

File No. 141214

Committee Item No. 17

Board Item No. 5

COMMITTEE/BOARD OF SUPERVISORS
AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date December 10, 2014

Board of Supervisors Meeting

Date January 13, 2015

Cmte Board

- | | | |
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| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
| <input type="checkbox"/> | <input type="checkbox"/> | Resolution |
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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget and Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Youth Commission Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Budget |
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| <input type="checkbox"/> | <input type="checkbox"/> | Contract/Agreement |
| <input type="checkbox"/> | <input type="checkbox"/> | Form 126 – Ethics Commission |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
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OTHER (Use back side if additional space is needed)

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Completed by: Linda Wong Date December 5, 2014

Completed by: L.W. Date 12/11/14

AMENDED IN COMMITTEE
12/10/14

FILE NO. 141214

ORDINANCE NO.

RO#15014
SA#97-14

[Appropriation - General Obligation Bonds of \$430,000,000 - FY2014-2015]

Ordinance appropriating \$430,000,000 of one or more series of General Obligation Refunding Bond proceeds, and placing all of these funds on Controller's Reserve pending the sale of the General Obligation Refunding Bond Proceeds in one or more series.

Note: **Unchanged Code text and uncodified text** are in plain Arial font.
Additions to Codes are in *single-underline italics Times New Roman font*.
Deletions to Codes are in *strikethrough italics Times New Roman font*.
Board amendment additions are in double underlined Arial font.
Board amendment deletions are in ~~strikethrough Arial font~~.
Asterisks (*)** indicate the omission of unchanged Code subsections or parts of tables.

Be it ordained by the People of the City and County of San Francisco:

Section 1. The sources of funding outlined below are herein appropriated to reflect the funding available in FY2014-2015.

Sources Appropriation

| Fund | Index/Project Code | Subobject | Description | Amount |
|----------|--------------------|--------------|------------------------|---------------|
| XXXXXXXX | XXXXX | 80121 | 2014-R1 Series General | \$430,000,000 |
| | | Proceeds | Obligation Refunding | |
| | | from | Bonds and Premium | |
| | | Refunding of | | |
| | | Bonds | | |

1 Total SOURCES Appropriation

\$430,000,000

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3 Section 2. The uses of funding outlined below are herein appropriated in FY 2014-
4 2015 and reflect the projected uses of funding for the General Obligation Refunding Bonds.

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6 **Uses Appropriation**

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| Fund | Index/Project Code | Subsubject | Description | Amount |
|------|--------------------|------------|-------------|--------|
|------|--------------------|------------|-------------|--------|

8 XXXXXX XXXXXX XXXXXX Refund of General \$427,691,556
9 Obligation Bond Series
10 2011-R1

11
12 XXXXXX XXXXXX 07311 Cost of Issuance \$500,819
13 Bond
14 Issuance
15 Cost

16
17
18 XXXXXX XXXXXX 07311 Underwriter's Discount \$1,807,625
19 Bond

20 Issuance
21 Costs

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Total USES Appropriation

\$430,080,000 \$430,000,000

Section 3. The uses of funding outlined above for \$430,000,000 are herein placed on Controller's Reserve pending sale of the General Obligation Refunding Bonds in one or more series.

Section 4. The Controller is authorized to record transfers between funds and adjust the accounting treatment of sources and uses appropriated in this ordinance as necessary to conform with Generally Accepted Accounting Principles.

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney

By: B. Herrera
Deputy City Attorney

FUNDS AVAILABLE
Ben Rosenfield, Controller

By: [Signature]
Date: ~~November 25, 2014~~
December 10

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| <p>Items 14 and 17 Files 14-1213 and 14-1214</p> | <p>Department: Controller's Office (Controller)</p> |
| <p>EXECUTIVE SUMMARY</p> | |
| <p style="text-align: center;">Legislative Objectives</p> | |
| <ul style="list-style-type: none"> • File 14-1213: The proposed resolution would (a) authorize the issuance of one or more series of City and County of San Francisco General Obligation (GO) Refunding Bonds in an amount not to exceed \$430,000,000; (b) approve the form of and authorizing the distribution of a Preliminary Official Statement relating to the issuance the GO Refunding Bonds; (c) authorize the preparation, execution, and delivery of a final Official Statement; and (d) ratify the approvals and terms and conditions set forth in the 2011 Resolution setting guidelines for issuance of GO Refunding Bonds (File 11-1010). • File 14-1214: The proposed ordinance would appropriate \$430,000,000 of one or more series of GO Refunding Bond proceeds and placing all of these funds on Controller's Reserve pending the sale of the GO Refunding Bond Proceeds in one or more series. | |
| <p style="text-align: center;">Key Points</p> | |
| <ul style="list-style-type: none"> • On November 11, 2011 the Board of Supervisors approved a resolution (File 11-1010, "the 2011 Resolution") authorizing the issuance of not-to-exceed \$1,355,991,219 of GO Refunding Bonds and the specific parameters for those GO Refunding Bonds issuance(s). • The proposed resolution (File 14-1213) would authorize (1) the Director of Public Finance to issue one or more series of GO Refunding Bonds subject to the requirements of the 2011 Resolution; and (2) the Controller and the City Attorney to make changes to the Preliminary and Final Official Statements (a) "as may be necessary or advisable," (b) to reflect the most recent City budgeting and financial information, and (c) that are consistent with the 2011 Resolution. | |
| <p style="text-align: center;">Fiscal Impact</p> | |
| <ul style="list-style-type: none"> • The Office of Public Finance currently estimates a savings of \$56,754,246 in debt service as a result of issuing the GO Refunding Bonds in the proposed legislation. • Section 9.106 of the City Charter limits the amount of GO Bonds the City can have outstanding at any given time to 3 percent of the total assessed value of property in the City. According to Ms. Nadia Sesay, Director of the Controller's Office of Public Finance, as of November 1, 2014, General Obligation bonds totaling \$2.09 billion remain outstanding, constituting 1.15 percent of the net assessed value of the property in the City. According to Ms. Sesay, if the Board of Supervisors approves the issuance of the Refunding Bonds, the debt ratio would decrease by 0.02 percent to 1.13 percent of net assessed value. | |
| <p style="text-align: center;">Recommendations</p> | |
| <ul style="list-style-type: none"> • Approve the proposed resolution (File 14-1213). • Amend the proposed ordinance (File 14-1214) on line 2 of page 3 to state \$430,000,000 rather than \$430,080,000 specified in the proposed ordinance, which is a typographical error, and approve the proposed ordinance (File 14-1214) as amended. | |

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

Section 9.106 of the City's Charter provides that the Board of Supervisors is authorized to approve the issuance and sale of any General Obligation Refunding Bonds in accordance with State law and local procedures adopted by ordinance without voter approval if the Refunding Bonds result in net debt service savings to the City and County on a present value basis.

Background

General Obligation (GO) Bonds are secured by a pledge to levy Property Taxes in an amount necessary to fully pay the debt service. According to the Controller's Office of Public Finance document, "Debt Policy of the City and County of San Francisco", the City generally issues GO Bonds to finance the acquisition, improvement, and/or construction of real property, including libraries, hospitals, parks, public safety facilities, cultural facilities, and educational facilities.

GO Refunding Bonds are issued to achieve debt service savings for the City by redeeming previously issued higher interest rate GO Bonds and issuing new lower interest rate GO Refunding Bonds. According to the City's Debt Policy, GO Refunding Bond issuances must produce minimum net debt service savings of at least three percent, when compared to the debt service costs of the original GO Bonds.

Section 9.106 of the City Charter Imposes a Debt Limit on GO Bonds

Section 9.106 of the City Charter limits the amount of GO Bonds the City can have outstanding at any given time to 3 percent of the total assessed value of property in the City. According to Ms. Nadia Sesay, Director of the Controller's Office of Public Finance, as of November 1, 2014, General Obligation bonds totaling \$2.09 billion remain outstanding, constituting 1.15 percent of the net assessed value of the property in the City. According to Ms. Sesay, if the Board of Supervisors approves the issuance of the Refunding Bonds, the debt ratio would decrease by 0.02 percent to 1.13 percent of net assessed value.

The Board of Supervisors Previously Approved the Issuance of GO Refunding Bonds

On November 11, 2011 the Board of Supervisors approved a resolution (File 11-1010, "the 2011 Resolution") authorizing the issuance "from time to time" of not-to-exceed \$1,355,991,219 of GO Refunding Bonds and the specific parameters for those GO Refunding Bonds issuance(s), including (a) approving the form and terms, (b) authorizing the execution, authentication and registration, (c) approving the form and authorizing the execution and delivery of escrow agreements, (d) approving and directing the Property Tax levy for repayments, (e) approving procedures for competitive or negotiated sales including approving forms of Official Notice of Sale and Notice of Intention to Sell, (f) authorizing the selection of underwriters and the execution and delivery of Bond purchase agreements, (g) approving the form and authorizing the execution and delivery of continuing disclosure certificates, and (h) authorizing the costs of issuance. Under the 2011 Resolution, the Board of Supervisors retained the authority to approve the Preliminary Official Statements and Official Statements for each issuance authorized under the proposed resolution.

The 2011 Resolution also authorized the Director of Public Finance to determine (a) which series (or maturities within any series) of prior GO Bonds would be refunded, and (b) the sale dates, interest rates, maturity dates, redemption dates and the terms of any redemption of GO Bonds for a principal amount not-to-exceed \$1,355,991,219.

In addition, the 2011 Resolution authorized the specific initial issuance (initial series) of \$411,480,000 in GO Refunding Bonds, including authorizing the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement.

Based on a recommendation by the Budget and Legislative Analyst, the Budget and Finance Committee amended the resolution to incorporate a 5-year time limit to the Controller's authorization to issue such GO Refunding Bonds.

The 2011 Resolution imposed the following terms and conditions on the sale of future GO Refunding Bonds:

1. Total present value of the aggregated debt service to maturity on each GO Refunding Bond shall not exceed the total present value of the aggregated debt service to maturity on the prior GO Bonds to be refunded;
2. GO Refunding Bonds must achieve a minimum three percent net present value savings¹, including costs of issuance;
3. True interest cost of the GO Refunding Bonds must not exceed 12 percent;
4. GO Refunding Bonds must not have a final maturity date later than the maturity date of the GO Bonds to be refunded;
5. Cost of issuance must not exceed two percent and the underwriter's discount² must not exceed one percent of the principal amount of the GO Refunding Bonds.

DETAILS OF PROPOSED LEGISLATION

File 14-1213: The proposed resolution would (a) authorize the issuance of one or more series of City and County of San Francisco GO Refunding Bonds in an amount not to exceed \$430,000,000; (b) approve the form of and authorizing the distribution of a Preliminary Official Statement relating to the issuance the GO Refunding Bonds, (c) authorize the preparation, execution, and delivery of a final Official Statement; and (d) ratify the approvals and terms and conditions set forth in the 2011 Resolution (File 11-1010).

File 14-1214: The proposed ordinance would appropriate \$430,000,000 of one or more series of GO Refunding Bond proceeds and placing all of these funds on Controller's Reserve pending the sale of the GO Refunding Bond Proceeds in one or more series.

¹ Savings is defined as the difference between the present value of the aggregated debt service to maturity of the GO Refunding Bonds and the bonds to be refunded.

² The underwriter's discount is the difference between the purchase price paid to the issuer for a new issue and the sum of the prices at which the bonds are initially offered to the investing public by the underwriter.

The GO Refunding Bonds Will Meet the Conditions Set Forth in the 2011 Legislation

As stated above, the 2011 Resolution authorizing the issuance of GO Refunding Bonds imposed several conditions on the sale of GO Bonds. According to Mr. Anthony Ababon, Bond Associate at the Office of Public Finance:

1. The total present value of the debt service to maturity of the proposed GO Refunding Bonds will not exceed that total present value of the debt service of the GO Bonds to be refunded, as required by the 2011 Resolution.
2. The proposed GO Refunding Bonds are currently expected to achieve a 12.64 percent of debt savings, greater than the 3 percent required by the 2011 Resolution.³
3. The true cost of the interest rate is anticipated to be 2.59 percent, less than the 12 percent required by the 2011 Resolution.⁴
4. The refunding bonds will maintain the same final maturity as the bonds that will be refunded, as required by the 2011 Resolution.⁵
5. The cost of issuing the GO Refunding bonds will be less than the 2 percent of the GO Refunding Bonds principal and the underwriter's discount will be less than 1 percent of the GO Refunding Bonds principal, as required by the 2011 Resolution.

If the proposed resolution (File 14-1213) is approved, it would acknowledge that the GO Refunding Bonds satisfy the requirements of the 2011 Resolution previously approved by the Board of Supervisors and authorize the Director of Public Finance to issue one or more series of GO Refunding Bonds subject to the requirements of the 2011 Resolution.

The GO Refunding Bonds May be Used to Refund Multiple Series of GO Bonds

According to Mr. Ababon, the following GO Bonds and GO Refunding Bonds may be refunded using the proceeds from the GO Refunding Bonds in the proposed legislation:

- 2006-R1
- 2006-R2
- 2008A
- 2008B
- 2008-R1
- 2008-R3
- 2009A
- 2010E

The set of bonds that is ultimately refunded will depend on the bond market conditions at the time of issuing the GO Refunding Bonds in the proposed legislation and the extent to which the refunding transaction meets the criteria imposed by the 2011 Resolution.

³ According to Mr. Ababon, the actual savings will depend on bond market conditions at the time of issuance. Nonetheless, Mr. Ababon states that the savings from the refunding transaction will be at least 3 percent.

⁴ According to Mr. Ababon, the true interest cost at the time of issuance may be different, depending on conditions of the bond market. Nonetheless, Mr. Ababon expects the true interest rate cost to remain below the 12 percent limit imposed by the 2011 Resolution.

⁵ The last maturity date of the bonds to be refunded is in 2035.

The Proposed Resolution Authorizes the Preliminary Official Statement and Authorizes the Execution, Delivery, and Distribution of the Official Statement for the GO Refunding Bonds

The proposed resolution would approve the form and authorize the distribution of the Preliminary Official Statement and authorize the execution, delivery and distribution of the Official Statement for an issuance of a series of \$430,000,000 in GO Refunding Bonds. The proposed resolution would further authorize the Controller and the City Attorney to make changes to the Preliminary and Final Official Statements (a) "as may be necessary or advisable," (b) to reflect the most recent City budgeting and financial information, and (c) that are consistent with the 2011 Resolution.

The Refunding Bonds Are Expected to be Issued on or around February 2015

According to Ms. Sesay, the proposed GO Refunding Bonds would be issued on or around February 2015 to refund approximately \$398,390,000 in outstanding GO Bonds and GO Refunding Bonds. However, Ms. Sesay notes that the actual amount of this initial issuance of GO Refunding Bonds may be revised based on market conditions up to the day of the sale.

According to Ms. Sesay, the Office of Public Finance expects to issue GO Refunding bonds at a par amount of \$361,525,000 with an expected premium of \$66,562,358, as shown in Table 1 below. The actual proceeds, cost of issuance, and underwriters discount may be different and will depend on bond market conditions at the time of issuance. Therefore the Office of Public Finance is requesting under File 14-1213 a not-to-exceed amount of \$430,000,000.

Table 1: Sources and Uses of GO Refunding Bonds

| Sources of bond funding | Amount |
|---------------------------------------|----------------------|
| Par | \$361,525,000 |
| Premium | 66,562,358 |
| Total | \$428,087,358 |
| | |
| Use of bonds | Amount |
| Refunding Escrow Deposit ⁶ | \$425,778,914 |
| Cost of Issuance | 500,819 |
| Underwriters Discount | 1,807,625 |
| Total | \$428,087,358 |

Source: Office of Public Finance

FISCAL IMPACT

According to Mr. Ababon, the Office of Public Finance currently estimates a savings of \$56,754,246 in debt service as a result of issuing the GO Refunding Bonds in the proposed legislation. The average interest rate of the bonds expected to be refunded is 4.85 percent and

⁶ The Refunding Escrow Deposit line item includes \$398,390,000 in principal and \$27,388,914 in interest expense accrued prior to the refunding of the bonds, totaling \$425,778,914.

the anticipated true interest rate cost⁷ of the proposed GO Refunding Bonds is 2.59 percent, resulting in a 2.26 percent average interest rate savings.

The timeline of the debt service savings is shown in Table 2 below. The actual debt service savings will depend on bond market conditions at the time of issuing the GO Refunding Bonds:

Table 2: Estimated Debt Service Savings

| <u>FY Ending</u> | <u>Prior Debt Service</u> | <u>Refunding Debt Service</u> | <u>Gross Savings</u> |
|------------------|---------------------------|-------------------------------|----------------------|
| 6/15/2015 | \$ 22,887,335 | \$ 21,911,476 | \$ 975,859 |
| 6/15/2016 | \$ 49,331,595 | \$ 46,544,500 | \$ 2,787,095 |
| 6/15/2017 | \$ 36,433,020 | \$ 33,642,000 | \$ 2,791,020 |
| 6/15/2018 | \$ 32,628,950 | \$ 29,841,500 | \$ 2,787,450 |
| 6/15/2019 | \$ 32,646,400 | \$ 29,856,500 | \$ 2,789,900 |
| 6/15/2020 | \$ 31,383,800 | \$ 28,593,500 | \$ 2,790,300 |
| 6/15/2021 | \$ 28,476,313 | \$ 25,689,500 | \$ 2,786,813 |
| 6/15/2022 | \$ 37,351,388 | \$ 34,562,750 | \$ 2,788,638 |
| 6/15/2023 | \$ 37,354,031 | \$ 34,564,750 | \$ 2,789,281 |
| 6/15/2024 | \$ 37,352,506 | \$ 34,565,250 | \$ 2,787,256 |
| 6/15/2025 | \$ 37,366,638 | \$ 34,576,500 | \$ 2,790,138 |
| 6/15/2026 | \$ 37,376,219 | \$ 34,585,000 | \$ 2,791,219 |
| 6/15/2027 | \$ 37,399,538 | \$ 34,612,750 | \$ 2,786,788 |
| 6/15/2028 | \$ 37,412,213 | \$ 34,625,500 | \$ 2,786,713 |
| 6/15/2029 | \$ 31,789,888 | \$ 29,000,500 | \$ 2,789,388 |
| 6/15/2030 | \$ 22,157,388 | \$ 19,366,000 | \$ 2,791,388 |
| 6/15/2031 | \$ 5,596,500 | \$ 2,807,750 | \$ 2,788,750 |
| 6/15/2032 | \$ 5,597,250 | \$ 2,807,750 | \$ 2,789,500 |
| 6/15/2033 | \$ 5,597,000 | \$ 2,807,250 | \$ 2,789,750 |
| 6/15/2034 | \$ 5,595,250 | \$ 2,806,000 | \$ 2,789,250 |
| <u>6/15/2035</u> | <u>\$ 5,596,500</u> | <u>\$ 2,808,750</u> | <u>\$ 2,787,750</u> |
| Total | \$ 577,329,722 | \$ 520,575,476 | \$ 56,754,246 |

Source: Office of Public Finance

RECOMMENDATIONS

1. Approve the proposed resolution (File 14-1213).
2. Amend the proposed ordinance (File 14-1214) on line 2 of page 3 to state \$430,000,000 rather than \$430,080,000 specified in the proposed ordinance, which is a typographical error, and approve the proposed ordinance (File 14-1214) as amended.

⁷ "True interest costs" includes all the costs of taking out a loan, including finance charges, discount point and prepaid interest.

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: *Ed* Mayor Edwin M. Lee *EU*
RE: Appropriation - City and County of San Francisco Refunding General
Obligation Bonds of \$430,000,000 - FY2014-2015
DATE: November 25, 2014

Attached for introduction to the Board of Supervisors is an ordinance appropriating \$430,000,000 of one or more series of General Obligation Refunding Bond proceeds, and placing all of these funds on Controller's Reserve pending the sale of the General Obligation Refunding Bond Proceeds in one or more series.

I respectfully request that this item be calendared in Budget and Finance Committee on December 10, 2014.

Should you have any questions, please contact Nicole Wheaton (415) 554-7940.

