

File No. 240086

Committee Item No. 5

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee Date March 6, 2024

Board of Supervisors Meeting Date _____

Cmte Board

- Motion
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OTHER (Use back side if additional space is needed)

- Controller's Office of Public Finance Presentation 3/6/2024
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Completed by: Brent Jalipa Date February 29, 2024

Completed by: Brent Jalipa Date _____

1 [Appropriation - Refunding General Obligation Bond Proceeds - Controller's Reserve -
2 \$644,675,000 - FY2023-2024]

3 **Ordinance appropriating \$644,675,000 from the issuance of one or more series of**
4 **Refunding General Obligation Bonds; and placing such amounts on Controller's**
5 **reserve in Fiscal Year (FY) 2023-2024.**

6 Note: **Unchanged Code text and uncodified text** are in plain Arial font.
7 **Additions to Codes** are in single-underline italics Times New Roman font.
8 **Deletions to Codes** are in ~~striketrough italics Times New Roman font~~.
9 **Board amendment additions** are in double-underlined Arial font.
10 **Board amendment deletions** are in ~~striketrough Arial font~~.
11 **Asterisks (* * *)** indicate the omission of unchanged Code
12 subsections or parts of tables.

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

12 Section 1. The sources of funding outlined below are herein appropriated to reflect the
13 funding available in Fiscal Year 2023-2024.

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1 **Sources Appropriation**

2	Fund /	Project & Activity /	Account	Description	Amount
3	Department ID	Authority			
4	17620 / 230018	10026734 – 0001 /	480121	Proceeds from	\$644,675,000
5	DSGOB GENERAL	10000	Proceeds from	Refunding of Bonds	
6	OBLIGATION	GE General City	Refunding of Bonds		
7	BOND / GEN	Services/ Operating			
8	General City –				
9	Unallocated				
10					
11	Total Sources				\$644,675,000

12
 13 Section 2. The uses of funding outlined below are herein appropriated to reflect the
 14 projected uses of funding for the refunding of general obligation bonds for FY2023-2024.
 15

16 **Uses Appropriation**

17	Fund /	Project & Activity /	Account	Description	Amount
18	Department ID	Authority			
19	17620 / 230018	10026734 – 0001 /	508010	Refund of General	\$641,059,102
20	DSGOB GENERAL	10000	Pmt To Refund	Obligation Bond	
21	OBLIGATION	GE General City	Bond Escrow Agnt		
22	BOND / GEN	Services/ Operating			
23	General City -				
24	Unallocated				

1	Fund /	Project & Activity /	Account	Description	Amount
2	Department ID	Authority			
3	17620 / 230018	10026734 – 0001 /	573110	Costs of Issuance	\$2,004,211
4	DSGOB GENERAL	10000	Bond Issuance		
5	OBLIGATION	GE General City	Cost-Unamortized		
6	BOND / GEN	Services/ Operating			
7	General City -				
8	Unallocated				
9					
10	17620 / 230018	10026734 – 0001 /	573110	Underwriter's	\$1,611,687
11	DSGOB GENERAL	10000	Bond Issuance	Discount	
12	OBLIGATION	GE General City	Cost-Unamortized		
13	BOND / GEN	Services/ Operating			
14	General City –				
15	Unallocated				
16					
17	Total Uses Appropriation				\$644,675,000
18					
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Items 4 & 5 Files 24-0086, 24-0114	Department: Controller's Office (Controller)
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EXECUTIVE SUMMARY

Legislative Objectives

- File 24-0086 is an ordinance appropriating \$644,675,000 of the refunding bond series to be sold in 2024.
- File 24-0114 is a resolution approving the issuance and sale of refunding bonds in an amount not to exceed \$644,675,000, designated as Series 2024-R1, to refund certain outstanding general obligation bonds.

Key Points

- In March 2020, the Board of Supervisors approved a resolution which authorized the Director of Public Finance to determine the amount, date, and other provisions for the future sale of refunding bonds, up to \$1,482,995,000, which would be sold in series. Sales of all series of refunding bonds are subject to Board of Supervisors approval. The Board has approved refunding bonds in March 2020, March 2021, and April 2022. The Office of Public Finance (OPF) has identified \$694.4 million in outstanding general obligation bonds, of which \$674.4 million can be paid before the bonds reach their maturity date.
- OPF plans to issue refunding bonds, designated as Series 2024-R1, in an amount not to exceed \$644,675,000. The proposed refunding bonds will mature between 2035 and 2038.

Fiscal Impact

- Based on good faith estimates provided in November 2023, the City could sell an estimated par amount of \$584,450,000 in refunding bonds at a premium and receive approximately \$643,374,949 in bond proceeds, net of fees and charges, with true interest cost of 3.21 percent. This would achieve net present value debt service savings of approximately \$4.6 million, or 0.7 percent, assuming that all callable maturities are refunded. This estimated refunding does not meet the City’s Debt Policy’s target of at least three percent debt service savings, and therefore, OPF would not move forward with refunding all of the callable maturities under these conditions. However, OPF is requesting the proposed authorization to refund those callable maturities that would generate debt service savings above the three percent savings threshold, and to move quickly in case conditions allow the three percent debt service savings target to be realized for all the callable maturities.
- The combined cost of issuance and underwriters discount of proposed bonds is estimated at \$3.6 million, which is less than one percent of the principal amount and below the maximum allowed under the 2020 refunding authorization.

Recommendation

- Approve the proposed ordinance and resolution.

MANDATE STATEMENT

City Charter Section 9.109 authorizes the Board of Supervisors to approve the refunding or general obligation bonds which are expected to result in net debt service savings.

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

The City’s Debt Policy

California Senate Bill (SB) 1029 provides for the issuer of state or local government debt, no later than 30 days prior to the issuance of debt, to certify that the issuer has adopted local debt policies and that the issuance is consistent with the debt policies. The Board of Supervisors previously approved the City’s Debt Policy as recommended by the Controller’s Office of Public Finance (OPF) in February 2020 (File 20-0089).

Refunding Bond Authorization

In March 2020, the Board of Supervisors approved a resolution which authorized the Director of Public Finance to determine the amount, date, and other provisions for the future sale of refunding bonds, up to \$1,482,995,000 (File 20-0088), which would be sold in series. Sales of all series of refunding bonds are subject to Board of Supervisors approval. The Board of Supervisors have approved the following issuances of refunding bonds:

- In March 2020, the Board of Supervisors approved “Series 2020-R1,” the first series of refunding bonds in an amount not to exceed \$255 million (File 20-0088).
- In March 2021, the Board of Supervisors approved a resolution for the sale of refunding bonds, designated as Series 2021-R1 and Series 2021-R2, in an amount not to exceed \$220 million, to refund all or a portion of prior bonds (File 21-0183), as well as an ordinance to appropriate \$220 million of the refunding bond series to be sold in 2021 (File 21-0028).
- In April 2022, the Board of Supervisors approved a resolution for the sale of refunding bonds, designated as Series 2022-R1, in an amount not to exceed \$385 million, to refund outstanding general obligation bonds (File 22-0082), as well as an ordinance to appropriate \$385 million of the refunding bonds to be sold in 2022 (File 22-0081).

DETAILS OF PROPOSED LEGISLATION

OPF is requesting the Board of Supervisors to approve the following resolution and ordinance:

File 24-0114: The proposed resolution approves the issuance and sale of refunding bonds in an amount not to exceed \$644,675,000, designated as Series 2024-R1, to refund certain outstanding general obligation bonds. The resolution also approves the form and authorizes the distribution of the Preliminary Official Statement and authorize the execution, delivery, and distribution of the Official Statement relating to the sale of the Series 2024-R1 Bonds, ratify certain actions

previously taken, and grant general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of the Series 2024-R1 Bonds.

If the proposed resolution is approved, OPF would retain \$137,635,000 of refunding bond issuance authority pursuant to the 2020 authorization, though refunding bond sales would still be subject to the Board of Supervisors’ approval.

File 24-0086: The proposed ordinance appropriates \$644,675,000 of the refunding bond series to be sold in 2024 and places such amounts on the Controller’s reserve in FY 2023-24.

FISCAL IMPACT

OPF has identified \$694.4 million in outstanding general obligation bonds, of which \$674.4 million can be paid before the bonds reach their maturity date, as shown in Exhibit 1 below. A call option in a bond agreement allows the issuer to pay down all or a portion of a bond before its maturity date.

Exhibit 1: Series 2024 R-1 General Obligation Bond Refunding Candidates

Prior Bonds	Original Par Amount	Outstanding Par Amount	Callable Par Amount	Final Maturity
Series 2015B (Transportation & Road Improvement Bonds, 2014)	\$67,005,000	\$33,740,000	\$33,740,000	2035
Refunding Series 2015-R1	293,910,000	164,190,000	164,190,000	2035
Series 2016A (Clean & Safe Neighborhood Parks, 2008)	8,695,000	5,735,000	5,735,000	2035
Series 2016B (Clean & Safe Neighborhood Parks, 2012)	43,220,000	18,620,000	18,620,000	2035
Series 2016C (Earthquake Safety & Emergency Response, 2010)	25,215,000	17,190,000	17,190,000	2035
Series 2016D (Earthquake Safety & Emergency Response, 2014)	109,595,000	58,000,000	58,000,000	2035
Series 2016E (Road Repaving & Street Safety, 2011)	44,145,000	30,095,000	30,095,000	2035
Series 2017A (Public Health & Safety, 2016)	173,120,000	96,445,000	90,670,000	2036
Series 2018A (Clean & Safe Neighborhood Parks, 2012)	76,710,000	37,480,000	35,400,000	2037
Series 2018B (Transportation & Road Improvement Bonds, 2014)	174,445,000	85,235,000	80,505,000	2037
Series 2018C (Earthquake Safety & Emergency Response, 2014)	189,735,000	116,640,000	110,735,000	2038
Series 2018E (Public Health & Safety, 2016)	49,955,000	31,030,000	29,475,000	2038
Total GO Refunding Candidates Callable 2023-2024	\$1,255,570,000	\$694,400,000	\$674,355,000	

Source: Office of Public Finance

According to Vishal Trivedi, OPF Financial Analyst, the requested refunding bond amount of approximately \$644.7 million is less than the callable par amount of \$674.4 million because of a

scheduled debt service payment on June 15, 2024, that the City has already factored into the property tax levy and will be paid with funds on hand.

File 24-0086 is an ordinance that would appropriate up to \$644,675,000 in bond proceeds, as shown in Exhibit 2 below.

Exhibit 2: Estimated Sources and Uses of 2024 Refunding Bonds

Sources	Amount
<i>Refunding Bond Proceeds</i>	
Par Amount	\$644,675,000
Total Sources	\$644,675,000

Uses	Amount
Refunding Escrow	\$641,059,102
Cost of Issuance	2,004,211
Underwriter's Discount	1,611,687
Total Uses	\$644,675,000

Source: Proposed Ordinance

In November 2023, the City’s municipal advisor, Del Rio Advisors, LLC, provided good faith estimates for the issuance and sale of refunding bonds. At that time, De Rio Advisors estimated that the City could sell an estimated par amount of \$584,450,000 in refunding bonds and receive approximately \$643,374,949 in bond proceeds, net of fees. According to Financial Analyst Trivedi, this estimate assumes that the bonds would sell at a premium above face value, and therefore the City would not have to sell as many new bonds to generate sufficient proceeds to pay off the old bonds. However, OPF cannot predict with certainty if bonds will sell at a premium or what the premium will be. Therefore, the par amount of \$644,675,000 in the proposed resolution and ordinance represents the maximum par needed to generate sufficient proceeds to refund the callable bonds, with no premium assumed.

Debt Service Savings

Del Rio Advisors estimated that the true interest cost of refunding bonds would be approximately 3.21 percent. This would achieve net present value debt service savings of approximately \$4.6 million, or 0.7 percent, assuming that all callable maturities are refunded. The City’s Debt Policy states, “absent any significant non-economic factors, it is the policy of the City that a refunding should produce minimum debt service savings of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue’s True Interest Cost (‘TIC’) as the discount rate.” Since the good faith estimates do not project three percent debt service savings, Financial Analyst Trivedi reports that OPF would not move forward with refunding all of the callable maturities under these conditions. However, OPF is requesting the proposed authorization to refund those callable maturities that would generate debt service savings above the three percent savings threshold and to be able to move quickly in the event conditions reach a point where the three percent debt service savings target can be realized for all of the callable maturities.

Although interest rates have increased since the period when bonds were issued (2015 through 2018), Financial Analyst Trivedi reports that debt service savings can be realized through refunding because the coupon rate (fixed interest payment) of outstanding bonds could be higher than that of new bonds. Many outstanding bonds were sold at a premium. The premiums reduced effective coupon rates for outstanding bonds for a portion of their term, but now the City is paying debt service at the nominal coupon rate, so the City can likely achieve savings if new bonds have a lower true interest cost than the coupons of the outstanding bond maturities. Additionally, refunding bonds are issued for a shorter term, in line with existing maturity dates, which typically reduces interest costs.

Debt Issuance Costs

The resolution approving the issuance of up to \$1.483 billion in refunding bonds (File 20-0088) requires the costs of such issuances to not exceed two percent and, for a negotiated sale, the underwriter’s discount to not exceed one percent of the principal amount of the refunding bonds. As shown in Exhibit 2, the combined cost of issuance and underwriters discount of proposed bonds is estimated at \$3.6 million, which is less than one percent of the principal amount and below the maximum allowed.

OPF is proposing a negotiated sale to maximize flexibility on the timing and structure of the sale to increase savings while maintaining tax rates. OPF issued a Request for Proposals (RFP) in February 2024 to firms in the City’s underwriter pool to select an underwriter for the refunding bonds and anticipates receiving responses in March 2024.

Debt Limit

Section 9.106 of the City Charter limits general obligation bond debt to three percent of the assessed value of property in the City. As of January 1, 2024, the City has approximately \$2.59 billion in aggregate principal amount of general obligation bonds outstanding, equal to approximately 0.75 percent of the net assessed value in FY 2023-24. If all of the City’s voter-authorized and unissued general obligation bonds were issued (an additional approximate \$1.26 billion), the total general obligation bond debt would be 1.12 percent of the net assessed value of property in the City. According to OPF, if the Board of Supervisors approves the proposed 2024 Refunding Bonds, the debt ratio would not change significantly, as the bonds would be used to refund the currently outstanding principal and, therefore, remain in compliance with the City’s debt limit.

RECOMMENDATION

Approve the proposed ordinance and resolution.

Proposed GO Refunding Bond Series 2024-R1

GENERAL OBLIGATION REFUNDING CANDIDATES

General Obligation Bond Refunding Candidates	Original Par Amount	Outstanding Par Amount	Callable Par Amount	Final Maturity
2023 GO Refunding Candidates (Callable on June 15, 2023)				
Series 2015B (Transportation & Road Improvement Bonds, 2014)	\$67,005,000	\$33,740,000	\$33,740,000	2035
Refunding Series 2015-R1	\$293,910,000	\$164,190,000	\$164,190,000	2035
Series 2016A (Clean & Safe Neighborhood Parks, 2008)	\$8,695,000	\$5,735,000	\$5,735,000	2035
Series 2016B (Clean & Safe Neighborhood Parks, 2012)	\$43,220,000	\$18,620,000	\$18,620,000	2035
Series 2016C (Earthquake Safety and Emergency Response, 2010)	\$25,215,000	\$17,190,000	\$17,190,000	2035
Series 2016D (Earthquake Safety and Emergency Response, 2014)	\$109,595,000	\$58,000,000	\$58,000,000	2035
Series 2016E (Road Repaving & Street Safety, 2011)	\$44,145,000	\$30,095,000	\$30,095,000	2035
Subtotal 2023 GO Refunding Candidates	\$591,785,000	\$327,570,000	\$327,570,000	
2024 GO Refunding Candidates (Callable on June 15, 2024)				
Series 2017A (Public Health and Safety, 2016)	\$173,120,000	\$96,445,000	\$90,670,000	2036
Series 2018A (Clean & Safe Neighborhood Parks, 2012)	\$76,710,000	\$37,480,000	\$35,400,000	2037
Series 2018B (Transportation & Road Improvement Bonds, 2014)	\$174,445,000	\$85,235,000	\$80,505,000	2037
Series 2018C (Earthquake Safety and Emergency Response, 2014)	\$189,735,000	\$116,640,000	\$110,735,000	2038
Series 2018E (Public Health and Safety, 2016)	\$49,955,000	\$31,030,000	\$29,475,000	2038
Subtotal 2024 GO Refunding Candidates	\$663,965,000	\$366,830,000	\$346,785,000	
Total GO Refunding Candidates Callable 2023 - 2024	\$1,255,750,000	\$694,400,000	\$674,355,000	

- In accordance with the City's Adopted Debt Policy, the 2024-R1 General Obligation Refunding Bonds will only be issued if the transaction produces minimum debt service savings of at least 3% of the par value of the refunded bonds on a net present value ("NPV") basis.
- The transaction may be structured to include or exclude eligible maturities in order to maintain the 3% savings target.
- A competitive Request for Proposals (RFP) for Underwriting services for this transaction was issued on February 16, 2024 with responses due back on March 8, 2024.



Proposed General Obligation Refunding Bonds

ESTIMATED FINANCING TERMS

- Final Maturity: June 15, 2038
- Estimated True Interest Cost: 3.21%
- Estimated Refunding Escrow: \$641.1M
- Estimated Financing Costs: \$3.6M

SOURCES AND USES

Sources:

<u>2024-R1 GO Refunding Bond Proceeds</u>	
Not-to-Exceed Par Amount	\$644,675,000
Total Sources	\$644,675,000

Uses:

Refunding Escrow	\$641,059,102
Delivery Date Expenses	3,615,898
Total Uses	\$644,675,000

Source: Del Rio Advisors, LLC



Proposed General Obligation Refunding Bonds

ANTICIPATED FINANCING TIMELINE

Milestones

Dates

- | | |
|------------------------------------------------------------------------------------------------|------------------|
| ● Introduction of the Ordinance to the Board of Supervisors | January 30, 2024 |
| ● Introduction of the Resolution to the Board of Supervisors | February 6, 2024 |
| ● Budget and Finance Committee Hearing | March 6, 2024 |
| ● Board Considers Adoption of Resolution / Approval of the Ordinance (1 st Reading) | March 12, 2024 |
| ● Final Board Approval of the Ordinance (2 nd Reading) | March 19, 2024 |
| ● Pricing and Closing of GO Refunding Bonds | May 2024 |

From: [Trejo, Sara \(MYR\)](#)
To: [BOS Legislation, \(BOS\)](#)
Cc: [Paulino, Tom \(MYR\)](#); [Trivedi, Vishal \(CON\)](#); [Carson, Grant \(CON\)](#); [Ma, Sally \(CON\)](#)
Subject: Mayor -- Ordinance -- GO Refunding Appropriation
Date: Tuesday, January 30, 2024 2:26:57 PM
Attachments: [Supplemental Appropriation- 2023 GO Bond Refunding - Revised 01.18.24.docx](#)
[Supplemental Appropriation- 2023 GO Bond Refunding - Revised 01.18.24.pdf](#)
[MBO Approval.msg](#)

Hello Clerks,

Attached is an Ordinance appropriating \$644,675,000 from the issuance of one or more series of Refunding General Obligation Bonds; and placing such amounts on Controller's reserve.

Best regards,

Sara Trejo

Legislative Aide

Office of the Mayor

City and County of San Francisco

415.554.6141 | sara.trejo@sfgov.org