



CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER

**Ben Rosenfield
Controller**

**Todd Rydstrom
Deputy Controller**

**Nadia Sesay
Director
Office of Public Finance**

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director of Public Finance

SUBJECT: City and County of San Francisco General Obligation Bonds
(Clean and Safe Neighborhood Parks, 2012), Series 2018A
(Transportation and Road Improvement, 2014), Series 2018B

DATE: Monday, November 27, 2017

I respectfully request that the Board of Supervisors consider for review and adoption to the Board the resolutions authorizing the sale of general obligation bonds financing the Clean and Safe Neighborhood Parks and Transportation and Road Improvement programs at its Tuesday, November 28, 2017 meeting.

In connection with this request, legislation approving the sale and issuance of the bonds, supplemental appropriation ordinances to appropriate the bond proceeds, and related supporting documents are expected to be introduced. We respectfully request that the items be heard at the scheduled December 14, 2017 meeting of the Budget and Finance Committee.

Background:

On November 6, 2012, a two-thirds majority of voters of the City approved Proposition B ("2012 Proposition B"), the San Francisco Clean and Safe Neighborhood Parks Bond, authorizing the city to issue \$195,000,000 in general obligation bonds to finance the construction, reconstruction, purchase and/or improvement of park and recreation facilities in the City. Of the total authorization, \$115,190,000 has been issued to date, leaving \$79,810,000 remaining from the 2012 Proposition B funds.

On November 4, 2014, Proposition A, a two-thirds majority of voters of the City approved the San Francisco Transportation and Road Improvement General Obligation Bond. Proposition A authorizes the City and County of San Francisco to issue \$500,000,000 in General Obligation Bonds to implement many of the infrastructure repairs and improvements identified by Mayor Ed Lee's Transportation 2030 Task Force (the "2014 Proposition A"). The projects to be funded through the proposed bond sale include:

pedestrian safety improvements, SFMTA facility upgrades, accessibility improvements, traffic signal improvements, Muni Forward Rapid Network improvements, street infrastructure improvements, Caltrain upgrades, streetscape and other transit corridor improvements (the “Project”). Of the total authorization, \$67,005,000 has been issued to date, leaving \$432,995,000 remaining from the 2014 Proposition A funds.

The proposed resolutions authorize the sale of not-to-exceed \$76,710,000 of City and County of San Francisco General Obligation Bonds (Clean and Safe Neighborhood Parks, 2012), Series 2018A (the “2018A Bonds”), as well as the sale of not-to-exceed \$177,000,000 of City and County of San Francisco General Obligation Bonds (Clean and Safe Neighborhood Parks 2012), Series 2018B (the “2018B Bonds”). The 2018A Bonds will be the third series of bonds to be issued under the 2012 Proposition B. The 2018B Bonds will be the second series of bonds to be issued under the 2014 Proposition A.

As described more fully in the 2012 Clean and Safe Neighborhood Parks Bond Accountability Report, dated November 2017, proceeds from the 2018A Bonds will partially finance the following program categories:

- **Neighborhood Parks** – The bond program allocates the majority of its funds to capital improvements at Neighborhood Parks across the city. These parks were selected based on the extent to which they are unsafe in the event of an earthquake, are in poor physical condition, or for deficiencies in their ability to meet the basic recreational uses to many San Franciscans.
- **Citywide Programs** – The bond program allocates funds programmatically to promote community-based initiatives, and address deferred maintenance needs in our playgrounds, forestry, trails and irrigation systems. These funds often expand the scope of other capital projects and fill funding gaps that cannot be met through other funding sources.
- **Citywide Parks** – The bond program allocates funds to three Citywide parks: Golden Gate Park, John McLaren, and Lake Merced. These much loved, iconic parks are enjoyed by all of San Francisco. The 2012 Bond program dedicates funding to enhance and modernize their facilities and natural areas.

As detailed more fully in the 2014 Transportation and Road Improvement Bond Status Report, dated November 2017, proceeds from the 2018B Bonds will partially finance the following:

- **Muni Forward Rapid Network Improvements** – The bond will support design and construction on the next set of efficiency and connectivity improvement projects on Muni’s high ridership lines.
- **Caltrain Upgrades** – The proceeds will allow San Francisco to contribute its share toward the Communications-Based Overlay Signal System (CBOSS) project, which will enhance Caltrain safety and operating performance, as well as the Caltrain Electrification project, which will allow Caltrain to convert from diesel to electric trains.
- **Accessibility Improvements** – Bond proceeds would be used to fund improvements such as new elevators, escalators, and boarding islands, which improve the safety and accessibility of transit stations and stops. They allow for level boarding for people with mobility impairments. One project currently under consideration for funding is the installation of canopies over shared

BART/Muni Metro station entrances. Such canopies would protect station escalators from the elements, as well as prevent unauthorized station access during nonoperational hours. Canopies would extend the service life of the open-air escalators, reduce escalator repairs, and improve reliability

- **Muni Facility Upgrades** – This program funds the initial design and construction of projects that are needed to optimize operations and accommodate fleet needs at Muni’s operations and maintenance facilities. These projects may include replacement of existing structures, reconfiguration of materials and parts storage, upgraded and expanded washing and fueling stations, and other structural modifications.
- **Major Transit Corridor Improvements** – The proceeds will allow for upgrades for streets that form the trunk of the transit system, to increase transit speed and reliability along major corridors. The focus of this program is to fund projects that encourage street interconnectivity to create a comprehensive, integrated, efficient, safe and connected network for all modes.
- **Pedestrian Safety Improvements** – These capital improvements will address safety issues at the most dangerous intersections or corridors in San Francisco to create a safer, more welcoming environment for pedestrians and make progress towards San Francisco’s Vision Zero initiative.
- **Traffic Signal Improvements** – Proceeds from this issuance would be allocated to fund continued planning, review, design and related outreach for traffic signal upgrades and improvements as part of the Better Market Street project.
- **Complete Streets Improvements** – These improvements include curb bulbs, raised crosswalks, and improved sidewalks at intersection corners, median islands, separated bikeways, and bicycle parking. This program also includes installing basic infrastructure to decrease the cost of future projects, such as underground signal conduit to be utilized for the future pedestrian countdown signals, and would provide safety improvements for people bicycling.

The remaining authorization amounts under 2012 Proposition B and 2014 Proposition A will be issued subject to review by the Capital Planning Committee, the consideration and adoption by the Board of Supervisors and approval by the Mayor of subsequent authorizing resolutions.

Financing Parameters:

The proposed resolutions authorize the sale of not-to-exceed combined par amount of \$253,710,000 for Series 2018A and 2018B. Based on current project cost estimates and schedules, the Office of Public Finance expects to issue \$251,300,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected issuance amount allows for fluctuations in market conditions from the date of authorization by the Board to the time of the sale of the Bonds.

The Bonds are anticipated to contribute approximately \$76,899,527 to park, open space, and recreation projects, and \$172,743,000 to transportation projects. Table 1 outlines anticipated sources and uses for the Bonds.

Table 1: Anticipated Sources and Uses for the Bonds.

	CSNPB Series 2018A	Transportation Series 2018B	Total
Sources			
Par Amount	\$76,710,000	\$174,590,000	\$251,300,000
Reserve Proceeds		\$2,410,000	\$2,410,000
Total Not-To-Exceed Amount	\$76,710,000	\$177,000,000	\$253,710,000
Uses			
<u>Projects</u>			
Project Funds	\$75,899,527	\$172,743,000	\$248,642,527
Controller's Audit Fund	\$151,799	\$345,486	\$497,285
Projects Subtotal	\$76,051,326	\$173,088,486	\$249,139,812
<u>Other Costs of Issuance</u>			
Costs of Issuance	\$198,414	\$453,977	\$652,391
Underwriter's Discount	\$383,550	\$872,947	\$1,256,497
Citizens' General Obligation Bond Oversight Committee	\$76,710	\$174,590	\$251,300
Costs of Issuance Subtotal	\$658,674	\$1,501,514	\$2,160,188
Total Uses	\$76,710,000	\$174,590,000	\$251,300,000
Reserve Pending Bond Sale ¹		\$2,410,000	\$2,410,000
Total Uses with Reserve	76,710,000	\$177,000,000	\$253,710,000

Based upon a conservative estimate of approximately 3.99% interest rate, OPF estimates that average fiscal year debt service on the Bonds is approximately \$18,667,000. The anticipated total par value of \$251,300,000 is estimated to result in approximately \$110,690,000 in interest payments over the life of the Bonds. The total principal and interest payment over the approximate 20-year life of the Bonds is approximately \$361,990,000. Based on market conditions expected to exist at the time of the sale coupled with the Capital Planning Committee constraints, the Bonds could be structured with a 25-year life.

In addition, a portion of the Bonds will pay certain expenses incurred in connection with their issuance and delivery and the periodic oversight and review of the Projects by the Citizens' General Obligation Bond Oversight Committee ("CGOBOC"). Detailed descriptions of the Projects financed with proceeds of the Bonds are included in the Bond Reports prepared by the San Francisco Recreation and Park Department and the San Francisco Municipal Transportation Agency (SFMTA).

Debt Limit:

The City Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3.00% of the assessed value of property in the City. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's general obligation debt limit for fiscal year 2017-18 is approximately \$7.02 billion, based on a net assessed valuation of

¹ The Reserve Pending Sale accounts for variations in interest rates prior to the sale of the proposed bonds.

approximately \$234.1 billion. As of October 1, 2017, the City had outstanding approximately \$2.07 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.88% of the net assessed valuation for fiscal year 2017-18. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.47% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by 0.11% to 0.99%— within the 3.00% legal debt limit.

Property Tax Impact

For Series 2018A and 2018B, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which, according to the Controller's Office, would average \$0.00797 per \$100 or \$7.97 per \$100,000 of assessed valuation over the anticipated 20-year term of the bonds. The owner of a residence with an assessed value of \$600,000, assuming a homeowner's exemption of \$7,000, would pay average annual additional Property Taxes to the City of \$47.29 per year if the anticipated \$251,300,000 City and County of San Francisco General Obligation Bonds are sold.

Capital Plan:

The Capital Planning Committee approved a financial constraint regarding the City's planned use of general obligation bonds such that debt service on approved and issued general obligation bonds would not increase property owners' long-term property tax rates above fiscal year 2006 levels. The fiscal year 2006 property tax rate for the general obligation bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Bonds, the property tax rate for general obligation bonds for fiscal year 2017-18 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

Additional Information:

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, November 14, 2017. The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

Official Notice of Sale: The Official Notice of Sale for the Bonds announces the date and time of the competitive bond sale, including the terms relating to the Bonds; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Bonds may be bid separately by series or bids may be received for all of the Bonds.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Bonds. Pursuant to the Resolutions, the Controller is authorized to award the Bonds to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

Notice of Intention to Sell: The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the 2018A and 2018B Bonds. Such Notice of Intention to Sell will be published

once in “The Bond Buyer” or another financial publication generally circulated throughout the State of California.

Official Statement: The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the Bonds. The Official Statement describes the Bonds, including sources and uses of funds; security for the Bonds; risk factors; and tax and other legal matters, among other information. The Official Statement also includes the City’s Appendix A, the most recent Comprehensive Annual Financial Report of the City, the City’s Investment Policy, and other forms of legal documents for the benefit of investors, holders and owners of the Bonds.

A *Preliminary Official Statement* is distributed to prospective bidders prior to the sale of the Bonds and within seven days of the public offering, the *Final Official Statement* (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) is distributed to the initial purchasers of the Bonds.

The Board of Supervisors and the Mayor, in adopting and approving the Resolutions, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller certifies, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates.

Appendix A: The City prepares the Appendix A: “City and County of San Francisco—Organization and Finances” (the “Appendix A”) for inclusion in the Official Statement. The Appendix A describes the City’s government and organization, the budget, property taxation, other City tax revenues and other revenue sources, general fund programs and expenditures, employment costs and post-retirement obligations, investment of City funds, capital financing and bonds, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolution, City staff will revise the Official Statement, including the Appendix A.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the City (the “Annual Report”) not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist initial purchasers of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Financing Timeline:

The Bonds are expected to be issued and delivered in January 2018. Schedule milestones in connection with the financing may be summarized as follows:

Milestone	Date*
Consideration by the Capital Planning Committee	November 13, 2017
Introduction of authorizing legislation and supporting materials to the Board	November 14, 2017
Issuance and delivery of the Bonds	January 2018

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact me at 415-554-5956 if you have any questions. Thank you.