



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Anna Van Degna
Director of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Anna Van Degna, Director of the Controller's Office of Public Finance
Luke Brewer, Controller's Office of Public Finance *LB*

DATE: Monday, January 27, 2020

SUBJECT: Resolution authorizing the issuance of City & County of San Francisco General Obligation Refunding Bonds, from time to time, in an amount not to exceed \$1,482,995,000

Resolution approving the Controller's Office of Public Finance Debt Policy in accordance with California Government Code Section 8855 and determining other matters in connection therewith

Recommended Actions

Refunding Resolution

We respectfully request that the Board of Supervisors (the "Board") consider for review and approval the resolution (the "Refunding Resolution") which (1) authorizes the issuance from time to time, in one or more series, of not to exceed \$1,482,995,000 aggregate principal amount of the City and County of San Francisco General Obligation Refunding Bonds (the "Refunding Bonds"); (2) approves the sale of the initial series of such bonds to be designated as City and County of San Francisco General Obligation Refunding Bonds, Series 2020-R1 (the "2020-R1 Refunding Bonds") in the amount not to exceed \$255,000,000; and (3) other necessary actions in connection therewith.

Debt Policy Resolution

Additionally, we respectfully request that the Board consider for review and approval the resolution (the "Debt Policy Resolution") approving the Controller's Office of Public Finance Debt Policy in accordance with California Government Code Section 8855 and determining other matters in connection therewith.

Debt Policy Resolution Background

The Office of Public Finance ("OPF"), in consultation with the City Attorney's Office, has recently undertaken its periodic review of the Debt Policy to, among other things, refine certain of the City's

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disclosure practices, which are detailed in Appendix I - Municipal Disclosure Policies and Section Procedures. (Please note: The City Attorney’s Office will be conducting a Board training, which is tentatively scheduled for February 25, where the background and rationale for these procedures will be covered.) Additionally, per Section VIII.B., the policy expands the circumstances in which the City would determine to sell bonds via a negotiated sale. A negotiated sale allows for more flexibility in timing of the sale, allows the adjustment of the structure and amount of bonds being issued based on final interest rates, and allows for couponing flexibility and targeting of specific investors during a pre-marketing period. A negotiated sale is also useful during a market dislocation or when a disruption such as litigation exists, when a competitive underwriter may build in a risk premium (additional cost) due to uncertainty in the ability to resell all of the bonds in a timely manner to end investors. A determination to sell bonds via a negotiated sale requires consultation with the Controller and the City’s Municipal Advisor(s) as well as a competitive process for underwriter selection.

Prior Board of Supervisors Actions

The Board has previously adopted resolutions approving the Controller’s Debt Policy as modified from time to time, including Resolution 250-17 approved in June 2017 and Resolution 53-19 approved in February 2019.

Refunding Resolution Background

Since 1992, a two-thirds majority of voters of the City and County of San Francisco (the “City”) have approved 26 Propositions authorizing the issuance of general obligation bonds (“GO Bonds”) totaling \$6.10 billion for various projects. \$4.50 billion of bonds have been issued and \$2.39 billion are outstanding. When the City issues GO Bonds, there are provisions included which give the City the option to refinance the bonds after a certain period of time, should interest rates be more favorable and produce savings to the City. Over the next four years, OPF estimates there could be opportunities to refinance up to \$1.48 billion in GO Bonds, including \$233.1 million which can be refinanced beginning in March 2020.

See [Attachment 1](#) for a full list of GO Bonds authorizations and series outstanding as of January 1, 2020.

See [Attachment 2](#) for the list of Prior Bonds with refinancing opportunities over the next 5 years.

Prior Board of Supervisors Actions

The Board adopted Resolution No. 272-04 in May 2004 (the “2004 Resolution”). The 2004 Resolution authorized the issuance of \$800 million of general obligation refunding bonds from time to time in one or more series for the purpose of refunding all or a portion of the City’s outstanding General Obligation Bonds. In November of 2011, the Board adopted Resolution No. 448-11 (the “2011 Resolution,” and together with the 2004 Resolution, the “Prior Bond Resolutions”) which authorized the issuance \$1.356 billion of general obligation refunding bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City.

Current Plan of Finance

The Refunding Resolution authorizes and directs the Director of OPF to determine which series of outstanding Prior GO Bonds would be refinanced with the proceeds of Refunding Bonds and to provide

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for the sale of any series of Refunding Bonds using the approved form of such documents, subject to certain terms and conditions including the following:

- (i) each series of Refunding Bonds must achieve aggregate net present value savings of at least 3% of outstanding principal of the total Prior Bonds to be refunded by such series;
- (ii) the true interest cost of the refunding bonds must not exceed 12%;
- (iii) the refunding bonds must not have a final maturity date later than the maturity date of the bonds to be refunded; and
- (iv) the costs of issuance must not exceed 2% and underwriter’s discount must not exceed 1% of the principal amount of the refunding bonds

The Refunding Resolution also approves the sale of the first issuance of Refunding Bonds, designated Series 2020-R1, in an amount not to exceed \$255 million, to refund all or a portion of the Prior Bonds listed in Table 1 below.

Table 1: Series 2020-R1 General Obligation Refunding Candidates

Prior Bonds	Original Par Amount	Refundable Par Amount
Refunding Series 2008-R1	\$232,075,000	\$3,480,000
Series 2010E (Earthquake Safety & Emergency Response, 2010)	\$79,520,000	\$35,730,000
Series 2012A (Earthquake Safety & Emergency Response, 2010)	\$183,330,000	\$108,025,000
Series 2012B (Clean & Safe Neighborhood Parks, 2008)	\$73,355,000	\$42,425,000
Series 2012C (Road Repaving & Street Safety, 2011)	\$74,295,000	\$43,435,000
Total	\$642,575,000	\$233,095,000

Based on bond market conditions as of January 24, 2020, the City could issue the tax-exempt 2020-R1 Refunding Bonds in the Spring of 2020 to refund the Prior Bonds and generate gross savings to property taxpayers of approximately \$31.64 million based on an estimated interest rate of 2.19%. On a net present value (“NPV”) basis, OPF estimates the debt service savings to be approximately \$26.83 million, or 11.51% of the total outstanding principal of the Prior Bonds to be refunded (\$233.1 million), above the City’s policy requirement that savings be at least 3.00% of the Prior Bond amount.

OPF will continue to monitor market conditions and may revise the par amount of the refunding prior to the final sale or pricing date. OPF anticipates the transaction to price in March and close in April 2020.

Table 2 on the following page outlines the not-to-exceed sources and uses for the 2020-R1 Refunding Bonds, based on an estimate provided by Montague DeRose and Associates, LLC, a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

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Table 2: Estimated Sources & Uses of the 2020-R1 Refunding Bonds

Sources:

<u>Refunding Bond Proceeds</u>	
Par Amount	\$198,925,000
Premium	\$39,099,597
Total Sources	\$238,024,597

Uses:

Refunding Escrow	\$236,800,136
<u>Delivery Date Expenses</u>	
Cost of Issuance	\$905,805
Underwriter's Discount	\$318,656
Total Uses	\$238,024,597

Reserve for Market Uncertainty \$16,975,403

Not-to-Exceed Par Amount **\$255,000,000**

Source: Montague DeRose and Associates, LLC

The requested not-to-exceed par amount of \$255,000,000 for the 2020-R1 Refunding Bonds exceeds the current estimated par amount of \$198,925,000 in order to provide flexibility to capture the benefit of more favorable market conditions should they be available at the time of sale. Conditions that could result in a change in the anticipated bond par amount include fluctuations in market interest rates between the date of authorization by the Board and the sale of the 2020-R1 Refunding Bonds, changes in the refunding escrow or changes in estimated delivery date expenses.

Based upon an estimated true interest cost of 2.19% as defined in the proposed Refunding Resolution, OPF estimates that average fiscal year debt service on the Refunding Bonds is approximately \$18.15 million. The anticipated total par value of \$198.93 million is estimated to result in approximately \$76.83 million in interest payments over the life of the Refunding Bonds. The total principal and interest payment over the approximate 15-year life of the Refunding Bonds is approximately \$275.75 million.

For good faith estimates required by Code Section 5852.1 of the California Government regarding the proposed financing, see Attachment 3. The information set forth in Attachment 3 is based on estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.

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 2019-20 is approximately \$8.43 billion, based on a net assessed valuation of approximately \$281.1 billion. As of January 1, 2020, the City had approximately \$2.39 billion in aggregate principal amount of general obligation bonds outstanding, which equals approximately 0.85% of the net assessed valuation for fiscal year 2019-20. If all of the City’s voter-authorized and unissued general obligation bonds were

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issued (\$1.60 billion), the total debt burden would be 1.42% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the Refunding Bonds, after the City issues the 2020-R1 Refunding Bonds, the debt ratio is estimated to decrease by approximately 0.01% to 0.84%—within the 3.00% legal debt limit.

Additional Information

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, January 28, 2020. The forms of the related financing documents—including the Bond Purchase Contract, Escrow Agreement, Preliminary Official Statement, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted. The Appropriation Ordinance related to the sale of the 2020-R1 Refunding Bonds was introduced on January 14, 2020.

Method of Sale & Bond Purchase Contract: A negotiated sale is planned in connection with this transaction in order to maximize flexibility on the timing and structure of the sale to enhance refunding savings and bonding capacity while maintaining tax rates within the City’s Capital Plan constraint. OPF issued a Request for Proposals to firms within the City’s Underwriter Pool, which was established via a competitive process. In consultation with the City’s Municipal Advisor, OPF recommends a syndicate led by J.P. Morgan, with Loop Capital Markets, Morgan Stanley and Ramirez & Co. serving as co-managers. The Bond 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.

Escrow Agreement: The Resolution approves the form of Escrow Agreement, allowing for the creation of escrow funds to pay the principal and interest due on the Prior Bonds. The escrow agent will hold any escrow obligations pursuant to the Escrow Agreement in an irrevocable trust fund account for the City for the benefit of the owners of the Prior Bonds.

Official Notice of Sale and Notice of Intention to Sell (if bonds are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City’s intention to sell the 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.

The Official Notice of Sale for the Bonds announces the date and time of a competitive sale, including the terms relating to the Bonds; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

The Official Bid Form attached to the Official Notice of Sale is the form of the official bid for the purchase of the Bonds. Pursuant to the Resolution, 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.

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

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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 investors 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 Resolution, approve and authorize the use and distribution of the Official Statement by the underwriters with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller will certify, 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 Refunding Resolution, the Board hereby delegates to the Controller to finalize and revise the Official Statement, including the Appendix A, to, among other things, include the most recent City financial information or other material information relevant to investors, and to otherwise make corrections and clarifications needed so that such offering document complies with federal securities laws.

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).

Anticipated Financing Timeline

Milestones	Dates*
• Introduction of Appropriation to the Board of Supervisors	January 14, 2020
• Introduction of Resolutions to the Board of Supervisors	January 28, 2020
• Budget & Finance Committee Hearing - Resolutions	February 12, 2020
• Board Considers Approval of Resolution & Board Disclosure Training	February 25, 2020
• Budget & Finance Committee Hearing - Appropriation	February 26, 2020
• Board Considers Approval of Appropriation Ordinance (1 st Reading)	March 3, 2020
• Final Board Approval of Appropriation Ordinance (2 nd Reading)	March 10, 2020
• Sale and Closing of the 2020-R1 Refunding Bonds	Estimated March/April 2020

*Please note that dates are estimated unless otherwise noted.

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

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andres Powers, Mayor’s Office
Kelly Kirkpatrick, Mayor’s Budget Director
Ben Rosenfield, Controller
Naomi Kelly, City Administrator
Harvey Rose, Budget Analyst
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney
Brooke Abola, Deputy City Attorney

ATTACHMENT 1

CITY AND COUNTY OF SAN FRANCISCO

General Obligation Bonds

As of January 1, 2020

Bond Authorization Name	Election Date	Bonds Authorized	Series	Bonds Issued	Bonds Outstanding	Authorized & Unissued
Seismic Safety Loan Program	11/3/92	\$350,000,000	1994A	\$35,000,000	-	
			2007A	\$30,315,450	\$18,657,972	
			2015A	\$24,000,000	-	
			2019A	\$72,420,000	\$72,420,000	\$188,264,550
<i>Reauthorization to Repurpose for Affordable Housing</i>	11/8/16					
Clean & Safe Neighborhood Parks	2/5/08	\$185,000,000	2008B	\$42,520,000	-	
			2010B	\$24,785,000	-	
			2010D	\$35,645,000	\$35,645,000	
			2012B	\$73,355,000	\$45,285,000	
			2016A	\$8,695,000	\$7,195,000	-
San Francisco General Hospital & Trauma Center Earthquake Safety	11/4/08	\$887,400,000	2009A	\$131,650,000	-	
			2010A	\$120,890,000	-	
			2010C	\$173,805,000	\$173,805,000	
			2012D	\$251,100,000	\$147,770,000	
			2014A	\$209,955,000	\$154,035,000	-
Earthquake Safety & Emergency Response	6/8/10	\$412,300,000	2010E	\$79,520,000	\$38,335,000	
			2012A	\$183,330,000	\$114,990,000	
			2012E	\$38,265,000	\$28,380,000	
			2013B	\$31,020,000	\$16,720,000	
			2014C	\$54,950,000	\$40,095,000	
			2016C	\$25,215,000	\$21,435,000	-
Road Repaving & Street Safety	11/8/11	\$248,000,000	2012C	\$74,295,000	\$46,360,000	
			2013C	\$129,560,000	\$69,785,000	
			2016E	\$44,145,000	\$37,515,000	-
Clean & Safe Neighborhood Parks	11/6/12	\$195,000,000	2013A	\$71,970,000	\$38,780,000	
			2016B	\$43,220,000	\$23,355,000	
			2018A	\$76,710,000	\$44,855,000	
			2019B	\$3,100,000	\$3,100,000	-
Earthquake Safety & Emergency Response	6/3/14	\$400,000,000	2014D	\$100,670,000	\$73,435,000	
			2016D	\$109,595,000	\$72,305,000	
			2018C	\$189,735,000	\$137,570,000	-
Transportation and Road Improvement	11/4/14	\$500,000,000	2015B	\$67,005,000	\$41,870,000	
			2018B	\$174,445,000	\$102,010,000	\$258,550,000
Affordable Housing Bond	11/3/15	\$310,000,000	2016F	\$75,130,000	\$48,485,000	
			2018D	\$142,145,000	\$102,070,000	
			2019C	\$92,725,000	\$92,725,000	-
Public Health and Safety Bond	6/7/16	\$350,000,000	2017A	\$173,120,000	\$116,925,000	
			2018E	\$49,955,000	\$36,370,000	\$126,925,000
Embarcadero Seawall Earthquake Safety	11/6/18	\$425,000,000				\$425,000,000
Affordable Housing Bond	11/5/19	\$600,000,000				\$600,000,000
SUBTOTAL		\$4,862,700,000		\$3,263,960,450	\$2,002,282,972	\$1,598,739,550
General Obligation Refunding Bonds						
	Dated Issued			Bonds Issued	Bonds Outstanding	
Series 2008-R1	5/29/08			\$232,075,000	\$3,480,000	
Series 2011-R1	11/30/11			\$339,475,000	\$149,240,000	
Series 2015-R1	2/25/15			\$293,910,000	\$234,310,000	
SUBTOTAL				\$865,460,000	\$387,030,000	
TOTALS		\$4,862,700,000		\$4,129,420,450	\$2,389,312,972	\$1,598,739,550

ATTACHMENT 2

CITY AND COUNTY OF SAN FRANCISCO General Obligation Refunding Candidates

Prior Bonds	Original Par Amount	Outstanding Par Amount	Refundable Par Amount
2020 GO Refunding Candidates (Callable on or before June 15, 2020)			
Refunding Series 2008-R1	\$232,075,000	\$3,480,000	\$3,480,000
Series 2010E (Earthquake Safety & Emergency Response, 2010)	\$79,520,000	\$38,335,000	\$35,730,000
Series 2012A (Earthquake Safety & Emergency Response, 2010)	\$183,330,000	\$114,990,000	\$108,025,000
Series 2012B (Clean & Safe Neighborhood Parks, 2008)	\$73,355,000	\$45,285,000	\$42,425,000
Series 2012C (Road Repaving & Street Safety, 2011)	\$74,295,000	\$46,360,000	\$43,435,000
Subtotal 2020 GO Refunding Candidates	\$642,575,000	\$248,450,000	\$233,095,000
2021 GO Refunding Candidates (Callable on June 15, 2021 or December 15, 2021)			
Series 2013A (Clean & Safe Neighborhood Parks, 2012)	\$71,970,000	\$38,780,000	\$34,690,000
Series 2013B (Earthquake Safety & Emergency Response, 2010)	\$31,020,000	\$16,720,000	\$14,955,000
Series 2013C (Road Repaving & Street Safety, 2011)	\$129,560,000	\$69,785,000	\$62,425,000
Refunding Series 2011-R1	\$339,475,000	\$149,240,000	\$94,125,000
Subtotal 2021 GO Refunding Candidates	\$572,025,000	\$274,525,000	\$206,195,000
2022 GO Refunding Candidates (Callable on June 15, 2022)			
Series 2012D (SFGH & Trauma Center Earthquake Safety, 2008)	\$251,100,000	\$147,770,000	\$121,115,000
Series 2014A (SFGH & Trauma Center Earthquake Safety, 2008)	\$209,955,000	\$154,035,000	\$128,575,000
Series 2012E (Earthquake Safety & Emergency Response, 2010)	\$38,265,000	\$28,380,000	\$23,260,000
Series 2014C (Earthquake Safety & Emergency Response, 2010)	\$54,950,000	\$40,095,000	\$34,045,000
Series 2014D (Earthquake Safety & Emergency Response, 2014)	\$100,670,000	\$73,435,000	\$62,355,000
Subtotal 2022 GO Refunding Candidates	\$654,940,000	\$443,715,000	\$369,350,000
2023 GO Refunding Candidates (Callable on June 15, 2023)			
Series 2015B (Transportation & Road Improvement Bonds, 2014)	\$67,005,000	\$41,870,000	\$33,740,000
Refunding Series 2015-R1	\$293,910,000	\$234,310,000	\$164,190,000
Series 2016A (Clean & Safe Neighborhood Parks, 2008)	\$8,695,000	\$7,195,000	\$5,735,000
Series 2016B (Clean & Safe Neighborhood Parks, 2012)	\$43,220,000	\$23,355,000	\$18,620,000
Series 2016C (Earthquake Safety & Emergency Response, 2010)	\$25,215,000	\$21,435,000	\$17,190,000
Series 2016D (Earthquake Safety & Emergency Response, 2014)	\$109,595,000	\$72,305,000	\$58,000,000
Series 2016E (Road Repaving & Street Safety, 2011)	\$44,145,000	\$37,515,000	\$30,095,000
Subtotal 2023 GO Refunding Candidates	\$591,785,000	\$437,985,000	\$327,570,000
2024 GO Refunding Candidates (Callable on June 15, 2024)			
Series 2017A (Public Health & Safety, 2016)	\$173,120,000	\$116,925,000	\$90,670,000
Series 2018E (Public Health & Safety, 2016)	\$49,955,000	\$36,370,000	\$29,475,000
Series 2018A (Clean & Safe Neighborhood Parks, 2012)	\$76,710,000	\$44,855,000	\$35,400,000
Series 2018B (Transportation & Road Improvement Bonds, 2014)	\$174,445,000	\$102,010,000	\$80,505,000
Series 2018C (Earthquake Safety & Emergency Response, 2014)	\$189,735,000	\$137,570,000	\$110,735,000
Subtotal 2024 GO Refunding Candidates	\$663,965,000	\$437,730,000	\$346,785,000
Total GO Refunding Candidates Callable 2020 – 2024	\$1,869,540,000	\$966,690,000	\$1,482,995,000

ATTACHMENT 3

For purposes of compliance with Section 5852.1 of the California Government Code, the following information are good faith estimates provided by the City's Municipal Advisor, Montague DeRose and Associates, LLC as of January 24, 2020:

1. True interest cost of the Bonds: 2.19%
2. Finance charge for the Bonds, including all fees and charges for third parties (including underwriter's compensation, municipal advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$1,222,156.
3. Amount of Bond proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest funded with proceeds of the Bonds: \$236,800,136.
4. Total payment amount for the Bonds, being the sum of (a) debt service on the Bonds to final maturity, and (b) any financing costs not paid from proceeds of the Bonds: \$275,751,486.

The information set forth above is based upon estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.