County Executive Office

Memorandum

April 11, 2008

To: Supervisor John Moorlach, Chairman

From: Thomas G. Mauk, County Executive Officer

Subject: Exception to the Rule 21

532B

The County Executive Office is requesting a supplemental for the April 15, 2008 Board Hearing Meeting.

Agency: County Executive Office
Subject: Authorize negotiations with Letter of Credit for Potential Teeter restructuring
District All

Reason for supplemental: Requested by CEO/Public Finance to meet Teeter Financing requirements.

Concur: _____
Supervisor John Moorlach, Chairman Board of Supervisors

cc: Members, Board of Supervisors
Rob Richardson, Assistant to the County Executive Officer
Ben De Mayo, County Counsel

Agenda Item (Clerk's Use Only)

SUPPLEMENTAL AGENDA ITEM
AGENDA STAFF REPORT

ASR Control S32B

MEETING DATE:	April 15, 2008
LEGAL ENTITY TAKING ACTION:	Board of Supervisors
BOARD OF SUPERVISORS DISTRICT(S):	All Districts
SUBMITTING AGENCY/DEPARTMENT:	County Executive Office
DEPARTMENT CONTACT PERSON(S):	Thomas Beckett 834-5969
	Jane Snyder 845-2436

SUBJECT: Authorize negotiation with Letter of Credit Bank for potential Teeter restructuring

CEO CONCUR	COUNTY COUNSEL REVIEW	CLERK OF THE BOARD
		Discussion

Budgeted: N/A **Current Year Cost:** Not to exceed $50,000 **Annual Cost:** N/A

Staffing Impact: N/A **# of Positions:** N/A **Sole Source:** N/A

Current Fiscal Year Revenue: N/A

Funding Source: Anticipated to be Commercial Paper Cost of Issuance

Prior Board Action: N/A

RECOMMENDED ACTION(S)

Authorize Public Finance Manager to sign and accept an Indication of Interest Proposal dated April 7, 2008 from Dexia Credit Local, New York Branch for a direct-pay letter of credit to support a potential Teeter Commercial Paper program of up to $250 million.

SUMMARY:

Authorize Public Finance Manager to sign and accept an Indication of Interest Proposal dated April 7, 2008 from Dexia Credit Local, New York Branch for a direct-pay letter of credit to support a potential Teeter Commercial Paper program of up to $250 million.

BACKGROUND INFORMATION:

On October 25, 2007 and January 29, 2008, respectively, Public Financing Advisory Committee (PFAC) and the Board of Supervisors (Board) approved Orrick, Herrington & Sutcliffe LLP (Orrick) as Special Counsel and Kelling, Northcross & Nobriga (KNN) as Financial Advisor to conduct a thorough review of the County's Teeter Plan, including but not limited to, the Orange County Financing Authority's Teeter Plan Revenue Bonds (Teeter Bonds), evaluate available financing options and present appropriate action items for consideration and approval by PFAC and the Board.

KNN, Orrick and County staff evaluated the Teeter Plan, focusing on retiring the Teeter Bonds prior to the final maturity, pursuing different Teeter financing mechanisms, or restructuring or terminating the Teeter Plan. The analysis also included recognition that the Teeter Plan has provided annual contributions to the general fund, which are presently limited to $10 million per year, as well as the County's continuing obligations to pay Teeter participating taxing entities their full share of the base uncollected tax-defaulted secured roll property taxes in July when the general fund cash is at a low level at the onset of the fiscal year.

Based on the substantial escalation of tax delinquencies (tax-defaulted properties) during the last two years, the potential for substantially increased delinquencies in 2008, the inability for the bankruptcy-era Teeter Bonds to provide sufficient additional money to fund the County's Teeter payment obligations and the additional concern of recent market conditions, the establishment of a commercial paper (CP) program was determined to be the most flexible and effective method for meeting the cash needs of the Teeter program today and on a going-forward basis. As presently contemplated, the CP program would defease the existing Teeter Bonds, restructure and fund the Teeter Plan and potentially provide the County with additional cash flow.

It is anticipated that the initial tax-exempt CP notes will be issued at a variable rate of interest and will be backed by a bank letter of credit. The term of the notes could be from one to 270 days, although it is anticipated that the initial notes will mature in approximately 90 days. The notes will be a County general fund obligation payable by the general purpose revenues and further secured by a lien on the base taxes received through the redemption of tax-defaulted properties participating in the Teeter Plan. The estimated amount of the initial note will be up to $250 million. The amount of the intial note will be based on Teeter program cash flows, including projected property tax delinquencies, which are presently being prepared.

After the CP program is established, it will enable the County to quickly access the market and issue additional notes to meet the cash needs of the Teeter program. Notes could be of varying maturities and amounts, which will be paid down as funds become available. Interest costs on the tax-exempt notes are on the "short-end" of the yield curve which should be less costly than longer term debt.

Due to market requirements for a letter of credit to support the CP, staff initiated a request for proposals (RFP) process for a letter of credit (LOC) bank, commercial paper dealer bank, and issuing and paying agent/trustee for the CP program.

The County approached 16 banks for interest and sent 10 RFPs to LOC banks to solicit bids for a direct-pay letter of credit for credit enhancement and liquidity support for a CP program of up to $250 million. We received two proposals: one from Dexia Credit Local, New York Branch for up to the entire $250 million and another from Wells Fargo Bank, N.A. for up to $136.1 million.

In order for the County to proceed in the credit approval process with Dexia, the County must sign acceptance of the Indication of Interest Proposal. The Indication of Interest Proposal is not a formal commitment by Dexia or the County and is subject to final credit approval and legal documentation satisfactory to Dexia and their legal counsel, Sidley Austin LLP. However, in order for Dexia to initiate the process and review the County's draft financing documents, they require that an officer of the County sign acceptance of their proposal. Signing acceptance binds the County to pay Dexia's legal fees regardless of whether or not they agree to provide a formal commitment for the LOC or whether or not the County ultimately determines to proceed with the CP. Dexia's parent, Dexia SA, based in Paris and Brussels, is the world's largest lender to local governments. Since the year 2000, it has also owned

Financial Security Assurance Holdings, Ltd., which bond insurance as aforementioned, has maintained the "AAA" ratings with stable outlook.

The Dexia LOC is rated Aa1/P-1 by Moody's, AA/A-1+ by Standard & Poor's and AA+/F1+ by Fitch. Its proposed annual fee for a three-year term is 0.55% for the amount utilized for the LOC and 0.35% for the commitment which is the amount not utilized, but set aside for the LOC. The LOC and commitment fees are based on the County's current issuer ratings of Aa2 by Moody's and AA- by Standard & Poor's and these fees will be subject to increase for any rating downgrade. The County's application for the LOC will require credit approval by the Dexia head office in Paris, which will take up to four weeks.

Due to the need to negotiate a reimbursement agreement relating to the CP with Dexia prior to submission of that document and other CP documents to PFAC and the Board anticipated for Board approval on April 29th and permit Dexia to begin the credit review, staff presents this item for expedited consideration of the Board.

FINANCIAL IMPACT:

N/A

STAFFING IMPACT:

N/A

REVIEWING AGENCIES:

County Counsel

EXHIBIT(S):

N/A

ATTACHMENT(S):

N/A