




CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors
FROM: Nadia Sesay, Director of Public Finance 
SUBJECT: Commercial Paper Certificates of Participation Program
DATE: Tuesday, June 11, 2013

In March 2009, the Board of Supervisors authorized the establishment of a taxable and tax-exempt commercial paper program in the amount of \$150 million for the purpose of financing on an interim basis various capital projects for the City (as further discussed below). The Controller's Office of Public Finance (OPF) proposes to increase the authorized principal amount of the program to \$250 million, and to permit the use of the program by the San Francisco Port Commission (as needed). In connection therewith, OPF respectfully requests consideration of the attached resolution (the "Resolution") approving, among other matters:

- increase in the commercial paper program total authorization to \$250,000,000 from \$150,000,000;
- the execution of forms of letter of credit and reimbursement agreement and dealer agreement;
- San Francisco Port Commission projects use (as needed) of the City's commercial paper program; and
- seismic and other public safety emergency recovery financing through commercial paper, provided long term financing for such projects is identified.

We would like to respectfully request consideration of the Resolution at the July 10, 2013 Budget and Finance Committee meeting.

Background

In March 2009, the Board adopted Resolution No. 85-09 (the "Program Resolution") authorizing the establishment of a not-to-exceed \$150,000,000 of Tax-Exempt and Taxable Lease Revenue Commercial Paper Certificates of Participation Program (the "CP Program"). The Program

Projects will be eligible to access the CP Program once the Board of Supervisors and the Mayor have approved the project and/or the long-term, permanent financing for the project (each an "Approved Project"). Currently, the following projects have approval to access the CP Program:

- Department of Public Works – Capital Equipment Acquisitions: In adopting the annual appropriations ordinance 190-10, the Board of Supervisors appropriated lease payments for various Department of Public Works capital equipment totaling \$932,252 for DPW Vehicles, IT Equipment and miscellaneous other capital equipment.
- HOPE SF: In adopting Ordinance No. 266-10, the Board of Supervisors authorized the issuance of not to exceed \$38,000,000 in City and County of San Francisco certificates of participation to partially finance the rebuilding of severely distressed public housing sites, while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (the HOPE SF Project).
- Moscone Expansion Project: In adopting Ordinance No. 26-13, the Board of Supervisors authorized the issuance of not to exceed \$507,880,000 in City and County of San Francisco certificates of participation to finance the costs of additions and improvements to the Moscone Center. The Board of Supervisors approved the appropriation in Supplemental Appropriations Ordinance No. 25-13.
- War Memorial Veterans Building Seismic Retrofit: In adopting Ordinance No. 149-11, the Board of Supervisors authorized the issuance of not to exceed \$170,000,000 in City and County of San Francisco certificates of participation to finance the costs of the construction and installation of improvements in connection with the renovation of the War Memorial Veterans Building (WMVB) located at 401 Van Ness Avenue.
- Various Port Commission Projects: In adopting Resolution No. 152-12, the Board of Supervisors authorized the issuance of not to exceed \$45,000,000 in City and County of San Francisco certificates of participation to finance a portion of the costs of the development of the Cruise Terminal Project at Pier 27 and infrastructure and mitigation requirements related to the 34th America's Cup event.

The CP Program accommodates tax-exempt borrowing, which is used for most City projects, as well as taxable commercial paper notes, for any such projects that do not qualify for tax-exempt debt under federal and state law.

Financing Structure:

As described in the OPF memorandum dated February 10, 2009, the City leases and leases-back certain real property assets to the third-party trustee in consideration for proceeds of any issued commercial paper notes. It is anticipated that the real property assets included in the lease structure would have a value of approximately 125% of the borrowing capacity under the expanded CP Program or up to \$312,500,000.

maximum available amount of \$100,000,000 that may be drawn upon by the City in respect of principal and actual interest due on any commercial paper notes.

The City is required to repay the Bank should there be amounts drawn under the Letter of Credit in accordance with the terms and conditions set forth in the Reimbursement Agreement. It is expected that the Bank will be repaid from the remarketing of commercial paper or the proceeds of long term take-out financing. However, but under extraordinary circumstances such occurred with the financial dislocation in 2008, advances from the Bank might not be immediately repaid. In such event, interest borne by the commercial paper notes could increase up to 12.0% per annum.

OPF currently expects to enter a Reimbursement Agreement with the Bank with a term of approximately five (5) years at a cost of 0.50% of the Bank's commitment amounts, or approximately \$500,000 per annum. The current fee structure presumes that the City's general fund secured obligations credit rating remains at its current rating levels of Aa3/AA-/AA- by Moody's Investors Service ("Moody's), Standard & Poor's ("S&P"), and Fitch Ratings, respectively (collectively, the "Rating Agencies"). The commitment fee may be increased in increments of 0.10% - 0.15% for every notch rating downgrade, depending on the rating, by two rating agencies below Aa3/AA-/AA-. Should the City's general fund secured obligations credit rating fall below Baa3/BBB-/BBB-, the Reimbursement Agreement would terminate and amounts owing to the Bank would be immediately due and payable, subject to the limits concerning maximum rent set forth in the Sublease in accordance with State law, which would allow for several years to repay the financing.

The Reimbursement Agreement may be terminated by the City pursuant to termination provisions should the Bank's short-term credit ratings fall below P-1/A-1/F-1 by the Rating Agencies; letter of credit costs increase due to changes in law, rule or regulation; or in the event the City should decide to retire the CP Program. The Reimbursement Agreement may also be terminated at the option of the City for any reason, subject to a termination fee of up to one (1) year of the commitment fee due to the Bank, or for any optional termination by the City within the first year of the Reimbursement Agreement, the remaining unpaid balance of the first year's commitment fee.

Dealer Agreement:

The Resolution also approves the form of Dealer Agreement and delegates to OPF the authority to appoint one or more Commercial Paper Dealers (the "CP Dealer"). The Dealer Agreement sets forth the duties of the CP Dealer, including soliciting and arranging the sales of the commercial paper notes on behalf of the City at such rates and maturities as then prevailing in the market.

OPF currently expects to select commercial paper dealers via a competitive proposal process and to enter into Dealer Agreement with a term not less than one (1) year with a cost of not to exceed 0.125% per annum of the weighted average of the principal amount of commercial paper notes outstanding each quarter, paid by the City quarterly in arrears.

Additional Information:

The Resolution will be introduced at the Board of Supervisors meeting on Tuesday, June 11, 2013. The related financing documents—including the Fee Agreement, Reimbursement Agreement, Letter of Credit, and Dealer Agreement—will also be submitted.

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

Cc (via email): Angela Calvillo, Clerk of the Board
 Jason Elliott, Director of Legislative & Government Affairs
 Kate Howard, Mayor's Budget Director
 Harvey Rose, Budget Analyst
 Ben Rosenfield, Controller
 John Updike, Real Estate Division
 Mark Blake, Deputy City Attorney

Utilized and Remaining Capacity:

The commercial paper program has a remaining capacity of approximately \$33,250,000 out of its current program size of \$100,000,000, after allowing for the current commercial paper outstanding of \$51,540,000, maximum interest at 12%, and maximum annual program fees. Stated differently, \$33,250,000 in commercial paper is available to support the City's ongoing capital programs relying on commercial paper.

Interest Costs, Capitalized Program Fees and Costs of Issuance:

As noted in the table above, interest costs on the tax exempt commercial paper have ranged from 0.10% (13 days) to 0.32% (181 days) with a weighted average of 0.17%. As of June 11, 2013, capitalized interest on the commercial paper totals approximately \$54,053. The City's two most recent issuances of long-term certificates of participation with final maturity in 2018 achieved a true interest cost of 0.72% and with a final maturity in 2036 achieved a true interest cost of 3.59%, in April 2013 and June 2013, respectively.

In support of the program, capitalized program fees total \$2,967,000 for letter of credit fees to U.S. Bank and J.P. Morgan Chase as letter of credit providers, commercial paper dealer fees, monitoring and surveillance credit rating fees, trustee fees and contingencies. Including estimated capitalized program fees and interest costs, the annualized all in costs of the commercial paper program has averaged approximately 1.29%.

The program's final cost of issuance for initial program costs is \$693,000. The costs of issuance account for commercial paper was closed upon approval of final invoices, which amount includes legal fees, rating agency fees, financial advisory, trustee and delivery & paying agent, property and business interruption insurance, title insurance, City fees and contingencies.