



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: County Executive
Office
Department No.: 012
For Agenda Of: November 18, 2008
Placement: Set Hearing – for
December 9, 2008
Estimated Tme: 45 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Michael F. Brown, County Executive Officer
Director(s)
Contact Info: William Brown, Sheriff-Coroner (681-4290)
Michael Harris, Emergency Operations Chief (681-5526)
Bob Nisbet, General Services Director (560-1011)
Greg Paraskou, Public Defender (568-3499)

SUBJECT: **Discretionary Facility Projects Tentatively Approved for FY 2008-09**

County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: N/A

Other Concurrence: Treasurer-Tax Collector, Risk
Management

Recommended Actions:

That the Board of Supervisors set a hearing on December 9, 2008 to:

- A. Receive status update on certain capital improvement projects currently in the design phase.
- B. Direct staff to proceed with these certain capital improvement projects as the Board determines appropriate.

Summary Text:

On July 1, 2008, the Board discussed four capital projects and directed staff to continue work on design, but to return prior to beginning construction and issuing Certificates of Participation (COPs).

The financial outlook of the County has changed for the worse since July 2008. The Board is receiving an update on four large-scale capital projects and whether or not to incur additional debt at this time. The economy is moving towards—or possibly is in—a recession; the County's financial outlook is bleak and the various budget challenges are beginning to become known with more certainty. The credit

markets have been in turmoil and lenders' confidence is down resulting in higher interest rates charged to government borrowers. Staff is returning to the Board prior to the point that projects are ready for construction to get Board direction on proceeding with these capital projects.

Background:

On January 15, 2008, the Board directed staff to proceed with preliminary design of the Betteravia Administration Building Expansion project and the Emergency Operations Center (EOC) and return in July in order to decide whether or not to proceed with the projects. On February 5, 2008 the Board similarly directed staff to proceed with design of the Public Defender Remodel project and the Sheriff's Technical Services Building and return in July with those projects for the same decision.

These primary capital projects are in various stages of design, as shown in the attached table. These are projects that have been brought back to the Board several times for various approvals. The last time was July 1, 2008. The Board voted at that time to proceed with each of the projects shown in the attached table and directed staff to return before beginning construction or beginning the issuance process for COPs.

When the County issued the 2008 COPs this past June, credit markets were already in turmoil but had not yet deteriorated to today's levels for municipal issuers. As investors watched events unfold, their confidence in the rating agencies relied upon to make assessments of quality became greatly diminished. Thus, assessments of risk became more and more difficult, resulting in uncertainty as to the value of securities being traded. In this environment municipal governments have been forced to consider paying yields greatly above those they had become accustomed to. One hundred additional basis points, (1.0%), or more, is not unusual at the current time. Many issuers have delayed issuances.

Potential Options:

In July 2008, the Board considered each project individually. Given the changes in the financial context since July, coupled with the differing opinions expressed regarding the immediacy, or the need of each individual project, there are a variety of options available. Below are four possible options for the Board's consideration:

- 1) Proceed with all, or some, of the projects as they are currently defined with the intention of issuing COPs to completely fund the projects sometime in 2009. The timing of the COP issuance would be based on the schedules of the projects, market conditions, and the sound financing principles already established by the Debt Advisory Committee (DAC).
- 2) Freeze the Betteravia Expansion and the Public Defender Remodel and only proceed with the Sheriff project and the EOC. Re-define the scope of the Sheriff project in order to limit the budget to the amount of funds available from the 2005 COP issuance (approximately \$4.4 million). No new COPs are issued under this option.
- 3) Freeze the Betteravia Expansion and the Sheriff project and shift the 2005 COPs from the sheriff project to the Public Defender Remodel in accordance with the latest DAC recommendation. Re-define the scope of the Public Defender project in order to limit the budget to the total amount of funds available (approximately \$5.15 million). No new

COPs are issued under this option.

- 4) Freeze all projects but the EOC, the only project fully funded, and shift the proceeds from the 2005 COPs issuance currently budgeted for the Sheriff project to the EOC thereby freeing up approximately \$4.4 million for placement into the County's Strategic Reserve. No new COPs are issued under this option (has not been considered by the DAC).

If it is still the Board's intent to issue COPs, staff recommends option 1. If the Board determines the financial climate is not ripe for a COP issuance, the Board should consider two issues: 1) the County is under a constraint to spend 85% of the total project 2005 COP proceeds within three years of issuance and 2) a project cannot be bid until fully funded. Therefore staff would recommend transferring the COP to fully fund a project that is ready to begin construction.

It should be noted that option 4 eliminates the 2005 COP 85% spending problem (Federal Arbitrage Rules) and frees up a substantial portion for funding saved for the EOC as a hedge toward further financial deterioration.

Fiscal and Facilities Impacts:

Budgeted: Partially.

See summary table attached (\$12.2 million is budgeted to be spent; \$14.2 million is not budgeted) If COPs were issued for the full amount shown in the above table (\$14.2 million), the debt service for a 20-year term would be approximately **\$1.7 million annually**. This figure assumes the normal 10% reserve requirement and issuance costs, an interest rate 1% higher than the recent COP issuance, and that the initial debt service payment would be deferred for one year. The actual gross amount borrowed would be around \$17 million.

Authored by:

Bob Nisbet, General Services

CC:

CEO Budget and Research