

Yolo County Debt Committee
Item # 6 – HHSa Facilities Acquisition
January 8, 2019

Financing Mechanism: Internal borrowing (less than 6 mo.) followed by Lease Revenue Bonds

Requesting Department/Agency: Health & Human Services Agency

Time Duration: 22 Years (projected), will be aligned to Building depreciation schedules.

Debt Amount Requested: Approximately \$17 million

Reason before Debt Committee:

- 1) Amount of debt or obligation exceeds \$500,000
- 2) Annual debt service or obligation payment exceeds \$150,000.
- 3) Borrowing, debt or obligation may result in significant change in County Financial Health.

Purpose/Project:

The Health & Human Services Agency in collaboration with the Department of General Services, County Administrator’s Office and Department of Financial Services has been reviewing opportunities for long-term benefits and potential cost saving associated with the acquisition of two Health & Human Services Agency facilities that currently are leased facilities. These facilities include:

Location
West Sacramento (500 Jefferson)
Gonzales Building (25N. Cottonwood)

The combination of acquiring both of these facilities is estimated to be approximately \$17 million plus bond issuance costs. Detailed cost analysis has been performed by the Department of Financial Services. The information included in the analysis has been estimated numbers as negotiations and contracts have not finalized on the facilities however it was deemed prudent to keep the Debt Committee apprised of the potential debt impacts of these acquisitions.

As shown in Attachment A, based on certain assumptions, the purchase of the Gonzales building is estimated to result in long-term cost savings to the County as opposed to continuing with lease the facilities.

As shown in Attachment B, the purchase of the West Sacramento facility results in additional costs in the early fiscal years (2019/20, 2020/21, 2021/22) however will result in annual savings thereafter as compared to the capital lease due to large payments built in the later end of the lease schedule. This schedule was built to align with the City of West Sacramento’s debt payments however would be difficult for the HHSa department to absorb the large increases.

The goal of the Capital Improvement Committee (CIC) has been to package as many capital projects together efficiently for bond sales to reduce fees and limit overall accumulation of debt. Therefore as the building

acquisitions will occur on varying dates and there may be additional capital projects, such as the Yolo Library, that are included, a bond sale is being targeted for June, 2019. In the interim, there is need to acquire the two facilities above to be utilized as their own collateral for the bond sale.

The intent is to utilize interfund borrowing in order to manage the short-term financing need until the longer term bonds are issued. The “Borrowing, Debt, and Obligations” Policy allows that the Chief Financial Officer to allow certain funds to incur temporary overdrafts while managing cash resources. The current plan is to create the building acquisition fund that will be utilized to acquire the buildings where the bond proceeds will be deposited once obtained. During the time period (less than 6 months) needed to complete the bond sale, the building acquisition fund would be allowed to maintain a temporary overdraft position. This fund would be charged interest from the Treasury Pool for the overdraft. For that six month time period with the current Treasury yield of near 2%, interest this could result in an interest amount of \$170,000 if the entire \$17 million was borrowed for that entire six month period. However the goal will be to minimize time gaps between the building acquisition and the bonds issuance. This is beneficial as the treasury pooled rate is still a lower interest rate than if the County pursued an external bridge financing option.

The risk associated with this mechanism of internal borrowing is that temporary overdrafts such as this generally cannot be carried over from fiscal year to fiscal year. Should there be delays in completion of a bond sale past June 30, 2019, there would be the need to formalize this internal borrowing either from a County fund or from an external financing source to bridge any remaining time needed to complete the bond sale. There are limited number of internal funds that do not carry external restrictions and therefore the likely internal funding source would have to be the general fund.

The reason that these are coming to the Debt Committee at this time is that once the buildings are acquired, it will require the County to issue debt as the County does not have sufficient funds to acquire the facilities without debt. Though the acquisition of these facilities are estimated to provide long term savings and other benefits, there are some risks in the interim until the financing is completed (such as interest rate risk) that assumptions made may change with market conditions.

Attachment:

Attachment A – Gonzales Building Cost Comparison

Attachment B – 500 Jefferson Building Cost Comparison

Gonzales Building Year to Year - Cost Comparison

Fiscal Year	Remaining Cost Under Current Lease			Debt Service Costs			Potential Savings
	Lease	Taxes	Total	Est. Principal	Est. Interest	Total	
19-20	1,134,529	130,581	1,265,110	320,600	582,947	903,547	361,563
20-21	1,237,668	145,301	1,382,969	336,399	567,148	903,547	479,422
21-22	1,340,808	148,207	1,489,015	352,977	550,570	903,547	585,468
22-23	1,361,436	151,171	1,512,607	370,371	533,176	903,547	609,060
23-24				388,623	514,924	903,547	UNKNOWN*
24-25				407,774	495,773	903,547	UNKNOWN*
25-26				427,869	475,679	903,547	UNKNOWN*
26-27				448,954	454,594	903,547	UNKNOWN*
27-28				471,078	432,470	903,547	UNKNOWN*
28-29				494,292	409,255	903,547	UNKNOWN*
29-30				518,650	384,897	903,547	UNKNOWN*
30-31				544,209	359,338	903,547	UNKNOWN*
31-32				571,027	332,520	903,547	UNKNOWN*
32-33				599,167	304,380	903,547	UNKNOWN*
33-34				628,694	274,854	903,547	UNKNOWN*
34-35				659,675	243,872	903,547	UNKNOWN*
35-36				692,183	211,364	903,547	UNKNOWN*
36-37				726,294	177,254	903,547	UNKNOWN*
37-38				762,085	141,463	903,547	UNKNOWN*
38-39				799,640	103,908	903,547	UNKNOWN*
39-40				839,045	64,502	903,547	UNKNOWN*
40-41				880,393	23,155	903,547	UNKNOWN*
Total	5,074,441	575,260	5,649,701	12,239,998	7,638,043	19,878,041	2,035,512

Note: * Savings Projections past 2022-23 would depend on the cost structure, under a lease revision.

500 Jefferson - West Sacramento Year to Year - Cost Comparison

Fiscal Year	Remaining Cost Under Current Lease		Debt Service Costs			Potential Savings
	Lease	Total	Est. Principal	Est. Interest	Total	
19-20	371,532	371,532	210,326	212,968	423,295	(51,763)
20-21	371,230	371,230	220,691	202,604	423,295	(52,065)
21-22	371,456	371,456	231,566	191,728	423,295	(51,839)
22-23	964,948	964,948	242,978	180,317	423,295	541,653
23-24	1,083,236	1,083,236	254,952	168,343	423,295	659,941
24-25	1,082,656	1,082,656	267,515	155,779	423,295	659,361
25-26	180,426	180,426	280,698	142,596	423,295	UNKNOWN*
26-27			294,531	128,764	423,295	UNKNOWN*
27-28			309,045	114,249	423,295	UNKNOWN*
28-29			324,275	99,020	423,295	UNKNOWN*
29-30			340,255	83,040	423,295	UNKNOWN*
30-31			357,022	66,272	423,295	UNKNOWN*
31-32			374,616	48,679	423,295	UNKNOWN*
32-33			393,077	30,218	423,295	UNKNOWN*
33-34			412,447	10,847	423,295	UNKNOWN*
Total	4,425,484	4,425,484	4,513,994	1,835,425	6,349,419	1,705,290

Note: * Savings Projections past 2024-25 would depend on what the cost structure would have been under a lease revision.