

MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO: Honorable Board of Supervisors
FROM: Thomas M. Miller, County Executive Officer
By Linda Oakman, Principal Management Analyst
DATE: April 5, 2011
SUBJECT: Consider Options Regarding Financing the South Placer Adult Detention Center

ACTION REQUESTED

Consider options relative to financing the South Placer Adult Detention Center (SPADF).

BACKGROUND

At your meeting on February 22, 2011 the Board requested an analysis of the implications of financing the SPADF with a view to supporting services that might otherwise be cut.

The SPADF is currently under construction in Roseville at an estimated cost of \$105 million. The Board adopted Capital Facilities Financing Plan provides funding for the facility with a combination of Capital Facilities Impact Fees (CFIF) and General Fund contributions for capital facilities. To that end \$50 million CFIF has been allocated to fund the facility and General Fund dollars have been set aside over a period of years, during better economic times, to fund the project. As of this fiscal year the project is fully funded.

The County Executive Office was asked to provide an analysis of options for replacing some of the committed funding for the SPADF with borrowed funds, to bring back cash to support services that might otherwise be cut.

Policy Discussion

The County has an adopted **Debt Management Policy** and within that a **Capital Planning Policy**. The debt management policy defines appropriate purposes for which the County would consider debt financing including:

Generational Equity: Would spread the cost over the life of the project to be paid for by current and future taxpayers or current and future users if appropriate.

Accelerating high priority projects: For capital improvements deemed a high priority such that cost of construction delay exceeds the costs of debt financing.

Economic Development: Where the debt would finance capital investment that would generate revenues to support the repayment of the debt.

Other purposes are voter approved projects, self supporting projects or to leverage other revenues.

Of the purposes listed, financing the SPADF would meet the criteria for Generational Equity since the debt would be paid by current and future taxpayers over the life of the facility.

However, the **Capital Planning Policy** states the County will attempt to fund capital projects with non-recurring resources or consider the development of new funding sources or general revenues, operating surpluses or capital reserves, among others.

The funding to pay for the SPADF was set aside in accordance with this policy and comes from restricted funds, one time sources and funding set aside annually for capital projects in accordance with the Board adopted Capital Facilities Financing Plan.

Financial Discussion

Eight scenarios for financing and annual expenditures have been prepared using a combination of the following assumptions:

- Borrowing = \$24 million or \$48 million
- Term = 15 or 20 years
- Annual Expenditure for services = \$2 million or \$4 million

The scenarios assume the County would borrow to fund the SPADF for a period of years and would use the debt proceeds to fund services and/or one time expenditures and to pay the debt service until the borrowed funds run out, at which time debt service and ongoing services would become obligations of the General Fund.

Depending on the scenario chosen, costs for financing vary between \$5.3 million and \$20.0 million and the estimated interest rate varies between 4.21% and 4.88% assuming a good credit rating. The amount borrowed would last for 5 to 10 years paying for services and debt service after which time the costs would fall to the General Fund. A table is attached summarizing the various scenarios.

If the SPADF were to be financed the financing would need to occur while construction was still underway, in order to maintain our credit rating and receive favorable financing. Otherwise the financing would need to be in connection with another capital project and the SPADF would be used as collateral during the construction period.

FISCAL IMPACT

This item is an information item therefore there is no fiscal impact.

Attachment: SPADF Financing Table

Placer County
South Placer Adult Detention Facility
Summary of Options (a)
April 5, 2011

(a) Represents a summary of information provided by CPFPG

Term/Gross Rate (1)	Amount Borrowed (2)	Annual Expenditure on Services	Debt Proceeds	Gross Avege Annual Debt Service (3)	Total Net Cost (4)	Total PV cost (5)	Net annual borrowing rate(6)
15/4.21%	\$ 53,440,000	\$ 2,000,000	\$ 48,000,000	\$ 4,779,239	\$ 8,175,672	\$ 5,387,373	1.03%
15/4.28%	\$ 26,860,000	\$ 2,000,000	\$ 24,000,000	\$ 2,402,149	\$ 5,321,515	\$ 4,326,296	1.33%
20/4.82%	\$ 52,740,000	\$ 2,000,000	\$ 48,000,000	\$ 4,086,213	\$ 17,403,799	\$ 11,725,475	1.53%
20/4.88%	\$ 26,510,000	\$ 2,000,000	\$ 24,000,000	\$ 2,053,681	\$ 10,239,687	\$ 6,997,570	1.80%
15/4.21%	\$ 53,440,000	\$ 4,000,000	\$ 48,000,000	\$ 4,779,239	\$ 10,293,188	\$ 7,124,689	1.29%
15/4.28%	\$ 26,860,000	\$ 4,000,000	\$ 24,000,000	\$ 2,402,149	\$ 6,320,178	\$ 5,189,640	1.59%
20/4.82%	\$ 52,740,000	\$ 4,000,000	\$ 48,000,000	\$ 4,086,213	\$ 20,077,285	\$ 13,872,668	1.77%
20/4.88%	\$ 26,510,000	\$ 4,000,000	\$ 24,000,000	\$ 2,053,681	\$ 11,406,220	\$ 7,995,916	2.02%

Notes

- (1) Gross rate is the cost as a percentage of the amount borrowed including issuance costs and interest costs. It is not adjusted for inflation nor does it include investment earnings on the cash borrowed.
- (2) Issue amount includes project fund, debt service reserve and cost of issuance funds.
- (3) Gross debt service is average cash due annually and is not adjusted for interest earned on debt reserve.
- (4) Total net cost is the total repayments less interest on County funds and less the debt service reserve deposit.
- (5) Total PV cost is the net cost adjusted to present value of funds using the County pool rate.
- (6) Borrowing rate adjusted to take into consideration earnings on the DSR and funds held at the County.

