



## **DEBT ADVISORY COMMITTEE**

Thursday, October 12, 2023

9:00 a.m.

County Executive Office

4080 Lemon Street, 4<sup>th</sup> Floor, Riverside, CA

Raincross Conference Room C

### **AGENDA**

1. Call to Order and Introductions.....Executive Office
2. Approval of Meeting Minutes from September 14, 2023.....Executive Office
3. Review and recommend approval to the Board of Supervisors the increased amount to the Master Lease Purchase Agreement line of credit for Financing Purchases of Fixed Assets with JPMorgan Chase Bank, N.A., by an additional \$75,000,000.....Executive Office
4. Public Comment
5. Other Business
6. Meeting Adjourned to November 9, 2023

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact Katie Ponce at [KMPonce@rivco.org](mailto:KMPonce@rivco.org) or (951) 955-1142. Notification 48 hours prior to the meeting will enable us to make reasonable arrangements to ensure accessibility to the meeting [28 CFR 35 .102.35.104 ADA Title II].

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# DEBT ADVISORY COMMITTEE MEETING

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## MEETING MINUTES

September 14, 2023 at 9:00 a.m.

**Members Present:**

Don Kent	County Executive Office (Chair)
Jarvyk Punzalan	Community Facilities District/Assessment District
Matt Jennings	Treasurer-Tax Collector
Kristine Valdez	County Counsel
Ben Benoit	Auditor-Controller's Office
Darrylenn Prudholme-Brockington	Flood Control and Water Conservation District

**Members Absent:**

Amber Jacobson	Office of Economic Development
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**Staff and Guests Present:**

Jon Gutierrez	Executive Office
Imelda Delos Santos	Executive Office
Katie Ponce	Executive Office
Mike Williams	Columbia Capital
Jim Prichard	Columbia Capital (via Zoom)
Jack Tsang	Columbia Capital (via Zoom)
Anna Sarabian	Fieldman, Rolapp & Associates (via Zoom)

**1. Call to Order and Self-Introductions**

The Debt Advisory Committee meeting was called to order at 9:00 a.m. Those present made self-introductions.

**2. Approval of the DAC Meeting Minutes for May 11, 2023**

**MOTION: Ben Benoit moved to approve the DAC meeting minutes from May 11, 2023.**

**Matt Jennings seconded this.**

**All were in favor. The motion passed unanimously.**

**3. Review and Recommend – FY 2023/24 County of Riverside Teeter Plan Obligation Notes 2023 Series A**

Chairman Don Kent, with the Executive Office, introduced item three on the agenda, the FY 2023-24 County of Riverside Teeter Plan Obligation Notes, 2023 Series A. Chair Kent shared that this is the 30<sup>th</sup> year of the program, 26<sup>th</sup> year of the external financing program and 11<sup>th</sup> year of the actual Notes program. Don highlighted that the program size peaked at \$267 million in 2008, and with a few exceptions has been on a downward trend since. The current year's Teeter Plan Obligation Notes par amount is \$84.1 million in size and as of right now, according to delinquency data from our Treasurer-Tax Collector, the FY 2023-24 Notes will be sized at \$103.2 million. The actual rate in the Preliminary Official Statement for current year is 1.46 percent and has since risen slightly to 1.69 percent. The Notes are for a one-year period and will mature on Oct 18, 2024. Chair Kent then introduced Mike Williams with Columbia Capital to speak further on the Teeter transaction.

Mr. Williams shared that since the Notes program started in 2012, he went back to the Official Statement to see the difference between where the economy stands today as opposed to back then. In 2012, the Notes sold at a yield of 25 basis points; Bank of America and Citigroup were the underwriters. One of the ten largest property owners in fiscal year 2011-12 was Fannie Mae due to delinquencies in 2008 and of the 25 largest taxpayers, Fannie Mae was number four at \$6.6 million. It was a very different time then.

Today the size of the Teeter Notes is at \$103.2 million. Bank of America is the senior manager and Loop Capital Markets is the co-manager. The ratings are expected to stay the same at MIG1 and F1+ from Moody's and FitchRatings. As of now, the yield is expected at a little over 3.4 percent. What is needed are some buyers that need to have the tax-exempt income. The one-year Treasury this morning was at 5.42 percent, therefore, 65 percent of that is about a 3.50 percent yield. A little lower T-bill price may bring more interest in the Teeter Notes. Mr. Williams then introduced Jack Tsang with Bank of America.

Mr. Tsang shared that current rates are high, and the Fed has continued to embark on this hiking cycle which started in March of 2022 as inflation continued to rise. Increases have occurred 11 times since then. They went from 0.25 to 0.5 percent and currently from 5.25 percent to 5.50 percent. That has had quite an impact on the short end of the curve, especially in the one-year space, which is the County's structure of this financing. It is possible that there is an end in sight to these rate hikes. The one-year U.S. Treasury was around one percent in the beginning of

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March of 2022. Today it is at 5.42 percent. On the tax-exempt side, the MMD benchmark one-year spot was at 80-90 basis points and now it's at 3.25 percent as of yesterday's close. One more hike is expected most likely in November. Rates are elevated but we see a lot more cash coming into the market for short-term securities in particular. This gives investors a year or two to get a good yield for it. Money market funds who buy within 13 months of maturity saw \$6 billion of inflows over the course of the year and as far as tax-exempt money market funds, that group saw about \$700 billion year-to-date. That should pull well for the County's issuance. The County should see very good reception for its offering.

Mr. Williams pointed out that in collaboration with the underwriter, we included in the Resolution a not to exceed amount of \$105 million and to have a true interest cost of 4.75 percent. If something spikes rates, it may be needed.

**MOTION: Matt Jennings moved to approve the FY 2023-24 County of Riverside Teeter Plan Obligation Notes, 2023 Series A**

**Jarvyk Punzalan seconded.**

**All were in favor. The motion passed unanimously.**

**4. Public Comment**

None

**5. Other Business**

Chair Kent mentioned the County's line of credit will be on the next agenda in October.

**6. Next Meeting(s)**

The next regularly scheduled Debt Advisory Committee Meeting is scheduled for Thursday, October 12, 2023, or as needed.

**7. Adjourn**

With no further business, Chairman Don Kent, adjourned the Debt Advisory Committee Meeting at 9:30 a.m.

**SUBMITTAL TO THE DEBT ADVISORY COMMITTEE  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



**FROM:** EXECUTIVE OFFICE

**AGENDA DATE:** October 12, 2023

**SUBJECT:** Increased amount to the Master Lease Purchase Agreement line of credit for Financing Purchases of Fixed Assets with JPMorgan Chase Bank, N.A. of \$75,000,000.

**RECOMMENDED MOTION:** Review and recommend approval to the Board of Supervisors the increased amount to the Master Lease Purchase Agreement line of credit for Financing Purchases of Fixed Assets with JPMorgan Chase Bank, N.A. by an additional \$75,000,000.

**BACKGROUND**

In order to meet the operational demands of the County, departments may have the need to procure assets through a financing mechanism when funds for outright purchases are not available. These assets may include, but are not limited to: vehicles, aircraft, heavy equipment, information technology equipment such as computer hardware, software and related peripherals, software subscriptions, licenses or services, communications equipment, monitors/defibrillators, hospital equipment, reimbursable tenant improvements (furniture/facility remodel projects including workstations, office furniture, conference/training rooms or lobby/reception area furniture), and, miscellaneous items (park maintenance equipment, aerial lifts, material handling equipment, building backup generators, etc.).

Master Lease Purchase Agreements (lines of credit, or LOCs) have allowed departments to draw upon when necessary to purchase new equipment or replacements when the useful life has expired. Note: all financed purchases must have prior Board of Supervisors approval, through the annual budget process or a separate Form 11 submittal, in order to utilize the LOC.

**CURRENT LINE OF CREDIT USAGE AND CAPACITY**

The current \$50,000,000 LOC with JPMorgan has been utilized by Fire for fire equipment/engines and vehicles, Transportation for heavy-duty vehicles, Sheriff for specialized equipment and various vehicles (including patrol), Fleet for vehicles, and, DPSS for reimbursable tenant improvements. It includes a taxable portion, only to provide flexibility if needed in the event certain circumstances warrant usage that would otherwise not qualify as tax-exempt.

Tax-exempt financings have, and will continue to be, the dominant option to obtain the most favorable interest rates for the County. As of October 5<sup>th</sup>, including the aforementioned purchases and deliveries, there was approximately \$20,000,000 remaining on the LOC to accommodate future requests.

The County's remaining LOC balance is projected to be exhausted within the next several months due to approximately \$64,000,000 of Board approved financed requests in the FY 2023-24 Adopted Budget. In addition, global supply chain issues have eased from prior COVID-19 lockdowns; having ample LOC capacity on an as-needed basis allows for the fluid and timely delivery of assets from vendors to the County and maintains cash reserves for emergency and unforeseen expenses throughout the year (as of October 5<sup>th</sup>, the County's reserves were earning approximately 4.05% in the Treasurer's Pooled Investment Fund).

Following is a list of remaining asset requests in the current FY 2023-24 Adopted Budget. If all assets were to be delivered within this fiscal year, there would not be enough LOC capacity to fund the purchases.

**FY 2023-24 Adopted Budget**

<b>Department</b>	<b>Asset</b>	<b>Amount</b>
Fire	Fire equipment & vehicles	\$28,704,472
Sheriff & PSEC	Vehicles	14,741,327
Fleet	Vehicles	9,496,551
Transportation	Heavy-duty vehicles	3,398,779
<b>Total</b>		<b>\$56,341,128</b>

**INCREASED LINE OF CREDIT AND UPDATED RATE CALCULATIONS**

JPMorgan Chase Bank, N.A. can accommodate an increase in the LOC of \$75,000,000 which would serve the County’s needs for the future; there are no fees associated with the additional amount. County departments utilizing the LOC will, however, incur interest charges at the then prevailing rate when an asset purchase is requested to be financed.

Due to a very different environment that has been influenced by several factors since October 2022 when the Board approved the current Agreement, which includes inflationary pressures leading to actions by the U.S. Federal Reserve increasing short-term interest rates, and a regional banking crisis that impacted liquidity and costs for lending institutions, JPMorgan has increased the Fixed Index Spread <sup>(1)</sup> component. Longer-term interest rates are currently more attractive due to a bond market condition known as yield curve inversion. See tables below.

**Rate Calculation**

<b>Lease Term (Years) <sup>(2)</sup></b>	<b>SWAP Rate <sup>(3)</sup></b>	<b>x % of Index</b>	<b>+ Fixed Index Spread</b>	<b>= Indicative Tax-Exempt Rate <sup>(4)</sup></b>
2	5.4526%	79%	0.4855%	<b>4.7931%</b>
3	5.4337%	79%	0.6653%	<b>4.9579%</b>
4	5.4337%	79%	0.5103%	<b>4.8029%</b>
5	5.0255%	79%	0.6905%	<b>4.6606%</b>
6	5.0255%	79%	0.6135%	<b>4.5836%</b>
7	4.7044%	79%	0.7112%	<b>4.4277%</b>
8	4.7044%	79%	0.7532%	<b>4.4697%</b>
9	4.5940%	79%	0.8444%	<b>4.4737%</b>
10	4.5940%	79%	0.8194%	<b>4.4487%</b>

Lease Term (Years) <sup>(2)</sup>	SWAP Rate <sup>(3)</sup>	+ Fixed Index Spread	= Indicative <b>Taxable</b> Rate <sup>(4)</sup>
2	5.4526%	0.6640%	<b>6.117%</b>
3	5.4337%	0.8890%	<b>6.323%</b>
4	5.4337%	0.6910%	<b>6.125%</b>
5	5.0255%	0.9180%	<b>5.944%</b>
6	5.0255%	0.8200%	<b>5.846%</b>
7	4.7044%	0.9430%	<b>5.647%</b>
8	4.7044%	0.9930%	<b>5.697%</b>
9	4.5940%	1.1090%	<b>5.703%</b>
10	4.5940%	1.0760%	<b>5.670%</b>

- (1) The increase ranges from 0.26% - 0.50% for tax-exempt rates, and the increase ranges from 0.46% - 0.72% for taxable rates, depending upon the lease term. For financings over \$5 million in size, JPMorgan will provide a 0.10% discount to the Fixed Index Spread.
- (2) The finance period is based on a variety of factors including available budget and useful life of the equipment with the lease payments paid directly by the departments.
- (3) Swap rates were as of 8:00 a.m. E.S.T. 10/02/23. Based on the SOFR (Secured Overnight Financing Rate - a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities). Rates subject to change based on financial market conditions.
- (4) Fixed for the life of the term.

### CONTRACT HISTORY

A request for proposal was conducted, with Purchasing issuing RFP #RivCo-RFP-0000511 to establish a new \$50,000,000 LOC. Requests were sent to 166 lending institution contacts and was advertised on Purchasing's website. Bids were received from four financial institutions including, JPMorgan Chase Bank, N.A., Banc of America Public Capital Corp, MUFG Union Bank (which has since been acquired by U.S. Bancorp in December 2022), and Signature Bank (which has since shutdown in March 2023, in the aftermath of the Silicon Valley Bank collapse due to rapidly rising interest rates).

The evaluation team consisting of the Executive Office and the Treasurer-Tax Collector's Office reviewed the responses and recommended the award to JPMorgan which provided the lowest tax-exempt and taxable financing rates for the County. A new agreement was approved as Item #3.3 by the Board of Supervisors on October 25, 2022.

### SUMMARY

With the Board's approval of Item #3.3 on October 25, 2022, the initial \$25,000,000 line of credit has been exhausted, and the option of an additional \$25,000,000 is currently being utilized. In an effort to purchase remaining assets for FY 2023-24 (as shown in the table on page 2) and ensure LOC capacity on an as-needed basis, the Executive Office Finance Team is recommending approval the increased amount of \$75,000,000 to the Master Lease Purchase Agreement with JPMorgan.

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Don Kent, Director of Finance