OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

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Deputy Controller

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Director of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors
Mayor London Breed

FROM: Ben Rosenfield, Controller's Office
Anna Van Degna, Controller's Office AVD

DATE: **Monday, March 16, 2020**

SUBJECT: **Resolution Authorizing the Issuance of Special Tax Bonds – Community Facilities District No. 2014-1 (Transbay Transit Center) - Not to Exceed Aggregate Principal Amount of $90,000,000 and approving related documents**

Pursuant to Government Code 6586.5 Resolution Authorizing the Issuance of Tax Allocation Bonds by Transbay Joint Powers Authority ("TJPA")

Recommended Action

The Controller's Office respectfully recommends that the Board of Supervisors ("Board") consider for review and approval: (i) the CFD Resolution, which authorizes the issuance and sale of not to exceed $90,000,000 aggregate principal amount of City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2020B ("CFD Bonds") and (ii) the TJPA Resolution which authorizes, under Government Code section 6586.5, TJPA's issuance of not to exceed aggregate principal amount of $315,000,000 Transbay Joint Powers Authority Tax Allocation Bonds ("Tax Allocation Bonds" or "TABs").

Proceeds of the CFD Bonds will be used to retire the City Financing (described below), which funded or reimbursed eligible improvements for Phase 1 (Trainbox and Rooftop Park) of the Salesforce Transit Center, and to fund or reimburse other eligible Phase 1 improvements.

Proceeds of the Tax Allocation Bonds will be used to:

(i) refinance TJPA's loan under the Transportation Infrastructure Finance and Innovation Act of 1998 ("TIFIA Loan"), and

(ii) repay all or a portion of the City Financing; and

(iii) finance or reimburse TJPA for additional costs associated with the construction and design of the Transbay Project, as further described herein.

Approval of the TJPA Resolution is required to satisfy Section 6586.5 of the Government Code[1]. The issuance of the TABs to finance the Project and the transactions related thereto will result in significant public benefits, namely, demonstrable savings in bond preparation, bond underwriting and bond issuance costs.

Background

Over the past decade, the City engaged in several efforts to plan for future development and construction of public infrastructure for the area surrounding the Salesforce Transit Center (the "Transit Center") and the Downtown Rail Extension ("DTX"), as further described below. In 2005, the Transbay Redevelopment Project Area was adopted to redevelop approximately 10 acres of property owned by the State of California (the "State-owned parcels") in order to generate funding for TJPA to construct the new Transit Center.

In 2012, the City adopted the Transit Center District Plan ("TCDP" or "Plan") after a multi-year public planning process. The TCDP is a comprehensive plan to respond to and support the construction of the new Transit Center including the DTX. In adopting the TCDP, the Board of Supervisors authorized the formation of a Mello-Roos community facilities district within the TCDP boundary.

In 2014, the City approved the formation of CFD No. 2014-1 ("CFD"). The CFD is the mechanism through which large developments in the Plan area provide a portion of the funding for the new Transit Center public improvements and other public infrastructure necessary to support the growth and development of the neighborhood.

Pursuant to a Joint Community Facilities Agreement dated December 1, 2014 between the City and TJPA, 82.6% of the CFD special tax proceeds will be used to fund the extension of the Caltrain rail tracks to the Transit Center to accommodate Caltrain and California High Speed Rail, including the train components of the Transit Center building and associated systems (the "Train Box"), and the Rooftop Park.

In 2015, the City approved the levy and collection of special taxes within the CFD and the issuance of special tax bonds. To date, $398.5 million principal amount of special tax bonds have been issued, of which $291.6 million of bond proceeds were used for the Transbay Project.

In 2015, the Metropolitan Transportation Commission ("MTC") conducted a cost and risk review of Phase 1 of the Transbay Project. The cost review included an assessment of costs, risk management practices, and the adequacy of contingencies to deliver Phase 1 on time. Following this review, MTC recommended a budget increase to replenish TJPA's Phase 1 project reserves and contingencies. Implementing the MTC

[1] Request for Approval to Satisfy Section 6586 and Section 6586.5 of the of the Government Code: TJPA's authority to issue the TABs is expressly conditioned on compliance with the requirements of Government Code section 6586.5, including a noticed public hearing by the City and its approval of the TABs based on a finding of "significant public benefits", defined in California Government Code Section 6586 as any one of the following: (a) demonstrable savings in effective interest rate, bond preparation, bond underwriting, or bond issuance costs; (b) significant reductions in effective user charges levied by a local agency; (c) employment benefits from undertaking the project in a timely fashion; or (d) more efficient delivery of local agency services to residential and commercial development. TJPA believes the facts and circumstances support this finding. This is the fourth time TJPA has sought the City's approval under Government Code section 6586.5. The City previously made the requisite approval before the TJPA entered the TIFIA loan, the bridge financing, and the City Financing

recommendation resulted in an approximately $250 million funding shortfall for Phase 1 of the Transbay Project. To address this funding gap, the City, in partnership with MTC, approved a short-term interim financing (the "City Financing") in the amount not to exceed $260 million, as further described below.

Project Funding Sources

To date, funding for the Transbay Project has come from a variety of federal, state and local sources, including a federal American Recovery and Reinvestment Act of 2009 ("ARRA"), Bay Area bridge tolls, proceeds from the sale of State-owned land parcels, impact fees, CFD special taxes and tax increment. There are currently three outstanding financings that leverage CFD special taxes and tax increment: (i) CFD special tax bonds, (ii) the TIFIA Loan and (iii) the City Financing, as further described below.

The proposed CFD Resolution would authorize the issuance of CFD Bonds to retire the City Financing and fund or reimburse Phase 1 expenditures. The proposed TJPA Resolution would authorize under Government Code section 6586.5 TJPA's issuance of Tax Allocation Bonds to refinance the TIFIA Loan, retire all or a portion of the City Financing (if needed) and fund or reimburse Transbay Project expenditures associated with construction and design of the Transbay Project.

CFD Bonds: *In November 2017, the City, on behalf of the CFD, completed the first issuance of Special Tax* Bonds Series 2017A and 2017B in the aggregate principal amount of $207.5 million. In February 2019, the City, on behalf of the CFD, completed the second issuance of Special Tax Bonds Series 2019A and 2019B in the aggregate principal amount of $191.0 million. The CFD Resolution would authorize the third issuance of special tax bonds, which are expected to be sold in the second quarter of 2020 in an aggregate not to exceed principal amount of $90.0 million.

TIFIA Loan: In 2010, TJPA entered into a loan under the terms of a loan agreement ("TIFIA Loan Agreement") in the principal amount not to exceed $171.0 million with the United States Department of Transportation, acting by and through the Federal Highway Administrator, under the Transportation Infrastructure Finance and Innovation Act of 1998 ("TIFIA"). Proceeds of the TIFIA Loan were used to finance a portion of the costs of the Transbay Project. TJPA pledged as a source of repayment for the TIFIA Loan (i) net tax increment generated by certain State-owned parcels in the Transbay Redevelopment Area; (ii) future contributions from Alameda-Contra Costa Transit District ("AC Transit") related to use of the new Transit Center; and (iii) interest income on (i) and (ii) (together the "Pledged Revenues"). The TIFIA Loan Agreement was subsequently amended in 2015 to allow for bridge financing, a direct loan with a principal amount of $171.0 million, which was repaid in full in 2016. The TIFIA Loan Agreement was further amended to allow for a certain at-parity interim financing, the City Financing (as discussed further).

Between December 2016 and November 2018, TJPA had fully drawn the TIFIA Loan. On February 1, 2020, TJPA made its first interest payment on the TIFIA Loan and a mandatory prepayment of principal in the aggregate amount of $12.3 million. As of February 1, 2020, the total outstanding balance of the TIFIA Loan was $178.9 million. A portion of the net proceeds of the proposed Tax Allocation Bonds, which are the subject of the TJPA Resolution, are expected to refinance the TIFIA Loan in full.

City Financing (COPs): In 2016, the Board authorized and the Mayor approved the not to exceed $260.0 million interim financing ("City Financing") to meet cash flow needs for eligible capital improvements of the Transbay Transit Center. Under the City Financing, the City issued short-term variable rate notes ("COPs") under a lease leaseback structure with TJPA, at the times and in the amounts necessary to meet required transit center construction funding requirements. Under an amendment to the TIFIA Loan Agreement, the City Financing was payable from Pledged Revenues on a parity basis with the TIFIA Loan.

Under the initial structure of the City Financing, a portion (up to $100.0 million) of the COPs were expected to be placed with Bay Area Toll Authority ("BATA"), and a portion (up to $160.0 million) were expected to be placed with Wells Fargo. No draws were made under the BATA facility, which expired on December 31, 2018. The City drew $103.0 million from the Wells Fargo facility and provided such proceeds to TJPA. On March 1, 2019, TJPA repaid $25.0 million of the outstanding balance from a portion of the 2019 CFD Bonds. On January 31, 2020 TJPA repaid an additional $2.0 million of the City Financing from a portion of the 2019 CFD Bonds, reducing the outstanding balance of the City Financing to $76.0 million. The Term-out Commencement Date is January 10, 2022, after which principal repayments of the outstanding balance of the City Financing, if any, would be required to be made in equal quarterly installments (as nearly as possible) such that the balance would be repaid in full over a 5 year period.

TJPA does not expect to make further draws for construction under the City Financing. A portion of the proceeds of the proposed CFD Bonds, which are the subject of the CFD Resolution, are expected to refinance the City Financing either in part or in full. The TJPA has represented to the City that all of the proceeds of the City Financing were used to finance the Trainbox and the Rooftop Park.

Plan of Finance Recommended for Approval

CFD Special Tax Bonds: The proposed CFD Resolution authorizes the third sale of special tax bonds in an aggregate principal amount not to exceed $90,000,000. Proceeds of the CFD Bonds will be used to retire the outstanding City Financing and fund or reimburse Phase 1 expenditures. In addition, the CFD Bonds will fund the costs of issuing the CFD Bonds and fund a debt service reserve fund, as shown in Table 1.

The proposed CFD Bonds will be issued on parity with the outstanding CFD special tax bonds and will be secured by a pledge of the special tax revenues collected in the CFD. Special taxes are only levied on property in the CFD for which both a Certificate of Occupancy and Tax Commencement Authorization have been issued and may only be levied on a specific taxable property for 30 years (the maximum duration of the CFD is 75 years after the initial special tax levy). There are currently 8 Taxable Buildings subject to the special tax levy. During fiscal year 2019-20, the CFD anticipates collecting approximately $23.5 million in annual special tax revenues, with annual collection increasing to approximately $26.1 million for fiscal year 2020-21.

Based upon current market conditions, a 30-year term and an overall true interest cost of 4.39%, which assumes the issuance of all bonds on a federally taxable basis, the Office of Public Finance estimates an average annual debt service of approximately $5.2 million. With an estimated par amount of $83.4 million, debt service over the life of the CFD Bonds is estimated at approximately $158.0 million. Attachment 2 provides good-faith estimates for the CFD Bonds, as required under Government Code §5852.1.

TJPA Tax Allocation Bonds: The proposed TJPA Resolution authorizes the sale of Tax Allocation Bonds in an aggregate principal amount not to exceed $315 million. The Tax Allocation Bonds are secured by certain tax increment generated in the Transbay Redevelopment Project Area. The proceeds of the Tax Allocation Bonds will be used to refinance the TIFIA Loan, repay all or a portion of the City Financing (as needed), and finance or reimburse TJPA for additional costs associated with the construction and design of the Transbay Project, as shown in Table 1.

Based upon current market conditions as of Feb. 20, 2020 plus a 50bps, a 30-year term and an overall true interest cost of 3.86% (which assumes the issuance of both tax-exempt and taxable bonds), TJPA estimates an average annual debt service of approximately $18.4 million. With an estimated proceeds amount of $318.7 million ($298.6 million of par +$20.1 million of premium), debt service over the life of the Tax Allocation Bonds is estimated at approximately $537.8 million. Through the issuance of the Tax Allocation Bonds, TJPA expects to achieve significant cost savings over the existing TIFIA Loan. Based on the current market, it is estimated that refinancing the TIFIA Loan would generate on the order of over $20 million net present value savings, which is in excess of 10% net present value savings as a percentage of the refunded obligation.

Table 1: Estimated Sources & Uses:

Estimated Sources:		
2020 Bond Proceeds(1)		$402,080,000
Total Estimated Sources		**$402,080,000**
Estimated Uses(2):		
City Financing Redemption(3)		$76,000,000
TIFIA Redemption(4)		181,800,000
Tenant Improvements(5)		50,500,000
Phase 1 Programmed Tenant Improvements (*Moved to Separate Budget*)	35,500,000	
Tenant Improvements Contingency	15,000,000	
Program Reserve to Restore Phase 1 Contingency		35,500,000
Capital Replacement Reserve(6)		29,000,000
2020 Bond Reserve, Capitalized Interest and Financing Costs(7)		29,280,000
Total Estimated Uses		**$402,080,000**

(1) Estimated aggregate proceeds for the CFD Bonds and TJPA Tax Allocation Bonds. For the CFD Bonds, the not-to-exceed par amount is $90 million, which includes $83.38 million of estimated proceeds and a includes a reserve for market uncertainty of $6.62 million.

(2) May include, but not limited to, payment of judgment or settlement obligations arising from litigation or other disputes relating to past or future Transbay Terminal Project construction or design activities.

(3) The City Financing is currently outstanding in the principal amount of $76 million. The CFD Bonds are expected to refinance either all or a portion of the City Financing. Following funding swaps, City Financing/CFD proceeds are programmed to fund or reimburse eligible improvements for Phase 1 (Trainbox and Rooftop Park).

(4) The TIFIA Loan outstanding balance is $178.9 million as of Feb.1 2020. TJPA's Tax Allocation Bonds are expected to refinance the full amount of the TIFIA loan, plus accrued interest and fees.

(5) Tenant Improvements of $50.5 million recorded in a Separate Budget; $35.5 million moved to that budget to allow for balanced Phase 1 Budget with Program Reserve. Tenant Improvements Contingency (Added to Separate Budget).

(6) Capital Reserve for ongoing capital expenses related to the Transbay facility.

(7) Includes debt service reserve funds for the CFD Bonds and the Tax Allocation Bonds. Additionally, this includes a Capitalized Interest Fund for the CFD Bonds, and Costs of Issuance associated with the CFD Bonds and the Tax Allocation Bonds.

CFD Bonds - Additional Information

Method of Sale and Bond Purchase Agreement: Given the unique characteristics of the Transbay Project and the credit, staff is proposing a negotiated sale in connection with the CFD transaction. The CFD Bonds will be repaid from special tax revenues from specific projects within the CFD and are outside of the City's customary credit profile. The Office of Public Finance has selected Stifel, Nicolaus & Company, Incorporated ("Stifel") to serve as Senior Underwriter, Citigroup Global Markets Inc. to serve as Co-Senior Underwriter, and Stinson Securities, LLC to serve as Co-Manager for this transaction. These firms were selected via a competitive Request for Proposal process from the City's Underwriter Pool. The proposed CFD Resolution approves the form of the Bond Purchase Agreement, which details the terms of sale of the bonds by the City to the selected underwriters. Please see Attachment 1 for a summary of additional forms of bond documents included in the legislation packet.

Green Bond Designation: As was done for the 2017B and 2019B Bonds, the City intends to designate the CFD Bonds as "Green Bonds" since the proceeds will be used to finance or reimburse environmentally beneficial projects ("Green Projects"). The particular capital improvements that the City has defined as "Green Projects" in connection with the CFD Bonds are the Train Box and Salesforce Park, which have been certified by the Climate Bonds Initiative.

Teeter Plan: In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment ("Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the City Controller to allocate to the City's taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate to other taxing agencies secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan.

In November 2017, in connection with the approval of the 2017 Bonds, the Board approved extending the Teeter Plan for the allocation and distribution of the CFD special taxes. The City has the power to unilaterally discontinue the Teeter Plan or remove the CFD from the Teeter Plan by a majority vote of the Board of Supervisors.

The net effect of the CFD special taxes participating in the Teeter Plan is that 100% of the CFD special tax levy is allocated to the CFD, regardless of the amount collected, which provides credit enhancement for the CFD Bonds.

Anticipated Financing Timeline

The CFD Resolution is expected to be introduced at the Board of Supervisors meeting on Tuesday, March 24, 2020, and the forms of the related financing documents—including the Second Supplement to the Fiscal Agent Agreement, Preliminary Official Statement, the Continuing Disclosure Certificate and other related documents, as further described in Attachment 1—will be submitted to the Board at that time. The TJPA Resolution is also expected to be introduced at the Board of Supervisors meeting on March 24.

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Milestones	Dates*
• Introduction of CFD Resolution and TJPA Resolution at the Board	March 24, 2020
• Government Audit & Oversight Committee Hearing - Resolutions	April 16, 2020
• *Board Considers Approval of Resolutions*	*April 21, 2020*
• Sale and Closing of the CFD Bonds and TJPA Bonds	May/June 2020

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna (anna.vandegna@sfgov.org) at 415-554-5956, Bridget Katz (bridget.katz@sfgov.org) at 415-554-6240, or Ben Rosenfield 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
Naomi Kelly, City Administrator
Harvey Rose, Budget Analyst
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney
Rich Robinson, Deputy City Attorney
Mark Zabaneh, Transbay Joint Powers Authority

ATTACHMENT 1

Summary of Key Related Documents for the CFD Bonds

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, March 17, 2020. The forms of the related financing documents for the CFD Bonds include the Bond Purchase Agreement, Second Supplement to Fiscal Agent Agreement, Continuing Disclosure Certificate, and a Preliminary Official Statement.

Second Supplement to Fiscal Agent Agreement: The proposed resolution approves the form of a Second Supplement to Fiscal Agent Agreement which supplements the original Fiscal Agent Agreement approved with the 2017 Bonds. Pursuant to the Fiscal Agent Agreement between the City and the Fiscal Agent, the Fiscal Agent administers and disburses bond payments. The Fiscal Agent Agreement provides for the terms of the bond redemption, prepayment provisions, and other related administrative provisions. The Fiscal Agent holds the CFD special taxes and the bonds proceeds derived from the sale of the CFD Bonds and will disburse the proceeds as directed by authorized City representatives. The Director of Public Finance has selected Zions Bancorporation, National Association to serve as Fiscal Agent.

The Preliminary Official Statement: The proposed resolution also approves the form of Preliminary and final Official Statement relating to the CFD Bonds (the "Official Statement"). The Preliminary Official Statement summarizes the security for the CFD Bonds, the current status of properties subject to the Special Tax, and known potential risks to investors.

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

Pursuant to the Resolution, the Board delegates to the Controller the authority to finalize and revise the Official Statement, among other things, to include the most recent related and material information to investors, and to otherwise make corrections and clarifications needed so that such offering document complies with federal securities laws.

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

ATTACHMENT 2

Good Faith Estimates for the CFD Bonds

For purposes of compliance with Section 5852.1 of the California Government Code, the following information are good faith estimates provided by the Underwriter for the CFD Bonds as of March 2020:

1. True interest cost of the CFD Bonds: 4.39%

2. Finance charge for the CFD Bonds, 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): $1,240,809.

3. Amount of CFD Bond 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 CFD Bonds: $76,000,000.

4. Total payment amount for the CFD Bonds, being the sum of (a) debt service on the CFD Bonds to final maturity, and (b) any financing costs not paid from proceeds of the CFD Bonds: $158,023,861.

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