



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



DATE: April 28, 2014
BOARD MEETING DATE: May 6, 2014
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: John L. Maltbie, County Manager

SUBJECT: Resolution releasing the Maguire Addition from the 1993 Facility Lease and the 1993 Site Lease and replacing with County Office Building One (455 County Center, Redwood City, CA)

RECOMMENDATION:

Adopt a Resolution authorizing the forms of and directing the execution and delivery of a First Amendment to 1993 Facility Lease; a First Amendment to 1993 Site Lease; and authorizing the taking of necessary actions and execution of necessary documents in connection therewith.

BACKGROUND:

In December 2013 the County was awarded an SB1022 construction grant of \$24,374,000 from the Board of State and Community Corrections (BSCC) for adding rehabilitative programming space to the Maguire Correctional Facility ("Maguire"). The proposals were ranked according to how closely they met the requirements of AB 109's landmark reform mandate to house and rehabilitate non-serious, non-violent, non-sexual offenders in their communities. Under this program, the State provides the funds by borrowing against the facility being improved. As a result, Maguire must be unencumbered from a debt perspective in order to receive the grant.

DISCUSSION:

Currently, the 1993 Facility Lease and Site Lease involve the lease of the Maguire Addition and the County Government Center Parking Structure. The Base Rental Payments due from the County for those properties are used to pay debt service on the 1993 lease revenue bonds. The release of the McGuire Jail could be accomplished by retiring the existing 1993 lease revenue bonds through a deposit into an escrow fund. Our financial advisor estimates that such a deposit would increase the cost of retiring the 1993 bonds by \$4.5 million as compared to making the remaining payments as scheduled. There is therefore a significant financial advantage to negotiate a substitution of an alternative asset for the McGuire Jail rather than retire the bonds early.

In order to accomplish a substitution, the combined facilities in the lease after substitution must have an aggregate annual fair market rental value of \$5.5 million.

County Office Building One is the only unencumbered asset in the County's portfolio that has sufficient value to replace the Maguire Addition and meet the annual base rental test. The County obtained the services of a qualified outside appraiser who, using a two prong test of replacement value and market value, determined the reconciled annual rental value of County Office Building One and the Parking Structure at \$6.8 million. Based on that appraisal, the County's Real Property Manager has certified that annual fair rental value of the two facilities, and the land they sit on, will be at least equal to 100% of the maximum amount of Base Rental Payments coming due from the County during the remaining term of the 1993 Facility Lease.

National Public Finance Guarantee Corporation (formerly MBIA), the firm that insured the 1993 lease revenue bonds, has approved the substitution. With this substitution, County Office Building One would be encumbered until the 1993 bonds are paid off, which is currently scheduled for June 2021.

The San Mateo County Joint Powers Financing Authority reviewed and approved the asset substitution at its Regular Meeting on April 23, 2014. County Counsel and Bond Counsel have reviewed the Resolution and amended lease documents as to form.

Approval of this Resolution contributes to the Shared Vision 2025 outcome of a Healthy and Safe Community by ensuring that inmates receive rehabilitative services that will improve their chances for successful reentry into the community, including GED and substance abuse classes.

FISCAL IMPACT:

The successful negotiation with National Public Finance Guarantee Corporation for the substitution of the Maguire Addition with County Office Building One saved the County \$4.5 million in prepayment costs and penalties associated with retiring the 1993 lease revenue bonds. Approval of this Resolution will clear the way for the County to receive the \$24 million grant. This Board has previously approved an Appropriation Transfer Request of \$4 million to set aside the local matching funds.