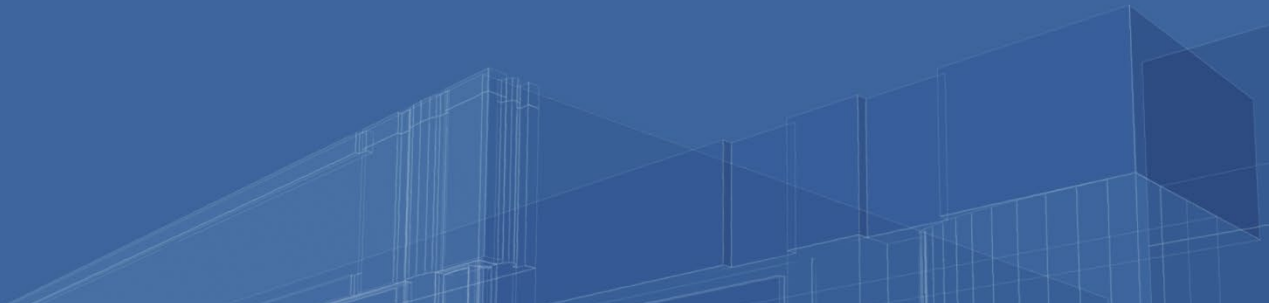




Sonoma County

Presentation to Board of Supervisors

August 18, 2020



History of Sonoma County Tobacco Bonds

- In 1998, the State of California, along with most other States, entered into a Master Settlement Agreement with major tobacco companies settling litigation related to tobacco-related health care costs. The settlement terms requires the tobacco companies to make payments to the public entities in perpetuity.
 - These tobacco settlement revenue payments (“TSRs”) began in 2000 and are periodically adjusted based on several factors, including changes in domestic consumption of cigarettes and inflation, among other factors.
- In 2002, Sonoma County issued Tobacco Settlement Revenue Asset-Backed Bonds. The County generated \$59.2 million of upfront proceeds from the 2002 Bonds to fund an endowment to be expended on capital projects.
 - Proceeds from the 2002 financing were used to construct the County’s Juvenile Justice Center and to initially seed the County’s tobacco endowment fund.
- Debt service on the bonds is paid solely from the County’s share of TSR’s – No general fund pledge.
- In 2005, the County refunded the 2002 Bonds, generating an additional \$12.1 million of proceeds for the endowment. Due to low interest rates, the County now has the opportunity to refund the 2005 Bonds and achieve additional present value savings.



Summary of 2020 Refunding Bonds

- A refunding of the 2005 Bonds would generate present value savings in today's market.
- County staff considered several structuring options and recommends the following:

Summary of 2020 Refunding Bonds:

- Fully refund all of the 2005 Bonds.
- Generate upfront proceeds of approximately \$6.7 million to be realized at closing of the transaction.
- TSRs estimated to begin to flow back to the County in 2048.
- Bond structure utilizes Capital Appreciation Bonds as well as Current Interest Bonds.

	Status Quo	2020 Refunding
Par Amount:	\$66,485,000	\$64,211,904
True Interest Cost:	5.44%	3.95%
Present Value Savings:	NA	\$9,438,000
Upfront Proceeds:	NA	\$6,720,000
Present Value Savings as % of Bonds Refunded:	NA	14.2%
Stated Final Maturity:	2045	2055
Expected Final Maturity:	2050	2048
First Return of TSRs to County:	2050	2048



Proposed 2020 Refunding Bond Structure

Bond Series	Rating	Par	Stated Mat.	Est. Mat.	
2020A Serial Bonds	"A"	\$11,380,000	2030	2030	
2020A Serial Bonds	"A-"	14,715,000	2040	2040	
2020A Term Bond	"BBB+"	11,995,000	2049	2047	*
2020B Turbo Current Interest Bond:	"BBB+"	2,500,000	2030	2023	
2020B Turbo Current Interest Bond:	"BBB-"	9,000,000	2049	2029	
2020B-2 Turbo Capital Appreciation Bond:	NR	<u>14,621,904</u>	2055	2048	
		\$64,211,904			

* DSRF utilized to retire 2020A Term Bond two years before stated maturity.



Considerations and Recommendation

- A refunding of the 2005 Bonds would generate present value savings and approximately \$6.7 million of upfront proceeds.
 - The estimated present value savings exceed the County's minimum Debt Policy savings threshold of 3.0% of the par amount of refunded bonds.
- Staff proposes to deposit the proceeds into the existing Tobacco Endowment Fund, which has historically been used for a variety of capital projects.
- The refunding eliminates the expected default of the status quo structure.
- The refunding results in expected TSRs returning to the County sooner than the status quo.
- Some cost of issuance efficiencies with Merced County pursuing similar transaction on same time frame.
- As with 2005 Bonds, the refunding bonds would be non-recourse to the County's general fund.



Next Steps

Friday, July 17 th :	Sonoma County DAC considered and approved the 2020 Bond refunding.
Tuesday, August 18 th :	County Board of Supervisors considers 2020 Bonds.
Week of August 24 th :	Sonoma Co. Securitization Corporation and The California County Tobacco Securitization Agency consider financing.
Week of September 14 th :	Bond pricing (dependent on market conditions).
Two weeks after Pricing:	Bond closing.

