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:	5/18/2010
Placement:	Departmental
Estimated Tme:	15 Minutes
Continued Item:	No
If Yes, date from:	
Vote Required:	4/5

TO: Board of Supervisors

FROM: Department Director(s): Bernice James, Treasurer Tax Collector
Contact Info: Stacey Matson, Investment & Debt Officer
(805) 568 - 2158

SUBJECT: **2010 Certificates of Participation Issuance**

County Counsel Concurrence
As to form: Yes

Auditor-Controller Concurrence
As to form: Yes

Other Concurrence: Debt Advisory Committee

Recommended Actions:

Consider and authorize the issuance of the Santa Barbara County 2010 Certificates of Participation, as follows:

That the Board of Supervisors:

A. Authorize the County Treasurer-Tax Collector to execute the Contract of Purchase for the issuances of the Series A-1 non-taxable and/or the Series A-2 taxable 2010 Certificates of Participation in accordance with State and Federal law, in an aggregate amount not to exceed $22 million, at a yield not to exceed 6.5% for Series A-1 and at a yield not to exceed 9.0% Series A-2;

B. Authorize the financing of the following capital improvements:
   1. Public Defender Courthouse Remodel
   2. Emergency Operations Center Construction
   3. Betteravia Administration Building and Back-Up Emergency Operations Center Construction

C. Approve and authorize the Chair to execute a contract appointing Orrick, Herrington & Sutcliffe as Bond Counsel; and accept a proposal for Trustee, Registrar, and Paying Agent Services from US Bank Corporate Trust Services;

D. Direct the County Treasurer-Tax Collector, County Auditor-Controller, County Counsel, and General Services to proceed with all necessary actions required to issue the 2010 Certificates of Participation;

E. Authorize the Treasurer-Tax Collector to abandon the issuance if market conditions are deemed to have become financially unfavorable;

F. Adopt a resolution: In the Matter of Authorizing the Execution and Delivery of a Lease, a Sublease, an Assignment Agreement, a Trust Agreement, and a Contract of Purchase; Approving Execution of Certificates of Participation to Finance Certain Capital Improvements; Approving an Official Statement for Said Certificates of Participation; Authoring the Execution and Delivery of a Continuing Disclosure Agreement; and Authorizing Certain Other Actions in Connection with the Lease Financing;

G. Approve and adopt the attached budget revision.

Summary Text:

The Board of Supervisors approved that General Services proceed with the bidding process for the Public Defender remodel of the County Courthouse, the Emergency Operations Center (EOC), and the Betteravia administration building/back-up EOC. The Board also directed that options for financing these projects be developed and a recommendation be brought back for consideration. The Debt Advisory Committee has considered the options and recommends Certificates of Participation finance these projects. The proposed issuance is expected to consist of a tax-exempt Series A-1 and a taxable Recovery Zone Economic Development Bonds Series A-2, in an aggregate not to exceed amount of $22.0 million.

Background:

Proposed is the issuance of the 2010 Certificates of Participation (COP) to finance the remodel of the Public Defender's courthouse workspace ($5.5 million), the construction of an emergency operations center ($5.41 million), and the construction of the Betteravia administration building, back-up emergency operations center and a remodel of the existing administration building ($6.1 million). Aggregate project costs proposed to be financed by the issuance of the 2010 COP total $17.01 million.

On May 11, 2010 your Board received information on The American Recovery and Reinvestment Act (ARRA) of 2009's authorization of Recovery Zone Economic Development Bonds (RZEDBs). 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 for each of the proposed projects. 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 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 economic benefit for issuing RZEDB occurs for any given maturity if the interest cost is less than it would be for a tax – exempt issuance. Please see the Fiscal Analysis section below for information on when this benefit occurs and the economic impacts.

Risks of RZEDBs include additional reporting requirements, potential delayed subsidy payments to the County from the IRS, and the possibility the IRS could reduce the payment subsidy to the County for amounts owed to the Federal government by the County for an unrelated program. The additional reporting requirements do not appear to be burdensome. Most are items already monitored and tracked by County staff. Many are already reported periodically to the DAC. The IRS subsidy payment risks are perceived to be slight. IRS delayed subsidy payments would impact the cash flow of the County. Filing for payment can be submitted to the IRS in advance to facilitate and expedite payments. Reclaimed subsidy payments held for payment on behalf of another program is possible.

Upon the Board of Supervisors approval of the issuance of the 2010 COP, De La Rosa & Co. will act as the underwriter, Orrick, Herrington and Sutcliffe as special legal counsel, and US Bank as the Trustee.

Information and COP documents will be presented to the Santa Barbara County Finance Corporation on May 17, 2010 for their authorization.

Fiscal and Facilities Impacts:

Annual debt service is required to be appropriated annually in the County's budget by the covenants of the issuance. Debt service will be paid semi-annually commencing in the 2010-2011 fiscal year. A budget revision to allow the proceeds to be posted on the anticipated June 2010 closing date has been prepared, see attached.

Fiscal Analysis:

Each year, interest will be paid, along with maturing principal, to investors who purchase the tax-exempt and taxable 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.

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 $1.08 million. Total debt service payments equal $32.3 million. For a fully tax-exempt COP, average annual debt service payments equal $1.21 million, and total debt service payments equal $36.2 million. The hybrid tax-exempt and taxable COP structure provides $130,000 of annual interest savings or $3.9 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 $1.36 million and total debt service payments of $27.2 million. For a fully tax-exempt COP, average annual debt service payments equal $1.47 million and total debt service payments are $29.4 million. The hybrid tax-exempt and taxable COP structure provides approximately $110,000 of annual interest savings or $2.2 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 $280,000 higher under the 20-year scenario. However, given the shorter bond maturity, total debt service payments under the 20-year scenario are $5.1 million lower than the 30-year financing.

The preceding information is summarized in "Attachment A: Summary of Tax-Exempt and Taxable Recovery Zone Economic Development Bond Scenarios".

The issuance of the 2010 Certificates of Participation is recommended to be issued as a combination of tax-exempt bonds and taxable RZEDBs to provide the most cost effective financing for the County.

Attachment B: Recommended Financing Scenario is the proposed structure and indicates the estimated proceeds and debt service.

COP proceeds will also be used to fund a required reserve and costs of issuance, estimated at $1.8 million and $320,000 respectively. Total financing for the projects, the reserve, and costs of issuance is estimated to be $19.1 million.

The funding source for the annual debt service is the general fund.

Special Instructions: Please return five full sets of signed resolutions to Stacey Matson in the Treasurer-Tax Collector's office. The Treasurer's office will forward these documents to Bond Counsel for inclusion with the Certificates of Participation closing documents.

Attachments:

Contract of Purchase
Agreement for Bond Counsel Services
US Bank Proposal
Resolution: "In the Matter of Authorizing the Execution and Delivery of a Lease, a Sublease, an Assignment Agreement, a Trust Agreement and a Contract of Purchase; Approving Execution of Certificates of Participation to Finance Certain Capital Improvements; Approving an Official Statement for Said Certificates of Participation; Continuing Disclosure Agreement; and Authorizing Certain Other Actions in Connection with the Lease Financing"
Lease
Sublease
Assignment Agreement
Trust Agreement
Preliminary Official Statement
Continuing Disclosure Agreement
Sources and Uses of Funds (Estimated)

Authored by: Stacey Matson, CPA, CPFIM, Investment & Debt Officer

Attachment A
Summary of Tax-Exempt and Taxable Recovery Zone Economic Development Bond Scenarios

Scenario 1: Hybrid COP	30-Year Financing	20-Year Financing
Average Annual Debt Service:	$1.08 MM	$1.36 MM
Total Debt Service Over Term:	$32.3 MM	$27.2 MM
Scenario 2: Tax-Exempt COP	**30-Year Financing**	**20-Year Financing**
Average Annual Debt Service:	$1.21 MM	$1.47 MM
Total Debt Service Over Term:	$36.2 MM	$29.4 MM

Attachment B - Recommended Financing Scenario

	Public Defender Courthouse Remodel	Emergency Operations Center (EOC)	Betteravia Administration Center/Back-Up EOC	Totals****
Term: Tax-Exempt	4	4	4	N/A
Term: Taxable	30	30	30	N/A
Estimated Par Tax - Exempt	490,000	490,000	545,000	1,525,000
Estimated Par Taxable RZEDB*	5,660,000	5,560,000	6,280,000	17,500,000
Total Estimated Par**	$ 6,150,000	$ 6,050,000	$ 6,825,000	$ 19,025,000
Net Project Proceeds	$ 5,500,000	$ 5,410,000	$ 6,100,000	$ 17,010,000
Estimated Average Annual Debt Service Tax Exempt	$ 135,000	$ 135,000	$ 150,200	N/A
Estimated Average Annual Debt Service Taxable RZEDB***	$ 330,576	$ 324,725	$ 366,909	N/A
Estimated Overall Avg. Annual Debt Service	$ 348,576	$ 342,725	$ 386,935	N/A
Total Debt Service Tax-Exempt	540,000	540,000	600,800	1,680,800
Total Debt Service Taxable RZEDB	9,917,274	9,741,739	11,007,260	30,666,273
Total Estimated Debt Service to Maturity	$ 10,457,274	$ 10,281,739	$ 11,608,060	$ 32,347,073

Note that the term of the entire issuance does not exceed 30 years. The tax-exmpt series will fully mature within 4 years. The maturities after 4 years are fully taxable.

* Recovery Zone Economic Development Bonds (RZEDB)
** Par includes proceeds for the capital project, the required reserve, and costs of issuance
*** Assumes interest only payments through 2014 and first principal payment in 2015
**** Estimated average annual payments do not total due to varying debt service final maturities