

Yolo County Debt Committee

Item # 6 – Child Support Facilities Acquisition

April 30, 2020

- Financing Mechanism:** Internal borrowing (less than 6 mo.) followed by Lease Revenue Bonds
- Requesting Department/Agency:** CAO - Child Support / Innovation & Technology Department
- Time Duration:** 20 Years (projected), will be aligned to Building depreciation schedule
- Debt Amount Requested:** Approximately \$3.15 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 Child Support Services and Innovation and Technology Services 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 the Child Support Services facilities that are currently being leased facilities.

Location
Child Support Building (100 W. Court. St.)

The combination of the previous acquisition of the Gonzalez building and Child Support Building acquisition is estimated to be approximately \$18 million plus bond issuance costs. Detailed cost analysis has been performed by the Department of Financial Services. The information included in the original analysis (\$18 million) was based on estimated numbers as negotiations and contracts were only recently finalized on the facilities. This amount will be refined for the financing now that the actual costs are becoming known.

As shown in Attachment A, based on certain assumptions, the purchase of the Child Support building is estimated to result in long-term cost savings to the County as opposed to continuing with lease the facilities with no inflation.

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. This acquisition to combined with the financing of the Gonzalez building resulted in reduced costs of issuance estimated at \$75,000. There is a need to utilize the most recent previous acquired HHS building located 500A Jefferson in West Sacramento as collateral due to the timing and closing of the Child Support Building purchase.

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 (likely less than 2 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 2 month (May-June) time period with the current Treasury yield of near 2%, interest this could result in an interest amount of \$10,500 if the entire \$3.15 million was borrowed for that entire two 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, 2020, 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. However, the Department of Financial Services is already in process with a financing plan to be approved by the Board of Supervisors on the May 19 Board meeting which should minimize this risk.

Attachment:

Attachment A – 100 W. Court Street Rent Comparison

Attachment B – CBRE Building Marketing Pamphlet