



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 Public Finance
Jamie Querubin, Public Finance Deputy *JPQ*

DATE: Friday, August 30, 2019

SUBJECT: Resolution Approving the Form of and Authorizing the Distribution of a Preliminary Official Statement Relating to the Execution and Delivery of City and County of San Francisco Certificates of Participation for the 49 South Van Ness Project

Recommended Action

We respectfully request that the Board of Supervisors consider for review and approval the resolution ("Resolution") authorizing the distribution of a preliminary official statement relating to the execution and delivery of City and County of San Francisco Certificates of Participation for the 49 South Van Ness Project ("COPs"), authorizing the preparation, execution and delivery of a final official statement, and ratifying the approvals and terms and conditions of a previous ordinance, and related matters.

As further discussed below, the Board of Supervisors previously approved the execution and delivery of the COPs to finance the 49 South Van Ness Project, previously called the 1500 Mission Project, per Ordinance No. 119-17. This recommended action is to further facilitate the execution and delivery of the previously authorized COPs.

Background

The Project

The 49 South Van Ness Project (formerly known as 1500 Mission Street, the "Project"), located at the intersection of Van Ness Avenue and Mission Street, will be an office building consisting of 16 stories including approximately 431,000 rentable square feet of office space, to be occupied by approximately 1,800 City employees. The Project will include administrative office workspace, including training and conference rooms as well as a childcare facility. As part of the Project, the City's goal is to establish a "One-Stop Permit Center," bringing together City permitting agencies to a single location.

The Project was designed and developed through collaboration between the City's Real Estate Division and Goodwill SF Urban Development, LLC, the Project developer (the "Developer"). In July 2017, the City and the Developer executed a Construction Management Agreement (the "Construction Management Agreement"), pursuant to which the Developer agreed to enter into, manage, monitor and oversee all contracts (including contracts with the architect and general contractor) required to complete the Project. Skidmore, Owings & Merrill LLP is the architect for the Project, and the general contractor for the Project is Charles Pankow Builders, Ltd. In addition to the city-owned office building, the Project shares a 2.5-acre site with a neighboring 39-story, mixed-income, mixed-use development consisting of an approximate 550-unit residential tower developed by Related California.

The total Project budget, including acquisition, construction, furniture, fixtures, and equipment ("FF&E"), technology ("DT"), and moving costs, is approximately \$360 million, financed by land sale proceeds, COPs, and various general fund sources, as discussed further below. Construction on the Project commenced in the fall of 2017 and is scheduled to reach substantial completion in the summer of 2020.

Prior Board of Supervisors Actions

In December 2014, per Ordinance No. 254-14, the Board approved a Conditional Land Disposition and Acquisition Agreement with Related California Urban Housing, LLC ("Related") to develop a city-owned office building located at 1500 Mission Street, subject to environmental review and approval.

In March 2017, per Resolution No. 94-17 and Resolution No. 95-17, the Board approved the sale of three city-owned buildings located at 1660 Mission Street, 1680 Mission Street, and 30 Van Ness Avenue for a total combined sale price of \$122 million. Upon the closing the sale of these three properties in May 2017, the City dedicated the proceeds from the sales to prepay the City's remaining lease payments attributable to the 30 Van Ness property, as a precondition to closing the sale of that property. The remaining \$97 million in net sales proceeds went to directly fund a portion of the development costs for the Project.

In June 2017, per Ordinance No. 119-17 (the "2017 Ordinance"), the Board approved the execution and delivery of COPs in principal amount not to exceed \$321,765,000 to finance a portion of the development costs, including construction and improvement, and related FF&E, DT, and moving costs for the Project and authorized the issuance of commercial paper notes in advance of the delivery of the COPs.

In June 2019, as a follow-up action to the 2017 Ordinance, the Budget and Finance Committee acted to release reserve funds to the Office of the City Administrator, placed on the Budget and Finance Committee reserve by Ordinance No. 118-17, in the amount of \$26.2 million to fund FF&E, DT, and moving costs for the Project.

The Official Statement

The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of its COPs. The Official Statement describes the COPs including

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sources and uses of funds; security for the COPs; the Project and leased property; 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 COPs.

A Preliminary Official Statement is distributed to prospective bidders prior to the sale of the COPs and within seven days of the public offering of the COPs, 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 COPs.

The 2017 Ordinance also approved the form of a Preliminary Official Statement, approved the form and execution of the Official Statement relating to the sale of the COPs, approved the form of the Continuing Disclosure Certificate and granted general authority to City officials to take necessary actions in connection with the authorization, execution, sale and delivery of the COPs and approved modifications to documents and agreements.

The Preliminary Official Statement relating to the COPs has been updated as of August 22, 2019 and reflects significant changes in the City's budget and finances that have occurred since the 2017 Ordinance. The Preliminary Official Statement includes the City's Adopted Budget for Fiscal Years 2019-20 and 2020-21 and the Comprehensive Annual Financial Report for Fiscal Year 2017-2018. Updated information regarding the Project and the status of the development was provided by City Staff for inclusion in the Preliminary Official Statement. Additionally, the information contained in the Appendix A was prepared by City staff for inclusion in the Preliminary Official Statement. The revisions to Appendix A reflect the most recent updates to date as of August 1, 2019, compared to the version most recently reviewed by the Board dated as of January 15, 2019. 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 dates. In accordance with the City's disclosure policies, the Controller has certified that he has reviewed the form of POS and compared such document with the City's financial statements. The Controller will also certify that such document does not contain any material misstatement or omissions prior to it being distributed to the investing marketplace. A form of the Preliminary Official Statement is attached for your approval prior to its publication.

The Office of Public Finance proposes the execution and delivery of the COPs under the authority of the 2017 Ordinance and seeks approval of this Resolution by The Board of Supervisors and the Mayor, to approve and authorize the use and distribution of the Preliminary Official Statement by the co-financial advisors with respect to the COPs.

The Certificates and Current Plan of Finance

The 2017 Ordinance authorized the execution and delivery of tax-exempt or taxable (if necessary) COPs in a par amount not-to-exceed \$321,765,000. Based on Project cost estimates, tax analysis and schedule, the Office of Public Finance anticipates selling \$284,760,000 in tax-exempt COPs under market assumptions prevailing at the expected time of sale. The difference between the expected issuance amount and the \$321,765,000 not-to-exceed amount provides flexibility for market fluctuations until the sale of the COPs, any increased deposits to the debt service reserve fund, and possible additional delivery date expenses.

Commercial Paper. From June 2017 through August 2019, the Project incurred expenditures totaling approximately \$70.7 million using the City's commercial paper program. The Project anticipates issuing up to approximately \$63 million in additional commercial paper notes to fund Project expenditures prior to the delivery of the COPs. The commercial paper notes outstanding for the Project will be refinanced with the delivery of the COPs.

Based upon an estimated 3.20% all-in true interest cost and the anticipated total par value of \$284,760,000, the total principal and interest payments over the approximate 30-year term of the COPs are estimated to be approximately \$455,500,000. The variance between the anticipated par value and the 2017 Ordinance not-to-exceed amount is primarily due to the anticipated reduction in total Project Fund, lower actual interest and borrowing costs for commercial paper, and lower interest rate assumptions for the COPs. The reduction in Development Costs (Net) is a result of \$3.1 million in higher than anticipated net land sales proceeds to finance the Project due to available debt reserve funds to repay existing debt service on the 30 Van Ness Property.

For good faith estimates required by Code Section 5852.1 of the California Government regarding the proposed financing, see Attachment 1. The information set forth in Attachment 1 is based on estimates of prevailing market conditions, and the ability to finance the entirety of the project on a tax-exempt basis. Actual results may differ if assumed market conditions change.

Additional Information

The related forms of Official Statement, including the Appendix A, will also be submitted.

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 certificates, 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.

The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of enumerated events. These covenants have been made in order to assist initial purchasers of the COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

	<u>Date*</u>
Introduction of resolution to the Board of Supervisors	September 3, 2019
Approval of resolution by the Board of Supervisors	September 18, 2019
Delivery and Execution of the COPs	Estimated October 2020

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 or Jamie Querubin at 415-554-6902 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
Ken Bukowski, Deputy City Administrator
Harvey Rose, Budget Analyst
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney
Mohammed Nuru, Director of San Francisco Public Works
Samuel Chiu, Project Manager, San Francisco Public Works
Melissa Whitehouse, Project Manager, Office of the City Administrator

ATTACHMENT 1

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 Co-Municipal Advisors, KNN Public Finance and Ross Financial:

1. True interest cost of the COPs: 3.178%
2. Finance charge for the COPs, 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): \$2,512,164.
3. Amount of 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 COPs: \$258,778,440.
4. Total payment amount for the COPs, being the sum of (a) debt service on the COPs to final maturity, and (b) any financing costs not paid from proceeds of the COPs: \$455,498,005.

The information set forth above is based up estimates of prevailing market conditions, and the ability to finance the entirety of the project on a tax-exempt basis. Actual results may differ if assumed market conditions change.