

County of El Dorado



Funding New Sheriff's Facility



Presented by Lori Raineri
November 10, 2014

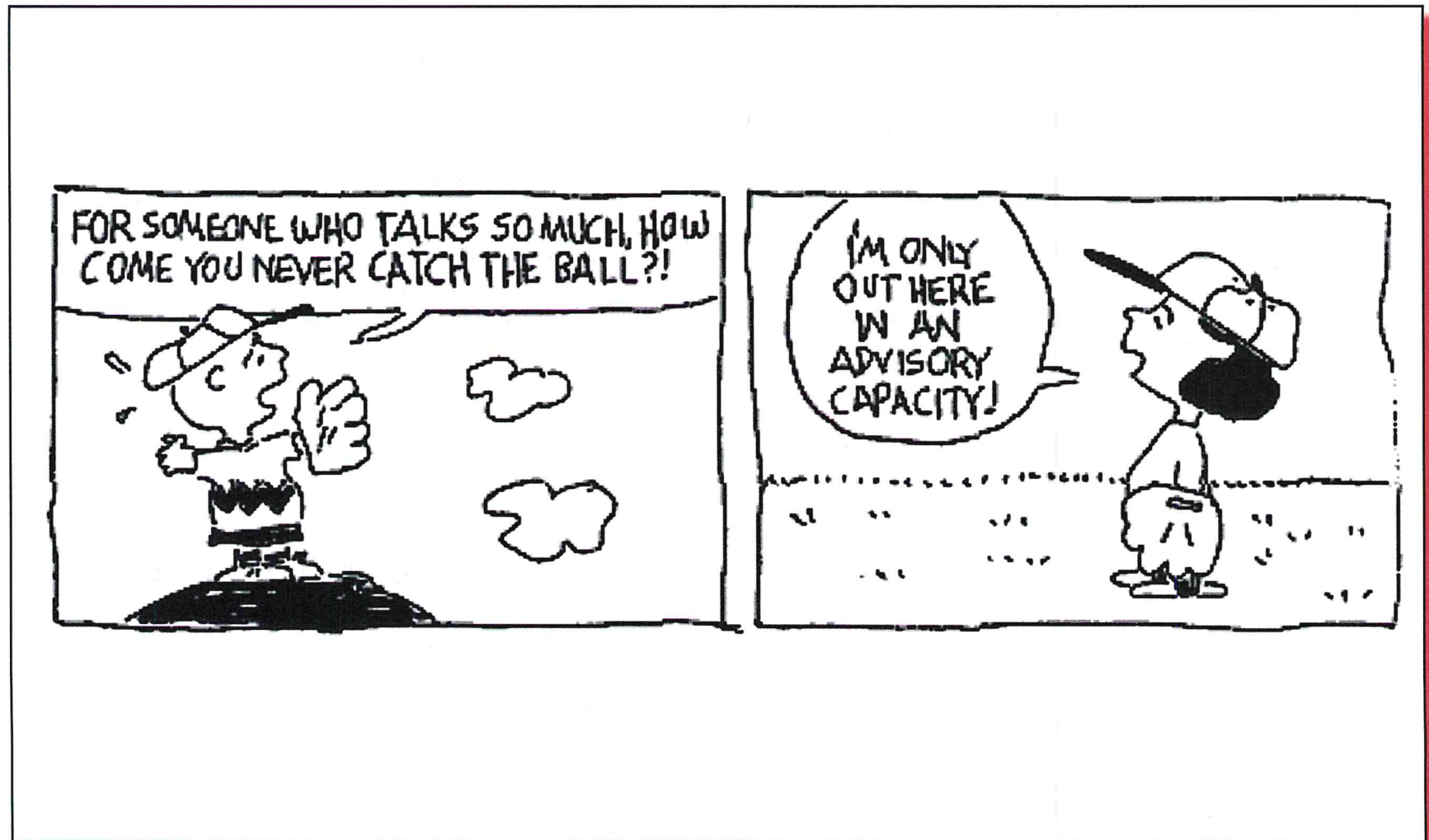
Government Financial Strategies

- **Financial Advisory Services - fiduciary responsibility to clients**
- **Serving over 300 local agencies in California**
- **Located in Sacramento**
- **Completed over 800 financings totaling \$8.7 billion**
- **Professional certifications of staff include Certified Independent Public Finance Advisors and Certified Fraud Examiners**
- **Dozens of independent third party reviews of proposed financings and expert witness/consultant engagements of financings gone awry**
- **Recommendations guided by the Government Finance Officers Association Best Practices for Debt Management**

Role of Financial Advisor

- ***Fiduciary* duty to the County**
- **Provide *independent* financial analysis and advice**
- **Activities *regulated* by the Securities and Exchange Commission and the Municipal Securities Rulemaking Board as a result of the Dodd-Frank Act of 2010**
 - **Government Financial Strategies is registered with both regulating agencies**

We Don't Just Advise from the Outfield



Agenda

- **The Challenge**
 - What's Needed

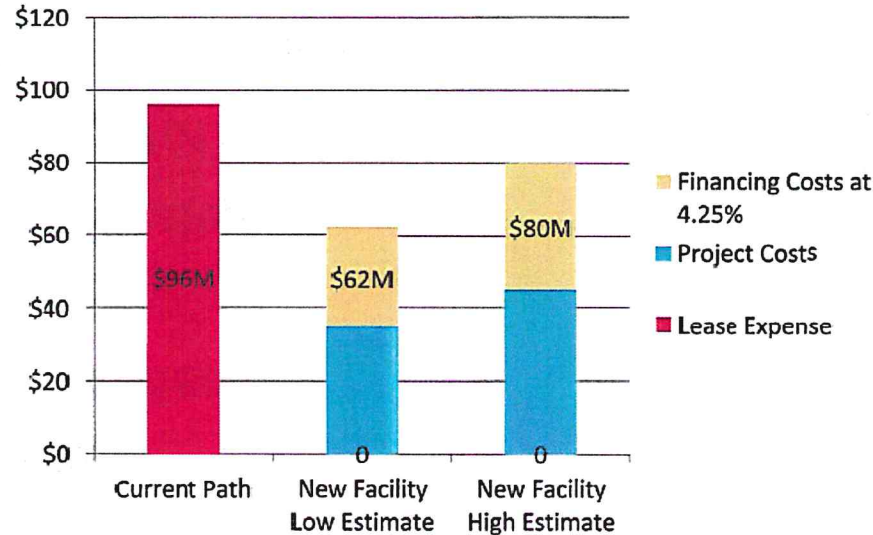
- **Responsive Strategies**
 - Financing Options
 - Measure A Discussion

- **Process**
 - Next Steps



What's Needed

Current Operations vs. New Options



- ✓ *Project cost estimates range from \$42 million - \$50 million*
- ✓ *Inflation will increase costs: more delay = higher costs*

Goals for Construction Delivery

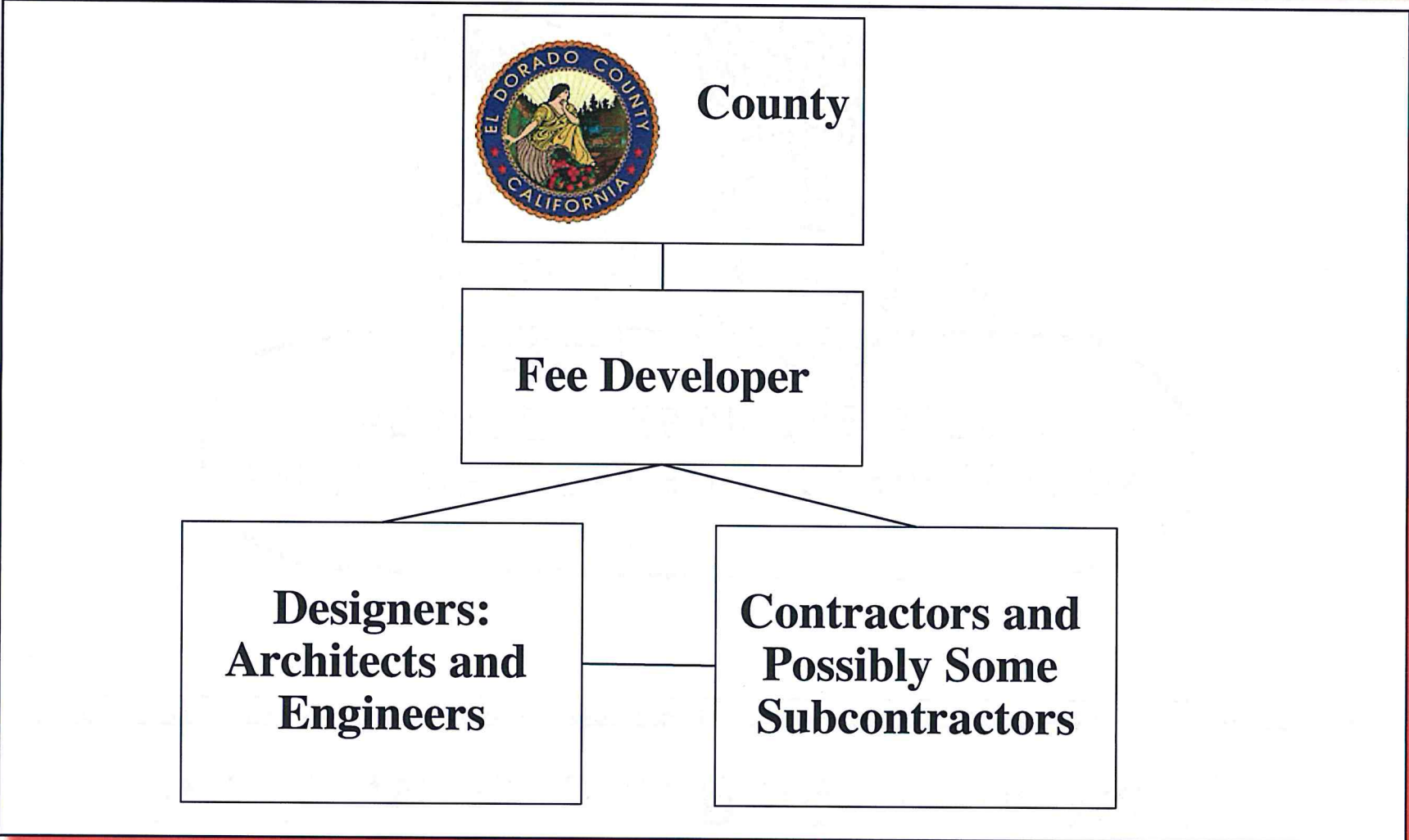
- **Guaranteed Maximum Price**
- **Guaranteed Delivery Date**
- **County Site Already Selected**
- **Risk Management**
 - **An outside party to serve as developer who will lead the project delivery and manage the architect/designer and contractor**
 - **County staff will be able focus on functionality of building and long term affordability**
- **In the private sector, this is called “fee development”**

Fee Developer is in Contract with County

■ Fee Developer

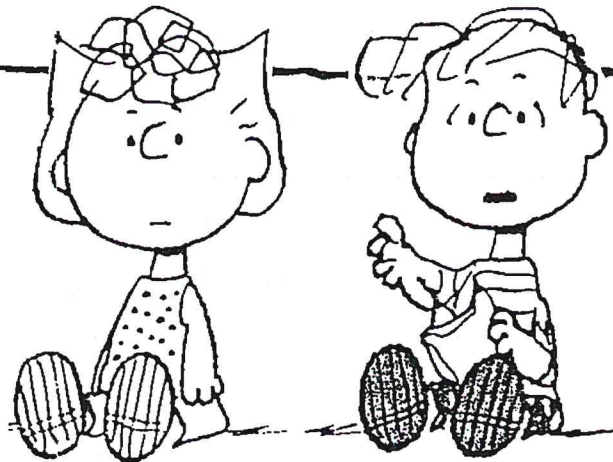
- Takes responsibility for project delivery under a fee development contract**
- Assembles and directs the project team, including architect, contractor, engineers, and other necessary professional services**
 - Trades are employed by or contracted by the Fee Developer or members of the Fee Development Team**
 - County can specify requirements for professionals and labor**
- Primary point of contact for County staff**

Relationship of Parties



It Always Comes Back to the Budget

EVERYTIME THERE'S A GOOD SUGGESTION,
SOMEONE BRINGS UP THE BUDGET!



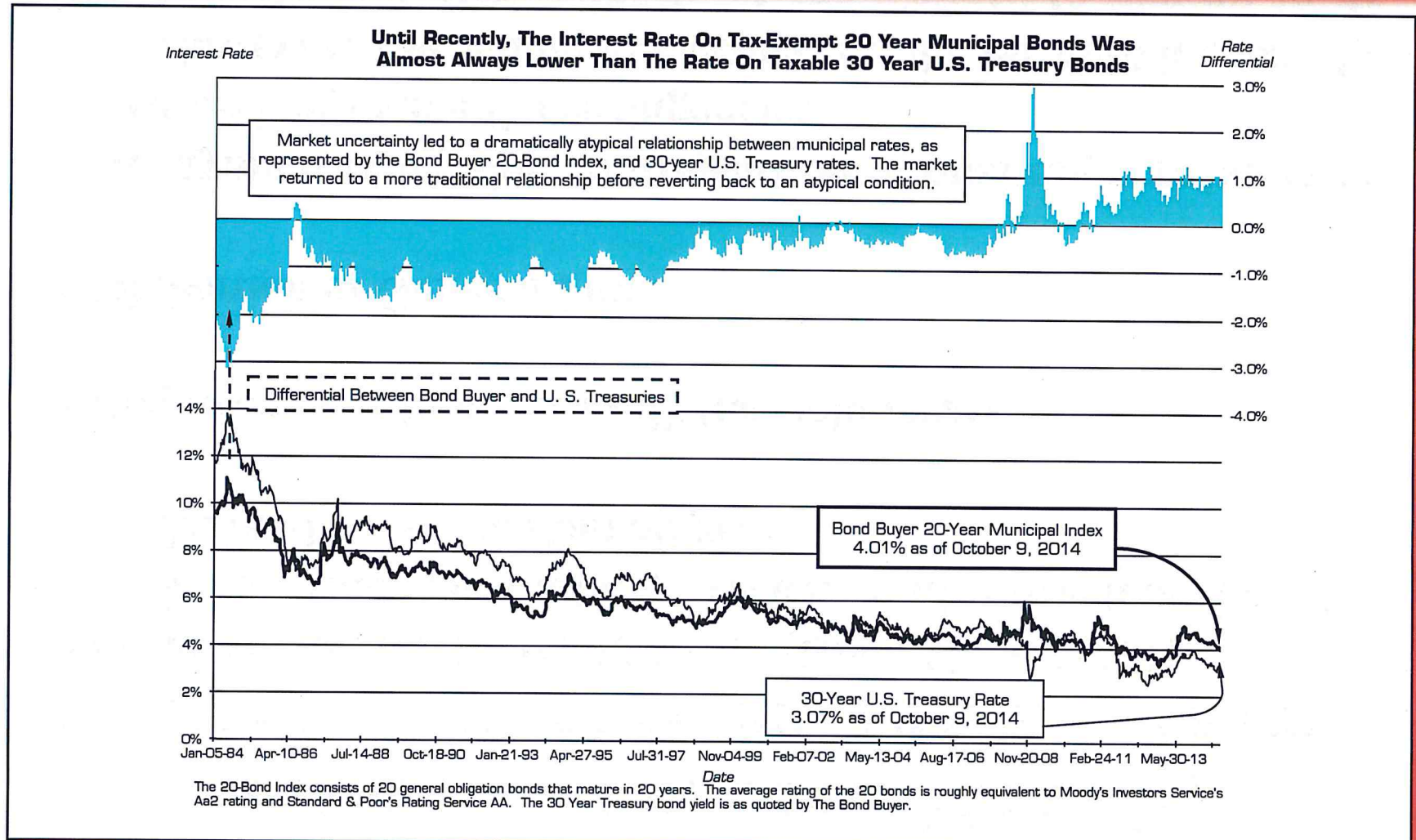
There Are Three Sources of Money

- **Money in the Cookie Jar**
 - **Cash on hand**
- **Money to Come in the Future**
 - **Budget**
- **Someone Else's Money**
 - **Gifts, Grants, Taxes**

Money to Come in The Future

- **County could redirect rental payments towards paying for County owned facility**
- **County's avoided future rental payments can be capitalized into dollars today by borrowing:**
 - **Lease-Purchase Agreements (including Certificates of Participation and Lease Revenue Bonds)**
 - » **No voter approval required (under California law)**
 - » **Issued by County**
 - » **Repaid from County budget**
 - **Revenue Ruling 63-20 Financing**
 - » **No voter approval required (under California law)**
 - » **Issued by nonprofit corporation**
 - » **Repaid from nonprofit corporation budget**

Interest Rates Are Historically Low



Background Re: Lease Financing

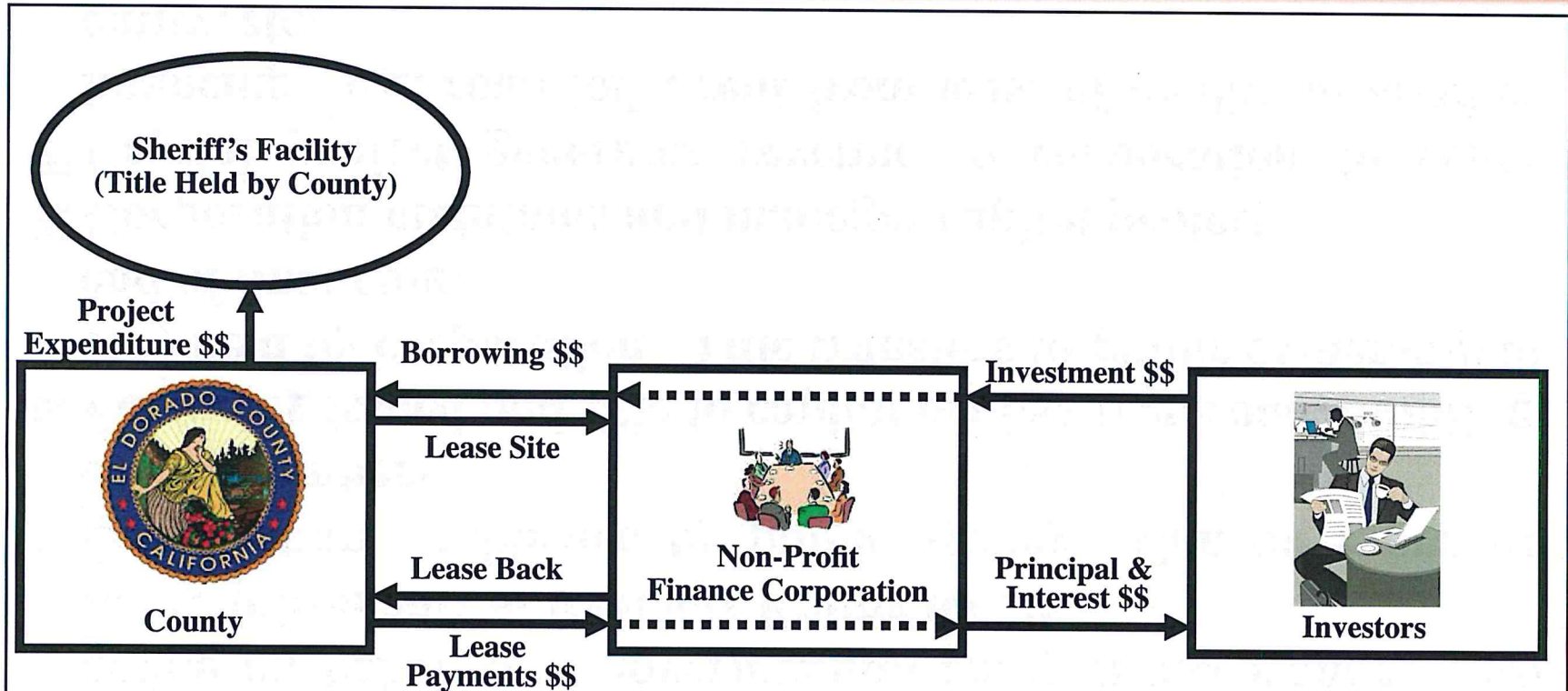
- **Legal Maximum Term: 40 Years (Govt. Code 25371)**
 - As a practical matter, weaker and uncertain investor demand for more than 30 years

- **Requires asset to be “leased” (i.e. collateral)**

- **Obligation of General Fund**

- **Repayment obligation contingent on annual appropriation or “use and enjoyment” contingencies**
 - However, the lenders/investors would be banking on the honesty and responsibility of the County to live up to its commitment to make payments in a timely fashion

Basic Lease Financing Structure

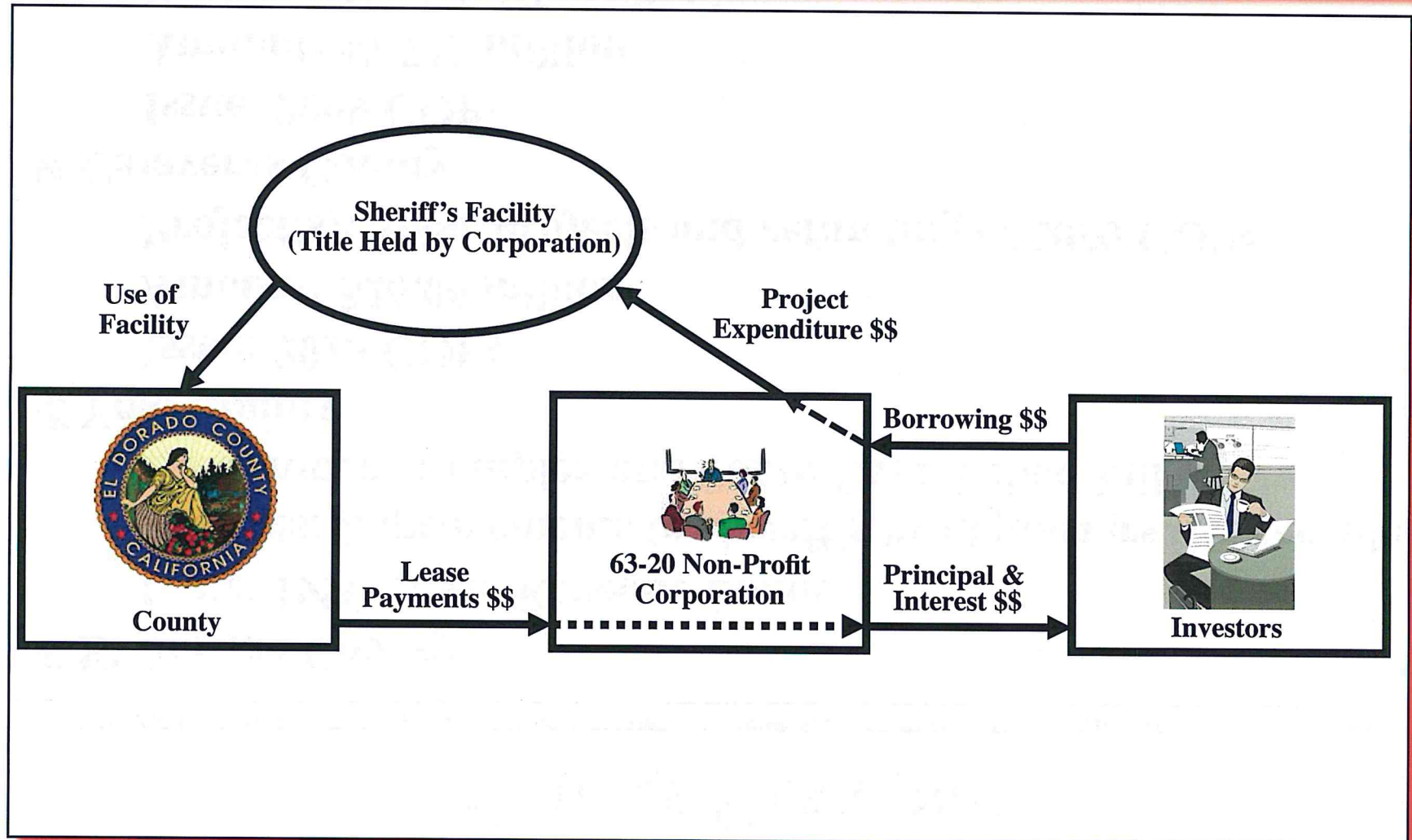


- Particular types of lease financing, such as Certificates of Participation (“COPs”) or Lease-Revenue Bonds, have more complex structures built on the basic structure foundation.

Revenue Ruling 63-20

- **63-20 Corporation** - a nonprofit corporation considered to be acting on behalf of a governmental entity in accordance with the requirements of Revenue Ruling 63-20.
- Corporation established by public agency. Can have private entity members.
- Financing issued and title to capital project (e.g. road, building, etc.) held by corporation. Title transfers to public ownership at end of financing.
- Corporation maintains and manages capital project.
- Capital project generates revenue to corporation to repay financing - e.g. road tolls, rent from lease of facility to another entity, etc.
- Examples: Virginia's Pocahontas Parkway, Las Vegas Monorail, California's SR 125 toll road, etc.

63-20 Structure



County Examples

■ El Dorado County

- Issue: 1990 Lease-Revenue Bonds
- Projects: improvements to sheriff's headquarters, Placerville Government Complex and South Lake Tahoe Jail

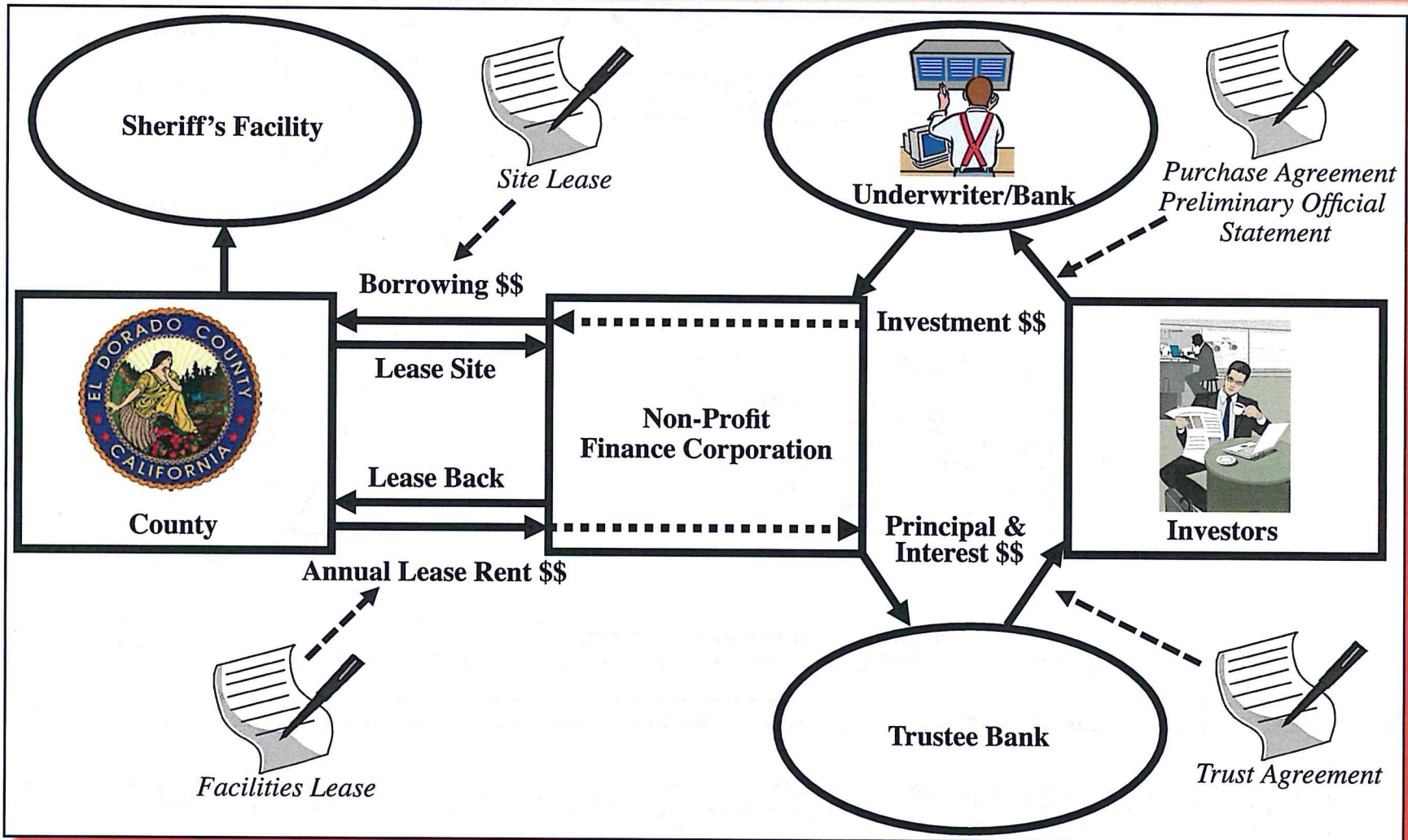
■ Yolo County

- Issue: 2013 COPs
- Amount: \$26.06 million
- Project(s): Solar projects and refunding of 2000 COPs

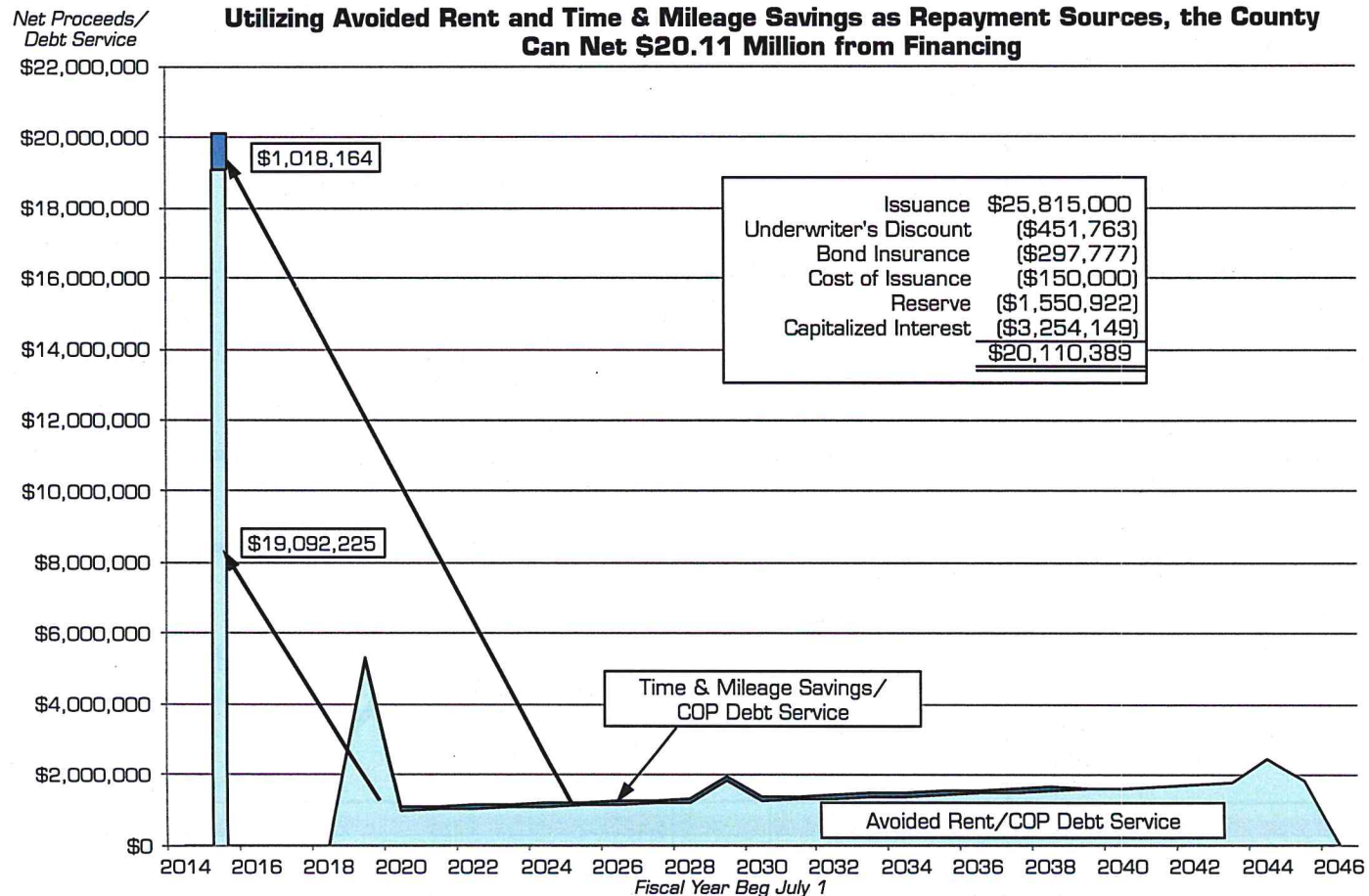
■ Calaveras County

- Issue: 2009 COPs
- Amount: \$7.715 million
- Projects: Variety of capital improvements

COP Financing Legal Structure



30 Yrs Avoided Lease Costs → \$20 Million Net \$



This is an initial estimate based on 30 years of lease revenue and 20 years of time and mileage savings. We have not analyzed the leases themselves or any rental reimbursement that the county receives. Provided by the CAO - Facilities Department on September 26, 2014 and October 31, 2014.

Discussion Re: Measure A

INITIATIVE TO REQUIRE COUNTY VOTER APPROVAL OF BOND FINANCING FOR CAPITAL IMPROVEMENTS El Dorado County Measure A

The County Counsel has prepared the following title and summary of the chief purpose and points of the proposed measure:

INITIATIVE ORDNANCE REQUIRING MAJORITY VOTER APPROVAL OF LEASES, PURCHASE OR RENTAL AGREEMENTS IN CONNECTION WITH REVENUE BONDS USED TO FINANCE COUNTY FACILITIES AND IMPROVEMENTS

This initiative seeks to establish a requirement that the Board of Supervisors obtain voter approval before entering into lease, purchase or rental contract agreements with a joint powers entity where the payments are applied to the payment of revenue bonds used for the acquisition, construction, or improvement of County capital facilities. This measure would require an ordinance to authorize the issuance of certain leases, purchase or rental agreements used for lease-revenue bond financing, and further provides the authorizing ordinance shall not be effective unless and until approved by a majority of voters.

Any such ordinance submitted to the voters for approval shall state in general terms: (1) the property or facilities to be leased, purchased or rented, (2) the maximum time period for which the lease, purchase or rental agreement and the joint powers entity under such lease, purchase or rental agreement shall make the maximum yearly or monthly payments to be made thereon.

The Initiative also requires that the power reserved to the Board of Supervisors to modify and substitute capital improvements in connection with the El Dorado County Bond Authority Lease Revenue Bonds (Capital Facilities Project) Series 1990 be passed to the voters and that any proposed modifications or substitutions of the capital facilities therein be immediately placed on the ballot for approval by the voters.

It is the stated intent of the Initiative to require the Board of Supervisors to be accountable and obtain a majority voter approval for any future legislative actions where lease revenue bonds financing is used to finance the acquisition, construction and improvements of County capital improvements.

The Initiative shall take effect immediately upon approval of a majority of the voters and may not be amended or repealed except by majority vote.

THE TEXT OF THE MEASURE TO BE ENACTED IS AS FOLLOWS:

The people of the County of El Dorado ordain as follows:
The County of El Dorado may enter into one or more lease, purchase or rental contract agreements with a joint powers entity as contemplated by Government Code Section 6502 and formed for the purpose of accomplishing a project or projects as defined by Government Code Sections 6545 and 6546 through the issuance of revenue bonds by the joint powers entity only following the effective date of an ordinance adopted by the governing body of the local agency authorizing the local agency to enter into one or more such leases or rental contracts or agreements to make payments to be applied to the payment of the revenue bonds.

For the County of El Dorado any such ordinance adopted to authorize the issuance of revenue bonds for which the County of El Dorado intends to contract to make payment to be applied to the payment of revenue bonds shall not take effect until and unless it shall first have been approved by a majority of the voters of El Dorado County.

The ordinance submitted to the voters shall, in general terms:

- (a) Describe the property or facilities to be leased, purchased or rented.
- (b) State the maximum time period for which the lease, purchase or rental contract agreement will run.
- (c) State the maximum amount to be paid by the County of El Dorado to the joint powers entity under the lease, purchase or rental contract agreement and joint powers entity or monthly payments to be made thereon.
- (d) State the maximum amount to be paid by the County of El Dorado to the joint powers entity under the lease, purchase or rental contract agreement.

Furthermore, no authorizing ordinance to issue revenue bonds shall be submitted by the County of El Dorado under the provisions of Government Code Sections 6547.3 and 6547.6 which involve lease, purchase or rental contract agreements to finance the acquisition, construction and improvement of capital facilities of the County unless the ordinance authorizing such lease, purchase or rental contract agreements has taken effect as specified above.

The Board of Supervisors has taken effect the El Dorado County Bond Authority Lease Revenue Bonds (Capital Facilities Project) Series 1990 in the aggregate principal amount of \$22,325,000 for the purpose of acquiring, constructing and installing capital facilities and equipment in the County of El Dorado.

The Board of Supervisors of El Dorado is by the passage of this Initiative directed to pass to the voters and substitute the capital improvements proposed to be passed by Resolution No. 1-89 of December 5, 1989 to the voters of El Dorado County and immediately place on the ballot for approval or disapproval any proposed modifications or substitutions of the capital facilities contained therein.

It is the intent of this initiative ordinance to require the Board of Supervisors to be accountable and obtain approval from the majority of voters of El Dorado County for any future legislative actions to finance the acquisition, construction and improvements of capital facilities of the County when they choose to use lease-revenue bond financing.

This initiative ordinance is not intended to interfere, obstruct or impair any legislative authority already exercised by the Board of Supervisors on behalf of the County of El Dorado.

If any provision of this initiative ordinance or the application thereof is held invalid, that invalidity shall not affect other provisions or applications of the ordinance which can be given effect without the invalid provision or application, and to this end, the provisions of this initiative ordinance are severable.

This ordinance shall not be amended or repealed except by a majority of the voters of El Dorado County.

This ordinance shall take effect upon the date a majority of El Dorado County voters approve this measure.

IMPARTIAL ANALYSIS BY COUNTY COUNSEL MEASURE A

Under existing law, the Board of Supervisors may, without voter approval, enter into certain lease, purchase or rental contract agreements of public property with joint-powers entities where the payments from the lease or other agreement are applied to the payment of revenue bonds and the proceeds from the revenue bonds are used for the acquisition, construction, or improvement of County capital facilities and improvements.

County capital facilities and improvements are a "free" vote on this measure is a vote in favor of establishing requirements that the Board of Supervisors must first enact an ordinance to authorize certain specified leases, purchase or rental agreements and then obtain approval of a majority of the voters prior to such ordinance becoming effective, before entering into a lease, purchase or rental contract agreement with a joint powers entity where the lease or agreement payments are applied to the payment of revenue bonds and the proceeds from the revenue bonds are used for the acquisition, construction, or improvement of County capital facilities. Additionally, the measure requires that the authorizing ordinance set forth in general terms the property involved, the term of the agreement, and the maximum amount to be paid by the County under the agreement.

A "no" vote on this measure is a vote against establishing the requirements as stated above.

During 1989 and 1990, the El Dorado County Board of Supervisors approved various resolutions, ordinances, and other legal instruments in connection with the issuance of the El Dorado County Bond Authority Lease Revenue Bonds (Capital Facilities Project) Series 1990 wherein the power to make modifications and substitutions of the proposed capital facilities to be financed by the revenue bonds was reserved. The proposed measure directs the Board of Supervisors to pass its reserved power to modify and substitute the capital improvements to the voters.

Resolution 1-89 of December 5, 1989 of the voters, and that any proposed modifications or substitutions of the capital facilities contained therein be immediately placed on the ballot for approval or disapproval by the voters.

Interpretation of this measure's legal effect will be based, in part, upon the stated intent of the Initiative which is "...to require the Board of Supervisors to be accountable and obtain approval from the majority of voters of El Dorado County for any future legislative actions to finance the acquisition, construction and improvements of capital facilities of the County when they [the Board of Supervisors] choose to use lease-revenue bond financing..." but not "...to interfere, obstruct or impair any legislative authority already exercised by the Board of Supervisors on behalf of the County."

The Initiative shall take effect immediately upon approval of a majority of voters and may not be amended or repealed except by majority vote.



Someone Else's Money

■ General Obligation Bonds



■ Special Taxes

- Mello-Roos Community Facilities Districts
- Govt. Code 53978

■ Other Types of Community Revenue

- Sales Tax
- Assessment Districts
- Enhanced Infrastructure Financing Districts
- Other?



General Obligation (“G.O.”) Bonds

- Traditional method of funding public projects in California (1879)
- “Full Faith and Credit” - unlimited taxing authority
- “Ad Valorem” (= according to value) taxation
- 2/3 voter approval
- No political discretion
- Bonding capacity = 5% of assessed value (for counties)
- Maximum term of each series of bonds - 40 years

Special Taxes: Mello-Roos CFDs

- The Mello-Roos Community Facilities Act authorizes the formation of a Community Facilities District (“CFD”) covering a defined geographical area.
- An election may be held within the boundaries of the CFD to authorize Mello-Roos taxes and the issuance of bonds.
 - 2/3 voter approval.
- Allows for a flexible tax formula - but must be reasonable and not ad valorem.
- Discretion to exempt types of property or taxpayers.
- Taxes may be used for facilities, furniture & equipment (with a useful life of at least five years) and certain types of services (e.g. police protection, fire protection, library, etc.).
- Mello-Roos bonds are a method for capitalizing Mello-Roos taxes (although lease financing can also be used).

Special Taxes: Govt. Code 53978

- **May be used for police protection services:**
 - **Constructing criminal justice facilities - limited to jails, detention facilities, and juvenile halls**
 - **Equipment**
 - **Salaries and benefits to police protection personnel**
 - **Other necessary police protection expenses?**
- **Tax may be levied on a parcel, class of improvement to property, or use of property basis, or a combination thereof.**
 - **Tax cannot be ad valorem**
- **2/3 voter approval required**
- **No specific related bonding method - taxes can be capitalized with lease financing**

Other Types of Community Revenue: Sales Tax

- A county may levy a sales tax increase to pay for general expenditures or specific purposes**
- The increase may be 1/8 of a cent or any multiple thereof**
- The tax revenue may be used for any government purpose, including capital improvements, maintenance, etc.**
- Voter Approval Required:**
 - 50% voter approval if for general purposes**
 - 2/3 voter approval if for specific purposes**
- Can have general purpose sales tax measure accompanied by second advisory measure regarding use of tax proceeds**

Other Types of Community Revenue - Assessment Districts

- **Local agency forms assessment district formed covering territory to receive benefit from proposed improvements**
- **Amount of assessment on each parcel based on the “special benefit” the parcel receives from the improvements**
 - **Value of any “general benefit” provided by the improvements cannot be assessed**
- **Landowner vote - each ballot weighted by the amount of the proposed assessment**
- **Assessment passes if lack of majority protest - “no” vote from property owners representing 50% of the dollars to be assessed**
- **Assessment bonds issued to capitalize assessment revenue**

Other Types of Community Revenue: Enhanced Infrastructure Financing Districts

- **Local agency forms public financing authority and infrastructure financing district covering defined geographical area.**
 - **Requires pre-approval from each affected taxing entity proposed to be subject to division of taxes.**
- **Public financing authority may issue tax increment bonds upon approval of 55% of the qualified electors of the enhanced infrastructure financing district.**
- **Requirements for projects financed:**
 - **Acquisition or improvement of any real or other tangible property with an estimated useful life of 15 years.**
 - **Communitywide significance - provide significant benefits to the district or the surrounding community.**

County GO Bond & Mello-Roos Examples

■ Calaveras County

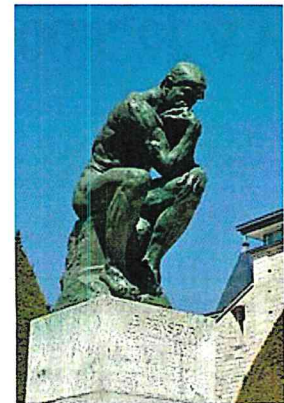
- Type: GO Bonds
- Bond Amount: \$31 million
- Pre-Election Projected Avg. Tax Levy: \$18.29/\$100K of AV
- Election Date: November 6, 2007
- Voter Approval: 67.18%
- Projects: Construct new jail, 911 dispatch center, and support facilities

■ Yolo County

- Type: Mello-Roos Tax & Bonds
- Bond Amount: \$6.405 million
- Pre-Election Determined Tax Levy: \$88/parcel
- Election Date: November 6, 2007
- Voter Approval: 73.2%
- Projects/Use of Funds: Library improvements & operations

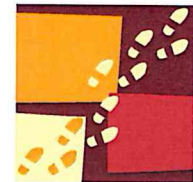
Considerations

- **Current low interest rate environment for financing**
- **Ongoing costs (other than debt service) - e.g. maintenance, etc.**
- **Effect of inflation on construction costs**
- **Other County priorities**

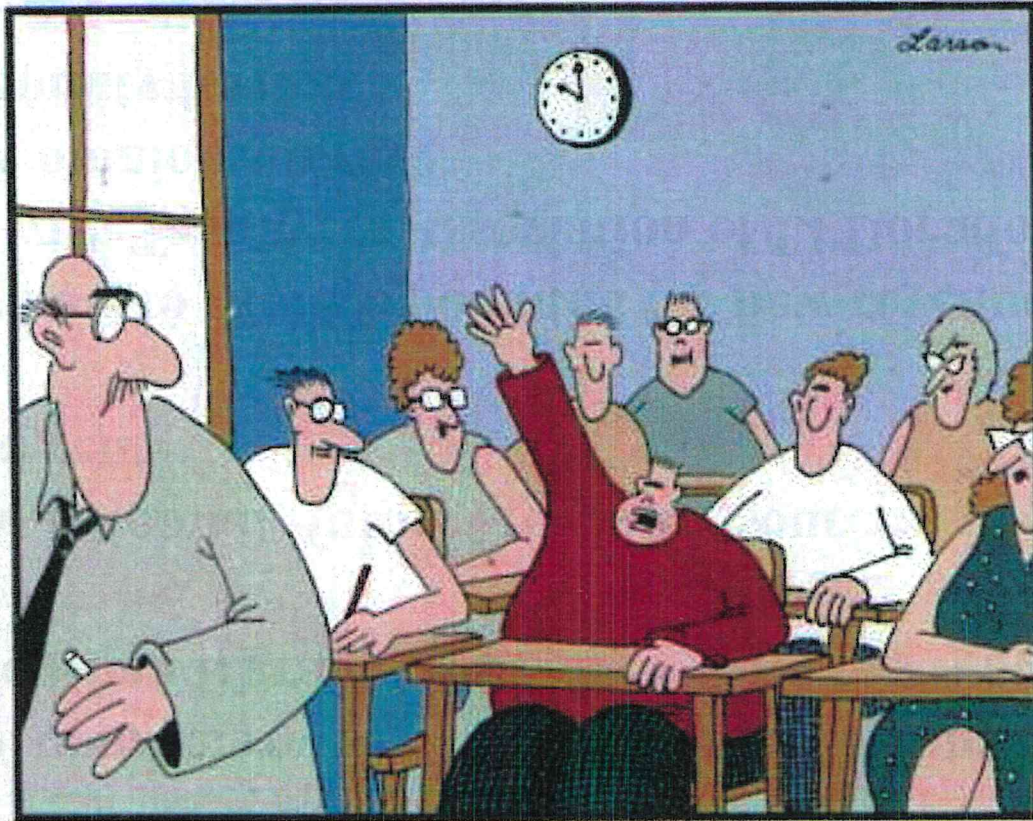


Next Steps

- **Research non-borrowing related potential funding sources - e.g. cash on-hand, grants, etc.**
- **Research potential future revenue sources in addition to redirected rent.**
- **Consider how to explore potential for new revenue.**
 - **Meet with Taxpayers Association of El Dorado County?**
 - **Public opinion survey?**
 - **Community forums?**
- **Research project delivery options to minimize cost - e.g. design-build, construction manager at-risk, etc.**



Questions or Comments?



**"Mr. Osborne, may I be excused?
My brain is full."**