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Agenda Date: 4/17/2012
Agenda Placement: 10B

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:	Adoption of a Resolution Authorizing the Refinancing of the County's 2003 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 2003 Certificates of Participation (COPs), including:

1. Approval of the Financing Plan, which provides for refinancing the 2003 COPs through the issuance of new 2012 COPs only if the Net Present Value of the savings is at least equal to $1 million;
2. Approval of the Site Lease and Lease Agreement between the County and the Napa Public Improvement Corporation (PIC) whereby the County leases the Historic Courthouse and Sheriff's Department Headquarters 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 2012 COPs issue;
4. Approval of the sale of the 2012 COPs by competitive sale, or by negotiated sale 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, if the County's financial advisor and County Executive Officer agree that the municipal credit markets are not conducive to the successful competitive sale of the certificates;
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 2012 COPs, including specifically termination agreements related to the 2003 COPs.

EXECUTIVE SUMMARY

Staff is proposing that the Board approve a resolution that would authorize the sale of new 2012 Certificates of Participation (COPs) to refinance, or "refund," the County's 2003 COPs, issued to refinance the County's 1993 COPs and to finance the construction of the Sheriff's Department Headquarters Building and the Juvenile Justice Facility.

The County's 2003 COPs had a principal amount of $32,350,000 and $23.2 million in principal amount is still outstanding. The "True Interest Cost" on the 2003 COPs is 4.17%. The County's financial advisors believe that the 2012 Refunding Cops can be issued at a True Interest Cost that could be as low as 2.78%, which could result in total savings to the County of as much as $1.5 million over the life of the 2012 COPs issue. The bulk of the savings would accrue to the General Fund.

The resolution before your Board would authorize staff and the County's financial advisor to proceed with the sale if the Net Present Value of the savings is at least $1 million. Again, based on current market conditions, the County's financial advisors believe that the County could potentially achieve higher savings than that.

The exact amount of the new 2012 Refunding COPs issue will be determined at the time of sale. Currently, the County's financial advisors are estimating that the amount will be between $20 and $24 million (assuming the County will pay an amount equivalent to the scheduled June 1, 2012 debt service payment on the 2003 COPs into the 2012 refunding escrow account). The proceeds from the new COPs, along with other funds in the escrow account, would provide sufficient funds to refund the outstanding 2003 COPs, fund a debt service reserve and cover the costs of issuance of the new COPs. As proposed, the new issue would not be insured.

The resolution before your Board approves all of the documents required to issue new COPs and authorizes the Board Chair, County Executive Officer, 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 the week of April 23rd.

PROCEDURAL REQUIREMENTS

1. Staff report.
2. Board questions of staff.
3. Public comment.
4. Motion, second, discussion and vote.

FISCAL IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	Refunding the County's 2003 COPs 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 $1 million to $1.5 million or more over the life of the COPs issue. Average annual savings could be approximately $140,000, starting in FY2012-13. In FY2012-13, approximately 79% of those savings would accrue to the General Fund. Starting in FY2013-14 all of the savings would accrue to the General Fund.
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	Refunding the 2003 COPs would result in cost savings to the County and specifically to the General Fund.
Is the general fund affected?	Yes
Future fiscal impact:	As noted, savings over the life of the 2012 Refunding COPs issue could total as much as $1.5 million. The average annual savings would be approximately $140,000 starting in FY2012-13.
Consequences if not approved:	The County would forego the opportunity to achieve the 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

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

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 subleases the property back from the Corporation. The PIC generates proceeds through an assignment to the trustee of its right to receive 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 2003, the County issued $32,350,000 in COPs to refinance $14,340,000 in 1993 COPs and to finance the construction of the Sheriff's Department Headquarters Building and the Juvenile Justice Facility. The 2003 COPs had a 20 year repayment period (the last debt service payment is due in 2023) and an annual debt service payment over the next 10 years of $2.5 million. The County is paying the annual debt service payment out of discretionary resources in the General Fund and out of resources in the Library, Criminal Justice Planning, Temporary Courthouse Construction and Airport Funds and County Service Area (CSA) 3. The General Fund's share is approximately $2 million each year through FY2012-13 and the full $2.5 million from FY2013-14 on. According to the agreements governing the issuance of the 2003 COPs, they could not be fully paid off prior to 2012.

When the 2003 COPs were issued, they carried a "True Interest Cost" of 4.17% ("True Interest Cost," or TIC, includes the impact of yield rates on each maturity sold, costs of issuance-related fees and also accounts for the time value of money). Since then, interest rates have generally declined. Thus the County's financial advisors believe that it may be possible to refinance (or "refund") the 2003 COPs and reduce the interest rate 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 County money. The actual savings would depend on the interest rates prevailing at the exact time the new COPs are sold, but, if the Refunding COPs were being sold at the time of this writing the County's savings over the life of the COPs would be approximately $1.5 million.

Although, as noted, interest rates have generally declined since the 2003 COPs were first issued, there is currently some volatility in the market. Thus, for the County to refund the 2003 COPs in the near future and achieve the maximum possible 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 during the week of April 23rd, though the actual sale would be contingent upon the COPs being sold at an interest rate that generates certain savings to the County.

The Financing Plan, which would be approved as part of this agenda item, states that the 2012 Refunding COPs would not be sold unless the Net Present Value of the County's savings is at least $1 million. Net Present Value is the total amount of the savings, discounted based when the savings are received to adjust for the time value of money (in other words, savings achieved sooner are more valuable than savings received later, because we can invest or otherwise use the money). Using certain assumptions about the rate of inflation and how debt service on the 2012 COPs would be structured, our financial advisors estimate that the $1.5 million in total savings mentioned above would result in Net Present Value savings of approximately $1.3 million, with actual annual savings averaging approximately $140,000. This estimate is based on the assumption that the new COPs could be marketed at a True Interest Cost of 2.78%, compared to the True Interest Cost on the outstanding 2003 COPs of 4.17%.

The Financing Plan calls for the issuance of between $20 million and $24 million in 2012 Refunding COPs (depending on market conditions and investor appetite on the date of sale and thus whether investors are willing to pay a premium for the COPs). This assumes that the County would pay an amount equivalent to the scheduled June 1, 2012 debt service payment on the 2003 COPs into the 2012 refunding escrow account. These new COPs, along with other funds in the escrow account, would pay off the outstanding principal balance on the 2003 COPs, which currently totals $23.2 million, cover the 1% premium required to pay off the COPs now rather than later this year, establish a $1,137,000 reserve fund for the new COPs (equal to 50% of annual debt service) and pay all costs of issuance, estimated to be approximately $446,000. The costs of issuance include financial advisor and bond counsel fees as well as the underwriters fees. The term of the new 2012 Refunding COPs would be one year longer than the 2003 COPs. The 2003 COPs were scheduled to be paid off on June 1, 2023 while the 2012 COPs would be paid off on June 1, 2024. This is because the 2012 Refunding COPs will have a debt service reserve fund instead of surety policy (as was the case with the 2003 COPs), and so the additional borrowing to fund that reserve must be accounted for, requiring an additional year of debt service. However, the amount of debt service the County will actually have to pay from County funds in FY2023-24 is $0, because that year's debt service will be paid from funds in the debt service reserve fund and accrued interest earnings.

To permit the sale of the new 2012 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 the issuance of the COPs if the Net Present Value of debt service savings equals at least $1 million.
2. Approve 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 Historic Courthouse and Sheriff's Department Headquarters Building to the PIC in exchange for the PIC providing the funds to refinance the 2003 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. The 2003 COPs were secured by lease agreements on the Historic Courthouse, Downtown Napa Main Library, Hall of Justice and Health & Human Services Campus. As proposed, the 2012 COPs will be secured by lease agreements on the Historic Courthouse and Sheriff's Headquarters Building. Staff is proposing to replace the Hall of Justice, Health and Human Services Campus and Main Library with the Sheriff's Department Headquarters Building because we are considering demolishing the Hall of Justice in order to construct a new Jail on that site, are planning on redeveloping the Health & Human Services Campus and the Historic Courthouse and Sheriff's Department Headquarters Building provide sufficient value to secure the 2012 Refunding COPs without using the Library.

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. U.S. Bank was the trustee for the 2003 COPs.
4. Approval of the sale of the 2012 COPs through a competitive sale, unless the County's Financial Advisor determines, and the County Executive Officer agrees, that the financial markets are not conducive to a successful competitive sale of the certificates. In that case, the COPs may be sold on a negotiated basis to a firm selected by the County's financial advisor through a competitive selection process. For a local government like Napa County, with a good credit rating, a competitive sale of the COPs has the potential to result in the lowest interest rates. However, if market conditions generally are difficult, a negotiated sale may be in the County's best interests.
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 2003 COPs. The latter are agreements necessary, for example, to terminate the lease agreements related to the 2003 COPs to enable new agreements to be entered into for the 2012 Refunding COPs.

Again, the goal is to begin marketing the new COPs during the week or April 23rd. 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

B . Site Lease

C . Lease Agreement

D . Trust Agreement

E . Preliminary Official Statement

CEO Recommendation: Approve

Reviewed By: Danny Nguyen