




**OFFICE OF THE CONTROLLER**  
CITY AND COUNTY OF SAN FRANCISCO

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Controller  
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Director of Public Finance

## MEMORANDUM

**TO:** Honorable Members, Board of Supervisors

**FROM:** Anna Van Degna, Director of the Office of Public Finance   
Vishal Trivedi, Office of Public Finance

**DATE:** Friday, July 26, 2019

**SUBJECT:** Resolution Authorizing the Sale of General Obligation Bonds (Clean and Safe Neighborhood Parks, 2012) Series 2019C –\$3,100,000;  
Resolution Authorizing the Sale of Taxable General Obligation Bonds (Affordable Housing, 2015) Series 2019D –\$92,725,000

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We respectfully request that the Board of Supervisors (the “Board”) consider for review and adoption the resolutions approving the sale of general obligation bonds for the 2012 Clean and Safe Neighborhood Parks Bond (CSNPB) program in the amount of \$3,100,000 and the sale of taxable general obligation bonds for the 2015 Affordable Housing program in the amount of \$92,725,000.

In connection with this request, legislation approving the sale of these two series of bonds, as well as supplemental appropriation ordinances to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, July 30, 2019. We will request that the items be heard at the scheduled September 4, 2019 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, \$191,900,000 has been issued to date, leaving \$3,100,000 remaining from the 2012 Proposition B funds.

On November 3, 2015, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Affordable Housing General Obligation Bond. Proposition A authorizes the City and County of San Francisco to issue \$310,000,000 in General Obligation Bonds to fund capital projects to prioritize affordable housing projects for vulnerable populations including working families, veterans, seniors, and

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disabled persons (the “2015 Proposition A”). The projects to be funded through the proposed bond sale include: the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; the repair and reconstruction of dilapidated public housing; funding of a middle-income rental program; and the provision of homeownership down payment assistance opportunities for educators and middle-income households (the “Project”). Of the total authorization, \$217,275,000 has been issued to date, leaving \$92,725,000 remaining from the 2015 Proposition A funds.

Project funds from this issuance of 2012 CSNPB bonds be used for construction, renovation, and park improvements at Heron’s Head and Agua Vista Parks at the Port of San Francisco. The projects to be funded by this issuance of 2015 Affordable Housing bonds include infrastructure and vertical gap financing for Potrero and Sunnydale public housing developments, acquisition and rehabilitation of rent-controlled housing under the Small Sites program, support for predevelopment and construction of low-income housing units, down-payment assistant loans for teachers and first-time homebuyers, and predevelopment for middle-income teacher housing.

**Financing Parameters**

The proposed legislation will authorize the final issuances of bonds for the purposes allowed under the November 2012 Proposition B and 2015 Proposition A, and approve the appropriation of the bond proceeds from the sale. Table 1 below outlines the not-to-exceed sources and uses for the Bonds, based on an estimate provided by Public Resources Advisory Group, a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board of Supervisors regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

**Table 1: Estimated Sources and Uses from the Bonds**

	<u>2019C</u>	<u>2019D</u>
<b>Maximum Not to Exceed Amount:</b>	<b>\$3,100,000</b>	<b>92,725,000</b>
<b>Estimated Sources:</b>		
Par Amount	\$3,100,000	\$92,725,000
<b>Total Estimated Sources:</b>	<b>\$3,100,000</b>	<b>\$92,725,000</b>
<b>Estimated Uses:</b>		
Project Fund Deposits:		
Project Fund	\$3,070,256.88	\$91,636,916.28
CSA Audit Fee	\$6,140.51	\$183,273.83
Total Project Fund Deposits:	\$3,076,397.39	\$91,820,190.11
Cost of Issuance	\$19,727.61	\$580,272.39
Underwriter's Discount	\$775.00	\$231,812.50
CGOBOC Fee	\$3,100.00	\$92,725.00
Total Delivery Expense:	\$23,602.61	\$904,809.89
<b>Total Estimated Uses:</b>	<b>\$3,100,000</b>	<b>\$92,725,000</b>

Source: Public Resources Advisory Group

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Based upon an estimated market interest rate of 2.92% for tax exempt general obligation bonds, the Office of Public Finance estimates an average annual interest cost of approximately \$104,000 for the Series 2019C CSNPB bonds. The par amount of \$3,100,000 is estimated to generate approximately \$3,204,000 in total debt service over the anticipated 1-year term of the Bonds. The Bonds are expected to mature on or before June 15, 2020. The bonds are expected to be sold with a 1-year term based on market conditions, due to the small issuance size and the pairing of the sale with a larger taxable bond issuance.

The taxable Affordable Housing bonds are anticipated to price with a market interest rate of approximately 4.39%, and the Office of Public Finance estimates that this would result in an average annual interest cost of approximately \$2,350,000 and an average total annual debt service cost of \$7,100,000. The par amount of \$92,725,000 is estimated to generate approximately \$46,906,000 in interest payments, resulting in approximately \$139,630,000 in total debt service over the 20-year life of the bonds.

Detailed descriptions of the Projects financed with proceeds of the Bonds are included in the Bond Reports to be prepared by the Port of San Francisco and the Mayor's Office of Housing and Community Development. In addition, a portion of the Bond proceeds will be used to pay certain expenses incurred in connection with their issue and delivery, and the periodic oversight and review of the Projects by City Services Auditor ("CSA Audit") the Citizens' General Obligation Bond Oversight Committee ("CBOBC").

#### **Property Tax Impact**

For Series 2019C and 2019D, repayment of annual debt service on the Bonds will be recovered through increases in the annual property tax rate, which is estimated to average \$0.00280 per \$100 of assessed value or \$2.80 per \$100,000 of assessed value 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 additional property taxes to the City of approximately \$16.61 per year if the anticipated \$95,825,000 Bonds are sold.

#### **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 2018-19 is approximately \$7.78 billion, based on a net assessed valuation of approximately \$259.3 billion. As of July 1, 2019, the City had outstanding approximately \$2.46 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.95% of the net assessed valuation for fiscal year 2018-19. If all of the City's voter-authorized and unissued general obligation bonds were issued, the total debt burden would be 1.37% 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 approximately 0.03% to 0.98%— within the 3.00% legal debt limit.

#### **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

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fiscal year 2019-20 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, July 30, 2019. The forms of the related financing documents—including the Bond Purchase Agreement, Preliminary Official Statement, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted.

*Bond Purchase Agreement:* The City intends to pursue a competitive sale of the 2019CD Bonds; but if market conditions should necessitate a negotiated sale with an underwriter, the Purchase Contract details the terms, covenants, and conditions for the sale of the Bonds through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

*Official Notice of Sale:* Should the bonds be sold competitively, the Official Notice of Sale would announce the date and time for a competitive bond sale, including the terms relating to sale of the Bonds; form of bids, and delivery of bids; and closing procedures and documents.

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, in a competitive sale 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 2019CD Bonds. Such Notice of Intention to Sell would 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,

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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:**

Milestones:

Capital Planning Committee  
Board of Supervisors Introduction  
Budget & Finance Committee Hearing  
Board Approval of Resolutions and 1st Reading of Appropriation Ordinance  
Final Board Approval of Appropriation Ordinance (2nd Reading)  
Estimated Sale & Closing

Dates\*:

July 25  
July 30  
September 4  
September 10  
September 17  
October 2019

\*Please note that dates are preliminary and may change.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 ([anna.vandegna@sfgov.org](mailto:anna.vandegna@sfgov.org)), Vishal Trivedi at 415-554-4862 ([vishal.trivedi@sfgov.org](mailto:vishal.trivedi@sfgov.org)) or Luke Brewer at 415-554-7693 ([luke.brewer@sfgov.org](mailto:luke.brewer@sfgov.org)) if you have any questions.