



**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:** 10/16/2018  
**Placement:** Departmental  
**Estimated Time:** 30 mins  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** 4/5

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**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: Jennifer C. Christensen, JD MBA CPFO CFIP  
Chief Investment Officer, Treasurer-Tax Collector, 568-2925  
Julie A. Hagen, CPA CPFO  
Deputy Director, Public Works, 568-3016

**SUBJECT: Tajiguas Resource Recovery Project Financing**

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**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 2018 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 \$180,000,000, a term not to exceed 25 years, a true interest cost not to exceed 5.5% and an underwriting discount (exclusive of original issue discount) not to exceed 0.50% of the aggregate principal amount of the Certificates;

- c) Authorize the Treasurer-Tax Collector to abandon this issuance if market conditions are deemed financially unfavorable;
- d) Approve Budget Revision Request No. 0006034 establishing appropriations in the amounts of \$8,585,000, \$235,060,000 and \$16,735,000 in Public Works respectively in the Resource Recovery Operations, TRRP Capital and TRRP Debt Funds for current year costs: TRRP Construction \$70,000,000, Stormwater Improvements \$1,200,000, Services & Supplies \$1,900,000 Costs of Issuance & Interest \$12,370,000 and increase in Retained Earnings \$174,910,000; and
- e) 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 October 1, 2018, the Debt Advisory Committee received an update on a proposed public financing model for the Tajiguas Resource Recovery Project (TRRP), as redesigned to be outside of the Coastal Zone, and recommended that the Board of Supervisors approve financing of the TRRP through the issuance of Solid Waste Revenue Certificates of Participation (COPs). On September 18, 2018, your Board approved the Third Amendment to the contract between the County of Santa Barbara and MSB Investors, LLC for Development and Operation of the TRRP with an estimate of financing for the project to be complete by November 30, 2018.

The proposed issuance of Solid Waste Revenue COPs is expected to consist of both taxable and tax-exempt bonds and would be for an aggregate principal amount not to exceed \$180 million, a term not to exceed 25 years, a true interest cost not to exceed 5.5% and an underwriting discount (exclusive of original issue discount) not to exceed 0.50% of the aggregate principal amount of the COPs.

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, LLC; other significant project parameters; or the financing documents.

There is no obligation of the County’s General Fund to pay the debt service.

**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.

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

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 October 2018. 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, Inc. on October 26, 2018 for their authorization.

#### SB 450 Notice

The following information is made available in accordance with recently enacted California legislation (Senate Bill 450 Chapter 625 of the 2017-2018 Session of the California Legislature) to provide certain public disclosures related to the 2018 Certificates. All figures are estimates and are subject to bond sale and market conditions:

- A. True Interest Cost of the COPs. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the true interest cost of the COPs, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the COPs, is 3.93%.
- B. Finance Charge of the COPs. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the finance charge of the COPs,

which means the sum of all fees and charges paid to third parties (or costs associated with the 2018 Certificates), is \$1,378,000.

- Cost of Issuance: \$799,700
- Underwriters' Discount: \$578,300

C. Net Proceeds of COPs. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the amount of proceeds expected to be received by the County for sale of the COPs less the finance charge of the COPs described in B. above and any reserves or capitalized interest paid or funded with proceeds of the COPs is \$143,080,000.

D. Total Payment Amount for the COPs. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the total payment amount, which means the sum total of all payments the County, through the payment of principal and interest, will make to pay debt service on the COPs plus the finance charge of the COPs described in paragraph B. above not paid with the proceeds of the COPs calculated to the final maturity of the COPs, is \$254,215,000.

#### **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 2018-19 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 \$180 million, a term not to exceed 25 years and a true interest cost not to exceed 5.5% is proposed for approval. The interest rate will be fixed at the time of sale of the COPs. Based on current market conditions, the true interest cost is expected to be 3.9%. Total gross debt service payments are approximately \$254.2 million with an average annual gross debt service of \$12.7 million. 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 Jennifer Christensen 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 1. Resolution of the Board of Supervisors authorizing the execution and delivery of a 2018 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 2. Installment Purchase Contract
- Attachment 3. Trust Agreement
- Attachment 4. Contract of Purchase
- Attachment 5. Assignment Agreement
- Attachment 6. Preliminary Official Statement
- Attachment 7. Feasibility Study
- Attachment 8. Continuing Disclosure Agreement
- Attachment 9. Budget Revision Request

**Authored by:**

Jennifer Christensen, Chief Investment Officer, x2925

**cc:**