



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: 15-0437, Version: 1

Grant Debt Manager authority to execute documents to facilitate the issuance of Certificates of Participation to finance tenant improvements at Schilling Place and to rehabilitate the East and West Wings of the Courthouse in an amount not to exceed \$52,500,000. (ADDED VIA ADDENDUM)

RECOMMENDATION:

It is recommended that the Board of Supervisors:

Grant Debt Manager authority to execute documents to facilitate the issuance of Certificates of Participation to finance tenant improvements at Schilling Place and to rehabilitate the East and West Wings of the Courthouse in an amount not to exceed \$52,500,000.

SUMMARY:

The Monterey County Capital Improvement Committee ("CIC") and the Monterey County Budget Committee ("BC") 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 are priority projects and that said projects should be financed through the issuance of Certificates of Participation ("COPs"). The County Budget Office has identified funds to cover the approximate debt service requirement of approximately \$1.33 million during FY 2016 for a level debt service amortization. Maximum annual debt service during the 30 year term will approximate \$2.95 million, depending on market conditions at the date of sale.

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.

Pursuant to an RFP sent to the County's approved underwriter pool, Barclays Public Finance was selected to handle the COP issuance related to the Schilling Place acquisition. The letter of intent designating Barclays as the senior managing underwriter was dated June 11, 2014 (Attachment A). Interest rates and market conditions change continually, therefore exact figures for debt service and over all interest rates will not be known until bonds are sold. 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. Barclays traders in New York indicate that municipal bond buyers are seeking only premium bonds. As a result, the par values shown on Attachment B are significantly less than the required project fund amount of \$52 million. Yields available on AA rated municipal bonds are at historic lows and are predicted to rise significantly by September

2015. The selection of level debt service from the four options was strictly a budgetary decision which captures the lowest overall cost to the County.

OTHER AGENCY INVOLVEMENT:

The County Budget Office, Resource Management Agency, the CIC, the BU, and the Auditor-Controller have been involved in the review of the refunding and concur with recommended actions.

FINANCING:

The COP issuance will obligate the County to pay approximately \$1.34 million in FY 2016 in debt service, and annual debt service for the next 29 years of approximately \$2.95 million. The exact amount of annual debt service obligation cannot be determined until pricing. In addition to debt service, annual trustee, paying agent, and arbitrage rebate consultant fees will approximate \$3,500.

Prepared by:

Approved by:

Ron Holly
Chief Deputy Auditor-Controller

Michael J. Miller
Auditor-Controller

Attachments:

A - Barclays Senior Managing Underwriter Letter

B - Debt Service Scenario Options as of April 17, 2015