

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 29, 2016 Budget and Finance Committee Meeting

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<p>Items 1 and 2 Files 16-0557 and 16-0552</p>	<p>Departments: Controller’s Office of Public Finance Mayor’s Office of Housing and Community Development</p>
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EXECUTIVE SUMMARY

Legislative Objectives

- 16-0557: Resolution determining and declaring the public interest and necessity demand the construction, acquisition, improvement, rehabilitation and conversion of “at-risk” multi-unit residential buildings to permanent affordable housing and performing needed seismic, fire, health and safety upgrades and other major rehabilitation for habitability, to be financed through bonded indebtedness not to exceed \$350,000,000; providing for the levy and collection of taxes to pay the bond principal and interest; setting procedures for the election; adopting findings under the California Environmental Quality Act (CEQA), Administrative Code Chapter 31 and the Planning Code; and waiving time limits in Administrative Code, Section 2.34.
- 16-0552: Ordinance calling for a special election on November 8, 2016 to submit a proposition to San Francisco voters to amend Proposition A approved by voters in November 1992 to authorize additional purposes for providing general obligation bonded indebtedness loans for affordable housing.

Key Points

- On November 3, 1992, San Francisco voters approved a \$350,000,000 General Obligation bond to fund a Seismic Safety Loan Program to provide seismic loans for unreinforced masonry buildings, including \$150 million for affordable housing and \$200 million for market-rate residential, commercial and institutional buildings. Of the total \$350,000,000 authorized in 1992, \$260,684,550 of that authorization remains after almost 24 years, including \$156,000,000 for market rate loans.

Fiscal Impact

- The proposed legislation expands the use of the existing seismic safety market rate loan funds, but does not increase or add any new authorization to issue more than the existing \$200 million of market rate bonds. Therefore, there is no net new fiscal impact to the City to approve the requested legislation.
- Without additional detail on the anticipated need for these market rate loan funds, and/or project details, the Office of Public Finance cannot currently estimate the number of bond issuances, timing of such bond sales, amounts of each issuance, or interest rates and related costs.
- There would be no additional levy on property taxpayers to repay the proposed debt service. Rather, the City would be fully reimbursed through loan payments by the borrowers of the loan for the cost of the debt service on the market rate bonds. Market rate borrowers would also be charged 1% additional interest to cover the City’s Office of Public Finance costs, plus a 1.5% bond origination fee to cover MOHCD’s costs, which would provide full City cost recovery.

Recommendations

- The Board of Supervisors may want to consult with MOHCD to determine an agreed upon definition for which properties would qualify to receive these loans to create permanent affordable housing.
- Approval of the proposed resolution and ordinance to submit a \$350 million General Obligation bond to San Francisco voters for the November 2016 ballot is a policy decision for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

According to Article 16, Section 18(a) of the State of California Constitution, no county, city, town, township, board of education, or school district, shall incur any indebtedness or liability for any purpose exceeding in any year the income and revenue provided for such year, without the approval of two-thirds of the voters of the public entity voting at an election to be held for that purpose. Section 9.105 of the City's Charter provides that the Board of Supervisors is authorized to approve the issuance and sale of General Obligation bonds in accordance with State law or local procedures adopted by ordinance.

City Administrative Code Section 2.34 requires that a resolution of public interest and necessity for the acquisition, construction or completion of any municipal improvement be adopted by the Board of Supervisors not less than 141 days before the election at which such proposal will be submitted to the voters. These time limits may be waived by resolution of the Board of Supervisors.

Background

On November 3, 1992, San Francisco voters approved a \$350,000,000 General Obligation bond to fund a Seismic Safety Loan Program (Proposition A) to provide loans for private owners to seismically strengthen their unreinforced masonry buildings. Under the existing \$350 million Seismic Safety Loan Program, which is administered by the Mayor's Office of Housing and Community Development (MOHCD), \$150 million is authorized for affordable housing and \$200 million is authorized for market-rate residential, commercial and institutional buildings. As shown in Table 1 below, of the total \$350,000,000 in bonds authorized in 1992, \$260,684,550 of that authorization remains after almost 24 years, including \$156,000,000 remaining bond authorization for market rate loans.

Table 1: Existing Seismic Safety Loan Program Bond Authorizations

	Total	Affordable Housing	Market Rate
Bonds Authorized	\$350,000,000	\$150,000,000	\$200,000,000
Bonds Issued to Date	<u>89,315,450</u>	<u>45,315,450</u>	<u>44,000,000</u>
Remaining Bond Authorization	\$260,684,550	\$104,684,550	\$156,000,000

DETAILS OF PROPOSED LEGISLATION

Under the proposed resolution (File 16-0557), the Board of Supervisors would

(a) Determine and declare that the public interest and necessity demand the acquisition, improvement, rehabilitation and preservation of affordable housing in the City for low- and middle-income households and incurring up to \$350,000,000 of General Obligation bond costs is necessary or convenient for such purposes;

(b) Find that the \$350,000,000 of General Obligation Bonds previously authorized under Proposition A in 1992 is and will be too great to be paid out of the ordinary annual income and

revenue of the City, will require an expenditure greater than the amount allowed by the annual tax levy and will require the incurrence of an amount not to exceed \$350,000,000;

(c) Find that the proposed bond is a funding mechanism and not a project under the California Environmental Quality Act (CEQA);

(d) Find that the proposed bond is in conformity with the priority policies of Planning Code, Section 101.1(b) and consistent with the General Plan;

(e) Waive the time limits set forth in Administrative Code Section 2.34; and

(f) Declare the City's intent to reimburse prior expenditures related to this project incurred prior to the issuance and sale of these bonds with bond proceeds.

Under the proposed ordinance (File 16-0552), the Board of Supervisors would

(a) Call and provide for a special election to be held in San Francisco on November 8, 2016 to submit to San Francisco voters a proposition to amend Proposition A approved by San Francisco voters in November 1992 to authorize the City to incur General Obligation bonded indebtedness for additional purposes of providing loans to cover costs to acquire, improve rehabilitate and convert at-risk multi-unit residential buildings to permanent affordable housing, including related costs;

(b) Provide for the levy and collection of taxes to pay principal and interest on bonds;

(c) Incorporate Administrative Code provisions for the Citizens' General Obligation Bond Oversight Committee's review;

(d) Set procedures and requirements for the election; and

(e) Adopt CEQA and General Plan and Planning Code findings.

The proposed resolution and ordinance would not add to the previously approved \$200 million General Obligation bond market rate authorization shown in Table 1 above, but rather would expand the scope of eligible uses for the market rate bond proceeds. Currently, market rate loan proceeds are only available for seismic strengthening of unreinforced masonry buildings and the related administrative costs for market rate residential, commercial and institutional buildings. Under the proposed legislation, eligible uses of the market rate loan proceeds would be expanded to include financing the cost to acquire, improve and rehabilitate at-risk multi-unit residential buildings of three units or more in need of fire, health and safety upgrades or other major rehabilitation for habitability, including mixed-use residential buildings in order to convert such structures to permanent affordable housing.

According to the office of the sponsor of the proposed legislation, expanding the eligibility for the use of these loan funds will allow non-profit affordable housing developers to convert properties to permanently affordable housing through the City's Small Site Acquisition and Rehabilitation Program¹ or through other means. Although not defined in the proposed legislation, the office of the sponsor advises that permanent affordable housing is generally defined as price-controlled housing according to Area Median Income limits for residents who

¹ The City's Small Site Acquisition and Rehabilitation Program, administered by the Mayor's Office of Housing and Community Development, identifies potential existing properties at risk of losing their affordability that can be acquired or rehabilitated in order to retain affordable housing in the City.

qualify, and which generally remain affordable for at least 55 years, as enforced by MOHCD. The Board of Supervisors may want to consult with MOHCD to determine an agreed upon definition for which properties would qualify to receive these loans to create permanent affordable housing.

Mr. Brian Strong, Director of the City's Capital Planning Program advises that the proposed resolution and ordinance are scheduled to be heard by the Capital Planning Committee on Monday, June 27, 2016.

FISCAL IMPACT

No Additional Bond Authorization

As discussed above, San Francisco voters previously authorized \$350 million of General Obligation bonds for the existing Seismic Safety Loan Program, including \$200 million for market rate loans. As shown in Table 1 above, \$156,000,000 of market rate loan authorization still exists for General Obligation bonds which have never been issued. Since the proposed legislation simply expands the use of the market rate loan funds, but does not increase or add any new authorization to issue more than the existing \$200 million of market rate bonds, there is no net new fiscal impact to the City to approve the requested legislation. The proposed legislation could expedite the use of the market rate bond proceeds that are issued and loans provided, however, the demand for such market rate loan proceeds is not currently known.

Future Market Rate Bond Issuances

Ms. Jamie Querubin, Bond Analyst in the Office of Public Finance advises that any new market rate bonds would include pricing assumptions similar to the previous bond transactions under the existing Seismic Safety Loan Program. However, Ms. Querubin reports that without additional detail on the anticipated need for these market rate loan funds, and/or project details, the Office of Public Finance cannot currently estimate the number of bond issuances, timing of such bond sales, amounts of each issuance or interest rates and related costs. The most recent bond issuance under the existing Seismic Safety Loan Program was in 2015 for \$24 million and was structured as a 20-year, variable-rate direct purchase loan at a 3.0% estimated average annual interest rate.

In accordance with Section 5.31 of the Administrative Code, one-tenth of one percent (0.1%) of the bonds gross proceeds would be deposited into the Controller's Office fund, to be appropriated by the Board of Supervisors to cover the costs of the Citizens' General Obligation Bond Oversight Committee. In addition, the Controller's City Service Audit fee, bond issuance costs, and underwriter's discount fees would be included in the City's bond total costs.

Repayment of Loans to be Fully Reimbursed by Borrowers

Repayment of annual debt service for most General Obligation Bonds is recovered through increases to the annual Property Tax rate. However, because the market rate Seismic Safety Loan Program is a fully reimbursable loan program, there would be no additional levy on

property taxpayers to repay the proposed debt service. Mr. Benjamin McCloskey, Deputy Director of Finance and Administration for MOHCD advises that under the existing market rate Seismic Safety Loan Program, the City is fully reimbursed through loan repayments by the borrowers of the loans for the cost of the debt service on the market rate bonds. In addition, the market rate borrowers are charged 1% additional interest over the City's cost of borrowing to cover the City's Office of Public Finance costs, plus a 1.5% bond origination fee to cover MOHCD's costs. If MOHCD administers the proposed market rate loan program to continue to provide full City cost recovery, there would be no additional costs to the City.

However, Mr. McCloskey advises, that depending on the additional work required by the proposed program, the MOHCD may need to add one additional full-time equivalent (FTE) staff to administer this program.

POLICY CONSIDERATION

Approval of the proposed resolution (File 16-0557) requires two-thirds or more of the Board of Supervisors approval and approval by the Mayor. In addition, approval of this \$350,000,000 General Obligation Bond would require approval by at least two-thirds of San Francisco voters.

RECOMMENDATIONS

1. The Board of Supervisors may want to consult with MOHCD to determine an agreed upon definition for which properties would qualify to receive these loans to create permanent affordable housing.
2. Approval of the proposed resolution and ordinance to submit a proposition to San Francisco voters to expand the uses of the existing \$350 million Seismic Safety General Obligation bond program for the November 2016 ballot is a policy decision for the Board of Supervisors.