



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 the Office of Public Finance
Vishal Trivedi, Office of Public Finance

DATE: Tuesday, June 2, 2020

SUBJECT: Resolution Authorizing the Sale of General Obligation Bonds (Transportation and Road Improvement, 2014) Series 2020B – \$140,000,000

We respectfully request that the Board of Supervisors (the “Board”) consider for review and adoption the resolution approving the sale of general obligation bonds (the “Bonds”) for the 2014 Transportation and Road Improvement program in the amount of \$140,000,000.

In connection with this request, legislation approving the sale of these bonds, as well as a supplemental appropriation ordinance to appropriate the bond proceeds and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday June 2, 2020. We respectfully request that these items be heard at the scheduled June 24, 2020 meeting of the Budget and Finance Committee.

Background:

On November 4, 2014, a two-thirds majority of voters of the City & County of San Francisco (the “City”) approved Proposition A (“2014 Proposition A”), a San Francisco Transportation and Road Improvement General Obligation Bond. 2014 Proposition A authorizes the City to issue \$500,000,000 in general obligation bonds to implement many of the infrastructure repairs and improvements identified by the late Mayor Ed Lee’s Transportation 2030 Task Force. The projects to be funded through the proposed bond sale include: (i) pedestrian safety improvements, (ii) BART station entrance canopies, (iii) accessibility improvements, (iv) traffic signal improvements, (v) Muni Forward Rapid Network improvements, (vi) Caltrain electrification, streetscape and other transit corridor improvements (the “Project”). Of the total 2014 Proposition A authorization, \$241,450,000 has been issued to date, leaving \$258,550,000 remaining from the 2014 Proposition A bond program.

Financing Parameters:

The proposed resolution will authorize the issuance of the Bonds for the purposes allowed under the 2014 Proposition A. The supplemental appropriation ordinance approves the appropriation of proceeds from the sale. Table 1 below outlines the not-to-exceed sources and uses for the Bonds, based on an estimate provided by Fieldman Rolapp & Associates, Inc., 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 from the Bonds

Estimated Sources:	
Par Amount	\$136,090,000
Total Estimated Sources:	\$136,090,000
Estimated Uses:	
Project Fund Deposits:	
Project Fund	\$134,300,000
CSA Audit Fee	\$268,600
Total Project Fund Deposits:	\$134,568,600
Cost of Issuance	\$704,860
Underwriter's Discount	\$680,450
CGOBOC Fee	\$136,090
Total Delivery Expense:	\$1,521,400
Total Estimated Uses:	\$136,090,000
<i>Reserve for Market Uncertainty</i>	<i>\$3,910,000</i>
Maximum Not to Exceed Amount:	\$140,000,000

Source: Fieldman Rolapp & Associates, Inc.

Based upon an estimated market interest rate of 3.75%, the Office of Public Finance projects an average annual debt service cost of approximately \$9,725,000. The total debt service over the 20-year life of the Bonds is projected to be approximately \$193,300,000. Of this, \$136,090,000 represents the estimated par and the remainder represents estimated interest.

Project Description:

19th Avenue Project - The goal of this project is to improve pedestrian safety, transit reliability, and travel times through bus stop optimization, pedestrian and transit bulbs, and other enhancements along the 19th Street corridor.

22 Fillmore Project - This Muni Forward project will upgrade transit reliability, reduce travel times, and enhance safety and accessibility along the Fillmore corridor by creating transit bulbs, dedicated transit lanes,

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expansion of the overhead wire system, updated bus shelters, streetscape improvements, and extension of bicycle routes.

L Taraval Improvement Project - The L Taraval project will rehabilitate the Taraval corridor to replace infrastructure such as worn rails, overhead wires and poles, and create pedestrian safety enhancements such as high visibility crosswalks, boarding islands, and increased accessibility.

Western Addition Area Traffic Signal Upgrades - This project will build pedestrian countdown signals and/or signal visibility improvements at 24 intersections and create pedestrian-activated flashing beacons at 9 intersections in the Western Addition Area.

Safer Taylor Street - The Taylor Street project will help bring to life a new vision for Taylor Street to help meet the City's Vision Zero traffic fatality goals. The project will upgrade signals and improve pedestrian safety, widen sidewalks on Taylor from Turk to Ellis and reduce the number of travel lanes between Market Street and Sutter Street to improve transportation safety and livability along the corridor.

BART Canopies – Some of the bond funding from this issuance will go toward the City's contribution to the BART Canopies project, to help renovate escalators and build structures to cover entrances to BART stations which will protect people and equipment from weather, show train arrival times, and add security features such as lighting and cameras.

Caltrain Electrification – Funds from this issuance will also help to fulfill the City's contribution to the Caltrain electrification project, which will fund electrification at the northern terminal of the Caltrain Corridor, starting at San Francisco 4th and King Caltrain Station.

More detailed descriptions of the Projects financed with proceeds of the Bonds are included in the Bond Reports prepared by the Municipal Transportation Agency. In addition, a portion of the Bond proceeds will be used to pay certain expenses incurred in connection with the issuance and delivery of the Bonds, and the periodic oversight and review of the Projects by City Services Auditor ("CSA Audit") the Citizens' General Obligation Bond Oversight Committee ("CGOBOC").

Property Tax Impact:

Payment of annual debt service on the Bonds will be funded by an increase in the annual property tax rate, which is estimated to average \$0.00346 per \$100 of assessed value or \$3.46 per \$100,000 of assessed value over the anticipated 20-year term of the Bonds. The owner of a residence with an assessed value of \$600,000, assuming a homeowner's exemption of \$7,000, would pay average additional property taxes to the City of approximately \$20.52 per year if the anticipated \$136,090,000 of Bonds are sold.

Debt Limit:

The City Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3.00% of the assessed value of property in the City. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's general obligation debt limit for fiscal year 2019-20 is approximately \$8.43 billion, based on a net assessed valuation of approximately \$281.1 billion. As of June 2, 2020, the City had outstanding approximately \$2.40 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.85% of the net assessed valuation for fiscal year 2019-20. If

all of the City's voter-authorized and unissued general obligation bonds were issued, the total debt burden would be 1.63% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by approximately 0.05% to 0.90%— within the 3.00% legal debt limit.

Capital Plan:

The Capital Planning Committee approved a financial constraint regarding the City's planned use of general obligation bonds such that debt service on approved and issued general obligation bonds would not increase property owners' long-term property tax rates above fiscal year 2006 levels. The fiscal year 2006 property tax rate for the general obligation bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Bonds, the property tax rate for general obligation bonds for fiscal year 2019-20 would be maintained at or below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

Additional Information:

The resolution and the appropriation ordinance are expected to be introduced at the Board of Supervisors meeting on Tuesday, June 2, 2020. The forms of the related financing documents—including the Bond Purchase Agreement, Preliminary Official Statement, Appendix A, the Continuing Disclosure Certificate and other related documents, as further described below—will be submitted to the Board at that time.

Official Notice of Sale: Should the bonds be issued through a competitive bid process, the Official Notice of Sale announces the date and time for bids to be submitted, including the terms relating to sale of the Bonds; form of bids, and delivery of bids; and closing procedures and documents.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Bonds. Pursuant to the Resolutions, in a competitive sale the Controller is authorized to award the Bonds 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.

Notice of Intention to Sell: The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the 2020B Bonds. Such Notice of Intention to Sell would be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

Bond Purchase Agreement: The City is considering whether a competitive sale of the Bonds is likely to produce the lowest cost of capital given current market disruptions. If market conditions should advise a negotiated sale with an underwriter, the attached Purchase Contract details the terms, covenants, and conditions for the sale of the Bonds, as well as agreements regarding expenses, closing and disclosure documents.

Placement Agent Agreement: If market conditions advise for a direct placement of the bonds, a Placement Agent Agreement will set the terms, covenants, and conditions for the placement of the Bonds through selected Placement Agent, as well as compensation for such service.

Paying Agent Agreement: The City Treasurer would typically be expected to act as Registrar and Paying Agent for the Bonds, but if due to the current pandemic or other extraordinary circumstances it is necessary to select an external Paying Agent in order to close the transaction, the Paying Agent Agreement provides the terms, covenants, and conditions.

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

A *Preliminary Official Statement* is distributed to prospective bidders and/or investors 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 market within 10 days of the bond sale.

The Board of Supervisors and the Mayor, in adopting and approving the Resolution, approve and authorize the use and distribution of the Official Statement with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller typically 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. 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 bonds, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolution, City staff will revise the Official Statement, including Appendix A, as necessary, to provide current information.

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

Projected Financing Timeline*:

<u>Milestones:</u>	<u>Dates*:</u>
Capital Planning Committee	March 9
Board of Supervisors Introduction	June 2
Budget & Finance Committee Hearing	June 24
Board Consideration of Resolution and 1 st Reading of Appropriation Ordinance	June 30
Board 2 nd Reading of Appropriation Ordinance	July 7
Bond Sale & Closing	Summer 2020

**Please note that dates are preliminary and may change.*

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 (anna.vandegna@sfgov.org), Vishal Trivedi at 415-554-4862 (vishal.trivedi@sfgov.org) or Luke Brewer at 415-554-7693 (luke.brewer@sfgov.org) if you have any questions.