

File No. 101271

Committee Item No. 8
Board Item No. 01

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: November 10, 2010

Board of Supervisors Meeting

Date 11/23/10

Cmte Board

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| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Ordinance |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Ethics Form 126 |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
| <input type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Subcontract Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Contract/Agreement |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
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OTHER

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Completed by: Victor Young

Date: November 5, 2010

Completed by: Victor Young

Date: 11/12/10

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

192

191

1 [Appropriating \$9,035,065 of Certificate of Participation Expenses for Capital Improvement
 2 Projects in Department of Public Works and Mayor's Office on Disability for FY2010-2011]

3
 4 Ordinance appropriating \$9,035,065 of Certificate of Participation Series 2011A Delivery
 5 Date Expenses to fund Multiple Capital Improvement Projects in the Department of
 6 Public Works and Mayor's Office on Disability in the General Services Agency - Office
 7 of the City Administrator for FY2010-2011 and placing these funds on Controller's
 8 reserve pending issuance of the Certificates of Participation.

9
 10 Be it ordained by the People of the City and County of San Francisco:

11
 12 Section 1. The sources of funding outlined below are herein appropriated to reflect the
 13 funding available for Fiscal Year 2010-2011.

14
 15 **SOURCES Appropriation**

Fund	Index Code / Project Code	Subobject	Description	Amount
3C SIF CP2	PWE333CIFCP2	80141	Proceeds from	\$9,035,065
COP Street	CENTRNSRBU11		Certificates of	
Improvement			Participation	
Project Fund				
Total SOURCES Appropriation				\$9,035,065

1 Section 2. The uses of funding outlined below are herein appropriated in the Subobjects,
 2 07311 (Reserve Pending Issuance, Cost of Bond Issuance, and Underwriter's Discount),
 3 07000 (Debt Service - Budget), and reflects the projected uses of funding to support Multiple
 4 Capital Improvement Projects in the Department of Public Works and Mayor's Office on
 5 Disability in the General Services Agency – Office of the City Administrator for Fiscal Year
 6 2010-2011.

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 8 **USES Appropriation**

Fund	Index Code / Project Code	Subobject	Description	Amount
3C SIF CP2	PWE333CIFCP2	07311 Bond	Reserve Pending	\$1,160,000
COP Street Improvement Project Fund	CENTRNSRBU11	Issuance Cost – Unamortized	Issuance	
3C SIF CP2	PWE333CIFCP2	07311 Bond	Cost of Bond	\$401,265
COP Street Improvement Project Fund	CENTRNSRBU11	Issuance Cost – Unamortized	Issuance	
3C SIF CP2	PWE333CIFCP2	07311 Bond	Underwriter's	\$936,800
COP Street Improvement Project Fund	CENTRNSRBU11	Issuance Cost – Unamortized	Discount	
3C SIF CP2	PWE333CIFCP2	07000 Debt Service	Debt Service	\$4,253,550
COP Street Improvement Project Fund	CENTRNSRBU11	– Budget	Reserve Fund	

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Fund	Index Code / Project Code	Subobject	Description	Amount
3C SIF CP2	PWE333CIFCP2	07000 Debt Service	Capitalized Interest	\$2,283,450
COP Street Improvement Project Fund	CENTRNSRBU11	- Budget		
Total Uses Appropriation				\$9,035,065

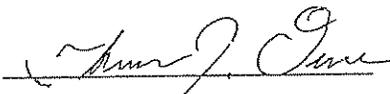
Section 3. The uses of funding outlined above for \$9,035,065 are herein placed on Controller's Reserve for Fiscal Year 2010-2011 pending issuance of the Certificates of Participation.

Section 5. The Controller is authorized to record transfers between funds and adjust the accounting treatment of sources and uses appropriated in this ordinance as necessary to conform with Generally Accepted Accounting Principles.

FUNDS AVAILABLE

APPROVED AS TO FORM: BEN ROSENFELD

DENNIS J. HERRERA, City Attorney Controller

By: 
Deputy City Attorney

By: 
Date: 10/04/2010

Item 8
File 10-1271

Department(s):

Controller's Office of Public Finance (OPF), Department of Public Works (DPW),
and Mayor's Office on Disability (MOD)

EXECUTIVE SUMMARY**Legislative Objective**

- The proposed ordinance would appropriate \$9,035,065 of Certificates of Participation (COPs) proceeds to cover (a) \$7,875,065 for financing costs, and (b) \$1,160,000 for a reserve to cover potential market fluctuations. All funds would be placed on Controller's Reserve pending the actual issuance of the COPs.

Key Points

- On October 19, 2010, the Board of Supervisors approved an ordinance (File 10-1159) on first reading to issue COPs in an amount not-to-exceed \$48,000,000 to finance (a) \$38,364,935 for various street improvements, (b) \$600,000 for disability access improvements to the Board of Supervisors legislative chamber, (c) \$7,875,065 in financing costs, and (d) \$1,160,000 to allow for market fluctuations between the time of approval and the anticipated COP issuance date of January of 2011.
- The Board of Supervisors previously appropriated the \$38,364,935 in proceeds from the proposed COPs to pay for the various street improvements in DPW's FY 2010-2011 budget.
- The \$600,000 in proposed COP proceeds to fund disability access improvements to the Board of Supervisors legislative chambers would be subject to separate future appropriation approval by the Board of Supervisors.

Fiscal Impacts

- The proposed ordinance would appropriate the remaining \$9,035,065 (\$48,000,000 total issuance less \$38,364,935 previously appropriated less \$600,000 yet to be appropriated) of the not-to-exceed \$48,000,000 of COPs including (a) \$401,265 for bond issuance, (b) \$936,800 for underwriter's discount, (c) \$4,253,550 for a debt service reserve, (d) \$2,283,450 for capitalized interest, and (e) \$1,160,000 for a reserve to allow for market fluctuations.
- The total not-to-exceed \$48,000,000 of COPs are estimated to have an interest rate of 6.5 percent and average annual debt service of approximately \$3,976,000, for a total debt service over 20 years of \$85,785,000 including (a) interest payments of \$38,945,000 and (b) principal payments of \$46,840,000. Debt service payments will be paid with General Fund revenues subject to annual appropriation approval by the Board of Supervisors.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT & BACKGROUND**Mandate Statement**

Charter Section 9.105 requires that amendments to the annual appropriation ordinance be approved by ordinance of the Board of Supervisors, and may not be adopted unless the Controller certifies the availability of funds.

Background

On October 19, 2010, the Board of Supervisors approved on first reading an ordinance (File 10-1159) authorizing the issuance of not-to-exceed \$48,000,000 of Certificates of Participation (COPs) to finance (a) various street improvements and (b) disability access improvements to the Board of Supervisors legislative chambers. The second reading of this ordinance (File 10-1159) is scheduled to be heard by the full Board of Supervisors on October 26, 2010. That ordinance would issue up to \$48,000,000 of COPs for (a) \$38,364,935 in street improvement projects, (b) \$600,000 for disability access improvements to the Board of Supervisors legislative chamber, (c) \$7,875,065 for financing costs, and (d) \$1,160,000 to provide sufficient additional funds for potential market fluctuations until such time that the COPs are actually sold. Ms. Nadia Sesay, Director of the Controller's Office of Public Finance anticipates issuing the not-to-exceed \$48,000,000 of COPs in January of 2011.

According to Ms. Sesay, COPs are a form of long term debt which are sold to investors in consideration for a portion of the lease revenues from a specific City-owned property, such that the investors "participate" in lease revenues. Under a typical COP structure, the City leases a City-owned property to a trustee in consideration for a one-time rent payment from the trustee to the City that is equal to the proceeds from the issuance of such COPs. The trustee subsequently subleases the same City-owned property back to the City in return for the City making semi-annual rent payments to the trustee equal to the debt service (including principal and interest) due on the COPs. This lease-sublease structure is known as an asset transfer model. Under such an asset transfer model, the City-owned property leased to the trustee serves as collateral to the trustee on the issued COPs. After the COPs are fully repaid by the City, the City-owned property, previously leased to the trustee, reverts back to the City.

As shown in Table 1 below, the not-to-exceed \$48,000,000 in COPs would fund (a) \$38,964,935 in project costs, and (b) \$9,035,065 in financing and market fluctuation costs.

Table 1: Uses of COPs Proceeds

Project Costs	
Street Improvement Project Costs	
Curb Ramps	\$6,458,100
Sidewalk Repair	1,500,000
Street Structures	2,000,000
Bridge Preventive Maintenance Program	787,068
Street Resurfacing	27,619,767
Subtotal Street Project Costs	\$38,364,935
Disability Access Improvements to the Board of Supervisors Legislative Chamber	600,000
Subtotal Project Costs	\$38,964,935
Financing Costs	
Debt Service Reserve Fund	4,253,550
Capitalized Interest ¹	2,283,450
Costs of Issuance	401,265
Underwriter's Discount	936,800
Subtotal Financing Costs	\$7,875,065
Reserve Fund for Market Fluctuations	\$1,160,000
Subtotal Financing & Reserve Fund Costs	\$9,035,065
Total Not-to-Exceed Costs	\$48,000,000

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$9,035,065 of Certificates of Participation (COPs) proceeds, as shown above in Table 1, to cover (a) \$7,875,065 for various financing costs and (b) \$1,160,000 for a reserve fund to cover potential market fluctuations, or changes in the interest rates between the time that the Board of Supervisors approves the proposed ordinance and the COPs are sold. The source of

¹ According to Ms. Sesay, due to budget constraints in FY 2010-2011 and anticipated budget constraints in FY 2011-2012, \$2,283,450 of the proposed issuance of \$46,840,000 in COPs would be set aside to create a Capitalized Interest Fund, from which interest-only debt service payments will be made until October of 2011, assuming the issuance takes place as anticipated in January of 2011. After October of 2011 when the Capitalized Interest Fund (initially funded from the proceeds of the proposed COP issuance) is depleted, the City will use ongoing General Fund appropriations to make interest and principal debt service payments through the term of the COPs.

funding for the repayment of the debt on the COPs is the City's General Fund. Under the proposed ordinance, the entire \$9,035,065 would be placed on Controller's Reserve pending the actual issuance and sale of the COPs.

As shown in Table 1 above, \$38,364,935 would be used to fund various Department of Public Works (DPW) street improvement projects, from the proceeds of the \$48,000,000 Certificates of Participation. The Board of Supervisors previously appropriated this \$38,364,935 for street improvement projects in DPW's FY 2010-2011 budget.

As also shown in Table 1 above, the anticipated Certificates of Participation proceeds include \$600,000 for disability access improvements to the Board of Supervisors Legislative Chamber. According to Ms. Susan Mizner, Director of the Mayor's Office on Disability, the proposed \$600,000 in COP proceeds for disability access improvements to the Board of Supervisors Legislative Chamber have not yet been appropriated by the Board of Supervisors. Ms. Mizner anticipates submitting a supplemental appropriation ordinance to the Board of Supervisors for approval in November of 2010.

FISCAL IMPACTS

Although this subject ordinance appropriates \$9,035,065 in COP proceeds, the repayment of debt on such COP proceeds would be funded with General Fund revenues. As noted above, the Board of Supervisors authorized an issuance of COPs in a not-to-exceed amount of \$48,000,000. The not-to-exceed \$48,000,000 issuance of COPs will use Laguna Honda Hospital as the City-owned property to be leased to the trustee under the asset transfer model described above. The Board of Supervisors previously approved \$227,000,000 in COPs using Laguna Honda Hospital as collateral, including (a) \$185,000,000 in 2008 for the renovation of Laguna Honda Hospital (File 08-0760), and (b) \$42,000,000 in 2009 for various street improvement projects (File 09-0404). According to Mr. John Updike, Assistant Director of the Real Estate Division, the Laguna Honda Hospital has an approximate value of \$575,000,000², and is sufficient to support the combined \$275,000,000 (\$227,000,000 in previously authorized COPs plus the pending \$48,000,000) of existing and proposed COP debt.

Ms. Sesay anticipates that the proposed \$46,840,000 in COPs will have an estimated annual interest rate of 6.5 percent and average annual debt service of approximately \$3,976,000, for a total debt service over 20 years of \$85,785,000³ including (a) interest payments of \$38,945,000 and (b) principal payments of \$46,840,000.

² According to Mr. Updike, this estimate of \$575,000,000 includes (a) the approximate value of the land of \$150,000,000 and (b) the approximate cost of the improvements of \$425,000,000. Mr. Updike advised that it is difficult to estimate the precise market value of Laguna Honda Hospital due to lack of comparable properties.

³ According to Ms. Sesay, the average annual debt service of \$3,976,000 does not equal the total debt service of \$85,785,000 divided by 20 years because the average does not include interest only debt service payments made from the capitalized interest fund.

Ms. Sesay stated that the estimated \$3,976,000 average annual debt service payments would be paid over the next 20 years with General Fund revenues appropriated annually by the Board of Supervisors, thereby reducing the City's discretionary budget by an average of \$3,976,000 per year.

The proposed ordinance would appropriate the remaining \$9,035,065 (\$48,000,000 total issuance less \$38,364,935 previously appropriated less \$600,000 yet to be appropriated) of the not-to-exceed \$48,000,000 of COPs including (a) \$401,265 for bond issuance, (b) \$936,800 for underwriter's discount, (c) \$4,253,550 for a debt service reserve, (d) \$2,283,450 for capitalized interest, and (e) \$1,160,000 for a reserve fund to cover potential changes in market conditions (e.g., interest rates) between when the subject ordinance is approved by the Board of Supervisors and the COPs are actually sold. As noted above, the up to \$48,000,000 of COPs are anticipated to be sold in January of 2011. In accordance with the proposed ordinance, the Controller will place the entire \$9,035,065 appropriation on Controller's Reserve pending the actual issuance and sale of the COPs.

According to Ms. Sesay, given that the specific amount of COPs sold may vary depending on market conditions and interest rates at the time of sale, the \$1,160,000 reserve fund will provide the necessary flexibility to adjust to such market conditions at the time of the sale of the COPs. After the sale of the COPs, the Controller's Office will make the necessary technical adjustments based on the sale results. If interest rates are lower than are currently projected and/or all of the \$1,160,000 of reserve funds are not used, the Controller's Office will revise the issuance and appropriation authorizations, as necessary.

RECOMMENDATION

Approve the proposed ordinance.



Harvey M. Rose

cc: Supervisor Avalos	Supervisor Dufty
Supervisor Mirkarimi	Supervisor Mar
Supervisor Elsbernd	Supervisor Maxwell
President Chiu	Clerk of the Board
Supervisor Alioto-Pier	Cheryl Adams
Supervisor Campos	Controller
Supervisor Chu	Greg Wagner
Supervisor Daly	