



**SUMMARIZED MINUTES OF THE
PUBLIC FINANCING ADVISORY COMMITTEE
Thursday, March 8, 2012 at 1:30 P.M.
Hall of Administration
3rd Floor, CEO Main Conference Room**

Committee Members: Thomas Hammond, Chairman; Carl Groner, Vice Chairman, Lisa Hughes, Committee Member, Wallace Rodecker, Committee Member, Shari Freidenrich, Treasurer Tax-Collector; Shaun Skelly, Chief Deputy Auditor-Controller, Tom Mauk, CEO

County Representatives Present: Angie Daftary, County Counsel, CEO/Public Finance; Colleen Clark, Public Finance Director; Richard Mendoza, Louis McClure, Laurie Sachar, Anil Kukreja, Susie Ortiz, Diane Wittenberg

Absent: Carl Groner, Vice Chairman

1. Call to Order: The meeting was called to order at 1:30 P.M by Chair Hammond.

2. Election of Chair/Vice Chair

Recommended Action:

- a) Elect a Chair to preside over the business of the PFAC for the calendar year 2012. Committee Member Hughes nominated Tom Hammond for the position of Chairman. Committee Member Hughes moved to approve. The motion was seconded by Committee Member Freidenrich. This was unanimously approved.
- b) Elect a Vice Chair to preside over the business of the PFAC for the calendar year 2012 when the Chair is not present. Chairman Hammond nominated Carl Groner for the position of Vice Chair. Chairman Hammond moved to approve. The motion was seconded by Committee Member Skelly. This was unanimously approved.

3. Approval of Minutes of January 12, 2012 & January 20, 2012

Chairman Hammond asked that changes to the January 12, 2012, and January 20, 2012, minutes be made as follows:

- a) January 12, 2012 minutes – should be corrected (on page 3, second paragraph) to reflect that "Meta Housing Financial Statements were reviewed" instead of that "Meta Housing Financial Statements were audited".
- b) January 20, 2012 minutes – concluding paragraph should reflect that Mr. Hammond stated that the proposed transaction was a very poor real estate deal, financially unfeasible, and if the Board of Supervisors had other reasons to support the proposed transaction, despite Mr. Hammonds comments, that was their prerogative as a Board.

Committee member Freidenrich moved to approve the minutes. The motion was seconded by Committee Member Hughes. The minutes were approved.

4. Tax and Revenue Anticipation Notes

Recommended Action:

- 1) Approve in concept the issuance of Tax and Revenue Anticipation Notes by the County for the purpose of financing General Fund cash flow needs for Fiscal Year 2012-13.
- 2) Approve the continuation of Orrick, Herrington & Sutcliffe LLP, as note and disclosure counsel and KNN Public Finance, as financial advisor.

Colleen Clark, Public Finance Director, presented an overview of Item #4; mentioned that there was a possibility that both the TRANS and Teeter financings would be wrapped into the same transaction; and offered to address questions from the Committee.

Chair Hammond asked if the current TRANS or Teeter bonds have been paid off. Ms. Clark stated that the TRANS are due to be paid off on June 30th, and the 2012-13 TRANS would be issued on July 1st. Ms. Clark explained that Teeter is a rolling Commercial Paper (CP) program that is backed by a letter of credit. In July of each year, the prior year's CP is paid down with pledged taxes; the remaining balance is combined with CP issued for the current year delinquencies. Ms. Clark added that Public Finance is looking at potentially wrapping the Teeter CP into the TRANS. Committee Member Wallace noted that the County had borrowed \$100 million for 2008 and 2009, and \$150 million for 2009 and 2010. He asked how much the County was looking to borrow this time around. Ms. Clark stated that she anticipates issuing approximately \$150 million. Committee Member Hughes asked what the default rate is on the property taxes right now and if it is going up, down or leveled out, Ms. Clark responded that the County has had the highest collection rate in the last five years – 98% - and continued to stay at a higher rate in this last installment.

Chair Hammond asked if using a competitive bid versus negotiated underwriting would be more economical for the County. Ms. Clark responded that a competitive bid would be potentially more economical because it would not require paying the takedown or the underwriting fees. Ms. Clark stated that our financial advisor will assist us in structuring the financing. They would also assist us in contacting investors so the County would know that there were both some ultimate buyers of the notes. Investment banking firms would also be contacted as they are the actual bidders on the notes. Chair Hammond inquired if we have ever done one of these competitive bids before. Ms. Clark stated that it's become more common in the last two years. There are many counties that have done competitive sales. Some of the schools have done them and they received very good rates. Chair Hammond asked for comments about competitive markets from Citigroup who was present at the meeting. Chris Mukai of Citigroup stated that in certain market environments, it does make more sense to do a competitive versus a negotiated transaction. Mr. Mukai stated that on a competitive sale, what you're really looking for is a dealer to basically step in and buy the bonds at a rate that they believe will allow them to profit. There is also a risk premium on that money because they have to actively buy then turn around and find somebody to sell it to. If there is high volatility in the

market, that risk premium obviously goes up. So in fact, the risk premium that's built in might be higher than the takedown that might otherwise be charged in a negotiated sale. Chair Hammond inquired how that differs with the underwriting. Mr. Mukai stated on a negotiated sale as an underwriter, you have the ability to pre-market the transaction. Citigroup has a disclosure document to go out and talk to investors, also bring in individual investors, retail investors that they have lined up before they actually price the financing. There is a little time to pre-market a transaction which could help narrow that risk. On a competitive sale you really don't have that ability as a dealer to be able to do that. If there is a stable market and it's very aggressive, those factors may not be as significant as it might be in a more volatile market. Currently, the market is much more favorable to go competitive; although conditions may change.

Committee member Hughes moved to approve the item. The motion was seconded by Committee Member Freidenrich. The item was unanimously approved.

5. Orange County Public Financing Authority Juvenile Justice Center Facilities Lease Revenue Bonds, Series 2012, Approval of Bond Financing

Recommended Action:

Approve the terms of financing and issuance of the South Orange County Public Financing Authority Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2012, by the South Orange County Public Financing Authority in an aggregate principal amount not to exceed \$40 million.

Richard Mendoza, Public Finance, presented Item #5 and offered to address questions from the committee.

Chair Hammond inquired about why the bonds will be issued through a Joint Powers Authority (JPA). Brian Forbath of Stradling Yocca Carlson and Rauth, (Bond Counsel), stated that the use of a JPA for debt issuance and as structured here is one of the exceptions to the constitutional debt limit that's been upheld throughout the courts. Mr. Forbath stated that his firm will be providing an opinion regarding the validity of the bond transaction. Mr. Forbath also stated that the proposed bond structure is how most public agencies in the State of California finance public infrastructure. Cities, counties, and school districts complete lease revenue bond transactions similar to the one proposed.

Chair Hammond inquired about who owns this property and what happens in 2019. Ms. Clark stated currently the County holds title to this property. The County did not transfer it under the Court Facilities Act. Only the operations within the facility transferred to the state. Debt service savings is shared between the County and the Courts. Ms. Clark stated that the facilities include a seven story courthouse building in addition to an intake facility, two parking structures and an administrative facility. Chair Hammond inquired if in 2019 when these bonds are paid off, do the leases go away. Ms. Clark responded that the leases go away, but the County will still retain title to this property for a period of 35 years or until the seismic upgrades are completed. Committee Member Hughes stated that if the County will be saving a half million dollars a year, perhaps the County could direct

some of those funds and savings to maintenance of that building which is absolutely deplorable. Ms. Clark stated that the Court is responsible for maintenance of the facilities and that the County is prohibited from doing maintenance. Committee member Freidenrich inquired about how long the SOCPFA has been in existence. Ms. Clark stated it's been in existence since 1982. The County did at least two Marks-Roos bond issues with the South Orange County Public Financing Authority (a JPA comprised of the County and Community Facilities District 88-2). Committee Member Freidenrich inquired how the debt will be repaid, and if leases are up, would the County be able to negotiate a more favorable lease. Ms. Clark stated the percentages that are allocated between the County and the Courts are in the original Court Transfer documents. The County pays 38 percent, and the State pays 62 percent. The lease payments are reduced by the amount of the debt service. Committee member Skelly inquired if there is any RDA or successor agency involvement in this refunding. Ms. Clark stated no. Committee Member Hughes moved to approve. The motion was seconded by Chairman Hammond. The motion was approved unanimously.

6. Assessment District 88-1 Letter of Credit Substitution

Recommended Action:

- 1) Approve the substitution of the existing, KBC Bank N.V. Letter of Credit for Assessment District 88-1 Limited Obligation Improvement Bonds with a Letter of Credit from Sumitomo Mitsui Banking Corporation
- 2) Approve the conversion of the bonds from the daily interest mode to the variable interest mode.
- 3) Approve the First Amendment to the Remarketing Agreement with JP Morgan Securities, LLP.

Colleen Clark, Public Finance Director, presented Item #6 and offered to address questions from the committee

Chair Hammond inquired if the Irvine Company wants to substitute the KBC bank letter of credit for assessment district 88-1, limited obligation improvement bonds or the letter of credit from Sumitomo Mitsui Banking Corporation. Do they (the Irvine Company) want to also convert the bonds from a daily interest with variable interest rate mode. Ms. Clark stated the Irvine Company did approach the County pursuant to provisions of the Protocol Agreement asking to change out KBC bank with Sumitomo bank. They are also fine with the change in mode. Assessment district 88-1 which is Newport Coast basically has \$17.1 million of variable rate bonds outstanding.

The KBC letter of credit expires on May 15th. The trustee has to be provided with a substitute letter of credit by no later than the end of March. In accordance with the Protocol Agreement between the Irvine Company and the County, if the Irvine Company requests that the County substitute the letter of credit and they agree to pay all the costs related to the substitution then the County is obligated to move forward with the request.

Since the request, the County has been working with Sumitomo Bank as well as JP Morgan to negotiate terms of the transaction. In addition to a request to substitute the LOC Bank, The Irvine Company asked the County to reassess the remarketing agreement with JP Morgan, which is currently at 12 basis points for the marketing fee, to see if the cost could be lowered.

The County completed the negotiations with Sumitomo. The new LOC term is through November 1 of 2017, which is ten months shorter than the actual maturity date on the bonds. The reason it is shorter is that there are sufficient reserve funds and the Irvine Company will submit funds to make the final debt service payment. In addition to the lower cost for the LOC, the County was able to lower the remarketing fees to eight basis points. The first amendment to the Remarketing Agreement with JP Morgan contains the reduction in fees, and changes the mode from daily to variable. The County had to change the mode because Sumitomo does not issue letters of credit against daily paper.

The Substitution, Costs, and Conversion Agreement included in the agenda package provides that The Irvine Company agrees to pay for all the costs related to this conversion. The First Amendment to the Protocol Agreement with The Irvine Company affirms the outstanding bonds, the definition of assessments as limited to The Irvine Company property and provides that The Irvine Company agrees to waive the 12 percent cap on interest rates. The Preliminary Remarketing Memorandum is a tool for investors which describe the change in mode from daily to weekly, the security for the bonds and the terms and conditions of the Bank Reimbursement Agreement. The Irvine Company pays all the fees and expenses related to this transaction as well as the debt service. Ms. Clark mentioned that Mr. Lang with the Irvine Company was present if the PFAC had additional questions. Chairman Hammond asked why the Irvine Company does not need to provide financials. Mr. Lang, senior vice president of the Irvine Company, responded that with these variable rate bonds, you actually don't provide financial statements to the marketplace because they are in \$100,000 increments that are backed by a letter of credit. Committee Member Hughes moved to approve. The motion was seconded by Chairman Hammond. The motion was approved unanimously.

7. Proposed Changes to PFAC Bylaws

Recommended Action

Receive and File

Colleen Clark, Public Finance Director, presented Item #7 and offered to address questions from the committee.

Committee Member Hughes asked for a clarification regarding the bankruptcy ruling or the exit orders as it relates to the purview of the PFAC with respect to approval of financings and whether current policies comport with the ruling. Chair Hammond inquired about compensation for PFAC members. Ms. Clark stated that staff looked at all the other County committees (about 89 committees in total) and about 40 percent of the Committees have some compensation.

Ms. Clark mentioned that PFAC has a pretty high level of responsibility and yet was not getting compensated, whereas other committees which appear to have less responsibility are receiving compensation. The average compensation is about \$100 per meeting. Committee Member Hughes stated that compensation adds credibility to the membership in the Committee. Committee Member Rodecker stated that he thought \$100 is acceptable; the money obviously is not why any of us are here. Committee Member Skelly asked for clarification that as a County employee he was already being compensated. Mr. Skelly asked to confirm in the language that compensation will be contingent on attendance. Committee Member Freidenrich stated that PFAC is handling all of the debt financing for the County prior to going to the Board of Supervisors.

Member Freidenrich asked if the proposed changes should also address issues of having proxies (delegates) acting on the behalf of the PFAC members. Chair Hammond provided a brief history of the voting members and of prior discussions regarding the use of proxies. A discussion among PFAC members ensued regarding the advantages and disadvantages regarding the use of proxies. Chair Hammond suggested that the issue of the use of proxies be postponed for a later date, that staff change the wording on the purview of PFAC from "recommend approval of financings" to "approval of financings", and move forward with a recommendation to the Board of Supervisors to approve compensation for non-County PFAC members in an amount of \$200 per meeting. Chair Hammond moved to approve the recommendations, Member Hughes seconded. The recommendations were unanimously approved.

Member Hughes asked for a status on the PFAC training sessions. Ms. Clark mentioned that she will provide a schedule of the upcoming trainings at the next PFAC meeting.

8. Public Comment: There was no public comment.

9. Additional Comment: None

10. Adjournment: The meeting was adjourned at 3:30.P.M.