



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

File #: 21-371

Board Meeting Date: 5/18/2021

Special Notice / Hearing: None
Vote Required: 4/5ths

To: Honorable Board of Supervisors

From: Michael Callagy, County Manager

Subject: Resolutions Authorizing the issuance of up to \$265 million of 2021 Series A Lease Revenue Bonds to finance the design, architecture, and construction of the Cordilleras Mental Health Center and to refund all or a portion of the 2014 Series A lease revenue bonds; and the issuance of up to \$40 million of 2021 Series B Refunding Bonds to refund all or a portion of the 2013 Series A lease revenue bonds

RECOMMENDATION:

Adopt resolutions:

A) For the 2021 Series A (Refunding and Capital Projects) bonds:

1. Approving the issuance by the San Mateo County Joint Powers Financing Authority of not to exceed \$265,000,000 aggregate principal amount of lease revenue bonds (Refunding and Capital projects), to finance certain public capital improvements and the refunding of all or a portion of the outstanding San Mateo County Joint Powers Financing Authority lease revenue bonds (Capital Projects), 2014 Series A, to pay costs of issuance of the bonds, and to pay capitalized interest on the bonds; and
2. Authorizing the forms of and directing the execution and delivery of a First Supplemental Trust Agreement, a First Amendment to Facility Lease, a First Amendment to Site Lease, a Bond Purchase Contract, a continuing disclosure agreement and an Official Statement; and
3. Authorizing a lease financing with the San Mateo County Joint Powers Financing Authority based on a finding of significant public benefit; and
4. Approving the taking of all necessary actions in connection therewith.

B) For the 2021 Series B (Refunding) bonds:

1. Approving the issuance by the San Mateo County Joint Powers Financing Authority of

not to exceed \$40,000,000 aggregate principal amount of refunding lease revenue bonds to refund all or a portion of the outstanding San Mateo County Joint Powers Financing Authority lease revenue bonds (Refunding and Capital Projects), 2013 Series A (Robert Sans Memorial Issue), and to pay costs of issuance of the bonds; and

2. Authorizing the forms of and directing the execution and delivery of a Tenth Supplemental Trust Agreement, a Seventh Amendment to Master Facility Lease, a Seventh Amendment to Master Site Lease, a Bond Purchase Contract, a continuing disclosure agreement and an Official Statement; and
3. Authorizing a lease financing with the San Mateo County Joint Powers Financing Authority; and
4. Approving the taking of all necessary actions in connection therewith.

BACKGROUND:

On April 11, 2017, this 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 (“Cordilleras Project”), South San Francisco Health Campus, Maple Street Homeless Shelter, and County Radio Shop.

In connection with financing the Cordilleras Project, the County Manager’s office has considered how to best fund Cordilleras and other capital projects while efficiently managing the County’s overall debt service, generating savings by allocating funds toward paying off existing debt and minimizing the impact on the County’s General Fund. The plan of finance, as authorized in the resolutions and underlying documents being considered today, is designed to achieve these objectives and make the County’s debt more level, thus reducing the amount of General Fund monies required to address increases for debt service.

Today the County Managers Office is requesting the Board to approve the financing for the Cordilleras Project and associated refunding of prior bonds. Two resolutions approving the lease revenue bond issuances and the transactional documents to execute the financing, are submitted herewith.

DISCUSSION:

According to the County’s Project Development Unit, the overall construction cost for the Cordilleras Project is approximately \$155 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, 2021 Series A (Refunding and Capital Projects) to finance a portion of these costs. The County plans to contribute \$45 million in General Fund cash toward debt service on its Series 2014, Series A lease revenue bonds to achieve savings from more favorable interest rates and level its aggregate debt service. The 2021 Series A (Refunding and Capital Projects) bond proceeds will also be used to refund the remaining balance on the 2014A lease revenue bonds, generating debt service savings. The savings on this refunding can be frontloaded to reduce near-term debt service.

The 2021 Series A (Refunding and Capital Projects) bond size is projected to be no more than \$265 million, including approximately \$19.9 million for interest payments made to investors during construction (capitalized interest), and an estimated \$887,600 in expenses for legal, financing and

bond underwriting services. Once the bonds are sold, the funds will be transferred to the trustee to fund construction, capitalized interest, and pay closing costs and reimburse the County for out-of-pocket expenditures, which currently approximate \$18,370,448.

In addition to the 2021 Series A (Refunding and Capital Projects) bonds, the County intends to issue a refunding bond to refund all or a portion of the 2013 Series A Bonds for debt service savings, namely, the 2021 Series B (Refunding) bonds. This refunding will trigger release of a cash reserve requirement of approximately \$900,000 for the 2013 bonds and will reduce near term debt service. The issuance will be approximately \$40 million and is anticipated to garner \$3.4 million savings, or 10.5% of the principal amount of the refunded bonds.

The County has selected Citigroup Global Markets, Inc. and Morgan Stanley & Co., LLC to co-lead an underwriting team that includes Siebert Williams Shank & Co. and RBC Capital Markets, LLC to coordinate the sale of the 2021 Series A (Refunding and Capital Projects) and 2021 Series B (Refunding) lease revenue bonds. Mark Epstein and Steven Gald, 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 financing and debt service repayment schedule in order to: 1) maximize the savings available from paying off existing debt at favorable interest rates; 2) level the County's overall debt service to minimize the impact of these capital projects on the General Fund; 3) allow the County to take advantage of County pool returns which are expected to exceed other alternatives; and 4) to use \$45 million in available funds as efficiently as possible.

As part of the overall plan of finance, the County also plans to allocate proceeds of the 2018 Lease Revenue Bond from County Office Building #3 to the San Mateo Medical Center (SMMC) project in the amount of approximately \$55 million to cover costs of building the morgue and other expense increases for the medical center project. This shift would leverage state reimbursement that is available for the SMMC project and require more General Fund in the short term to pay for County Office Building #3.

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

Under the terms of the Bond Purchase Contract for the 2021 Series A bonds, the interest rate on the Bonds shall not exceed a true interest cost of 3.0% per annum, the underwriting discount shall not exceed 0.6% of the principal amount of bonds sold, and the final maturity of the 2021 Series B (Refunding) bonds will not exceed 12 years from the date of issuance, and the final maturity of the 2021 Series A (Refunding and Capital Projects) bonds will not exceed 34 years from the date of issuance.

The San Mateo County Joint Powers Financing Authority will consider for approval the issuance of the 2021 Series A bonds (Refunding and Capital Projects) and Series B (Refunding) and the refunding parameters at a Regular Meeting on May 26, 2021.

County Counsel, Bond Counsel, and Disclosure Counsel have reviewed the resolutions and financing documents as to form and content.

Approval of these Resolutions 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 \$305 million. Total net debt service from these two issuances will be approximately \$385 million over 34 years with \$11.3 million average annual debt service, which will be incorporated into the County budget on an ongoing basis, starting in fiscal year 2021-22. Cumulative debt service savings from refunding the 2013A and 2014A bonds is estimated to total \$8.9 million in present value. The County will use bond proceeds to reimburse out-of-pocket expenditures for the Cordilleras project in the amount of approximately \$18,370,448. Additionally, the County will incur a one-time \$45 million cost associated with paying off debt on the 2014A bonds.

ATTACHMENTS:

For 2021 Series A (Refunding and Capital Projects) Lease Revenue Bonds:

1. First Amendment to Site Lease
2. First Amendment to Facility Lease
3. First Supplemental Trust Agreement
4. Escrow Agreement
5. Bond Purchase Contract
6. Forward Delivery Bond Purchase Contract
7. Preliminary Official Statement
8. Continuing Disclosure Agreement

For 2021 Series B (Refunding) Lease Revenue Bonds:

1. Seventh Amendment to Master Site Lease
2. Seventh Amendment to Master Facility Lease
3. Tenth Supplemental Trust Agreement
4. Escrow Agreement
5. Bond Purchase Contract
6. Forward Delivery Bond Purchase Contract
7. Preliminary Official Statement
8. Continuing Disclosure Agreement