County of Los Angeles
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DAVID E. JANSSEN
Chief Administrative Officer

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June 26, 2006

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

Dear Supervisors:

2006-07 DEBT MANAGEMENT GUIDELINES; BOND ANTICIPATION NOTE AUTHORIZATION AND REIMBURSEMENT RESOLUTION (ALL DISTRICTS) (3-VOTES)

IT IS RECOMMENDED THAT YOUR BOARD:

1) Approve the attached Debt Management Guidelines which limit the issuance of various debt financing instruments in 2006-07.

2) Approve the issuance of short-term Bond Anticipation Notes in an aggregate amount not to exceed $70.0 million to finance the acquisition of various equipment needs through the Los Angeles County Capital Asset Leasing Corporation.

3) Approve the issuance of Tax-Exempt Commercial Paper in the amount of $45.0 million to finance projected design and construction costs in 2006-07 for five Health Services statutorily required and high priority projects identified in our DHS Hospital Improvement Financing memorandum to your Board on January 23, 2006.

4) Adopt the attached "Resolution of the Board of Supervisors of the County of Los Angeles Declaring its Intention to Reimburse Certain Capital Expenditures from the Proceeds of Taxable or Tax-Exempt Obligations (2006-07 Equipment BANs Program)".

PURPOSE/JUSTIFICATION

Approval of the recommended actions will establish guidelines that limit the issuance of County debt financing instruments in 2006-07 and allow the issuance of short-term Bond Anticipation Notes (BANs) to provide interim financing of equipment acquisitions in accordance with federal tax regulations and tax-exempt commercial paper (TECP) to provide interim financing of statutorily required or high priority health facility projects.

Background

On July 3, 1990, the Board of Supervisors adopted Comprehensive Debt Management Guidelines (Guidelines) to regulate the use of various financing instruments. The Guidelines provide limits for the issuance of short and long-term obligations. They do not apply to voter-approved debt or debt incurred by Agency funds. The Guidelines are reviewed annually and an annual update is filed with the Board regarding the following types of obligations:

- Bond Anticipation Notes
- Short-Term Tax-Exempt Notes
- Long-Term Leasehold Revenue Bonds or Certificates of Participation
- Unrated Short and Long-Term Obligations

The limits adopted for each of these debt categories are expressed as a percentage of the Total County Budget and represent the maximum amount of short-term obligations such as the BANs or tax-exempt commercial paper which may be issued as well as the maximum level of annual debt service on intermediate and long-term obligations and bonds and certificates of participation (COPs) which may be incurred during the fiscal year.

In 1990, the Board of Supervisors approved a limit on the level of BANs issued and outstanding for capital projects and equipment equal to 2.0 percent of the Total County Budget. The Board also approved a limit on the annual payments due on intermediate and long-term bonds or COPs equal to 4.0 percent of the Total County Budget, and 0.4 percent for unrated, publicly offered obligations. The Board-approved 2003-04 Debt Guidelines reflected an increase in the limit on short-term BANs and tax-exempt commercial paper (TECP) to 2.7 percent due to the anticipated issuance of $331.5 million in tax-exempt commercial paper (TECP) for the LAC+USC Medical Center Replacement Project ("the Replacement Project"), as approved by your Board on December 3, 2002. For the 2005-06 Debt Guidelines, your Board approved a reduction in the short-term debt limit to 2.4 percent due to growth in the total County budget and repayments of outstanding TECP from the 1997 BANs redemption.

During 2005-06, your Board approved the securitization of a portion of future tobacco settlement funds to repay all outstanding TECP issued for the Replacement Project. On February 8, 2006, the Treasurer-Tax Collector successfully completed the sale of tobacco securitization bonds and repaid $267.6 million in outstanding Replacement Project TECP. In May, your Board approved the issuance of $2.5 million in TECP for the Harbor Seismic Retrofit projects to fund additional project costs. The General Fund's annual, tax-exempt, tax and revenue anticipation notes were limited to the maximum amount borrowable under federal tax regulations.

Proposed 2006-07 Debt Management Guidelines

The Proposed 2006-07 Debt Guidelines place a limit on short-term BANs and tax-exempt commercial paper at 0.6 percent of the Total County Budget and maintain the limits on annual payments as a share of Total County Budget at 4.0 percent for intermediate and long-term bonds or COPs, and at 0.4 percent for unrated publicly offered obligations.

The recommended short-term debt limit for 2006-07 reflects a significant reduction from the 2005-06 limit due to the redemption of Replacement Project TECP and $9.8 million TECP that remained outstanding on the 1997 BANs. We anticipate needing a maximum TECP authorization of $45.0 million in 2006-07 to finance expenditures for capital projects transferred to the Health Facilities Capital Improvement Fund (HFCIF) by your Board on April 11, 2006. We will return periodically to your Board to request adjustments to the appropriation levels of these TECP-funded projects as needed. See Table 1 below for the breakdown of TECP authorization by project.

Table 1

Hospital	Project (Capital Project Org.)	2006-07 TECP Authorization
Harbor/UCLA	Surgery/Emergency Room Project (C.P. 69220)	$15.0 million
High Desert	Multipurpose Ambulatory Care Center Conversion (C.P. 77350)	7.0 million
Olive View	SB1953 Seismic Retrofit Program (C.P. 86537)	8.0 million
Harbor/UCLA	SB1953 Seismic Retrofit Program (C.P. 86534)	5.0 million
Rancho Los Amigos	SB1953 Seismic Retrofit Program (C.P. 86536)	5.0 million
Subtotal		**$40.0 million**
	Contingency	5.0 million
Total		**$45.0 million**

The recommended limits on annual payments for intermediate and long-term bonds or COPs are consistent with the Guidelines adopted in 1990. The debt and annual payment obligations projected for 2006-07 are specified in Attachment I.

Reimbursement Resolution

In addition to adopting the proposed debt limits, we are requesting that your Board execute the attached Reimbursement Resolution, as approved by County Counsel, to comply with federal tax regulations governing the recovery of County capital costs from taxable and tax-exempt bond proceeds. Execution of the Resolution will enable the County to maximize reimbursement for costs related to the financing of equipment for various County departments.

Internal Revenue Service Requirements

In 1991, the Internal Revenue Service (IRS) introduced regulations governing the reimbursement of expenditures from bond or COP proceeds. In order to ensure the continued recovery of allowable expenditures which were related to equipment acquisitions, the regulations require your Board to adopt a Resolution which states the following:

- your Board's intention to finance expenditures related to equipment acquisitions;
- a statement that any such expenditures would be financed through a tax-exempt or taxable issuance of bonds or COPs;
- a qualitative description of the proposed project whose expenditures would be reimbursed from the proceeds of such an issue; and
- identification of the expected source(s) of funds which would initially pay for such expenditures and ultimately be utilized to repay the bond or COP obligation.

The attached Resolution meets IRS regulations and will allow for maximum reimbursement of County expenditures for equipment from future bond sales. Prior and current year costs have been included to allow reimbursement from a future bond sale. A description of the proposed equipment is attached for your review.

FISCAL IMPACT / FINANCING

Approval of the recommended actions will enable the County to finance ongoing equipment and capital needs. Funding for the repayment of BANs and debt service on intermediate and long-term obligations has been included in the Proposed 2006-07 Budget. Attachment II summarizes General County debt obligations as of July 1, 2006.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The attached Reimbursement Resolution has been approved by County Counsel.

IMPACT ON CURRENT SERVICES

The recommended action will ensure that the County's long-standing LAC-CAL Equipment Program continues.

CONCLUSION

Upon approval of the recommendations, please forward an adopted, stamped copy of the Board letter and an executed copy of the Reimbursement Resolution to my office.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer

DEJ:JSE
DJT:PB:zu

Attachments

c: County Counsel
Auditor-Controller
Treasurer and Tax Collector

Attachment I

County of Los Angeles
Debt Management Guidelines
Proposed 2006-07 Debt Limits

Obligation Type	Maximum Limits Per Guidelines	Levels in Final 2006-07 Budget
Total 2006-07 County Budget: $19,370,000,000		
I. Short-Term Obligations		
Limit on Principal Outstanding as a Percentage of Total County Budget		
a. Dollar Limits		
Outstanding LAC-CAL Bond Anticipation Notes (1)	$ 70,000,000	$ 10,000,000 (2)
Authorized LAC-CAL Acquisitions in 2005-06	--	18,836,000 (3)
Outstanding Tax-Exempt Commercial Paper (TECP): Health Facility Projects	47,500,000 (4)	2,500,000 (5)
Estimated TECP Issuance for Health Facility Projects in 2006-07	--	45,000,000
Total	$ 117,500,000	$ 76,336,000
b. Percent of Total County Budget	0.61%	0.39%
II. Publicly Offered Intermediate and Long-Term Obligations (6)		
Limits on Annual Payments as a Percentage of Total County Budget		
a. Dollar Limits (in millions)	$ 775,080,000	$ 540,964,748
b. Percent of Total County Budget	4.00%	2.79%
III. Privately Placed, Intermediate-Term Equipment Leases (7)		
Limits on Annual Payments as a Percentage of Total County Budget		
a. Dollar Limits (in millions)	$ 77,508,000	$ 21,434,861
b. Percent of Total County Budget	0.40%	0.11%

Notes:

(1) Reflects BANs issued by the LAC-CAL Corporation to the County Treasury Pool which are ultimately redeemed through the issuance of bonds or certificates of participation. Until redemption, interest payments are payable on a semi-annual basis.

(2) Reflects amount of LAC-CAL BANs outstanding as of 7/1/06.

(3) Reflects the value of acquisitions identified for lease-purchase financing through LAC-CAL in the Final 2005-06 Budget

(4) Reflects the TECP amount approved by the Board of Supervisors in this action to fund the 2006-07 anticipated project costs related to capital projects in the Health Facilities Capital Improvement special fund.

(5) Reflects the amount of tax-exempt commercial paper (TECP) for Health Facilities Projects that remains outstanding as of 07/01/06, all related to Harbor Hospital Seismic Retrofit (SB1953) project.

(6) Reflects 2006-07 payments due on intermediate and long-term obligations outstanding as of 7/1/2006.

(7) Reflects 2006-07 payments on various unrated, privately-placed equipment leases with maturities of 18 to 120 months.

GENERAL COUNTY DEBT OBLIGATIONS
SUMMARY SHEET
AS OF JULY 1, 2006

		Outstanding Principal	Total Future Payments	2006-07 Payments
I.	**Debt Summary**			
	a. Total Outstanding Principal	**$ 1,789,004,365**	**$ 0**	**$ 0**
	b. Total Future Payments	**0**	**3,425,079,120**	**0**
	c. Total 2005-06 Payments	**0**	**0**	**540,964,748**
II.	**Outstanding Debt By Type of Obligation**			
	a. General Obligation Bonds	$ 8,395,000	$ 9,056,106	$ 9,056,106
	b. Special Fund Obligations	0	0	0
	c. Pension Obligation Bonds/Certificates	737,087,396	1,813,471,950	381,235,406
	d. Long-Term Bonds/Certificates: Capital Projects	1,009,736,969	1,566,717,786	135,082,271
	e. Intermediate Term Bonds/Certificates	33,785,000	35,833,278	15,590,966
	Total	**$ 1,789,004,365**	**$ 3,425,079,120**	**$ 540,964,748**
III.	**Outstanding Debt by Function**			
	a. Public Safety	$ 652,163,007	$ 945,729,308	$ 88,361,226
	b. General Government	51,607,000	65,621,495	16,461,917
	c. Pension Bonds	738,237,396	1,814,699,406	382,657,162
	d. Health	173,521,981	211,608,254	32,041,302
	e. Culture and Recreation	114,114,980	308,369,970	12,115,970
	f. Other	59,360,000	79,050,684	9,327,170
	Total	**$ 1,789,004,365**	**$ 3,425,079,117**	**$ 540,964,748**
IV.	**Distribution of Obligations by Funding Source**			
	a. General Fund	$ 697,952,873	$ 1,315,289,942	$ 203,550,143
	b. Other Funds			
	General Obligation Bond Fund	$ 8,395,000	$ 9,056,106	$ 9,056,106
	Hospital Enterprise Funds	364,805,419	681,883,283	131,118,260
	Courthouse Construction Funds	371,625,194	607,939,597	34,614,761
	Special Districts/Special Funds	108,938,281	227,106,420	39,895,889
	Trial Court Trust Fund	37,888,503	93,217,899	19,596,644
	Subtotal	$ 891,652,397	$ 1,619,203,305	$ 234,281,660
	c. Private Funding (Endowments)	$ 0	$ 0	$ 0
	d. State and Federal Subvention	$ 199,399,094	$ 490,585,872	$ 103,132,946
	Total	**$ 1,789,004,365**	**$ 3,425,079,120**	**$ 540,964,748**

RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF LOS ANGELES DECLARING ITS INTENTION TO REIMBURSE CERTAIN CAPITAL EXPENDITURES FROM THE PROCEEDS OF TAXABLE OR TAX-EXEMPT OBLIGATIONS (2006-07 EQUIPMENT BANs PROGRAM)

WHEREAS, from time to time the County of Los Angeles (the "County") desires and intends to undertake the purchase of tangible personal property having a useful life of three years or more (the "Equipment"), as set forth in the schedule attached hereto; and

WHEREAS, no funds of the County or of any other entity which is a part of the controlled group of which the County is a part (the "Controlled Group") are, or are reasonably expected to be, allocated, reserved or otherwise set aside in the County's budget or in the Controlled Group's budget on a long-term basis to pay the costs of the Equipment; and

WHEREAS, the costs of the Equipment will initially be paid from the proceeds of Bond Anticipation Notes ("BANs") issued by the Los Angeles County Capital Asset Leasing Corporation ("LAC-CAL") and purchased by the Treasurer and Tax Collector of the County; and

WHEREAS, the costs of the Equipment paid with the proceeds of the BANs are expenditures of a type which are properly chargeable to a capital account under general federal income tax principles in connection with the Equipment, and

WHEREAS, the County expects to issue taxable or tax-exempt bonds, notes, or certificates of participation, or enter into a tax-exempt lease with a third-party lessor ("Obligations") to redeem the BANs and reimburse the capital expenditures of the County with respect to the Equipment which were paid with the proceeds of the BANs; and

WHEREAS, after issuance of the Obligations, the County will: (1) evidence the reimbursement allocation with an entry in the books or records which it maintains with respect to the Obligations, (2) identify in such entry the actual prior expenditure being reimbursed or the fund from which the expenditure was paid, and (3) be relieved of any restrictions under the relevant legal documents and applicable state law with respect to the amount received as reimbursement as a result of the reimbursement allocation; and

WHEREAS, this Resolution will be reasonably available for public inspection within a reasonable period of time after its date of adoption and in the same manner governing the public availability of records of other official acts of the County Board of Supervisors; and

WHEREAS, this Resolution is intended to be a "declaration of official intent" in accordance with Section 1.150-2 of the regulations of the United States Department of Treasury under the Internal Revenue Code of 1986, as amended
(the "Treasury Regulations");

NOW, THEREFORE, this Board does find, resolve, determine and order that in accordance with Section 1.150-2 of the Treasury Regulations, the County declares its intention to issue Obligations to finance the Equipment in an amount not to exceed $70,000,000, the proceeds of which will be used to reimburse the County for capital

expenditures paid for the Equipment prior to the issuance of said Obligations.

The foregoing resolution was on the _____ day of June, 2006 adopted by the Board of Supervisors of the County of Los Angeles and *ex-officio* the governing body of all other special assessment and taxing districts, agencies and authorities for which said Board so acts.

SACHI A. HAMAI, Executive Officer,
Board of Supervisors of the County
of Los Angeles

By _____
Deputy

APPROVED AS TO FORM:

RAYMOND G. FORTNER, JR.
COUNTY COUNSEL

By _____
Principal Deputy County Counsel