



# Monterey County

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## Board Report

Legistar File Number: WRAG 15-016

May 19, 2015

**Introduced:** 4/21/2015

**Version:** 1

**Current Status:** Agenda Ready

**Matter Type:** WR General Agenda

- a. Approve Budget Amendment No. 3 authorizing the Auditor-Controller to amend the Monterey County Water Resources Agency's FY 2014-15 Budget by transferring funds to cover the second annual SVWP Bond Debt Service payment in the total amount of \$2,137,863.
- b. Authorize the Auditor-Controller to amend the FY 2014-15 WRA Adopted Budget, Dept. 9300, Unit 8267, Fund 133 (SVWP Revenue Fund), Appropriation Unit WRA027, Account 6811, to increase appropriations by \$32,000 financed by available unassigned fund balance (4/5th vote required).

### RECOMMENDATION:

It is recommended that the Monterey County Water Resources Agency Board of Supervisors:

- a. Approve Budget Amendment No. 3 authorizing the Auditor-Controller to amend the Monterey County Water Resources Agency's FY 2014-15 Budget by transferring funds to cover the second annual SVWP Bond Debt Service payment in the total amount of \$2,137,863.
- b. Authorize the Auditor-Controller to amend the FY 2014-15 WRA Adopted Budget, Dept. 9300, Unit 8267, Fund 133 (SVWP Revenue Fund), Appropriation Unit WRA027, Account 6811, to increase appropriations by \$32,000 financed by available unassigned fund balance (4/5th vote required).

### SUMMARY/DISCUSSION:

When the Monterey County Financing Authority Series A Revenue Bonds ("Salinas Valley Water Project") were issued in 2008, the financing structure required that a reserve fund be set aside from issuance proceeds equivalent to the highest annual debt service required during the 30 year term of those bonds. That amount, \$2,189,250 is held by the custodian/trustee MUFG Union Bank, N. A. (formerly "Union Bank of California, N. A.") in the principal amount of \$2,189,250. Bond indentures prescribe that those funds be held for payment of the final debt service in 2037-38.

On August 7, 2008, a bidding auction for investment of those proceeds was orchestrated by BLX (formerly "Bond Logistics, Inc."), a subsidiary of Orrick, Herrington, and Sutcliffe LLP who served as bond counsel for the issuance. Rabobank won the Guaranteed Investment Contract ("GIC") with a bid of 4.851% over the term of the bonds. The interest received semi-annually from the GIC provided revenue to WRA which decreased debt service payments since that time.

Bond indentures specified allowable investments of reserve fund proceeds to comply with IRS regulations regarding tax exempt bonds. Those restrictions disallowed investments with maturities in excess of 5 years; therefore the immediately liquid nature of a GIC provided the best return available on those funds. Investment providers are limited to banks with ratings at or above AA- by Standard and Poor's (and other similar ratings from Moody's and Fitch). On November 5, 2014, S&P lowered the Rabobank rating to A+ which triggered the remedy provisions detailed

at Section 5.1 of the GIC. Those remedies, which were at the providers' (Rabobank) discretion included transfer to another adequately, rated institution, collateralization of the investment, or liquidation of the investment. Because interest rates are at historical lows, no institutions would accept a transfer to pay 4.851% when they can obtain funds at 0.25% or lower, so that was not an option. Rabobank was unwilling to put up 125% of the balance in collateral for the same reason. Therefore, the GIC was terminated and the funds returned to the custodian whom placed the balance in Money Market Funds earning very little interest - .01%. This reduction in earnings has negatively impacted the budget for debt service of WRA. The interest rate decrease from 4.85% to .01% results in an annual loss of \$105,981.59. Ron Holly, Chief Deputy Auditor-Controller of Debt Management is currently investigating other investment opportunities that yield a higher rate of return.

This action authorizes the Auditor-Controller to amend the FY 2014-15 WRA Adopted Budget, Dept. 9300, Unit 8267, Fund 133 (SVWP Revenue Fund), Appropriation Unit WRA027, Account 6811, to increase appropriations by \$32,000 financed by available unassigned fund balance.

OTHER AGENCY INVOLVEMENT:

WRA Board of Directors.

FINANCING:

The Agency's SVWP Revenue Fund 133 has sufficient assigned fund balance to cover this transfer.

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Approved by: \_\_\_\_\_  
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