



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

File #: 21-905

Board Meeting Date: 11/16/2021

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: Michael P. Callagy, County Manager
Subject: Lease/Leaseback Transaction with Town of Atherton

RECOMMENDATION:

Adopt a resolution authorizing:

- A) The County Manager or County Manager's designee to execute a Lease Agreement and Sublease Agreement with the Town of Atherton by which the County would make a one-time lease payment to the Town in the amount of \$1,350,000, which the Town of Atherton would repay under a sublease with interest at a rate of 2% per annum over a term of five years; and
- B) The County Manager or County Manager's designee to execute, on behalf of the County of San Mateo, all notices, options, consents, approvals, terminations, and documents associated with the Lease Agreement and Sublease Agreement.

BACKGROUND:

On November 10, 2020, this Board adopted Resolution No. 20-865 authorizing the County's execution of a Memorandum of Understanding with the San Mateo County Flood and Sea Level Rise Resiliency District, the City of Redwood City, the City of Menlo Park, and the Town of Atherton (the "Bayfront MOU") with respect to construction and operation of the Bayfront Canal and Atherton Channel Flood Protection and Ecosystem Restoration Project (the "Bayfront Project") for up to \$7,455,000. The Bayfront Project consists of a series of projects that provide flood protection and other benefits to the region. The Bayfront Project entails completing design; securing all permits and property rights; completing construction; and conducting operations and maintenance of new facilities, and monitoring, maintaining, and reporting on mitigation actions required by environmental regulatory permits. The Bayfront MOU requires monetary payments from each of the parties to finance the Bayfront Project.

The Town of Atherton (the "Town") has requested that the County make funds available to finance the amount of Atherton's required monetary contribution to the Bayfront Project, which totals \$1,350,000.

Pursuant to State law, the County may provide financial assistance to cities located within the county under the certain terms and conditions of lease/leaseback agreements with respect to real property situated within the county. A lease/leaseback transaction enables the County to provide funds to the Town in the amount of its monetary contribution to the Bayfront Project, while securing repayment to the County with interest.

In Fall 2020, the Town indicated that it was not able to encumber and lease property, as required for a lease/leaseback transaction to proceed, until approximately December 1, 2021. Accordingly, on January 5, 2021, under Resolution No. 077197, this Board approved a Memorandum of Understanding with Atherton to establish the parties' intention to cooperate to enter a lease/leaseback transaction by on or about December 1, 2021 (the "Lease/Leaseback MOU").

Under the Lease/Leaseback MOU, Atherton agreed to fully cooperate in the provision to the County of requested information, documents and the completion of any actions as the County determines may be necessary or appropriate to permit the parties to enter into the lease/leaseback transaction. The County agreed to consider any such information, documentation and actions provided and reserved all rights to reasonably determine their sufficiency.

DISCUSSION:

Pursuant to the Lease/Leaseback MOU, the County and the Town have completed negotiations for a lease transaction in which the County would provide funds to the Town for its \$1,350,000 monetary contribution to the Bayfront Project. Specifically, the County and the Town would enter Lease and Sublease Agreements (the "Agreements") whereby the Town will lease certain designated property located at Holbrook-Palmer Park, 150 Watkins Avenue, Atherton, CA 94027, to the County for which the County will be obligated to make a one-time up-front lease payment to the Town in an amount not to exceed \$1,350,000. Simultaneously, the Town will sublease the property back from the County with annual rental payments due over a lease term of five years, at a fixed interest rate of two percent per annum.

Following execution of the Agreements, the County will place funds received from the Town into the County's One-Time Expense Fund (formerly the Accumulative Capital Outlay Fund) where such monies may be used in connection with future lease/leaseback transactions pursuant to County Ordinance Code § 2.80.060 *et seq.* (ordinance adopted December 3, 2019).

County Counsel has reviewed and approved the resolution and Agreements as to form.

FISCAL IMPACT:

The County's lease payment obligation shall not exceed \$1,350,000 and such funds are available in the County's One-Time Expense Fund. The rental payments from the Town under the sublease, including interest at a fixed rate of two percent per annum, will total approximately \$1,485,000 over the 5-year term of the Agreement and will be deposited into the County's One-Time Expense Fund.