LAW AND JUSTICE CENTER PRELIMINARY FINANCING ANALYSIS (SHERIFF ONLY)

AUGUST 15, 2023

Capitol | PFG

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Current Agency Locations

New Law & Justice Center Campus includes the subject agencies as well as the Juvenile Detention Facility, the new jail, and new courthouse

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SHERIFF'S OFFICE

TUOLUMNE COUNTY

TUOLUMNE SHERIFF EST. 1850 COUNTY

Capitol | PFG

August 7, 2023

EXECUTIVE SUMMARY

Preface

The purpose of this analysis is to provide the County of Tuolumne (County) with financing models that can be utilized to fund the Law and Justice Center projects. The models include utilizing Public Offerings; USDA Loans and Public Private Partnerships (P3). The general fund impact of the Public Offering and USDA Loan are summarized in Appendices A and B. The Public Offering can be used as a proxy for a P3 procurement model, and therefore is not represent by a stand-alone financing option. The Public Offering process is a quicker, more certain and flexible process compared to USDA. For purposes of this analysis, the Public Offering is estimated to fund in February 2024. The financing process with USDA requires an additional 12-15 month time line, and may also limit the available methods for project delivery.

Law & Justice Center Background

Development of the Law and Justice Center began in 2004. The following timeline highlights key milestones of the project.

- In 2004, the County hired TRG Consulting to conduct a County Organization Space Needs Study. The conclusion of the report listed the following three recommendations:
    - County Core Administrative /Finance Departments should be located in the downtown Sonora area
    - County Core Law and Justice Departments to move out of the downtown Sonra area to a newly created campus
    - Work towards getting out of rented office space and into County owned facilities
- In 2005, the County embarked on the task of finding suitable land for the creation of a Law and Justice Center Campus.
- In 2009, Tuolumne County purchased 48+ acres for the creation of this campus.
- In 2011, Off- Site Improvements were made to the Law and Justice Center Campus. A loop water system was installed; Internet infrastructure was brought down from Greenly Road; road improvements were made to Old Wards Ferry Road; and the first segment of Law and Justice Road was installed.
- In 2012, Tuolumne County sold 4 acres on the Law and Justice Center Campus to the State of California for the future home of the Tuolumne County Superior Court.
- In 2014 the County received SB 81 Juvenile Justice Grant funds for the creation of the Motherlode Regional Juvenile Detention Center. Construction on this facility was completed in 2016.

- In 2015, the County received AB900 and SB1022 Adult Detention Grant funds for the creation of the J.H. "Jack" Dambacher Detention Center. Construction commenced on this facility in 2020 and was completed in 2022.

- In 2016, Tuolumne County sold just under 1 acre on the Law and Justice Center Campus to the Tuolumne County Transit Authority. On this site they built the Regional Transportation Hub for the bus system in the County. The Transit Hub was completed in 2017. Also, as part of this construction contract, the County constructed the rest of Law and Justice Center Drive; installed the driveway to the future jail; and placed needed infrastructure in for the future jail facility.

- In 2021, the State of California built the Tuolumne County Superior County on the Law and Justice Campus. Construction of this facility was completed in 2022.

- In 2021, Lionakis was hired to conduct a Programming Study on the remaining vacant parcels on the Law and Justice Campus. An updated space needs study was conducted on the remaining Criminal Justice Departments. Besides the Criminal Justice Departments, this study also included the United States Forest Service Building needs. Four different design options and cost estimates were created for consideration by the County. This study was presented to the Board of Supervisors for review and consideration. At the conclusion of the presentation, the Board directed staff to hire a financial firm to assist us in analyzing our current finances; examining our debt and providing us funding options for the next phase of development for the Law and Justice Center Campus.

- In 2022, the County hired Capitol Public Finance Group to provide the County with a Financial Analysis for capital improvements projects, including the Law and Justice Center.

The Project

This financing analysis pertains to the construction of a 31,295 sq. ft. building to house the Tuolumne County Sherrif, segment A of Gardella Road and a radio tower. The assumed total project cost is $32.3 million which includes soft costs and construction costs. We are assuming a 24 month design and construction period.

In 2021, a Programing Study on the Justice Partners was conducted by Lionakis. In this study, Lionakis staff visited each of the Justice Partners current offices; talked to department staff on their operations; and analyzed space needs. Their report concluded the following:

Sheriff's Office Only- Staff/Space Needs		
Current Space Allocation	**2021 Staffing Level**	**Projected 2025 GSF**
22,576 sq. ft.	88 FTE	31,295 sq. ft.

- The project also includes 58 parking spaces which equates to 19,920 sq. ft.

Project costs have increased since the cost estimates in 2021. Lionakis has provided escalation factors to apply to the cost estimate. As shown below, estimated project costs have increased from $22.8 million to $32.3 million.

Project Cost Escalation						
Project Component	Original Total Cost	3/2021 - 3/2023 20%	Code Changes 5%	3/2023 - 3/2024 5%	3/2024 - 3/2025 5%	New Total Cost
Building Construction	$ 10,478,976	$ 2,095,795	$ 628,739	$ 660,175	$ 693,184	$ 14,556,870
Building Soft Costs	$ 3,720,034	$ 744,007	$ 223,202	$ 234,362	$ 246,080	$ 5,167,685
Gardella Ranch Road Construction	$ 4,124,731	$ 824,946	$ 247,484	$ 259,858	$ 272,851	$ 5,729,870
Gardella Ranch Road Soft Costs	$ 871,786	$ 174,357	$ 52,307	$ 54,923	$ 57,669	$ 1,211,042
Radio Tower	$ 3,500,000	$ 700,000	$ 210,000	$ 220,500	$ 231,525	$ 4,862,025
Sheriffs Furniture	$ 105,905	$ 21,181	$ 6,354	$ 6,672	$ 7,006	$ 147,118
Total	**$ 22,801,432**	**$4,560,286**	**$ 1,368,086**	**$ 1,436,490**	**$ 1,508,315**	**$ 31,674,609**
2% County Contingency						$ 633,492
Total with Contingency						**$ 32,308,101**

Note: USDA project costs are escalated for an additional 15 months.

Financing Scenarios

This analysis includes discussion on a Public Offering bond, a United States Department of Agriculture (USDA) loan and a Public Private Partnership (P3) program.

Tax consideration

The County has the ability to issue debt at low tax-exempt rates under certain conditions. For tax-exempt financings, the Internal Revenue Code restricts the amount of interest that can be earned on bond proceeds because they do not want bond issuers to abuse the difference between tax-exempt and taxable interest rates i.e., borrowing at a lower tax-exempt rate and reinvesting proceeds at a higher taxable rate or accumulating interest earnings on bond funds by not spending proceeds in a timely manner. As part of the financing documents, at the direction of tax counsel, the County would approve a Tax Certificate and Compliance Policies and Procedures that will aid in maintaining the tax-exempt status and enable the County to lawfully maximize investment earnings.

Sources of Repayment

The County's General Fund will be responsible for debt service. The County will need to identify revenues to pay debt service. Costs avoided can be applied towards debt service. The sheriff currently has annual rental payments of $128,000. The current Sheriff lease is through April 1, 2029. Sheriff rental cost avoided would be begin in May 1,2029.

PUBLIC OFFERING ANALYSIS

Sources and Uses of Funds

The Sources and Uses of Funds required to fund project costs of approximately $32.3 million, fund three years of Capitalized Interest and fund Costs of Issuance is approximately $37.4 million. The actual size of the bonds will reflect several factors that are currently estimated. These factors include original issue discount (OID) and interest earnings on the Project Construction Fund deposit. The interest earnings are shown in the Operation the Project Construction Fund table. The following table illustrates the Sources and Uses of Funds.

Sources & Uses	
Sources Of Funds	
Par Amount of Bonds	$37,420,000.00
Total Sources	**$37,420,000.00**
Uses Of Funds	
Original Issue Discount (OID)	839,958.65
Total Underwriter's Discount (0.650%)	243,230.00
Costs of Issuance	164,212.42
Gross Bond Insurance Premium (85.0 bp)	650,157.93
Surety Reserve	94,044.06
Deposit to Capitalized Interest (CIF) Fund	4,022,981.60
Deposit to Project Construction Fund	31,403,803.57
Rounding Amount	1,611.77
Total Uses	**$37,420,000.00**

In reviewing the Sources and Uses, there are several items to consider:

- Original Issue Discount - The OID is the difference in the amount of money the County will revieve in exchange for each principal maturity. The premium or discount is determined by market forces and results in a yield that reflects the costs of funds. The OID in the Sources and Uses is based on the Pricing Summary which shows an average coupon rate of approximately 4.5% in exchange for an OID of approximately $840,000.

- Capitalized Interest – Proceeds set aside to pay interest on the borrowing as it accrues during construction. For purposes of our analysis, we assume that the interest earnings rate on funds held in the capitalized interest fund will earn a rate of 3%.

Project Construction Fund Deposit

The bonds contemplate a Project Construction Fund deposit of $31.4 million to fund the Project. The Project Construction Fund deposit can be reduced by "net funding" the Project

Construction Fund. This means that the County can take interest earnings into account when calculating the required deposit to the Project Construction Fund.

For tax-exempt financings, the Internal Revenue Code restricts the amount of interest that can be earned on bond proceeds because they do not want bond issuers to abuse the difference between tax-exempt and taxable interest rates i.e., borrowing at a lower tax-exempt rate and reinvesting proceeds at a higher taxable rate or accumulating interest earnings on bond funds by not spending proceeds in a timely manner. As part of the financing documents, at the direction of tax counsel, the County would approve a Tax Certificate and Compliance Policies and Procedures that will aid in maintaining the tax-exempt status and enable the County to lawfully maximize investment earnings

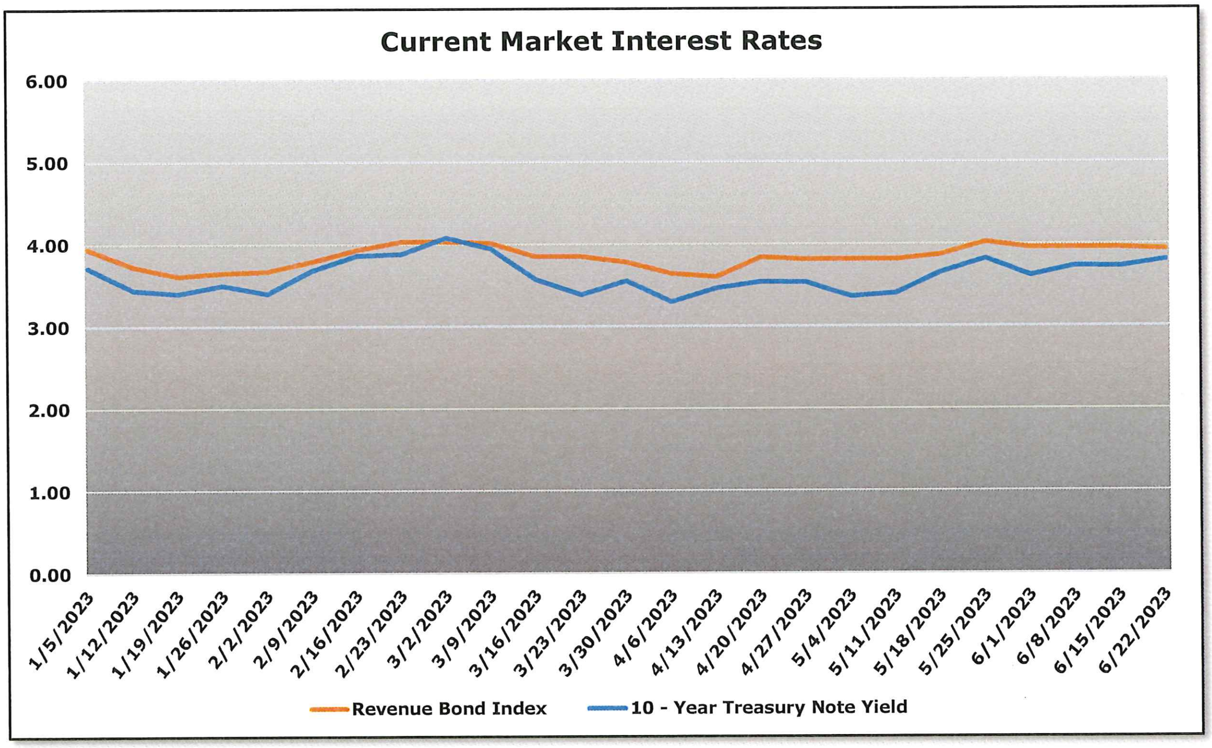
Based on assumed investment earnings, the amount required to be deposited in the Project Construction Fund is approximately $31.4 million. The investments in the Project Construction Fund are provided for illustration purposes. The actual investment strategy should be discussed and finalized prior to the day of sale to more accurately determine the borrowing amount.

The following table shows the Operation of Project Construction Fund. The Disbursement column matches the assumed expenditure schedule. The Project Construction Fund will distribute principal and interest earnings monthly to meet the expenditure schedule. The illustrated amount of interest earnings is approximately $900,000. Actual interest earnings will depend on the investment of the Project Fund and final expenditure schedule.

Operation Of Project Construction Fund				
Date	**Principal**	**Rate**	**Interest**	**Disbursements**
02/01/2024	1,346,171.00	3.00%	-	1,346,171.00
03/01/2024	1,271,492.30	3.00%	74,678.69	1,346,171.00
04/01/2024	1,274,651.35	3.00%	71,519.65	1,346,171.00
05/01/2024	1,277,818.24	3.00%	68,352.75	1,346,171.00
06/01/2024	1,280,993.00	3.00%	65,177.99	1,346,171.00
07/01/2024	1,284,175.65	3.00%	61,995.34	1,346,171.00
08/01/2024	1,287,366.20	3.00%	58,804.79	1,346,171.00
09/01/2024	1,290,564.69	3.00%	55,606.31	1,346,171.00
10/01/2024	1,293,771.12	3.00%	52,399.88	1,346,171.00
11/01/2024	1,296,985.51	3.00%	49,185.48	1,346,171.00
12/01/2024	1,300,207.90	3.00%	45,963.10	1,346,171.00
01/01/2025	1,303,438.28	3.00%	42,732.71	1,346,171.00
02/01/2025	1,306,676.70	3.00%	39,494.30	1,346,171.00
03/01/2025	1,309,923.16	3.00%	36,247.84	1,346,171.00
04/01/2025	1,313,177.69	3.00%	32,993.31	1,346,171.00
05/01/2025	1,316,440.30	3.00%	29,730.70	1,346,171.00
06/01/2025	1,319,711.01	3.00%	26,459.98	1,346,171.00
07/01/2025	1,322,989.86	3.00%	23,181.14	1,346,171.00
08/01/2025	1,326,276.85	3.00%	19,894.15	1,346,171.00
09/01/2025	1,329,572.00	3.00%	16,598.99	1,346,171.00
10/01/2025	1,332,875.35	3.00%	13,295.64	1,346,171.00
11/01/2025	1,336,186.90	3.00%	9,984.09	1,346,171.00
12/01/2025	1,339,506.68	3.00%	6,664.31	1,346,171.00
01/01/2026	1,342,831.70	3.00%	3,336.29	1,346,168.00
Total	**$31,403,803.44**		**$904,297.43**	**$32,308,101.00**

Interest Rates

Beginning in 2022, the United States Federal Reserve began increasing interest rates to tighten the money supply and curb inflation. The result has been an increase in the federal funds rate from 0.25% in March 2022 to a current rate of 5.5%. This has caused short term interest rates to be higher than longer term rates. For example, the current yield on the 1 month Treasury Bill is 5.112%. The United States Federal Reserve is expected to adjust interest rates until the inflation rate falls from 6.4% to around 2%. The inflation rate target may take a few years to achieve.



Source: The Bond Buyer
Note: The Revenue Bond Index consists of 25 various revenue bonds that mature in 30 years. The average rating is roughly equivalent to Moody's A1 and S&P's A-plus

Bond Pricing Assumptions

The interest rate costs of Public Offering bonds are determined by analyzing bonds of similar borrowing entities known as comparables. To analyze the cost of funds, we analyzed Public Offering comparables with the following characteristics:

- Assumed Credit Ratings – A3/A2 Moodys, AA-/AA Insured S&P
- Sector – Government
- Taxability – We assume the Public Offering financing will be a tax-exempt.
- Interest Rates - Primary Market and Secondary Trades between dealers during the period from May 19, 2023 to June 27, 2023, were utilized to determine the hypothetical

pricing. The actual interest is subject to market conditions until the interest rate(s) is "locked".

- New issue data comes from IPREO and Mergent. IPREO and Mergent provides primary market financial data to municipal market participants. All secondary trade data comes from trades reported to the Municipal Securities Rulemaking Board. Capitol PFG maintains a subscription to SOLVE, a financial technology software firm who receives the data and makes it available to Capitol PFG.

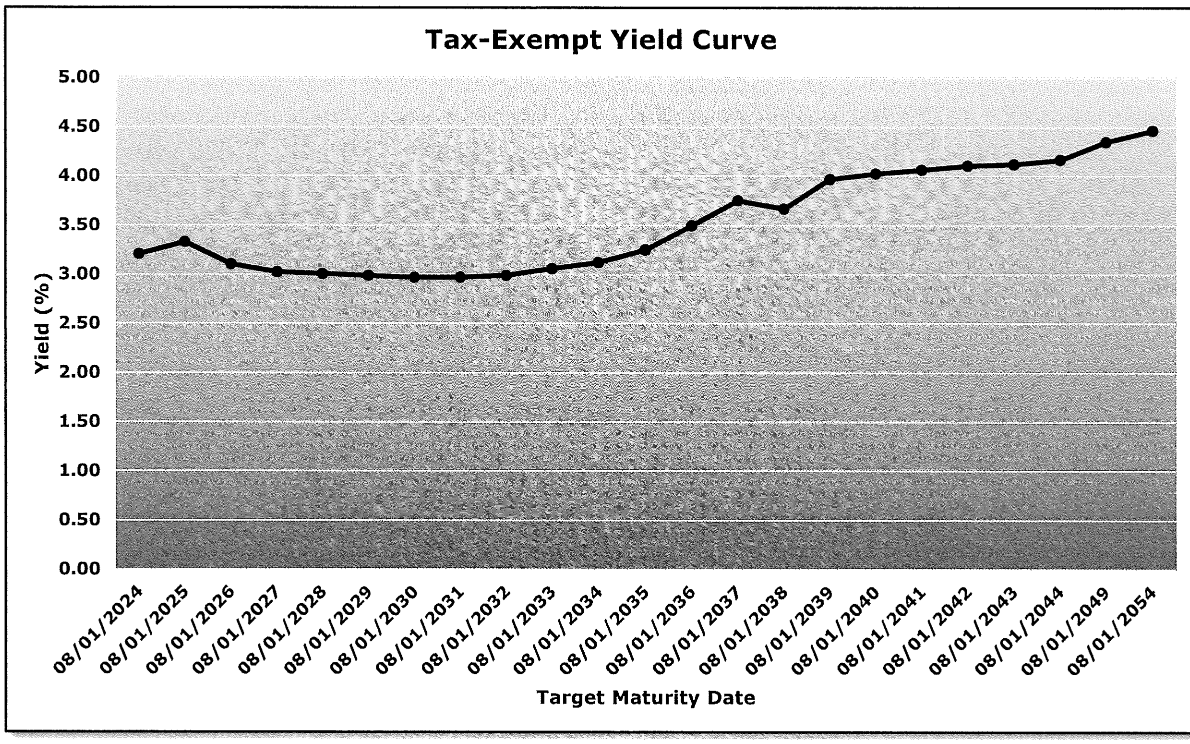
Comparable Financings - Tax-Exempt Bonds

Pricing Analysis:	Tuolumne County Tax-Exempt
Observation Between:	5/19/2023 and 6/27/2023 5:54 PM ET
Benchmark Curve:	ICE Muni AAA 6/27/2023 3:46 PM ET

Obligor	Issue Description	Trades	Sale Date	Offering Amount	Moody's	S&P	Fitch
Colusa County CA	COP Series 2023	66	5/24/2023	$10,000,000	-	AA	-
Mendocino County CA	COP Series 2022	1	9/15/2022	$20,855,000	-	AA-	-
Madera County CA	Lease Revenue Series 202020	2	7/22/2020	$35,830,000	-	AA	-
Central USD CA	COP Series 2019	1	7/24/2019	$16,695,000	A2	AA	-
San Jacinto USD CA	COP Series 2017	1	8/23/2017	$4,910,000	A2	AA	-
Pittsburg USD CA	COP Series 2017	4	8/16/2017	$18,270,000	A3	AA	-

Bond Pricing Curve

The Pricing Curve plots market yields on the above bonds for specified maturities at a given point in time. The vertical axis represents the yield while the horizontal axis depicts time to maturity. Under normal conditions, the yield curve ascends meaning that short term bonds have a lower interest rate than long term bonds. Because the federal reserve has increased the federal funds rate (i.e., the interest rate at which banks lend funds to each other overnight) from 0% in March 2022 to approximately 5.5%, and many investors anticipate a recession, interest rates are relatively high for short term bonds with interest rates sloping up in later years.



Bond Pricing Summary

Based on the Pricing Curve analysis of the comparables, plus an additional cushion of 0.35% has been added to the pricing curve to generate the following pricing summaries for the tax-exempt Public Offering Bonds. The 0.35% provides the County with a cushion in the event interest rates increase. The summary includes the assumed Coupon, the annual Yield for each maturity, the Dollar Price an investor pays to purchase the bond.

Pricing Summary						
Maturity	**Type of Bond**	**Coupon**	**Yield**	**Maturity Value**	**Price**	**Dollar Price**
08/01/2033	Serial Coupon	5.000%	3.408%	610,000.00	112.827%	688,244.70
08/01/2034	Serial Coupon	5.000%	3.471%	640,000.00	112.825%	722,080.00
08/01/2035	Serial Coupon	5.000%	3.599%	675,000.00	111.678%	753,826.50
08/01/2036	Serial Coupon	5.000%	3.845%	705,000.00	109.513%	772,066.65
08/01/2037	Serial Coupon	5.000%	4.102%	740,000.00	107.305%	794,057.00
08/01/2038	Serial Coupon	5.000%	4.016%	1,110,000.00	108.038%	1,199,221.80
08/01/2039	Serial Coupon	4.125%	4.319%	1,165,000.00	97.824%	1,139,649.60
08/01/2040	Serial Coupon	4.125%	4.372%	1,215,000.00	97.117%	1,179,971.55
08/01/2041	Serial Coupon	4.125%	4.413%	1,270,000.00	96.514%	1,225,727.80
08/01/2042	Serial Coupon	4.250%	4.455%	1,315,000.00	97.435%	1,281,270.25
08/01/2043	Serial Coupon	4.250%	4.469%	1,370,000.00	97.169%	1,331,215.30
08/01/2044	Serial Coupon	4.250%	4.514%	1,430,000.00	96.493%	1,379,849.90
08/01/2049	Term 1 Coupon	4.500%	4.696%	9,185,000.00	97.104%	8,919,002.40
08/01/2054	Term 2 Coupon	4.500%	4.813%	15,990,000.00	95.021%	15,193,857.90
Total				**$37,420,000.00**		**$36,580,041.35**

Annual Debt Service

The Annual Debt Service Schedule shows periodic principal and interest payments over the life of the bonds. The Annual Debt Service is reduced by the Capitalized Interest during the first three years.

Net Debt Service Schedule					
Period Ending	Principal	Interest	Total P+I	Capitalized Interest	Net Debt Service
08/01/2024	-	841,162.50	841,162.50	(841,162.50)	-
08/01/2025	-	1,682,325.00	1,682,325.00	(1,682,325.00)	-
08/01/2026	-	1,682,325.00	1,682,325.00	(1,682,325.00)	-
08/01/2027	-	1,682,325.00	1,682,325.00	-	1,682,325.00
08/01/2028	-	1,682,325.00	1,682,325.00	-	1,682,325.00
08/01/2029	-	1,682,325.00	1,682,325.00	-	1,682,325.00
08/01/2030	-	1,682,325.00	1,682,325.00	-	1,682,325.00
08/01/2031	-	1,682,325.00	1,682,325.00	-	1,682,325.00
08/01/2032	-	1,682,325.00	1,682,325.00	-	1,682,325.00
08/01/2033	610,000.00	1,682,325.00	2,292,325.00	-	2,292,325.00
08/01/2034	640,000.00	1,651,825.00	2,291,825.00	-	2,291,825.00
08/01/2035	675,000.00	1,619,825.00	2,294,825.00	-	2,294,825.00
08/01/2036	705,000.00	1,586,075.00	2,291,075.00	-	2,291,075.00
08/01/2037	740,000.00	1,550,825.00	2,290,825.00	-	2,290,825.00
08/01/2038	1,110,000.00	1,513,825.00	2,623,825.00	-	2,623,825.00
08/01/2039	1,165,000.00	1,458,325.00	2,623,325.00	-	2,623,325.00
08/01/2040	1,215,000.00	1,410,268.76	2,625,268.76	-	2,625,268.76
08/01/2041	1,270,000.00	1,360,150.00	2,630,150.00	-	2,630,150.00
08/01/2042	1,315,000.00	1,307,762.50	2,622,762.50	-	2,622,762.50
08/01/2043	1,370,000.00	1,251,875.00	2,621,875.00	-	2,621,875.00
08/01/2044	1,430,000.00	1,193,650.00	2,623,650.00	-	2,623,650.00
08/01/2045	1,495,000.00	1,132,875.00	2,627,875.00	-	2,627,875.00
08/01/2046	1,560,000.00	1,065,600.00	2,625,600.00	-	2,625,600.00
08/01/2047	1,635,000.00	995,400.00	2,630,400.00	-	2,630,400.00
08/01/2048	1,700,000.00	921,825.00	2,621,825.00	-	2,621,825.00
08/01/2049	2,795,000.00	845,325.00	3,640,325.00	-	3,640,325.00
08/01/2050	2,925,000.00	719,550.00	3,644,550.00	-	3,644,550.00
08/01/2051	3,055,000.00	587,925.00	3,642,925.00	-	3,642,925.00
08/01/2052	3,190,000.00	450,450.00	3,640,450.00	-	3,640,450.00
08/01/2053	3,335,000.00	306,900.00	3,641,900.00	-	3,641,900.00
08/01/2054	3,485,000.00	156,825.00	3,641,825.00	-	3,641,825.00
Total	**$37,420,000.00**	**$39,069,168.76**	**$76,489,168.76**	**(4,205,812.50)**	**$72,283,356.26**

Aggregate Annual Net Debt Service

The Aggregate Annual Debt Service Schedule combines annual net principal and interest payments of the County's existing debt obligations with Public Offering bonds over the life of the bonds.

Aggregate Net Debt Service					
Period Ending	**2014 Pension Obligation Bonds**	**2018 Lease Revenue Bonds**	**2018 Judgement Bonds**	**2024 Law and Justice Bonds**	**Aggregate Net Debt Service**
08/01/2025	706,120.00	1,366,900.00	336,653.13	-	2,409,673.13
08/01/2026	731,440.00	1,366,500.00	336,456.26	-	2,434,396.26
08/01/2027	758,960.00	1,364,900.00	335,846.88	1,682,325.00	4,142,031.88
08/01/2028	787,520.00	1,367,000.00	339,750.00	1,682,325.00	4,176,595.00
08/01/2029	816,000.00	1,014,900.00	338,150.00	1,682,325.00	3,851,375.00
08/01/2030	842,320.00	1,013,900.00	341,025.00	1,682,325.00	3,879,570.00
08/01/2031	866,480.00	1,014,875.00	338,187.50	1,682,325.00	3,901,867.50
08/01/2032	896,480.00	1,017,925.00	334,862.50	1,682,325.00	3,931,592.50
08/01/2033	-	1,015,081.25	336,131.25	2,292,325.00	3,643,537.50
08/01/2034	-	1,015,950.00	336,725.00	2,291,825.00	3,644,500.00
08/01/2035	-	1,015,406.25	331,893.75	2,294,825.00	3,642,125.00
08/01/2036	-	1,013,806.25	336,537.50	2,291,075.00	3,641,418.75
08/01/2037	-	1,016,025.00	335,568.75	2,290,825.00	3,642,418.75
08/01/2038	-	1,016,962.50	-	2,623,825.00	3,640,787.50
08/01/2039	-	1,017,025.00	-	2,623,325.00	3,640,350.00
08/01/2040	-	1,016,212.50	-	2,625,268.76	3,641,481.26
08/01/2041	-	1,014,525.00	-	2,630,150.00	3,644,675.00
08/01/2042	-	1,016,875.00	-	2,622,762.50	3,639,637.50
08/01/2043	-	1,018,175.00	-	2,621,875.00	3,640,050.00
08/01/2044	-	1,017,884.38	-	2,623,650.00	3,641,534.38
08/01/2045	-	1,015,984.38	-	2,627,875.00	3,643,859.38
08/01/2046	-	1,017,906.25	-	2,625,600.00	3,643,506.25
08/01/2047	-	1,013,650.00	-	2,630,400.00	3,644,050.00
08/01/2048	-	1,018,125.00	-	2,621,825.00	3,639,950.00
08/01/2049	-	-	-	3,640,325.00	3,640,325.00
08/01/2050	-	-	-	3,644,550.00	3,644,550.00
08/01/2051	-	-	-	3,642,925.00	3,642,925.00
08/01/2052	-	-	-	3,640,450.00	3,640,450.00
08/01/2053	-	-	-	3,641,900.00	3,641,900.00
08/01/2054	-	-	-	3,641,825.00	3,641,825.00
Total	**$6,405,320.00**	**$25,786,493.76**	**$4,377,787.52**	**$72,283,356.26**	**$108,852,957.54**

United States Department of Agriculture Loan Analysis

USDA Rural Development Loan Process

Local government agencies utilize USDA Rural Development loans for projects that are unable to get financing without the benefit of a 35–40 year loan at a low subsidized interest rate. The County must submit a pre-application to USDA to determine if the County is eligible for a USDA Loan.

The County should expect the USDA loan process to take up to 1 year from the time a pre-application is approved until USDA obligates funds. The project costs for the USDA loan includes an additional 15 months of escalation. Following the submittal of a formal application, USDA will issue a letter of conditions. Once funds are obligated, the County would be required to obtain interim financing for the construction loan.

The interim financing would have a three year term and include three year term of Capitalized Interest, a Project Construction Fund deposit and costs of issuance. The interim financing is repaid from the USDA take-out loan.

Interim Financing Sources and Uses of Funds

The Interim Financing Sources and Uses of Funds is sized to fund the project construction fund, fund three years of capitalized interest and pay cost of issuance. As shown below, based on current assumptions we estimate a interim financing loan size of approximately $39.2 million.

Sources & Uses	
Sources Of Funds	
Par Amount of Bonds	$39,230,000.00
Total Sources	**$39,230,000.00**
Uses Of Funds	
Total Underwriter's Discount (0.650%)	254,995.00
Costs of Issuance	166,096.42
Deposit to Capitalized Interest (CIF) Fund	5,419,890.83
Deposit to Project Construction Fund	33,386,168.80
Rounding Amount	2,848.95
Total Uses	**$39,230,000.00**

Interim Financing Annual Debt Service

The Annual Debt Service Schedule shows the interest payments over the life of the interim financing and the amount that will be rapaidfrom the USDA loan.

Net Debt Service Schedule					
Period Ending	Principal	Interest	Total P+I	Capitalized Interest	Net Debt Service
08/01/2024	-	-	-	-	-
08/01/2025	-	1,902,655.00	1,902,655.00	(1,902,655.00)	-
08/01/2026	-	1,902,655.00	1,902,655.00	(1,902,655.00)	-
08/01/2027	39,230,000.00	1,902,655.00	41,132,655.00	(1,902,655.00)	39,230,000.00
Total	**$39,230,000.00**	**$5,707,965.00**	**$44,937,965.00**	**(5,707,965.00)**	**$39,230,000.00**

Sources and Uses of Funds

The Sources and Uses of Funds of the USDA take out loan is sized to repay the construction loan and pay costs of issuance. The USDA take out loan does not include a discount or premium, capitalized interest or an underwriting discount. It does require a reserve fund that is gradually funded over ten years. As shown below, based on current assumptions we estimate a USDA take out loan size of approximately $39.4 million.

Sources & Uses	
Sources Of Funds	
Par Amount of Bonds	$39,430,000.00
Total Sources	**$39,430,000.00**
Uses Of Funds	
Costs of Issuance	200,000.00
Deposit to Project Construction Fund	39,230,000.00
Total Uses	**$39,430,000.00**

USDA Loan Interest Rate

USDA loan interest rates are set quarterly by Rural Development and are subject to change. For the purpose of this analysis we are assuming a fixed ineterst rate of 4.00%

Annual Debt Service

The Annual Debt Service Schedule shows periodic principal and interest payments over the life of the bonds. The first ten years of repayment include a reserve fund deposit. The reserve fund may be used to make the final payment of the USDA loan.

Net Debt Service Schedule					
Period Ending	Principal	Interest	Total P+I	Reserve Deposit	Net Debt Service
02/01/2027	-	-	-	-	-
02/01/2028	458,647.00	1,577,200.00	2,035,847.00	203,584.70	2,239,431.70
02/01/2029	476,992.00	1,558,854.12	2,035,846.12	203,584.62	2,239,430.74
02/01/2030	496,072.00	1,539,774.44	2,035,846.44	203,584.65	2,239,431.09
02/01/2031	515,915.00	1,519,931.56	2,035,846.56	203,584.66	2,239,431.22
02/01/2032	536,552.00	1,499,294.96	2,035,846.96	203,584.70	2,239,431.66
02/01/2033	558,014.00	1,477,832.88	2,035,846.88	203,584.69	2,239,431.57
02/01/2034	580,334.00	1,455,512.32	2,035,846.32	203,584.64	2,239,430.96
02/01/2035	603,548.00	1,432,298.96	2,035,846.96	203,584.70	2,239,431.66
02/01/2036	627,690.00	1,408,157.04	2,035,847.04	203,584.71	2,239,431.75
02/01/2037	652,797.00	1,383,049.44	2,035,846.44	203,584.65	2,239,431.09
02/01/2038	678,909.00	1,356,937.56	2,035,846.56	-	2,035,846.56
02/01/2039	706,065.00	1,329,781.20	2,035,846.20	-	2,035,846.20
02/01/2040	734,308.00	1,301,538.60	2,035,846.60	-	2,035,846.60
02/01/2041	763,680.00	1,272,166.28	2,035,846.28	-	2,035,846.28
02/01/2042	794,227.00	1,241,619.08	2,035,846.08	-	2,035,846.08
02/01/2043	825,997.00	1,209,850.00	2,035,847.00	-	2,035,847.00
02/01/2044	859,036.00	1,176,810.12	2,035,846.12	-	2,035,846.12
02/01/2045	893,398.00	1,142,448.68	2,035,846.68	-	2,035,846.68
02/01/2046	929,134.00	1,106,712.76	2,035,846.76	-	2,035,846.76
02/01/2047	966,299.00	1,069,547.40	2,035,846.40	-	2,035,846.40
02/01/2048	1,004,951.00	1,030,895.44	2,035,846.44	-	2,035,846.44
02/01/2049	1,045,149.00	990,697.40	2,035,846.40	-	2,035,846.40
02/01/2050	1,086,955.00	948,891.44	2,035,846.44	-	2,035,846.44
02/01/2051	1,130,433.00	905,413.24	2,035,846.24	-	2,035,846.24
02/01/2052	1,175,651.00	860,195.92	2,035,846.92	-	2,035,846.92
02/01/2053	1,222,677.00	813,169.88	2,035,846.88	-	2,035,846.88
02/01/2054	1,271,584.00	764,262.80	2,035,846.80	-	2,035,846.80
02/01/2055	1,322,447.00	713,399.44	2,035,846.44	-	2,035,846.44
02/01/2056	1,375,345.00	660,501.56	2,035,846.56	-	2,035,846.56
02/01/2057	1,430,359.00	605,487.76	2,035,846.76	-	2,035,846.76
02/01/2058	1,487,573.00	548,273.40	2,035,846.40	-	2,035,846.40
02/01/2059	1,547,076.00	488,770.48	2,035,846.48	-	2,035,846.48
02/01/2060	1,608,959.00	426,887.44	2,035,846.44	-	2,035,846.44
02/01/2061	1,673,317.00	362,529.08	2,035,846.08	-	2,035,846.08
02/01/2062	1,740,250.00	295,596.40	2,035,846.40	-	2,035,846.40
02/01/2063	1,809,860.00	225,986.40	2,035,846.40	-	2,035,846.40
02/01/2064	1,882,255.00	153,592.00	2,035,847.00	-	2,035,847.00
02/01/2065	1,957,545.00	78,301.80	2,035,846.80	(2,035,846.72)	0.08
Total	**$39,430,000.00**	**$37,932,169.28**	**$77,362,169.28**	**-**	**$77,362,169.28**

Aggregate Annual Net Debt Service

The Aggregate Annual Debt Service Schedule combines annual net principal and interest payments of the County's existing debt obligations with USDA loan over the life of the loan.

Aggregate Net Debt Service					
Period Ending	2014 Pension Obligation Bonds	2018 Lease Revenue Bonds	2018 Judgement Bonds	2024 Law and Justice Bonds	Aggregate Net Debt Service
02/01/2025	107,060.00	1,063,400.00	287,075.00	-	1,457,535.00
02/01/2026	696,280.00	1,382,000.00	339,156.26	-	2,417,436.26
02/01/2027	720,700.00	1,381,000.00	338,756.26	-	2,440,456.26
02/01/2028	747,240.00	1,383,800.00	342,937.50	2,239,431.70	4,713,409.20
02/01/2029	774,760.00	1,025,200.00	341,562.50	2,239,430.74	4,380,953.24
02/01/2030	802,160.00	1,024,600.00	344,737.50	2,239,431.09	4,410,928.59
02/01/2031	827,400.00	1,023,200.00	342,312.50	2,239,431.22	4,432,343.72
02/01/2032	850,480.00	1,026,550.00	339,062.50	2,239,431.66	4,455,524.16
02/01/2033	879,240.00	1,024,300.00	340,662.50	2,239,431.57	4,483,634.07
02/01/2034	-	1,025,862.50	341,600.00	2,239,430.96	3,606,893.46
02/01/2035	-	1,026,037.50	336,850.00	2,239,431.66	3,602,319.16
02/01/2036	-	1,024,775.00	341,937.50	2,239,431.75	3,606,144.25
02/01/2037	-	1,027,837.50	341,137.50	2,239,431.09	3,608,406.09
02/01/2038	-	1,029,212.50	-	2,035,846.56	3,065,059.06
02/01/2039	-	1,029,712.50	-	2,035,846.20	3,065,558.70
02/01/2040	-	1,029,337.50	-	2,035,846.60	3,065,184.10
02/01/2041	-	1,028,087.50	-	2,035,846.28	3,063,933.78
02/01/2042	-	1,030,962.50	-	2,035,846.08	3,066,808.58
02/01/2043	-	1,032,787.50	-	2,035,847.00	3,068,634.50
02/01/2044	-	1,033,562.50	-	2,035,846.12	3,069,408.62
02/01/2045	-	1,032,206.26	-	2,035,846.68	3,068,052.94
02/01/2046	-	1,034,762.50	-	2,035,846.76	3,070,609.26
02/01/2047	-	1,031,050.00	-	2,035,846.40	3,066,896.40
02/01/2048	-	1,036,250.00	-	2,035,846.44	3,072,096.44
02/01/2049	-	-	-	2,035,846.40	2,035,846.40
02/01/2050	-	-	-	2,035,846.44	2,035,846.44
02/01/2051	-	-	-	2,035,846.24	2,035,846.24
02/01/2052	-	-	-	2,035,846.92	2,035,846.92
02/01/2053	-	-	-	2,035,846.88	2,035,846.88
02/01/2054	-	-	-	2,035,846.80	2,035,846.80
02/01/2055	-	-	-	2,035,846.44	2,035,846.44
02/01/2056	-	-	-	2,035,846.56	2,035,846.56
02/01/2057	-	-	-	2,035,846.76	2,035,846.76
02/01/2058	-	-	-	2,035,846.40	2,035,846.40
02/01/2059	-	-	-	2,035,846.48	2,035,846.48
02/01/2060	-	-	-	2,035,846.44	2,035,846.44
02/01/2061	-	-	-	2,035,846.08	2,035,846.08
02/01/2062	-	-	-	2,035,846.40	2,035,846.40
02/01/2063	-	-	-	2,035,846.40	2,035,846.40
02/01/2064	-	-	-	2,035,847.00	2,035,847.00
02/01/2065	-	-	-	-	2,035,846.80
Total	$6,405,320.00	$25,786,493.76	$4,377,787.52	$77,362,169.20	$115,967,617.28

PUBLIC PRIVATE PARTNERSHIP ANALYSIS

Overview

Public Private Partnerships are a flexible tool that enable County's and private business to collaborate on public projects. In a Public Private Partnership, the public agency retains ownership of the asset or enterprise, oversight of the operations and management of the asset and controls the amount of private involvement. Through P3 agreements, the public sector can set the parameters and expectations for the partnership and the private sector may perform functions such as design, build, finance, and operate public infrastructure. In the case of Privatization, there can be a shift of government activities from a public agency to the private sector. The scope of the partnership is based on the strengths of the public agency and the private partner.

According to "Questions for Public Agencies Considering Public-Private Partnerships" a 2008 report published by the California Debt and Investment Advisory Commission, "projects that exhibit the following characteristics may be well suited for a partnership:

- The project will result in cost savings (construction and/or operational costs) from private sector involvement with the project.
- The project presents an identifiable commercial opportunity, where the cost of the service or project can be recovered through user fees.
- The project cannot be provided with existing public resources or expertise.
- The project or service provides an opportunity for innovation. The project is not a core government function and is receptive to private involvement."

As well as being practically suited for a P3, a project must also be financially feasible. A private partner may provide the initial funding for capital improvements, but there must also be a form of repayment.

In the case of the County, the source of repayment is the general fund and all legally available funds. Unfortunately, this project does not generate fees, federal reimbursements (e.g., HHS) and/or tax increment, that more easily lend themselves to a Public Private Partnership. The project does not present an identifiable commercial opportunity and is not a natural fit with private involvement.

The County may consider potential benefits, if any, of using a P3 to design/build and finance the Project. Currently, the County is considering various construction delivery methods including design/bid/build and design/build. The construction delivery methods can be adapted to the P3 model based on an analysis of the project team and the County's desire to streamline the delivery process. The County can provide its own financing for the project or add a financing component to the partnership utilizing a 63-20 Non-Profit Corporation.

63-20 Financing

A financing component would likely be similar to the County's 2018 issuance of Lease Revenue Bonds with CMFA, and would include the following:

- The County would execute a ground lease for up to 35 years with a non-profit development entity such as a 63-20 Non-Profit Corporation.
- The development entity would leaseback the site to the County for rental payments
- The leaseback agreement with the third party development entity would secure funding for the project.
- At expiration of the leaseback or prepayment of the financing by the County, title to the project would transfer to the County.
- The Project would not be subject to real estate taxes
- In the event of default by the County, bondholders would sue for rent due and/or sublet until payments have been made.

Financial Risks and Benefits

The most effective way for transferring project risk and financial risk is for the County to identify a partner that has the financial capacity to finance the project for the County. The project can either be owned by the private company with the County paying rent or the County can own the project through a lease back transaction. Either scenario requires that County to service debt and operate the project.

In addition, the private partner will expect to earn a "reasonable" rate of return on their investment that equates to the amount of financial risk the private partner is assuming. A higher rate of return would be expected if the private partner utilizes its balance sheet to secure and pay off the financing. The financial institution will want legal covenants to ensure that the private partner will make loan payments in the event of default by the public agency. They will also want to have confidence that the public agency can make timely payments. Thus, even with a public-private partnership, the County's financial management, credit rating and financial strength will be essential for securing reasonable financing terms.

It is unlikely that there is financial cost savings associated with financing the project based on the financial capacity of a private company because they will want a premium for putting their financial capacity and credit at risk. Moreover, in the current interest rate environment, lending requirements for banks are relatively expensive as compared to interest rates available in the capital markets.

Similar to the County's issuance of Lease Revenue Bonds, the County can procure financing through the capital markets with the assistance of a development company using a Non-Profit Corporation or JPA. This would add also cost to what would otherwise be traditional municipal financing. The real value is the transfer of financial risk from the County to the private partner. The costs and financial feasibility of the transfer of risk would need to be determined on a case by case basis and vetted by legal counsel.

Operating Lease Treated as a Capital Lease

After 2021, the benefits of P3s have diminished. Under GASB 87, is a relatively new accounting standard issued by the Government Accounting Standards Board. It is effective for reporting periods after June 15, 2021. Under GASB 87, the accounting treatment of a finance lease is similar to a capital lease. Accordingly, lease obligations under a conduit financing structure will now be reflected as liabilities and assets on the statement of financial position.

Sale and Lease-Back Opportunities

Under a sale-and-leaseback arrangement, property owned by a county is sold to a private partner and leased back for county use. In 2022, Kings County sold a 48,000 square foot, vacant hospital to a development group for approximately $100,000. The development group remodeled the hospital and leased back to the County to establish a "one-stop" health and human services center serving behavioral health, specialty mental health, recovery oriented services, mental health, Calworks employment and training and housing and support services. The lease has an initial term of 25 years with three 5 year options for renewal, and includes the option to purchase the building after 10 years at a fair market value equivalent to the appraised value at the time of purchase. The lease amount starts at $102,885 per month ($2.35 per square foot), and increases annually by 2%. The project is subject to prevailing wage. Since this facility houses Health and Human Services (HHS), we believe that the rent will be paid through the County's A-87 rental reimbursement.

P3s for Health and Human Service Buildings

Prior to 2021, rental reimbursement for HHS facilities was more favorable under an operating lease structure than a capital lease. The Handbook of Cost Plan Procedures for California Counties, published by the California State Controller's Office, December 2021, allows the County to obtain federal reimbursement to offset the annual lease and operating costs of HHS buildings, including capital improvements. Prior to 2021, the Federal government allowed a straight line depreciation reimbursement allowance of 2% per year for 40 years to cover a portion of debt repayment on a capital lease financing. The limitation on capital lease reimbursement caused some counties to utilize an operating lease to cover annual rental payments. Under current guidelines, County owned facilities may use straight line depreciation to reimburse itself for financing the building acquisition and improvements through a capital lease, including costs of issuance and interest expense. We believe the 2% cap is no longer required, which removes the incentive to acquire HHS buildings through an operating lease. We will confirm the cost reimbursement rules with the State Controller's Office to confirm current reimbursement procedures.

Use of P3s

P3s are best suited for revenue generating infrastructure such as hospitals, HHS facilities, wastewater treatment plants, toll roads and parking lots to name a few examples. A private partner can obtain financing based on the revenue of the enterprise rather than a general fund budget. A revenue generating enterprise becomes the basis of the lending requirements and allows the enterprise to absorb the costs and on-going responsibilities of maintaining the loan.

The source(s) of rent/loan repayment for the Law and Justice Center is the General Fund. The project does not have an identifiable opportunity where the cost of the project can be recoved through fees. Therefore, a P3 does not seem to be applicable. However, the County could potentially benefit by a sale/leaseback opportunity that involves the sale and leaseback of the hospital to a private developer. If the County were to obtain a significant price for the hospital, then proceeds from the sale could be applied to the Law and Justice Center.

Based on the Kings County example, however, it appears that Kings County received $100,000, which likely went to cover the County's cost in arranging the transaction.

With a P3 involving rental payments from the general fund, the County would likely bear certain on-going commitments:

- Debt repayment
- Continuing disclosure requirements
- Credit rating maintenance
- Booked as debt on County financial statements
- Prevailing wage

In summary, in the event the County determines to move forward with the project based on the public offering parameters described in this report, it can further examine the use of a P3 as a method of procurement.

APPENDIX A: SHERIFF ONLY POTENTIAL GENERAL FUND IMPACT

Potential Impact on General Fund			
Fiscal Year	Public Offering Net Debt Service	USDA Loan Net Debt Service	Difference
2028	1,682,325.00	2,239,431.70	557,106.70
2029	1,682,325.00	2,239,430.74	557,105.74
2030	1,682,325.00	2,239,431.09	557,106.09
2031	1,682,325.00	2,239,431.22	557,106.22
2032	1,682,325.00	2,239,431.66	557,106.66
2033	1,682,325.00	2,239,431.57	557,106.57
2034	2,292,325.00	2,239,430.96	(52,894.04)
2035	2,291,825.00	2,239,431.66	(52,393.34)
2036	2,294,825.00	2,239,431.75	(55,393.25)
2037	2,291,075.00	2,239,431.09	(51,643.91)
2038	2,290,825.00	2,035,846.56	(254,978.44)
2039	2,623,825.00	2,035,846.20	(587,978.80)
2040	2,623,325.00	2,035,846.60	(587,478.40)
2041	2,625,268.76	2,035,846.28	(589,422.48)
2042	2,630,150.00	2,035,846.08	(594,303.92)
2043	2,622,762.50	2,035,847.00	(586,915.50)
2044	2,621,875.00	2,035,846.12	(586,028.88)
2045	2,623,650.00	2,035,846.68	(587,803.32)
2046	2,627,875.00	2,035,846.76	(592,028.24)
2047	2,625,600.00	2,035,846.40	(589,753.60)
2048	2,630,400.00	2,035,846.44	(594,553.56)
2049	2,621,825.00	2,035,846.40	(585,978.60)
2050	3,640,325.00	2,035,846.44	(1,604,478.56)
2051	3,644,550.00	2,035,846.24	(1,608,703.76)
2052	3,642,925.00	2,035,846.92	(1,607,078.08)
2053	3,640,450.00	2,035,846.88	(1,604,603.12)
2054	3,641,900.00	2,035,846.80	(1,606,053.20)
2055	3,641,825.00	2,035,846.44	(1,605,978.56)
2056		2,035,846.56	2,035,846.56
2057		2,035,846.76	2,035,846.76
2058		2,035,846.40	2,035,846.40
2059		2,035,846.48	2,035,846.48
2060		2,035,846.44	2,035,846.44
2061		2,035,846.08	2,035,846.08
2062		2,035,846.40	2,035,846.40
2063		2,035,846.40	2,035,846.40
2064		2,035,847.00	2,035,847.00
Total	**72,283,356.26**	**77,362,169.20**	**5,078,812.94**

APPENDIX B: SHERIFF AND USFS POTENTIAL GENERAL FUND IMPACT

Potential Impact on General Fund			
Fiscal Year	Public Offering Net Debt Service	USDA Loan Net Debt Service	Difference
2028	3,471,221.66	4,016,833.70	545,612.04
2029	3,429,063.66	4,016,834.06	587,770.40
2030	3,749,063.66	4,016,834.10	267,770.44
2031	3,720,340.46	4,016,834.23	296,493.77
2032	3,702,162.06	4,016,834.72	314,672.66
2033	3,669,222.36	4,016,834.50	347,612.14
2034	4,566,947.16	4,016,834.45	(550,112.71)
2035	4,565,641.86	4,016,833.92	(548,807.94)
2036	4,569,648.26	4,016,833.97	(552,814.29)
2037	4,568,225.06	4,016,833.88	(551,391.18)
2038	4,566,349.86	3,651,667.68	(914,682.18)
2039	4,903,660.36	3,651,667.72	(1,251,992.64)
2040	4,903,955.70	3,651,667.36	(1,252,288.34)
2041	4,905,347.20	3,651,667.68	(1,253,679.52)
2042	4,907,270.10	3,651,667.60	(1,255,602.50)
2043	4,903,667.46	3,651,667.84	(1,251,999.62)
2044	4,898,859.26	3,651,667.72	(1,247,191.54)
2045	4,901,484.60	3,651,667.08	(1,249,817.52)
2046	4,903,550.00	3,651,667.12	(1,251,882.88)
2047	4,900,350.00	3,651,667.20	(1,248,682.80)
2048	4,906,300.00	3,651,667.76	(1,254,632.24)
2049	4,900,725.00	3,651,667.12	(1,249,057.88)
2050	5,918,850.00	3,651,667.40	(2,267,182.60)
2051	5,919,325.00	3,651,667.20	(2,267,657.80)
2052	5,920,575.00	3,651,667.56	(2,268,907.44)
2053	5,917,150.00	3,651,667.68	(2,265,482.32)
2054	5,918,825.00	3,651,667.80	(2,267,157.20)
2055	5,919,925.00	3,651,667.96	(2,268,257.04)
2056		3,651,667.80	3,651,667.80
2057		3,651,667.36	3,651,667.36
2058		3,651,667.84	3,651,667.84
2059		3,651,667.32	3,651,667.32
2060		3,651,667.64	3,651,667.64
2061		3,651,667.00	3,651,667.00
2062		3,651,667.84	3,651,667.84
2063		3,651,667.40	3,651,667.40
2064		3,651,667.64	3,651,667.64
Total	**134,027,705.74**	**138,763,364.85**	**4,735,659.11**

APPENDIX C: DEFINITIONS

Bond – A generic name of a debt security issued by local governments. These can be general obligation bonds, revenue bonds, lease agreements, notes, and other types of debt instruments. For purposes of our analysis, we are analyzing a long term, fixed interest rate bond.

Call Date – The date the issuer may prepay its bonds prior to the scheduled maturity. Standard practice in the municipal markets is a limitation on the ability to prepay bonds during the first 10 years. Earlier prepayment dates can be negotiated subject to a prepayment penalty, which may be in the form of a higher interest rate.

Costs of Issuance – The expenses associated with the sale of bonds such as legal fees, consulting fees, rating fees and other costs necessary to implement the financing.

Coupon – The annual rate of interest payable on a bond expressed as a percentage of the principal amount.

Credit Rating - An independent appraisal of the creditworthiness of the issuer and/or the bonds to be issued. The rating reflects the issuers' willingness and ability to repay the bonds. Investment grade credit ratings are based on a descending letter scale with AAA being the highest, then AA, A, and BBB. The ratings may be modified by a number (1,2 or 3) or by a + or -.

Dollar Price -The amount of money an investor pays to purchase the bond. At issuance, the dollar price is the bond's face or par value.

Par value or the principal amount of bonds

Premium – The amount by which the price paid for a bond exceeds its par value.

Price – The amount paid for a bond expressed as a percentage of par value.

Primary Market - A source of new securities. Often on an exchange, it's where companies, governments, and other groups go to obtain financing through debt-based or equity-based securities. Primary Markets are facilitated by underwriting groups consisting of investment banks that set a beginning price range for a given security and oversee its sale to investors.

Privatization – Refers to any shift of government activities or functions from a public agency to the private sector.

Project Construction Fund – Contains monies that are available to pay for construction. For purposes of our analysis, we assume that the interest earnings rate on funds held in the Project Construction Fund will be 3.00%. We are estimating a 24 month construction period with expenditures spent evenly.

We have net funded the Project Construction Fund to account for interest earnings during the construction period. If bond proceeds are invested above the bond yield, interest earnings must be rebated to the federal government unless there is a spending exception. Further, 85% of the bond proceeds should be spent within 3 years of the borrowing.

Public Offering – an offering of bonds in the primary market. We were not able to locate any tribal bonds that were sold through the primary markets. This greatly limits are ability to understand the market for tribal bonds as very little public information is available.

Public-Private Partnerships - arrangements in which a governmental unit engages a private party to deliver an integrated solution for the design, construction, financing, operation and/or management of new or existing government owned infrastructure projects.

Reserve Fund – A reserve fund may be utilized to strengthen the credit of the bonds by funding an amount that can be used to cover a bond payment. The Internal Revenue Service allows tax-exempt borrowers to fund a debt service reserve fund in an amount that does not exceed the lesser of 10% of the amount of bonds; the maximum annual debt service on the bonds, or 125% of average annual debt service on the bonds. We assume that the reserve fund requirement of the public offering will be funded with a surety reserve bond.

Secondary Market - Where investors buy and sell securities. Trades take place on the secondary market between other investors and traders rather than from the companies that issue the securities. People typically associate the secondary market with the stock market. National exchanges, such as the New York Stock Exchange (NYSE) and the NASDAQ, are secondary markets. The secondary market is where securities are traded after they are put up for sale on the primary market.

Tax Certificate – A document signed at the time of bond closing which describes the various funds associated with the bonds and the rebate requirements expected to be associated with each.

Underwriting Discount – The compensation given to the underwriter for selling the bonds. It is expressed at $ per $1,000 of the bond. For the purposes of our analysis, we are assuming an underwriting discount of $6.50 per bond. The actual underwriting discount should be negotiated based on complexity, size, maturity date, type of debt issued and proposed bond terms.

Yield – The annual rate of return on an investment, based on the purchase price, interest rate and length of time the investment is held.

Yield to Maturity (YTM) - Refers to the total return anticipated on a bond if the bond is held until it matures. Yield to Maturity is considered a long-term bond yield but is expressed as an annual rate. In other words, it is the internal rate of return of an investment in a bond if the investor holds the bond until maturity, with all payments made as scheduled and reinvested at the same rate.