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# SPECIAL DEBT ADVISORY COMMITTEE

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## MINUTES OF MEETING

April 10, 2019 9:00 a.m.

County Executive Office  
4080 Lemon Street, 4<sup>th</sup> Floor  
Conference Room C

### Members Present:

Don Kent  
Jon Christensen  
Oscar Valdez  
David McCarthy  
Marianna Sarmiento

County Executive Office (Chair)  
Treasurer-Tax Collector  
Auditor Controller  
County Counsel  
Economic Development Agency

### Members Absent:

Jason Uhley  
Stephanie Persi

Flood Control and Water Conservation District  
Community Facilities District/Assessment District

### Staff and Guests Present:

Frankie Ezzat  
Steve Faeth  
Matt Jennings  
Valerie Arce  
Daniel Wiles  
Michael Williams  
John Gust  
Simon Wirecki  
Tina Grande

Executive Office  
Treasurer-Tax Collector  
Treasurer-Tax Collector  
County Executive Office  
Fieldman, Rolapp, and Associates  
Columbia Capital  
Jefferies LLC  
Jefferies LLC  
Purchasing and Fleet Services

**1. Call to Order and Self-Introductions**

The Debt Advisory Committee meeting was called to order at 9:02 a.m. Those present made self-introductions.

**2. Approval of the Special DAC Meeting Minutes for December 6, 2018.**

One correction to the date of August 9, 2018 was identified.

**MOTION: Jon Christensen moved to approve the Special DAC Meeting Minutes from December 6, 2018.**

**Don Kent seconded this.**

**The motion approved unanimously.**

**3. TOBACCO SECURITIZATION REFUNDING**

Don Kent shared that the representatives from Jefferies LLC and Michael Williams of Columbia Capital were present to provide an update.

Mr. Williams informed that the Inland Empire Securitization Authority is in the process of refinancing tobacco securitization bonds that were issued in 2007. As a part of the restructuring, Jefferies LLC, the leading investment banking firm with regards to tobacco securitization bonds, has made recommendations for the refunding. There are several requirements, including that there must be savings. To do this, Jefferies LLC is recommending that there be an annual pledge from the Riverside County's general fund between 2022-2026 of up to \$4 million. This would be an annual appropriation. It is being presented to DAC because there is a general fund pledge. The Riverside County Board of Supervisors will be reviewing this on Tuesday, April 30, 2019.

A detailed staff report, sources and uses of funds, and a debt service schedule was provided. The history and reason for the restructuring was outlined in the staff report. The same firm audits both Riverside County and the financials for the Authority and Corporation. Their staff report included an "emphasis of matter" which stated that the Tobacco Authority should seek to refinance these bonds. It was obvious to them that because the tobacco revenues were down, that it was likely that the bonds would default. The default would occur on June 1, 2021.

Jefferies LLC highlighted that this bond issue had the first call of bonds of all that were issued across the country. Due to the earliest date, these bonds would be the first to default in the United States. The Executive Office did an excellent job in obtaining the most experienced team for disclosure counsel, bond counsel, and an underwriting firm that has the best credentials for a structure that could meet the objectives of the Authority.

Oscar Valdez of the Auditor Controller's Office inquired if the County of San Bernardino was experiencing the same situation. Mr. Williams informed that there is a Joint Powers of Authority (JPA) with the County of San Bernardino. However, the County of San Bernardino did not issue tobacco bonds. The San Bernardino County representative will be present and vote on this at meetings that will be held on April 17 and 22, 2019.

Mr. Kent informed that cigarette consumption is less than what was projected back in 2007 when the bonds were issued. He shared that the Authority, not Riverside County, would be the first to default and an investment grade rating will be needed with the rating agency, Standard & Poor (S & P). In this specific case, a support agreement must be provided.

Mr. Williams added that, with the way the bonds are currently sized, there will be a \$4 million debt service reserve annually. The reserve is there in case there is not enough revenue to make the minimum debt service. Depending upon the market conditions at the time, Jefferies LLC said the it would structure to increase the debt service reserve. This would decrease the amount needed for Riverside County's support agreement. Work would be performed up to the point that the bonds are sold to get the optimal structure to minimize the impact on the county general fund.

Mr. Valdez inquired about future smoking trends and the economic forecast. The 5-year support agreement would be effective from 2022—2026. Jefferies LLC representatives informed that, even with the economic forecasts and consumption reports displaying declines in smoking, the level of decline is nowhere close to the level needed for the Riverside County support agreement to come into effect.

Mr. Kent shared that the request is that the DAC allow this to be presented to the BOS on Tuesday, April 30, 2019. The Inland Empire Tobacco Securitization Authority will review this at an upcoming meeting before it is presented before the BOS.

**MOTION: Jon Christensen moved to approve.**

**Oscar Valdez seconded.**

**All were in favor. The motion approved unanimously.**

#### **4. BANC OF AMERICA LINE OF CREDIT (POSSIBLE)**

Tina Grande, Purchasing and Fleet Services Assistant Director, shared that the Purchasing and Fleet Services Department releases an RFP to secure a line of credit for use by county departments for their BOS approved expenditures. Upon the selection of a financing agency that provides the best interest rate for the county, the Purchasing and Fleet Services Department is seeking approval from DAC and then the item will be presented to the BOS for approval. Ms. Grande shared that the department generally awards \$40-\$50 million on an as needed basis. The last line of credit with Banc of America was on July 31, 2018 and was for \$25 million with an additional option of \$25 million. Riverside County has been using this line of credit for approximately twenty years for various equipment and vehicles.

In December, the BOS approved the Riverside University Health Systems (RUHS) Medical Center to use \$30 million of the line of credit. On average, Riverside County departments need approximately \$20 million/year. As a result, the threshold will be reached sooner. The department reached out to Banc of America who offered another line of credit for an additional \$25 million with the same spread. Usually when the department releases an RFP, the spread increases. The additional funds would be for use by other, non RUHS, departments conducting their usual business. The request is that the DAC approve of the Master Lease Agreement for the additional

\$25 million. With the line of credit, departments can budget on a regular basis which would help avoid last minute requests for funds needed for equipment or vehicles.

In addition, Ms. Grande shared that the line of credit will go from an abatement to an appropriation. Currently with the abatement, the financing is done at the time of full use. With the equipment needed for the RUHS Medical Center, it is usually 80% upon delivery and 20% upon usage. An appropriation would allow the county to gain the RUHS Medical equipment without having to use their funds for the upfront 80%. An appropriation will give more flexibility with milestone payments for projects. Should the DAC approve, this item would be presented to the BOS on Tuesday, April 30, 2019.

**MOTION: Jon Christensen 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, May 9, 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 9:31 a.m.