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Agenda Submittal

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Type:	Report	**Department:**	Treasurer-Tax Collector-County Clerk
File #:	17-431	**Contact:**	Charles Lomeli, 784-3419
Agenda date:	6/13/2017	**Final action:**	6/13/2017

Title: Consider a request from the Treasurer - Tax Collector - County Clerk to proceed with a full analysis of the potential interest expense and cash flow savings to be realized from a refunding of the 2007 Certificates of Participation, and Authorize the use of the consultant team from Public Financial Management as the lead Financial Advisor, Orrick, Herrington & Sutcliffe LLP as the co-bond counsel, Hawkins, Delafield & Wood LLP as the disclosure counsel, Raymond James as the Underwriter and Union Bank of California, NA as the Trustee

Governing body: Board of Supervisors

District: All

Attachments:

Date	Ver.	Action By	Action	Result
6/13/2017	1	Board of Supervisors	Approved	

Published Notice Required? Yes ____ No _X_
Public Hearing Required? Yes ____ No _X_

DEPARTMENTAL RECOMMENDATION:

It is recommended that the Board of Supervisors approve a request from the Treasurer - Tax Collector - County Clerk (TTCCC) to proceed with a full analysis of the potential interest expense and cash flow savings to be realized from a refunding of the 2007 Certificates of Participation, and further authorize the use of the consultant team from Public Financial Management as the lead Financial Advisor, Orrick, Herrington & Sutcliffe LLP as the co-bond counsel, Hawkins, Delafield & Wood LLP as the disclosure counsel, Raymond James as the Underwriter and Union Bank of California, NA as the Trustee.

Should the analysis determine that a refunding is appropriate, the TTCCC, in coordination with the Debt Advisory Committee (DAC), anticipates returning to the Board for approval to refund the existing Certificates of Participation and issue new Refunding Certificates of Participation, as well as to approve all documents associated with such actions.

SUMMARY/DISCUSSION:

On December 3, 2002 Solano County issued $118,325,000 Par Value of Certificates of Participation (COPS) to fund the construction of the CAC building and various other facilities within the County. The certificates were issued in a series with maturities ranging from November 1, 2003 through November 1, 2032, with optional early redemption (calls) available on November 1, 2012 for all maturities from November 1, 2013 through November 1, 2032.

On February 2, 2007 Solano County issued $99,860,000 Par Value of COPS to refund all outstanding callable issues from the 2002 COPS. Proceeds from this bond sale were placed in escrow and the certificates were called on November 1, 2012. This refunding action generated a net present value savings of $3,078,084 to the county at the time the refunding was completed.

As with the 2002 COPS, the 2007 COPS were issued in a series with maturities ranging from November 1, 2007 to November 1, 2032, with calls available on November 1, 2017 for all maturities from November 1, 2018 through November 1, 2032.

A preliminary analysis indicates that a refunding opportunity may exist that can generate significant cost savings to the county. These savings may be realized by the issuance of new COPS to call the outstanding 2007 COPS maturities from November 1, 2018 through November 1, 2032.

The TTCCC would like to proceed with a full analysis of the potential interest expense and cash flow savings to be realized through a refunding of the 2007 COPS, and to initiate refunding preparations as appropriate. These preparations will include the retention of financial advisory services, bond counsel, disclosure counsel, a rating agency, a bond underwriter and others as required.

The full analysis should provide a series of refunding scenarios that demonstrate potential interest expense and cash flow savings available within the existing final maturity date of November 1, 2032. It is anticipated that the DAC will review the analysis and make a recommendation to the board to proceed with a refunding that provides the optimal balance of interest expense and cash flow savings.

Currently the county is in the process of selecting a new Financial Advisor (FA) through the RFQ process. It was originally anticipated that this solicitation process would be completed before this refunding was initiated and that the newly selected firm would be providing advisory services on this project. However, unanticipated circumstances have delayed the FA solicitation process and the TTCCC is recommending the use of the existing FA and financing team to avoid any delays that might adversely impact this refunding opportunity.

The recommended financing team consists of Sarah Hollenbeck at Public Financial Management (PFM) acting as lead FA; John Knox and John Wong from Orrick, Herrington & Sutcliffe LLP acting as co-bond counsel (BC); Sean Tierney from Hawkins, Delafield & Wood LLP acting as disclosure counsel (DC); Rob Larkins at Raymond James acting as Underwriter (UW); and Union Bank of California, N.A (UBOC) acting as Trustee (TR). This is the same team that executed the original 2002 COPS issuance and the subsequent 2007 COPS refunding.

Sarah Hollenbeck has taken the place of Peter Miller who retired earlier this year and continues to provide consulting services to PFM as needed. Sarah worked closely with Peter on previous Solano County debt issuances and is very familiar with Solano County. The remainder of the team remains unchanged from the 2002 and 2007 debt issuances with two notable exceptions. John Wong has been elevated to lead counsel BC in anticipation of the future retirement of John Knox, and Rob Larkins has changed firms from Lehman Brothers to Raymond James.

The solicitation process to secure a new permanent FA should be completed by the end of July 2017. Once they have been selected, they will assist the county in the solicitation process for selecting a new BC, DC, UW, and Trustee. To optimize the benefit to the county, the TTCCC is recommending that the bonds associated with this refunding be issued on a negotiated basis. Under the terms of negotiated sale, the UW agrees to purchase the entire bond issuance which locks in the refunding savings for the county. As an alternative the county could issue the bonds on a competitive basis. This is not advisable on refunding issuances as it exposes the county to interest rate risk in the days immediately preceding the issuance of the refunding bonds.

FINANCIAL IMPACT:

There is no cost for the acceptance of this report.

The county will incur costs associated with conducting the recommended financial analysis and the issuance of refunding COPS. Analysis work conducted by PFM will be compensated on a contractual cost basis to eliminate the risk of any bias in the recommended course of action. Should the county move forward with refunding these costs will be included in the cost of issuance. The remainder of the financing team will receive compensation only if the county proceeds with the refunding. These costs will be included in the final refunding recommendation to the Board and will be paid out of savings realized from the refunding or included in the costs of the refunding to create a net savings.

Preliminary analysis shows a present value savings range between $7,000,000 and $8,000,000 to be realized over the fifteen-year life of the refunding, for an approximate annual cash flow savings of $500,000. These projected savings are based on market conditions at the time the preliminary analysis was completed. Actual savings can and will change with market conditions up until the refunding COPS are finalized and issued.

In accordance with county policy, final maturity of any recommended refunding will be on or before November 1, 2032 which is the stated final maturity date of the original COPS issued in 2002 and the refunding COPS issued in 2007.

As part of the refunding analysis, the finance team will consider a range of refunding scenarios that range from a maximization of cash flow savings to a maximization of total cost savings. In general maximum cash flow savings can be achieved by financing for longer periods of time, while total cost savings can be maximized by a shortening of the maturity schedule that results in an accelerated payoff of the debt. Both options have their merits and drawbacks.

A maximization of cash flow savings can potentially free up revenues for other uses, but by borrowing for longer periods the county incurs greater interest expense costs. A maximization of cost savings repays the debt as quickly as possible by maintaining the existing cash flow levels. This has a short-term drawback in that it doesn't free up any additional revenues for other uses, but in the long term it reduces the amount of interest expense.

The TTCCC, in coordination with the DAC, anticipates recommending a balanced approach that achieves some cash flow savings while reducing the overall interest expense. It is anticipated that any cash flow savings realized will be utilized in the buildout of existing owned county space to allow the county to vacate existing leased spaces at the termination of the leases. This course of action is anticipated to generate additional cost savings to the county.

ALTERNATIVES:

The Board of Supervisors could elect not to evaluate the refunding. This is not recommended as the refunding will only be recommended if it generates cost savings to the county.

OTHER AGENCY INVOLVEMENT:

The Debt Advisory Committee has reviewed this request and recommends proceeding with the refunding analysis and preparations.

CAO RECOMMENDATION:

APPROVE DEPARTMENTAL RECOMMENDATION

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