



## Legislation Text

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**File #:** 18-0979, **Version:** 1

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Chief Administrative Office, Facilities Division, recommending the Board:

- 1) Approve and authorize the Chair to sign Resolution **131-2018**, approving the Form of and Authorizing the Execution and Delivery of a Site Lease and a Facilities Lease and Authorizing Certain Additional Actions related to the issuance of Certificates of Participation in connection with the \$57,140,000 financing for the construction of the Public Safety Facility under the United States Department of Agriculture Rural Development's Community Facilities Loan Program (4/5 vote required); and
- 2) Authorize the Deputy Chief Administrative Officer to sign IRS Form 8038-G with Certificate of Mailing. (Est. Time: 10 Min.)

**FUNDING:** General Fund.

### **DEPARTMENT RECOMMENDATION**

Chief Administrative Office, Facilities Division, recommending the Board approve and authorize the Chair to sign a Resolution approving documents required for the USDA loan closing for a total loan amount of \$57,140,000 and authorize Laura Schwartz, Deputy Chief Administrative Officer to sign the IRS Form 8038-G with Certificate of Mailings.

### **DISCUSSION / BACKGROUND**

On July 27, 2016 the County submitted an application to the United States Department of Agriculture ("USDA") for financing related to the construction of Public Safety Facility ("Project"). On December 16, 2016, the County received a Letter of Conditions from the USDA outlining conditions required to be satisfied prior to the closing of a \$57,140,000 loan through the USDA's Community Facilities Loan Program. Over the past eighteen months the County has diligently worked through these conditions and is now ready to close the loan.

#### Financing Structure:

The County's obligation to repay the USDA loan will take the form of a lease, evidenced through the issuance of Certificates of Participation ("COP"), which is not considered a debt within the meaning of Article XVI, section 18, of the California Constitution, and voter approval is not required since the leased payments will be subject to abatement in the event of a casualty that causes a loss of use and occupancy of the leased property. California Government Code section 25371 authorizes the County to lease real property for a term not to exceed 40 years to any person who agrees to construct an improvement on the leased property. California Government Code section 25536(c) authorizes the Board, by a 4/5 vote, to lease County-owned property if the County leases back the property as part of the same transaction, and may pledge specified revenues as security for the payment of obligations incurred in the leaseback of the property. The steps in the lease-leaseback transaction and associated legal documents, which are attached to this report, are as follows:

First, under a Site Lease, the County will lease the site for the Project to a nonprofit corporation Municipal Asset Finance Corp. ("Corporation") in exchange for an advance rental equal to

the \$57,140,000 amount to be financed by the USDA.

Second, under a Facilities Lease, the Corporation will sublease the property leased under the Site Lease back to the County in exchange for periodic rental payments to be made by the County. The principal components of the County's rental payments will total the USDA loan funds, and the interest components of the rental payments will be calculated by multiplying the financing interest rate of 2.375% per annum times the unpaid principal components. Under the Facilities Lease, the County is directed to make its lease payments directly to the USDA.

Third, under an Assignment Agreement, the Corporation will assign its interests in the rental payments to be made by the County under the Facilities Lease to the USDA in exchange for USDA loan funds to be made available for deposit in increments into a construction account for the Project. The Corporation will direct that the USDA loan proceeds be paid to the County to satisfy the Corporation's obligation to pay the advance rental under the Site Lease.

Finally, the Corporation will execute and deliver to the USDA the Certificates of Participation that represent USDA's rights to receive rental payments from the County.

The County has been working with Kronick, Moskovitz, Tiedermann & Girard (KMTG) acting as bond counsel for the County. All documents have been prepared by KMTG, and reviewed by County Counsel and the USDA.

Once all documents are fully executed, the loan is scheduled to close on July 2, 2018. Principal payments will be deferred for two years while construction of the project is completed. Interest payments will be due semi-annually beginning on July 2, 2019. The first principal payment will be due on July 2, 2021 and will be made annually thereafter until July 2, 2058. Interest payments will continue on a semi-annual basis due on July 2 and January 2 each year until 2058. The lease payments are payable from the County's General Fund, requiring an annual appropriation of funds that match the debt service on the USDA loan.

## **ALTERNATIVES**

The Board could choose not to adopt the resolution approving and authorizing the execution of these agreements which means the USDA loan would not close resulting in the loss of USDA funding for the project.

## **OTHER DEPARTMENT / AGENCY INVOLVEMENT**

County Counsel, USDA

## **CAO RECOMMENDATION / COMMENTS**

It is recommended that the Board approve this item.

## **FINANCIAL IMPACT**

The first interest payment will be due on July 2, 2019. The interest payment will be dependent on the amount of funds advanced at that point in time. Interest payments are currently estimated around approximately \$620,000 semi-annually for a total FY 2019-20 cost of \$1,240,000 and a total FY 2020-21 cost of \$1,240,000. Funds have been set aside in the public safety reserve to cover these interest costs. Beginning in FY 2021-22 the annual principal and interest payments are estimated at

approximately \$2.3 million. Funding will be budgeted out of the General Fund.

**CLERK OF THE BOARD FOLLOW UP ACTIONS**

Clerk of the Board to do the following:

Obtain signatures and certify 3 copies of Resolution and additional loan documents and return to Laura Schwartz, Deputy CAO.

**STRATEGIC PLAN COMPONENT**

Infrastructure

**CONTACT**

Laura Schwartz, Deputy Chief Administrative Officer

Janeth San Pedro, Sr. Deputy County Counsel