Lake County

Presentation to County Board of Supervisors

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KNN public finance

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A Limited Liability Company

Role of Municipal Advisor

- KNN Public Finance, LLC (KNN) is Lake County's "Municipal Advisor."
- Our role is to provide Lake County with independent, objective analysis and advice to assist the County in making prudent decisions about debt financing. We provide both planning and transaction execution services.
- KNN is a Registered Municipal Advisor with the SEC and MSRB. All advisors are Registered Municipal Representatives (MSRB Series 50).
  - SEC rules assign a fiduciary duty to the Municipal Advisor, including duty of loyalty and duty of care. By law, we must put our clients' interest ahead of our own.
  - SEC rules require issuers to have an Independent Registered Municipal Advisor (IRMA) under contract in order for broker-dealers to be able to provide tailored ideas or advice, with limited exceptions.
- KNN currently provides Municipal Advisor services to more than 30 counties in California.

Overview of Project and Financing Options

- The County has identified the need to renovate an existing site recently acquired from the State of California for a new Sheriff's Headquarters facility.
- The estimated cost of this project is approximately $21 million.
- The County could utilize certain federal stimulus funds on this project if the construction contract is obligated before the end of this calendar year.
- The County has the following options to finance the renovation:
  - Pay for renovation from existing cash on hand.
  - Borrow for some, or all, of the cost of the renovation via a tax-exempt lease financing.

Introduction to Tax-Exempt Lease Financing

- **WHAT:**
  - Certificates of Participation ("COPs") or Lease Revenue Bonds ("LRBs") are a form of a municipal debt instrument that do not require voter approval.
  - General fund credit – covenant to annually budget and appropriate lease payments.
  - Requires a pledge of real property as "leased asset" for the financing. Leased asset can be an existing County asset <u>or</u> the project to be financed by financing proceeds.
  - Can be issued as "tax-exempt" obligations.

- **WHY USE FINANCING:**
  - Spread cost of capital project over useful life of the asset and ensure costs are paid by those who benefit from the project.
  - Achieve savings when cost of borrowing is lower than construction inflation or rate of earnings on available cash reserves.
  - Preserve cash for reserves or other purposes.

- **PURPOSES:**
  - Capital improvement projects - e.g., administrations centers, libraries, fire/police stations, community centers, parking garages, parks, etc.
  - Refinancing – reduce interest costs, consolidate or restructure debt.

Summary of Financing Options - $17m Net Project Need

- Scenarios 1-3 assume a $4.0 million County cash contribution to reduce the net amount of project cost funded from the borrowing to $17 million.
- Assumes a 10-year optional call provision at par (no penalty).

	Scenario 1	Scenario 2	Scenario 3
Borrowing Term:	20-Years	25-Years	30-Years
Final Maturity:	8/1/2044	8/1/2049	8/1/2054
True Interest Cost:	4.13%	4.37%	4.52%
Average Annual Payments:	$1,497,875	$1,317,435	$1,208,558
Total Net Payments:			
Principal (Yrs. 1-10):	$5,990,000	$4,110,000	$2,940,000
Interest (Yrs. 1-10):	$5,992,500	$6,435,250	$6,737,250
Principal (Remaining):	$11,790,000	$13,900,000	$15,275,000
Total Net Payments (10-yr. Cash Payoff):	$23,772,500	$24,445,250	$24,952,250
Total Net Payments (Through Maturity):	$26,961,750	$30,301,000	$33,839,625

See page 12 for key financing assumptions.

Summary of Financing Options - $20m Net Project Need

- Scenarios 4-6 assume a $1.0 million County cash contribution to reduce the net amount of project cost funded from the borrowing to $20 million.

	Scenario 4	Scenario 5	Scenario 6
Borrowing Term:	20-Years	25-Years	30-Years
Final Maturity:	8/1/2044	8/1/2049	8/1/2054
True Interest Cost:	4.13%	4.37%	4.52%
Average Annual Payments:	$1,757,701	$1,545,924	$1,418,469
Total Net Payments:			
Principal (Yrs. 1-10):	$7,030,000	$4,815,000	$3,440,000
Interest (Yrs. 1-10):	$7,031,750	$7,552,625	$7,907,500
Principal (Remaining):	$13,835,000	$16,315,000	$17,935,000
Total Net Payments: (10-yr. Cash Payoff):	$27,896,750	$28,682,625	$29,282,500
Total Net Payments (Through Maturity):	$31,638,625	$35,556,250	$39,717,125

See page 12 for key financing assumptions.

Sample Bond Issuance Timeline

Pre-Transaction

- Develop financing plan
- Assemble financing team
- Determine method of sale
- Evaluate available assets (for lease financings)

Months 1-2

- Refine security structure and plan of finance
- Develop bond and disclosure documents
- Evaluate alternative bond amortizations
- Prepare for DAC and BOS meetings

Months 2-3

- Prepare rating agency materials
- Finalize bond and disclosure documents
- DAC and BOS approvals

Months 3-4

- Secure rating and credit enhancement (if necessary)
- Post POS
- Begin pre-sale marketing

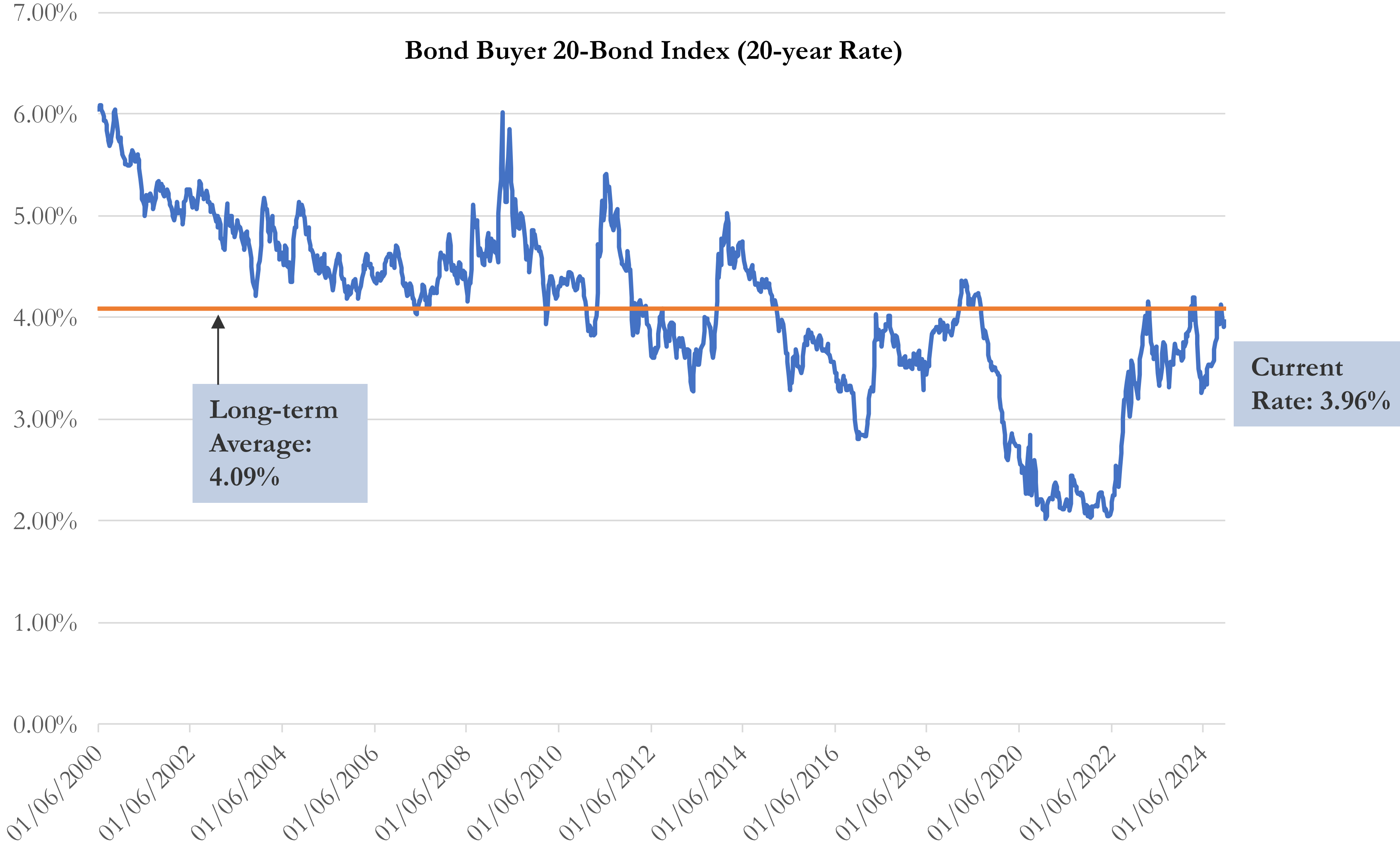
Months 4-5

- Pre-sale marketing
- Price Bonds
- Close Bonds

NOTE: Private Placement

Certain issuance steps are not required in a private placement transaction – such as obtaining ratings and marketing to investors – resulting in a shorter timeline.

Long-Term Tax-Exempt Market Update



Source: *The Bond Buyer*.

*General obligation bonds maturing in 20 years are used in compiling the indexes. The 20-bond index has an average rating equivalent to Moody's Aa2 and S&P's AA.

Next Steps

- Should the Board decide to move forward with a financing, KNN would immediately assist with the following:
  - Procurement of Bond and Disclosure Counsel
  - Finalize method of sale
  - Coordination of all-hands kick-off meeting
  - Identification of asset(s) for COP structure
  - Target completing financing before end of calendar year

Appendix

Financing Sources and Uses - $17m Net Project Need

	Scenario 1	Scenario 2	Scenario 3
Borrowing Term:	20-Years	25-Years	30-Years
Final Maturity:	8/1/2044	8/1/2049	8/1/2054
Sources:			
Par Amount	$17,780,000	$18,010,000	$18,215,000
Premium	1,736,256	1,546,832	1,379,757
County Cash Contribution[2]	4,000,000	4,000,000	4,000,000
Total Sources:	**$23,516,256**	**$23,556,832**	**$23,594,757**
Uses:			
Project Fund[1, 2]	$21,000,000	$21,000,000	$21,000,000
Capitalized Interest Fund[3]	1,921,228	1,946,081	1,968,232
Cost of Issuance and UW Discount:[4, 5]	391,160	393,797	393,248
Bond Insurance and Surety Bond:[6, 7]	203,868	216,955	233,277
Total Uses:	**$23,516,256**	**$23,556,832**	**$23,594,757**
Ture Interest Cost:[8]	4.13%	4.37%	4.52%
Average Annual Payments:	$1,497,875	$1,317,435	$1,208,558
Total Gross Payments:	$28,882,978	$32,247,081	$35,807,857
Total Net Payments:	$26,961,750	$30,301,000	$33,839,625

See page 12 for key financing assumptions.

Financing Sources and Uses - $20m Net Project Need

	Scenario 4	Scenario 5	Scenario 6
Borrowing Term:	20-Years	25-Years	30-Years
Final Maturity:	8/1/2044	8/1/2049	8/1/2054
Sources:			
Par Amount	$20,865,000	$21,130,000	$21,375,000
Premium	2,037,465	1,814,977	1,618,744
County Cash Contribution[2]	1,000,000	1,000,000	1,000,000
Total Sources:	**$23,902,465**	**$23,944,977**	**$23,993,744**
Uses:			
Project Fund[1,2]	$21,000,000	$21,000,000	$21,000,000
Capitalized Interest Fund[3]	2,254,579	2,283,214	2,309,687
Cost of Issuance and UW Discount:[4, 5]	408,677	407,198	410,279
Bond Insurance and Surety Bond:[6, 7]	239,209	254,565	273,777
Total Uses:	**$23,902,465**	**$23,944,977**	**$23,993,744**
True Interest Cost:[8]	4.13%	4.37%	4.52%
Average Annual Payments:	$1,757,701	$1,545,924	$1,418,469
Total Gross Payments:	$33,893,204	$37,839,464	$42,026,812
Total Net Payments:	$31,638,625	$35,556,250	$39,717,125

See page 12 for key financing assumptions.

Financing Assumptions

1. Assumes gross deposit to project fund, no interest earnings.
2. Project fund total includes County cash contribution to reduce amount of borrowing.
3. Assumes 2 years of capitalized interest.
4. Cost of issuance includes estimated fees for bond counsel, disclosure counsel, municipal advisor, credit rating, title insurance, trustee, financial printer, etc.
5. Underwriter's discount assumes fee of $5.00 per $1,000 of bond par amount.
6. Bond insurance assumes 55 basis points of total principal and interest.
7. Surety bond cost assumes 3.0% of standard sized debt service reserve fund.
8. True Interest Cost (T.I.C.) based upon market for "A" category rated COP/LRB as of July 5, 2024. Preliminary and subject to credit rating and market conditions as time of pricing.

Overview of Lease Financing Structure

- Certificates of Participation ("COPs") or Lease Revenue Bonds ("LRBs") are contingent obligations– that do not require voter approval.
- General fund credit – covenant to annually budget and appropriate lease payments.
- Issued as long-term fixed rate tax-exempt borrowing that typically includes optional call provision after 10 years.
- Pledged asset(s) – real property pledged for term of the financing.
  - Existing County asset <u>or</u> project to be financed by financing proceeds. The latter may necessitate funding capitalized interest.
  - Key factors of asset pledge relevant to investors: essentiality, value, and useful life.
- Subject to Abatement – Payments are subject to the use and occupancy of pledged asset(s) and can be "abated" if asset is damaged or unable to be occupied.
- Generally structured with level fiscal year payments for term of financing.
- Financing can be structured as either a public sale or direct purchase.