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County of Santa Cruz

COUNTY ADMINISTRATIVE OFFICE

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SUSAN A. MAURIELLO, J.D., COUNTY ADMINISTRATIVE OFFICER

March 11, 2002

AGENDA: March 19, 2002

BOARD OF DIRECTORS
County of Santa Cruz Public Finance Authority
701 Ocean Street
Santa Cruz, California 95060

RESOLUTION AUTHORIZING THE REFUNDING OF THE SANTA CRUZ COUNTY PUBLIC FINANCING AUTHORITY'S CONSOLIDATED EMERGENCY COMMUNICATION CENTER LEASE REVENUE BONDS

Dear Members of the Board:

The purpose of this letter is to secure your approval to proceed with the refunding of the Consolidated Emergency Communication Center Lease Revenue Bonds. The material which follows provides history on the bonds and the refunding effort.

Background

The Santa Cruz County Public Financing Authority is a conduit issuer for the 1994 Lease Revenue Bonds which financed the construction of the Consolidated Emergency Communications Center now operated jointly by the County and cities of Santa Cruz, Watsonville and Capitola through the Santa Cruz Consolidated Emergency Communications Center Joint Powers Authority. On May 24, 2001 the Joint Powers Authority approved a refinancing of the 1994 Lease Revenue Bonds.

The 1994 Bonds are a financial obligation of the Joints Powers Authority and are not a financial obligation of either the County or the Public Financing Authority. The County is, however, contractually obligated to pay its share of the debt service pursuant to a Use Agreement between the Santa Cruz Consolidated Emergency Communications Center and the County and will therefore benefit from the refinancing. The savings to be realized by the refunding (approximately \$300,000) will be used by the Consolidated Communications Center Authority to acquire needed replacement fixed assets without impacting future member contributions.

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On August 7, 2001 your Board adopted a resolution authorizing and directing:

1. the issuance of not to exceed \$7,000,000 principal amount of 2001 lease revenue bonds;
2. execution of a form of an indenture of trust, a lease agreement, an escrow agreement, an official statement; and
3. authorizing the sale of bonds pursuant to public sale and providing for other matters.

Before the Bonds could be sold pursuant to the August 7, 2001 Resolution the events of September 11, 2001 changed the underlying economics associated with the refinancing. Our Financial Advisor summarizes the situation as follows. When the short term treasury market plunged following September 11th, the relatively **low** reinvestment rates for the refunding escrow caused an increase in the funds needed for the refinancing. Therefore the refinancing ceased to be cost effective and was withdrawn from the market. As short term reinvestment rates continued to decline with action by the Federal Reserve, the long term rates stayed relatively stable.

Recent Developments

Recently short term rates have started rising, reducing the escrow costs. However, it is only a matter of time before the long term rates also rise. Therefore there may be a short window of opportunity in which to complete the transaction originally contemplated. Due to the sensitive timing of the refinancing and the possibility of losing the window of opportunity, Harrell and Company is recommending that the Public Financing Authority and the Consolidated Communications Center Authority authorize a negotiated sale of the Bonds instead of the originally contemplated competitive sale. This change provides more flexibility. The attached Resolution accomplishes this purpose and sets the Underwriter's discount to an amount not to exceed .06 of the principal amount.

Recommendation

At this time it is RECOMMENDED that your Board adopt the attached Resolution which ratifies your Board's previous action and authorizes a negotiated sale at an Underwriter's discount not to exceed 0.6% of the principal amount.

Very truly yours,



A. Mauriello
Susan A. Mauriello

Executive Director of the
Santa Cruz County Public Financing Authority

Attachments

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cc: Santa Cruz Consolidated Emergency Communications Center
Auditor-Controller
County Counsel
Rutan and Tucker
Harrell & Associates