



**SUMMARIZED MINUTES OF THE
PUBLIC FINANCING ADVISORY COMMITTEE
Thursday, January 12, 2012 at 1:30 P.M.
Hall of Administration
3rd Floor, CEO Main Conference Room
or
Conference call number: 714-834-7400**

Committee Members: *Thomas Hammond, Chairman; *Carl Groner, Vice Chairman, Lisa Hughes, Committee Member; *Shari Freidenrich, Treasurer Tax-Collector; David Sundstrom, Auditor-Controller

*Indicates participation via conference call

County Representatives Present: Angie Daftary, County Counsel, CEO/Public Finance; Colleen Clark, Public Finance Director; *Richard Mendoza, Louis McClure, Laurie Sachar, Suzanne Luster, Diane Wittenberg, Kevin Fincher, OCCR, Juanita Preciado, OCCR, John Viafora, OCCR, Joanna Chang, OCCR, Judy Retuga, OCCR

Conference Call Participants: Thomas Hammond, Chairman; Carl Groner, Vice Chairman, Shari Freidenrich, Committee Member

- 1. Call to Order:** The meeting was called to order at 1:30 P.M by Chair Hammond.
- 2. Approval of Minutes of December 8, 2011 Meeting:** Committee Member Freidenrich moved to approve the minutes. The motion was seconded by Committee Member Sundstrom. The minutes were approved.
- 3. Approve the financing and issuance of County of Orange Multifamily Housing Revenue Bonds (San Clemente Senior Apartments Project), Series 2012A, in an aggregate principal amount not to exceed \$17,600,000.**

Recommended Action:

Approve the financing and issuance of County of Orange Multifamily Housing Revenue Bonds (San Clemente Senior Apartments Project), Series 2012A, in an aggregate principal amount not to exceed \$17,600,000.

Colleen Clark, Public Finance Director, presented Item #3 and offered to address any questions from the committee.

Chairman Hammond inquired about who mandates affordable housing programs and whether the Supervisors realize that there's a very low probability that they'll ever get paid back. Ms. Clark explained the State of California mandates affordable housing and the loaned money from the County that funds the program are dedicated federal funds reserved only for that purpose. Committee Member Hughes inquired how much we are dedicating to this project. Ms. Clark answered \$1.6 million in HOME Funds that was previously approved by the Board of Supervisors. Committee Member Hughes inquired if there are any competing projects or programs for that money. Kevin Fincher from the OC Community Resources department explained that the County

receives HOME funds from the Federal government and there are two projects that currently have been allocated funds.

Chairman Hammond asked why the loans in the financing are structured as residual receipts loans. Gene Slater of CSG Financial Advisors (the County's financial advisor) stated that the loans are structured with residual receipts because this structure allows the project to be eligible for tax credits. This in turn increases the amount of private investment and reduces the amount of HOME funds that are needed for the project. Mr. Slater also stated that it is a method of leveraging and reducing the amount needed to invest at the beginning of a project. Tim Soule of Meta Housing clarified that the debt service for the conventional debt is a 30 year term. Funds remaining after those conventional debt payments are made are distributed to the developer and then to residual receipts debt. Committee Member Hughes clarified that the reason the residual receipts loan is structured as a loan and not a grant is because it helps the overall financing relative to tax credits. Mr. Slater responded yes.

Chair Hammond inquired about the history of these kinds of projects specifically, if we have ever gotten paid back in prior similar transactions. Chair Hammond further inquired about what happens if the funds are depleted and the project is insolvent. Mr. Slater explained that the equity investor is a limited partner of Wells Fargo Bank. One arm of Wells Fargo, the construction lending arm, is acting as a construction lender and funding the construction of the project until project completion. A portion of the long term financing is through the CCRC, a statewide consortium of private lenders, who have been doing affordable housing lending for 30 years. In addition, another arm of Wells Fargo is also participating as an equity investor for the long term financing. Mr. Slater further mentioned that there are guarantees from the general partner to the limited partner and therefore it is the banks that are at risk if there is a shortfall or if the project becomes insolvent. It's not the County that is taking the risk. Ultimately the real protection for the success of the transaction is that Wells Fargo is both an equity investor and a construction lender. They have a \$13 million dollar equity investment that is critical to them, so it is in their best interest not to be in foreclosure.

Committee Member Hughes stated that it would be helpful to include in the future that Wells Fargo is also the party getting the tax credits. She further stated that because Wells Fargo is the construction lender and also the equity investor it seems to be a little bit of a conflict.

Committee Member Hughes further stated that in her review of the proforma the operating reserve is zero. Tim Soule of Meta Housing responded that they are not required to have an operating reserve and that is not unusual for these housing projects. Gene Slater stated that there is a capitalized operating reserve of approximately \$200,000 on an ongoing basis out of cash flows. There is no money added to the capitalized operating reserve unless that capitalized operating reserve is used. Tim Soule clarified that typical occupancy rates are about 98 percent, so there's very little vacancy. The proforma includes a 5% vacancy so there is a cushion for operations there as well.

Gene Slater stated that with respect to the County, as the bond issuer, the safety comes from setting up the transaction as a private placement with a single investor. He stated that provisions were added to minimize the event of a default. The County can never be at risk with respect to the \$17.6 million of bonds that are issued. Chair

Hammond stated that the County is at risk. If the bonds default for any reason, the fact that the County is not liable for payment does not mean that the default does not affect the County. The County does not want to be in a position where they've underwritten bonds, even if they sell them to Wells Fargo. Gene Slater responded that one of the things they've done as financial advisors for the County for many years is to put provisions in the documents precisely so that the bonds can never be in default. If there's a failure to make the loan payments as scheduled by the borrower, then the bond holder, ultimately CCRC, can foreclose on the property but if they choose to terminate the transaction, the bonds would be redeemed – no default. Gene Slater stated that they needed to make sure the County was never in a position, even if not financially obligated in a conduit sense, of ever being caught in a default

Chair Hammond inquired about Meta Housing including their financial statements. Tim Soule stated that they provided their reviewed financials as required by the County. Kevin Fincher clarified that they had looked at the audited financials as required as part of the County's original \$1.6 million loan approval.

Chair Hammond stated that based upon the information presented, it looks like a very uneconomic deal, even recognizing that the County does not have a direct specific liability on the bonds. Chair Hammond expressed concern over not having more information about Meta Housing and about the accuracy of the financial statements of the project.

Chair Hammond requested more specific cash flow statements including where the cash or the money for debt service goes and in what priority. Chair Hammond also stated the financial statements of Meta Housing and other financial partners would be appropriate. Chairman Hammond moved the item be continued until further information was received. David Sundstrom seconded the motion and the Committee unanimously approved a motion to continue this item to a meeting on January 20, 2012.

4. Approve the selection of Fieldman, Rolapp & Associates to provide financial advisory services, and approve the selection of Orrick, Herrington & Sutcliffe to provide bond counsel services in connection with letter of credit replacement, remarketing services, and other matters for the Irvine Coast Assessment District 88-1 Limited Obligation Improvement Bonds:

Chairman Hammond moved to approve item #4. The motion was seconded by Committee Member Sundstrom. The motion was approved unanimously.

5. Public Comment: There was no public comment.

6. Additional Comment: None

7. Adjournment: The meeting was adjourned at 3:00.P.M.