

Section III – Financing

There are three primary objectives of the Program financing plan:

- 1) COPs are issued and structured in the most cost-effective way based on the cash flow requirements of the Program, and the long-term government bond markets.
- 2) Non- General Fund revenue sources are available to pay debt service over the 20-year term of the COPs.
- 3) Funding is available when needed to meet the expenditures of the program and General Fund expenditures made prior to COPs issuances, (or as temporary loans for cash flow purposes) are tracked and reimbursed by the COP proceeds.

This Section discusses how these objectives are accomplished. First, a financing strategy is being devised in consultation with the county’s chosen underwriter and bond counsel. Second, each proposed revenue source is described and the risk associated with each revenue source will be evaluated. Third, the BOS has adopted a resolution that establishes the mechanism by which design costs expended prior to COPs issuance are tracked and reimbursed by COPs proceeds. The Board will adopt a second resolution that establishes the mechanism by which construction costs expended prior to COPs issuance are also reimbursed by COPs proceeds.

Financing Strategy

This Program of Projects was first presented to the County’s Debt Advisory Committee (DAC) on June 20, 2000. The DAC approved the Program as presented for financing using COPs and authorized the Program to be presented to the BOS for approval. It was pointed out at the meeting that without the use of debt, the Program would have to follow a “pay as you go” approach in which the 11 projects could not be delivered for 19 years. By incurring debt, the program can be delivered in 7 years.

The DAC discussed the following financing principles which are being refined further in consultation with the County’s Underwriter and Bond Counsel:

- COPs should not be issued until construction begins for the first project in the Program.
- COPs must be expended within 3 years of issuance. However if they are expended within two years, any arbitrage generated during the 2-year period can be kept by the County. Issuances should be timed with these savings in mind.

Section III – Financing

- Debt Service payments should be flexible so that funding sources which have an increasing revenue stream in future years can make smaller payments in the earlier years of the debt term and larger payments in the later years.
- The debt must be structured such that revenue sources that rely on existing lease payments are not expected to be applied toward debt service until after the lease has been terminated.

The Program was presented to the DAC again on May 22, 2001 and representatives from Bank of America reviewed the financials and provided initial advice to staff on June 7, 2001. (The memo that was presented to the DAC is attached in Appendix One.) Based on these two meetings, the four preceding principles were modified as follows:

- 1) The Casa Nueva project is significantly ahead of the other projects and initial construction expenditures will be paid in cash and reimbursed by the COPs proceeds.
- 2) Attempting to expend COP proceeds in two years in order to retain arbitrage made during the period is not a reasonable expectation, nor does it necessarily generate enough revenue to justify the effort given the current market conditions. Therefore, expenditures will be made within a three-year period as prescribed by law.
- 3) If other financing options are available besides COPs that may yield a lower interest rate than COPs, then they should be used to the fullest extent possible.

Based on these modifications to the financing strategy, it is now anticipated that there will be a series of only two bond issues instead of three. Given the current project schedules, the representatives from Bank of American recommended that the County consider issuing the COPs sometime between September 2001 and March 2002. The projected interest rate is 5.5%, and the projected issuance costs are 0.8%. Additionally, 0.5% has been added for program management and should be transferred to the General Services Capital Fund when proceeds are received. Additionally, COPs require a 10% reserve in case of payment default and this has been included as part of the total cost when computing each project's portion of the debt service.

Section III – Financing

With regard to the third point above, the California Infrastructure and Economic Development Bank's Infrastructure Revolving Fund Program offers low interest loans to local governments for a wide range of projects including public safety projects such as court buildings and juvenile halls. The interest rate is a fixed rate that is currently around 3.5%. Given the County's strong credit rating, access to capital markets, strong economy and other sources of funding, it is reasonable to assume that the County would only be eligible for up to \$2 million per project. Therefore, if this financing program is used, it can only be used for some of the projects in the Program and could only be used to fund a portion of the required debt. This option will be pursued over the next 6 months prior to issuing COPs.

The process for issuing the COPs is as follows:

At some point approximately 90 to 120 days prior to the desire issuance date, the Program must be presented to the Santa Barbara Finance Corporation. This 5-member board is appointed by the Board of Supervisors for the purpose of issuing COPs and other debt instruments. This Board typically meets annually to review the County's current debt, or as needed if an issuance is planned. Following approval by the Corporation, the BOS must adopt a resolution approving the issuance of COPs. Bank of America will then be directed to prepare the needed financial reports and other supporting documents to issue the COPs. Attached as Appendix Three is a preliminary report that Bank of America produced based on the cash flow projections that we provided to them. Although their numbers do not exactly match our preliminary predictions of the annual debt service, they are very close for this early stage.

Funding Sources

Since 8 of the 11 projects will have started before COPs are issued, some cash has been applied to these projects to account for expenditures made --or planned to be made-- prior to June 30, 2002. A resolution was adopted by the Board to allow such expenses for design services *only* to be reimbursed by the COPs proceeds. As mentioned above, a second resolution has been proposed so that construction expenses incurred on the Casa Nueva Building can also be reimbursed. For most of the projects, cash was available for "up-front" expenses and does not need to be reimbursed by the COPs proceeds. Table III-1 lists the amount of cash anticipated to be applied to each project through June 30, 2002; the amount of cash that is planned to be reimbursed by COPs proceeds; and cash that is anticipated to be applied to the three projects which will be subject to the second COP issuance.

Section III – Financing

Table III-1

Project Name	Cash Contributed	Cash to be Reimbursed by COPs	Future Cash Anticipated	Comment
Clerk-Recorder Building	\$123,000	\$0	\$0	
Casa Nueva Building	\$1,500,000	\$1,500,000	\$0	General Fund contribution to be reimbursed so that tenants fully pay for the cost of the building.
Rehab. Institute Building	\$900,000	\$0	\$0	Approximately 2/3 of this amount is from Tobacco Settlement Monies.
Court Clerk’s Office	\$320,000	\$0	\$0	
Juvenile Hall Expansion	\$825,000	\$600,000	\$8,040,000	The \$8,040,000 is a reimbursable Board of Corrections Grant.
Juvenile Court	\$300,000	\$0	\$0	
District Attorney Facility	\$250,000	\$0	\$0	
SB Parking Structure	\$200,000	\$0	\$700,000	The \$700,000 is from the sale of a portion of the property at the Garden Street parking lot.
Courthouse East Wing	\$100,000	\$0	\$200,000	The anticipated cash is to front design expenses prior to the second COP issuance.
Lompoc ADMHS Clinic	\$0	\$0	\$100,000	The anticipated cash is to front design expenses prior to the second COP issuance.
Engineering In-Fill	\$0	\$0	\$200,000	The anticipated cash is to front design expenses prior to the second COP issuance.
Total	\$4,518,000	\$2,100,000	\$9,240,000	

Table III-2 lists the 11 projects, each project’s share of the COP payment, and each project’s proposed funding source(s) to pay the debt service. Following the table is a brief description of each funding source and an assessment of the source’s solvency over the 20-year debt term.

Section III – Financing

Table III-2

Project Name	Est. COP Cost (million)	Share of Annual COP Payment	Revenue Source(s) To Pay Debt Service
South			
District Attorney Facility	\$5.84	\$464,037	1) Criminal Justice Facility Fund
Courthouse East Wing	\$1.0	\$ 79,564	1) Criminal Justice Facility Fund
Rehab. Institute Building	\$5.68	\$450,865	1) ADMHS Lease at 114 East Haley 2) VA Rent Revenue 3) Unknown
Clerk-Recorder Building	\$2.29	\$182,034	1) Recorder’s Automation Fund
Casa Nueva Nueva	\$5.9	\$468,546	1) Social Services Department Lease at 228 West Carrillo 2) APCD and SBCAG Lease Payments
Engineering In-Fill	\$2.23	\$176,810	1) Solid Waste Lease at 109 East Victoria 2) Public Work Service Rate Increase
Santa Barbara Parking Structure	\$2.45	\$194,491	1) Courthouse Construction Fund (71%) 2) Criminal Justice Facility Fund (29%)
North			
Court Clerk	\$3.61	\$286,432	3) Courthouse Construction Fund (86%) 4) Criminal Justice Facility Fund (14%)
Juvenile Hall Expansion	\$4.27	\$339,033	1) Criminal Justice Facility Fund
Juvenile Court	\$2.67	\$211,906	1) Courthouse Construction Fund (70%) 2) Criminal Justice Facility Fund (30%)
Lompoc ADMHS Clinic	\$1.11	\$88,405	1) ADMHS Leases in Lompoc 2) VA Rent Revenue

Criminal Justice Facility Fund

This fund is authorized by Government Code Sections 76000 and 76101. Section 76000 allows the County to levy an additional penalty of \$7 for every \$10 in fines and penalties collected for criminal offenses and violations of the vehicle code. Additionally, an amount to \$2.50 is authorized to be added to each parking penalty. Section details the uses for which this fund is allowed. In general the uses are for the purpose of assisting the County in the construction, reconstruction, expansion, improvement, operation, or maintenance of County criminal justice and court facilities. The BOS established this fund as Resolution 91-682 on November 26, 1991.

Based on the past three years, this fund generates approximately \$1.175 Million per year. Approximately \$1.1 million is needed to cover the portion of the Program debt service which is attributed to Criminal Justice projects. This funding source has a relatively minor amount of risk associated with it.

An advisory committee called the Courthouse Construction and Criminal Justice Facilities Construction Advisory Committee makes recommendations to the BOS regarding the use of this fund. They have recommended committing funds for the five criminal justice projects included in the Program.

Courthouse Construction Fund

This fund is authorized by Government Code Sections 76000 and 76100. Section 76000 allows the county to levy an additional penalty of \$7 for every \$10 in fines and penalties collected for criminal offenses and violations of the vehicle code. Additionally, an amount of \$2.50 is authorized to be added to each parking penalty. Section 76100 details the uses for which this fund is allowed. In general the uses are restricted to the acquisition, rehabilitation, construction, or financing of court buildings. The BOS established this fund as resolution 91-682 on November 26, 1991.

Based on the past three years, this fund generates approximately \$1.175 Million per year. Approximately \$0.46 million is needed to cover the portion of the Program debt service which is attributed to court projects. This funding source has a relatively minor amount of risk associated with it.

An advisory committee called the Courthouse Construction and Criminal Justice Facilities Construction Advisory Committee makes recommendations to the BOS regarding the use of this fund. They have recommended committing funds for the two courthouse projects included in the Program.

ADMHS Lease at 114 East Haley

ADMHS leases 13,137 sf of space at 114 East Haley Street. This lease currently costs the Department \$162,000 annually. ADMHS pays for this lease using State and Federal revenue. ADMHS is eligible for Federal Financing Participation (FFP) funds in accordance with the applicable provisions of Medi-Cal. Approximately 51.55% of their lease payment is paid from FFP funds. Additionally, ADMHS is eligible for a State match of their FFP allocation. This State matching program is called Early Periodic Screening Diagnosis and Treatment (EPSDT) and accounts for 48.45% of their lease payment. These funding source are historically stable but are always subject to Federal and State budgetary policy shifts.

Veteran’s Administration Rent Revenue from 4444 Calle Real

The County leases a building to the Veteran’s Administration (VA). This building is located on the Calle Real Campus and will be renovated for ADMHS should the VA ever move out. As of July 1999, the VA paid the County \$454,923 annually to rent this building. In August 1999, the County raised the annual rent to \$572,986. The County Administrator's Office, General Services and Alcohol, Drug & Mental Health Services agreed that ADMHS would receive the difference between the previous rent and the new rent as compensation for not being able to consolidate their services into this building. The difference amounts to \$118,000 and ADMHS has committed to use some portion of this revenue for their two facilities which are included in the Program.

The VA is currently in the second year of a two-year lease. Should the VA move out within the next 20 years, this funding source would no longer be available for debt service. It is believed that the VA receives a “good deal” from the County and they do not seemingly have other relocation options based on the current high lease market.

Recorders Automation Trust Fund

The Recorders Automation Trust Fund was authorized by Government Code Section 27361 to “solely support, maintain, improve and provide for the full operation of the modernized creation, retention, and retrieval of information in each county’s system of recorded documents”. This usage has been expanded to the construction of buildings to house recorder activities. This code section has been in force for several years and appears stable. The Clerk-Recorder-Assessor has estimated a stable level of revenues from this source for the period that COP debt will be paid.

Section III – Financing

Social Services Lease at 228 West Carrillo

Social Services leases 5,744 sf of space at 228 West Carrillo Street. The annual cost of this lease is \$138,000. Social Services is reimbursed by Federal and State sources for 70-80% of the cost of this lease. The remainder is paid from the General Fund contribution portion of their Operating budget.

APCD and SBCAG Lease Payments

It is proposed for APCD and SBCAG to occupy 77% of the Casa Nueva building. SBCAG and APCD are regional governmental entities and their existence is mandated by State and Federal law. They are funded from a variety of Federal and State transportation sources, as well as permit fees, mitigation fees, and service fees. Their need for administrative space within the County is well established, and the cost of leased space is an allowable expenses for their funding sources.

Both entities have entered into MOUs with the County, which stipulate their intent to execute leases with the County. These leases will establish a rental rate commensurate with their portion of the debt service, and operating and maintenance costs. The MOU proposes a 20-year lease with a one year noticing requirement for termination on either side. In the event that APCD or SBCAG move out prior to the 20-year debt term, other County departments would take their place, but it is not certain that the new occupants would be non-General Fund departments.

Solid Waste Lease at 109 East Victoria

Solid Waste leases 3,200 sf at this location. This lease currently costs the Department \$66,000 annually. The Solid Waste Division is funded from an enterprise fund which is supported by tipping fees at the County-owned landfills. This is a very secure funding source.

Public Works Service Fee Increase

The Public Works Department proposes to increase their hourly service rates for engineers and other administrative personnel to pay a portion of the debt service for the Engineering In-Fill project. The proposed increase has not been calculated, but approximately \$189,000 is needed annually to completely fund this project. In general, *project specific* service is reimbursed by Federal and State grants and overhead costs such as debt service for new facilities are typically an allowable expense. Increasing hourly service rates is subject to future Board approval. By approving this funding source now, the Board is conceptually agreeing to increase their rates at a later date.

ADMHS Leases in Lompoc

ADMHS leases 7,871 sf of space at two separate locations in Lompoc. These leases currently cost the Department \$80,000 annually. ADMHS pays for these leases using State and Federal revenue. ADMHS is eligible for Federal Financing Participation (FFP) funds in accordance with the applicable provisions of Medi-Cal. Approximately 51.55% of their lease payment is paid from FFP funds. Additionally, ADMHS is eligible for a State match of their FFP allocation. This State matching program is called Early Periodic Screening Diagnosis and Treatment (EPSDT) and accounts for 48.45% of their lease payment. These funding source are historically stable but are always subject to Federal and State budgetary policy shifts.

Tobacco Settlement Money

On November 16, 1998 46 states, the District of Columbia, and five United States territories agreed to the master Settlement Agreement (MSA) with the tobacco industry over public health costs related to smoking. The estimated value of the settlement is \$206 billion. Santa Barbara County's share of California's allocation over the next 25 years is \$139 million. Based on 1990 census data, the first payment for 1998 is \$1.7 million. Annual payments after 1998 start at \$4.6 million and increase each year until they reach \$5.7 million in 2025. However, the risk associated with these projections is high and it is not known how much will be allocated to capital facilities. A committee has been formed which will provide spending recommendations for this money to the Board.

ADMHS has proposed to use their "one-time" portion of 1998 payment (\$600,000 in "cash") to assist in funding the Rehabilitation Building.

State Board of Corrections Grant

On July 28, 1999, The Probation Department was approved for an \$8 million grant from the State Board of Corrections to expand the Juvenile Hall on Foster Road by 80 beds. The grant requires a 50% match and construction must be completed by July 1, 2004. The grant proceeds will be applied toward the project "in cash" and will not be used to pay debt service. Proceeds from the COPs will be used to make the 50% match and this portion of the debt service will be paid by the Criminal Justice Facility Fund as indicated in Table III-1.

Expenditures

Expenditures for the Program can be viewed two different ways: Implementation expenditures, which are net of COP issuance and interest expense, and COP debt service which includes issuance and interest expense. Table III-3 summarizes the Program expenditures.

Table III-2

Expenditure	Amount (million)
Project Implementation – (Construction costs plus professional costs)	\$43.74
COP Proceeds – (Project implementation costs less all cash applied plus 10% reserve requirement and 1.3% issuance costs and program management expense)	\$37.04
Debt Service – (COP proceeds plus interest expense over 20 years, less 10% reserve requirement)	\$54.53
Total Program Cost – (Debt service plus all cash applied)	\$66.00

Implementation expenditures have been broken down into professional costs and construction costs. Professional costs include environmental review, design, project management, building permits, inspection, testing, printing, and bidding. Design is estimated at between 7-10% of the construction cost for each project. Project management is estimated at between 3.5-5% of the construction cost for each project. Project management expenditures are internal costs for County staff time, whereas the other professional expenditures are actual expenses made to outside sources for services rendered.

Construction costs include demolition and/or relocation, construction, telecom and data lines, furniture and equipment, art, and a construction contingency. Art is estimated at 1% of the construction cost for each project. The contingency is estimated at between 5-10% of the construction cost for each project. Figure III-1 shows annual expenditures over time based on the *Program Master Schedule*.