



Legislation Details (With Board Report)

File #:	15-0416	Name:	Report on Debt Service Analysis & Recommendation for Cap Impvmt Projects
Type:	General Agenda Item	Status:	Agenda Ready
File created:	4/22/2015	In control:	Budget Committee
On agenda:	4/29/2015	Final action:	
Title:	Receive Debt Service Analysis and Recommendation for Capital Improvement Projects.		
Sponsors:			
Indexes:			
Code sections:			
Attachments:	1. ATTACHMENT A - Annual Debt Service - \$52M without reserve, 2. ATTACHMENT B - Annual Debt Service \$52M w reserve		

Date	Ver.	Action By	Action	Result
4/29/2015	1	Budget Committee		

Receive Debt Service Analysis and Recommendation for Capital Improvement Projects.

RECOMMENDATION:

It is recommended that the Budget Committee receive Debt Service Analysis and recommendation for Capital Improvement Projects.

SUMMARY:

The Monterey County Capital Improvement Committee ("CIC") determined that rehabilitation of the East and West Wings of the Courthouse at an estimated cost of \$36 million and completion of tenant improvements at Schillings Place at an estimated cost of \$16 million were priorities. As such, the County Debt Manager obtained the debt service scenarios for issuance of Certificates of Participation in the amount of \$52 million. In order to provide for proper comparison, debt service would begin after January 1, 2016. The County could opt to pay interest only for the first three years, pay level debt service, include capitalized interest for FY 2016, and include capitalized interest thru FY 2017.

DISCUSSION:

COPs are essentially the securitization of capital leases which do not count toward constitutionally imposed debt limitations. Properties, in this case the entire Schillings complex and the East and West Wings, are transferred to the Monterey County Public Improvement Corporation, which then leases those properties to the County. The leases contain an "Abatement Clause" which states that should the properties become uninhabitable for any reason, the County is not required to appropriate lease payments until those buildings become usable. Once the debt has been paid, the properties revert back to the County.

Attachment A shows annual debt service for the four options based on an issuance prior to June 30, 2015, with the lowest annual debt service approximating \$2,950,000 based on the level debt service option. The option of paying interest only for the first three years reduces that amount to approximately \$2,282,750 for those three years, but then escalates to approximately \$3,085,000 for the remainder of the term. Issuing with capitalized interest for FY2016 increases the issuance amount by \$1,354,179 and through FY2017 by \$3,865,708. Rates vary daily and throughout each day. Had bonds been issued on April 17, 2015, the overall interest rate available to the County would have been approximately 3.88% based on similarly rated and sized issues sold

that day.

Provisions of securities law require a reserve fund equal to the highest annual debt service when bonds are issued during the first six months of the fiscal year. Depending on which scenario is selected, Attachment B shows the reserve amount ranges from \$3,125,875 to \$3,423,500. The reserve fund amount is added to the amount borrowed. Interest is paid on that amount throughout the 30 year amortization at the rate obtained on the sale date. The proceeds of the reserve fund are restricted as to investment. Currently, earnings available from allowed investments are returning less than 0.10%, creating negative arbitrage reflected in the cost of borrowing.

Approximately a year ago, the County Debt Manager conducted an RFP which resulted in the selection of Barclays Public Finance as the underwriter for a COP issuance for Schilling Place. Barclays traders in New York indicate that municipal bond buyers are seeking only premium bonds. As a result, the par values shown on the two attachments are significantly less than the required project fund amount.

Should the Budget Committee and the full Board determine it in the best interests of the County to finance the recommended capital improvements, it is suggested that every effort is made to complete the issuance prior to fiscal year end to alleviate the negative arbitrage related to the reserve fund. Yields available on AA rated municipal bonds are at historic lows and are predicted to rise significantly by September 2015. The selection of which of the four options is strictly a budgetary decision.

OTHER AGENCY INVOLVEMENT:

The County Administrative Office - Budget and Analysis and Economic Development has reviewed this recommendation

FINANCING:

All costs of issuance are taken from bond proceeds; therefore the debt service schedule indicated the financial impact to the County. In addition to debt service, annual trustee, paying agent, and arbitrage rebate consultant fees will approximate \$3,500.

Ron Holly
Chief Deputy Auditor-Controller

Attachments:

Attachment A - Annual Debt Service - \$52M w/o Reserve

Attachment B - Annual Debt Service - \$52M w/Reserve