



# Monterey County

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## Board Report

Legistar File Number: 14-754

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**Introduced:** 6/27/2014

**Version:** 1

**Current Status:** Agenda Ready

**Matter Type:** General Agenda Item

Adopt a resolution to approve a thirty-six month loan from the Workers' Compensation Internal Service Fund to the Information Technology Department to finance critical upgrades, equipment replacement, and seismic upgrades to 1590 Moffett Street in the amount of \$3,054,491; and, authorize the Director of ITD and the Risk Manager to sign the required loan agreement.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

Adopt a resolution to approve a thirty-six month loan from the Workers' Compensation Internal Service Fund to the Information Technology Department to finance critical upgrades, equipment replacement, and seismic upgrades to 1590 Moffett Street in the amount of \$3,054,491; and, authorize the Director of ITD and the Risk Manager to sign the required loan agreement.

SUMMARY AND DISCUSSION:

The Information Technology Department has identified critical upgrades, maintenance, and seismic improvements necessary to maintain the county systems. The plan calls for a 5 year implementation plan at a cost of approximately \$11,000,000. Expenditures required during Fiscal Year 2014-15 total \$4,240,225 which is offset by charges to departments reflected in the adopted budget of \$1,185,734, leaving a funding requirement of \$3,054,491. ITD identified third-party financing with a lease-type structure. The Capital Improvement Committee and Department Heads preferred leasing to spread the charges over the implementation period. However, provisions of the third party financing would require a vote pursuant to the California Constitution. Those financing agreements were structured to be a "master" agreement with each purchase of equipment constituting a separate "lease". Significant costs would have been incurred due to requirements for bond counsel opinions for each lease and higher than market rate imputed interest costs. When informed of the proposed third party financing, the CAO Budget Director and County Debt Manager provided alternative methods to finance the required improvements which would not require a vote.

The "Handbook of Cost Plan Procedures for California Counties" published by the State Controller in October 2012 states at 2250: ISF Loans, that an Internal Service Fund may make loans only to other county funds, subject to the following restrictions:

- 1) The loan must be recorded as an account receivable in the ISFs financial records;
- 2) The loan must be repaid with interest, and the interest computed at the same rate the ISF could have earned had the loan not taken place;
- 3) The period of the loan must not exceed 36 months;
- 4) The loan must not impact adversely on the ISFs current cash requirements;
- 5) The loan must be included in the measurement of the ISFs assets for actuarial purposes, and;
- 6) The loan agreement must include a clause that permits the ISF to demand accelerated repayment of all or any part of the loan if its cash requirements so dictate.

Further, if the loan made by an ISF is not fully repaid by the end of the loan period, the loan is

regarded as a "bad debt" and requires an immediate rebate to all grant programs from the county general fund.

Fund 476, Workers' Compensation Internal Service Fund ("ISF") currently has a balance of approximately \$58,700,000 and is an ISF. The resolution being considered today is to provide a 36 month loan from the Comp ISF to ITD for the capital outlays required in this Fiscal Year. The interest paid for that borrowing would approximate 0.50% (the net earnings on the County Pool) with no other costs of borrowing. The interest rate will reset each quarter with earnings that are computed for the County Pool, which could be higher or lower than the estimate. This will significantly reduce the overall cost of the required upgrades while leaving the ISF fully able to meet cash flow requirements. Additional ISF loans will be sought to cover expenditures related to the project in subsequent Fiscal Years.

Alternatively, Certificates of Participation could be issued with the ITD building as the leased asset to secure long term financing, however, significant costs would be associated with such an issuance which would greatly exceed the costs of the proposed financing structure.

OTHER AGENCY INVOLVEMENT:

The Auditor-Controller Department, CAO Budget Director, Risk Management, and the Information Technology Department were involved in developing and recommending this financing structure. County Counsel was responsible for creating the loan agreement, and reviewed this recommendation.

FINANCING:

Approval of this recommendation will provide significant savings to the overall cost of this critical project. Once approved, ITD will provide an update of the total costs of the project to the County.

Prepared by: Ron Holly, Chief Deputy Auditor-Controller, x5493

Approved by: Michael J. Miller, CPA, CISA, Auditor-Controller, x5084

Attachments:

ISF Loan Agreement

Excerpts from the Handbook of Cost Plan Procedures for California Counties

FY 2014-15 Project Cost Spreadsheet

Resolution