



County of Santa Cruz Board of Supervisors

Agenda Item Submittal

From: County Executive Office

Subject: Approve Issuance of Series 2025A Bonds

Meeting Date: June 10, 2025

Formal Title: AS THE BOARD OF THE SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY: Adopt resolution authorizing issuance, sale and delivery of not to exceed \$15,000,000 of Lease Revenue Bonds, 2025 Series A and approving related documents and official actions

Recommended Actions

Adopt resolution authorizing the issuance, sale and delivery of not to exceed \$15,000,000 aggregate principal amount of Lease Revenue Bonds, 2025 Series A and approving related documents and official actions.

Executive Summary

This action by the Santa Cruz County Capital Financing Authority (Authority) Board is a companion item to action by the Board of Supervisors (Board) relating to the financing of improvements to Ben Lomond Transfer Station and acquisition of property located at 420-440 May Avenue in the City of Santa Cruz for June 10, 2025. This memorandum presents the proposed funding requirements for the project and the documents required for the issuance of the Santa Cruz County Capital Financing Authority Lease Revenue Bonds, 2025 Series A (2025 Bonds).

Discussion

The Board authorized releasing a request for construction bid for improvements to the Ben Lomond Transfer Station with expected to be received by June 11, 2025.

On April 29, 2025, the Board authorized negotiations to purchase the property located at 420-440 May Avenue in the City of Santa Cruz. The buildings at this location house the Public Defender's Office and are currently leased to the County. Staff expects the purchase will occur within 90 days once conditions for closing are met. The issuance of debt is timed to coordinate with the acceptance of the construction bid for the Ben Lomond Transfer Station and for purchase of the Public Defender's Office buildings.

The County expects to finance the improvement costs over 30 years with proceeds of the 2025 Bonds. Approval of the financing requires adoption of resolutions by the Board and by the Authority Board after the Board conducts a public hearing.

Ben Lomond Transfer Station

The improvements to the Ben Lomond Transfer Station consist of seismic retrofit to the main transfer station facility, new household hazardous waste containment and drop off areas, a canopy for the recycling area, minor wall repairs, electrical upgrades at the site and asphalt repair. The engineer's estimate of construction and other hard costs, as well as soft costs for items such as architect and engineering, permits and inspections, staff time, public art and equipment is \$8.5 million. Although bids will be opened on June 11, 2025, due to the timing constraints for actions associated with the 2025 Bonds, approval is requested at this time, and the estimate will be updated for actual bids received before the 2025 Bonds are issued.

Public Defender's Office Buildings

The buildings at 420-440 May Avenue in the City of Santa Cruz have been fully leased by the County since 1998 and currently serve as the offices for the Public Defender's Office. The current lease expires on June 30, 2026, with no renewal options available. In response to staff inquiries, the property owners expressed willingness to sell the property to the County. The County made a non-binding offer of \$3.5 million, and staff expects an additional \$500,000 will be needed for due diligence activities staff costs, feasibility studies, and any necessary immediate repairs or improvements to the property.

Lease Revenue Bonds

The County Executive Office (CEO) is recommending financing the improvements and property acquisition through the issuance of the 2025 Bonds by the Santa Cruz County Capital Financing Authority (Authority). The County has leased certain property (Leased Property) from the Authority, and the County's lease payments will secure the 2025 Bonds, as described further below. The Authority's 2024 Series C Bonds are also secured by a lease of the Leased Property. The Leased Property consists of a pool of assets – the Live Oak Library, the Aptos Library, the Behavioral Health Center, the South County Health Services Administration Building, with the Transfer Station to be added upon closing of the 2025 Bonds, and the 420-440 May Avenue property to be added when purchased.

Method of Sale

Under normal market conditions, the County's Municipal Advisor (Harrell & Company Advisors) would advise that it would be more cost effective to sell the 2025 Bonds at competitive sale. However, trade policy (most recently the 50% tariff on the European Union (EU), with its institution delayed to July 9, 2025) as well as the passage of the tax cut bill through the House of Representatives, which has material implications for the growth of the federal deficit, have seen a whipsaw effect on interest rates. Given the short window of time to issue the 2025 Bonds prior to the 60-day expiration of construction bids for the Transfer Station, the County's Municipal Advisor recommends that the Authority Board authorize an option to switch from a competitive sale method to a negotiated sale method, to be based on a recommendation closer to the actual sale date (mid-July), with the concurrence of the Assistant County Executive Officer. It does seem likely that a negotiated sale is likely since the proposed sale date for the 2025 Bonds is close in time to the delayed implementation of EU tariffs.

The underwriter selected for the negotiated sale of the 2025 Bonds is Stifel, Nicolaus & Company Incorporated. This firm acted as underwriter on the Authority's 2024 Disaster Recovery Bonds and is familiar with the County finances and the Leased Property. They were selected to underwrite the 2024 Disaster Recovery Bonds through a competitive process.

Authorizing Resolution

The Resolution of the Authority Board approves the parameters of sale and documents required for the issuance of the 2025 Bonds. The Resolution authorizes the Executive Director and designees to sell the 2025 Bonds at competitive or negotiated sale in a total amount not-to-exceed \$15,000,000. This Resolution also approves the form of the

following documents:

- Preliminary Official Statement (POS);
- First Amendment to Lease Agreement;
- First Amendment to Site and Facility Lease;
- Bond Purchase Agreement;
- First Supplemental Indenture;
- Amended and Restated Assignment Agreement;
- Official Notice of Sale; and
- Notice of Intention to Sell.

The Resolution also appoints Norton Rose Fulbright to serve as Bond Counsel and Best Best & Krieger to serve as the County's Disclosure Counsel. Both firms have assisted the County with financing in the past.

The Preliminary Official Statement was prepared by staff and the Municipal Advisor, with input from the County's Bond Counsel and Disclosure Counsel. The Board's review of the sections of the preliminary official statement describing the County and the County's financial information is requested and any modifications communicated to staff.

Other actions required by the Board appear elsewhere on today's agenda and include approval of the form of the Continuing Disclosure Certificate (appended to the POS).

Both resolutions also authorize the 2025 Bonds to be sold at a true interest cost not-to-exceed 6%, with an underwriter discount not-to-exceed 1% of the principal amount of the 2025 Bonds.

Financial Impact

The estimated bond funding needed for the Transfer Station renovation is \$8.5 million and will be determined by the construction bids. The cost to purchase the Public Defender's current offices, make any necessary improvements and pay transaction costs is \$4 million. The Par Amount of the 2025 Bonds is estimated to be \$12,005,000, issued with an original issue premium of \$775,000, and will provide total funding of \$12,780,000. The proceeds from the 2025 Bonds are estimated to be used as follows:

TABLE NO. 1
ESTIMATED USE OF BOND PROCEEDS

	Transfer_ Station	Public Defender's_ Office	Total
Project Fund	\$8,500,000	\$4,000,000	\$12,500,000
Underwriter Discount	53,000	27,000	80,000
Costs of Issuance*	<u>135,000</u>	<u>65,000</u>	<u>200,000</u>
Total Costs	8,688,000	4,092,000	12,780,000
Original Issue Premium	<u>(528,000)</u>	<u>(247,000)</u>	<u>(775,000)</u>
Par Amount of Bonds Issued	\$8,160,000	\$3,845,000	\$12,005,000

*Fixed costs paid from proceeds of the Lease Revenue Bonds for Bond Counsel,

Municipal Advisor, Disclosure Counsel, Trustee, Rating Agency, title insurance and printing.

An Original Issue Premium (as shown in the table above) is generated when investors in tax-exempt bonds want to hedge against future higher interest rates and require a high stated interest rate (such as 5.0%), but price the 2025 Bonds to yield a lower current market interest rate (such as 3.0%) and therefore pay the Authority more than 100% of the face value of the 2025 Bonds, resulting in a lower Par Amount of 2025 Bonds required to be issued. The lower Par Amount is offset by a higher interest rate, so this pricing method has little impact on the total debt service that the County will pay on the 2025 Bonds compared to if they were priced at 100% of the face value.

As of May 19, 2025, the effective interest rate for the 2025 Bonds is approximately 4.65%, including all costs to issue the 2025 Bonds. The anticipated annual debt service payments are \$540,000 starting in FY 2025-26 for the Transfer Station component of the financing. The debt service will be allocated to CSA 9C. The anticipated annual debt service payments are \$255,000 starting in FY 2025-26 for the building acquisition component of the financing. The current lease payment of the Public Defender's current offices is \$271,000 per year, with the savings offsetting the cost of the financing of the buildings.

The 2025 Bonds will be subject to redemption in 10 years at the option of the County.

As noted, the Par Amount of the 2025 Bonds will be subject to prevailing market conditions at the time of sale. Therefore, the County is requested to approve a not-to-exceed par amount of \$15,000,000 for the 2025 Bonds to provide a reasonable cushion above the expected Par Amount should interest rates fluctuate or if the 2025 Bonds are priced without an Original Issue Premium based on investor preference at the time of sale. The amount of the 2025 Bonds issued will only be the amount necessary to finance the Transfer Station and the acquisition of the Public Defender's Office, and pay the other costs as shown above.

Staff and the Municipal Advisor will submit the bond issue to Standard & Poor's Rating Agency for a credit rating. The County's current lease revenue bond rating is AA+.

Strategic Initiatives

Equity Framework - County Facilities & Infrastructure

Operational Plan - Sustainable Environment, Operational Excellence

Climate Action - Waste, Government Operations

Submitted By:

Carlos J. Palacios, County Executive Officer

Recommended By:

Carlos J. Palacios, County Executive Officer

Artificial Intelligence Acknowledgment:

Artificial Intelligence (AI) did not significantly contribute to the development of this agenda item.