

Fresno County Opens Doors to “Hall of Hope” New Juvenile Justice Center Sets a New Standard in Public Finance and Design

By Vicki Crow, C.P.A., and David Leifer

In the heart of California’s Central Valley, a new Juvenile Justice Center has opened to overwhelming praise from all segments, including prisoner rights advocates, law enforcement officers, local government, the media, and the general public. The \$144-million facility represents the largest capital expenditure in Fresno County’s history and is a model campus devoted to educating and housing some of the most vulnerable citizens: incarcerated youth. This is a story of how committed government officials and financial advisors can work as a team to develop innovative financial strategies for public works projects that bring new hope for generations to come.

“The design of this new facility and the County’s ability to obtain bond financing for the project have served the community well,” said Linda Penner, Chief Probation Officer of Fresno County. “In terms of safety and security for our students, staff, and the community, we believe we’ll be the prototype for new juvenile justice facilities to come.”

Historical Background: The “Hall of Shame”

Fresno County’s Juvenile Hall was the subject of a local newspaper exposé published in 2002 entitled, “Hall of Shame.” The article called the hall “an overcrowded maze of crumbling cells and dingy dorms,” unable to protect the 300 boys and girls in its custody. The facilities were so small that students only received the state minimum of four hours of schooling and one hour of outdoors recreation each day. Sometimes, three to five youths were crowded into cells designed for just one occupant because there was no room for expansion at the site. According to Bart Bohn, the County’s Administrative Officer, “The Fresno Bee wrote an accurate but devastating story about the old juvenile hall. It was 50 years old, horribly obsolete, and totally inadequate for the inmate population.”

Rather than settle for a quick-fix at the old location, Fresno County government officials and a blue ribbon panel of community members teamed to develop plans for an entirely new facility. Known for their support of a strong, sound justice system, the community sought a solution that could meet expanded needs and address the juvenile detention population until 2050. The new facility was designed by KMD Architects, national experts in justice-related design, and expanded the local model of 40 acres for new public schools to one requiring at least 160 acres for the new Juvenile Justice Center.

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“The committee and County officials sent a message to the juvenile offenders and their family and friends that we would do whatever we could to help make these kids productive citizens,” said Bohn.

Fresno County’s search for a site ended when a 220-acre agricultural site, located at an interchange on California Freeway 99 and less than ten minutes from downtown Fresno, came on the market in 2001. By moving outside the City of Fresno’s current urbanized area, the County found a location more than adequate for the new Juvenile Justice Center, with ample space to add additional County facilities or non-profit organizations. Fresno County officials began working with their financial advisors to explore financing options for the new facility.

Innovative \$146 Million Financing Plan Works in Lockstep with Construction Plan

The new Juvenile Justice Center was made possible by an innovative \$146 million funding plan developed by Fresno County under the guidance of the County’s Municipal Finance Advisor, David Leifer, and his California Counties team at KNN Public Finance (KNN), who have served as advisor to the County since 1993.

Four different funding sources paved the way for the three-bid construction package (see Illustration 1), including a grant from the California State Bureau of Corrections, proceeds from the securitization of tobacco settlement revenues, proceeds from the County’s first-ever issuance of lease revenue bonds, and cash from the County coffers. The County and KNN coordinated their financing efforts over the course of several years to move in lockstep with the construction bid process, providing a seamless stream of income to fund the project.

It is important to note that Fresno County had never in its 145-year history borrowed money to fund a capital project prior to the Juvenile Justice Center. The County’s Board of Supervisors had a long-established conservative fiscal policy that relied on “cash in hand” to fund public works projects. This philosophy had greatly constrained the County’s ability to provide its constituents with new facilities in the past.

“In 2002, new members brought new thinking to the Board of Supervisors regarding fiscal management,” says Bohn. “The conditions were right for change. The new Juvenile Justice Center had the support of the media, the general population, and prominent community members in law enforcement and social services. This support allowed the Board of Supervisors to move forward and approve the project’s revolutionary financing.”

The County’s first step in successfully financing the new facility was obtaining an incentive grant valued at \$24 million from the California Board of Corrections. With those funds in hand, the

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County purchased the 220-acre site and began preparation for construction in May 2002. The next funding step would prove to be the most complex.

Tobacco Settlement Asset-Backed Bonds were a relatively new phenomenon in government finance in 2002. Pursuant to a nation-wide settlement of litigation initiated by State and local governments, tobacco companies were forced to reimburse local governments for health-related costs resulting from the cancer-causing agents of their products based on a complicated formula tied to the consumption of tobacco in the United States. In California, all 58 counties and 4 cities share in the tobacco settlement revenues (TSRs) based on their relative population shares.

Many long-term risks were associated with this new revenue stream, including the potential for declining cigarette sales and consumption, future litigation that may impose significant penalties on the tobacco industry, insolvency of the tobacco industry in part or whole, and potential legislative actions restricting the use of the revenues. By issuing Tobacco Settlement Asset-Backed Bonds, Fresno County seized the opportunity to receive a lump-sum cash payment “up front” and shift the above-mentioned risks to the bond purchasers.

In July 2002, KNN assisted the County in issuing approximately \$93 million of tax-exempt Tobacco Bonds, successfully entering the market just before the narrow window of investor interest in these unique financial products faded. After exhaustive analysis of alternative approaches, the County’s staff and Board settled on a novel approach which securitized 75% of the County’s Tobacco Settlement Revenues. This left the County in a position to continue to receive a 25% share of its TSRs to help pay the costs of operating the Juvenile Justice Campus once it opens.

The Bonds were structured as accelerated amortization (TURBO) bonds with a final planned maturity of 2038 and achieved ratings of ‘A’ from Standard & Poor’s and ‘A1’ from Moody’s Investors Service. If tobacco revenues continue to be received as expected, the Bonds will be paid off 16 years early, by 2022, and the County will then receive 100% of its tobacco revenues thereafter. However, if there is a disruption in the relatively risky revenue stream, the County’s general fund will not be responsible to pay the bonds.

Because the bonds use tobacco settlement revenues as their sole source of repayment, this portion of the funding plan is not considered debt for the County. Thus, the net proceeds were devoted to Phase 2 of construction without impacting the County’s debt load. The 240-bed commitment dormitories, 240-bed detention facility, and core administration buildings began to rise from the dust at the site.

“Use of the tobacco funds as a resource to build the Juvenile Justice Center was an innovative solution because it allowed the Board of Supervisors to fund an urgent need while keeping the costs at a

minimum for our community members,” said Phil Larson, Chairman of the Fresno County Board of Supervisors.

Now the time had come for Fresno County to review various long-term debt options for funding the remaining capital costs. After extensive analysis by KNN, the County elected to proceed with its first-ever issuance of Lease Revenue Bonds. The County pledged its North Annex Jail as security for the bonds throughout the construction period to minimize issuance costs; thereafter, the Juvenile Justice Center itself would serve as security for the bonds. KNN prepared members of Fresno County’s administrative and financial team to make presentations to rating agencies and bond insurers for the lease revenue bonds in December 2003. Standard & Poor’s assigned a very favorable rating of “A,” despite a downturn in the economy and several years of State budgetary deficits, because of the County’s sound financial and budgetary management and low debt burden.

In 2003, interest rates were at historic lows, as the Federal Reserve Board worked to improve the nation’s economic outlook. However, it became evident in early 2004 that interest rates were gradually rising. KNN helped the County maintain an aggressive financing schedule, despite a last-minute challenge to construction bids, and the County Board of Supervisors approved the sale of \$26 million in Lease Revenue Bonds. The County elected to sell the bonds by way of a competitive sale, as it does for the majority of its financings, and KNN arranged a series of pre-sale calls and meetings among County officials and key institutional buyers of California municipal bonds. The result was a successful sale. A total of five underwriting syndicates submitted aggressive bids for the County’s bonds, with the difference between the winning bid and the runner-up a mere 0.0115%. On February 4, 2004, Fidelity Capital Markets was awarded the Lease Revenue Bonds at an extremely low interest cost of 3.96%.

The final piece of the financial structure for the Juvenile Justice Center was Fresno County’s \$19.7 million in cash reserves and \$500,000 in interest earnings. Total project financing amounted to \$146 million, with less than 18 percent of the entire budget regarded as long-term debt.

“When you look at the total debt service for the County, the Juvenile Justice Center project is barely recognizable. We’re in very good financial shape,” said Bohn. “For this project to be successful, two key factors were necessary. First, we needed the local support of our citizens for this project. Second, we needed the financial coordination of the Auditor/Controller’s office, the Administrator’s Office, and KNN. KNN was in constant contact with us and our whole team was devoted personally to making this complex financing system a success. We received all the support we needed to fund the new Juvenile Justice Center.”

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A New Hall of Hope

Today, the Juvenile Justice Center stands as a beacon in the struggle to reduce juvenile crime recidivism. There is not another facility on the West Coast that equals Fresno County's in scope. The new Center is five times larger than the old juvenile hall and can house nearly twice as many teens. Quarters are organized in dorm-like clusters and many youths have private rooms.

Classrooms and outdoor recreation areas abound on the rural campus and a full-day of academics are offered. A non-profit organization called Focus Forward now offers arts, writing, and yoga classes to the Center's students. Vocational training courses such as welding, graphics, emergency services, and carpentry are emphasized as opportunities to provide youths with the skills to succeed upon graduation from the Center.

"This is a hall of hope and I believe that hope extends to the community," said Probation Chief Penner. "It has been a morale boost for everyone to make the move."

Vicki Crow, C.P.A., has served as Fresno County's Auditor Controller/Treasurer Tax Collector for the past four years. Visit <http://www.co.fresno.ca.us/0410/default.htm> for Crow's contact information. David Leifer is Managing Director of KNN Public Finance, a leading municipal finance advisory firm to California counties and other local agencies. Learn more about KNN Public Finance's capabilities at www.knninc.com.

Construction Milestone	Financing Timeline
<p>Phase 1 (2002): Purchase of Land and Site Preparation (including Road Systems, Utilities and Construction of Central Utilities Plant, Warehouse, Laundry and Maintenance Facilities)</p> <p>Cost: \$48,047,331</p>	<p>May 2002: County Receives a \$24,100,000 Grant from the State Board of Corrections</p>
<p>Phase 2 (2003-2005): Construction of 240-Bed Commitment Facility, 240-Bed Detention Facility, and Core Administration Building</p> <p>Cost: \$87,290,959</p>	<p>July 2002: County Securitizes \$1,000,000 in Tobacco Settlement Revenues. \$75,700,000 Is Earmarked for Construction of Juvenile Justice Center; Remainder to Fund Maintenance and Operation Costs for the Facility</p>
<p>Phase 3 (2006): Construction of Wastewater Treatment Plant</p> <p>Cost: \$4,935,738</p>	<p>February 2004: Sale of \$26,000,000 in Lease Revenue Bonds</p>
<p>July 2006: New Juvenile Justice Center Opens for 330 Juveniles</p>	<p>July 2006: Complete Financing of Juvenile Justice Facility with \$19,700,000 in Cash and \$500,000 in Interest Earnings</p>
<p>Overall Project Budget: \$140,274,028</p>	<p>Project Financing: \$146,000,000</p>

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