

# Preparing for Bond Takeout

Palm Desert AB 811 Conference

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# Outline

**Goals of Municipal Financing**

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**Funding Options**

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# Goals of Municipal Financing

- Financing costs administered through the property tax bill
- Little or no upfront cost to property owner
- Assessment/tax obligation transfers with property
- Benefited property serves as security (land-secured)

# Legal Basics AB 811

## Contractual Assessments

- Chapter 29 allows improvements to be financed on a contractual assessment basis
- 1911 Act, Chapter 29 authorized “Contractual Assessments” in 1987

# Legal Basics AB 811 (continued)

- City of Palm Desert authored AB 811
- Signed into law by the Governor on July 21, 2008
- Amended Chapter 29 Entitled “Contractual Assessments” Sections 5898.10 through 5898.32 of the Streets and Highways Code

# Legal Basics AB811 (continued)

- The amendment:
  - expanded the improvement work which may be financed to include “installation of distributed generation renewable energy sources and energy efficiency improvements that are permanently fixed to real property,” and
  - authorizes a participating property owner to “purchase directly the related equipment and material” and to “contract directly for the installation” of the improvements
- Property owners who want to participate agree to place a lien on their property via a contractual assessment agreement
- Contractual assessment revenue creates security for potential investor

# Legal Basics Berkeley Program

- Similar to Community Facilities District concept
- Berkeley used charter city power to enact special tax financing
- Authorizes levy of special taxes to finance renewable energy/energy efficiency improvements
- Renewable Funding has setup and is managing the Berkeley program and has made \$1.5mm available for lending

# Legal Basics SB 279

- Currently pending in State Legislature
  - Passed the Senate along party lines
  - Pending hearing in Assembly Local Government Committee (no date as yet)
- Seeks to amend the Mello-Roos Act
- Available to all local agencies
- Originally Available for “parcels which are undergoing development” but amended on May 27, 2009 to strike this section
- Allows third-party ownership and lease financing

# The Palm Desert Program

- City began the lending program in September 2008
- Loan rate 7.00% (no appraisal or credit check)
- Loan terms (5, 10, 15 and 20 years) – Most loans 15 and 20 years
- Portion of funding guaranteed for residential
- \$100k loan size limit (greater amount requires CC approval)
- Loans > \$30k need CM approval
- Lender certification on loans > \$30k
- Approximately \$2.3mm loans funded to date, \$5.0mm in total commitments to date
- \$2.5mm of General Fund monies made immediately available
- \$7.5mm interim financing through bonds issued by City and sold to the redevelopment agency

# The Palm Desert Program (continued)

- General Fund not seen as permanent solution
- DRALLC approached many commercial / investment banks to secure long-term funding
- City sent RFP to all interested parties and received responses in February 2009
- Currently pursuing Taxable Variable Rate Demand Lease Revenue Bonds
  - Proceeds used to repay General Fund and establish lending pool
  - Wells Fargo letter of credit
  - Interest rate collar (approximately 2.50% to 5.50%)
  - Leased assets
  - Callable anytime when other monies become available or “all-in” fixed-rates drop below the 7.00% loan rate

# Sonoma County Program

- AB 811 program, offered county wide (cities opt in)
- Program Report approved March 25, 2009, and Sonoma County Energy Independence Program (SCEIP) opened for business
- Authorized improvements include renewable energy and energy efficiency improvements (including some water conservation measures)
- Financing amount as low as \$2,500; no maximum but projects over \$60,000 must be approved by Program Administrator, and over \$500,000 by Board of Supervisors
- \$45 million initial commitment; \$100 million maximum portfolio
- 7% interest rate; 5, 10, or 20 year repayment schedule
- Interim financing through bonds issued by Public Financing Authority, sold to County Treasury Pool. Long-term financing to be arranged
- County agreed to Teeter the program

# Other Announced Programs / RFPs

- San Francisco
- San Diego
- Solana Beach
- CSCDA
- ABAG
- CAMFA
- CMUA

# Funding Goals

- Guaranteed on-demand funding for projects
- Little or no cost to participating local governments
- Near zero financial risk to participating local governments

# Funding Options

	Short-Term (Bridge)	Long-Term (Take-out)
General Fund loans	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
General Fund backed bonds	?	<input checked="" type="checkbox"/>
Land-Secured bonds	?	<input checked="" type="checkbox"/>
Commercial Bank loans (Land-Secured)	<input checked="" type="checkbox"/>	?
Private Funding (Land-Secured)	<input checked="" type="checkbox"/>	?

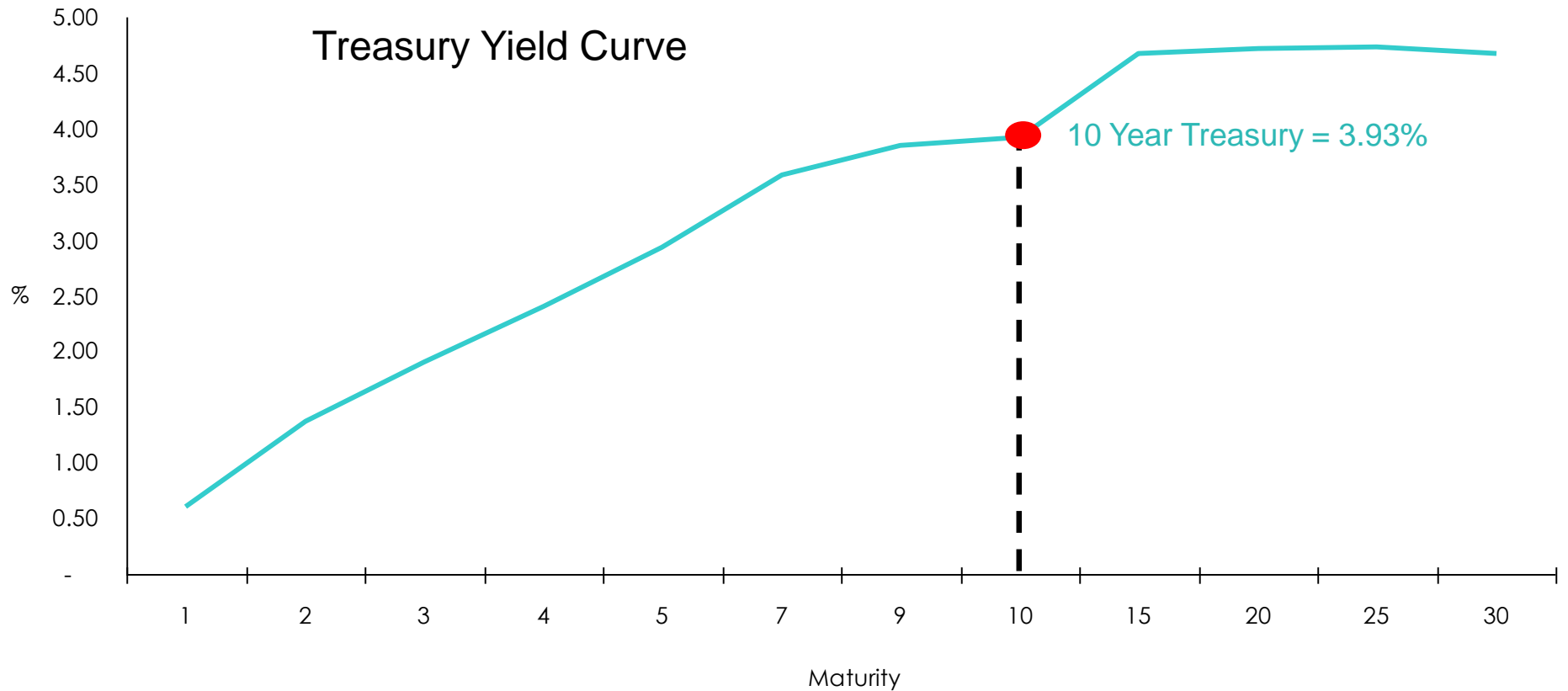
# Outstanding Issues

- Legal
  - Proposition 218
  - Validation judgments
  - Seniority of lien to existing mortgages
  - Lender consent
  - Prevailing wages
- Financial
  - Finding a reliable funding source
  - Keeping the loan interest rate reasonable
  - Funding public agency expenses and administration

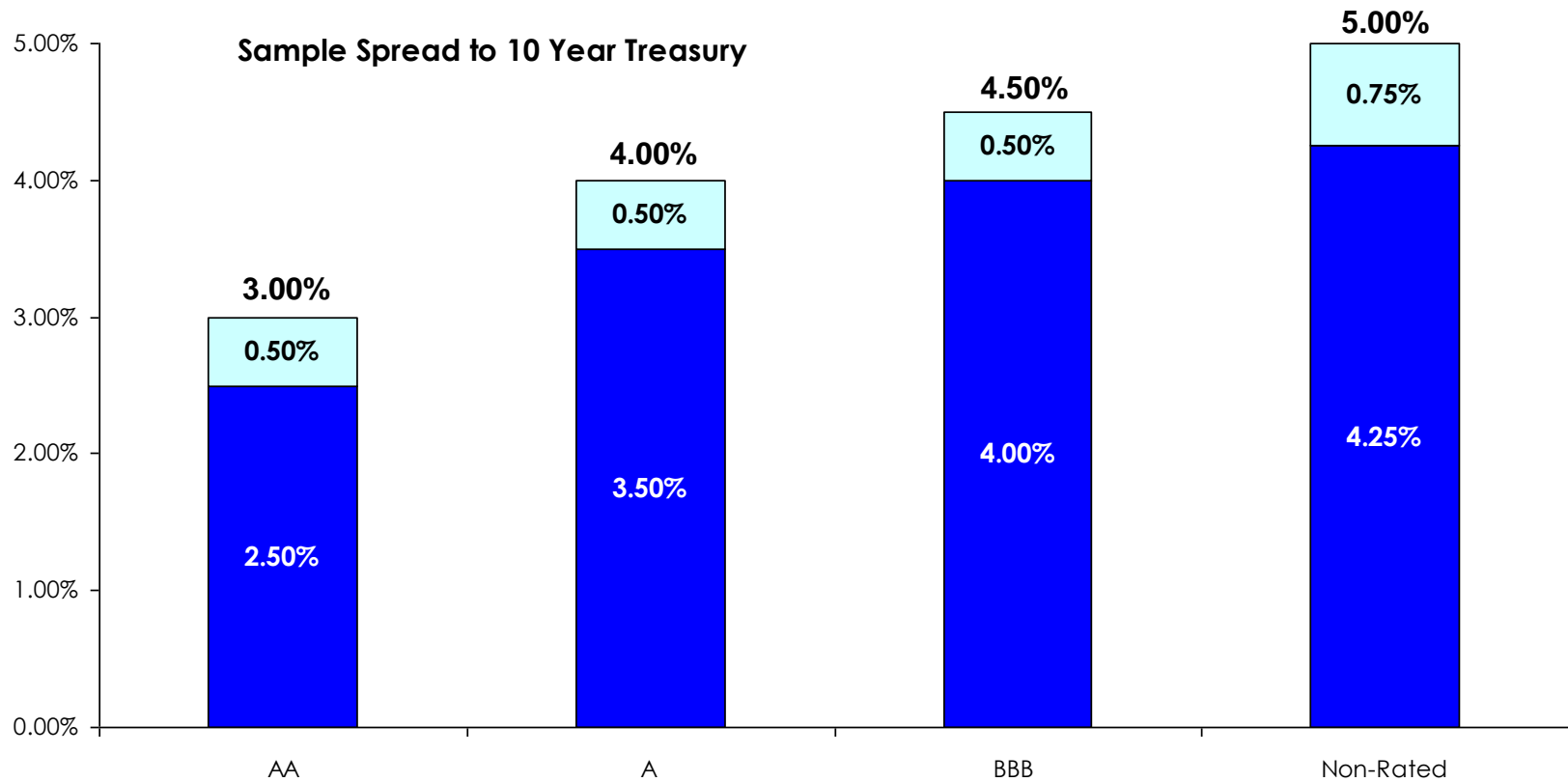
# Outstanding Issues (continued)

- Credit
  - Security interest of debt holders
  - Funding costs of issuance and a bond reserve fund
  - Tax-exempt land-secured bond market (little volume and high yields even on rated transactions)
  - No taxable land-secured bond market
  - Game changers

# U.S. Treasuries Establish the Baseline for Taxable Debt

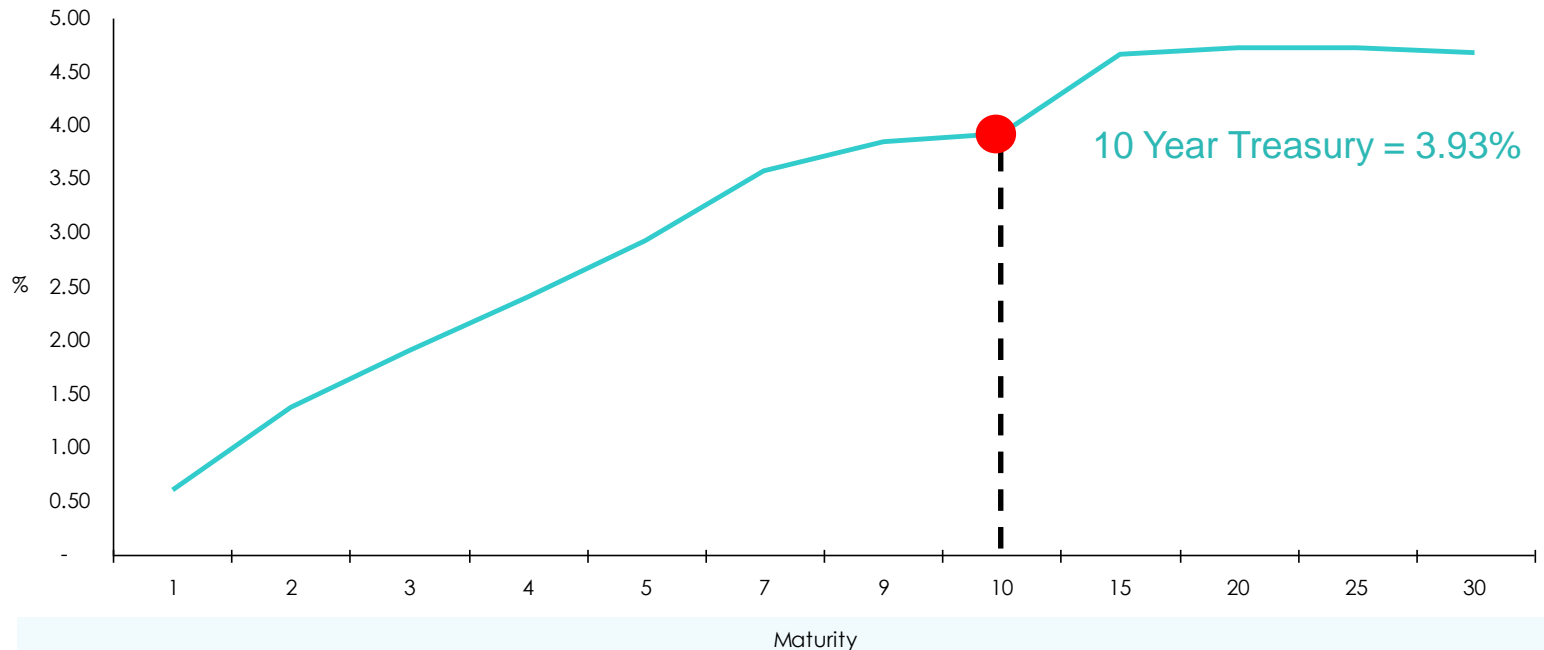


# Taxable Bonds Price at a Spread over U.S. Treasuries



# Current Market Rates for Sample AB 811 Bonds

	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Non-Rated</u>
Treasury	3.93	3.93	3.93	3.93
Spread	<u>2.50</u> ↔ <u>3.00</u>	<u>3.50</u> ↔ <u>4.00</u>	<u>4.00</u> ↔ <u>4.50</u>	<u>4.25</u> ↔ <u>5.00</u>
Yield	<u>6.43</u> ↔ <u>6.93</u>	<u>7.43</u> ↔ <u>7.93</u>	<u>7.93</u> ↔ <u>8.43</u>	<u>8.18</u> ↔ <u>8.93</u>

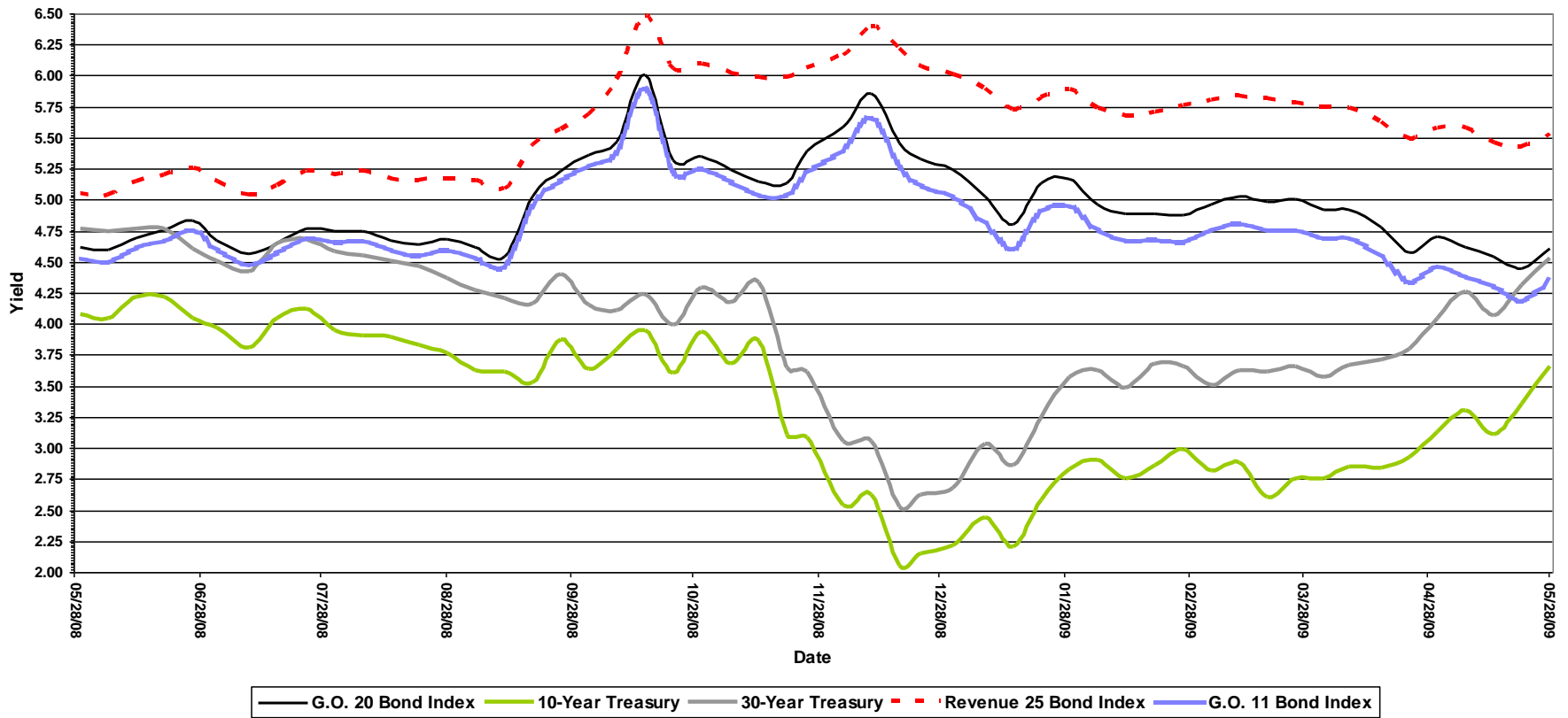


# What's the All-In Funding Cost?

- Factors determining Property Owner's Annual Payments
  - Not just Project Cost and interest rate
  - Bond-issuance expenses (upfront)
  - Administrative expenses (upfront and on-going)
  - Debt service reserve fund carrying cost
- Boulder County example (Taxable, A+ Rated, average life 9 yrs)
  - Rate on Final Maturity = 6.00%
  - Bond Yield = 6.08%
  - "All-In" Bond Yield = 7.62%

# The Bond Market "Crisis"

**Bond Buyer Municipal Bond Indices and U.S. Treasury Bond Yields  
One Year**



# Q and A

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