



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER


Ben Rosenfield
Controller

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Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director 
Controller's Office of Public Finance

SUBJECT: Ordinance Authorizing the Execution and Delivery of Certificates of Participation (Rehabilitation Detention Facility Project)

DATE: November 16, 2015

I respectfully request that the Board of Supervisors (the "Board") consider for review and adoption the ordinance authorizing the execution and delivery of not to exceed par amount of \$215,000,000 in City and County of San Francisco Certificates of Participation and related supporting documents financing the construction of the Rehabilitation Detention Facility.

In connection with this request, the ordinance approving the execution and delivery of the certificates, supplemental appropriation ordinance to appropriate the certificate proceeds, and related supporting documents are expected to be introduced at the Tuesday, November 17, 2015 Board meeting, and we respectfully request that the items be heard at the Wednesday, December 2, 2015 Budget and Finance Committee meeting.

The Rehabilitation Detention Facility Project:

Approval of the ordinance would authorize the City to deliver and execute not to exceed par amount of \$215,000,000 in City and County of San Francisco Certificates of Participation (Rehabilitation Detention Facility Project) in one or more series (the "Certificates") to finance land acquisition, design, and construction of the City's Rehabilitation Detention Facility (the "Project") possibly located on the block immediately east of the existing Hall of Justice ("HOJ") bounded by Bryant, Sixth, Harriet Street, and Ahern Way. The Project, further described below, is a major component of the City's overall Justice Facilities Improvement Program (JFIP).

Background on the Justice Facilities Improvement Program

The San Francisco Sheriff's Department ("Sheriff's Department") manages four jails in San Francisco and two in San Mateo County. Two of the jails, County Jail #3 and County Jail #4, are located in the HOJ alongside the Superior Court, Police Headquarters, the District Attorney's

Office, and other City agencies. The HOJ, which opened in 1961, has been found to be susceptible to severe structural damage in the event of an earthquake. The City and County of San Francisco has determined that these inadequacies cannot be remedied outside of a significant capital improvement effort. In addition, the antiquated design and space constraints of County Jail #3 and County Jail #4 create safety concerns and limit the Sheriff's Department's ability to offer in-custody programs to inmates. As a result of these existing needs, the City plans to replace County Jail #3 and County Jail #4.

In response to the City's low inmate population and uncertainty about the impact of State Public Safety Realignment, the City's 2014-2023 Capital Plan recommends a project to replace County Jail #3 and County Jail #4 with fewer beds than the current number of beds. The Controller's Office forecasts the need for a replacement jail in 2020 (the tentative completion date of a replacement jail) containing 384 beds to replace the 905 beds in County Jail #3 and County Jail #4.

The proceeds of the Certificates will be used to finance the replacement of existing maximum security County Jail #3 and County Jail #4 located on the 6th and 7th floors at the HOJ, currently located at 850 Bryant, with a new adult detention facility with podular housing for direct supervision and medical and mental health unit, on a developable parcel of approximately 35,000 square feet, possibly on the block immediately east of the existing HOJ, bounded by Bryant, Sixth, Harriet Street, and Ahern Way. Construction on the project is scheduled to commence in summer 2017 with a tentative completion date of winter 2020.

The Certificates:

Under the proposed ordinance, the City will structure the Certificates as an abatable asset-transfer lease by and between the City and a third-party trustee pursuant to a Property Lease, Lease Agreement, and Trust Agreement.

Property Lease and Lease Agreement: Pursuant to the Property Lease, the City leases a City-owned property to a third party trustee. Pursuant to the Lease Agreement, the City leases back the leased property, together with the improvements financed with proceeds of the Certificates, from the third party trustee. The City makes annual base rental payments to the third party trustee in amounts required to repay the Certificates. When the Certificates are finally paid, the Property Lease and the Lease Agreement terminate. The City's general fund secures the repayment of the Certificates (see The Current Plan of Finance below).

Trust Agreement: Pursuant to the Trust Agreement between the City and a third party trustee acting on behalf and for the benefit of Certificates holders, the trustee administers and disburses Certificate payments and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the Certificates, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The trustee holds proceeds derived from the sale of the Certificates and disburses payments for the costs incurred for the Project, as directed by authorized City representatives. The ordinance delegates selection of the third party trustee to the Director of Public Finance, and the trustee will be selected based on the lowest fees and other considerations via a competitive request for proposal.

The Leased Property: It is anticipated that a portion of Lot 001, Block 4154, known as 1001 Potrero Avenue, San Francisco located at the City-owned San Francisco General Hospital campus (the "Leased Property") will serve as the Leased Property for the Certificates.

The Property Lease and Lease Agreement between the City and trustee, requires the City to make base rental payments semi-annually in an amount sufficient to pay total base rental payments when due.

The Trust Agreement between the City and the trustee requires that the base rental payments be deposited semi-annually in the base rental fund maintained by the trustee. The trustee will apply such amounts as is necessary to make base rental payments with respect to the Certificates.

The Current Plan of Finance:

The proposed ordinance authorizes the execution and delivery of Certificates in a par amount not to exceed \$215,000,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to deliver \$208,305,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected delivery amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Certificates, and the attendant increases in required deposits for capitalized interest, debt service reserve fund, and delivery date expenses in the event interest rates were to increase from current levels.

In August 2015, the City submitted an application for SB 863 financing up to \$80,000,000 that would offset the estimated \$240,000,000 cost of developing and constructing the Rehabilitation Detention Facility Project, reducing the City's total costs to \$160,000,000. Of the \$240,000,000 expected aggregate costs of the Project, the Certificates are anticipated to contribute approximately \$160,000,000 to the Project.

The proceeds will also be used to fund capitalized interest during the construction period of the Project, including accrued interest and fees from prior commercial paper financing; fund the debt service reserve account for the Certificates established under the trust agreement; and pay costs of execution and delivery of the Certificates.

Commercial Paper: The current plan of finance anticipates utilization of the City's commercial paper program launched by the City in June 2010 (Reso No. 85-09 and Reso No. 136-10) to finance certain interim costs of the Project, including preliminary design, planning, and permitting costs. The City increased the total authorization level of its commercial paper program to \$250,000,000 in July 2013 (Reso No. 247-13).

Commercial paper is an alternative form of short-term (or interim) financing for capital projects that permits the City to pay project costs as project expenditures are incurred. Commercial paper notes are issued only when needed to pay project costs as they are incurred. Commercial paper has a fixed maturity date from one to 270 days, compared with a final maturity of 20- to 30-years for the City's typical long-term obligation. On the maturity date, the commercial paper note may be "rolled" (or refinanced) with the re-issuance of commercial paper notes for additional periods

of up to 270 days or finally retired with the issuance of long-term obligations once the project is complete and the final project cost is established.

As of October 2015, the City has issued and outstanding \$59,300,000 in aggregate par amount of commercial paper notes providing interim financing of project costs for the Hope SF Project, Moscone Expansion Project, 900 Innes Project, and SFGH capital equipment acquisitions. The average interest cost on the City’s outstanding commercial paper is 0.06% with approximately \$170,000 in interest accrued for projects currently utilizing the City’s commercial paper program.

The Certificates: The Certificates are expected to be executed and delivered in an amount sufficient to fully pay the costs of the Project, including any previously issued commercial paper and capitalized interest financing the Project. Table 1 outlines anticipated sources and uses for the Certificates.

Table 1: Anticipated Sources and Uses from the Delivery of the Certificates.

Estimated Sources		<u>Amount</u>
<u>Par Amount</u>		\$ 208,305,000
Total Estimated Sources		\$ 208,305,000
Estimated Uses		
Refunding Fund Deposit		\$ 160,000,000
Project Fund	159,680,639	
Controller's Audit Fee	319,361	
Other Fund Deposits		\$ 46,774,712
Capitalized Interest Fund	28,953,214	
Debt Service Reserve Fund	17,821,498	
Other Costs of Issuance		\$ 1,530,288
Cost of Issuance	801,220	
Underwriter's Discount	729,068	
Total Estimated Uses		\$ 208,305,000

The authorized amount above the expected delivery amount of \$208,305,000 allows for fluctuations in market conditions from the date of recommendation by the Capital Planning Committee and authorization by the Board of Supervisors to the time of the sale of the Certificates. The Office of Public Finance expects the Certificates to have a maturity of approximately 20 years.

Based upon conservative estimates of approximately 5.022% interest rate, the Office of Public Finance estimates that fiscal year net base rental payments on the Certificates average

approximately \$17,818,000. The anticipated total par amount of \$208,305,000 is estimated to result in approximately \$98,815,666 in interest payments over the life of the Certificates. The total base rental payments over the life of the Certificates total approximately \$307,120,666. Based on market conditions expected to exist at the time of the sale, the Certificates could be structured up to a 30-year life.

Method of Sale and Purchase Contract: In connection with the execution and delivery of the Certificates, the proposed ordinance delegates to the Director of Public Finance the authority to sell the Certificates by either a competitive or negotiated sale pursuant to a purchase contract.

The execution and delivery of the Certificates will proceed subject to the Board's review and approval of the form of Official Statement prepared in connection with the Certificates.

Financing Timeline:

Schedule milestones in connection with the financing may be summarized as follows:

<u>Milestone</u>	<u>Date*</u>
• Consideration by the Capital Planning Committee	November 16, 2015
• Introduction of legislation and supporting materials to the Board	November 17, 2015
• Closing & delivery of Certificates	TBD

*Please note that dates are estimated unless otherwise noted.

Additional Information:

The Capital Planning Committee reviewed and recommended the ordinance to the Board of Supervisors on Monday, November 16, 2015. The ordinance is expected to be introduced at the Board of Supervisors meeting on Tuesday, November 17, 2015. The related financing documents—including the Supplement to Trust Agreement, Supplement to Project Lease, Supplement to Property Lease, Preliminary Official Statement, Official Notice of Sale, Notice of Intention to Sell, Appendix A, and Purchase Contract—will also be submitted.

The Preliminary Official Statement: The proposed ordinance also approves the form of Preliminary and final Official Statement relating to the Certificates (the "Official Statement"). The Official Statement has been updated to reflect the City's financial condition, including the adopted ten-year capital plan; update to the Five-Year Financial Plan; the Controller's release of the Revenue Letter; and the adoption by the Board and approval by the Mayor of the Original Budget. The information contained in the Appendix A to the Official Statement was updated as of June 17, 2015 and was prepared by City staff for inclusion in the Official Statement.

Federal securities laws impose on the City the obligation to ensure that its offering documents are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the disclosure documents as well as City staff charged with preparing the documents. The Official Statement is attached for your approval prior to its publication.

Official Notice of Sale and 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 Certificates. 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 Certificates announces the date and time of the competitive bond sale, including the terms relating to the Certificates; 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 Certificates. Pursuant to the Resolution, the Controller is authorized to award the Certificates 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.

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.

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 Certificates in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Your consideration of this matter is greatly appreciated. Please contact Nadia Sesay at 415-554-5956 or nadia.sesay@sfgov.org if you have any questions.

CC: Angela Calvillo, Clerk of the Board of Supervisors
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