

Memorandum
Office of Jenine Windeshausen
Treasurer-Tax Collector



To: The Board of Supervisors

From: Jenine Windeshausen, Treasurer-Tax Collector 

Date: November 8, 2011

Subject: Public Debt, Middle Fork Revenues, and Budget and Finance Policies

Action Requested:

Receive a presentation regarding financing resources including public debt, Middle Fork revenues, and discussion of portfolio approach to financing. Provide follow-up direction as necessary.

Background:

Public Debt:

There is a variety of public debt available to counties for financing of capital improvements, infrastructure and equipment. A compendium of public debt financing is attached for your reference in Exhibit A. The presentation today will provide a briefing on the following types of public debt.

- General Fund backed debt
 - Certificates of Participation (COPs)
 - Tax and Revenue Anticipation Notes (TRAN, also TANs and RANs)
 - Other Post Employment Benefit Bonds (OPEB bonds)
 - Pension Obligation Bonds (POBs)
 - Leases
- Revenue backed debt
 - General Obligation Bonds
 - Revenue Bonds
 - Securitization
 - State Revolving Fund Loans (SRF or surf loans)
- Land Secured debt
 - Assessment Bonds (1911, 1913 and 1915 Acts)
 - Community Facilities District Bonds (CFDs or Mello Roos Bonds)

The briefing will include a discussion of the facilities each type of bond is typically used to finance, the authorization necessary to issue each type of bond, the security required for issuance. Additionally, for each type of bond, comparative information on recently issued bonds by other local governments is provided as well as information on outstanding debt issued by Placer County if applicable.

Middle Fork Revenues:

Based on projections refined in the last two weeks, information on financial resources of the County's estimated share of future revenues is included in this presentation as outlined in Exhibit B.

The Middle Fork Project Finance Authority Board recently authorized staff to enter into negotiations with Pacific Gas and Electric (PG & E) after a proposal and review process involving several potential power purchasers. For several years, staff and consultants have worked to project future revenues and expenditure, including any regulatory compliance costs and other operating obligations of the Middle Fork American River Hydroelectric Project (the Project). With the authorization to negotiate the future sale of Project generation with PG&E many variables previously left to assumption can now be further refined. Although final projections will not be available until the contract is finalized and both current and future projections are estimates based on current information. As the Board is aware, the annual revenues are subject to substantial year-over-year volatility due to many fluctuating variables related to hydropower generation, most notably the inconsistent nature of hydrology and energy prices.

Portfolio Approach to Financing:

Consideration of specific fund expenditures and related fund financial resources should be considered in order to achieve the most efficient and cost effective financing. Financial obligations should be viewed as a "portfolio" of obligations over time. Next an analysis can be made to determine the most efficient and cost effective financing options related to the County's portfolio of obligations. This "portfolio" approach particularly to General Fund expenditures and financing should be formalized and annually reviewed, updated and adopted by the Board. The annual review and update should take into consideration current economic, financial and public policy issues.

Fiscal Impact:

This item has no direct fiscal impact as no direct economic or financial action is being taken.

Exhibit A

Compendium Of Public Debt Types



11/8/11

Jenine Windeshausen
Treasurer-Tax Collector
Placer County

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Certificates of Participation

COPs

General Fund Obligation: Yes, may also be issued pursuant to an enterprise fund.

Vote/Ballot Required: 3/5 approval of governing board

Types of Facilities Financed: Public Buildings, other Public Facilities and equipment

Security: Lease/Purchase structure. Annual pledge of lease payments; requires annual budget appropriation.

Recent Issues:

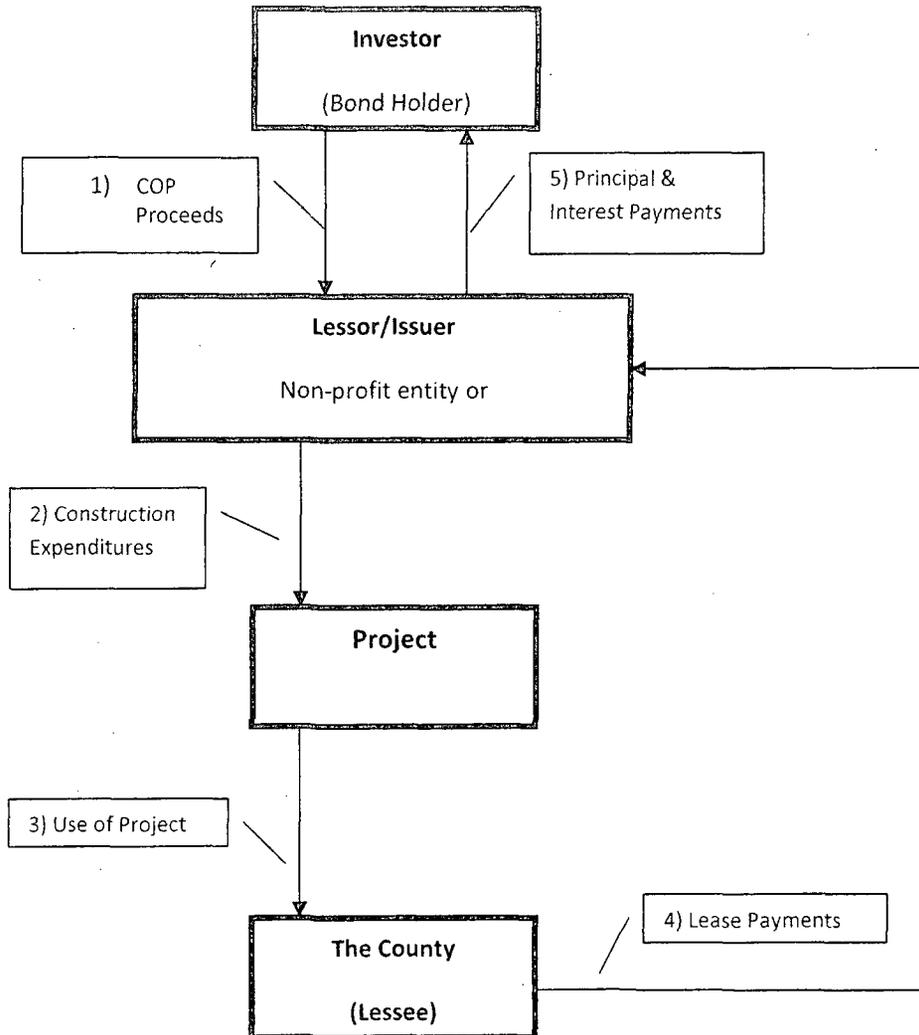
Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net Interest Rate	Issuing Agency
04-25-2011/ 05-02-2016	\$7,847.00	Equipment	5.25	Kings County
04-20-2011/ 11-01-2019	\$19,290,000.00	Parking	2.699	San Diego County
03-10-2011/ 08-01-2016	\$10,860,000.00	Solid waste recovery facilities	2.02	Kern County
03-09-2011/ 03-18-2027	\$9,389,969.00	Power generation/transmission	4.521	Yuba County
02-28-2011/ 12-01-2020	\$5,535,000.00	Public building	3.54	Riverside County

Current Interest Rate: Yield on 20 year maturity is approximately 5%

Issued by Placer County:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net interest Rate	Outstanding Balance
06-02-2006/ 06-01-2024	\$11,770,000	Administrative and Emergency Services Building	4.37%	\$9,270,000
12-06-2007/ 12-01-2027	\$34,850,000	South Placer Justice Center Courthouse	4.38%	\$31,145,000
12-30-2010/ 07-01-2025	\$8,165,000	Juvenile Detention Facility and Jail Kitchen	3.41%	\$7,915,000
04-09-2009/ 04-11-2016	\$1,500,000	Helicopter	2.476%	\$1,097,300

Certificates of Participation Structure (simplified)



- A) The governmental agency establishes a joint powers authority or non-profit corporation to issue debt, and to construct and own the project during the term of the lease.
- B) A lease agreement is entered into between the government agency (Lessee) and the JPA (Lessor) for the lessor to make lease payments in exchange for the construction and long-term use of the project.
 - 1) The lessor issues the debt, and receives debt proceeds from investors.
 - 2) The lessor uses the debt proceeds to construct the project.
 - 3) The lessee assumes use of the completed project.
 - 4) The lessee makes lease payments to the lessor for use of the project.
 - 5) The lessor uses the revenue from the lease payments to make principal and interest payments to the investors.

The entire deal is accomplished through a set of lease, assignment and trust agreements entered into between the governmental agency, the non-profit or JPA and an independent trustee.

General Obligation Bond

General Fund Obligation: No

Vote/Ballot Required: 2/3 Vote of Registered Voters in area subject to the additional property tax

Types of Facilities Financed: Facilities with broad public support such as school facilities, jails and sometimes recreational facilities.

Security: Tax increment added to property tax bill sufficient to cover annual debt service; based on a percentage of assessed value. In the event of significant property tax delinquencies, properties may be subject to accelerated judicial foreclosure to ensure payment of bond debt service.

Recent Issues:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net Interest Rate	Issuing Agency
05-27-2011/ 08-01-2032	\$6,397,194.00	K-12 school facility	6.013	Jefferson School District
05-19-2011/ 08-01-2025	\$25,000,000.00	K-12 school facility	5.51	Las Virgenes Unified School District
05-18-2011/ 08-01-2034	\$52,505,000.00	College, university facility	4.608	Marin Community College District
05-18-2011/ 08-01/2036	\$25,000,000.00	K-12 school facility	4.888	Tustin Unified School District
05-11-2011/ 08-01-2041	\$6,478,300.00	K-12 school facility	5.418	Calistoga Joint Unified School District

Current Interest Rate: Yield on 20 year maturity is approximately 4.5%

Issued by Placer County: None

Revenue Bond

General Fund Obligation: No

Vote/Ballot Required: 3/5 approval of governing board

Types of Facilities Financed: Revenue producing facilities or infrastructure such as toll roads, recreational facilities, and municipal utility infrastructure.

Security: Pledge of revenues from facility financed such as toll receipts, gate receipts or utility rates.

Recent Issues:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net Interest Rate	Issuing Agency
05-26-2011/ 09-01-2041	\$13,360,000.00	Flood control, storm drainage	5.202	West Sacramento Area Flood Control Agency
05-18-2011/ 10-01-2041	\$16,280,000.00	Wastewater collection, treatment	4.794	Eureka Public Financing Authority
05-12-2011/ 08-01-2030	\$22,750,000.00	Water supply, storage, distribution	4.634	San Luis Obispo County Financing Authority
05-05-2011/ 09-01-2041	\$20,500,000.00	Parks, open space	5.535	Mid-peninsula Regional Open Space District Financing Authority
04-27-2011/ 08-01-2041	\$31,990,000.00	Wastewater collection, treatment	4.632	San Mateo

Interest Rate Range Since Issuance: 3.63% -6.25%

Issued by Placer County or Related Agency: Middle Fork Project Public Finance Authority

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net interest Rate	Outstanding Balance
03-29-06/ 04-01-36	\$100,000,000 Line of Credit	Middle Fork Relicensing Project	Adjustable Quarterly at 2-15-36 Treasury + 1% Then fixed starting 02-17-15 at 2/15/36 Treasury + 1% Current Rate: 3.95%	\$65,204,692
07-16-97/ 06-01-12	\$4,170,000	E. Regional Landfill Closure	5%	\$375,000

Assessment Bonds

- General Fund Obligation:** No
- Vote/Ballot Required:** Ballots cast by property owners in the district
Vote is weighted by share of property owned in the district
Must be less than a majority of **no** ("protest ballots")
for approval
- Types of Facilities Financed:** Public infrastructure such as sewers, drainage, road construction or improvements. Amount financed can include necessary site preparation. Facilities must have a direct benefit to the properties subject to the assessment.
- Security:** Additional assessment placed on property and collected on property tax bills. Assessment amount is based on a percentage of assessed value. In the event of delinquency, properties are subject to accelerated judicial foreclosure to ensure payment of bond debt service. Assessment amount is most commonly based on a level bond debt-service-payment.
- Note: Assessments can also be place on properties for collection of assessments that support services and not bond repayment.

Recent Issues:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net Interest Rate	Issuing Agency
05-11-2011/ 09-02-2041	\$25,855,000	Multiple capital improvements, public works	6.877	Irvine
02-16-2011/ 09-02-2040	\$1,388,067	Other capital improvements, public works	5.961	Belvedere
01-20-2011/ 09-02-2020	\$3,405,000	Street construction and improvements	4.824	Santa Rosa
01-20-2011/ 09-02-2019	\$8,490,000	Street construction and improvements	4.73	Santa Rosa

Current Interest Rate: Yield on 20 year maturity is approximately 6%

Issued by Placer County:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net interest Rate	Outstanding Balance
08-17-00/ 09-02-30	\$3,495,000	Placer Corp Center	6.49%	\$2,690,000

Mello Roos Community Facilities District Bonds (CFD Bonds)

General Fund Obligation: No

Vote/Ballot Required: 2/3 of Registered Voters if 12 or less voters reside in the district, otherwise 2/3 weighted property owner vote

Types of Facilities Financed: Public infrastructure such as sewers, drainage, road construction or improvements. Amount financed can include necessary site preparation. Facilities **do not** have to provide a direct benefit to the properties subject to the assessment.

Security: Special tax on property, collected on property tax bill. Special tax amount is based on a "rate and method of apportionment formula" which determines a specific dollar amount to be applied to properties based on certain property characteristics such as lot size. In the event of delinquency, properties are subject to accelerated judicial foreclosure to ensure payment of bond debt service. Special tax amount is typically subject to an annual increase not to exceed 2% to provide for escalating debt service.

Note: Special taxes can also be place on properties for collection of special taxes that support services, not bond repayment.

Recent Issues:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net Interest Rate	Issuing Agency
05-19-2011/ 09-01-2042	\$8,235,000	Multiple capital improvements, public works	6.393	Jurupa Community Services District CFD No. 15
04-21-2011/ 09-01-2041	\$5,760,000	Multiple capital improvements, public works	7.719	Redwood City CFD No. 2010-1
03-30-2011/ 05-01-2042	\$107,425,000	Convention Center	5.34	San Jose Convention Center CFD No. 2008-1
02-16-2011/ 09-01-2020	\$17,075,000	Multiple capital improvements, public works	4.515	Sacramento County CFD No. 9
01-22-2011/ 09-01-2021	\$12,830,000	Multiple capital improvements, public works	4.454	Chino Hills CFD No. 9

Current Interest Rate: Yield on 20 year maturity is approximately 5.75%

Mello Roos Community Facilities District Bonds

- Continued -

Issued by Placer County:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net interest Rate	Outstanding Balance
12/4/01/ 09-01-26	\$19,980,000	Dry Creek West Placer	6.42%	\$15,385,000
11/15/11	\$	Dry Creek West Placer Refunding	4.75%	\$14,140,000

TRAN

Tax and Revenue Anticipation Note

General Fund Obligation: Yes

Vote/Ballot Required: 3/5 approval of Governing Board

Types of Facilities Financed: Financing cash flows due to unevenly matched receipts and disbursements also used to produce arbitrage gains for revenue enhancement.

Security: Pledge of first general fund revenues received during the fiscal year. Maturity cannot be more than 13 months. Amount of issue based on estimate of lowest point during fiscal year of disbursements over receipts plus the next 30 days expenditures.

Recent Issues:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net Interest Rate	Issuing Agency
06-09-2011/ 07-05-2012	\$48,000,000	Cash flow, interim financing	0.41	Santa Cruz County
06-01-2011/ 06-29-2012	\$60,000,000	Cash flow, interim financing	0.27	Santa Barbara County
07-01-2011/ 06-29-2012	\$78,000,000	Cash flow, interim financing	0.239	Fresno County
06-06-2011/ 06-29-2012	\$125,000,000	Cash flow, interim financing	0.26	Riverside County
06-01-2011/ 06-29-2012	\$61,600,000	Cash flow, interim financing	0.27	Orange County

Current Interest Rate: Yield on 1 year note is approximately 0.5%

Issued by Placer County:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net interest Rate	Outstanding Balance
11-1-11	not to exceed \$5,000,000	mPOWER Program costs	0.45%	\$1,300,000

None issued to finance County General Fund Cash Flow for at least 18 years.

OPEB Bond and Pension Obligation Bond (POBs) (Other Post Employment Benefit Bond)

General Fund Obligation: Yes

Vote/Ballot Required: 3/5 approval of the Governing Board

Types of Facilities/Program Financed: Unfunded Pension or OPEB Liabilities

Security: General Fund

Recent Issues:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net Interest Rate	Issuing Agency
05-26-2011/ 05-26-2018	\$3,520,000	Insurance and pension funds	4.52	Montecito Fire Protection District
05-23-2011/ 07-15-2022	\$3,209,800	Insurance and pension funds	4.998	Stanislaus Consolidated Fire Protection District
04-13-2011/ 04-13-2019	\$6,184,000	Insurance and pension funds	4.7	Santa Cruz County Central Fire Protection District

Current Interest Rate: Taxable Yield on 20 year maturity is approximately 7.5% (Not eligible for tax-exempt municipal rates).

Issued by Placer County: None

Note:

The underlying pension or OPEB fund assets are subject to market fluctuation. This includes amount deposited from POB or OPEB bonds. In other words \$100,000,000 in POB or OPEB bond proceeds issued to eliminate a pension or OPEB liability of \$100,000,000 may be worth \$95,000,000 the next day and may be subject to greater market fluctuations over the life of the bonds. Meanwhile the pension or OPEB liability remains somewhat constant thereby creating a new liability of \$5,000,000 while debt service is still owed on \$100,000,000.

Additionally over the life of the bonds, the **taxable** interest rate on the bonds could exceed the rate on the actuarially assumed rate on the pension or OPEB liability causing increased cost.

Additionally, the pension and OPEB bonds create a legal liability for repayment to bond holders. Pension and OPEB liabilities are not a legal liability, they are an accounting disclosure that can be foregone if desired or needed.

The consequences to local governments who do not control their own pension and OPEB funds, such as CalPERS participants, are at even greater risk than 1937 Act entities that manage their own funds. It is challenging even for 1937 Act entities to structure a positive arbitrage on OPEB bonds or POBs.

Securitization

General Fund Obligation: No

Vote/Ballot Required: 3/5 approval of the Governing Board

Types of Facilities Financed: Any, unless restrictions related to revenue source. Most state payments would be unrestricted. Tobacco securitization proceeds must be spent on either facilities or health related programs and maybe subject to expenditure restrictions.

Security: Pledge or assignment of a specific stream of revenues. An example would be a lottery winner who sells their lottery annuity that is paid over time for a lump sum. The lump sum is based on a net present value of the annuity at a specified discount rate. Some securitizations maybe not be eligible for tax-exempt rates depending on the revenue source and how the proceeds are committed. Additionally, securitizations based on revenue sources with high volatility may necessitate a substantial reserve fund to mitigate the volatility.

Recent Issues: No recent issues.

Current Interest Rate Range:

Issued by Placer County:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net interest Rate	Outstanding Balance
06-01-06/ 06-01-46*	\$59,372,117	CDRA Bldg	5.59%	\$58,163,228

*Forty years of revenues securitized. Revenue stream is in perpetuity. Additional out years may be securitized a future date.

Credit ratings are based on risk of revenue stream diminishing over time due to tobacco taxes, lawsuits, and social trends. This securitization provided immediate funding for facilities while shifting risk to bond holders. Given the credit rating down-grades experienced since securitization was initiated, the County would receive significantly less if it were to securitize today as a lower credit rating would render a higher discount rate.

Rating History:

06-01-06	BBB	(medium grade)
09-11-09	B+	(5 grade drop to low grade with a negative outlook)
11-11-2010	B-	(2 grade drop with negative outlook, reaffirmed on 10-28-11)

State Revolving Fund

General Fund Obligation: No

Vote/Ballot Required: Approval of the Governing Board

Types of Facilities Financed: Wastewater infrastructure

Security: Sewer rates provide repayment security. Additionally, a Repayment Reserve Fund is typically required to offset fluctuations in the repayment source. Repayment Reserve Fund sizing is based on credit need. Requires a "loan application", not a public offering.

Recent Issues:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net Interest Rate	Issuing Agency
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Current Interest Rate: 2.2%

Issued by Placer County: None

Redevelopment Agency Bonds

General Fund Obligation: No

Vote/Ballot Required: 3/5 approval of the Governing Board

Types of Facilities Financed: Infrastructure related to redevelopment

Security: Tax increment from property taxes. At inception of redevelopment area, property tax rates/revenues are "frozen" for all jurisdictions. Any increase in property taxes attributable to increased property value is distributed to the Redevelopment Agency. Estimates of future revenues are used to determine the amount of debt that can be supported by the estimated future revenues. The debt is secured by the future revenues in the redevelopment area. Proceeds must be spent on infrastructure and facilities within the redevelopment area unless a nexus can be identified between the facility and the redevelopment area.

Additionally, 20% of the increment must be used to finance low and moderate income housing with the remaining 80% eligible for redevelopment infrastructure and facilities.

Recent Issues:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net Interest Rate	Issuing Agency
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Current Interest Rate: n/a

Issued by Placer County:

Issue Date/ Maturity Date	Issue Amount	Facility Financed	Net interest Rate	Outstanding Balance
08-08-06/ 08-01-36	\$15,765,000	N. Lake Tahoe	4.66%	\$14,305,000
08-08-06/ 08-01-36	\$ 3,520,000	N. Auburn	4.63%	\$3,175,000
08-08-06/ 08-01-36	\$ 5,865,000	Countywide Low/Mod Income Housing	6.29%	\$5,440,000

Exhibit B

**Middle Fork American River Hydroelectric Project
Estimated Revenue Projections for County Share**

This estimate is based on the most recent data available. As a power sale contract has not been finalized and other variables are estimated based on ranges of probability. Substantial adjustments to the Net Present Value of future revenues are likely as data is further refined and defined. The Board will be provided more reliable estimates over the next 6-9 months.

Estimated Net Present Value of Middle Fork Revenues 2015 - 2041 = \$348,521,617

	Percentage of Net Present Value
5%	\$17,426,081
10%	\$34,852,162
15%	\$52,278,243
20%	\$69,704,323
25%	\$87,130,404
30%	\$104,556,485
35%	\$121,982,566
40%	\$139,408,647
45%	\$156,834,728
50%	\$174,260,809
55%	\$191,686,889
60%	\$209,112,970
65%	\$226,539,051
70%	\$243,965,132
75%	\$261,391,213
80%	\$278,817,294
85%	\$296,243,374
90%	\$313,669,455
95%	\$331,095,536