



County of El Dorado

Chief Administrative Office

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July 22, 2016

To: Board of Supervisors

From: Don Ashton, Chief Administrative Officer

Re: Approval of USDA Final Loan Application - Public Safety Facility Project

DEPARTMENT RECOMMENDATION

Chief Administrative Office recommending the Board:

1. Hold a public hearing on the County's intent to submit an application for \$60.7 million to the U.S. Department of Agriculture (USDA), Rural Development, under the Community Facility loan and grant program, to fund the Public Safety Facility Project.
2. Adopt the attached resolution #XXX certifying approval for El Dorado County to file the final application with the USDA, and authorize the Chairman of the Board to sign the Resolution and related documents, as required by the USDA.
3. Approve and authorize the Chief Administrative Officer to sign a contract with Capitol Public Finance Group in the amount of \$65,000 to provide municipal financial advisory services that will assist the County to obtain interim financing for the construction phase of the Public Safety Facility Project.

FUNDING: General Fund

DISCUSSION / BACKGROUND

In 2013 Vanir Construction Management prepared *The Sheriff's Operational Assessment and Facility Study* which outlined Sheriff's Office capital facility uses and current and future needs. One critical element identified in the Study was replacement of the 22,314 square foot Sheriff's Administration building that was at the end of its useful life. Subsequently, the Board of Supervisors identified replacement of the Sheriff's Administration facility as a top priority for the County, and agreed to consider consolidation of other Sheriff functions, currently operating out of thirteen other facilities, into one new replacement facility.

On March 8, 2016, the Board of Supervisors signed Resolution 043-2016 certifying the Environmental Impact Report (EIR) for the full scope of the Public Safety Facility Project and authorized the payment of approximately \$2.65 million for the acquisition of 30.73 acres of land for the new public safety facility site. The parcel is located in the Diamond Springs area of unincorporated El Dorado County at Industrial Drive. The Public Safety Facility Project will be located on approximately 12 acres of this parcel with the intent to install a separate Solar Farm located on an additional 7 acres.

On April 19, 2016, the Board directed staff to proceed with filing the final United States Department of Agriculture (USDA) loan application, intended to finance the Public Safety Facility Project's construction. On November 18, 2015, the USDA indicated that the County's pre-application proposal met USDA basic eligibility requirements for financial assistance through the Community Facilities Program. When the USDA pre-application was submitted, staff had broadly identified the scope of the Public Safety Facility Project and related costs. The USDA's final application requires detailed Project and costing information, proof of completion of the environmental review process, as well as a General Fund historical and projected financial feasibility analysis.

On June 14, 2016, the Board approved the FY 2016-17 Recommended Budget, which will be included in the USDA final application. During the budget presentation, Laura Schwartz, Chief Budget Officer, presented a *5 Year General Fund Budget Projection* schedule to provide the Board with a general overview of the County's financial outlook for the next few fiscal cycles, given fiscal assumptions at that time. These figures forecasted funding deficits in FY 2018-19 through FY 2020-21 and did not include loan payments for the Public Safety Facility Project.

On June 28, 2016, the Board directed staff to revise the *5 Year General Fund Budget Projection* schedule to include interim finance costs and loan payments, and to reflect anticipated operating efficiencies that will balance forecasted budgets, as required by external financing and the USDA application. To balance the forecasted budgets, staff has made revisions to future expenditures, reflecting constrained growth in the salary and benefits section of the budget, and has maintained essentially the same assumptions regarding future General Fund revenue increases as previously provided. The revised *5 Year General Fund Budget Projection* schedule demonstrates the County's ability to annually appropriate the annual loan payment, and to ultimately repay the loan. Based on the Board's approval of the project scope, the budget schedule has been updated to reflect the Project cost, USDA loan, and corresponding payment amounts.

On July 11, 2016, the Board of Supervisors approved the Project Scope, including overall plan, design, and estimated construction cost, for the Public Safety Facility Project. The Project, as approved, will replace the Sheriff's current Essential Services Headquarters facility and Evidence Storage Building, as well as provide a new Training Facility, an Indoor Shooting Range, and a Morgue. The Board approved the estimated cost and loan amount of \$60.7 million. The Board also directed staff to complete the USDA final loan application with the approved \$60.7 million project cost and estimated annual loan payment of \$2.63 million per year; to pursue the construction of the facility using the design-build project delivery method; and to pursue interim financing for the Project construction period.

Project Description

As approved by the Board of Supervisors on July 11, 2016, the Public Safety Facility Project is to construct approximately 99,024 square feet of facility space in a campus setting to address current and future needs of the Sheriff's Office. At build out, the Project will include a Headquarters Building, an Evidence Storage Building, a Training / Special Operations Building, an Indoor Gun Range, and a Morgue. Please see the Sheriff's staff report for additional detail regarding the various buildings (July 11, 2016, Attachment 3B).

Architectural Nexus (Arch Nexus) has prepared design schematics, cost estimates, and construction timeline projections for the Public Safety Facility Project. The square footage requirements for the Project reflect a 20+ year expansion factor using historical Sheriff's Office trending data for staffing, county demographics, proposed county development, and forecasted future service delivery needs.

Design Build

On July 11, 2016, the Board of Supervisors approved moving forward with the design-build method of project delivery. Construction costs quoted for the Project are based on the use of this project delivery method.

Interim and Permanent Financing

As required by the USDA, the County will need to obtain interim financing for the construction phase of the Project. This interim financing will be through a Grant Anticipation Note or similar type of Note financing, which will last through the completion of construction (up to 3 years). The USDA loan will be held as collateral since the funds will be appropriated at the Federal level. The cost of issuance for this interim financing (including costs for bond counsel, underwriters, financial advisors, etc.) is estimated at \$420,000. As discussed in a previous presentation, rating by a credit rating agency may be required for this interim financing.

Upon completion of construction, the USDA will "take out" the full remaining value of the interim financing. At that time, the County's obligation to repay the USDA loan will take the form of a lease, evidenced through the issuance of Certificates of Participation (COP). The lease payments are payable from the County's General Fund, requiring an annual appropriation of funds that match the debt service on the USDA loan. The lease obligation evidenced by a COP is not considered a debt within the meaning of the California Constitution, and therefore does not require voter approval, because the payments will be subject to abatement in the event of casualty that causes a loss of use and occupancy of the Facility. As part of the COP, the County will also be required to establish a reserve account equal to one annual payment. Currently, \$2.2 million has been set-aside for the Project in the FY 2016-17 Recommended Budget. These funds may be used to satisfy the reserve requirement or, if deemed necessary, may be used to apply towards the County's cash requirements for the construction of the facility. The first payment on the USDA loan will begin one year after the USDA takes over the lease obligation.

USDA interest rates are adjusted quarterly and the interest rate for July 1 through September 30, 2016, is 2.75%. The attached USDA loan application has been prepared for a 40 year term, allowing for the annual payment as presented and approved on July 11, 2016.

The County could be required to contribute up to 15% of the project cost as matching funds; however, it is possible that a lower match amount could be approved by the USDA. Purchase of the site and some consultant contract costs will be applied to the match requirement.

As noted in prior report, the loan approval process is expected to take several months to complete, potentially concluding in September or October of 2016. Once the USDA Final Application is submitted, the actual review timeframe will be completely dependent on USDA. Furthermore, the timeline for approval of the Federal budget could impact the actual appropriation of funds, which is required in order to execute the interim financing.

Construction Timeline

The following is a tentative project schedule assuming a design build method:

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| ○ BOS Project Approval | July 11, 2016 |
| ○ BOS Loan Application Approval | July 26, 2016 |
| ○ Bridging Documents Complete | October 2016 |
| ○ USDA Loan Approved* | October 2016 |
| ○ Design-Build Contract Selection Process | Sept. 2016 – Feb 2017 |
| ○ Design-Build Contract Awarded | March 2017 |
| ○ Construction | Aug. 2017 – Feb. 2019 |
| ○ Occupancy | March 2019 |

*Dependent on local and national approval of USDA application

Current Recommendation

The Chief Administrative Office recommends the Board open the noticed Public Hearing to provide members of the public with the opportunity to evaluate and comment on the County's intent to submit the application in the amount of \$60.7 million to the U.S. Department of Agriculture (USDA), Rural Development.

Upon close of the Public Hearing, it is recommended that the Board adopt the attached Resolution authorizing the County to file the application for funding with the USDA. The USDA loan application is incorporated as Exhibit 1 to the Resolution. It is also recommended that the Board approve the professional service agreement identified in item #3 for financial advisory services related to the interim financing, which is necessary to fund the construction phase of the project.

Staff will return to the Board in the coming months with recommendations to approve a contract with Architectural Nexus for development of the bridging documents, and for approval of a contract for construction management services.

ALTERNATIVES

The Board could decide to defer one or more of the requested actions; however, such action would delay construction of the project.

OTHER DEPARTMENT / AGENCY INVOLVEMENT

Facilities Finance Committee, County Counsel, Sheriff's Department

FINANCIAL IMPACT

The financing and construction of the Public Safety Facility Project is a significant financial commitment. Over the term of the 40 year loan, creditors will require the County to annually appropriate the loan payment amount and, further, set aside a reserve account that equates to one annual loan payment. As noted above, \$2.2 million has been set-aside for the Project in the FY 2016-17 Recommended Budget. These funds may be used to satisfy the reserve requirement or, if deemed necessary, may be used to apply towards the County's cash requirements for the construction of the facility.

Staff recommends that the Board direct as much funding as possible toward the Public Safety Facility Project in each of the construction years in an effort to reduce the final loan and annual payment amounts, which would then limit the size of the future budget constraints that would be necessary.

CLERK OF THE BOARD FOLLOW UP ACTIONS

Certification of the Resolution, and provide copy to Chief Administrative Office for inclusion in final loan application.

STRATEGIC PLAN COMPONENT

Infrastructure; Public Safety

CONTACT

Shawne Corley
Russ Fackrell
Laura Schwartz

