MEMORANDUM

DATE February 8, 2018

TO Measure A Steering Committee

FROM Los Angeles County Regional Park and Open Space District

SUBJECT Use of Category 3 and 4 Funds - Bonding

The potential for bonding Measure A funds was explored at Steering Committee Meeting #4, on September 28th. The discussion at that meeting resulted in the recommendation to allow local jurisdictions to bond against Category 1 and Category 2 annual allocations and against agency allocations in Categories 3 and 4, in order to make funds available for large projects. Bonding against General Category 3 and 4 competitive grant funds was not recommended, since the Committee felt that adequate funding could be made available during every grant cycle on a "pay as you go basis," and avoidance of bonding would save interest and bond origination costs.[1] The memorandum that was prepared for Meeting #4, "Use of Measure A Funds – Bonding," is attached here for your reference. It provided background information on bonding.

Based on feedback received at Steering Committee Meeting #6, held on January 11, 2018, the Committee decided to reopen the question of bonding against General Category 3 and 4 funds. This memorandum explores the potential implications of such bonding.

As you review the information in this memo, please keep in mind that the use of bonded funds must comply with the following requirements:

1. Bonded funds must be spent on capital improvements, although up to 30% of funds can be dedicated to "soft costs."
2. All projects using bonded funds must be identified prior to the issuance of the bond.
3. All bond funds must be expended within three years of bond issuance.

1. Financial Implications of Bonding

The total amount of funding available in General Category 3 is approximately $5 million annually, and the amount in General Category 4 is approximately $6 million annually. Bonding these funds, or a portion of these funds, would create a relatively larger pool of funds for immediate expenditure, but would reduce the funds available for regular grant cycles during the bonding period.

[1] It is not possible to bond against funds in Category 5, or those targeted for maintenance and servicing or oversight and innovation, since those are all programs. Bonding can only be used for capital projects.

The likely financial implications of bonding a portion of General Category 3 and Category 4 funds are evaluated below and in Table 1 and Figure 1 under five scenarios. All scenarios assume the following:

- As described in the "Use of Measure A Funds – Bonding" memorandum, the most efficient use of bonding is a minimum of $100 million in proceeds. Therefore, in scenarios where less than $100 million of General Category 3 and 4 funds are bonded, it is assumed that this will be supplemented by bonding of Category 1 and 2 funds to reach $100 million.
- A 20-year maturity is assumed for all scenarios. Bonds are sometimes issued for 25 or 30 years, which results in more upfront money but a longer period for repayment and hence a longer period when funds are not available for other uses.
- The financing cost of bonding is calculated using a multiplier of 14.2 times the total amount bonded, as described in section 4.1 of the "Use of Measure A Funds – Bonding Memo." Even though it would take 20 years' worth of funds to pay off the bonds, our research shows that only 14.2 times as much money as the annual repayment would be generated. The difference between these two amounts (amounting to about 29% of the total cash stream) would cover financing costs, which include the costs of issuance, underwriter's discount, and interest payments.

The five scenarios illustrate the implications of bonding different amounts of General Category 3 and 4 funds and are briefly described below:

- Scenario A - no bonding of General Category 3 and 4 funds.
- Scenario B – limited bonding of General Category 3 and 4 funds, with an expenditure of $2 million per year to finance the bonds.
- Scenario C – bonding half of General Category 3 and 4 funds, with an expenditure of $5.5 million per year to finance the bonds.
- Scenario D – bonding to result in $100 million proceeds of General Category 3 and 4 funds, which requires and expenditure of approximately $7 million per year to finance the bonds.[2]
- Scenario E – bonding all of General Category 3 and 4 funds, with an expenditure of $11 million per year to finance the bonds.

For each scenario, the graphics illustrate the amount of bond proceeds and unencumbered funds available, if any. In scenarios with available unencumbered funds, those funds would be available on a four-year cycle, as described in the Competitive Grants Calendar shared previously. Appendix A explains in words the meaning of Table 1 and Figure 1.

Increasing the amount of bonded General Category 3 and 4 funds results in a greater amount of funds available upfront for acquisition projects and projects that are "shovel-ready" when the bonds are issued, as well as for leveraging other grant funds. At the same time, increasing the amount of bonded funds reduces the unencumbered funds available during competitive grant cycles for projects not included in the bond.

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[2] The $100 million bond volume is a guideline for illustrative purposes, and the determination of exactly how much to bond will depend on a variety of factors such as the readiness of the projects, bond market conditions, etc.

2. KEY CONSIDERATIONS FOR BONDING GENERAL CATEGORY 3 AND 4 FUNDS

Bonding General Category 3 and 4 funds would create a source of funds for immediate use on capital projects, while reducing the amount of funds available in subsequent competitive grants cycles and the total amount of funds available for projects over the life of the bonds. The following implications should be considered when discussing the potential for bonding General Category 3 and 4 funds.

1. Bonded funds could be used as matching funds for several anticipated and existing parks and open space funding programs at the federal, state, and local levels. It is anticipated that many of these grant programs will require matching funds, which could be provided by Measure A. Appendix B contains a list of some such funding programs.
2. Using bonded funds for projects may provide a cost benefit, as construction and acquisition costs tend to increase over time. Bonded funds could be used immediately, while costs are relatively low, instead of requiring waiting until funds are accumulated for expenditure on a "pay as you go" basis, at which time construction costs are likely to have risen.
3. While using bonded funds would result in the completion of many projects within a relatively short timeframe, increasing the amount of bonded funds would reduce the total amount of Measure A funds available, and would also reduce the amount of funds available in on-going grant cycles.
4. Because bonded funds must be expended within three years of bond issuance, only "shovel-ready" projects could generally be included in the bond. Agencies without "shovel-ready" projects when the bonds are issued would have to compete for a decreased amount of unencumbered funding (if any is available) over the life of the bond.
5. Many agencies without "shovel-ready" projects may need technical assistance to build capacity and develop their projects, a process which could take several years and may not be complete prior to the issuance of bonds.

Table 1: General Category 3 & 4 Bonding Scenarios

		Scenario 1 No Bonding	Scenario 2 Limited Bonding	Scenario 3 Bonding of 50%	Scenario 4 Bonding of $100M	Scenario 5 Bonding of 100%
Bonded Funds	**Annual**					
	General Category 3 Debt Service	$0	$1,000,000	$3,074,904	$3,841,229	$6,149,809
	General Category 4 Debt Service	$0	$1,000,000	$2,458,254	$3,201,024	$4,916,507
	Total Debt Service	**$0**	**$2,000,000**	**$5,533,158**	**$7,042,254**	**$11,066,316**
	Every 20 Years					
	General Category 3 Debt Service	$0	$20,000,000	$61,498,089	$76,824,584	$122,996,178
	General Category 4 Debt Service	$0	$20,000,000	$49,165,074	$64,020,487	$98,330,148
	Total Debt Service	**$0**	**$40,000,000**	**$110,663,163**	**$140,845,070**	**$221,326,326**
	Total Bond Proceeds	**$0**	**$28,400,000**	**$78,570,846**	**$100,000,000**	**$157,141,692**
	Total Bond Financing Cost	**$0**	**$11,600,000**	**$32,092,317**	**$40,845,070**	**$64,184,635**
Unencumbered Funds	**Annual**					
	Unencumbered General Category 3 Funds	$6,149,809	$5,149,809	$3,074,904	$2,308,580	$0
	Unencumbered General Category 4 Funds	$4,916,507	$3,916,507	$2,458,254	$1,715,483	$0
	Total Unencumbered Funds	**$11,066,316**	**$9,066,316**	**$5,533,158**	**$4,024,063**	**$0**
	Every 4 Years					
	Unencumbered General Category 3 Funds	$24,599,236	$20,599,236	$12,299,618	$9,234,319	$0
	Unencumbered General Category 4 Funds	$19,666,030	$15,666,030	$9,833,015	$6,861,932	$0
	Total Unencumbered Funds	**$44,265,265**	**$36,265,265**	**$22,132,633**	**$16,096,251**	**$0**
	Every 20 Years					
	Unencumbered General Category 3 Funds	$122,996,178	$102,996,178	$61,498,089	$46,171,594	$0
	Unencumbered General Category 4 Funds	$98,330,148	$78,330,148	$49,165,074	$34,309,662	$0
	Total Unencumbered Funds	**$221,326,326**	**$181,326,326**	**$110,663,163**	**$80,481,256**	**$0**

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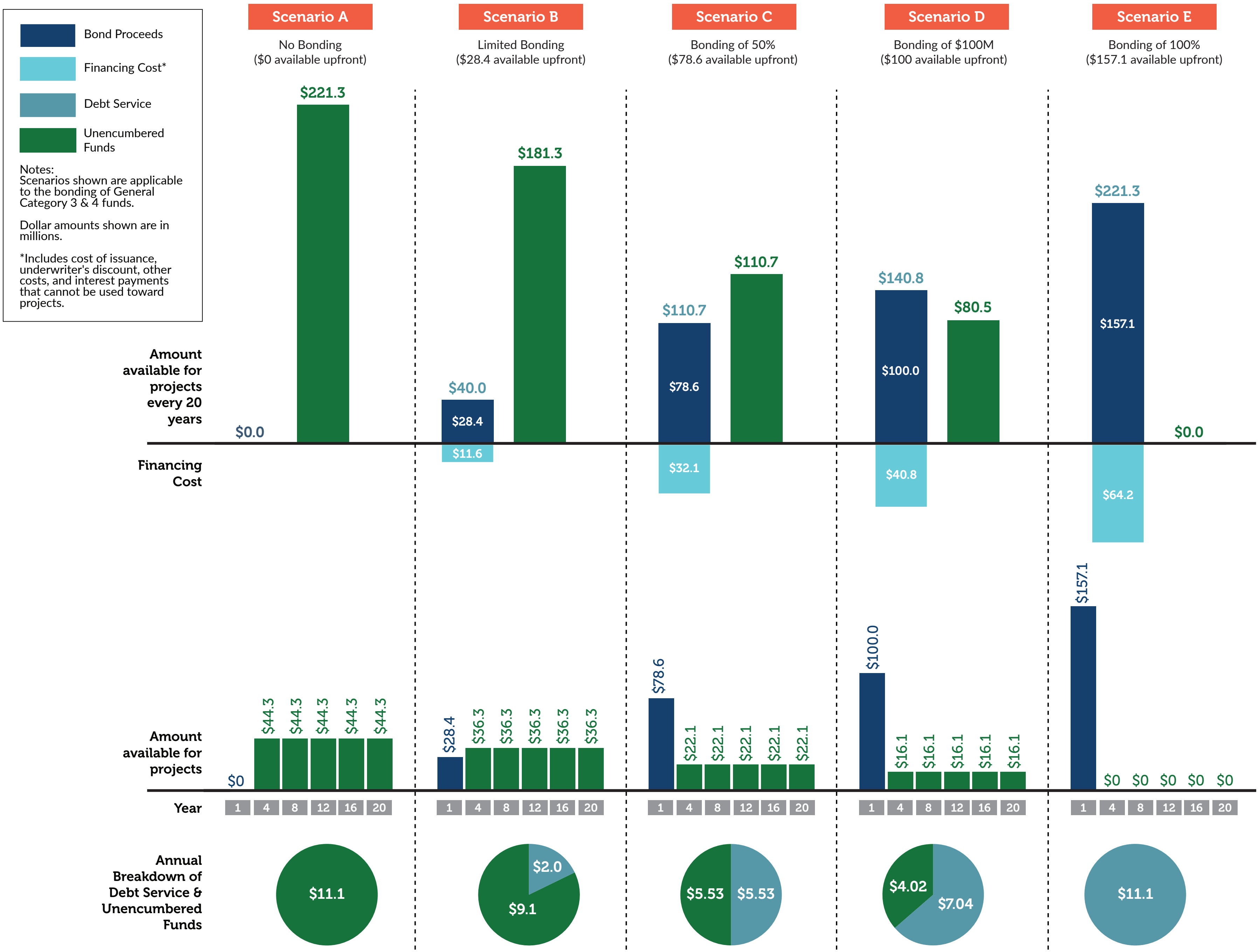
Figure 1: General Category 3 & 4 Bonding Scenarios



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Appendix A: Explanation of Table 1 and Figure 1

Table 1 and Figure 1 show the same information for each of the five scenarios.

Scenario A

- Scenario A would not dedicate any Category 3 or 4 funds to bond funding.
- Scenario A would leave just over $11 million per year in unencumbered General Category 3 and 4 bonds, which would provide $44.3 million for competitive grants of every four years.

Scenario B:

- Scenario B would dedicate $2 million per year to bond funding, resulting in total cash flow of $40 million over 20 years.
- Of this $40 million, $28.4 million would be available in bond proceeds, while $11.6 million would go toward financing costs.
- After bonding, Scenario B would leave just over $9 million per year in unencumbered General Category 3 and 4 funds, providing $36.3 million for competitive grants every four years.

Scenario C

- Scenario C would dedicate just over $5.5 million per year to bond funding, resulting in total cash flow of $110.7 million over 20 years.
- Of this $110.7 million, $78.6 million would be available in bond proceeds, while $32.1 million would go toward financing costs.
- After bonding, Scenario C would leave just over $5.5 million per year in unencumbered General Category 3 and 4 funds, providing $22.1 million for competitive grants every four years.

Scenario D

- Scenario D would dedicate just over $7 million per year to bond funding, resulting in total cash flow of $140.8 million over 20 years.
- Of this $140.8 million, $100 million would be available in bond proceeds, while $40.8 million would go toward financing costs.
- After bonding, Scenario D would leave just over $4 million per year in unencumbered General Category 3 and 4 funds, providing $16.1 million for competitive grants every four years.

Scenario E

- Scenario E would dedicate all General Category 3 and 4 funds (just over $11 million per year) to bond funding, resulting in total cash flow of $221.3 million over 20 years.
- Of this $221.3 million, $157.1 million would be available in bond proceeds, while $64.2 million would go toward financing costs.
- Scenario E has no unencumbered General Category 3 and 4 funds, and there would not be any General Category 3 and 4 competitive grants during the 20 year bonding period.

APPENDIX B: SAMPLE OF FUNDING SOURCES WITH POTENTIAL TO USE MEASURE A AS MATCHING FUNDS

The funding sources listed below provide a sample of the programs that could be used to leverage Measure A funds**.**

California Senate Bill No. 5
Senate Bill No.5 (SB 5), the California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Act of 2018, would authorize the issuance of approximately $4 billion in bonds to finance a "drought, water, parks, climate, coastal protection, and outdoor access for all program." SB 5 was approved by Governor Brown on October 15, 2017 and will be on the June 5, 2018 statewide primary ballot as Proposition 68.

The General Provisions of SB 5 state that "To the extent practicable, priority for funding pursuant to this division will be given to local parks projects that have obtained all required permits and entitlements and a commitment of matching funds, if required." Programs included under SB-5 provide more specific guidelines for matching funds.

Land and Water Conservation Fund
Since 1964, The Land and Water Conservation Fund (LWCF) has directed earnings from offshore oil and gas leasing to federal, state, and local lands and waters. LWCF's "State Side" program provides matching grants to states and local governments for the acquisition and development of public outdoor recreation areas and facilities. LWCF grants require matched funds of at least 50 percent.
Although the LWCF will expire on September 30, 2018 unless Congress takes action, legislation has been introduced in Congress to permanently reauthorize LCWF and it is feasible that this program will continue with some modifications.

LA Metro Measure M
The recently passed Measure M, resulting in $120 billion for transit improvements, includes funds for trails and other projects that could use Measure A funds as matching funds. The amount of funds available for park and trail projects, and requirements for matching funds are not currently known.

Habitat Conservation Fund
The Habitat Conservation Fund is a program under the California Wildlife Protection Act of 1990 that provides grants to "to protect fish, wildlife, and native plant resources, to acquire or develop wildlife corridors and trails, and to provide for nature interpretation programs and other programs which bring urban residents into park and wildlife areas." The Fund allocates approximately $2 million on an annual basis to local entities, and requires matching funds of 50 percent.

Environmental Enhancement and Mitigation Program
The Environmental Enhancement and Mitigation Program is for projects that mitigate the environmental effects of transportation facilities. The state legislature is authorized to allocate up to $7 million annually for this program. Applicants are not required to have matching funds, but projects with matching funds will be considered more competitive.

California Climate Investments – Urban Greening Program
The California Climate Investments' Urban Greening Program is a program under SB 859, which was signed into law September, 2016 and authorized Cap and Trade revenues to be directed towards

projects that reduce GHG emissions. The California Natural Resources Agency manages the Urban Greening Program, allocating appropriations towards green infrastructure projects that reduce GHG emissions and provide multiple benefits. Through Fiscal Year 2017-2018, $106 million Cap-and-Trade proceeds had been appropriated to the Urban Greening Program. While matched funds are not required for projects seeking grants under this program, projects with matched funds may be more competitive. Round Two is currently open, and additional funding cycles are anticipated.