



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

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

Department Name: Treasurer-Tax Collector
Department No.: 065
For Agenda Of: 12/13/2016
Placement: Departmental
Estimated Time: 15 mins
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Harry E. Hagen, CPA, CPFO, CFIP, ACPFIM
Director(s) Treasurer-Tax Collector
Scott D. McGolpin, PE, Public Works Director
Contact Info: Kimberly A. Tesoro, CPA, CPFO, CFIP
Assistant Treasurer-Tax Collector, 568-2153
Mark Paul, CPA, CPFO
Deputy Director, Public Works, 568-3016

SUBJECT: Tajiguas Resource Recovery Project Financing

County Counsel Concurrence

As to form: Yes

Other Concurrence: Debt Advisory Committee

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- a) Hold a public hearing in accordance with the Tax and Equity Fiscal Responsibility Act of 1982 and approve a public financing for the primary purpose of the design, acquisition and construction of improvements to the County's solid waste management system;
- b) Adopt a resolution authorizing the execution and delivery of a 2017 Installment Purchase Contract, a Trust Agreement and a Contract of Purchase; approving execution of an Assignment Agreement and Certificates of Participation to finance certain capital improvements to the solid waste system; approving an Official Statement for said Certificates of Participation; authorizing the execution and delivery of a Continuing Disclosure Agreement; and authorizing certain other actions in connection with the financing in an aggregate principal amount not to exceed \$155,000,000, a term not to exceed 25 years, a net interest cost not to exceed 5% per annum and an underwriting discount (exclusive of original issue discount) not to exceed 0.35%;
- c) Authorize the Treasurer-Tax Collector to abandon this issuance if market conditions are deemed financially unfavorable; and

- d) Determine that the above actions are government funding mechanisms and/or fiscal activities that are not a project under the California Environmental Quality Act (CEQA) pursuant to section 15378(b)(4) of the CEQA Guidelines.

Summary Text:

On June 24, 2016, the Debt Advisory Committee received an update on a proposed public financing model for the Tajiguas Resource Recovery Project (TRRP) and recommended that the Board of Supervisors approve pursuing financing of the TRRP through the issuance of Solid Waste Revenue Certificates of Participation (COPs). On July 12, 2016, the Board approved the contract for the TRRP and directed staff to pursue financing for the project. The proposed issuance of Solid Waste Revenue COPs are expected to consist of both taxable and tax-exempt bonds and would be for an aggregate principal amount not to exceed \$155 million, a term not to exceed 25 years, a net interest cost not to exceed 5% per annum and an underwriting discount (exclusive of original issue discount) not to exceed 0.35%.

As a practical matter, the Treasurer would not expect to exercise the authority to issue COPs without further Board direction if there are substantial changes to: market conditions; completion of “Conditions Precedent” in the contract with MSB Investors, Inc.; other significant project parameters; or the financing documents.

Background:

The Resource Recovery and Waste Management Division (RRWMD) of the Public Works Department is responsible for the management of solid waste resources in Santa Barbara County including the operation of the Tajiguas Landfill. The TRRP would modify operation of the existing Tajiguas Landfill to include the construction and operation of state of the art resource recovery facilities, including a Materials Recovery Facility (MRF) and an Anaerobic Digestion Facility (AD Facility) to further recover recyclable material, provide an alternative to burying organic waste, generate green energy, and significantly reduce greenhouse gas emissions.

Solid Waste Revenue COPs have been recommended by the County’s Financial Advisor, KNN Public Finance, LLC (KNN), as the appropriate financing structure necessary to fund the project. There is no obligation of the County’s General Fund to pay the debt service. The COPs are payable from installment payments made by the County from revenues of the solid waste system. It is expected that a rate stabilization fund and debt service reserve fund will be established as additional security on the financing.

On August 23, 2016, the Board authorized the Treasurer to submit an application to the Internal Revenue Service for an allocation of New Clean Renewable Energy Bond (CREB) Volume Cap for the TRRP. In September 2016, the County received an allocation of authority to issue up to approximately \$55 million of CREBs. This allocation will expire at the end of March 2017. CREBs are similar to the Recovery Zone Economic Development Bonds and the Qualified Energy Conservation Bonds that the County has issued in the past. They are taxable bonds that entitle the issuer to receive a direct subsidy payment from the US Treasury equal to the lesser of (i) the taxable rate of the bonds or (ii) 70% of the Tax Credit Rate on every semi-annual interest payment date. The subsidy is projected to reduce the net interest cost to an amount below that of tax-exempt interest. These bonds must be used for qualified

renewable energy facilities. The AD Facility, the Solar Energy Facility and other components of the TRRP are eligible to be financed with CREBs.

In addition to the TRRP, the proceeds of the Solid Waste COPs will also be used to pay certain costs of landfill closure, storm water improvements, and land acquisition.

The financing team is comprised of KNN as the Financial Advisor, Orrick, Herrington and Sutcliffe as special legal counsel, Stradling, Yocca, Carlson & Rauth as Disclosure Counsel, US Bank, NA as Trustee, Raymond James & Associates as the Senior Underwriting Manager, Stifel, Nicolaus & Company, Incorporated as Co-Manager, Citigroup Global Markets Inc. as Co-Manager, and HF&H Consultants, LLC as Feasibility Consultant as well as staff from the Treasurer-Tax Collector, Public Works, Auditor-Controller, County Counsel, and the County Executive Office.

Federal law provides a process for certain qualified facilities with non-governmental use to participate in a tax-exempt financing under Section 147(f) of the Internal Revenue Code. The Tax and Equity Fiscal Responsibility Act of 1982 (TEFRA), requires the legislative body of the local agency in which the project will be located to hold the TEFRA hearing in order for the bonds to be tax-exempt.

Even though approving the recommended actions before you today is the last step the Board must take for the financing, there are still other items the financing team must do before issuance of the COPs can occur, including, but not limited to:

- The RRWMD will undergo a thorough rating process with the municipal credit rating agencies in January 2017. The Solid Waste Revenue COP rating will be separate and distinct from the County's long-term General Fund debt rating.
- Information and COP documents are expected to be presented to the Santa Barbara County Finance Corporation in January 2017 for their authorization.

Fiscal and Facilities Impacts:

Annual debt service is required to be appropriated annually in the RRWMD's budget. Debt service will be paid semi-annually commencing in the 2016-17 fiscal year. There is no impact to the General Fund.

Fiscal Analysis:

Narrative:

An issuance of taxable and tax-exempt COPs in an amount not to exceed \$155 million, a term not to exceed 25 years and a net interest cost not to exceed 5% is proposed for approval. The interest rate will be fixed at the time of sale of the COPs. Based on current market conditions, the average coupon rate is expected to be 4.7%. Total gross debt service payments are approximately \$243 million with an average annual gross debt service of \$11.2 million. Through the use of taxable CREBs, the RRWMD will receive approximately \$28.0 million in interest subsidy payments from the Internal Revenue Service over the life of the COPs. The COPs are payable from installment payments made by the County from revenues of the solid waste system.

All numbers in the fiscal analysis section are current estimates and will be fixed at pricing based on the market conditions at that time.

Special Instructions:

Please return two full sets of signed resolutions to Kim Tesoro in the Treasurer-Tax Collector's office. The Treasurer's office will forward these documents to Special Counsel for inclusion with the closing documents.

Attachments:

- Attachment A. Resolution of the Board of Supervisors authorizing the execution and delivery of a 2017 Installment Purchase Contract, a Trust Agreement and a Contract of Purchase; approving execution of an Assignment Agreement and Certificates of Participation to finance certain capital improvements to the solid waste system; approving an Official Statement for said Certificates of Participation; authorizing the execution and delivery of a Continuing Disclosure Agreement; and authorizing certain other actions in connection with the financing.
- Attachment B. Installment Purchase Contract
- Attachment C. Trust Agreement
- Attachment D. Contract of Purchase
- Attachment E. Assignment Agreement
- Attachment F. Preliminary Official Statement
- Attachment G. Feasibility Study
- Attachment H. Continuing Disclosure Agreement

Authored by:

Kim Tesoro, Assistant Treasurer-Tax Collector, x2153

cc: