Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Public Finance Director

SUBJECT: Resolution Authorizing the Issuance and Sale of City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A and Federally Taxable Series 2017B;

Ordinance Appropriating Proceeds of Special Tax Bonds, Series 2017A and Federally Taxable Series 2017B;

Resolution extending the Teeter Plan to Special Taxes Levied for the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center); and

Resolution determining annexation of Property to the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center)

DATE: Friday, April 28, 2017

Recommended Action:

I respectfully request that the Board of Supervisors (the "Board") consider for review and approval the resolution authorizing the issuance and sale of an aggregate not to exceed par amount of $152,000,000 in City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A and Federally Taxable Series 2017B (the "Bonds") financing capital improvements for Transbay Project and plan infrastructure; ordinance appropriating the proceeds; resolution extending the Teeter Plan; and resolution determining annexation of property.

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 Transbay Transit Center and Downtown Rail Extension ("DTX"). In 2005, the Transbay Redevelopment Project Area was adopted with the purpose of redeveloping 10 acres of property owned by the State of California (the “State-owned parcels”) in order to generate funding for the Transbay Joint Powers Authority (“TJPA”) to construct the new Transbay Transit Center (the “TTC”).

In 2012, the City adopted the Transit Center District Plan (“TCDP” or “Plan”) after a multi-year public planning process. TCDP is a comprehensive plan to respond to and support the construction of the new Transbay Transit Center project including the downtown rail extension. In adopting the TCDP, the Board of Supervisors authorized the formation of a Mello-Roos community facilities district (a “CFD”) within the TCDP boundary for new large developments to provide funding for the new Transbay Transit Center public improvements and other new public infrastructure necessary to support the growth and development of the neighborhood.

In 2014, the Board approved the formation of the CFD for the purpose of providing funding to pay for the costs of certain public infrastructure to be built as a result of the Transbay Project. The Transbay CFD District (“District”) is located in downtown San Francisco immediately south of Market Street near the City’s new Transbay Transit Center, designed to be a hub of transit connections serving regional commuters. Properties that receive a zoning bonus that exceed the current height and floor-to-area ratios in the City’s Planning Code are annexed into the District.

In 2015, the Board approved the levy and collection of special taxes and the issuance of Bonds. The proceeds from the Bonds will finance infrastructure program to improve streets, open spaces, and transportation network within the district. Pursuant to the Joint Community Facilities Agreement, between the City and TJPA, approximately 82.6% of the CFD special tax proceeds will partially finance the Transbay Project. The Transbay Project consists of the extension of the Caltrain rail tracks to the Transbay Transit Center to accommodate Cal Train and California High Speed Rail (the “Downtown Rail Extension” or “DTX”), which includes the train-related components of the Transbay Transit Center (the “Train Box”) and the Rooftop Park. The remaining 17.4% will finance improvements to streetscape and transportation enhancements within the district, and improvements to new and enhanced open spaces.

The Special Tax Bonds*:*
On July 15, 2014, the Board of Supervisors of the City adopted Resolution No. 247-14 stating its intent to form the District under the Act. On the same date, the Board of Supervisors of the City also adopted Resolution No. 246-14, which authorized bonded indebtedness on behalf of the District in an aggregate amount not to exceed $1,400,000,000, approved an Amended Rate and Method of Apportionment of Special Tax (the “Rate and Method”), approved the levy of special taxes within the District to pay the principal of, and interest on, the authorized bonded indebtedness and approved an appropriations limit for the District not to exceed $300,000,000. On December 29, 2014, an election was held within the District pursuant to the Act at which the qualified electors approved the formation of the District and incurrence of bonded indebtedness in an aggregate amount not to exceed $1,400,000,000.

The proposed resolution authorizes the first sale of the Special Tax Bonds in a par amount not to exceed $152,000,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to deliver $152,000,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected delivery amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Special Tax Bonds and any potential increases in required deposits for capitalized interest, debt service reserve fund, and delivery date expenses in the event interest rates were to increase from current levels.

The Bonds are secured by pledge of the special tax revenues received by the City, which are the special taxes levied by the Board of Supervisors within the District. Special taxes can only be levied on a property within the District if a Certificate of Occupancy and Tax Commencement Authorization is issued by the City. The Bonds are sized based on the expected levels of special taxes levied per year from the District, as a result of properties fulfilling both levy requirements. As of fiscal year 2016-17, the CFD anticipates collecting $1.8 million in special tax proceeds, $8.0 by fiscal year-end 2017-18, and a up to $13.1 million by fiscal year-end 2018-19.

Project Description:

The proceeds of the Bonds will be used to finance or refinance portions of the Transbay Project and public infrastructure adjacent to the Transit Center, including sidewalk widening and extensions, pedestrian bulbs, bus islands, curb ramps, and additional pedestrian crosswalks.

Plan of Finance: The City will only sell Bonds at an amount sufficiently sized to the guaranteed special taxes levied within the District.

Table 1: Anticipated Sources and Uses from the Bonds

Maximum Not to Exceed Amount:	**$152,000,000**
Reserve Proceeds	*$2,251,503*
Estimated Sources:	
Par Amount	$147,590,000
Premium	$2,158,497
Total Estimated Sources:	**$149,748,497**
Estimated Uses:	
Project Fund Deposits:	
Project Fund (Transbay Projects)	$103,614,143
Project Fund (Other Projects)	$23,979,257
	$127,593,400
Other Fund Deposits:	
Debt Service Reserve Fund	$12,161,227
Capitalized Interest Fund	$5,566,170
Delivery Date Expenses:	
Cost of Issuance	$4,427,700
Total Estimated Uses:	**$149,748,497**
Reserve for Market Uncertainty	*$2,251,503*
Maximum Not to Exceed Amount:	**$152,000,000**

The authorized amount above the expected par amount of $147,590,000 allows for market premium as a result of prevailing interest rates as well as additional market reserves to due fluctuations in market conditions from the date of authorization by the Board of Supervisors to the time of the sale of the Bonds. Pursuant to the Plan, each project will pay special taxes for maximum of 30 years as such the Bonds have a term of 30 years.[1] As a companion piece of legislation to the Resolutions, the Office of Public Finance is also requesting the approval of a Supplemental Appropriation Ordinance to finance project costs and associating financing costs.

Based upon current market interest rates of 4.48%, the Office of Public Finance estimates an average annual debt service of approximately $9,728,982. The anticipated total par amount of $147,590,000 is estimated to result in approximately $145,198,304 in interest payments over the life of the Bonds. The total debt service over the life of the Bonds total approximately $292,788,304.

Method of Sale & Bond Purchase Agreement: We are proposing a negotiated sale in connection with this transaction. The Bonds are repaid from special tax revenues from specific projects within the district and are outside of the City's customary credit profile. The Office of Public Finance has selected Stifel, Nicolaus & Company, Incorporated to serve as Senior Underwriter and intends to select a second underwriter to serve as Co-underwriter. Both firms are selected from the City's Underwriter Pool, which was established via a competitive process. The proposed resolution approves the form of the Bond Purchase Agreement which provides the terms of sale of the bonds from the City to the selected underwriters and purchasers.

Capital Plan:

The Bonds are limited obligations of the City. They are payable solely from the special tax revenues within the CFD district. Therefore, this transaction is not subject to the policy constraints of the Capital Plan.

Teeter Plan:

In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment (the "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 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.

[1] Other key assumptions underlying the debt service estimates include: 1) Level debt service structure; 2) Debt Service Reserve Fund sized at Maximum Annual Debt Service and funded with bond proceeds; 3) Capitalized Interest on the amount proportional to the Salesforce Tower until 9/1/2017; and 4) Cost of Issuance estimated at 3% of total par.

The resolution for the Board's consideration would allow for the Community Facilities District 2014-1 (Transbay Transit Center) to receive 100% of the levy of special taxes per year without discounting the level of delinquencies which might occur. Under the Teeter Plan, the City makes all the taxing agencies "whole" and assumes the minor risk of being paid at some future date. In return, the City receives the interest (currently at 18%) and penalties (currently 10%) when taxes are ultimately paid. The net effect of this adjustment would be an increase in special tax revenues to the City at least in the short term while providing credit enhancement for Bonds.

Property Annexation – Block One:
As a companion piece to this legislation, the Office of Public Finance is also requesting the approval of a resolution determining annexation of property into the District for properties located at 100, 124, 126, and 160 Folsom Street, collectively known as Block One. In order for a property to annex into the District, the Board of Supervisors must adopt a resolution determining the property has been added to the District. Approval of this resolution is a necessary condition in order for a property to annex into the CFD and be deemed a taxable property under the CFD.

Financing Timeline:

Milestones:	Dates*:
Capital Planning Committee	April 24
Board Introduction	May 2
Budget & Finance Committee Hearing	May 18
Board Approval of Resolution and 1st Reading of Appropriation Ordinance	June 6
Final Board Approval (2nd Reading)	June 13
Estimated Sale & Closing	July 2017

*Please note that dates are preliminary and may change.

Additional Information
The legislation was presented to the Capital Planning Committee on Monday, April 24, 2017 and is expected to be introduced at the Board of Supervisors meeting on Tuesday, May 2, 2017. The related financing documents—including the Bond Purchase Agreement, Fiscal Agent Agreement, Continuing Disclosure Agreement, Preliminary Official Statement, and Appendix A—will also be submitted.

The Preliminary Official Statement: The proposed resolution also approves the form of Preliminary and final Official Statement relating to the Certificates (the "Official Statement"). The Official Statement has been updated to reflect the City's financial condition, including the adopted ten-year capital plan; update to the Five-Year Financial Plan; the Controller's release of the Revenue Letter; and the adoption by the Board and approval by the Mayor of the Original Budget. The information contained in the Appendix A to the Official Statement was updated as of April 3, 2017 and was prepared by City staff for inclusion in the Official Statement.

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

Contents Included in the Preliminary Official Statement:

> *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 bonds, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management.
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> *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 Certificates in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Your consideration of this matter is greatly appreciated. Please contact Nadia Sesay at 415-554-5956 or nadia.sesay@sfgov.org if you have any questions.

CC: Angela Calvillo, Clerk of the Board of Supervisors
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