DEBT ADVISORY COMMITTEE

MINUTES OF MEETING

July 11, 2019 11:00 a.m.

County Executive Office
4080 Lemon Street, 4th Floor
Conference Room A

Members Present:

Don Kent	County Executive Office (Chair)
Stephanie Persi	Community Facilities District/Assessment District
Giovane Pizano	Treasurer-Tax Collector
David McCarthy	County Counsel
Robert Field	Economic Development Agency
Jeanine Rey	Flood Control and Water Conservation District
Oscar Valdez	Auditor Controller

Members Absent:
None.

Staff and Guests Present:

Thomas Oh	County Counsel
Matt Jennings	Treasurer-Tax Collector
Stephen Gilbert	Economic Development Agency
Suzanne Holland	Economic Development Agency
Marianna Sarmiento	Economic Development Agency
Vincent Yzaguirre	Economic Development Agency
Kian Farr	Cannon Design
Michael Williams	Columbia Capital
Vernan Ibong	McCarthy Building
Paul Donna	Robert W. Baird & Company
Kip Dubbs	Omni West Group, Inc.
Sam Balisy	Kutak Rock, LLP
Anna Sarabian	Fieldman, Rolapp & Associates
Joan Cox	Burke, Williams, & Sorensen, LLP
Frankie Ezzat	County Executive Office
Rohini Dasika	County Executive Office
Imelda Delos Santos	County Executive Office
Valerie Arce	County Executive Office

1. Call to Order and Self-Introductions

The Debt Advisory Committee meeting was called to order at 11:00 a.m. Those present made self-introductions.

2. Approval of the Special DAC Meeting Minutes for June 13, 2019.

All reviewed the meeting minutes from the Special DAC meeting held on July 13, 2019.

MOTION: Don Kent moved to approve the Special DAC meeting minutes from June 13, 2019.

Giovane Pizano seconded this.

The motion approved unanimously.

3. Riverside County Libraries System – P3 Library Development Project – Privately Issued Tax Exempt Lease Revenue Bonds

It was noted that this was a review and recommend item.

Steve Gilbert, Deputy Director of the Economic Development Agency (EDA), reported that his department is seeking approval of the P3 Library Development Project and the related items in the Debt Advisory Committee (DAC) Form 11. To address Riverside County's growing population and community needs, additional library space is necessary in the communities of French Valley, Menifee, and Desert Hot Springs. The new library facilities will provide a destination for learning, discovery, and collaboration.

Kip Dubbs, Omni West Group Developer, explained that a library would be built in the cities of French Valley, Menifee, and Desert Hot Springs at the same time by one team. Cannon Design is the architect firm. McCarthy Building will provide the design build. The same traits will be used for all three locations to ensure value engineering and cost effectiveness. The company has spent the last 16 month doing diligence at all three sites, working to get cost down and gathering details specific to each city.

Joan Cox, of Burke, Williams, & Sorensen and outside council for the County of Riverside, explained this is one of many public private partnership projects with which her firm has been involved. A P3 project is comprised of design, build, finance, operate, and maintain. This allows a public agency to transfer risks for the design and construction of projects to the experts who are best able to accomplish efficiencies and timeliness through their expertise. Alone, counties are only allowed to design and build or operate and maintain. They are not allowed to do all of it. The county can delegate the obligations of how to put the money together, design, build, and maintain project for its entire life to a developer.

Conduit financing is being utilized. The California Enterprise Development Authority, a Joint Powers Authority, supports statewide economic development and issues bonds to non-profits with large capital needs. This is the structure that is being used for the P3 Library Development Project. Because this is a conduit financing project, the impact to the county's credit is zero. The county's only obligation is to allocate, once a year, money from its general fund necessary to pay the lease payments for the coming year. If at any time one or all of the structures become inhabitable/unusable for some reason, the county is not obligated to make further payments toward the structure. Should the county become insolvent, the county is not obligated to make the lease payments in the coming year. It is stronger for the credit worthiness of the transaction and for the cost of money to rest the obligation with the general fund, rather than specifically identifying the small library fund in the bond documents. With the general fund obligation, county officials can designate each year the library fund to make the payments.

Giovane Pizano, of the Treasurer-Tax Collector, inquired about the $5 million obligation noted on the Form 11. Ms. Cox confirmed that there is a $5 million obligation for furniture, fixtures, and equipment. The library fund has already segregated and identified those funds as a part of the library's construction. The library can outfit the building in the manner it chooses but is delegating the obligation to design and furnish with fixtures and equipment to the design build architect. At the outset of the project, the county will deposit $5 million into the design build contractors account and will provide input into the design. McCarthy will procure and install all.

The county library fund is outside the bond funding. The county is not a guarantor of this debt. This does not go towards the county's constitutional debt limit. There is no obligation to accelerate payment if there is some type of default. The county may choose to fund other county services before making lease payments. It is the county's discretion each year to make the lease payments for the three libraries.

Steps have been taken to further reduce risks to the County of Riverside and to the bond holders. Performance and payment bonds will be used for the projects. Even though it is a private developer, they would have both of these bonds for which the county is a duel obligor. Regarding the performance bond, should McCarthy default, the County of Riverside is a beneficiary of the bond and can insist that another contractor complete the work. This is the same for the payment bond. Should McCarthy fail to pay their subcontractors or vendors, the County of Riverside can insist that the obligations be full-filled.

There will be two years of Business Interruption Insurance. Should there be an event that renders the locations inoperable, this insurance would ensure that the county's coffers are not adversely impacted. There will also be an Operating Contingency Fund which will be capped at $1 million. A preliminary rating evaluation to confirm the viability and credit worthiness of the project projected an A+ credit rating without a requirement for a debt service reserve fund.

Michael Williams of Columbia Capital shared that most other county leases have an AA- credit rating and inquired the reason for the rating decline. Paul Donna of Robert W. Baird & Company explained the key difference is that previous lease revenue bonds are a triple net lease. This is a modified gross lease. This accounts for the difference.

An early redemption process has been structured which allows the county, after five years, to redeem the bonds and own the buildings earlier than 30 years. There is a premium to do this in 5-10 years and no premium after 10 years and covers the remaining principle and interest on the bonds. The county is not obliged to select this option. Mr. Williams noted that the County of Riverside may not be interested in a five year buy out, as this would impact the pricing of the bonds to the early call date.

Mr. Donna shared that, to have a much more aggressive call feature/market call, the cost impact to a potential buyer and associated premiums was identified to mitigate the interest rate impact on long term financing. Mr. Williams inquired who would receive the early redemption premium fee. Mr. Donna confirmed that this would go towards the bond holder to compensate for early pre-pay. Ms. Cox noted that the County of Riverside outlined acceptable lease rates when the Request for Proposals were issued, and the projected rates are within that outline.

Anna Sarabian, of Fieldman, Rolapp & Associates, inquired if the bonds will be structured with the five-year premium call, instead of 9 or 10 years. If so, the implication from the bonds will need to be evaluated. Mr. Donna informed that the bonds will be structured as the county wishes. They were directed to mitigate any impact of a short call feature on the interest rates. Thus, the premium. Should a different call date be preferred, this can be accommodated, and an analysis can be provided.

Ms. Sarabian pointed out that, because there is no reserve, S&P has a 90 days minimum requirement for a payment date. By moving the payment dates to November and May, the requirement would be fulfilled. She shared that typically bonds are structured at a 30-year term, inclusive of the capitalized interest and inquired about the longer than 30-year term and reason for the final maturity date.

Ms. Cox reported that it is anticipated that the project will take 18 months to construct and be ready by February 1, 2021. Facility rent payments would begin at that time. Initial payments would go towards the Operating Contingency Fund which “back stops” the 30-year transaction because it is a modified gross lease. The Operating Contingency Fund is in place to reduce risks and create a more attractive offer to bond holders. The longer capitalized interest period is the reason the term is longer than 30 years.

Oscar Valdez of the Auditor Controller’s Office inquired about language within the documents provided, specially how substantial completion is defined. Ms. Cox informed that substantial completion is defined as when a facility is suitable for beneficial occupancy, even though some punch list items may still be pending completion.

The capitalized interest period is 33 months. Since two years totals 24 months, the additional 9 months will go into the Operating Contingency Fund. Assuming that project is completed on time, the capitalized interest will continue to pay the facilities lease rate for the first 12 months and the county’s payments would go into the Operating Contingency Fund. Bond proceeds should not be placed into an Operating Contingency Fund because it may not be spent for years. To avoid this, the county’s payments will go into the Operating Contingency Fund and capitalized interest will fund the facilities lease rate for the first year. The final maturity date is February 1, 2021, which is 30 years from commencement of lease payments by the county. It was noted that the outside contingency date on the Form 11 states August 1, 2021, which is the “outside date” 6 months out from February 1, 2021.

Mr. Williams noted that other county projects are at a level debt service and inquired about the debt service increasing over time. Mr. Donna informed that a tiered rate structure was decided on after discussions with the County of Riverside and, as stated in the Form 11, there is language noting not to exceed the rates. Ms. Cox concluded that the bond market is strong and favorable lease rates should be able to be obtained, as confirmed by the evaluator’s preliminary analysis.

At the request of Jeanine Rey of the Flood Control and Water Conservation District, Ms. Cox confirmed that the library fund is an already existing account within the county, has already been accruing money over time from outside sources. A total of $5 million will be drawn from this fund for furniture and equipment. It is also anticipated that all of the lease payments will come from this fund. It a subset of the General Fund. This is the reason for the designation of the General Fund as the source for the annual lease payments.

Rohini Dasika of the Riverside County Executive Office added that the library fund is funded with ad valorem taxes and is a pass-through entity.

Mr. Williams inquired about several areas of the Sources and Uses of Funds document provided by Robert W. Baird & Company and requested a breakdown of costs. It was discussed that the document is preliminary and does not reflect certain items of the cost of issuance. Once finalized, the cost of issuance would be incorporated into the Source and Uses of Funds. The total project fund deposit would then be adjusted accordingly. A breakdown of cost could be provided as requested.

Mr. Williams inquired about a cap on the Landlords Contingency Fund which accumulates remaining excesses. Ms. Cox confirmed that it is capped at $1 million. When coffers exceed $1 million, the money goes back to the county to be used at its disposal. It was clarified that the Landlords Contingency Fund is now called the Operating Contingency Fund.

Imelda Delos Santos of the Riverside County Executive Office inquired about continuing disclosure. Don Kent shared that the Executive Office administers all county credit bonds and, to address continuing disclosure, requested that all documents display both the County of Riverside Economic Development Agency and Executive Office.

Vincent Yzaguirre of the Economic Development Agency acknowledged the effort and hard work of the many who assisted with the project, including those with Riverside County, County Council, and the developer.

The item will be presented to the Board of Supervisors for approval on July 23, 2019.

MOTION: Giovane Pizano moved to approve.

Oscar Valdez seconded.

All were in favor. The motion approved unanimously.

5. Public Comment

No public comments.

6. Next Meeting

The next regularly scheduled Debt Advisory Committee Meeting is scheduled for Thursday, August 8, 2019 at 9:00 a.m., or as needed.

7. Adjourn

With no further business, Chairman Don Kent, adjourned the Debt Advisory Committee Meeting at 11:47 a.m.