 2%. The Bond is currently at a rate of 3.60%.

Brandis Tallman presented the three options at the Budget Committee meeting on February 19, 2020. After careful analysis and consideration, staff determined that the escalating debt service structure option provides the best economic result for the District's current needs and goals. The Board asked Brandis Tallman to inquire if a lower interest rate could be approved in light of recent financial events and approved the General Manager to sign all required documents. Capital One lowered the preferred escalating debt service option interest rate from 2.88% to 2.78% and the revised documents are attached for Board review.

FIRST AMENDMENT TO BOND ISSUANCE AGREEMENT

made by the

SWEETWATER SPRINGS WATER DISTRICT

Dated March 1, 2020

Relating to the

Sweetwater Springs Water District
(Sonoma County, California)
Improvement District No. 1
2013 General Obligation Refunding Bond
(as revised March 19, 2020)

FIRST AMENDMENT TO BOND ISSUANCE AGREEMENT

THIS FIRST AMENDMENT TO BOND ISSUANCE AGREEMENT (this "First Amendment") dated March 1, 2020, is made by the Sweetwater Springs Water District, a county water district duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "District").

Recitals

WHEREAS, the District issued its Improvement District No. 1 2013 General Obligation Refunding Bond (the "Bond"), in the principal amount of $7,993,000, pursuant to the Bond Issuance Agreement dated August 1, 2013 (the "Bond Issuance Agreement");

WHEREAS, Capital One Public Funding, LLC, a limited liability company duly organized and existing under the laws of the State of New York (the "Lender"), purchased the Bond and is the sole owner of the Bond;

WHEREAS, in lieu of selling refunding bonds and using the proceeds of their sale to redeem the Bond, the District intends to amend the Bond Issuance Agreement in order to reduce the total amount of debt service payable by the District on the Bond and revise its principal amortization;

WHEREAS, the reductions and revisions will be made with respect to the principal installments on the Bond that are due on and after September 1, 2021, and the amount of the interest installments that are payable with respect to the amounts of such principal installments;

WHEREAS, the District will also to revise the optional redemption provisions of the Bond;

WHEREAS, to evidence the revisions made to the terms of the Bond, the District will issue and deliver a revised Bond to the Lender in exchange for the outstanding Bond;

WHEREAS, the Lender has consented to the proposed amendments to the Bond Issuance Agreement and has agreed to accept a revised Bond in exchange for the Bond that it currently owns;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereby agree as follows:

Section 1. **Definitions**. For all purposes of this First Amendment and of any certificate, opinion, or other document herein mentioned, unless the context otherwise requires or unless otherwise defined herein, all defined terms shall have the meanings set forth in the Bond Issuance Agreement. The Bond, as revised in accordance with the provisions of this First Amendment, that is to be delivered to the Lender on March 19, 2020, in exchange for the Bond originally delivered on August 21, 2013, is referred to herein as the "revised Bond."

Section 2. **Amendment to Bond Payment Schedule**. Section 3.2(B) of the Bond Issuance Agreement is amended to read as follows:

(B) Date; Payments. The revised Bond shall be dated its date of delivery and shall bear interest from its date to September 1, 2033. The District shall pay installments of principal and interest on the revised Bond in the following amounts on the following dates:

Date	Principal	Interest	Total
September 1, 2020	$368,000.00	$72,375.21	$440,375.21
March 1, 2021		73,056.90	73,056.90
September 1, 2021	296,500.00	73,056.90	369,556.90
March 1, 2022		68,935.55	68,935.55
September 1, 2022	306,300.00	68,935.55	375,235.55
March 1, 2023		64,677.98	64,677.98
September 1, 2023	316,200.00	64,677.98	380,877.98
March 1, 2024		60,282.80	60,282.80
September 1, 2024	323,500.00	60,282.80	383,782.80
March 1, 2025		55,786.15	55,786.15
September 1, 2025	330,800.00	55,786.15	386,586.15
March 1, 2026		51,188.03	51,188.03
September 1, 2026	339,900.00	51,188.03	391,088.03
March 1, 2027		46,463.42	46,463.42
September 1, 2027	437,272.80	46,463.42	483,736.22
March 1, 2028		40,385.33	40,385.33
September 1, 2028	450,050.20	40,385.33	490,435.53
March 1, 2029		34,129.63	34,129.63
September 1, 2029	463,201.10	34,129.63	497,330.73
March 1, 2030		27,691.14	27,691.14
September 1, 2030	476,736.10	27,691.14	504,427.24
March 1, 2031		21,064.51	21,064.51
September 1, 2031	490,666.80	21,064.51	511,731.31
March 1, 2032		14,244.24	14,244.24
September 1, 2032	505,004.40	14,244.24	519,248.64
March 1, 2033		7,224.68	7,224.68
September 1, 2033	519,761.00	7,224.68	526,985.68

Interest on the Bond shall be calculated on the basis of a 360-day year comprising twelve 30-day months. The interest payable on September 1, 2020, was calculated based on interest at the rate of 3.60% per annum on the prior principal installment amounts. Interest on the revised principal installment amounts (September 1, 2021, and following) is calculated at the rate of 2.78% per annum, with the first interest payment on September 1, 2020.

Section 3. **Amendment to Bond Form**. The form of the revised Bond is attached hereto as Exhibit A.

Section 4. **Amendment to Optional Redemption Provisions**. Section 4.2 of the Bond Issuance Agreement is amended to read as follows:

> **Optional Redemption**. The Bond is subject to redemption prior to its maturity, at the option of the District, from any source of available funds, as a whole on any date or in part on any September 1 (in a minimum amount of $100,000), on or after September 1, 2026, at the following redemption prices (computed upon the principal amount of the Bond to be redeemed), plus accrued interest to the date fixed for redemption:

Redemption Period (Both Dates Inclusive)	Redemption Price
September 1, 2026, through August 31, 2028	102%
September 1, 2028, and thereafter	100

> If the Bond is optionally redeemed in part, the amount of the principal to be redeemed shall be applied to reduce the scheduled principal installments in inverse order of their payment dates. Upon a partial redemption, the Owner shall surrender the Bond to the District for exchange, and the District shall execute and deliver to the Owner a replacement Bond in the amount of the unpaid principal thereof and incorporating the revised installment payment schedule.

Section 5. **Designated Costs of Issuance.** The District shall pay a fee of $18,500 to the District's placement agent, Brandis Tallman LLC, and a fee of $10,000 to Kronick, Moskovitz, Tiedemann and Girard, a Professional Corporation, which is serving as bond counsel to the Lender ("Bond Counsel"). The designated costs of issuance also include an additional fee of $10,000 that will be paid by the Lender to Bond Counsel.

Section 6. **Provisions of the Bond Issuance Agreement**. Except as this First Amendment expressly provides, every term and condition contained in the Bond Issuance Agreement applies to this First Amendment with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this First Amendment.

This First Amendment and all the terms and provisions herein contained form part of the Bond Issuance Agreement as fully and with the same effect as if all such terms and provisions had been set forth in the Bond Issuance Agreement. The Bond Issuance Agreement is hereby ratified and confirmed and continues in full force and effect in accordance with the terms and provisions thereof, as amended hereby.

Section 7. **Effect of Headings**. The headings or titles of the several Sections hereof are solely for convenience of reference and do not affect the meaning, construction, or effect of this First Amendment.

Section 8. **Execution in Counterparts**. This First Amendment may be executed in several counterparts, each of which shall be deemed an original, and all of which constitute but one and the same instrument.

Section 9. **Effective Date**. The amendments made by this First Amendment are effective as of March 19, 2020.

[signature page follows]

IN WITNESS WHEREOF, the District has caused this First Amendment to be duly executed by its officers duly authorized as of the date first written above.

SWEETWATER SPRINGS WATER DISTRICT

By:_____
Ed Fortner, Jr., General Manager

COUNTERSIGNED:

By:_____
Julie A. Kenny, Secretary of the Board

Capital One Public Funding, LLC, hereby consents to the execution of this First Amendment to Bond Issuance Agreement.

CAPITAL ONE PUBLIC FUNDING, LLC

By:_____

EXHIBIT A

FORM OF REVISED BOND

REGISTERED NO. R-1

SWEETWATER SPRINGS WATER DISTRICT
(Sonoma County, California)
Improvement District No. 1
2013 General Obligation Refunding Bond
(as revised March 19, 2020)

This Bond has been designated as a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Original Issue Date	**Original Principal Amount**
August 21, 2013	$7,993,000
Date of Exchange (Reissuance)	**Revised Principal Amount on Date of Exchange**
March 19, 2020	$5,623,892.40

Sweetwater Springs County Water District, a county water district duly organized and existing under and pursuant to the Constitution and laws of the State of California (the "District"), issued its Sweetwater Springs Water District (Sonoma County, California) Improvement District No. 1 2013 General Obligation Refunding Bond in the original principal amount stated above on August 21, 2013 (the "original Bond"), pursuant to a Bond Issuance Agreement dated August 1, 2013 (the "Bond Issuance Agreement"), made by the District. This revised Bond is issued in the revised principal amount stated above pursuant to the Bond Issuance Agreement as amended by the First Amendment to Bond Issuance Agreement dated March 1, 2020 (the "First Amendment to Bond Issuance Agreement"), made by the District. The Bond Issuance Agreement and the First Amendment to Bond Issuance Agreement were each made by the District and the original Bond and this revised Bond were each issued in conformity with the Constitution and laws of California, including the statutory authority of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Law"). Pursuant to Government Code section 53555, this Bond will be exchanged for the original bond on the date of exchange stated above.

The District, for value received, hereby acknowledges itself indebted to and promises to pay to CAPITAL ONE PUBLIC FUNDING, LLC, or registered assigns, the installments of principal and interest in the amounts and on the dates stated below:

Date	Principal	Interest	Total
September 1, 2020	$368,000.00	$72,375.21	$440,375.21
March 1, 2021		73,056.90	73,056.90
September 1, 2021	296,500.00	73,056.90	369,556.90
March 1, 2022		68,935.55	68,935.55
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March 1, 2029		34,129.63	34,129.63
September 1, 2029	463,201.10	34,129.63	497,330.73
March 1, 2030		27,691.14	27,691.14
September 1, 2030	476,736.10	27,691.14	504,427.24
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March 1, 2032		14,244.24	14,244.24
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March 1, 2033		7,224.68	7,224.68
September 1, 2033	519,761.00	7,224.68	526,985.68

Interest on this Bond is calculated on the basis of a 360-day year comprising twelve 30-day months. The interest payable on September 1, 2020, is calculated based on interest at the rate of 3.60% per annum on the prior principal installment amounts. Interest on the revised principal installment amounts (September 1, 2021, and following) is calculated at the rate of 2.78% per annum, with the first interest payment on September 1, 2020. The principal and interest installments on this Bond are payable in lawful money of the United States of America by wire transfer on each payment date to the registered owner hereof (in accordance with the terms of the Bond Issuance Agreement.

Reference is hereby made to the Bond Issuance Agreement, the First Amendment to Bond Issuance Agreement, and to the Law for a description of the terms on which this Bond is issued and to be issued and the rights of the registered owner of this Bond. All the terms of the Bond Issuance Agreement and the First Amendment to Bond Issuance Agreement and the Law are hereby incorporated herein and constitute a contract between the District and the registered owner from time to time of this Bond. The registered owner of this Bond, by its acceptance hereof,

consents and agrees to all the provisions of the Bond Issuance Agreement and the First Amendment to Bond Issuance Agreement .

This Bond is subject to redemption by the District as a whole on any date or in part (by ratably reducing the remaining scheduled principal installments) on any Interest Payment Date, from funds received by the District due to a casualty loss or governmental taking of the Water System or portions thereof by eminent domain proceedings, under the circumstances and upon the conditions and terms prescribed in the Bond Issuance Agreement, at a redemption price equal to the sum of the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium.

This Bond is also subject to redemption prior to its maturity, at the option of the District, from any source of available funds, as a whole on any date or in part on any September 1 (in a minimum amount of $100,000), on or after September 1, 2026, at the following redemption prices (computed upon the principal amount of this Bond to be redeemed), plus accrued interest to the date fixed for redemption:

Redemption Period (Both Dates Inclusive)	Redemption Price
September 1, 2026, through August 31, 2028	102%
September 1, 2028, and thereafter	100

If this Bond is optionally redeemed in part, the amount of the principal to be redeemed shall be applied to reduce the scheduled principal installments in inverse order of their payment dates. Upon a partial redemption, the Owner shall surrender this Bond to the District for exchange, and the District shall execute and deliver to the Owner a replacement Bond in the amount of the unpaid principal thereof and incorporating the revised installment payment schedule.

Notice of redemption of this Bond shall be given by first class mail not less than thirty (30) days nor more than sixty (60) days before the redemption date to the registered owner hereof, subject to and in accordance with provisions of the Bond Issuance Agreement. If notice of redemption has been duly given as aforesaid and money for the payment of the above-described redemption price is held by the District or its escrow agent, then this Bond shall, on the redemption date designated in such notice, become due and payable at the above-described redemption price; and from and after the date so designated, interest on this Bond shall cease to accrue and the registered owner of this Bond shall have no rights with respect hereto except to receive payment of the redemption price hereof.

If an event of default, as defined in the Bond Issuance Agreement, shall occur, the principal of this Bond may be declared due and payable upon the conditions, in the manner and with the effect provided in the Bond Issuance Agreement, except that the Bond Issuance Agreement provides that in certain events such declaration and its consequences shall be rescinded under the circumstances as provided therein.

This Bond is transferable by the registered owner hereof, in person or by its attorney duly authorized in writing, at the offices of the District, but only in the manner, subject to the limitations and upon payment of the charges provided in the Bond Issuance Agreement, and upon surrender

and cancellation of this Bond. Upon such transfer a new fully registered Bond for the same aggregate principal amount will be issued to the transferee in exchange herefor.

The District may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the District shall not be affected by any notice to the contrary.

The rights and obligations of the District and of the registered owner of this Bond may be modified or amended at any time in the manner, to the extent, and upon terms provided in the Bond Issuance Agreement, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owner of Bond.

It is hereby certified and recited that any and all acts, conditions, and things required to exist, to happen, and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened, and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California; that the total amount of indebtedness of the District, including the amount of this Bond, does not exceed any limit prescribed by the Constitution and the statutes of the State of California; and that this Bond is not in excess of the amount permitted to be issued under the Bond Issuance Agreement.

IN WITNESS WHEREOF, the Board of Directors of the Sweetwater Springs Water District, has caused this Bond to be signed by its President, to be countersigned by the Secretary of the Board, all as of the date stated above.

SWEETWATER SPRINGS WATER DISTRICT

By:_____
President of the Board of Directors

COUNTERSIGNED:

By:_____
Secretary to the Board of Directors

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto _____ the within Bond and do(es) hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the bond register of the District, with full power of substitution in the premises.

Dated: _____

_____

NOTE: The signature(s) to this Assignment must correspond with the name(s) on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

Signature(s) Guaranteed by:

_____

NOTE: Signature(s) must be guaranteed by an eligible guarantor institution (being banks, stock brokers, savings and loan associations, and credit unions with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17A(d)15.

Social Security Number, Tax Identification Number, or other identifying number of Assignee: _____

LEGAL OPINION

The following is a true copy of the opinion rendered by Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, in connection with the issuance of, and dated as of the date of the original delivery of, the Bond described therein. A signed copy is on file in my office.

_____
Secretary to the Board

KRONICK, MOSKOVITZ, TIEDEMANN & GIRARD
A Professional Corporation
400 Capitol Mall, 27th Floor
Sacramento, CA 95814-4417

Sweetwater Springs Water District
Guerneville, California

Capital One Public Funding, LLC
Melville, New York

Re: Sweetwater Springs Water District (Sonoma County, California)
Improvement District No. 1 2013 General Obligation Refunding Bond
(as revised March 19, 2020)

Ladies and Gentlemen:

We have acted as bond counsel to Capital One Public Funding, LLC (the "Lender"), in connection with the execution by the Sweetwater Springs Water District (the "District") of the First Amendment to Bond Issuance Agreement dated March 1, 2020, revising the terms of its Improvement District No. 1 2013 General Obligation Refunding Bond (the "Bond"), issued on August 21, 2013, in the original principal amount of $7,993,000, and the issuance of a revised Bond in the revised principal amount of $5,623,892.40 (the "revised Bond") that the District will exchange with the Lender for the Bond originally delivered to the Lender. In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The revised Bond has been duly authorized and executed by the District and is a valid and binding general obligation of the District, payable from any available funds of the District, including the revenues of the District's water system, although any tax for the payment of the revised Bond is limited to annual taxes to be levied upon and collected from property within Improvement District No. 1 of the District (the "Improvement District").

2. All taxable property in the territory of the Improvement District is subject to *ad valorem* taxation without limitation regarding rate or amount (except certain personal property that is taxable at limited rates) to pay the revised Bond. The County of Sonoma is required by law to include in its annual tax levy the principal and interest coming due on the revised Bond to the extent that necessary funds are not provided from other sources.

3. Interest on the revised Bond is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinion set forth in the preceding sentence is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the revised Bond in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the revised Bond to be included in gross income for federal income tax purposes retroactively to the date of issuance of the revised Bond.

4. Interest on the revised Bond is exempt from State of California personal income taxation.

5. The revised Bond is eligible and the District has designated it as a "qualified tax-exempt obligation" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

The rights of the owner of the revised Bond and the enforceability thereof are limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion regarding tax consequences arising with respect to the revised Bond other than as expressly set forth herein.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

KRONICK, MOSKOVITZ, TIEDEMANN & GIRARD,
A Professional Corporation