



MEMORANDUM

EXECUTIVE OFFICE, COUNTY OF RIVERSIDE

Bill Luna

County Executive Officer

Jay E. Orr

Assistant County Executive Officer

TO: Clerk of the Board

FROM: Christopher Hans, DAC Chair

DATE: February 23, 2011

RE: DAC Opinion of Items 3.36 and 4.2 and 5.1

Before the Board on March 1, 2011 for consideration and approval are four separate RDA bond issuances (See items 3.36 and 4.2 and 5.1). The items were reviewed at the Debt Advisory Committee (DAC) on Thursday, February 10. Per Board policy, unless the committee unanimously supports a proposal, the Board should be given an explanation of the minority opinion. A brief report from me as the committee's chair follows.

By a split vote (4 for, 1 against, and 1 abstention), the committee voted to send no recommendation to the Board regarding two of the 4 RDA bonds before the Board today. By a split vote (3 for, 2 against, and 1 abstention) the committee supported approval of the other two RDA bonds before the Board today.

As financial advisor, C.M. DeCrisis was hired by RDA both to provide logistical support and to identify potential risks. They provided a lengthy list of risks (see attached). The discussion of the risks led to a thorough debate which ultimately resulted in the split votes mentioned above.

Regarding the I215 and Desert Communities Bonds. 4-1 vote to forward no committee opinion.

As chair, I voted against this approach. Personally, I can't support the issuance of these bonds for three main reasons.

- First the margin of error is much smaller than for the other bonds. A fairly small (small in comparison to recent drops) decrease in property values would lead to bond default. This could potentially affect the bond rating on other RDA bonds.
- Second, these bonds will have poor ratings or no ratings at all and will be subordinate to existing bonds. This alone could potentially lower the ratings of existing RDA bonds.
- Additionally, all of the risks associated with the other two bonds – discussed below, and see attachment – apply to these bonds.

From the meeting's discussion, my opinion is that the other committee members agree with my position.

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Regarding the Jurupa Valley Bonds. 3-2 vote in favor.

Those in favor agreed:

- The worthy nature of the projects that would be built using proceeds was demonstrated
- The risks were significant
- The cash flow assumptions left enough cushion to make the risks tolerable

One dissenting opinion had the following main concern:

- The rushed process did not allow adequate time for review
- EDA financial data is integral in the CAFR. The credit rating services use CAFR to base credit ratings. This bond issuance could potentially impact the County's credit rating impacting future critical borrowing like the TRANS. (CAFR FY10 pgs. 31, 81-82, 120, 136).

The second dissenting opinion had several main concerns:

- The high expected borrowing costs – in the range of 7-9% are enough to warrant a delay
- There is a reasonable chance (should property values fall more than the projected 2%) that RDA would be unable to make debt service payments
- Issuing poorly rated bonds puts the County's reputation and credit rating at risk; though RDA is legally separate, the public and rating agencies might not see the distinction

Risks of Financing Program

- ▶ Legislative Risk and Possible Impact on Agency
- ▶ Subordinated Pass-Through Agreement Risks to Bond Program
- ▶ Rating Downgrades on Existing Bonds.
- ▶ High debt levels and associated Risk for Subordinated Pass Through Payments and Bond Debt Service
- ▶ High Interest Rates – tax allocation credit spreads to other bonds are high
- ▶ Bond Program has risk to future bonding flexibility if State budget proposal on RDAs fails to be enacted
- ▶ Headline Risk of Bond Program – Rushing to Market
- ▶ Risk that Bonds are sold but not closed