



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

File #: 18-936

Board Meeting Date: 10/23/2018

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: John L. Maltbie, County Manager
Subject: Resolution Authorizing the issuance of up to \$250 Million of Lease Revenue Bonds to finance the design, architecture, and construction of the County Office Building #3 and the Medical Center Improvements and up to \$60 Million of Refunding Bonds.

RECOMMENDATION:

Adopt a resolution:

- A) Approving the issuance by the San Mateo County Joint Powers Financing Authority of not to exceed \$250 million aggregate principal amount of Lease Revenue Bonds (Capital Projects), 2018 Series A; and
- B) Approving the issuance by the San Mateo County Joint Powers Financing Authority of not to exceed \$60 million aggregate principal amount of Lease Revenue Bonds (Refunding), 2019 Series A; and
- C) Authorizing the forms of and directing the execution and delivery of a 6th Amendment to Master Site Lease, 6th Amendment to Master Facility Lease, Bond Purchase Contract, Forward Delivery Bond, a continuing disclosure agreement and an official statement; and
- D) Authorizing a lease financing with the San Mateo County Joint Powers Financing Authority; and
- E) Approving the taking of all necessary actions in connection therewith.

BACKGROUND:

On April 11, 2017 the Board approved a financing plan and timelines for the following eight projects: Medical Center Improvements, County Office Building #3, Government Center Parking Structure, Lathrop House Relocation, Cordilleras Mental Health Facility, South San Francisco Health Campus, Maple Street Homeless Shelter, and County Radio Shop.

Today the County Managers Office is requesting the board to approve the financing for the County Office Building #3 and Medical Center Improvements.

DISCUSSION:

According to the County's Project Development Unit, the overall construction cost for the County Office Building #3 and the Medical Center Improvements is \$272 million, which includes design, construction, equipping the facility, and site remediation. The County is requesting the Joint Powers Financing Authority (the "Authority"), to issue Lease Revenue Bonds (2018 Series A) to finance a portion of these costs. The county will contribute \$56 million in cash to the County Office Building#3 project to reduce the debt needed to finance these capital projects. The 2018 Series A bond size is projected to be no more than \$250 million, including approximately \$30 million for interest payments made to investors during construction (capitalized interest), approximately \$13 million for a legally required reserve account held for the Authority by the trustee, and an estimated \$1.7 million in expenses for legal, financing and bond underwriting services. The financing team is working on the possibility of purchasing a surety bond in lieu of the reserve account, which would decrease the bond size by \$13 million. Once the bonds are sold, the funds will be transferred to the trustee to fund construction, capitalized interest, establish the reserve account, pay closing costs and reimburse the County for out-of-pocket expenditures, which currently approximate \$25 million.

In addition to 2018 Series A bonds the County intends to issue a refunding bond to refund the 2009 Series A Bonds for savings. These bonds (2019 Series A) will set their interest rate at the same time as the 2018 Series A bonds, although will not be issued until October 2019. This long period of time between setting the rate and delivering of the bonds makes them a forward delivery bond. The issuance will be approximately \$60 million and is anticipated garner \$3.25 million savings, or 5.8% of the principal amount of the refunded bonds.

The County has selected Barclays to lead an underwriting team that includes Citigroup, Morgan Stanley, and Siebert Cisneros & Shank to coordinate the sale of the 2018 Series A and 2019 Series A revenue bonds. Mark Epstein, of California Financial Services, will serve as the County's financial advisor, Orrick Herrington and Sutcliffe as bond counsel, Norton Rose Fulbright as disclosure counsel, and US Bank as trustee.

The County is structuring this debt service repayment schedule for the 2018 Series A Bonds on a level annual payment basis in order to: 1) maximize the potential for reimbursement by State and Federal programs where reimbursement of the borrowed principal is capped at 2% per year (50 year straight-line depreciation); 2) mirror the rental payments and minimize the fiscal impact to County departments when transitioning from privately owned facilities to County-owned facilities; and 3) contain the initial fiscal impact of the capital debt service on the General Fund when replacing a facility.

We believe this approach gives the County the strongest argument for retaining its position as one of the highest rated counties in California.

Under the terms of the Bond Purchase Contract for the 2018 Series A bonds, the interest rate on the Bonds shall not exceed a true interest cost of 5% per annum, the underwriting discount shall not exceed .50% of the principal amount of Bonds sold, and the final maturity of the bonds will not exceed 34 years from the date of issuance.

The San Mateo County Joint Powers Financing Authority reviewed and approved the refunding parameters at a Regular Meeting on September 26, 2018. County Counsel, Bond Counsel, and Disclosure Counsel have reviewed the resolution and financing documents as to form and content.

Approval of this Resolution contributes to the Shared Vision 2025 outcome of a Collaborative Community by ensuring a cost-effective approach to financing this portion of the Capital Plan approved by the Board in April of 2017.

FISCAL IMPACT:

The total par amount of the two series of bonds issued will not exceed \$310 million. Total additional debt service will be approximately \$436 million over the 34-year term with \$13 million average annual debt service,

ATTACHMENTS:

1. Preliminary Official Statement - 2018 Series A/ 2019 Series A Lease Revenue Bonds
2. Bond Purchase Contract
3. Forward Delivery Bond Purchase Contract
4. Continuing Disclosure Agreement
5. 6th Amendment to Master Site Lease
6. 6th Amendment to Master Facility Lease
7. Eighth Supplemental Trust Agreement
8. Ninth Supplemental Trust Agreement