



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY EXECUTIVE

File #: 25-103

Board Meeting Date: 2/11/2025

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

To: Honorable Board of Supervisors

From: Michael P. Callagy, County Executive
Roberto Manchia, County Chief Financial Officer

Subject: Defeasance of the 2016 Refunding Lease Revenue Bonds, Series A

RECOMMENDATION:

Recommendation to:

A) Adopt a resolution authorizing:

1. The County Executive, or designee(s), acting in consultation with the County Attorney, to take all necessary and advisable steps to defease the Refunding Lease Revenue Bonds, 2016 Series A (Youth Services Campus), including but not limited to establishing an escrow account, purchasing securities for the escrow, and executing any related agreements, notices, approvals, or documents to effectuate the defeasance and to give effect to this resolution; and
2. The allocation and use of one-time sources, such as Reserves, in the amount of up to \$77,000,000, to effectuate the defeasance; and

B) Approve an Appropriation Transfer Request (ATR) in the amount of \$77,000,000 from Reserves to Non-Departmental Services for the cost of the defeasance.

BACKGROUND:

The County has from time to time approved the issuance and sale by the San Mateo County Joint Powers Financing Authority (the "JPFA") of lease revenue bonds to finance critical capital projects and public infrastructure.

A defeasance is a process by which an issuer satisfies a debt by escrowing monies sufficient to make debt service payments as they come due until the first available redemption date or maturity date, whichever comes first. At a high level, to defease debt service remaining on outstanding lease revenue bonds, the County would purchase a portfolio of securities through an escrow account to

pay the bond debt service through the first optional redemption date. Once the escrow is funded, the defeased bonds are no longer outstanding debt and the bondholders look to the escrow for payment.

Defeasance can be beneficial to the County as a way to reduce financial obligations, save on debt service and provide more budget flexibility. The defeased bonds are no longer carried as a liability on the County's Annual Comprehensive Financial Report (ACFR) and may facilitate the release of leased assets that secure the defeased bonds.

Defeating the bonds will repay all principal at the first optional call date, thereby saving the County from having to pay interest on that principal between the call date and maturity.

DISCUSSION:

Staff is recommending that all outstanding 2016 Series A Refunding Bonds (Youth Services Campus) (the "Bonds") be defeased. These Bonds were determined to be the best candidates for full defeasance for the following reasons:

- This bond series is callable on July 15, 2026, with final maturity date of July 15, 2036.
- All interest beyond the callable date is avoided.
- Defeasance cost is approximately \$75.8 million, which the County currently has available in cash on hand through one-time sources, including reserves.
- Defeasance would eliminate \$92.9 million of total debt service over the next ten or more years resulting in gross savings of \$17.3 million.
- Annual debt service savings for this series is approximately \$7.9 million, so that the defeasance would benefit the General Fund and provide greater flexibility to the County.

Further, using Reserves to defease the Bonds will lower the County's total reserves from \$339,053,973 to \$262,053,973.

If the Board approves the defeasance of the Bonds and provides the requested authorizations, staff will coordinate with the County Attorney's Office and PRAG to take the following steps, among others as necessary and advisable:

1. Prepare resolutions for the County Board of Supervisors and the JPFA, as appropriate, to approve and facilitate the defeasance.
2. Subscribe for State and Local Government Securities (SLGS) through a SLGSafe System, or use open market securities or cash defeasance, if and to the extent appropriate.
3. Have defeasance cash flows verified by a Certified Public Accounting Firm to ensure the sufficiency of the escrow to pay the 2016A Bonds debt service and redemption amount, if and to the extent required by the governing bond documents.
4. One week after subscription, settle on the purchase of escrow securities with escrow held by US Bank, the trustee for the Bonds.
5. When conditions are met and to the extent required by the governing bond documents, secure a defeasance opinion by County Bond Counsel, Orrick, Herrington & Sutcliffe, to confirm that the Bonds are defeased and therefore are no longer an outstanding debt.
6. Notify the market of the defeasance through a notice posted on the Electronic Municipal Market Access (EMMA) website, the municipal market's free source of data and information on virtually all municipal bonds.

To facilitate and cover the costs of the defeasance, staff recommends that this Board authorize the

allocation and use of one-time sources, such as Reserves, in the amount of up to \$77,000,000. Toward this end, an Appropriation Transfer Request (“ATR”) is submitted concurrently with this memorandum to transfer the funds for the defeasance.

The proposed defeasance strategy for the Bonds represents a significant opportunity to reduce long-term liabilities and generate meaningful savings for the County. Given evolving market conditions, staff will continue to analyze market trends and explore other options to ensure fiscal sustainability while maximizing benefits to the County.

The County Attorney has reviewed the resolution and memorandum as to form.

The County Controller and the County Executive have approved the ATR accompanying this memorandum.

EQUITY IMPACT:

The defeasance of the Bonds will reduce overall debt service payments by the County which can then free up resources for other equity-focused initiatives, which can benefit marginalized and underserved populations.

FISCAL IMPACT:

In summary, if the County allocates \$77,000,000 from Reserves now to pay off the Bonds through a defeasance, the County will save \$17,300,000 in aggregate debt service, and create budgetary flexibility by freeing up \$7,900,000 annually for 12 years because those funds will no longer be required to make the debt service payments.

Approval of the Appropriation Transfer Request will appropriate Reserves in the amount of \$77,000,000 to Non-Departmental Services to fund the defeasance of the Bonds.