



Public Financing Advisory Committee

Thursday, October 6th, 2016 at 1:30 pm

Hall of Administration

MEETING MINUTES

Attendees: Thomas Hammond (Committee Member), John J. Moohr (Committee Member), Eric Woolery (Auditor-Controller), Shari Freidenrich (Treasurer-Tax Collector), Carl Groner (Committee Member), Angie Daftary (County Counsel), Michelle Aguirre (Chief Financial Officer), Suzanne Luster (CEO/Public Finance Director)

Absent: Lisa Hughes (Chair), Wallace Rodecker (Vice Chair)

- I. **Call to Order/Introductions/Opening Remarks:** Member Moohr made a motion for Member Hammond to act as Chair in the absence of Chair Hughes and Vice-Chair Rodecker. Treasurer Freidenrich seconds, all in favor, so passed. Meeting called to order by Member Hammond at 1:35 pm.
- II. **Review and Approval of Minutes:** Meeting Minutes from July 14, 2016 were approved. Treasurer Freidenrich moved the minutes, Member Groner seconded, approved unanimously.
- III. **Approval and concept of the issuance of the short-term Taxable Pension Obligation Bonds to pre-pay the County's Fiscal Year 2017-2018 pension obligation and selection of KNN Public Finance as Municipal Advisor and Orrick, Herrington & Sutcliffe, LLP as the Bond Counsel:** Before the first item was discussed Treasurer Freidenrich as well as County Counsel member Angie Daftary recused themselves from voting, Ronnie Magsaysay stepped into the role of advising PFAC on behalf of County Counsel.

Victoria Ross, Public Finance Manager, gave a brief overview of the item.

Ms. Ross stated that this year OCERS Board reduced the pre-pay discount to 4.5% from 5.8%. Member Moohr asked if the previous year was at 7%, Ms. Ross confirmed that it was at 7.25% during 2014-2015. According to Ms. Ross, the projected contribution amount would be about \$400 million and the County would save about \$18 million. Additionally, Treasurer Freidenrich is willing to purchase the bonds in its entirety, which would be considered a private placement and invest that in the extended pool. The private placement would save the County \$354,000 in cost of issuance.

The Finance staff is recommending KNN and Orrick, both teams have served the County on previous Pension Obligation Bonds. The estimated compensation for Orrick is \$67,500 and KNN is \$25,000, their rates have been reduced because this will be a private placement with no underwriter cost. Staff will return to PFAC and the Board when financing is determined and documents are final, if approved today this will go to the Board on October 25, 2016.

Member Hammond inquired that he would like to know the interest rate. David Brodsky from KNN Public Finance informed the members that it is currently in the area of 1% and would be based on the price of treasuries on the day of pricing. Mr. Brodsky further explained that they

look at the historical spreads to treasuries and other similar securities that are trading in primary and secondary market and locking in spreads the day of pricing.

Member Moohr expressed his concern from the once 7.25% rate to the now 4.5% in which Ms. Luster explained that when OCERS originally approached the County about the reduction there was some pushback and discussion but the County believes that this a reasonable rate given OCERS actual rate of return in the past. She further explained that any year in which our discount is greater than the OCERS investment returns is added to the county's unfunded liability, last year's actual rate of return was 0.9%. Mr. Woolery explained that the problem he sees is if OCERS doesn't hit their number that it gets added on to the unfunded pension liability and we have to make up for it later. Ms. Aguirre addressed this by stating that when OCERS came back with the 4.5% she made sure to ask that the number was not too high for those exact same reasons, but OCERS investment officers look at long term returns and that is why they were comfortable with that number. Ms. Aguirre clarified that the 7.25% is the assumed rate of return, which is reviewed by the OCERS board every 3 years. The discount rate associated with the pension pre-payment is reviewed annually. Mr. Woolery asked if last year was a loss and Ms. Freidenrich explained that at 0.9% it is considered flat or break even.

Member Hammond wanted to clarify that the \$18 million won't actually be saved if our pension goes up next year. Treasurer Freidenrich stated that the statement is true but because of the market it could go either way. Member Hammond wanted to know what the County makes from the money that comes into Treasury. Treasurer Freidenrich stated that their yield rate is 0.75 and they do not usually invest in higher yields, however, last year they purchased 40% of the County's POBs.

Member Hammond stated that there are two choices; they can pay \$400 million up front and save \$18 million or they can pay it out every month to OCERS, then asked what the present value is by the payout over 12 months as opposed to upfront. Treasurer Freidenrich said that it would approximate another 75 basis points. Member Hammond added that not doing the financing would be a reasonable option to consider. Ms. Luster agreed that it is an important analysis but what Public Finance is asking for today is approval in concept to provide that analysis and when we come back that analysis will be provided. Also, in more years that not OCERS actual rate of return has exceeded the assumed rate of return and the pre-payment discount approved by the OCERS board.

Member Moohr stated that saying there will be \$18 million worth of savings is not a true statement. In return Ms. Aguirre stated that it is a true statement because otherwise the county would have to come up with the cash from the current budget.

Member Groner then added that he understands the arguments being made but reminded the committee that they are present for the County of Orange and not as a committee to OCERS. Ms. Luster added that as of August 2016 the OCERS rate of return is 6.21% year to date.

Member Groner moved the item, Member Hammond seconds, all in favor except Mr. Woolery who votes no. Motion passed with majority vote.

IV. Approval of the issuance of the Series A Special Tax Bonds in Community Facilities District No. 2016-1 (Village of Esencia): Member Hammond recuses himself from voting because of his familiarity with the persons involved.

Suzanne Luster, CEO Public Finance Director gave a brief overview of the item.

The proposed bond issuance is in the estimated amount of \$93.1 million and the bond proceeds will be used for the construction and acquisition of public facilities and improvements and will also fund a cash bond reserve and the cost of forming the CFD and issuing the bonds. The debt service on the bonds is a fixed rate for a 30 year period. The bonds are not rated and assume a true interest cost of about 4%. Ms. Luster invited Katie Koster of Piper Jaffray, to give more information about the current market.

Member Groner asked what the resulting proceeds would be if the rate went to 5.5%. Ms. Koster stated that they would be significantly less than they are today but they have not calculated the exact numbers. Member Groner then asked how that gap would be filled in which Ms. Koster stated that it would be filled by the developer and their equity.

Ms. Luster stated in regards to the cost of construction Rancho Mission Viejo is in this for the long haul and that CEO Public Finance has hired a district engineer who evaluates the process and Orange County Public Works is very active and have signed off on this project. Treasurer Freidenrich asked who leads in the construction. Ms. Luster explained that certain construction such as roads are completed my Rancho Mission Viejo and then there are roads like Cow Camp Road where the County leads the construction and management.

Member Hammond inquired why the appraisal contained different numbers paid for the various lots. Elise Millington, Rancho Mission Viejo, stated that the difference is the builders have gone in and installed utilities, poured foundations, etc., they pay for a blue top finish lot.

Member Hammond asked about Mello-Roos obligations and Ms. Millington explained that the only land that is exempt from Mello-Roos would be schools, parks or public roads. Member Hammond asked of the \$90 million how much of the bond funds would be reimbursement. Ms. Koster stated that 40% of the \$90 million comes back to Rancho Mission Viejo.

Member Moohr moved the item, Treasurer Freidenrich seconded. Approved unanimously.

V. Public Comment: None.

VI. Committee Comments: Ms. Luster reminded the committee that it was time for them to complete their annual ethics training. Training is due by December 31st, paperwork regarding training will be passed out by the Clerk of the Committee for those who have not yet completed.

VII. Date of next meeting: November 10, 2016 at 1:30 pm

VIII. Adjournment: The meeting was adjourned at 2:53 pm.