

STAFF REPORT

SUBJECT: Measure D Regional Program Bond Financing

MEETING DATE: September 21, 2006

AGENDA ITEM: 8

STAFF CONTACT: Fred Luna

RECOMMENDATION:

Adopt a resolution authorizing the issuance of a maximum \$8.2 million in limited tax bonds (Series 2006 bonds) for use in delivering projects in the Measure D Regional Program. **Adoption of the resolution requires a two-thirds vote of the board (9 votes).**

SUMMARY:

In July, staff presented the SBCAG board with a completion plan for the remaining regional projects including a financing scenario that provided for issuing bonds to meet the expenditure needs of the program beginning in early 2007. The financing scenario was part of the 2006 Strategic Plan which was presented to and approved by the SBCAG board. Board members were told that they would have to approve the specifics of the financing scenario after additional analysis and consultation was completed with the agency's financial and bond counsel, which the board approved hiring in July. This staff report presents for board approval the specific recommendations for financing the remaining Measure D regional program projects utilizing an \$8.2 million bond issuance.

Due to the timing of expenditures on the remaining regional projects, the Measure D cash balance will be very tight and even negative in the near term. Rather than delay projects to spread out expenditures, the Board in July approved issuing bonds. Some of the critical near term project expenditures include finishing construction of the Highway 101 Ortega Hill Auxiliary Lane and completing right of way acquisition payments on the US 101 Milpas-Hot Springs project. Together, these two expenditures will require \$10.0 million in the next year. Soon after that, SBCAG will be faced with funding construction of the Route 154 Group II Operational Improvements which will require another \$5.0 million in Measure D funding.

Staff has prepared a final financing package for the board's consideration and approval, including the financial documents, official statements and anticipated ratings of the bond issue. Approval of staff recommendation would set the total bond issue at a maximum \$8.2 million, which provides sufficient funding to eliminate \$1.6 million in cash balance deficits anticipated in 2007 and provide approximately \$6.4 million in additional funding to act as a contingency for delivering the remaining projects.

DISCUSSION:

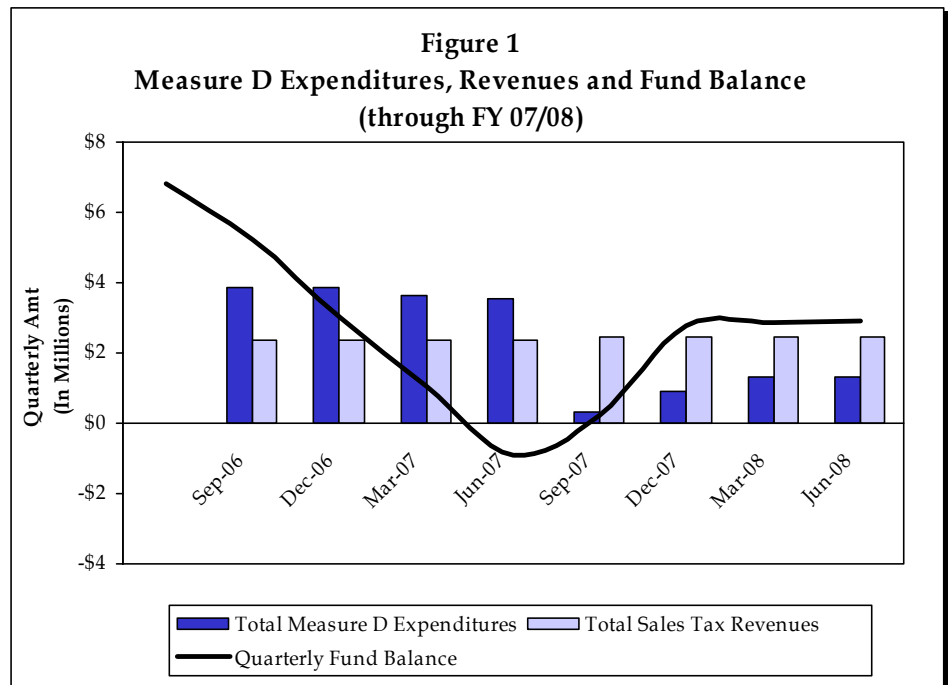
SBCAG, in its capacity as the Local Transportation Authority (LTA) and administrator of Measure D, has in the past approved the issuance of bonds to facilitate project implementation and to maintain project delivery dates. SBCAG is currently paying debt service on its Series 2003 bonds which were refinanced in September 2003 to obtain lower interest rates and reduce debt service payments. Staff advised the SBCAG board in July of the need to issue bonds once again to meet the expenditure needs of the program or risk project delay and project escalation costs.

The 2006 Strategic Plan outlined a completion strategy for delivering the Measure D Regional Program between now and 2010 that utilizes bond proceeds (requiring the issuance of bonds in 2006) to provide sufficient near term capital to offset anticipated fund cash balance deficits beginning in early 2007.

Financial Status

Despite a balance of approximately \$6.8 million at the end of fiscal year 2005/06, a significant strain on the Measure D cash flow is anticipated over the next two years. Figure 1 shows how anticipated expenditures over the next two fiscal years will rapidly draw against the existing fund balance resulting in deficits by spring 2007.

A significant majority of the costs to be paid from Measure D over the next two years will be to complete the commitment to fund construction on the Highway 101 Ortega Hill Auxiliary Lane and right of way acquisition on the Milpas-Cabrillo\Hot Springs project. In addition to these two projects, SBCAG will need to complete design and construction on the Route 154 Group II Operational Improvements and has committed to funding transit on the Clean Air Express and the Coastal Express over the next two years.



The expenditures planned for each of these projects in the next two years is shown in Table 1.

Table 1
Projected Regional Program Expenditures, All Funding Sources
(In Millions \$)

Project	06-07	07-08
	Milpas-Hot Springs	\$11.24
Ortega Hill	\$4.79	\$0.00
Clean Air Express	\$0.54	\$0.00
Coastal Express	\$0.25	\$0.25
Route 154 Group II	\$1.00	\$3.80
Total	\$17.82	\$10.35

Finance Strategy

Since October 2003, when the SBCAG board committed the use of Measure D funds for the Ortega Hill and Milpas-Hot Springs projects, staff has been monitoring cash flow to determine whether any bond financing was necessary. During this time, project schedules and costs were refined, while at the same time, staff continued to update actual sales revenue collections and generate revised revenue projections. All this information helped in generating more accurate cash flow projections which showed deficits beginning in 2007. Staff worked with Municipal Capital Management (MCM), SBCAG's financial advisor to determine potential solutions to address the deficit situation and avoid delaying project delivery. Due to the length of deficit situation and the short-term outlook until Measure D sunsets, a single bond issue appeared to be the most prudent strategy. The size of the bond issue was recommended not only to eliminate anticipated deficits but to provide additional proceeds that could be used to address future cost increases or new projects.

Finance Team and Schedule

In July 2006, the SBCAG board approved a financing scenario and the assembling of a finance team to prepare financial documents related to the 2006 bond issuance. The board approved a contract amendment with MCM to assist with the bond issuance and act as financial advisors through the process. In addition, the board approved an agreement with Kutak Rock LLP (KUTAK) to act as bond counsel for the financing. Staff has met with MCM and KUTAK on a number of occasions since the July board meeting to refine some of the initial assumptions that were used in developing preliminary financial documents, including revising some of the cost and schedule assumptions that were integral in developing the cash flow projection. County Counsel has also been involved in reviewing financial documents during this time.

The finance team has also conferred with rating agencies and bond insurers to describe and market the upcoming issue. With the approval of the finance documents by the board, the bond sale will be published in *Bond Buyer* during the week of September 25th with bids scheduled for receipt on October 11, 2006. During this period, SBCAG and its finance team will distribute the *Official Statement* to prospective bidders which will provide them a profile of the following: sales tax collections and forecast, county economic trends and demographics, and the success of the Measure D program implementation. Staff and the finance team will also engage underwriter's over this time frame to describe the bond sale. The bidder providing the best price based on

lowest true interest cost to the Authority will be awarded the bid. The financial close is scheduled for the week of October 25th.

2006 Series Bonds

As indicated above, the preparation of the financing documents has been underway since the board approved the bond financing approach at the July meeting. Several factors were considered when determining the final size of the bond issue, including but not limited to:

- Sales Tax Revenue Forecast
- Anticipated deficit in 2007
- Need for additional capital for potential program cost increases
- Debt service payment coverage

When the SBCAG board approved the action to begin developing the finance documents for the 2006 Bond Series, there were several questions posed by the board that required additional evaluation, including whether by the time the current measure sunsets all of the projects will have been completed and paid off, debt from this and previous issuances will have been repaid, and whether possibly some funds would be left over. Staff has worked closely with the finance team to provide answers to some of those key questions and others asked by the board and the findings are given below.

Revenue Forecast. At the time of the July board meeting, staff indicated that it had used an assumption of 5.0% revenue growth for the remaining years of the program. This assumption is based on historical average revenue growth for the first 16 years of Measure D. To address the question of possible economic “bust” years that would affect sales tax revenue, staff prepared a sensitivity analysis to evaluate the impact. Decreasing the revenue forecast to 1% growth per year (there have been two short economic down turns over the first 16 years of Measure D) would result in \$3.85 million fewer Measure D dollars collected by the time the measure sunsets in 2010. This would have a dramatic effect on ability to pay off debt service and project expenditures [see the discussion below regarding *Security on Debt Service* which addresses a situation of significantly reduced revenue forecast]. However, the likelihood of this scenario is fairly remote. In fact, only two of the first 15 years of the program has shown appreciable revenue growth with the last year being 1995. Furthermore, in 10 of the 15 years where annual growth has been calculated, the annual growth rate has exceeded 4.0%. Staff is recommending that projected revenue growth that is part of the financial documents for bond issuance remain at 5.0% to reflect the historical average for the program.

Supervisor Gray also asked whether there was any correlation between sales tax revenue collections with housing sales. In reviewing available data and discussing this issue with our finance team, it was determined that no identifiable correlation can be seen between sales tax revenues and housing sales. Though total housing sales (in 2005 and 2006) have dropped relative to previous years sales tax revenue continues to grow.

Debt Service Payment and Terms: The board questioned the repayment terms of the new bond issue. Staff informed the board that with 2003 refunding, all bond proceeds were exhausted from the 1993 Series, and debt service was scheduled for repayment through 2010. Debt service on the Series 2006 Bonds would also be retired by March 2010, when the Measure D program sunsets.

Interest Rates. With the changes in the interest rate market, the board asked what the anticipated interest rate would be on the Series 2006 bonds. The financial plan that was part of the 2006 Strategic Plan assumed a net interest of slightly less than 4%. Since that time MCM has refined the analysis, and true interest cost (TIC) by which the bids will be evaluated is anticipated at 3.86%. In comparison, the original 1993 issue had a true interest cost of 4.8% and the 2003 refunded bonds had a true interest cost of 2.7%.

Staff and the finance team has conferred with both Moody's and Standard & Poor's to obtain an agency rating that will be part of the Official Statement issued. Both Moody's and Standard & Poor's were generally familiar with the success of the Measure D program, were interested in current economic conditions and sales tax revenue assumptions for the future both on growing industry sectors and population. In summary, both rating firms have indicated that there would be no indication to changing SBCAG's current underlying rating of A1 (Moody's) and AA- (Standard & Poor's) respectively. Furthermore, with the addition of bond insurance, it is anticipated that the market rating will be elevated to AAA (highest rating).

Security on Debt. The board was interested in what provisions would be taken to assure repayment on bonded debt if future sales tax revenues do not live up to the forecast. Staff and MCM indicated at the time that one of the safeguards often required for these circumstances is the establishment of a bond reserve fund which is available for payment of principal and interest on the Series 2006 Bonds. The amount of the reserve fund is based on maximum annual debt service on all bonds outstanding. In some cases this can be quite sizeable, so rather than having the bond trustee (holder of the proceeds) make a deposit of this size into the fund, an insurance policy is purchased (bond insurance) in that amount. The bond insurance policy is therefore the vehicle for repayment of any defaulted principal and interest.

Taking into consideration various factors outlined above, staff is recommending that the SBCAG issue bonds in the amount of \$8.2 million. The \$8.2 million is sufficient to address projected shortfalls in funding of \$1.6 million needed in 2007 and provides an additional \$6.4 million in project funding. The cost of issuance related to the bond is estimated at around \$0.26 million, including costs for financial advisor, bond counsel, rating agency fees, trustee fees, bond insurance and underwriter's fees (discount). Based on the anticipated interest rate on the bonds, SBCAG would pay interest of around \$0.8 million over the life of the debt service payments. However, by using bond financing, SBCAG is able to avoid project delays solely due to cash flow which would far exceed the cost of financing based on a projected 3% project cost escalation.

Bond Documents

A number of financial documents have been prepared to facilitate the bond issue. Attached to this report is the Resolution 06-25 of the Santa Barbara County Local Transportation Authority (LTA). The resolution outlines the various documents that have been prepared and authorizes the Chair and Executive Director to be able to execute said documents to complete financing. Such delegated actions include:

- Determination of the time and date of sale (a schedule of remaining key dates is attached)
- To award based on lowest true interest cost or to reject all bids
- To obtain bond insurance should it prove beneficial to sale
- To finalize the Official Statement of the 2006 Bond Series sale

RECOMMENDATION:

Staff recommends that the board adopt the attached resolution that authorizes the Chair and the Executive Director of SBCAG to approve the necessary documents to complete the bond issuance. The finance documents call for the issuance of a not-to-exceed amount of \$8.2 million in new bonds.

COMMITTEE REVIEW: None.

**Santa Barbara County Local Transportation Authority
Schedule for 2006 Bond Issue**

<u>Date</u>	<u>Activity</u>	<u>Responsibility</u>
September 21	Board adopts resolution approving financing documents	SBCAG
September 25 (est.)	Deadline to public notice inviting bids and to publish notice in local publications	Bond Counsel
October 11 (est.)	Accept Bids	SBCAG and MCM
October 17 (est.)	Distribute Closing Documents	Bond Counsel
October 25 (est.)	Close Financing	Finance Team

CERTIFICATE OF THE EXECUTIVE DIRECTOR OF THE AUTHORITY

I, James M. Kemp, Secretary of the Santa Barbara County Local Transportation Authority, hereby certify that attached is a full, true and correct copy of a Resolution of the Authority, adopted September 21, 2006, of which meeting all of said Directors had due notice and which was duly called in the manner required by law.

I further certify that I have carefully compared the foregoing copy with the original Resolution on file and of record in my office; that said copy is a full, true and correct copy of the original Resolution adopted; and that said Resolution has not been amended, modified or rescinded in any manner since the date of its adoption and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate the ____ day of _____
2006.

SANTA BARBARA COUNTY LOCAL
TRANSPORTATION AUTHORITY

James M. Kemp, Secretary

SECRETARY'S CERTIFICATE

I, James M. Kemp, Secretary of the Santa Barbara County Local Transportation Authority, hereby certify as follows:

The foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of the Authority duly and legally held at the regular meeting place of the Authority in Santa Maria, California, on September 21, 2006, of which meeting all of the members of the Authority had due notice and at which at least a majority of the members were present and acting throughout;

At said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

)

I have carefully compared the foregoing with the original minutes of said meeting on file and of record in my office, and the foregoing is a full, true and correct copy of the original resolution adopted at said meeting and entered in said minutes; and said original resolution has not been amended, modified or rescinded since the date of its adoption, and the same is now in full force and effect.

I do hereby further certify that an agenda of said meeting was posted at least 72 hours before said meeting at a location in Santa Barbara, California, freely accessible to members of the public, and a brief general description of said resolution appeared on said agenda.

IN WITNESS WHEREOF, I have executed this certificate the ____ day of _____ 2006.

SANTA BARBARA COUNTY LOCAL
TRANSPORTATION AUTHORITY

James M. Kemp, Secretary

SANTA BARBARA COUNTY LOCAL TRANSPORTATION AUTHORITY

RESOLUTION NO. 06-25

AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$8,200,000 AGGREGATE PRINCIPAL AMOUNT OF SANTA BARBARA COUNTY LOCAL TRANSPORTATION AUTHORITY SALES TAX REVENUE BONDS (LIMITED TAX BONDS), SERIES 2006, APPROVING FORMS OF A THIRD SUPPLEMENTAL INDENTURE PROVIDING FOR THE ISSUANCE OF SAID BONDS AND AN OFFICIAL NOTICE OF SALE AND AN OFFICIAL STATEMENT RELATING TO THE SALE OF SAID BONDS AND AUTHORIZING AND DIRECTING THE EXECUTION AND DELIVERY THEREOF, AUTHORIZING THE PROCUREMENT OF A CREDIT FACILITY AND/OR BOND INSURANCE, AND AUTHORIZING TAKING OF ALL NECESSARY ACTIONS IN CONNECTION WITH SAID BONDS.

WHEREAS, the Santa Barbara County Local Transportation Authority (the "Authority"), pursuant to Division 19 of the California Public Utilities Code (the "Act"), is authorized to issue bonds payable from the proceeds of the retail transactions and use tax levied by the Authority; and

WHEREAS, the Authority desires to issue its Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2006 (the "Series 2006 Bonds") in order to fund capital improvements in accordance with the Authority's Expenditure Plan, as amended; and

WHEREAS, in order to maximize benefits to the Authority in connection with such financing, it may be desirable to obtain bond insurance or other credit enhancement;

NOW THEREFORE, THE SANTA BARBARA COUNTY LOCAL TRANSPORTATION AUTHORITY RESOLVES AS FOLLOWS:

Section 1. The issuance by the Authority of Santa Barbara County Local Transportation Authority Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2006, in an aggregate principal amount not to exceed \$8,200,000 is hereby authorized and approved.

Section 2. The proposed form of Third Supplemental Indenture, tentatively dated as of October 1, 2006, (the "Third Supplemental Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), submitted to the Authority, and the terms and conditions thereof, are hereby approved. The Third Supplemental Indenture supplements and amends the Indenture of Trust, dated as of November 1, 1993 (the "Original Indenture"), by and between the Authority and State Street Bank and Trust Company of California, N.A. ("State Street") (the predecessor to U.S. Bank National Association), as supplemented by the First Supplemental Indenture, dated as of November 1, 1993 (the "First Supplemental Indenture") between the Authority and State Street, and the Second Supplemental Indenture, dated as of September 1, 2003 (the "Second Supplemental Indenture" and, together with the Original Indenture, the "Indenture"), between the Authority and the Trustee. The Executive Director of the Authority is directed to file a copy of said form of Third Supplemental Indenture with the

minutes of this meeting, and the Chairperson of the Authority is authorized and directed to execute and deliver the Third Supplemental Indenture to the Trustee, in substantially said form, with such additions thereto or changes therein, as such officer, with the advice of counsel to the Authority and Kutak Rock LLP, Bond Counsel (“Bond Counsel”), shall approve, such approval to be conclusively evidenced by the execution and delivery of the Third Supplemental Indenture.

Section 3. The proposed form of Continuing Disclosure Agreement, tentatively dated as of October 1, 2006 (the “Continuing Disclosure Agreement”), by and among the Authority and the Trustee, submitted to the Authority, and the terms and conditions thereof, are hereby approved. The Executive Director of the Authority is directed to file a copy of said form of Continuing Disclosure Agreement with the minutes of this meeting, and the Chairperson of the Authority is authorized and directed to execute and deliver the Continuing Disclosure Agreement, in substantially said form, with such additions thereto or changes therein, as such officer, with the advice of counsel to the Authority and Bond Counsel, shall approve, such approval to be conclusively evidenced by the execution and delivery of the Continuing Disclosure Agreement.

Section 4. The proposed form of the Official Notice of Sale, providing for the sale of the Series 2006 Bonds by the Authority pursuant to public sale, submitted to the Authority, is hereby approved. The Executive Director of the Authority is directed to file a copy of said form of Official Notice of Sale with the minutes of this meeting, and the Chairperson or the Executive Director of the Authority is authorized and directed to complete the Official Notice of Sale in substantially said form, providing for the sale of not to exceed \$8,200,000 in aggregate principal amount of Series 2006 Bonds, with such additions thereto or changes therein, as the Chairperson or Executive Director of the Authority, with the advice of counsel and Bond Counsel to the Authority and Municipal Capital Management, Inc., Financial Advisor to the Authority (the “Financial Advisor”), shall approve, such approval to be conclusively evidenced by the execution of the Official Notice of Sale. The distribution to prospective bidders for the Series 2006 Bonds of copies of said Official Notice of Sale by the Financial Advisor is hereby approved. The date, maturity date or dates (not to exceed March 15 , 2010), interest rate or rates (not to exceed 6.00% per annum), interest payment dates, forms, registration privileges, place or places of payment, terms of redemption and other terms of the Series 2006 Bonds shall be (subject to the foregoing limitations) determined in accordance with the Official Notice of Sale and as provided in the Third Supplemental Indenture as finally executed and delivered.

Section 5. The publication of a Notice of Intention to Sell Bonds, in substantially the form submitted to the Authority, at least 15 days before the date of sale of the Series 2006 Bonds in *The Bond Buyer* is hereby authorized and approved.

Section 6. The Executive Director of the Authority is hereby authorized to fix and postpone the time and date of sale of the Series 2006 Bonds, as provided in the Official Notice of Sale, in consultation with the Financial Advisor, to receive bids on an appropriate date. The Executive Director of the Authority is hereby authorized and directed to award the Series 2006 Bonds to the highest responsible bidder in accordance with the Official Notice of Sale to produce the lowest true interest cost to the Authority or to reject all bids, if, in consultation with the Financial Advisor, such is in the best interest of the Authority.

Section 7. The proposed form of Official Statement describing the Series 2006 Bonds and related matters, submitted to the Authority, is hereby approved. Distribution of copies of a preliminary Official Statement, in substantially said form with such additions thereto or changes therein as the Executive Director with the advice of counsel and bond Counsel to the Authority shall approve, to potential purchasers of the Series 2006 Bonds is hereby approved. The Official Statement in preliminary form may be deemed final by the Executive Director on behalf of the Authority for purposes of compliance with Securities and Exchange Commission Rule 15(c)2-12. The Chairperson or the Executive Director of the Authority is hereby authorized and directed to execute and deliver a final Official Statement in substantially said form, and with such additions thereto or changes therein, as the Chairperson or Executive Director of the Authority, with the advice of counsel and bond Counsel to the Authority shall approve, such approval to be conclusively evidenced by the execution and delivery of the Official Statement. Distribution of copies of the final Official Statement to actual purchasers of the Series 2006 Bonds is hereby authorized and approved.

Section 8. The Executive Director of the Authority is hereby authorized and directed to negotiate with bond insurance companies, and, if the Executive Director of the Authority determines that it is in the best interest of the Authority, to commit to purchase bond insurance for one or more maturities of the Series 2006 Bonds on such terms as the Executive Director of the Authority determines are appropriate.

Section 9. The Executive Director of the Authority is hereby authorized and directed to negotiate with financial institutions and/or insurance companies, as applicable, and, if the Executive Director of the Authority determines that it is in the best interest of the Authority, to secure an irrevocable letter of credit, or a surety bond, or an insurance policy on such terms as the Executive Director of the Authority determines are appropriate, in order to deposit in the Bond Reserve Fund established pursuant to the Indenture an amount at least equal to the Bond Reserve Requirement, as defined in the Indenture, upon issuance of the Series 2006 Bonds.

Section 10. The Chairperson, the Secretary and the Executive Director of the Authority, and other appropriate officers and agents of the Authority, be and they are hereby authorized and directed, jointly and severally, for and in the name and on behalf of the Authority, to execute and deliver any and all documents, certificates and representations, including signature certificates, no-litigation certificates, tax certificates, letters of representation relating to book-entry registration, insurance agreements, reimbursement agreements, and certificates concerning the contents of the Official Statement, and to do any and all things and take any and all actions which may be necessary or advisable, in their discretion, to consummate the issuance, sale and delivery of the Series 2006 Bonds and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, including, without limitation, travel to and attendance at rating agency and insurance company presentations, document review meetings, the bid opening and similar activities.

In the event the Chairperson, Secretary or Executive Director of the Authority is unavailable to execute the documents authorized hereby, such documents may be executed by the Vice-Chairperson or Assistant Secretary or designee of the Executive Director, respectively.

Section 11. All actions heretofore taken by the officers and agents of the Authority with respect to the issuance, sale and delivery of the Series 2006 Bonds are hereby approved, confirmed and ratified.

Section 12. This Resolution shall take effect from and after its adoption.

PASSED AND ADOPTED on September 21, 2006, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Chairperson
Santa Barbara County Local Transportation
Authority

Attest:

Executive Director
Santa Barbara County Local Transportation Authority

APPROVED AS TO FORM:

STEPHEN SHANE SHARK
COUNTY COUNSEL

By _____
Deputy County Counsel