



Contra
Costa
County

To: Board of Supervisors
From: Anna Roth, Health Services Director
Date: October 19, 2021

Subject: West Contra Costa Healthcare District Bond Refunding

RECOMMENDATION(S):

Acting as the West Contra Costa Healthcare District:

1. ACKNOWLEDGE that refunding outstanding 2018 and 2019 District revenue bonds could save \$7 million over the life of the bonds.
2. ADOPT Resolution No. 2021/331 authorizing certain District officers and officials to direct the preparation of preliminary bond documents for the refunding option for the outstanding 2018 and 2019 District bonds that results in the greatest overall net benefit to the District, including savings and other factors.
3. AUTHORIZE payment for underwriter fees, bond counsel, financial advisors, rating agency fees and related items in an amount not to exceed \$555,000 upon successful completion of the bond placement.

☒ APPROVE

☐ OTHER

☒ RECOMMENDATION OF CNTY

☐ RECOMMENDATION OF BOARD

ADMINISTRATOR

COMMITTEE

Action of Board On: **10/19/2021** ☒ APPROVED AS RECOMMENDED ☐ OTHER

Clerks Notes:

VOTE OF SUPERVISORS

AYE: John Gioia, District I Supervisor
Candace Andersen, District II Supervisor
Diane Burgis, District III Supervisor
Karen Mitchoff, District IV Supervisor
Federal D. Glover, District V Supervisor

I hereby certify that this is a true and correct copy of an action taken and entered on the minutes of the Board of Supervisors on the date shown.

ATTESTED: October 19, 2021

Monica Nino, County Administrator and Clerk of the Board of Supervisors

By: Stacey M. Boyd, Deputy

Contact: Patrick Godley,
925-957-5405

RECOMMENDATION(S): (CONT'D)

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FISCAL IMPACT:

Likely debt service savings of more than \$7 million over the life of the bonds.

BACKGROUND:

On September 30, 2021, the District Finance Committee met and considered refinancing the District's existing debt. Refinancing the existing debt will result in an estimated savings of approximately \$7 million over the life of the bond term, based on current market conditions, which can change until we sell bonds. The Finance Committee approved the concept and recommended approval to the full District Board.

The District has two outstanding revenue bonds that are secured by and repaid from the District's parcel taxes:

1. 2018 Bonds (\$15,015,000 original principal amount sold to Pacific Western Bank at 3.625% with a final maturity of July 1, 2028)
2. 2019 Bonds (\$20,254,500 original principal amount sold to Pacific Western Bank and \$20,254,500 original principal amount sold to Western Alliance Business Trust both initially at a taxable rate of 5.00% that have been converted to a tax-exempt rate of 4.125% earlier this year, both with a final maturity of July 1, 2042).

Both the 2018 Bonds and the 2019 Bonds (the "Outstanding Bonds") are callable on any interest payment date, at par, with no prepayment penalty. The first interest payment date the District can refund the Outstanding Bonds is January 1, 2022. As such, we can issue refunding bonds to currently refund the Outstanding Bonds sometime between October 3, 2021, and December 31, 2021, so the refunding would qualify as a current refunding and be eligible as a tax-exempt obligation. There is a required written notice of redemption to current bond holders by the Trustee that must be provided by the Trustee no less than 30 days prior to the redemption date.

Since the Outstanding Bonds were sold, interest rates have declined, and the District's credit profile has improved. The combination of these two factors combined with the favorable prepayment (optional redemption) provisions associated with the Outstanding Bonds has created an opportunity to generate substantial debt service savings by refunding the Outstanding Bonds. If the January 1, 2022 date cannot be met the next available redemption date is July 1, 2022, and the current desired low interest rate may not be available.

FINANCING OPTIONS:

PRIVATE PLACEMENT:

Private Placement Proposal, as revised, received October 8, 2021, from Umpqua Bank:

- Callable at any time with a call premium that starts at 3% and declines to 0% in 10 years.
- Total savings are \$7.1 million gross and \$5.8 million on a net present value basis which is over 11.5% of the Outstanding Bonds par amount.

PUBLIC OFFERING:

- WCCHCD can access the public bond market.
- Based on our meeting with Moody's Investors Service, we are still waiting to be notified by Moody's what publicly offered bonds would be rated.
- Based on a Baa1 rating from Moody's estimated total savings are \$8.3 million and \$6.7 million on a net present value basis which is over 13.3% of the Outstanding Bonds par amount.

RISKS AND ADDITIONAL COSTS OF A PUBLIC OFFERING:

- Additional management time and effort to prepare disclosure documents and maintain a rating as well as requirements to provide ongoing public disclosure of the District's financial information and disclosure of parcel tax background and history.
- A longer optional call feature with bonds unlikely to be callable until July 1, 2031.
- More interest rate risk due to approximately one month longer period before the District can lock in the interest rate with a public offering as compared with a private placement. This added risk with a public offering could reduce savings in an increasing interest rate environment, as is currently the case.

DUAL TRACK PROCESS:

- Continue to pursue the private placement option for a lower interest rate.
- Explore the public offering which commences with Moody's to initiate an updated rating.

At their October 14, 2021 meeting, the Debt Affordability Advisory Committee authorized the district to proceed to the Board of Supervisors with the public offering.

CONSEQUENCE OF NEGATIVE ACTION:

Failure to act could result in \$7 million in lost savings.

ATTACHMENTS

Resolution 2021/331

Rating Agency Presentation