BOARD OF SUPERVISORS AGENDA LETTER

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Department Name:	Treasurer – Tax Collector
Department No.:	065
For Agenda Of:	5/4/2010
Placement:	Administrative
Estimated Tme:	30 Minutes on 5/11/2010
Continued Item:	Select_Continued
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	Bernice James, Treasurer – Tax Collector (805) 568 - 2490
	Contact Info:	Stacey Matson, Investment & Debt Officer (805) 568 - 2158
SUBJECT:	**2010 Certificates of Participation: Financing Options**	

County Counsel Concurrence
As to form:

Auditor-Controller Concurrence
As to form:

Other Concurrence: Debt Advisory Committee
As to form: Select_Concurrence

Recommended Actions:

Set a hearing to receive information regarding tax – exempt and taxable financing options for the 2010 Certificates of Participation.

Summary Text:

The County intends to issue the 2010 Certificates of Participation to finance various capital projects totaling $18.94 million. The American Recovery and Reinvestment Act (ARRA) of 2009 authorized Recovery Zone Economic Development Bonds (RZEDBs). RZEDBs are a new type of taxable governmental bond that entitles issuers to a cash subsidy payment from the United States Treasury equal to 45% of the interest paid on the bonds. The issuance of the 2010 Certificates of Participation may be issued as a combination of tax-exempt bonds and taxable RZEDBs to provide the most cost effective financing for the County.

Background:

Santa Barbara County currently has $64.5 million of COPs outstanding that were issued on a tax-exempt basis, for maturities of 20 years or less. Investors who purchase tax-exempt COPs are allowed to exclude the interest income from their taxable income. Governmental entities have traditionally financed capital projects on a tax-exempt basis whenever possible due to the lower interest costs, as compared to taxable interest rates.

Santa Barbara County is preparing to issue the 2010 Certificates of Participation (COP) to finance a property tax system ($2.4 million), the remodel of the Public Defender's courthouse workspace ($5.5 million), the construction of an emergency operations center ($5.4 million), and the construction of the Betteravia administration building and a slight remodel of the existing administration building ($5.6 million). Aggregate project costs proposed to be financed by the issuance of the 2010 COP total $18.94 million. COP proceeds will also be used to fund a required reserve and costs of issuance, estimated at $2.1 million and $330,000 respectively. Total financing for the projects, the reserve, and costs of issuance is estimated to be $21.4 million. The issuance is expected to be presented to the Board of Supervisors on May 18, 2010 for consideration and approval. The issuance's inclusion, or not, of the property tax system will be determined by The Board of Supervisors at a meeting prior to the May 18 hearing.

The ARRA authorized the issuance of RZEDBs which are a new type of taxable governmental bond made available for issuance to certain counties and municipalities with populations greater than 100,000. Santa Barbara County did not receive an initial ARRA allocation from the United States Treasury for RZEDBs, as the allocations were based upon unemployment rate increases from 2007 to 2008. However, the Treasurer – Tax Collector applied on the County's behalf to the State Treasurer's California Debt Limit Allocation Committee (CDLAC) for an allocation of RZEDBs that were waived by other jurisdictions. RZEDB allocation was requested on the Public Defender's courthouse workspace remodel, emergency operations center construction and Betteravia administration building construction. The three applications were approved by the CDLAC in March 2010 for issuance no later than June 2010.

The Santa Barbara County Debt Advisory Committee (DAC) evaluated issuing taxable RZEDBs for a portion of the 2010 COPs. The DAC recommended that RZEDBs be issued if they provide an economic benefit as compared to a tax-exempt COP issuance, while taking into account any risks they may pose. The DAC also recommended that information be presented to the Board of Supervisors about this new type of bond that can be issued through a COP structure, in advance of the hearing for the debt issuance.

Each year, interest will be paid, along with maturing principal, to investors who purchase the COP. Through the COP series of RZEDBs, the County would pay taxable interest rates, which are higher than tax-exempt interest rates. However, the County would be entitled to receive a direct subsidy payment from the United States Treasury equal to 45% of the interest paid on the bonds on every semi-annual interest payment date (6/1 and 12/1). The County's effective interest rate, as a result of the 45% subsidy would be lower than tax-exempt interest rates for certain maturities.

In the current market, the economic benefit of RZEDBs is expected to occur on and after 12/1/2015 for the 2010 COPs. Prior to 12/1/2015, tax-exempt rates are estimated to provide lower interest rates. The 2010 COPs can be structured in two series, designated as Series A-1 (Tax-Exempt) and Series A-2 (Taxable RZEDBs), in order to capture the lowest effective interest rates in every year. The tax-exempt COP series would mature from 12/1/2011 to 12/1/2017. The taxable COPs would mature from 12/1/2015 to 12/1/2040.

Considerations and potential risks of issuing RZEDBs include:

- Federal Davis-Bacon prevailing wage rules apply: All public works projects are required by the Davis-Bacon Act of 1931 to pay prevailing wages. Bidders on the County's capital construction projects must meet this requirement and it is stipulated in the awarded contract.
- Additional Reporting Requirements apply: The additional reporting requirements do not appear to be burdensome. Most are items that are already monitored and tracked by County staff. Many are reported periodically to the DAC. If appropriate the DAC policies and procedures will be updated to include this reporting.
- Potential Delayed Internal Revenue Service (IRS) Subsidy Payments to the County: There is not yet enough information to determine if this is a valid concern. The County's filing for payment of the 45% interest subsidy can be submitted to the IRS in advance to facilitate and expedite payments. If delayed, cash flows of the County would be negatively impacted.
- Potential Suspended IRS Subsidy Payments to the County: There is a risk, believed to be slight, that at some point over the term of the RZEDBs the Federal government could pass legislation reducing or eliminating the subsidy payment.
- Potential Reclaimed IRS Subsidy Payments: There is a risk that an entity's 45% interest subsidy could be reduced by any amounts owed to the Federal government by the entity for an unrelated program.
- Costs of issuance are limited to 2% of proceeds: In the event such costs exceeded 2% they would need to be paid from a source other than the proceeds. It is expected that the 2010 COP costs of issuance will be less than 2%.

Performance Measure:

N/A

Fiscal and Facilities Impacts:

Fiscal Analysis:

Under current market conditions, the hybrid of tax-exempt COPs and taxable RZEDBs provides lower interest costs than a fully tax-exempt financing. Assuming a 30-year financing, the hybrid tax-exempt and taxable COP has average annual debt service payments (net of the 45% direct subsidy) equal to $1.09 million. Total debt service payments equal $32.7 million. For a fully tax-exempt COP, average annual debt service payments equal $1.19 million, and total debt service payments equal $35.6 million. The hybrid tax-exempt and taxable COP structure provides $100,000 of annual interest savings or $2.9 million in total interest savings over 30 years.

In a similar fashion, assuming a 20-year financing, the hybrid tax-exempt and taxable COP generates lower interest costs than a fully tax-exempt financing. A 20-year hybrid tax-exempt and taxable COP produces average annual debt service (net the 45% direct subsidy) equal to approximately $1.48 million and total debt service payments of $29.6 million. For a fully tax-exempt COP, average annual debt service payments equal $1.6 million and total debt service payments are $32.1 million. The hybrid tax-exempt and taxable COP structure provides approximately $125,000 of annual interest savings or $2.5 million in total interest savings over 20 years.

Comparing the 20-year and 30-year hybrid tax-exempt and taxable COP structures, annual payments are $390,000 higher under the 20-year scenario. However, given the shorter bond maturity, total debt service payments under the 20-year scenario are $3.2 million lower than the 30-year financing.

Staffing Impacts: None

Special Instructions: None

Attachments: Presentation to the Board of Supervisors of the County of Santa Barbara - 2010 Certificates of Participation, Tax-Exempt Series A-1 and Taxable Series A-2 (Recovery Zone Economic Development Bonds

Authored by: Stacey Matson, Office of the Treasurer – Tax Collector

cc: