W.5.E.1.

Memorandum Date: April 27, 2011

TO: Board of County Commissioners

DEPARTMENT: Management Services

PRESENTED BY: David Suchart, Management Services Director

AGENDA ITEM TITLE: IN THE MATTER OF AUTHORIZING REFUNDING OF THE COUNTY'S FULL FAITH AND CREDIT OBLIGATIONS, SERIES 2002A

I. MOTION

MOVE APPROVAL OF ORDER 11-04-27-XX IN THE MATTER OF AUTHORIZING REFUNDING OF THE COUNTY'S FULL FAITH AND CREDIT OBLIGATIONS, SERIES 2002A.

II. AGENDA ITEM SUMMARY

The County is authorized by ORS 271.390 to enter into loan agreements to refinance real property capital projects which the Board of Commissioners determines is needed. This item formally authorizes a refinancing of a portion of the County's Full Faith and Credit Obligations, Series 2002A related to Lane Events Center projects, with the express goal of reducing interest costs over the life of the loan.

III. BACKGROUND/IMPLICATIONS OF ACTION

A. Board Action and Other History

On January 4, 1989, the Board of County Commissioners authorized the sale of $2,900,000 in Certificates of Participation to build a new livestock arena and convert the then existing horse arena to an ice skating facility.

On June 19, 1996, the Board of County Commissioners authorized the sale of $2,500,000 in Limited Tax Revenue Bonds for improvements to the livestock arena complex.

On December 2, 1998, the Board of County Commissioners authorized an $8,905,000 Municipal Loan Agreement to refinance both the 1989 Certificates of Participation and the 1996 Limited Tax Revenue Bonds and to finance $4,875,000 in new additions and related improvements to the convention center facility.

On January 9, 2002, the Board of County Commissioners authorized the sale of $7,615,000 in Full Faith and Credit Obligations to refinance the Municipal Loan Agreement and to finance $890,000 in new costs related to improvements to the storm water drainage system that runs through the complex.

On April 21, 2011 this agenda item was presented to the Finance and Audit Committee which was referred to the Board of County Commissioners for approval.

B. Policy Issues

This item is consistent with the debt management policy in Lane Manual 4.030 which states debt shall be issued in a manner that minimizes the County's debt service and issuance costs while maintaining the highest practical credit rating, and that bonds and long-term debt obligations shall be issued only upon authorization of the Board of County Commissioners.

C. Board Goals

This item supports the goals of providing efficient and effective financial and administrative support and systems, and allocating resources strategically.

D. Financial and/or Resource Considerations

The bonds subject to refunding are paid with Transient Room Tax (TRT) dollars. Lane Code 4.175(5) provides the rules for how TRT dollars are spent:

> *Annual revenues from the Lane County Transient Room Tax Fund derived from the tax imposed by LC 4.110(1) above shall be credited for payment of debt service on: 1) the certificates of participation issued to finance the 1989 livestock arena/ice rink project at the fairgrounds, and 2) the debt issued to finance the 1994-95 fairgrounds projects. Any amounts derived from the tax imposed by LC 4.110(1) above in excess of annual debt service shall be used for future capital projects or as directed by the Board through the annual budget process and shall be used in accordance with ORS 320.300 et. seq.*

Historically, TRT revenues in excess of the amounts required for debt service ("excess TRT") have been provided to the Lane Events Center for capital projects, except for that portion which the Board of County Commissioners authorizes annually for operating purposes. Under current policy, any savings on the refunded bonds will have a direct impact on the amount of "excess TRT" the Lane Events Center receives. The present value of projected savings based on a partial refunding is $300,000 or approximately $30,000 each year on average.

The following is a projection of debt terms of a partial refunding issue. Debt terms will change based on market conditions at time of sale.

Term	10 year level debt service
Coupon range	2% to 4%
True interest cost	2.9775%

Total principal of refunding bonds at par	$5,080,000
Estimated premium on refunding bonds	216,000
Total sources of funds	$5,296,000
Amount required on refunded bonds	$5,197,000
Cost of issuance	99,000
Total uses of funds	$5,296,000

If bonds do not sell at a premium, total principal will be increased by $216,000.

E. Analysis

Definitions

A "refunding" is a procedure whereby an issuer refinances outstanding bonds by issuing new bonds. There are generally two major reasons for refunding: to reduce the issuer's interest costs or to remove a burdensome or restrictive covenant imposed by the terms of the bonds being refinanced. The proceeds of the new bonds are either deposited in escrow to pay the debt service on the outstanding bonds when due (called an "advance" refunding) or used to promptly (within 90 days) retire the outstanding bonds (called a "current" refunding). The new bonds are referred to as the "refunding bonds," and the outstanding bonds being refinanced are referred to as the "refunded bonds". A "full" refunding occurs when an entire bond is refunded. A "partial" refunding occurs when only a portion of a bond is refunded.

Debt portfolio analysis

Over the last few years finance staff, along with our financial advisors Seattle Northwest (SNW) have been monitoring opportunities for taking advantage of these low interest rates to refund existing debt. Staff and SNW have reviewed all County debt issues and determined that a partial refunding of the 2002A Full and Faith and Credit Obligations can be accomplished and result in a savings that will benefit the Lane Events Center.

State Statutes

State Statutes require a present value savings of $5 million or more, or 3% of refunding proceeds to transact a refunding bond sale if such refunding is going to occur one year or more prior to the first call date. However, a refunding bond that is issued within one year of a bond's first call date does not require State approval. The 2002A bonds were not contemplated in the 2011 bond that was issued in March of 2011 because the first call date was beyond the one year and a 3% savings could not be guaranteed. However, because the proposed 2011 refunding bond will occur within 364 days of the first call date, State approval is not necessary and the 3% savings test is not required.

Federal Law

Federal law defines a current refunding as taking place within 90 days of the refunded bonds first call date. In our case, the first call date of the 2002A bonds is June 1, 2012, which is 9 months beyond the issuance date contemplated in this board order. Therefore, the 2011 refunding bonds will be considered an advanced refunding. However, federal law also states a bond can only be advance refunded one time. In the case of the 2002A bonds, about 13% of the outstanding principle was related to an advanced refunding of the 1989 Certificates of Participation. For that reason, the proposed refunding is limited to a "partial" refunding of about 87% of the 2002A bonds.

Risk of Refunding

Refunding of any bond issue runs the risk that the cost of the refunding bond will exceed the cost of the refunded bonds. Based on our analysis and conversations with SNW and bond counsel, we believe the risk involved in assuming the costs associated with the refunding are reasonable.

F. Alternatives/Options

1. Authorize debt refinancing of the 2002A bonds.

2. Do not authorize debt refinancing of the 2002A bonds.

IV. RECOMMENDATION

The Management Services Director recommends approval to issue refinancing bonds for the 2002A bonds.

V. TIMING/IMPLEMENTATION

Upon approval, the 2011 refunding bond sale is expected to occur on June 2, 2011.

VI. FOLLOW-UP

None

VII. ATTACHMENTS

Board Order

IN THE BOARD OF COUNTY COMMISSIONERS OF LANE COUNTY, OREGON

ORDER NO. IN THE MATTER OF AUTHORIZING REFUNDING OF THE COUNTY'S FULL FAITH AND CREDIT OBLIGATIONS, SERIES 2002A.

WHEREAS, the County is authorized by Oregon Revised Statutes Section 271.390 to enter into loan agreements to finance or refinance real or personal property which the Board of County Commissioners determines is needed, and to authorize certificates of participation in the right to receive the payments due from the County under those loan agreements; and

WHEREAS, the County is authorized by ORS 287A.105 to incur bonded indebtedness within the meaning of section 10, Article XI of the Oregon Constitution; and

WHEREAS, the County issued Full Faith and Credit Obligations, Series 2002A in the aggregate principal amount of $7,615,000 (the "Series 2002A Obligations"), to current refund a 1998 Municipal Loan Agreement, finance capital improvements at the fairgrounds and pay costs of issuance; and

WHEREAS, the County is authorized to refinance the outstanding Series 2002A Obligations and may be able to reduce its debt service costs by refunding the Series 2002A Obligations; and

WHEREAS, the Board hereby determines that the facilities financed with the Series 2002A Obligations are needed, and that it is desirable to refinance the Series 2002A Obligations pursuant to ORS 271.390 and ORS 287A.105; now therefore IT IS HEREBY ORDERED that the County may refinance all or a portion of the outstanding Series 2002A Obligations under the authority of ORS 271.390 and ORS 287A.105. The net proceeds of the refunding obligations shall not exceed the outstanding principal amount of the Series 2002A Obligations to be refunded, plus any amounts required to pay costs of the refunding, rounded upward to allow principal to mature in multiples of $5,000.

IT IS FURTHER ORDERED that the County Administrator or the County Treasurer (collectively the "County Official") are hereby authorized, on behalf of the County and without further action by the Board, to:

1. Negotiate, execute and deliver one or more loan agreements (the "Loan Agreements") for the refunding which obligate the County to repay the financed amounts, with interest. The Loan Agreements shall constitute bonded indebtedness and be subject to the limits of ORS 287A.105. The obligation of the County to make loan payments under the Loan Agreements shall be unconditional. The County Official may pledge the County's full faith and credit and taxing power within the limitations of Sections 11 and 11b of Article XI of the Oregon Constitution, and may agree to pay the Loan Agreements from any and all of the County's legally available funds. Subject to the limitations of this Order, the Loan Agreements may be in such form and contain such terms as the County Official may approve, including covenants for the benefit of the lenders or credit enhancement providers.

2. Negotiate, execute and deliver one or more escrow agreements or similar documents (the "Escrow Agreements") which provide for the issuance of one or more series of "certificates of participation" or "full faith and credit obligations" (the "Obligations") which represent ownership interests in the loan payments due from the County under the Loan Agreements. Subject to the limitations of this Order, the Escrow Agreements and each series of Obligations may be in such form and contain such terms as the County Official may approve, including covenants for the benefit of the lenders or credit enhancement providers.

3. Determine whether the interest payable on each Loan Agreement will be includable in gross income or excludable from gross income under the Internal Revenue Code of 1986, as amended (the "Code").

4. Designate the Loan Agreements and Obligations as "qualified tax-exempt obligations" under Section 265(b) of the Code, if applicable.

5. Covenant for the benefit of the owners of tax-exempt obligations to comply with all provisions of the Code which are required for the interest component of loan payments payable under the related Loan Agreements to be excluded from gross income for federal income tax purposes.

6. Deem final and authorize the distribution of a preliminary official statement for each series of Obligations, authorize the preparation and distribution of a final official statement or other disclosure document for each series of Obligations, and enter into agreements to provide continuing disclosure for owners of each series of Obligations.

7. Apply for and purchase ratings, municipal bond insurance, or other forms of credit enhancements for the Loan Agreements and Obligations, and enter into related agreements, as necessary.

8. Enter into additional covenants for the benefit of the purchasers of the Loan Agreements and Obligations which the County Official determines are desirable to sell the Loan Agreements and Obligations on favorable terms.

9. Engage the services of verification agents, escrow agents, paying agents and any other professionals whose services are desirable for the financings.

10. Enter into one or more escrow deposit agreements for the refunding and take actions to call, defease and redeem all or any portion of the outstanding Series 2002A Obligations.

11. Subject to this Order, determine the final principal amount of each Loan Agreement, the interest rate or rates which each Loan Agreement and each series of Obligations shall bear, and the County's prepayment rights and other terms of each Loan Agreement and each series of Obligations.

12. Solicit competitive bids for the purchase of each series of the Obligations and award their sale to the bidder offering the most favorable terms to the County, select one or more underwriters, negotiate the terms of the sale of each series of Obligations, and sell that series to those underwriters; or select one or more commercial banks, negotiate the terms of the sale of each Loan Agreement and sell each Loan Agreement to those commercial banks.

13. If necessary, prepare and submit an advanced refunding plan to the Oregon State Treasurer's office for the refunding of the Series 2002A Obligations.

14. Execute and deliver any other certificates or documents and take any other actions which the County Official determines desirable accomplish the refunding with the Loan Agreements and the Obligations in accordance with this Order.

15. Enter into other covenants, agreements and provisions which the County Official determines are necessary or appropriate to better secure the Obligations, and take any other actions which the County Official determines are appropriate to carry out this Order.

DATED this 27th day of April, 2011.

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Chair, Board of County Commissioners

APPROVED AS TO FORM

Date 4-19-2011 lane county

OFFICE OF LEGAL COUNSEL