

W-7-b.

Memorandum Date: February 2, 2011

TO: Board of County Commissioners

DEPARTMENT: Management Services

PRESENTED BY: David Suchart, Management Services Director

AGENDA ITEM TITLE: IN THE MATTER OF AUTHORIZING FINANCING OF PROJECTS IN A PRINCIPAL AMOUNT NOT TO EXCEED \$10,735,000 AND AUTHORIZING REIMBURSEMENT OF EXPENDITURES FROM PROCEEDS

I. MOTION

MOVE APPROVAL OF ORDER 11-02-02-XX IN THE MATTER OF AUTHORIZING FINANCING OF PROJECTS IN A PRINCIPAL AMOUNT NOT TO EXCEED \$10,735,000 AND AUTHORIZING REIMBURSEMENT OF EXPENDITURES FROM PROCEEDS.

II. AGENDA ITEM SUMMARY

The County is authorized by ORS 271.390 to enter into loan agreements to finance capital projects which the Board of Commissioners determines is needed. This item formally authorizes the financing.

III. BACKGROUND/IMPLICATIONS OF ACTION

A. Board Action and Other History

On February 2, 2011, the Board of County Commissioners authorized debt financing for capital improvements at the Riverstone Community Health Center, Richardson Park Marina, Public Works Customer Service Center, Lane Events Center Convention Center, and the Public Service Building/County Courthouse Complex.

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

Debt financing for major capital projects allows the County to undertake projects while spreading the cash outlay over the expected life of the project. Additionally, issuing one financing for multiple projects allow the County to minimize issuance costs.

The following is a projection of debt terms made in early January, 2011 assuming full faith and credit obligations are issued. Debt terms will change based on market conditions at time of sale.

- Total Principal - \$10,735,000
- Term – 20 year level debt service
- Coupon range – 1.58% to 5.68%
- Total interest - \$6,397,000
- Cost of issuance - \$151,000
- Original issue discount - \$129,000
- True interest cost – 5.16%

If bonds do not sell at a discount, Total Principal will be reduced by \$129,000.

Estimated debt service payments will be made from the following resources:

- Riverstone Community Health Clinic – Average annual payment of \$102,000 payable from savings of cancellation of current lease arrangement plus increased clinic revenues and fees.
- Richardson Park Marina – Average annual payment of \$81,900 payable from boat slip rental revenue.
- Public Works Customer Service Center – Average annual payment of \$426,100 payable from Public Works divisions based on square feet utilized. Current annual estimates of payment allocation based on FTE are as follows:
 - Land Management – 56% (\$239,000)

- Road Fund – 38% (\$162,000)
 - Corners Fund – 4% (\$17,000)
 - Parks Fund – 2% (\$8,100)
- Lane Events Center Convention Center Roof – Average annual payment of \$123,300 payable from a combination of Lane Events Center share of excess Transient Room Tax and the General Capital Projects Fund.
 - Public Service Building/Courthouse Complex – Average annual payment of \$123,300 payable from the General Capital Projects Fund.

E. Analysis

All the capital projects noted in this memorandum and as fully developed in the Memorandum to the Board on November, 2, 2011 are appropriate for full faith and credit obligations. The departments undertaking the projects to be bonded have analyzed the debt service requirements provided above and compared them to their cash flows in support of repayment. Although the proposed bond issue is fully secured by the County, the use of General Fund revenues is not anticipated.

The following is a brief discussion of full faith and credit obligations, our partners in the bond issue, and a municipal market update.

Full Faith and Credit Obligations:

Bonds are a form of debt instrument that allows issuers to finance capital projects over their useful life. Full faith and credit obligations are a type of bond where the issuing government secures bond repayment by pledging all of its lawfully available funds, including taxes levied by and for the government within the restriction of Sections 11 and 11b, Article XI of the Oregon Constitution.

Financial Advisor

Lane County is under contract with Seattle Northwest (SNW) to act as our financial advisor. They will represent the County, and only the County, and will assist in the structuring and issuance of the bonds. SNW has represented Lane County on prior bond issues and has the necessary expertise to assist us in planning for, selling, and closing the bonds.

Bond Counsel

Lane County is also under contract with K&L Gates, LLP to act as our bond counsel. They will render an opinion on the validity of the bond offering, the security for the offering, and whether and to what extent interest on the

bonds is exempt from income and other taxation. The opinion of K&L Gates will provide assurance both to the County and to investors who purchase the bonds that all legal and tax requirements relevant to the matters covered by the opinion are met. K&L Gates has served as bond counsel to the County on prior bond issues and has the necessary expertise to provide an opinion that can be relied on.

Underwriter

Lane County will select an underwriter for the purpose of selling bonds through a competitive sale, where the bonds are advertised for sale and any qualified broker/dealer may bid on them. The bonds are awarded to the underwriter offering the highest price to us (lowest interest cost) and will purchase the entire bond issue and resell them to investors.

Credit Rating

Bond issuance will also entail obtaining an update to the County's credit rating from Moody's Investor Service. Moody's, a leading provider of credit ratings, provides an independent verification of our credit-worthiness. Moody's rating will be based upon an analysis of the County's market position, financial position, debt levels, governance, and covenants. Each factor will be evaluated for its effect on our ability to repay the bonds. Underwriters and investors rely on these ratings to determine how much to pay for the bonds, and as a result have a direct effect on their price and the resulting cost to the County. Our current credit rating on full faith and credit obligations is A1, defined as above-average creditworthiness relative to other US municipal or tax-exempt issuers or issues. We do not anticipate any change in our rating as a result of the proposed bonds.

Municipal Market Update

The slow economy has affected the municipal market negatively, with prices dropping due to concerns of defaults by local governments. This translates into higher interest rates for local governments like Lane County. Regardless, timing is of the essence with regards to the expenditure of cash on projects already approved and underway. Although the municipal market is not at its best, we believe issuing bonds and locking in rates now, rather than later, will have the positive effect of taking advantage of the current interest rate market before they rise even more.

F. Alternatives/Options

1. Authorize debt financing in an amount not to exceed \$10,735,000.
2. Do not authorize debt financings of the projects and direct staff to seek other alternatives

IV. RECOMMENDATION

The Management Services Director recommends approval to debt financing for the above noted capital projects.

V. TIMING/IMPLEMENTATION

Upon approval, the necessary steps will be taken to conduct a bond sale anticipated for March 2011.

VI. FOLLOW-UP

Results of the sale will be reported to the Board of County Commissioners

VII. ATTACHMENTS

Board Order

IN THE BOARD OF COUNTY COMMISSIONERS OF LANE COUNTY, OREGON

ORDER NO. 11-02-02-XX IN THE MATTER OF AUTHORIZING FINANCINGS OF
PROJECTS IN A PRINCIPAL AMOUNT NOT TO EXCEED
\$10,735,000 AND AUTHORIZING REIMBURSEMENT OF
EXPENDITURES FROM PROCEEDS.

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 Board hereby determines the following projects are needed: renovating the Riverstone Community Health Clinic, replacing and expanding the marina at Richardson Park, renovating the Public Works Department Customer Service Center, providing a new roof for the Convention Center, and upgrading the HVAC system at the Public Service Building/County Courthouse complex (the "Projects"); and,

WHEREAS, it is desirable to obtain financing for the Projects in an aggregate principal amount of not more than \$10,735,000 pursuant to ORS 271.390 and ORS 287A.105; and

WHEREAS, federal tax law requires an issuer of tax-exempt obligations to declare its intention if the issuer expects to spend its funds on a project and later reimburse itself for those expenditures from the proceeds of tax-exempt obligations; and

WHEREAS, the County reasonably expects to reimburse the expenditures it incurs for the Projects from the proceeds of obligations authorized by this Order; now therefore

IT IS HEREBY ORDERED that the County may finance the Projects under the authority of ORS 271.390 and ORS 287A.105, by issuing obligations in an aggregate principal amount of not more than \$10,735,000. The County may also pay costs of issuing the obligations with proceeds.

IT IS FURTHER ORDERED that the County Administrator or the County Treasurer (collectively the "County Official") is 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 Projects 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 County's obligation 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 escrow agents, paying agents and any other professionals whose services are desirable for the financings.

10. 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.

11. 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.

12. Execute and deliver any other certificates or documents and take any other actions which the County Official determines are desirable to finance the Projects with the Loan Agreements and the Obligations in accordance with this Resolution.

13. 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, and

IT IS FURTHER ORDERED that the Board of Commissioners of Lane County, Oregon hereby declares its official intent to reimburse its expenditures on the Projects with the proceeds of the Obligations authorized by this Order. The County Official is authorized to make future declarations of intent to reimburse under Section 1.150-2 of the Federal Income Tax Regulations or similar laws, on behalf of the County and without further action by the County Commissioners. All such future declarations shall be in writing and the original or a certified copy of each declaration shall be maintained in the public records of the County.

DATED this 2nd day of February, 2011.

Chair, Board of County Commissioners