



County Administrative Office

COUNTY OF TULARE AGENDA ITEM

BOARD OF SUPERVISORS

LARRY MICARI
District One

PETE VANDER POEL
District Two

AMY SHUKLIAN
District Three

EDDIE VALERO
District Four

DENNIS TOWNSEND
District Five

AGENDA DATE: July 30, 2024 - REVISED

Public Hearing Required	N/A
Scheduled Public Hearing w/Clerk	N/A
Published Notice Required	N/A
Advertised Published Notice	N/A
Meet & Confer Required	N/A
Budget Transfer (Aud 308) attached	Yes
Personnel Resolution attached	N/A
Agreement(s) attached	Yes

CONTACT PERSON: Jason Britt PHONE: 559-636-5005

SUBJECT: Millennium Capital Project Fund Program

REQUEST(S):

That the Board of Supervisors:

1. Adopt a Resolution authorizing the prepayment of the principal of and interest on lease payments, and related bond principal and interest, and optional redemption of and with respect to the Tulare County Public Financing Authority Refunding Bonds, Series 2006 (Millennium Fund Program) (federally taxable), approving the Form and authorizing the execution and delivery of a Lease Prepayment, Bond Redemption, and Termination of Leasehold Interests and Release Agreement with respect to said Bonds, and authorizing official actions and execution of documents related thereto (Attachment 1).
 - a. Approve the Lease Prepayment, Bond Redemption, and Termination of Leasehold Interests and Release Agreement with respect to said Bonds, subject to County Counsel review and approval, in an amount not to exceed \$21,290,000 (Attachment 2).
 - b. Direct the Clerk of the Board to record the agreement with the Clerk-Recorder.
 - c. Approve the necessary budget adjustments per the attached AUD 308 (4/5ths vote required), (Attachment 3).
2. Approve a Resolution approving an amended and restated Millennium Capital Project Fund Program, approving an Investment Policy for said Program, approving and authorizing the Board Chair to sign an Agreement with PFM Asset Management LLC to serve as Administrator of said Program, and authorizing official actions and execution of documents related thereto (Attachment 4).
 - a. Approve the Amended and Restated Millennium Capital Project Fund Program (Attachment 4 – Exhibit A).
 - b. Approve the Millennium Capital Project Fund Program Investment Policy for said program (Attachment 4 – Exhibit B).

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- c. Approve the delegation of authority to the County Treasurer over said Program.
- d. Approve the agreement with PFM Asset Management LLC to serve as Administrator of said Program, effective July 30, 2024 through July 29, 2029 (Attachment 4 – Exhibit C).
3. Approve the updated County of Tulare Financial Policy (Attachment 5).
4. Authorize the Board Chair to sign the Agreements.

SUMMARY:

The Tulare County Public Financing Authority (the “PFA”) issued \$45,000,000 of variable-rate demand bonds (the “1999 Bonds”) in December 1999 to establish an endowment in anticipation of receiving the County's annual share of funds from the National Tobacco Settlement from the State of California. The objective of the endowment, known as the Millennium Investment Fund Program (the “Program”), is to provide a stable, long-term source of funds for capital improvements, maintenance, and repairs within the County. Certain County-owned properties were used as collateral for the 1999 Bonds. The PFA and County entered into a site lease and a lease agreement regarding these properties, whereby the County agreed to make lease payments sufficient to pay the principal and interest of the 1999 Bonds and other expenses related to the 1999 Bonds.

In December of 2006, the PFA refinanced the 1999 Bonds by issuing \$42,360,000 of variable rate, federally-taxable, refunding bonds (the “2006 Refunding Bonds”). The 2006 Refunding Bonds that support the Millennium Fund Investment Program were refinanced as a private placement, which helped to reduce the County’s costs and served to isolate the Program from the credit crisis and liquidity crunch that existed in the capital markets in 2007 and 2008. The Program’s ongoing investment goals are to achieve and maintain parity while generating an investment rate higher than the borrowing rate of the 2006 Refunding Bonds in order to grow the Program over time, and carefully control risk ensuring ongoing success.

PFM Asset Management LLC (“PFM”), in its role as Program Administrator for the Millennium Investment Fund Program (the “Program”), provides a separate presentation on the annual report to update your Board on the status of the Program and the associated 2006 Refunding Bonds.

Early Bond Redemption

After the regularly scheduled August 1, 2024, payment of principal, the total outstanding principal of the Bonds will be \$23,690,000. The Bonds will fully mature (be paid off) on August 1, 2034, but can be partly or completely paid off (redeemed) in any year in which the County has funds available and deems it appropriate to do so. Earlier this year, FMS Wertmanagement (FMS), the sole owner of the Bonds, offered the County a substantial discount of \$2.6 million to pay off the Bonds now rather than waiting for the Bonds to reach maturity.

In consultation with PFM, the County’s Financial Advisor KNN, and the County Treasurer, staff are recommending that the Board authorize the complete redemption of the Bonds now, using one-time monies to fund the redemption, in order to take advantage of the discount offer. As highlighted in PFM’s 2024 Annual Report and presentation to your

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Board, the Bond environment is no longer advantageous to the County due to the increased borrowing rate of the variable demand bond. PFM's Annual Report indicates that the Millennium Fund investment return spread is now slightly negative at -0.01%, since inception.

By paying off the Bond early, the County would be able to achieve multiple long-term financial benefits. The elimination of debt payments and associated interest, along with the ability to capitalize on additional investments and a high interest rate environment, allows for an acceleration of future investments and stabilized resource allocation for Capital Projects. In addition, early payment would provide the County more financial flexibility in the future as it considers larger, more expensive, capital improvement projects, thereby reducing the impact on the General Fund from the costs of those projects. Importantly, the monies within the current Millennium Fund would continue to be restricted for identified capital project needs.

Adoption of the Resolution in Attachment 1 will authorize the prepayment of the remaining lease payments and interest, and immediate redemption of the outstanding balance of the 2006 Refunding Bonds at a discounted price. It will also approve an agreement among the County; the PFA; the Bank of New York Mellon Trust Company N.A. (the Bond Trustee); and FMS (the Bond owner), which authorizes those actions, and terminates the leasehold interests on and releases the collateral for the 2006 Refunding Bonds.

Approval of the AUD 308 in Attachment 3 will authorize the CAO and County Auditor-Controller to make the budget adjustments necessary for redeeming the Bonds at the discounted price.

Amended and Restated Millennium Capital Project Fund Program

Going forward, staff recommend the Board authorize and direct the continuation of the program as the amended and restated "Millennium Capital Project Fund Program" (MCPF), according to the Resolution in Attachment 4, and the terms in Attachment 4 - Exhibits A and B. The County's annual share of Tobacco Settlement receipts, along with the investment returns on these revenues, will continue to ensure a long-term, stable source of revenues as originally intended for the continuous sole purpose of funding County Capital Projects and Maintenance costs. The annual fund draw limit shall be a maximum of \$4.5 million, subject to Board approval.

The MCPF funds will be held in a separate custodial account from the County's General Funds, as determined by the County Treasurer. While the Millennium Capital Project Fund Program legally can only be invested in the same categories of investments as the County Treasury's Pooled Investment, the separation allows the funds to be placed in longer-term investments in exchange for higher rates of return. This is possible due to the smaller and less-frequent cash flow needs of the projects supported by the Millennium Capital Project Investment Fund as compared to those supported by the Pooled Investment Fund. As a result, a separate Investment Policy is required to govern these investments, in alignment with all pertaining government codes.

PFM, with input from KNN, the County Treasurer, and CAO staff, have prepared

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Attachment 4 – Exhibit B “Investment Policy of the Millennium Capital Project Fund Program”, for Board Approval. The proposed investment policy includes a balanced strategy of investments that allows for the County to benefit from the current high yields, while maintaining a conservative approach, including limiting the maximum investment length to ten years. The update to the County of Tulare Investment Policy in Attachment 5 now refers to the separate Investment Policy for the MCPF.

Program Administration

As a part of the continuation of the Millennium Capital Project Fund Program, staff recommend the Board approve the delegation of authority over the Program to the County Treasurer, and to appoint PFM as Administrator, per Attachment 4. In addition, said Resolution approves and authorizes the Board Chair to sign a new, updated agreement with PFM to act as the Program’s Administrator for a period of five years. PFM’s administrative actions are held to the MCPF Program terms and Investment Policy, along with all applicable government codes. The annual administrative fee is set at 9 basis points (bps) for the first \$100 million of Average Assets Under Management (AUM) and 6 bps for any funds in excess of that, in monthly installments.

The following deviations are included in the attached Program Administration Agreement with PFM Asset Management, LLC:

1. Independent Contractor Status: added that for purposes of making securities trades, PFM is an agent of the County.
2. Governing Law: deleted reference to fact that agreement will be performed in Tulare County, since services may be provided by PFM employees throughout the country.
3. Records and Audits: added that County will provide PFM with reasonable prior notice of requests for records and any inspections will be done during regular business hours.
4. Indemnification and Defense: added mutual indemnification and defense obligations.
5. Loss of Funding: added County to provide prompt notice to PFM of any non-appropriation of funds to pay for PFM’s services.
6. Confidentiality: added that PFM can disclose confidential information of County if required to do so by law or judicial process; added process for County to inform PFM if County is obligated to disclose confidential information of PFM and for PFM to try to protect same.

FISCAL IMPACT/FINANCING:

By paying off the principal and associated interest on the Bonds of the Millennium Fund Program prior to the maturation date, the County will achieve considerable savings, and the potential for additional investment opportunities. This includes receiving a discount of \$2.6 million to the principal outstanding balance of the Bond repayment, eliminating the annual interest payments, and increasing investment returns. In addition, by implementing a separate Investment Policy, the MCPF funds can now be invested in long-term maturities that are intended to lock in a higher rate of return. After the payoff, the County will be able to file the Prepayment and Redemption Agreement with the Recorder, which will unencumber the collateral on the Juvenile Detention Facility, Library Building, and Agricultural Building.

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The outstanding principal balance on the Bonds as of July 30, 2024, is \$25,390,000. A final scheduled annual payment on August 1, 2024, will reduce the balance to \$23,690,000. The applied discount of \$2,600,000 on the principal leaves a final payment of \$21,090,000. Interest has been preliminarily estimated to be below \$200,000. The County Administrative Office has submitted the AUD 308 (Attachment 3) to make the necessary budget adjustments in 001-012-1015 for Fiscal Year 2024/25 to redeem the bond principal and final calculated interest, in an amount not to exceed \$21,290,000, and to transfer associated revenues from Fund 532 – “Finance Management and Debt Reduction Fund”.

The payments for the Administrative Agreement with PFM are budgeted in 001-030-2800 for Fiscal Year 2024/25 and shall be reimbursed through Millennium Fund revenues. Reimbursement is calculated on the daily net assets under management, calculated at 9 basis points (bps) for the first \$100 million of Average Assets Under Management (AUM) and 6 bps for any funds in excess of that amount.

LINKAGE TO THE COUNTY OF TULARE STRATEGIC BUSINESS PLAN:

Tulare County’s Strategic Plan includes the initiative of Organizational Performance to promote continuous improvement of organizational effectiveness and fiscal stability. The Board’s approval of the requested actions concerning the Millennium Investment Fund helps fulfill this Initiative by ensuring the stability of county operations through efficient financial processes, reducing the County’s long-term debt, and releasing the leasehold interests in three important County facilities that were used to secure the 2006 Millennium Fund Bonds.

ADMINISTRATIVE SIGN-OFF:

/s/ Jason T. Britt

Jason T. Britt

County Administrative Officer

Cc: County Administrative Office

Attachments:

- Attachment 1: Resolution Authorizing Lease Prepayment, Bond Redemption, And Termination Of Leasehold Interests And Release
- Attachment 2: Agreement for Lease Prepayment, Bond Redemption, And Termination Of Leasehold Interests And Release
- Attachment 3: AUD 308 form
- Attachment 4: Resolution Approving an Amended And Restated Millennium Capital Project Fund Program
 - Attachment 4 – Exhibit A: Amended and Restated Millennium Capital Project Fund Program
 - Attachment 4 – Exhibit B: Millennium Capital Project Fund Program Investment Policy
 - Attachment 4 – Exhibit C: Agreement with PFM Asset Management, LLC

- Attachment 5: Exhibit C: County of Tulare Financial Policy
- Attachment 6: Millennium Capital Project Fund Presentation