

**COUNTY OF SACRAMENTO  
CALIFORNIA**

For the Agenda of:  
June 9, 2009

To: Board of Supervisors

From: County Executive's Office

Subject: Report Back – Possibility of Restructuring County Debt

Supervisory  
District (s): All

Contact: Chris Marx, County Debt Officer; 874-5239

**BACKGROUND**

The Board asked staff to explore the possibility of restructuring County debt. County staff continually monitors restructuring options for cost savings and risk reduction opportunities for all County debt, including Certificates of Participation (COPs), Pension Obligation Bonds (POBs), Revenue Bonds and Community Facility District/Assessment Bonds.

**DISCUSSION**

County staff has been working on the following debt restructurings for the last several months:

- Taxable Pension Funding Bonds, Series 2004C-2; \$49,225,000; these bonds are being refunded before they convert to auction rate mode on July 10, 2009
- Airport System Revenue Bonds; Series 2008B and 2008E; \$351,655,000; American Recovery and Reinvestment Act created an opportunity for these bonds to be refunded as not being subject to the Alternative Minimum Tax (AMT), which generally carry a lower interest rate than these 2008B and 2008E bonds that were issued as subject to the AMT; these bonds are not callable, but staff has solicited voluntary tender of bonds from bondholders with the intention of issuing refunding bonds that are not subject to the AMT at a lower cost; the amount of the refunding will depend on the amount of bonds tendered and an analysis of the savings opportunity at the time of pricing

Within the last month, County staff analyzed the following debt issues that have callable maturities, and determined that cost savings are not obtainable:

- 1997 Certificates of Participation
- 1997 Refunding Certificates of Participation

The County has four interest rate swap agreements in place, whose function is to hedge against the interest rate risk inherent in our variable rate debt issues, and the value of these swap agreements is continually monitored. Currently the cumulative negative valuation of these swaps is approximately \$200 million, which means if the County were to terminate the swaps we would owe the swap providers this amount. If these valuations shift to a more even level or in favor of the County, we would analyze if the best course of action would be to terminate the swaps and refund the variable rate debt with fixed rate debt.

The current market environment remains challenging for municipal issuers, especially those with credit ratings below “AA” like the County. Staff will continue to monitor the financial markets and how that affects our debt portfolio, and will recommend appropriate action to the Board as necessary.

Respectfully submitted,

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LINDA FOSTER-HALL  
County Budget Officer

APPROVED:  
TERRY SCHUTTEN  
County Executive

By: \_\_\_\_\_  
NAVDEEP S. GILL  
Chief Operations Officer