

County of Contra Costa
OFFICE OF THE COUNTY ADMINISTRATOR
MEMORANDUM

DATE: JUNE 1, 2015

TO: FINANCE COMMITTEE

FROM: TIMOTHY M. EWELL, Senior Deputy County Administrator

SUBJECT: **PROPOSED 2015 LEASE REVENUE BOND ISSUANCE**

The purpose of this memorandum is to provide the Contra Costa County Finance Committee (the "Committee") with information relating to the potential issuance of the Authority Lease Revenue Bonds (Refunding and Capital Projects) Series 2015A and 2015B.

Summary: The County has two new projects to finance, approximately \$6 million in solar panels and approximately \$14 million to expand the Behavioral Health and Medical Clinic at the West County Clinic. In addition, a portion of the Authority's existing Lease Revenue Bonds can be refunded in the current market for debt service savings.

In the current market, the Authority could issue approximately \$18,800,000 of fixed rate Series 2015A Bonds (the "2015A Bonds") to finance the acquisition and installation of solar panels and to fund the construction, acquisition, installation and equipping of the Behavioral Health and Medical Clinic. The Authority could issue approximately \$45,135,000 of fixed rate Series 2015B Bonds (the "2015B Bonds") to refund a portion of the Authority's outstanding Lease Revenue Bonds issued under the 1999 Trust Agreement for debt service savings.

- 2015A Bonds:
 - Solar Panels Project- The Authority would finance approximately \$6,000,000 in project funds for the solar panels. The bonds would have level debt service and amortize over 10 years, with principal paid from 2016 through 2025.
 - Behavioral Health and Medical Clinic Expansion- The Authority would finance approximately \$14,000,000 in project funds for the medical clinic expansion. These bonds would have a 20-25 year final maturity with level debt service and principal paid from 2018 through 2035-2040. Bond counsel has advised that no principal should amortize until expected completion of the project.

The estimated debt service based on current market rates for the 2015A Bonds is shown on the next page. For illustrative purposes, we have assumed a final maturity date of 2035 on the Clinic Expansion portion of the 2015A Bonds.

Period Ending	2015A Bonds		
	Principal (\$)	Interest (\$)	Debt Service (\$)
6/1/2016	390,000	647,233	1,037,233
6/1/2017	475,000	776,725	1,251,725
6/1/2018	995,000	762,475	1,757,475
6/1/2019	1,025,000	732,625	1,757,625
6/1/2020	1,065,000	691,625	1,756,625
6/1/2021	1,115,000	649,025	1,764,025
6/1/2022	1,165,000	593,275	1,758,275
6/1/2023	1,225,000	535,025	1,760,025
6/1/2024	1,285,000	473,775	1,758,775
6/1/2025	1,350,000	409,525	1,759,525
6/1/2026	720,000	342,025	1,062,025
6/1/2027	755,000	306,025	1,061,025
6/1/2028	790,000	268,275	1,058,275
6/1/2029	830,000	228,775	1,058,775
6/1/2030	855,000	203,875	1,058,875
6/1/2031	885,000	173,950	1,058,950
6/1/2032	920,000	142,975	1,062,975
6/1/2033	950,000	109,625	1,059,625
6/1/2034	985,000	75,188	1,060,188
6/1/2035	1,020,000	38,250	1,058,250
Total	18,800,000	8,160,271	26,960,271

- 2015B Bonds:
 - The 2015B Bonds would be structured with uniform savings by refunded series, and based on current market conditions would include all or a portion of the following outstanding Lease Revenue Bonds:

<i>Issue</i>	<i>Maturities to be Refunded</i>	<i>Call Date</i>	<i>Refunded Principal (subject to change)</i>
<i>Series 1999A</i>	2016-2028	Within 30 days	\$11,240,000
<i>Series 2002A</i>	2016	Within 30 days	\$575,000
<i>Series 2002B</i>	2016-2019	Within 30 days	\$5,350,000
<i>Series 2003A</i>	2016-2017	Within 30 days	\$1,565,000
<i>Series 2007A</i>	2018-2028	6/1/2017	\$41,150,000

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funding savings are dependent on market rates and the savings available from a refunding of the 2007A Bonds are particularly rate sensitive, given that the call date is two years in the future. Based on current market rates, only the 2020 through 2026 maturities of the 2007A Bonds would be refunded. Debt service and annual debt service savings for the 2015B Bonds is shown below.

Period Ending	2015B - Refunding Bonds			Savings
	Principal (\$)	Interest (\$)	Debt Service (\$)	(\$)
6/1/2016	4,155,000	1,619,063	5,774,063	279,604
6/1/2017	2,615,000	1,879,400	4,494,400	321,015
6/1/2018	1,890,000	1,800,950	3,690,950	292,515
6/1/2019	1,985,000	1,744,250	3,729,250	297,853
6/1/2020	5,965,000	1,664,850	7,629,850	361,613
6/1/2021	6,205,000	1,426,250	7,631,250	360,463
6/1/2022	5,665,000	1,116,000	6,781,000	355,463
6/1/2023	5,935,000	832,750	6,767,750	359,963
6/1/2024	2,825,000	536,000	3,361,000	356,375
6/1/2025	2,975,000	394,750	3,369,750	361,625
6/1/2026	3,115,000	246,000	3,361,000	360,900
6/1/2027	880,000	90,250	970,250	121,250
6/1/2028	925,000	46,250	971,250	120,750
Total	45,135,000	13,396,763	58,531,763	3,949,387

A summary of the proposed issuance is provided in the table below.

Financing Results - Rates as of 5/27/2015

Series	2015A	2015B	Combined
Par Amount	18,800,000	45,135,000	63,935,000
Net Proceeds	20,000,000	50,653,103	70,653,103
All-in TIC	3.40%	2.72%	2.98%
Escrow Yield		0.46%	
NPV Savings (\$)		3,322,288	
NPV Savings (%)		6.94%	
Refunded Par		47,870,000	

1999 Trust Agreement: All of the potential refunded bonds were issued pursuant to the 1999 Trust Agreement. Under that Trust Agreement, the County is able to purchase out and release specific leased assets by prepaying base rental payments associated with those assets. Any amendment of the lease is subject to consent of the bond insurer, National Public Finance Guarantee ("NPFG"). Based on preliminary conversations with NPFG and the current market rates, we believe that the County we be able to release the assets listed in the table below from the 1999 Trust Agreement.

Assets Targeted for Release from 1999 Trust Agreement	Address	Final Lease Maturity	Insured Value	Targeted for 2015 Trust Agreement
Data Processing Building	30 Douglas Drive, Martinez	2019	\$5,991,706	Yes
Forensic Science Center	1960 Muir Road, Martinez	2019	6,364,587	Yes
Health Services Building	595 Center Street, Martinez	2019	10,071,560	Yes
Public Works Department Administration	255 Glacier Drive, Martinez	2019	14,324,884	Yes
Juvenile Detention Facility	202 Glacier Drive, Martinez	2028	37,654,105	Yes
East County Social Services Building (released in 2008)	4545 Delta Fair Blvd, Antioch	2008	10,074,972	Yes
Four Buildings at Central Contra Costa County Public Works Yard	2475, 2479 & 2483 Waterbird Way and 4785 Blum Road, Martinez	2019	4,476,224	No
Summit Centre	2530 Arnold Drive, Martinez	2026	26,515,465	No
Total			\$115,473,503	

Assuming the above assets are released, they will then be available to secure the 2015A and 2015B Bonds. The 2015A and 2015B Bonds would be issued under a new 2015 Trust Agreement. As with the Authority's existing Lease Revenue Bonds, the total value of the leased facilities must equal or exceed the par amount of the bonds and the fair market rental value of the leased facilities must equal or exceed the annual debt service payments on the bonds. The 2015A and 2015B Bonds are not expected to have level overall debt service because the two new money projects have different amortization periods and the refunded bonds do not have level debt service. As such, the intention would be to secure the 2015A and 2015B Bonds with several assets, with various lease maturity dates based on the shape of the 2015A and 2015B debt service. Under current market conditions, it is expected that the Authority could issue the new money and refunding bonds using solely the assets released from the 1999 Trust Agreement. In addition, the Authority may be able to release Summit Centre entirely. The assets that are targeted for inclusion in the 2015 Trust Indenture are indicated in the far right column of the table above.

However, given volatile market conditions, the County would need to be prepared to secure additional assets in the case that the size of the refunding decreases and adequate assets are not released. In this case, the proposed assets to add to the financing are listed below.

Potential Leased Assets	Address	Insured Value
Animal Services Building	4800 Imhoff Place, Martinez	\$14,715,621
Sheriff's Field Operations Bureau	1980 Muir Road, Martinez	\$6,078,947

All of the above results are subject to market conditions at the time of financing. It is also important to note that the results above assume that the 2015A and 2015B Bonds are issued without a reserve fund. Piper Jaffray, the proposed underwriter for the bonds, has recently advised that based on recent market issuances the County may need to issue a reserve for the 2015A and 2015B Bonds. Preliminary analysis indicates that a cash funded reserve would significantly reduce savings on the 2015B Bonds due to the low reinvestment rates available in the current market. Additional options, including the use of a standalone surety policy are currently being explored.

It is recommended that the Committee move forward with the proposed financing and that the documentation and potential leased assets preserve the flexibility to respond to the current market's volatile conditions.