



Agenda Date: 2/1/2005
Agenda Placement: 8E
Set Time: 10:30 AM
Estimated Report Time: 15 Minutes

NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors

FROM: Britt Ferguson for Nancy Watt - County Executive Officer
County Executive Office

REPORT BY: Britt Ferguson, Assistant County Executive Officer, 253-4406

SUBJECT: Approval of Resolution Authorizing Certain Documents and Actions Related to the Refinancing of the County's 1996 Certificates of Participation

RECOMMENDATION

County Executive Officer requests adoption of a resolution authorizing certain documents and actions related to the refinancing of the County's 1996 Certificates of Participation (COPs), including:

1. Approval of the Financing Plan, which provides for refinancing the 1996 COPs through the issuance of new 2005 COPs only if the Net Present Value of the Savings is at least equal to 3% of the outstanding principal amount of the 1996 COPs;
2. Approval of the Site Lease and Lease Agreement between the County and the Napa County Public Improvement Corporation (PIC) whereby the County leases the Criminal Courts Building and County Administration Building to the PIC and the PIC subleases those properties back to the County in order to provide a financing mechanism for the COPs;
3. Approval of the Trust Agreement between the County, the PIC and U.S. Bank National Association, which provides that U.S. Bank will act as trustee for the new 2005 COPs issue;
4. Approval of the sale of the 2005 COPs to an underwriting firm based on proposals provided by select underwriters, upon the advice of the County's financial advisor and in accordance with the terms of a Certificate Purchase Agreement between the County, PIC and selected underwriter;
5. Approval of the Preliminary Official Statement that describes the COPs, in substantially the attached form;
6. Authorization for the County Executive Officer and the Chair of the Board to make necessary changes to the above documents;
7. Authorization for the County Executive Officer and/or Chair of the Board to sign the above documents, to accept the offer from the selected underwriter to purchase the COPs and to sign certain certificates related to the sale as may be necessary;
8. Authorization for the County's financial advisor to distribute the Preliminary Official Statement and Final Official Statement; and
9. Authorization for the Chair of the Board, County Executive Officer, Assistant County Executive Officer, Auditor-Controller and Treasurer-Tax Collector to sign any and all certificates, agreements or other documents deemed necessary to consummate the sale of the 2005 COPs, including specifically termination agreements related to the 1996 COPs.

EXECUTIVE SUMMARY

Staff is proposing that the Board approve a resolution that would authorize the sale of new 2005 Certificates of Participation (COPs) to refinance, or "refund," the County's 1996 COPs, issued to finance the acquisition and construction of certain real property and improvements, including the Criminal Courts Building, various facilities for the Health & Human Services Agency complex, various improvements to the Hall of Records and Hall of Justice and the reconstruction of the exterior surface of the County Administration Building.

The County's 1996 COPs had a principal amount of \$17,985,000 and \$13,135,000 in principal amount of the COPs is still outstanding. The interest rates on the 1996 COPs ranged from 3.9% to 5.4%, with the interest rate on the still outstanding COPs ranging from 4.8% to 5.375%. The County's financial advisors believe that the 2005 Refinancing COPs can be issued at interest rates that could be as low as 2.05% to 3.88%, which could result in total savings to the County of as much as \$799,000 over the life of the 2005 COPs. Any savings would be split 86.5% to the General Fund and 13.5% to the Court Construction Fund, which reflects the current split of funding for the debt service on the 1996 COPs. As proposed, the bulk of the savings - as much as \$302,000 - would be achieved in the first year of the refinancing. The Resolution before your Board would authorize staff and the County's financial advisors to proceed with the sale if the Net Present Value of the savings is at least 3% of the outstanding principal on the 1996 COPs. That would equate to \$392,000 in Net Present Value savings and a total savings of approximately \$365,000. Again, based on current market conditions, the County's financial advisors believe that the County could achieve significantly higher savings than that.

The exact amount of the new 2005 Refunding COPs issue will be determined at the time of sale. Currently, the County's financial advisors are estimating that that amount will be \$13,600,000. This includes sufficient funds to refund the outstanding 1996 COPs and cover the costs of issuance for the new COPs. As proposed, the new issue would be insured, thus guaranteeing a AAA rating. The term of the new issue would be through February 2017. The last payment for the 1996 COPs was December, 2016, but the new Refunding COPs would have debt service payments due in February and August rather than June and December.

The Resolution before your Board approves all of the documents required to issue the new COPs and authorizes the Board Chair, CEO, Auditor-Controller and other officials to make appropriate changes to the documents and sign the documents as well as to issue the Preliminary Official Statement and actually approve the sale of the new COPs. The intent is to offer the COPs for sale starting on February 9th.

FISCAL IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	Refunding the County's 1996 Certificates of Participation would result in cost savings to the County. The exact amount of savings would depend on market conditions at the time of the refunding, but could range from \$365,000 to \$799,000 or more. Debt service on the 1996 COPs is currently split 86.5% to the General Fund and 13.5% to the Court Construction Fund and is included in the FY2004-05 budgets for those funds. Cost savings would be distributed proportionately over the life of the Refunding COPs issue. Savings in the 2004-05 fiscal year could amount to \$302,000 or more, of which almost \$260,000 could accrue to the General Fund.

Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	Refunding the 1996 COPs would result in cost savings to the General Fund and the Court Construction Fund. Depending on market conditions at the time of the refunding, General Fund savings could amount to \$315,000 to \$690,000 or more over the life of the Refunding COPs issue.
Is the general fund affected?	Yes
Future fiscal impact:	As noted, savings over the life of the 2005 Refunding COPs issue could total as much as \$799,000 or more. The current proposal is to structure the COPs so approximately \$302,000 in savings would be achieved in the first year. Saving in each of the 12 succeeding fiscal years would be under \$50,000. The Board could, however, direct that the bonds be structured in such a way that savings in the first year are reduced and savings in subsequent fiscal years are increased.
Consequences if not approved:	The County would forego the opportunity to achieve the General Fund cost savings described above, though it might be possible to do a refunding at a later date and achieve some amount of cost savings.

Additional Information:

ENVIRONMENTAL IMPACT

There is no Environmental Impact for this item.

BACKGROUND AND DISCUSSION

Certificates of Participation (COPs) are a form of debt issued by local governments in California and other states to finance the acquisition and/or construction of capital projects. Essentially, with COPs, the County leases property to the Napa County Public Improvement Corporation (PIC) and then sub-leases the property back from the Corporation. The PIC borrows money through selling shares in the lease payments owed to the PIC by the County (the COPs) and the lease payments are structured to equal the principal and interest owed on the COPs. The PIC provides the borrowed money to the County in exchange for the initial lease of the property to the PIC and the property serves as security for the debt.

In 1996 the County issued \$17,985,000 in COPs to finance the acquisition and construction of certain real property and improvements, including the criminal courts building, various facilities for the Health & Human Services Agency complex, various improvements to the Hall of Records and Hall of Justice and the reconstruction of the exterior surface of the County Administration Building. The 1996 COPs have a 20 year repayment period (the last debt service payment is due in 2016) and an annual debt service payment (after the first two years) of approximately \$1.5 million. The County is paying the annual debt service out of discretionary revenues in the General Fund (86.5%) and from monies available in the Court Construction Fund (13.5%). According to the agreements governing the issuance of the 1996 COPs, they could not be fully paid off prior to 2004.

When the 1996 COPs were issued, they carried interest rates of between 3.9% and 5.4%. Since then, interest rates have generally declined. Also, as is typically the case, the interest rates on the 1996 COPs short term certificates were lower than the interest rate on the longer term certificates and the shorter term certificates have been paid off. Thus the County's financial advisors believe that it may be possible to refinance (or "refund") the

1996 COPs and reduce the interest rates paid. Refunding essentially involves issuing new COPs and using the proceeds from the sale of these new COPs to pay off the outstanding principal owed on the old COPs. The County would then be liable for the debt service on the new COPs, but, since the interest rate would be lower, the annual debt service would be less than for the old COPs, thus saving the General Fund money. The actual savings would depend on the interest rates prevailing at the exact time the new COPs are sold, but, if Refunding COPs were being sold at the time of this writing the County's savings over the life of the COPs would be approximately \$799,000.

Although, as noted, interest rates have generally declined since the 1996 COPs were first issued, there is currently some volatility in the market and interest rates are expected to rise. Thus, for the County to refund the 1996 COPs in the near future and achieve the maximum possible cost savings, it is prudent to position ourselves to go to market with the new COPs as quickly as possible. Currently, the County's financial advisors are working toward being able to start marketing the COPs on February 9th, though the actual sale would be contingent upon the COPs being sold at an interest rate that generates a certain savings to the County.

The Financing Plan, which would be approved as part of this agenda item, states that the 2005 Refunding COPs would not be sold unless the Net Present Value of the County's savings is at least equal to 3% of the outstanding principal amount of the 1996 COPs. Net present value is the total amount of the savings, discounted based on when the savings are received to adjust for the time value of money (in other words, savings achieved sooner are more valuable than savings achieved later, because, for example, we could invest the money for a longer time). Assuming the Refunding COPs are structured to achieve the bulk of the savings in the first year (and using a discount rate equal to what the COPs Trustee could earn on the proceeds), the County's financial advisors estimate that 3% in Net Present Value savings would equate to approximately \$392,000. The actual (non-present-valued) savings to the County under this scenario would be approximately \$365,000.

As noted above, however, based on current market conditions, our financial advisors believe that we could achieve actual savings of approximately \$799,000. Using the same basic assumptions as above, this would result in a Net Present Value savings of \$667,000 or 5% of the value of the outstanding principal on the 1996 COPs. Approximately \$302,000 of this savings would be achieved in Fiscal Year 2004-05. This estimate is based on the assumption that the new COPs could be marketed at rates of between 2.05% and 3.88%, compared to rates on the outstanding 1996 COPs of between 4.8% and 5.375%. Again, these rates are based on the assumption that the County will maximize the savings in the first year of the refinancing. This is the structure that staff is proposing, however, the Board could direct that the Refunding COPs be structured to reduce the first year savings and spread the savings out more evenly in future years. This would have the effect of reducing the Net Present Value savings.

The Financing Plan calls for the issuance of \$13,600,000 in 2005 Refunding COPs (this amount could change depending on market conditions at the time of sale). These COPs, when combined with money on hand in the 1996 COPs reserve fund, would pay off the outstanding principal balance on the 1996 COPs, which currently totals \$13,135,000, cover the 1% premium required to pay off the COPs this year rather than next year, establish a reserve fund for the new COPs, and pay all costs of issuance, estimated to be approximately \$403,000. The costs of issuance include financial advisor and bond counsel fees as well as the underwriters fees and the insurance premium. The insurance premium would be the cost for municipal bond insurance which would result in the COPs automatically receiving a AAA rating from Standard and Poors. The term of the new 2005 Refunding COPs would be slightly longer than the 1996 COPs, because the debt service payment dates are being changed. Debt service on the 1996 COPs was made in June and December. Debt service on the 2005 Refunding COPs would be made in February and August. Thus the last payment, instead of being made in December of 2016, will be made in February of 2017.

To permit the sale of the new 2005 Refunding COPs, your Board will need to approve the attached resolution, authorizing certain documents and actions. These include:

1. Approval of the Financing Plan as described above. That Plan authorizes issuance of the COPs if the Net Present Value of the County's debt service savings equals at least 3% of the outstanding principal of the 1996 COPs. Your Board could, however, change that percentage.
2. Approval of the Site Lease and Lease Agreements between the County and the PIC. As explained above, COPs are essentially an interest in lease payments owed by the County to the PIC. Thus, the Site Lease provides for the lease of the Criminal Courts Building and County Administration Building to the PIC in exchange for the PIC providing the funds to refinance the 1996 COPs. Under the lease agreement, then, the County leases these buildings back from the PIC and pays a lease payment equal to the debt service on the COPs. These are the same buildings that are currently utilized as security for the 1996 COPs.
3. Approval of the Trust Agreement between the County, the PIC and U.S. Bank National Association, which designates U.S. Bank as the trustee for the COPs and spells out how the proceeds can be used and the nature of the certificates.
4. Approval of the sale of the 2005 COPs to an underwriting firm or firms based on the advice of the County's financial advisors and in accordance with the terms of the Certificate Purchase Agreement. The County's financial advisor will select certain underwriters to participate in the sale, rather than go through a full competitive process. On the day of the sale, the COPs will be awarded to the underwriter providing the lowest true interest cost. In the event the savings threshold is not met, it would be possible to negotiate with the lowest-bid underwriter.
5. Approval of the Preliminary Official Statement which describes the COPs issue and provides background information on the County and its financial condition.
6. Authorization for the Board Chair, County Executive Officer, Assistant County Executive Officer, Auditor-Controller and Treasurer-Tax Collector to make necessary changes to the documents and to sign the above or any other relevant documents, including specifically termination agreements related to the 1996 COPs. The latter are agreements necessary, for example, to terminate the lease agreements related to the 1996 COPs to enable new agreements to be entered into for the 2005 Refunding COPs.

Again, the goal is to begin marketing the new COPs on February 9th. However, the actual timing of the marketing and the decision to sell will depend on market conditions at the time. Until the new COPs are sold, the County has the option of not moving forward if staff believes that it is not in the County's financial interest to do so.

SUPPORTING DOCUMENTS

- A . Resolution BOS 2005 Refunding COP
- B . Site Lease
- C . Lease Agreement
- D . Trust Agreement
- E . Purchase Agreement
- F . Preliminary Official Statement
- G . Termination Agreement

CEO Recommendation: Approve

Reviewed By: Britt Ferguson