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Published July 17th, 2013

## Certificates of Participation to Fund Road Repairs

*By Sophie Braccini*

The recent rise in interest rates is not good news for Moraga's roads; it means the town will raise less money for its road repair program, but not enough less for the Moraga Town Council to reverse its decision to borrow money against the revenue stream generated by the 1 percent local sales tax that went into effect this spring. After considering the legal and financial factors of the transaction, the Moraga Town Council voted July 10 to issue Certificates of Participation (COPs), a lease-leaseback transaction commonly used by municipalities, to leverage \$600,000 of yearly revenue from the sales tax. Stifel, Nicolaus & Company was hired by the town as the underwriter of an operation that will produce approximately \$7.5 million, depending on the interest rate at the time of the transaction.

"It is estimated that the 1 percent sales tax revenue passed last November by Moraga voters will bring about \$1 million to the town per year," said Eileen Gallagher of Stifel, Nicolaus & Company during her presentation to the Town Council. "We believe it's prudent to leverage no more than \$600,000 of that revenue; that will give you a security cushion and leave funds available for pay-as-you-go projects."

The lease-leaseback mechanism used to leverage the revenue stream consists of leasing town assets to ABAG (Association of Bay Area Governments) for a nominal amount; then the town rents the assets back from ABAG with value amortized over time. ABAG will assign its rights to lease payments to a trustee, Wilmington Trust, that will actively negotiate the COPs; investors will purchase the COPs.

Gallagher indicated that COPs are seen by investors as providing weaker security. To balance that effect, she recommended that the town choose some of its most important assets as collateral for the lease; Moraga's AA+ rating would also be seen as a favorable element.

"A Town Hall is perceived as a stronger asset than a park or a gymnasium," said Gallagher. The town has to produce \$10 million in assets to guarantee the revenue stream - the choice was to use the Hacienda de las Flores, valued at \$8.25 million, the Town Hall at 329 Rheem Boulevard, valued at \$2.5 million but already leveraged, 331 Rheem (the town's corporation yard) and the library if needed.

Gallagher recommended that the town proceed quickly because of the present volatility of the interest rates. "The 10-year Treasury rate rose from a 2013 low of 1.66 percent to 2.68 percent today," she said. The Federal Reserve's announcement to start tapering its active market intervention is increasing the volatility of the markets. She anticipates that the range of the net funds the town should receive will be between \$7.1 and \$7.7 million.

What's the timeline? The Town Council approved the issuance of COPs on July 10; ABAG should approve its participation July 22; so the pricing and marketing of the COPs should be done in late July, for a closing in mid-August.

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