



**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 

**SUBJECT:** Ordinance approving the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (the "Corporation") to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program in an amount not-to-exceed \$26,530,000

**DATE:** Monday, April 9, 2018

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### Recommended Action

The Office of Public Finance respectfully requests that the Board of Supervisors consider for review and adoption the ordinance approving the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (the "Corporation") to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program.

In connection with this request, we would like to respectfully request consideration of the resolution at the May 10, 2018 Budget and Finance Committee meeting.

### Background

The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the Corporation to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program in an amount not-to-exceed \$26,530,000. The Corporation is a non-profit public benefit corporation duly organized and validly existing under the Nonprofit Public Benefit Corporation Law (Section 5110 et seq. of the California Corporations Code). The Corporation was formed in 1991 by the Chief Administrative Officer of the City and County of San Francisco (the "City") pursuant to a resolution of the Board of Supervisors. The purpose of the Corporation is to provide a means to finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

On November 6, 2007 voters in the City approved Proposition D "Renewing Library Preservation Fund" which amended the City Charter and renewed the property tax set-aside and the Library Preservation Fund (the "Library Fund") for 15 years. First enacted in 1994, the Library Fund receives an annual set aside from the property tax levy of \$0.025 per \$100 of assessed valuation of property in the City and a Baseline amount. The monies in the Library Fund are used by the Public Library to provide library services and materials and to operate library facilities. Proposition D also authorized the issuance of revenue bonds or other forms of indebtedness, or the incurrence of lease financing or other obligations, for the acquisition, construction, reconstruction, rehabilitation and/or improvement of real property and/or facilities that will be operated by the Public Library, primarily to provide additional revenue sources to the Branch Library Improvement Program ("BLIP") projects. Any debt issued pursuant to Proposition D is repaid from available funds pledged or appropriated by the Board of Supervisors which amounts may include monies in the Library Fund.

In 2009, the City and the Corporation entered into lease arrangements (further described below) obligating the City to make base rental payments (and certain other payments) to the Corporation, and the Corporation issued a series of revenue bonds (the "2009A Bonds") under this authority and a trust agreement (further described below) in an aggregate principal amount of \$34,265,000, pursuant to Ordinance No. 286-08 and Resolution No. 538-08. The base rental payments to the Corporation, appropriated and paid by the City, provide the Corporation with sufficient funds to pay debt service on the 2009A Bonds.

The 2009A Bonds were issued to finance the design, construction, renovation and installation of various BLIP projects, including:

- *Anza Branch Library*
- *Bayview/Anna E. Waden Branch Library*
- *Golden Gate Valley Branch Library*
- *Merced Branch Library*
- *North Beach Branch Library*
- *Ortega Branch Library*

The 2009A Bonds are currently refundable, and market conditions provide for savings with the issuance and sale of City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds (Branch Library Improvement Program) (the "Refunding Bonds"). The ordinance imposes, among others, the following terms and conditions:

- i) the Refunding Bonds must achieve 3% net present value savings;
- ii) the true interest cost of the Refunding Bonds must not exceed 12%;
- iii) the term of any lease agreement shall not be extended beyond its current term.

## **The Refunding Bonds**

Under the proposed ordinance, the City will structure the Refunding Bonds using a lease-lease back structure between the City and the Corporation pursuant to the existing Facilities Lease, Master Lease, and Trust Agreement, each as amended. Pursuant to an Assignment Agreement, the Corporation will assign its right to the third-party trustee (the "Trustee") under the amended Trust Agreement, for the

benefit of the owners of the Refunding Bonds, substantially all of the Corporation's rights under the amended Master Lease, including the right to receive and collect the base rental payments from the City under such Master Lease (and such rights as may be necessary to enforce payment of the base rental payments).

*Facilities Lease and Master Lease.* Pursuant to the Facilities Lease, the City leases a City-owned property (or portion thereof comprising certain facilities, such as specific floors of the City's Main Library building) to the Corporation. Pursuant to the Master Lease, the City leases back the leased property from the Corporation. The City makes annual base rental payments to the Trustee, as the Corporation's assignee under the Assignment Agreement, in amounts required to repay the Refunding Bonds. When the Refunding Bonds are finally paid, the Facilities Lease and the Master Agreement terminate (assuming no other lease revenue bonds have been issued for Library improvement purposes under these Lease Agreements and the Trust Agreement). In addition to the Library Preservation Fund, the City's general fund is the source of funding for the repayment of the Refunding Bonds (see "The Current Plan of Finance" section below).

*Trust Agreement.* Pursuant to the Trust Agreement and the Assignment Agreement between the Corporation and the Trustee acting on behalf of and for the benefit of Refunding Bond holders, the Trustee administers and disburses bond payments and enforces the covenants and remedies in the event of a default. The Trust Agreement provides for the terms of the Refunding Bonds, 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 Refunding Bonds and will disburse the proceeds to pay off the 2009A Bonds and to pay costs of issuance, as directed by authorized City representatives. The ordinance delegates selection of the Trustee to the Director of Public Finance.

The Trust Agreement requires that the base rental payments be deposited semi-annually in the revenue fund established in the Trust Agreement and maintained by the Trustee. The Trustee will apply such amounts as is necessary to make debt service (i.e., semi-annual interest and annual principal or sinking fund) payments with respect to the Refunding Bonds.

*The Leased Property.* It is anticipated that portions of the San Francisco Main Library building located at Civic Center Plaza, which is owned by the City (the "Leased Asset") will serve as the leased asset for the transaction, which consistent with the leased asset for the 2009A Bonds.

*Assignment Agreement.* An agreement that assigns specified rights (including the Corporation's right to receive lease revenues) as well as title and interest to the Leased Assets until the Refunding Bonds are repaid in full.

## **The Current Plan of Finance**

The proposed ordinance authorizes the sale and issuance of Refunding Bonds in a par amount not to exceed \$26,530,000. Based on current market estimates, the Office of Public Finance anticipates issuing \$26,005,000 in Refunding Bonds that together with other sources of monies would refund \$25,975,000 of outstanding 2009A Bonds. The additional authorized amount above the expected issuance amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of

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the sale of the Refunding Bonds, any increased deposits for the debt service reserve fund, and possible other increased delivery date expenses.

Based upon a conservative estimate of 3.332% for an all-in true interest cost as defined in the proposed ordinance, the Office of Public Finance estimates that maximum fiscal year debt service on the Refunding Bonds will be approximately \$2,095,388. The anticipated total par value of \$26,005,000 is estimated to result in approximately \$7,474,253 in interest payments over the life of the Refunding Bonds. The total principal and interest payment over the approximate 10-year life of the Refunding Bonds is approximately \$33,479,253. It is anticipated that the term of the Refunding Bonds may be shortened by up to 6 years compared to the existing term of the 2009A Bonds.

Based on current market conditions, the refunding transaction is estimated to result in aggregate savings to the City of about \$6,035,892 on a gross basis. On a net present value (NPV) basis, the Office of Public Finance estimates the debt service savings to be approximately \$4,286,401 or 16.5% of the outstanding par amount of the 2009A Bonds to be refunded. This NPV percent savings of refunded par meets the City's debt policy objective of 3% or higher.

Table 1 outlines anticipated sources and uses for the Refunding Bonds, based on an estimate provided by Backstrom McCarley Berry & Co., LLC, a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board of Supervisors regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

**Table 1. Estimated Sources and Uses of Refunding Bonds (Branch Library Improvement Program)**

**Estimated Sources**

Estimated Par Amount	\$	26,005,000
Other Sources - Prior Debt Service Reserve Fund (2009A Bonds)	\$	<u>2,471,798</u>
<b><u>Total Estimated Sources</u></b>	\$	<b>28,476,798</b>

**Estimated Uses**

Refunding Fund Deposit (2009A Bonds)	\$	26,035,947
Debt Service Reserve Fund	\$	2,095,388
Cost of Issuance	\$	250,000
Underwriter's Discount	\$	<u>95,463</u>
<b><u>Total Estimated Uses</u></b>	\$	<b>28,476,798</b>

In addition, approximately \$2,095,388 may be allotted to fund a Debt Service Reserve Fund, to be funded if recommended by the Director of the Office of Public Finance. Approximately \$345,463 will be allotted to cover costs associated with the issuance of the Refunding Bonds. This includes amounts for underwriter compensation, legal fees, financial advisory fees, rating agency fees, printing costs, and other issuance costs.

In April 2016, the Library Commission appropriated \$7,556,391 of the Library Preservation Fund sources to pay down a portion of its existing debt tied to the 2009A Bonds, pursuant to San Francisco Library

Commission Resolution No. 2016-01. The impact of these additional sources allows the San Francisco Public Library to pay off its debt sooner, resulting in greater overall savings to the City.

### **Additional Information**

The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

*Official Notice of Sale.* The Official Notice of Sale for the Refunding Bonds announces the date and time of the competitive bond sale, including the terms relating to the Refunding Bonds; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Refunding Bonds may be bid separately by series or bids may be received for all of the Refunding Bonds.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Refunding Bonds. Pursuant to the Ordinance, the Controller is authorized to award the Refunding Bonds to the bidder whose bid represents the lowest true interest cost to the Corporation in accordance with the procedures described in the Official Notice of Sale.

*Notice of Intention to Sell.* The Notice of Intention to Sell provides legal notice to prospective bidders of the Corporation's intention to sell the Refunding 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.

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

A Preliminary Official Statement is distributed to prospective bidders 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 Refunding Bonds.

The Board of Supervisors and the Mayor, in adopting and approving the ordinance, approve and authorize the use and distribution of the Official Statement by the co-municipal advisors with respect to the Refunding Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller certifies, 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 certificates, major economic development projects,

constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolution, City staff will revise the Official Statement as appropriate, including the Appendix A.

*Continuing Disclosure Certificate:* The City covenants, on behalf of the Corporation, 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 Refunding Bonds in complying with the Securities and Exchange Commission Rule 15c212(b)(5).

### **Financing Timeline**

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

<u>Milestone</u>	<u>Date*</u>
Introduction of authorizing ordinance to the Board of Supervisors	April 10, 2018
Consideration by the Board of Supervisors Budget & Finance Committee	May 10, 2018
Issuance and sale of Refunding Bonds	June 2018

\*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 415-552-6902 if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors  
Andres Powers, Mayor's Office  
Kelly Kirkpatrick, Mayor's Acting Budget Director  
Harvey Rose, Budget Analyst  
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Kenneth Roux, Deputy City Attorney  
Michael Lambert, Acting City Librarian, San Francisco Public Library  
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