



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Greg Wagner
Controller
ChiaYu Ma
Deputy Controller
Anna Van Degna
Director of Public Finance

MEMORANDUM

TO: Board of Supervisors of the City and County of San Francisco

FROM: Controller's Office of Public Finance

DATE: November 19, 2024

SUBJECT: Ordinance Authorizing Issuance of Refunding Certificates of Participation, Series 2025-R1 and Series 2025-R2 (Port Facilities) – Not to Exceed \$25,000,000
Supplemental Appropriation Ordinance for Refunding Certificates of Participation

Recommended Action

We respectfully request that the Board of Supervisors (the "Board") review and consider for adoption the ordinance ("Refunding COPs Ordinance") authorizing the execution and delivery of the Series 2025-R1 and Series 2025-R2 Refunding Certificates of Participation (Port Facilities) (the "Port Refunding COPs") to refinance various previously issued and outstanding Certificates of Participation ("COPs"). A supplemental ordinance appropriating the proceeds of the Port Refunding COPs will be introduced to the Board to accompany the Refunding COPs Ordinance (together the "Ordinances").

Background

The City and County of San Francisco (the "City") has traditionally funded various parts of its capital planning program through the issuance of COPs. In 2012, the Board of Supervisors approved Resolution No. 152-12 which authorized the issuance of up to \$45,000,000 in COPs to finance the design, acquisition, construction, and improvement of various facilities belonging to the Port of San Francisco (the "Port"). These facilities included infrastructure improvement projects for the 34th America's Cup event, the installation of a shoreside power project at Pier 70, and the construction of a new primary cruise terminal at Pier 27.

The authorized COPs were eventually issued as the \$4,830,000 Series 2013B (Port Facilities Project) (Non-AMT) Certificates of Participation (the "2013B COPs") and the \$32,870,000 Series 2013C (Port Facilities Project) (AMT) Certificates of Participation (the "2013C COPs") (collectively referred to as the "2013B&C COPs"). The 2013B COPs financed improvements for governmental uses and were issued on a tax-exempt basis. The 2013C COPs financed facilities with various private activities, including the cruise terminal at Pier 27, and were issued as qualified private activity COPs, wherein interest income on the 2013C COPs is

subject to federal taxation if the alternative minimum tax applies to the investor or holder of the 2013C COPs.

Although the Port has the authority to issue revenue bonds to finance capital projects, it was determined that it would be more cost efficient for the City to issue COPs due to the higher credit ratings and lower interest rates than the Port’s revenue bonds. While the City’s General Fund secures the 2013B&C COPs and is liable in the event of a default, annual lease payments are paid from Port revenues and not from General Fund revenues.

The 2013B&C COPs include an optional call feature that became exercisable on March 1, 2023, allowing the City to call the outstanding 2013B&C COPs and refinance them for savings at any time thereafter.

A summary of the outstanding 2013B&C COPs is provided in Table 1 below:

Table 1: Summary of the Outstanding COPs to be Refinanced

Outstanding Series	Par Amount Outstanding	Outstanding Coupons	Optional Call Date	Final Maturity	Average Annual Debt Service
2013B COPs	\$4,830,000	4.75-5.25%	3/1/2023	3/1/2038	\$413,000
2013C COPs	\$19,195,000	5.00-5.25%	3/1/2023	3/1/2043	\$1,580,000
Total	\$24,025,000	4.75-5.25%	3/1/2023	3/1/2043	\$1,993,000

The Current Plan of Finance

The Refunding COPs Ordinance would authorize the issuance of not-to-exceed \$25,000,000 in Refunding COPs to refinance the 2013B&C COPs. At current market rates, the Port Refunding COPs are projected to generate savings; however, interest rates and capital markets have been particularly volatile over the last year. The Controller’s Office of Public Finance (“OPF”) will continue to monitor market conditions through the anticipated pricing and closing of the transaction in the spring of 2025. In accordance with the City’s approved Debt Policy, the Port Refunding COPs will only be issued if the transaction produces minimum debt service savings of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue’s True Interest Cost (“TIC”) as the discount rate.

It is expected that the 2013B COPs will be refunded by a tax-exempt series, the 2025-R1 COPs, and the 2013C COPs will be refunded by an AMT series, the 2025-R2 COPs. The 2025-R1 and 2025-R2 COPs will be issued together as a single transaction. As part of the transaction, the prior debt service reserve funds belonging to the 2013B&C COPs will be contributed to the refunding escrow deposit paying down the 2013B&C COPs. Additionally, a small amount of remaining project funds from the 2013B COPs—currently unused and with no remaining available projects to allocate them toward—will also be contributed to the refunding escrow.

Like the 2013B&C COPs, the Port Refunding COPs will be secured by the City’s General Fund, but annual lease payments will be paid from Port revenues.

For good faith estimates required by Code Section 5852.1 of the California Government Code regarding the proposed financing, see **Attachment 1**. The information set forth in **Attachment 1** is based on estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.

The Certificates

Under the proposed Refunding COPs Ordinance, the City will structure the Port Refunding COPs using a lease-lease back structure.

Property Lease and Lease Agreement: Pursuant to the Property Lease, the City leases City-owned property including the improvements thereon to a third-party Trustee, currently U.S Bank Trust Company, National Association (“Trustee”). The Property Lease currently includes the Pier 27 Cruise Terminal (the “Leased Property”). Pursuant to the Lease Agreement, the City leases back the Leased Property, together with the improvements thereon, from the Trustee. The City makes annual base rental payments to the Trustee in amounts representing the fair rental value for the improved leased property and equal to the amounts required to repay the Port Refunding COPs. When the Port Refunding COPs are finally paid, the Property Lease and Project Lease (each as supplemented) terminate.

Trust Agreement: Pursuant to the Trust Agreement between the City and the Trustee acting on behalf and for the benefit of Port Refunding COPs holders, the Trustee administers and disburses payments with respect to the Port Refunding COPs and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the Port Refunding COPs, 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 Port Refunding COPs and disburses payments for the costs incurred for the Project, as directed by authorized City representatives.

The Property Lease and Lease Agreement, each between the City and the Trustee, require the City to make base rental payments during the term of the leases 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 in the base rental fund maintained by the trustee. On March 1 and September 1 of each year during the term of the Trust Agreement, the Trustee will apply such amounts as is necessary to make debt service payments with respect to the Port Refunding COPs.

Additional Information

The forms of the related financing documents—including the Preliminary Official Statement (Including Appendix A), Escrow Agreement, Bond Purchase Contract, Notice of Intention to Sell, the Continuing Disclosure Certificate and related documents—will also be submitted, as described below.

Official Statement: The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the Port Refunding COPs. The Official Statement describes the Port Refunding COPs, including sources and uses of funds; security for the Port Refunding COPs; 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 Port Refunding COPs.

A *Preliminary Official Statement* is distributed to prospective investors prior to the sale of the Port Refunding COPs and within seven days of the public offering, the Final Official Statement (adding certain

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sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) is distributed to the initial purchasers of the Port Refunding COPs.

The Board of Supervisors and the Mayor, in adopting and approving the proposed Ordinance, approve and authorize the use and distribution of the Official Statement by the City's Municipal Advisor with respect to the Port Refunding COPs. In accordance with rule 15c2-12 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 "deemed final" as of their respective dates.

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 2013B&C COPs. 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 COPs to be refunded.

Official Notice of Sale and Notice of Intention to Sell (if the Port Refunding COPs are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the Port Refunding COPs. 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 Port Refunding COPs announces the date and time of a competitive sale, including the terms relating to the Port Refunding COPs; 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 Port Refunding COPs. Pursuant to the Ordinance, the Controller is authorized to award the Port Refunding COPs 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.

Purchase Contract (if the Port Refunding COPs are sold on a negotiated basis): The City will work with its Municipal Advisor to determine whether a negotiated or competitive sale will be most advantageous for the refunding based on market conditions closer to the sale of the Port Refunding COPs. Should the Port Refunding COPs be sold via a negotiated sale with an underwriter(s), the Purchase Contract will be the document that details the terms, covenants, and conditions for the sale of the Port Refunding COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents. For a negotiated sale, the City would work with its Municipal Advisor to select qualified firms from the City's Underwriter Pool via a competitive Request for Proposal ("RFP") process.

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

Anticipated Financing Timeline

Milestones	Dates*
• Introduction of the Ordinances to the Board of Supervisors	November 19, 2024
• Budget and Finance Committee Hearing	January 8, 2025*
• Board Considers Approval of the Ordinances (1 st Reading)	January 14, 2025*
• Final Board Approval of the Ordinances (2 nd Reading)	January 28, 2025
• Sale and Closing of the Port Refunding COPs	February-April 2025

*Please note that dates are estimated pending Board of Supervisors schedule.

Please contact Anna Van Degna (Anna.VanDegna@sfgov.org) or Grant Carson (Grant.Carson@sfgov.org) if you have any questions. Your consideration of this matter is greatly appreciated.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andres Powers, Mayor's Office
Benjamin McCloskey, Interim Mayor's Budget Director
Harvey Rose, Budget Analyst
Severin Campbell, Budget Analyst
Greg Wagner, Controller
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney
Elaine Forbes, Executive Director of the Port of San Francisco
Nate Cruz, Chief Financial Officer of the Port of San Francisco

Attachment 1

GOOD FAITH ESTIMATES

For purposes of compliance with Section 5852.1 of the California Government Code, the following estimated information has been provided by the City's Municipal Advisor, Backstrom McCarley Berry & Co.:

1. True interest cost of the Port Refunding COPs: 4.47%
2. Finance charge for the Port Refunding COPs, including all fees and charges for third parties (including underwriter's compensation, financial advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$941,704.44
3. Amount of Port Refunding COP 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 Port Refunding COPs: \$23,343,111.46
4. Total payment amount for the Port Refunding COPs, being the sum of (a) debt service on the Port Refunding COPs to final maturity, and (b) any financing costs not paid from proceeds of the Port Refunding COPs: \$29,859,625.00

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