



## COUNTY OF SONOMA

575 ADMINISTRATION  
DRIVE, ROOM 102A  
SANTA ROSA, CA 95403

### SUMMARY REPORT

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**Agenda Date:** 8/18/2020

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**To:** Board of Supervisors

**Department or Agency Name(s):** Auditor-Controller-Treasurer-Tax Collector

**Staff Name and Phone Number:** David Maurice 565-2858

**Vote Requirement:** Majority

**Supervisory District(s):** Countywide

**Title:**

Tobacco Settlement Refunding (Refinancing) Bonds Series 2020

**Recommended Action:**

Approval of the Resolution of the Board of Supervisors of the County of Sonoma authorizing the refunding (refinancing) of the Tobacco Settlement Asset-Backed Bonds (Sonoma County Securitization Corporation) Series 2005 and authorizing other matters relating thereto including approval of agreements with bond and disclosure counsel, financial advisor, and rating agency, and authorizing execution of such other documents as are necessary to complete the transaction.

**Executive Summary:**

Currently, interest rates are extremely low and the County has an opportunity to refinance the Series 2005 Tobacco Securitization Asset-Backed Bonds. Doing so will achieve three goals: First, the County can lower the interest cost of the bonds thereby realizing a Net Present Value savings of approximately \$9.4 million due to lower interest rates. Second, it can shorten the expected final maturity from 2050 to 2048, allowing the County to capture future residual Tobacco Settlement Revenues (TSRs) 2 years sooner. Third, the refinancing will result in approximately \$6.7 million of proceeds that can be deposited into the County Tobacco Endowment Fund which is required to be used to pay for future capital projects, and will be considered as part of the FY 2020-21 September public Hearings Capital Project budget final allocations.

**Discussion:**

On October 24, 2000, the Board of Supervisors adopted Resolution No. 00-1310 approving a structure, implementation authorities, and the form of transaction documents to securitize Sonoma County's Tobacco Settlement Revenues (TSRs). These actions were authorized to shift risks associated with the TSRs to informed investors, create a financing source to fund a portion of the Juvenile Hall Replacement/Juvenile Justice Center project, and establish an endowment fund. The securitization process experienced a delay due to disputed attorney fees from the law firms representing California counties in the Master Settlement Agreement with the tobacco industry. This delay required the Board to adopt Resolution No. 02-0156 on February 5, 2002. This resolution modified the forms of certain documents previously referenced in Resolution 00-1310, and ratified other actions to provide final direction in the sale of our TSR's.

On April 30, 2002, the County completed the sale of our TSRs and deposited approximately \$32 million into the Capital Project Fund, established the Tobacco Endowment Fund with a deposit of \$27.2 million, and paid other related costs of the transaction in the amount of

\$1.2 million.

As interest rates fell significantly between the sale of the original Series 2002A and 2002B bonds and 2005, the Board adopted resolution No. 02-1310 authorizing the refunding of those bonds via the issuance of new bonds. The County completed sale of the Series 2005 Tobacco Settlement bonds on 10/27/2005 adding approximately \$11.8 million to the Tobacco Endowment Fund, retired the 2002 bonds, and paid other related costs of the transaction.

Due to current low interest rates the opportunity to refund the outstanding Series 2005 bonds is now available. It is anticipated that a refunding would provide approximately \$6.7 million to the Tobacco Endowment Fund, which can be used for future capital projects. The new bonds will have a Net Present Value (NPV) savings compared to the current bonds of approximately \$9.4 million or 14.2% of the par amount of the existing bonds, which meets the County's Debt Policy guideline of a minimum of 3% NPV savings.

The cost of issuance is estimated to be \$1 million. The transaction costs are paid contingent on the close of the transaction with the exception of \$100,000 associated with the upfront bond rating work. All associated costs will be paid from non-general fund sources - either the operating expense account held at the trustee bank BNY Mellon, or from proceeds of the bond issuance.

It should be noted that the expected final maturity of the current 2005 bonds has been extended from 2038 to 2050 due to declining TSRs due to the drop in tobacco consumption. The new bonds are anticipated to have an expected maturity of 2048, 2 years sooner than the current bonds. The expected maturities are based on current forecasts of TSRs that assume declining tobacco consumption compared with the 2005 bonds.

The bonds are not an obligation of the County. They are issued through the Sonoma County Securitization Corporation and the California County Tobacco Securitization Agency, a public entity created pursuant to a Joint Exercise of Powers Agreement created on November 15, 2000 between several member California counties. Therefore, the bonds do not affect the County's credit rating or future debt capacity.

**Recommendation:**

The County Debt Advisory Committee has reviewed and approved this transaction, and the County Securitization Team (Auditor-Controller-Treasurer-Tax Collector, County Counsel and CAO) has worked diligently to review this transaction and recommends that the Board approve the refunding (refinancing) resolution, along with agreements with bond and disclosure counsel, financial advisor, and rating agency, and such other documents as are necessary to complete the transaction.

**Prior Board Actions:**

9/27/2005 - Board of Supervisors adopted Resolution No. 05-0832 authorizing refunding of the previous Series 2002A and Series 2002B bonds and other related items.

02/05/2002 - Board adopted Resolution No. 02-0156 which modified documents in Resolution No. 00-1310 and other related actions.

10/24/2000 - Board adopted Resolution No. 00-1310 approving formation of the Calif. Tobacco Securitization Agency, formation of the Sonoma County Securitization Corp., the execution of an installment sale, self-insurance and risk transfer agreement.

**FISCAL SUMMARY**

<b>Expenditures</b>	<b>FY 19-20 Adopted</b>	<b>FY20-21 Projected</b>	<b>FY 21-22 Projected</b>
Budgeted Expenses			
Additional Appropriation Requested			
<b>Total Expenditures</b>			
<b>Funding Sources</b>			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
<b>Total Sources</b>			

**Narrative Explanation of Fiscal Impacts:**

A deposit of approximately \$6.7 million will be made to the Tobacco Endowment Fund. Approximately \$1 million for costs of issuance are to be paid from either the operating expense account held at the trustee bank BNY Mellon, or from the proceeds of the bond issuance.

<b>Staffing Impacts:</b>			
<b>Position Title (Payroll Classification)</b>	<b>Monthly Salary Range (A-I Step)</b>	<b>Additions (Number)</b>	<b>Deletions (Number)</b>

**Narrative Explanation of Staffing Impacts (If Required):**

None

**Attachments:**

1. Tobacco Settlement Refunding (Refinancing) Bonds Series 2020\_Resolution
2. Tobacco Settlement Refunding (Refinancing) Bonds Series 2020\_Certificate of County

**Related Items "On File" with the Clerk of the Board:**

1. Hawkins Delafield & Wood, LLP: contract for bond and disclosure counsel services.
2. KNN Public Finance, LLC: contract addendum to provide financial advisor services.
3. Standard & Poors Financial Services, LLC: contract to provide credit rating services.
4. Bank of New York Mellon, Inc.: Fee Schedule for bond trustee services.
5. Causey Demgen & Moore P.C.: Fee Letter for verification agent services.

6. BLX: Investment Services Contract.