



Midpeninsula Regional  
Open Space District

R-11-54  
Meeting 11-  
April 27, 2011

## **AGENDA ITEM 10**

### **AGENDA ITEM**

Resolution Ratifying Approval to Issue 2011 Revenue Bonds

#### **GENERAL MANAGER'S AND CONTROLLER'S RECOMMENDATIONS**

1. Ratify the November 17, 2010 approval to issue 2011 Revenue Bonds.
2. Approve the updated Preliminary Official Statements (POS) for both a \$55 million bond issue and a \$20.5 million bond issue.
3. Authorize the General Manager to execute such documents and take such actions as are necessary to complete either the \$55 million or \$20.5 million financing, based on his judgment of market conditions at the time of pricing the bonds.

#### **DISCUSSION**

At its meeting on November 17, 2010, the Board held a public hearing and adopted those resolutions required to authorize the issuance of up to \$60 million of lease revenue bonds (the 2011 Revenue Bonds) by the Midpeninsula Regional Open Space District Financing Authority. The two objectives of this bond issuance were to: 1) Generate \$20 million of additional cash to fund land purchases over the next three years; and 2) Refinance the \$36 million of outstanding 1999 Revenue Bonds to achieve a significant present value savings and improve the District cash flow.

By the terms of the 1999 Revenue Bonds, the refinancing could not be accomplished prior to December 2010. By that time, municipal bond market conditions deteriorated significantly and long term interest rates continued to climb in early 2011. For example, the all-in cost of the combined financing (\$54 million) increased from 5.51% in October 2010 to 6.33% in January 2011. The present value savings of the refinancing portion decreased from a positive \$1.4 million to a negative \$1.0 million. Consequently, the decision was made to postpone the issue, wait for the market to stabilize and look for a favorable market window within the next six months. In addition, unless market demand for capital appreciation (i.e. zero coupon) bonds (CABs) picks up significantly, the financing should go forward without the refinancing portion. The cash flow advantages of the refinancing were based upon the sale of \$10 million of CABs, which have now become unpopular with investors. The interest rates for 20-30 year CABs now exceed 8%, over two percentages points more than current-interest bonds. This differential is now almost three times what it was on the District's 2004 Bonds. Given these current market

conditions, the cash flow advantages of refinancing are lost due to higher interest costs. Hopefully, the premium for CABs will return to its historic range by the time the District is ready to sell bonds again, and the refinancing can be accomplished at that time.

While there is no way to predict the best time to sell bonds, the consensus forecast indicates increasing long-term interest rates each quarter in CY2011-12, and demand is now strong for municipal bonds carrying high ratings, such as the AA rating on the District's 2011 Bonds. The recommendation of the financing team is to go to market now, most likely with the smaller \$20 million thirty year lease structure. The latest estimate of the terms of this smaller issue is an all-in cost of 5.89%, with an average life of 23.0 years. While this rate is much higher than our last lease financing, 4.84% in 2004, it is comparable to prior leases in 1999 (6.07%) and 1996 (6.09%). Since the POSs for both the combined \$55 million structure and the new-money-only \$20.5 million structure are complete, the recommendation is to approve both POSs and give the General Manager the authority to choose the one to take forward, after receiving the final market numbers prior to pricing.

#### **SUMMARY OF THE MOST LIKELY TRANSACTION:**

- |                             |  |
|-----------------------------|--|
| 1. Amount:                  | Approximately \$20.3 million                                   |
| 2. Term:                    | Thirty years   |
| 3. Average Life:            | 23.0 years   |
| 4. Purpose:                 | Provide \$20 million of new money for land purchases           |
| 5. Interest Rates:          | To be priced in early May 2011; estimated all-in cost of 5.89% |
| 6. Reserve Fund:            | None   |
| 7. Underwriting Fee:        | 0.7% of par amount of amount issued, about \$142,700           |
| 8. Other Costs of Issuance: | Estimated at \$113,825   |
| 9. Closing Schedule:        | May 2011   |

#### **PARTIES TO THE TRANSACTION:**

- |                        |   |
|------------------------|---|
| 1. Issuing Authority:  | Midpeninsula Regional Open Space District Financing Authority |
| 2. Issuer:             | Midpeninsula Region Open Space District                       |
| 3. Trustee:            | Bank of New York Trust Company (BNY)                          |
| 4. Underwriter:        | Stone & Youngberg LLC (S&Y)                                   |
| 5. Bond Counsel:       | Jones Hall  |
| 6. Disclosure Counsel: | Meyers, Nave, Riback, Silver & Wilson                         |

#### **DUTIES OF THE PARTIES:**

- |                        |  |
|------------------------|--|
| 1. Issuing Authority:  | Act as the issuing authority for the District  |
| 2. Issuer:             | Issue bonds, make principal and interest payments  |
| 3. Trustee:            | Administers bonds for the benefit of the holders, collects principal and interest from the District, makes payments to holders |
| 4. Underwriter:        | Purchases bonds from the Authority and sells them to buyers  |
| 5. Bond Counsel:       | Prepares and certifies bond documents; assures buyers of the tax-exempt status of the bonds                                    |
| 6. Disclosure Counsel: | Drafts the Authority and District official statement and advises on compliance with federal securities laws                    |

**MAIN AGREEMENTS:**

The Board approved these transactional documents at its meeting of November 17, 2010 and their form has not substantially changed.

1. Preliminary Official Statement: Describes bond issue to potential buyers.
2. Site Lease (between District and Authority): Authority agrees to assist in the financing of specific District-owned properties. District leases these properties to the Authority.
3. Project Lease (between District and Authority): District leases back the specified properties from the Authority and agrees to make principal and interest payments to the Authority sufficient to service the bonds.
4. Indenture (between Authority and BNY): Appoints BNY as Trustee for the bonds, lists its duties and responsibilities, and details how the bonds will be administered.
5. Purchase Contract (between Authority, District and S&Y): Defines terms under which S&Y will purchase the bonds from the Authority.
6. Continuing Disclosure Agreement (between District and BNY): Appoints Trustee as the Dissemination Agent with regard to SEC disclosure rules.

**FISCAL IMPACT**

As reflected in the adopted budget for FY2011-12, sale of the 2011 Bonds will provide \$20 million of new money to purchase land over the next three years and will increase District debt service by an average of \$1.56 million per year over the next thirty years. The interest expense listed in the FY2011-12 budget assumed issuance of the 2011 Bonds in August 2011; sale in early May would increase debt service payable in FY2011-12 by approximately \$325,000. The estimated terms are consistent with the District's long-term financial model.

**PUBLIC NOTICE**

Notice was provided pursuant to the Brown Act. No additional notice is necessary.

**CEQA COMPLIANCE**

No compliance is required as this action is not a project under CEQA.

**NEXT STEP**

If approved by the Board, staff will proceed with finalization of the documentation and sell the bonds.

Attachment:

1. Resolution

Prepared by:

Michael Foster, Controller

Contact person:

Same as above

## RESOLUTION NO. 11-XX

### RESOLUTION OF THE BOARD OF DIRECTORS OF THE MIDPENINSULA REGIONAL OPEN SPACE DISTRICT RATIFYING ITS APPROVAL OF THE FINANCING OF THE ACQUISITION OF OPEN SPACE AND THE REFINANCING OF AN OUTSTANDING LEASE OBLIGATION AND RELATED REVENUE BONDS AND APPROVING A PRELIMINARY OFFICIAL STATEMENT

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**WHEREAS**, on November 17, 2010, pursuant to Resolution No. 10-44 (the “2010 Approving Resolution”), the Board of Directors of the Midpeninsula Regional Open Space District (the “District”), after holding public hearings in San Mateo County and Santa Clara County, approved the issuance by the Midpeninsula Regional Open Space District Finance Authority (the “Authority”) of its 2011 Revenue Bonds (the “2011 Bonds”) and the execution and delivery of all related documents for the purpose of (i) financing the acquisition and improvement of open space (the “2011 Project”) and (ii) if market conditions permit, refinancing a Project Lease dated as of January 1, 1999 (the “1999 Project Lease”) and the Authority’s related 1999 Revenue Bonds (the “1999 Bonds”); and

**WHEREAS**, the 2011 Bonds have not been issued as approved because conditions have not been favorable in the municipal bond market; and;

**WHEREAS**, District staff has returned to the Board of Directors for the purpose of presenting updated market information and to ask the Board of Directors to ratify the 2010 Approving Resolution and to review and approve an updated Preliminary Official Statement relating to the 2011 Bonds;

**NOW, THEREFORE, BE IT RESOLVED** by the Midpeninsula Regional Open Space District, as follows:

**SECTION 1.** Ratification of 2010 Approving Resolution. The Board of Directors hereby ratifies the 2010 Approving Resolution, including all findings and approvals set forth therein.

**SECTION 2.** Official Statement. District staff has caused the District’s Disclosure Counsel to prepare two forms of a preliminary Official Statement describing the 2011 Bonds: (i) a preliminary Official Statement describing a financing in which the 2011 Bonds finance the 2011 Project and refinance the 1999 Project Lease and the 1999 Bonds and (ii) a preliminary Official Statement describing a financing in which the 2011 Bonds finance the 2011 Project but, because market conditions remain unfavorable, do not refinance the 1999 Project Lease and the 1999 Bonds. The District hereby approves the preliminary Official Statements, in substantially the form on file with the Secretary. Distribution of the preliminary Official Statement and the final Official Statement by Stone & Youngberg LLC, the District’s Underwriter, is hereby approved. The Authorized Officers are hereby authorized and directed to determine which form of the preliminary Official Statement should be distributed, based on market conditions, and to approve any changes in or additions to the final form of the Official Statement, whose execution thereof shall be conclusive evidence of approval of any such changes and additions.

**SECTION 3.** Official Actions. The Authorized Officers, the District’s general counsel and all other officers of the District are each authorized and directed in the name and on behalf of the District to make any and all leases, assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance or termination, warrants and other documents, which they or any of them deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution. Whenever in this Resolution any officer of the District is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

**SECTION 4.** Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

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