



County of Los Angeles
**CHIEF EXECUTIVE OFFICE
OPERATIONS CLUSTER**

WILLIAM T FUJIOKA
Chief Executive Officer

DATE: March 25, 2010
TIME: 12:30 p.m.
LOCATION: Kenneth Hahn Hall of Administration, Room 830

AGENDA

Members of the Public may address the Operations Cluster on any agenda item by submitting a written request prior to the meeting.
Three (3) minutes are allowed for each item.

1. Call to order – Ellen Sandt

Board Memo - **Purchasing Agent Authority – ISD – Tom Tindall or designee**

Board Letter – **Los Angeles County Capital Asset Leasing Corporation Commercial Paper Program – TTC – Mark Saladino or designee**

2. Public Comment
3. Adjournment



COUNTY OF LOS ANGELES
Internal Services Department
1100 North Eastern Avenue
Los Angeles, California 90063



Tom Tindall
Director

To enrich lives through effective and caring service.

Telephone: (323) 267-2109
FAX: (323) 263-5286

March xx, 2010

To: Each Supervisor

From: Tom Tindall
Director

Subject: **PURCHASING AGENT AUTHORITY**

This is to inform your Board of a recent revision to the California Government Code that increased the authority of the County's purchasing agent to contract for services.

Prior to the revision, the County interpreted the Government Code to authorize the Internal Service Department, as the County's purchasing agent, to contract for services to a maximum of \$100,000 over the term of the particular contract. Consequently, existing County purchasing policy provides that any service contract exceeding the \$100,000 ceiling over its term requires Board approval.

As a result of the revision to the Government Code, the purchasing agent may now enter into service contracts in excess of \$100,000, provided that no more than \$100,000 in services is purchased in any single year. Your Board's approval would no longer be required for service contracts falling within these limitations.

Background

Los Angeles County Code Section 2.81.870 grants the purchasing agent authority to engage contractors to perform services where the cost does not exceed limitations imposed by law.

In April 2009, the County of Napa petitioned the State Senate Committee on Local Government seeking legislative clarification and revision to the provisions of the Government Code under which limitations on the purchasing agent's authority are established. Consequently, under the Local Government Omnibus Act of 2009 (SB 113), Government Code Section 25502.5 was revised to specify that the \$100,000 ceiling on the purchasing agent's authority to enter into service contracts is an **annual** limitation. SB 113 was approved October 11, 2009.

Each Supervisor
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Implementation

We plan to implement policies and procedures consistent with the purchasing agent's increased service contracting authority on July 1, 2010, and are working with County Counsel and the CEO to ensure proper implementation. We also plan to notify County departments regarding these new procedures prior to implementation.

Please contact me if you have any additional questions. ISD's point of contact for this action is Joe Sandoval, General Manager, ISD Purchasing and Contract Services at (323) 267-2109 or via email at jsandoval@isd.lacounty.gov.

TT:j

c: Chief Executive Officer
County Counsel
Auditor-Controller
ISD Board Deputies
Ellen Sandt, DCEO

DRAFT



COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR



KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 437
LOS ANGELES, CA 90012
TELEPHONE: (213) 974-2101 FAX: (213) 626-1812

MARK J. SALADINO
TREASURER AND TAX COLLECTOR

April 6, 2010

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION COMMERCIAL PAPER PROGRAM (ALL DISTRICTS – 3 VOTES)

SUBJECT

Under the direction of the Treasurer and Tax Collector, the Los Angeles County Capital Asset Leasing Corporation (LAC-CAL) periodically issues short-term Commercial Paper Notes (the "Notes") to finance capital construction costs for the County. Over the past twelve years, the Tax Exempt Commercial Paper Program (the "CP Program") has provided a cost-effective and flexible financing mechanism for the County to fund the initial stages of its capital projects. The CP Program has a unique short-term lease-revenue financing structure and is currently secured by three bank Letters of Credit (LOC). With two of our current LOC banks exiting the business as of May 2010, we are requesting that your Board approve a restructuring of the existing Program with a new syndicate of LOC banks. In addition, we are also requesting an increase in the maximum stated amount of the LOC from \$335 million to \$400 million. The additional CP Program capacity will provide a critical source of funding to finance the initial capital expenditures of Board approved projects that will later be financed through the issuance of long-term bonds.

IT IS RECOMMENDED THAT YOUR BOARD:

Adopt the Resolution authorizing the execution and delivery of legal documents related to a restructuring of the Los Angeles County Capital Asset Leasing

Corporation Commercial Paper Program in order to provide for the issuance of new lease-revenue commercial paper notes in an aggregate principal amount not to exceed \$400 million, and approving additional actions with respect thereto

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On June 24, 1997, your Board authorized a lease-revenue CP Program to replace an existing Bond Anticipation Note program. The CP Program has been very successful in providing cost-effective short-term financing for the County to fund essential Board approved capital projects during the initial construction phase. The flexibility of the CP Program allows the County to avoid the cost of capitalized interest before a project is operational and to facilitate a long-term financing solution that will more effectively allocate the cost of a project over its useful life. Some of the County's high-profile capital projects previously funded or currently being funded through the CP Program include the LAC+USC Medical Center, and other Department of Health Services' construction projects at Harbor-UCLA Medical Center, Olive View Medical Center, High Desert Hospital and Rancho Los Amigos National Rehabilitation Center.

The CP Program is currently secured by LOCs issued jointly by JP Morgan Chase and two German Landesbanks, WestLB and BayernLB. As a result of the recent financial crisis and their deteriorating financial condition, WestLB and BayernLB served notice to the County in January 2010 that they will be exercising their option to terminate the LOC as of May 1, 2010. JP Morgan Chase indicated to the County that they were willing to remain as an LOC provider if the new CP Program was restructured at the current rates prevailing in the LOC market. Given the substantial complexity and unique structure of the CP Program, and the absence of sufficient time to develop a CP Program comprised entirely of new LOC banks by May 1, 2010, this Department determined that it was in the best interest of the County to retain JP Morgan Chase as an "anchor" bank for a restructured CP Program, and to negotiate a new Letter of Credit and Reimbursement Agreement (the "Agreement"). To facilitate an efficient RFP process, Chapman & Cutler LLC was hired as Bank Counsel to work with this Department and JP Morgan Chase to develop the basic form of a new Agreement that reflects current industry standards and practices.

In February 2010, this Department issued an RFP, which included the basic form of an industry standard Agreement, to solicit new bank LOC providers for a new CP Program. Four banks submitted proposals in response to the RFP (Bank of America, Bank of Nova Scotia, Union Bank and Wells Fargo). Of the four banks, Bank of America, Union Bank and Wells Fargo submitted competitive pricing proposals and have been selected to replace the two German Landesbanks as LOC providers for the new CP Program.

Bank of Nova Scotia was eliminated from consideration due to their non-competitive pricing proposal

JP Morgan Chase agreed to match the LOC fees proposed by Bank of America and Wells Fargo through the RFP process. These three banks have similar credit profiles and are the primary competitors in the current bank LOC market. Union Bank, which has less exposure in the LOC market and a weaker credit profile compared to JP Morgan Chase, Bank of America and Wells Fargo, submitted the lowest cost proposal and was selected as the fourth and final LOC provider for the new CP Program. This Department is currently in the process of negotiating final Agreements with the four LOC banks for the new CP Program. The four Agreements will have common terms and conditions, with the exception of Union Bank, which will have a lower pricing structure, as detailed below.

In order to meet the County's expanding capital project needs, the maximum principal amount of Notes authorized under the new CP Program will be increased from \$335 million to \$400 million. The additional Program capacity will provide the County with greater flexibility in the timing of long-term bond issuances, the proceeds of which will be used to redeem outstanding Notes.

The new CP Program will continue to issue the vast majority of the Notes as tax-exempt. However, the financing documents for the new CP Program will provide the authority to issue a taxable series of Notes as part of the \$400 million maximum principal authorization. A taxable series of Notes will provide added flexibility to fund certain expenditure needs of the County that would not otherwise be eligible to be funded through a tax-exempt financing.

Implementation of Strategic Plan Goals

This action supports the County's Strategic Plan Goal #1: Operational Effectiveness by providing a flexible and cost-effective source of financing to fund the capital construction needs of the County.

FISCAL IMPACT/FINANCING

The CP Program has provided the County with a highly flexible and cost-effective funding source to finance the early phases of capital construction projects. Since the inception of the CP Program in 1997, the average coupon rate on outstanding Notes used to finance various projects, including the LAC+USC Medical Center, is only 2.16%. With short-term interest rates at historical lows, the County is currently financing the \$205.5 million of currently outstanding Notes at an average rate of .37% for Fiscal Year

2009-10. Both the historical and year-to-date coupon rates on outstanding Notes compare very favorably to the cost of capital on a long-term bond financing. If the County were to issue tax-exempt bonds at current market rates with a thirty-year term and a similar lease-revenue structure, the average interest cost over the life of the bonds would be approximately 5.5% to 6.0%.

The CP program also enables the County to avoid paying capitalized interest during the construction phase of a project, or prior to the time a capital asset is placed into service. For capital projects financed through the issuance of long-term-bonds, capitalized interest can add an additional 20% to 30% to the final cost of the project. Upon completion of a capital project funded through the CP Program, the County will generally initiate a "take-out" financing involving the issuance of long-term bonds to allocate the cost of capital over the useful life of the project; and to free up capacity in the CP Program to fund new capital projects

In a reflection of the current conditions in the LOC market, the County will incur a significant increase in LOC fees to provide credit enhancement and liquidity support for the new CP Program. Assuming the maximum \$400 million of Notes authorized under the new CP Program are issued and outstanding, the total annual ongoing administrative costs for the new CP Program are estimated to be \$5.329 million. This amount represents an increase of \$4.304 million from the \$1.025 million of total administrative costs for the \$205.5 million of Notes outstanding in the current Fiscal Year. In addition to the increase in annual administrative costs over the three-year term of the new CP Program, the County will incur one-time start-up costs in the estimated amount of \$300,000 for legal, financial advisory, title insurance and rating agency fees. The 2010-11 Proposed Budget will incorporate the higher level of administrative costs required for the new CP Program. No adjustments to the 2009-10 Final Budget will be necessary to fund the increase in administrative costs for the new CP Program, which commences on April 26, 2010.

Since commercial paper is a short-term variable rate debt instrument, the interest rate on outstanding Notes will reflect the market rate at the time of issuance and all subsequent rollover dates for the issued Notes. With market interest rates currently at historical lows, the rollover Notes are likely to be issued with higher interest rates at some point over the three-year term of the new CP Program. The Chief Executive Office conservatively estimates interest costs for the Notes in its budgetary projections to account for the possibility of an increase in short-term interest rates and will continue to appropriate sufficient funds on an annual basis to cover all administrative and interest costs for the new CP Program.

In the event that a new CP Program or an alternative financing solution is not approved by your Board, the current CP Program will terminate and the County will need to identify at least \$205.5 million of General Fund budget and cash resources to redeem the outstanding Notes on April 26, 2010.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The Notes for the new CP Program will continue to be issued through LAC-CAL, a non-profit public benefit corporation created by this Board in 1983 to assist the County in financing the purchase of necessary equipment and the acquisition, purchase and construction of County buildings and facilities.

The new CP Program will consist of four separate Agreements authorizing the issuance of separate series of Notes by each bank up to a maximum aggregate principal amount of \$400 million. The maximum principal amount of the Notes will be allocated among the four LOC providers as follows:

- JP Morgan Chase \$175 million
- Bank of America \$75 million
- Wells Fargo \$75 million
- Union Bank \$75 million

The stronger credit quality banks in the new CP Program (JP Morgan Chase, Bank of America and Wells Fargo) will have pricing parity and charge 125 basis points for both the utilized and unutilized portions of their LOC allocation. Union Bank, which has the lowest credit rating of the four banks, will have a separate pricing structure with lower fees consisting of 95 basis points for the utilized portion, and 50 basis points for the unutilized portion of their LOC allocation. These four Agreements provide for an increase in LOC fees on a tiered basis as a result of any downgrade in the County's general obligation credit rating below A+ for Standard & Poors or A1 for Moody's. We have confirmed with Public Resources Advisory Group, our financial advisor for this transaction, that the fee structure for the new CP Program represents competitive pricing in the current LOC market.

The CP Program will continue to be secured by a lease-revenue financing structure involving a Site Lease and Sublease by and between the County and LAC-CAL. In the lease-revenue structure of the current CP Program, the County has pledged twenty-five (25) real estate assets (the "Properties") as collateral for an LOC issued jointly by the three bank providers. The restructured CP Program will require a restated Site Lease and Sublease with minimal changes from the current documents. However, as a result of an increase in the aggregate appraised value of the Properties, the County will be

able to increase the maximum principal amount of the LOCs without having to pledge additional assets to support the County's expanded capital construction needs. The new CP Program will continue to provide the County with the flexibility to substitute and/or remove real estate assets into and out of the lease structure to accommodate the changing needs of the capital construction program.

The new CP Program was approved by the LAC-CAL Board on March 16, 2010. The County has retained Nixon Peabody as note counsel, approved Chapman and Cutler as bank counsel and hired Public Resources Advisory Group as the financial advisor to provide professional services to assist the County in the establishment of the new CP Program. The Note dealers for the current CP Program (Barclays Capital, JP Morgan and Morgan Stanley) will continue to serve as Note dealers for the new CP Program. The Resolution provides the authority to replace or contract with additional Note dealers at the discretion of this Department to facilitate the successful operation of the new CP Program.

As part of the authorization to establish the new CP Program, your Board is requested to approve the "form of" the following financing documents:

- Exhibit A-1 Bank of America Letter of Credit and Reimbursement Agreement
- Exhibit A-2 JP Morgan Chase Letter of Credit and Reimbursement Agreement
- Exhibit A-3 Union Bank Letter of Credit and Reimbursement Agreement
- Exhibit A-4 Wells Fargo Letter of Credit and Reimbursement Agreement
- Exhibit B Restated Trust Agreement
- Exhibit C Restated issuing and Paying Agent Agreement
- Exhibit D Restated Site Lease
- Exhibit E Restated Sublease
- Exhibit F New Dealer Agreement

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Approval of the new CP Program will provide the County with a continued source of highly flexible and cost-effective financing for the capital construction program. In the event the new CP Program is not approved by your Board, the County will need to fund existing capital construction projects with available cash resources and/or secure alternative and higher-cost sources of financing.

The Honorable Board of Supervisors
April 6, 2010
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CONCLUSION

Upon approval of the Resolution, it is requested that the Executive Officer of the Board of Supervisors return two originally executed copies of the adopted Resolution to Glenn Byers of the Treasurer and Tax Collector.

Respectfully submitted,

MARK J. SALADINO
Treasurer and Tax Collector

MJS:GB:DB:JP:JW
ad doc/New CP Program BL_040610

Attachments ()

C: Chief Executive Officer
County Counsel
Executive Officer, Board of Supervisors
Auditor Controller