



1 [Appropriation - Certificates of Participation to Mayor's Office of Housing and Community  
2 Development for HOPE SF - \$83,600,000 - FY2019-2020]

3 Ordinance appropriating \$83,600,000 of Certificates of Participation to the Mayor's  
4 Office of Housing and Community Development to fund project costs of HOPE SF in  
5 FY2019-2020; and placing these funds on Controller's Reserve pending the sale of the  
6 Certificates of Participation.

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8 Note: Additions are *single-underline italics Times New Roman*;  
9 deletions are *~~strikothrough italics Times New Roman~~*.  
10 Board amendment additions are double underlined.  
11 Board amendment deletions are ~~strikothrough normal~~.

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

13  
14 Section 1. The sources of funding outlined below are herein appropriated to reflect the  
15 funding available in Fiscal Year 2019-2020. Commercial Paper may be used as a funding  
16 source in the interim, prior to sale of the Certificates of Participation.

1 **SOURCES Appropriation**

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3 Fund/ Department ID	Project & Activity/ Authority	Account	Description	Amount
4 10631 SR HOPE SF	10023919-0008	480141	Proceeds from	\$83,600,000
5 COP 2nd / 232065	Moh Public	Proceeds from	Certificates of	
6 MYR Housing &	Housing Rebuild	Certificates of	Participation	
7 Community	Fund - 2019 Project	Participation		
8 Development	Pool / 17202 -			
9	MY Moh Public			
10	Housing Rebuild			
11				
12				
13	<b>Total Sources Appropriation</b>			<b>\$ 83,600,000</b>

14 Section 2. The uses of funding outlined below are herein appropriated in FY 2019-2020 and  
 15 reflect the projected uses of funding for the Hope SF project.

17 **USES Appropriation**

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19 Fund/ Department ID	Project & Activity/ Authority	Account	Description	Amount
20 10631 SR HOPE SF	10023919-0008	539200	Project Fund	56,942,127
21 COP 2nd / 232065	Moh Public Housing	Loans Issued By		
22 MYR Housing &	Rebuild Fund - 2019	City		
23 Community	Project Pool / 17202			
24 Development	- MY Moh Public			
25	Housing Rebuild			

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Fund/ Department ID	Project & Activity/ Authority	Account	Description	Amount
10631 SR HOPE SF	10023919-0009	581130	City Services	\$113,884
COP 2nd / 232065	Moh Public Housing	GF-Con-Internal	Auditor	
MYR Housing & Community Development	Rebuild Fund - 2019 Non-Project Pool / 17202 - MY Moh Public Housing Rebuild	Audits	0.2% Audit Fee	
10631 SR HOPE SF	10023919-0009	570000	Debt Service	\$6,697,401
COP 2nd / 232065	Moh Public Housing	Debt Service -	Reserve Fund	
MYR Housing & Community Development	Rebuild Fund - 2019 Non-Project Pool / 17202 - MY Moh Public Housing Rebuild	Budget		
10631 SR HOPE SF	10023919-0009	570000	Capitalized Interest	\$16,210,645
COP 2nd / 232065	Moh Public Housing	Debt Service -	Fund	
MYR Housing & Community Development	Rebuild Fund - 2019 Non-Project Pool / 17202 - MY Moh Public Housing Rebuild	Budget		

	Fund/ Department ID	Project & Activity/ Authority	Account	Description	Amount
1					
2	10631 SR HOPE SF	10023919-0009	573610	Costs of Issuance	\$702,298
3	COP 2nd / 232065	Moh Public Housing	COI – Certificate of		
4	MYR Housing &	Rebuild Fund - 2019	Participation		
5	Community	Non-Project Pool /			
6	Development	17202 - MY Moh			
7		Public Housing			
8		Rebuild			
9					
10	10631 SR HOPE SF	10023919-0009	573610	Underwriter's	\$568,645
11	COP 2nd / 232065	Moh Public Housing	COI – Certificate of	Discount	
12	MYR Housing &	Rebuild Fund - 2019	Participation		
13	Community	Non-Project Pool /			
14	Development	17202 - MY Moh			
15		Public Housing			
16		Rebuild			
17					
18	10631 SR HOPE SF	10023919-0009	573610	Reserve for Market	\$2,365,000
19	COP 2nd / 232065	Moh Public Housing	COI – Certificate of	Uncertainty	
20	MYR Housing &	Rebuild Fund - 2019	Participation		
21	Community	Non-Project Pool /			
22	Development	17202 - MY Moh			
23		Public Housing			
24		Rebuild			
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2 Total Uses Appropriation

\$ 83,600,000

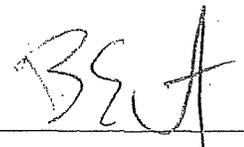
3  
4 Section 3. The uses of funding outlined above for \$83,600,000 are herein placed on  
5 Controller's Reserve pending sale of Certificates of Participation, sale of commercial paper as  
6 interim financing, or the confirmation of sufficient commercial paper program capacity to  
7 certify available funds.

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

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

FUNDS AVAILABLE  
Ben Rosenfield, Controller

By:   
BUCK DELVENTHAL  
Deputy City Attorney

By:   
BEN ROSENFELD  
Controller

<p><b>Items 15 and 16</b> <b>Files 19-1011 and 19-1014</b></p>	<p><b>Department:</b> Mayor's Office of Housing and Community Development (MOHCD) Office of Public Finance</p>
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- **File 19-1014:** The proposed ordinance would authorize the execution and delivery of taxable or tax-exempt Certificates of Participation (COPs) representing an aggregate principal amount not to exceed \$83,600,000 to finance and refinance certain capital improvement projects, including but not limited to Hunters View, Sunnydale, and Potrero Terrace and Annex housing developments.
- **File 19-1011:** The proposed ordinance would appropriate \$83,600,000 of COPs proceeds to the Mayor's Office of Housing and Community Development (MOHCD) to fund project costs of HOPE SF in FY2019-2020.

**Key Points**

- HOPE SF is an anti-poverty initiative to revitalize San Francisco's largest and most distressed public housing sites as mixed-income developments. In June 2019, the Board of Supervisors adopted the Ten-Year Capital Plan for FY 2020-21 through FY 2029-30, which provides for certificates of participation (COPs) for horizontal infrastructure improvements for the HOPE SF public housing sites at Hunters View, Alice Griffith, Potrero Terrace and Annex, and Sunnydale and Velasco.

**Fiscal Impact**

- Of the \$83,600,000 COPs appropriation, \$57,056,011 would partially fund infrastructure development and provide gap financing to affordable housing development. The remaining COPs appropriation is (a) allocated to financing/issuance costs, the debt service reserve fund, and capitalized interest; and (b) reserved for market uncertainty pending the sale of the COPs.
- Annual debt service is approximately \$6.5 million and total debt service of the anticipated 28-year term of the COPs is \$183.6 million, paid from the General Fund. According to the Office of Public Finance, the issuance of the COPs is within the City's debt policy, which limits General Fund debt service at or below 3.25 percent of discretionary General Fund revenues.

**Policy Consideration**

- Per unit development costs for three HOPE SF projects, including Sunnydale Block 6, Hunters View Phase III, and Potrero Block B range from approximately \$747,000 to \$968,000. A portion of the per unit costs for Hunters View and Potrero includes infrastructure development. MOHCD will be submitting a report to the Board of Supervisors on cost containment measures on affordable housing development on December 9, 2019.

**Recommendation**

- Approve the proposed ordinances.

## MANDATE STATEMENT

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding general fund appropriation debt does not exceed 3.25 percent of discretionary revenue as determined by the Controller and Director of Public Finance. Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

City Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance after the Controller certifies the availability of funds.

## BACKGROUND

### HOPE SF and 10-Year Capital Plan

HOPE SF is an anti-poverty initiative to revitalize San Francisco's largest and most distressed public housing sites as mixed-income developments. In June 2019, the Board of Supervisors adopted the Ten-Year Capital Plan for FY 2020-21 through FY 2029-30, which provides for certificates of participation (COPs) for horizontal infrastructure improvements for the HOPE SF public housing sites at Hunters View, Alice Griffith, Potrero Terrace and Annex, and Sunnydale and Velasco.

### Previously Approved Certificates of Participation

In May 2017, the Board approved an ordinance authorizing the execution and delivery of taxable COPs in an amount not to exceed \$38 million to partially finance the first three phases of the HOPE SF project, consisting of a master revitalization project for the Hunters View housing development in the Bayview-Hunters Point neighborhood of San Francisco (File 17-0294).

## DETAILS OF PROPOSED LEGISLATION

File 19-1014 is an ordinance that would:

- Authorize the execution and delivery of taxable or tax-exempt Certificates of Participation (COPs) representing an aggregate principal amount not to exceed \$83,600,000 to finance and refinance certain capital improvement projects, including but not limited to certain properties generally known as Hunters View, Sunnydale, and Potrero Terrace and Annex housing developments;
- Approve the form of a Supplement to Trust Agreement between the City and County of San Francisco (City) and the U.S. Bank National Association, as trustee (Trustee) (including certain indemnities contained therein);

- Approve the respective forms of Supplements to Property Lease and Project Lease, each between the City and the Trustee for the lease and lease back of 375 Laguna Honda Boulevard (or other property as determined by the Director of Public Finance);
- Approve the form of an Official Notice of Sale and a Notice of Intention to sell the COPs;
- Approve the form of an official statement in preliminary and final form;
- Approve the form of a Continuing Disclosure Certificate;
- Grant general authority to City officials to take necessary actions in connection with the authorization, sale, execution and delivery of the COPs;
- Approve modifications to documents; and
- Ratify previous actions taken in connection therewith.

#### Certificates of Participation

COPs are structured as a lease-lease back, in which the City-owned Laguna Honda Hospital campus at 375 Laguna Honda Boulevard (or other City-owned property as determined by the Director of Public Finance) would serve as the leased property to secure the COPs<sup>1</sup>. Based on market conditions expected at the time of the sale, the COPs could be structured for a term of up to 35 years at an interest rate not-to-exceed 12 percent. According to the Office of Public Finance, maximum annual debt service (or maximum annual base rent) is \$7.4 million.

The Office of Public Finance estimates that the COPs would be paid over 28 years with total principal and interest payments of approximately \$183.6 million and an estimated average annual interest rate of 6.6 percent.

#### Commercial Paper

The current plan of finance anticipates initially utilizing the City's commercial paper program, which was launched in June 2010 pursuant to Resolution No. 85-09 and Resolution No. 136-10, to finance certain project costs, including preliminary design, planning, and permitting. Pursuant to Resolution No. 247-13 approved in July 2013, the City's total commercial paper program authorization is \$250 million, of which \$205.4 million is currently unencumbered.

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<sup>1</sup> The City leases the City-owned property to the Trustee and leases back the property. The City makes annual base rental payments to the Trustee in an amount required to repay the COPs. When the COPs are fully paid, the property lease is terminated. Annual base rental payments (in effect, debt service) are paid from the City's General Fund. The City entered into the Original Trust Agreement, Original Project Lease, and Original Property Lease in 2009 and entered into two supplemental agreements/leases to the Original Trust Agreement, Original Project Lease, and Original Property Lease for the subsequent series of COPs issued in 2009 and 2012. The City also intends to enter into a third supplemental agreement/lease in 2019 for refunding the previously issued 2009 COPs. Under the proposed ordinance, the City will structure the COPs using the same lease-lease back structure as the City's existing Series 2009A COPs, Series 2009B COPs, Series 2012A COPs, planned Series 2019-R1 Refunding COPs, and planned Series 2020 Hall of Justice COPs utilizing subsequent supplemental agreements as permitted by the Original Trust Agreement, Original Property Lease, and Original Project Lease, each by and between the City and a third-party trustee, currently U.S. Bank National Association.

According to Ms. Anna Van Degna, Director of Public Finance, if the ordinance is approved, commercial paper is anticipated to be issued in early calendar year 2020. The long-term COPs are anticipated to be issued in late calendar year 2020 or in calendar year 2021.

#### Negotiated Sale

The proposed ordinance permits the COPs to be sold through a negotiated or a competitive sale. Based on current market conditions, the Office of Public Finance intends to sell the COPS competitively. However, according to Ms. Van Degna, the Office of Public Finance may propose a negotiated sale rather than a competitive sale if one or more of the factors described in the City's Debt Policy are present, which currently include: (1) significant deterioration in the City's overall credit rating or outlook; (2) market disruptions that are outside of the City's control, including new or proposed changes in taxation or sector risks; and (3) the transaction consists of (i) variable rate debt or commercial paper, (ii) a non-traditional debt structure (e.g. forward delivery bonds, long-dated maturities or special call features), or (iii) a public/private partnership.

File 19-1011 is an ordinance appropriating \$83,600,000 of Certificates of Participation to the Mayor's Office of Housing and Community Development to fund project costs of HOPE SF in FY2019-2020; and placing these funds on Controller's Reserve pending the sale of the Certificates of Participation, sale of commercial paper as interim financing, or the confirmation of sufficient commercial paper program capacity to certify available funds.

#### **The Project**

As described below, the proposed \$83,600,000 of proceeds from COPs would fund certain horizontal and vertical development for the Hunters View, Sunnydale, and Potrero Terrace and Annex housing developments as part of the HOPE SF initiative, as well as related financing costs.

#### Hunters View

The affordable housing in Hunters View Phase IIIA will consist of 118 rental units located on two parcels with a unit mix of 49 one-bedrooms, 13 two-bedrooms, 16 three-bedrooms, 34 four-bedrooms, 5 five-bedrooms and 1 two-bedroom manager's unit. Except for the manager's unit, all units are restricted at 50 percent San Francisco Area Median Income (AMI) with 53 units designated as public housing replacement units and supported by project-based housing vouchers, funded by the Department of Housing and Urban Development (HUD). The remaining 54 units are funded through allocation of federal tax-credits to the developer. There is one manager's unit. Vertical construction is estimated to start in early 2021. Associated infrastructure required for the construction of the Hunters View Phase III vertical affordable project includes construction of the streets, curbs, gutters, and utility services as well as grading of the 5 market rate parcels<sup>2</sup> and construction of one open space. This work is expected to commence in Fall 2020.

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<sup>2</sup> According to MOHCD, the grading of the market rate parcels is considered rough grading only and, along with new utility connections in the public right of way, is the minimum necessary to create a saleable parcel. The market rate developer will be responsible for the fine grading and for bringing the utilities to the site from the

Sunnydale

The second affordable housing development to be built on the Sunnydale HOPE SF revitalization site, Block 6, will provide 167 affordable units including 21 one bedroom, 95 two bedroom, 40 three bedroom, and 11 four bedroom apartments. Per HOPE SF's mission of providing mixed income communities, 75 percent of the units, or 125 units, will be set aside for Sunnydale public housing households with a Right to Return and will be subsidized by project-based housing vouchers, funded by HUD. The remaining 41 units are funded through allocation of federal tax-credits to the developer, which will have a maximum affordability of 60 percent AMI. The Project is Type V wood construction over a concrete garage that is partially underground due to the slope of the site. Construction started in November 2019 with full lease up<sup>3</sup> expected by Fall 2021.

Potrero Terrace and Annex

Phase II for Potrero Terrace and Annex will be divided into three new parcels: City-owned streets, a market-rate parcel for Block A housing (up to 125 units), and an affordable parcel for Block B (up to 165 units). Starting in winter 2020, streets will be rebuilt to match the Potrero master plan grid and one new street will be added, increasing the total rights-of-way to 129,133 square feet. Wide sidewalks and pedestrian measures will be included along with new pedestrian and street lights consistent with the master plan. Phase II also includes a Mini Park of approximately 3,900 square feet (.09 acres). Existing overhead power lines will be undergrounded and existing underground gas lines will be moved to acceptable depths to accommodate the new streets. A PUC switchgear station will be located in this phase (on Block B parcel) to serve Block A and Block B.

All of the units in Block B will be restricted to households at incomes at or below 60 percent AMI. Approximately 124 units, 75 percent of the total, will be set aside as public housing replacement units for existing Potrero households, subsidized by project-based housing vouchers, funded by HUD. The remaining 40 units, excluding the one manager's unit, are funded through allocation of federal tax-credits to the developer. The project is estimated to start construction in Fall 2020.

**FISCAL IMPACT**

Of the \$83,600,000 authorization, the City would pay approximately \$57,056,011 in total project costs to partially fund infrastructure development and provide gap financing to affordable housing development, \$1,270,943 in financing costs, \$6,697,401 allocated to a debt service reserve funds, and \$16,210,645 in capitalized interest, totaling \$81,235,000. The balance of \$2,365,000 is reserved for market uncertainty pending the sale of the COPs. Table 1

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public right of way. While there is no explicit arrangement for these costs to be repaid, the sales proceeds from the market rate parcels will return to MOHCD and will be utilized to finance future affordable projects.

<sup>3</sup> A lease up schedule is defined as the time that it takes newly available properties to attract tenants and reach stabilized occupancy. Lease ups are generally associated with multi-family complexes that are in the midst of construction.

below identifies the sources and uses for the proposed appropriation and the proceeds from the sale of the COPs.

**Table 1: Sources and Uses**

Sources and Uses	Amount
<b>Sources</b>	
COP Par Amount	\$81,235,000
<b>Uses</b>	
HOPE SF development	56,942,127
CSA Audit Fee	113,884
<b>Subtotal Estimated Project Costs</b>	<b>57,056,011</b>
Debt Service Reserve Fund <sup>a</sup>	6,697,401
Capitalized Interest <sup>a</sup>	16,210,645
Issuance Costs	702,298
Underwriter's Discount Fee	568,645
<b>Total Delivery Expenses</b>	<b>24,178,989</b>
<b>Total Estimated Costs</b>	<b>81,235,000</b>
Reserve for Market Uncertainty	2,365,000
<b>Total Uses</b>	<b>\$83,600,000</b>

Source: Office of Public Finance

<sup>a</sup> The debt service reserve fund sets aside funds equal to one year of debt service as an additional security for timely repayment of the debt. The capitalized interest fund is the source of funds to repay debt prior to completion of the project.

Details of the HOPE SF total project costs of \$56,942,127 are shown in Table 2 below.

**Table 2: Summary of HOPE SF Project Costs for Development Sites**

Development Sites	Cost
<b>Hunters View</b>	
Phase IIIA & IIIB Infrastructure	\$4,844,393
Phase III Vertical Gap Financing (118 affordable units)	16,545,729
<i>Subtotal</i>	<i>\$21,390,122</i>
<b>Sunnydale</b>	
Phase 1A-1A2 – Block 6 Gap Financing(167 affordable units)	16,528,630
<i>Subtotal</i>	<i>\$16,528,630</i>
<b>Potrero Terrace and Annex</b>	
Phase II – Infrastructure for Block B (165 affordable units) and Block A (125 market rate units)	11,000,000
Phase II – Block B Gap Financing (165 affordable units)	8,023,375
<i>Subtotal</i>	<i>\$19,023,375</i>
<b>Total</b>	<b>\$56,942,127</b>

Source: MOHCD

#### Debt Service

According to the Office of Public Finance, average annual debt service on the \$81,235,000 in COPs is estimated to be approximately \$6.5 million. Total debt service over the anticipated 28-

year term is approximately \$183.6 million, which includes approximately \$81.2 million in principal and \$102.4 million in interest. Debt service will be paid from the City's General Fund.

#### **City's Debt Policy**

The current plan of finance anticipates utilizing the City's commercial paper program, which was approved by the Board of Supervisors in March 2009 (File 09-0197) and March 2010 (File 10-0269) to finance project costs pending issuance of the COPs. Of the City's total commercial paper program of \$250 million re-authorized by the Board of Supervisors in May 2016 (File 16-0427); \$205.4 million is currently unencumbered.

The City's policy is to limit General Fund debt service at or below 3.25 percent of discretionary General Fund revenues. The anticipated incremental debt service associated with the delivery and execution of the COPs complies with the City's policy of limiting General Fund debt service payments at or below 3.25 percent of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan.

#### **POLICY CONSIDERATION**

The average development cost per unit of the HOPE SF projects to be funded by the \$83.6 million in COPs is as follows:

- Sunnydale HOPE SF Block 6: \$890,333
- Hunters View Phase III: \$968,488
- Potrero Block B: \$747,586

A portion of the per-unit costs for Hunters View and Potrero includes infrastructure development.

According to Ms. Lydia Ely, Director of Public Housing Initiatives at MOHCD, construction representatives and MOHCD project management staff work together to contain costs and engage in value engineering. According to Ms. Ely, MOHCD will be submitting a report to the Board of Supervisors on cost containment measures and project costs on affordable housing development on December 9, 2019.

#### **RECOMMENDATION**

Approve the proposed ordinances.



**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 Public Finance  
Jamie Querubin, Public Finance Deputy *JQR*

DATE: Monday, October 7, 2019

SUBJECT: Ordinance Authorizing Certificates of Participation (HOPE SF) – Not-to-Exceed \$83,600,000  
Supplemental Appropriation Ordinance for Certificates of Participation (HOPE SF)

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### Recommended Action

We respectfully request that the Board of Supervisors (the "Board") review and consider for adoption the ordinance ("Ordinance") authorizing the execution and delivery Certificates of Participation ("COPs") in an aggregate principal amount not-to-exceed \$83,600,000 to finance and refinance certain capital improvement projects, including but not limited to certain properties generally known as Hunters View, Sunnydale, and Potrero Terrace and Annex housing developments as part of the HOPE SF initiative. A supplemental ordinance appropriating the proceeds of the COPs will be introduced to the Board to accompany the Resolution authorizing the COPs, and they are anticipated to be heard at the Budget and Finance Committee meeting on November 13, 2019.

### Background

The Certificates of Participation (HOPE SF) will finance a portion of HOPE SF, which is a Mayoral initiative, in conjunction with the San Francisco Housing Authority (SFHA), composed of separate projects to revitalize four SFHA-owned public housing projects in San Francisco including (a) Hunters View, (b) Potrero Terrace & Annex, (c) Sunnydale, and (d) Alice Griffith. The HOPE SF Project is managed by the Mayor's Office of Housing and Community Development ("MOHCD"), in partnership with the Office of Community Investment and Infrastructure ("OCII"), successor to the San Francisco Redevelopment Agency, and the San Francisco Housing Authority.

### Prior HOPE SF COP Issuances

In 2017, the City sold the first series of Certificates of Participation for HOPE SF in the amount of \$28.32 million to partially finance the first three phases of the HOPE SF project (the "Project"), consisting of a master revitalization project for the Hunters View housing development in the Bayview-Hunters Point neighborhood of San Francisco, as part of the larger HOPE SF initiative.

### **The Project**

The proposed Ordinance authorizes the execution and delivery of one or more series of tax-exempt or taxable COPs in an aggregate principal amount not-to-exceed \$83,600,000 to finance and refinance certain capital improvement projects, including but not limited to certain horizontal and vertical development generally known as Hunters View, Sunnydale, and Potrero Terrace and Annex housing developments as part of the HOPE SF initiative (together, the "Project").

### Hunters View

The affordable housing in Hunters View Phase IIIA will consist of 112 rental units located on two parcels with a unit mix of 46 one-bedrooms, 10 two-bedrooms, 16 three-bedrooms, 34 four-bedrooms, 5 five-bedrooms and 1 two-bedroom manager's unit. Except for the manager's unit, all units are restricted at 50% San Francisco Area Median Income (SFAMI) with 53 units designated as public housing replacement units and supported by project-based rental assistance vouchers that were awarded to the development on June 28, 2016. The remaining 53 units are tax-credit only. Vertical construction is estimated to start in early 2021.

Associated infrastructure required for the construction of the Hunters View Phase II vertical affordable project includes construction of the streets, curbs, gutters, and utility services as well as grading of the 5 market rate parcels and construction of two open spaces. This work is expected to commence in Fall 2020.

### Sunnydale

The second affordable housing development to be built on the Sunnydale HOPE SF revitalization site, Block 6, will provide 167 affordable units including 21 one bedroom, 95 two bedroom, 40 three bedroom, and 11 four bedroom apartments. Per HOPE SF's mission of providing mixed income communities, 75% of the units, or 125 units, will be set aside for Sunnydale public housing households with a Right to Return and will be subsidized through a 20-year project based Section 8 (PBV) contract. The remaining 41 units will be marketed as tax credit units, and all units will have a maximum affordability of 60% TCAC AMI. The Project is Type V wood construction over a concrete garage that is partially underground due to the slope of the site. Construction started in November 2019 with full lease up expected by Fall 2021.

### Potrero Terrace and Annex

Phase II for Potrero Terrace and Annex will be divided into three new parcels: City-owned streets, a market-rate parcel for Block A housing (up to 125 units), and an affordable parcel for Block B (up to 165 units). Starting in Winter 2020, streets will be rebuilt to match the Potrero master plan grid and one new

street will be added, increasing the total rights-of-way to 129,133 s.f. Wide sidewalks and pedestrian measures will be included along with new pedestrian and street lights consistent with the master plan. Phase II also includes a Mini Park of approximately 3,900 sf (.09 acres). Existing overhead power lines will be undergrounded and existing underground gas lines will be moved to acceptable depths to accommodate the new streets. A PUC switchgear station will be located in this phase (on Block B parcel) to serve Block A and Block B.

All of the units in Block B will be restricted to households at incomes at or below 60% AMI. Approximately 124 units, 75% of the total, will be set aside as public housing replacement units for existing Potrero households and will have a Project-Based Section 8 operating subsidy. The remaining 40 units, excluding the one manager's unit, will be tax-credit units open to new residents. The project is estimated to start construction in Fall 2020.

**Table 1. Summary of New COP Needs for Development Sites**

<u>Hunters View</u>	
Phase IIIA & IIIB Infrastructure	4,844,393
Phase III Vertical (112 affordable units)	16,545,729
Total New COP Needs	\$21,390,122
<u>Sunnydale</u>	
Phase 1A-1A2 - Block 6 (167 affordable units)	16,528,630
Total New COP Needs	\$16,528,630
<u>Potrero Terrace and Annex</u>	
Phase II - Infrastructure for Block B (165 affordable units) and Block A (125 market rate units)	11,000,000
Phase II - Block B Gap (165 affordable units)	8,023,375
Total New COP Needs	\$19,023,375
TOTAL New COPs Need for Development Sites	\$56,942,127

**The Certificates**

Under the proposed Ordinance, the City will structure the COPs using a lease-lease back structure supplemental to the City's existing Series 2009A COPs, Series 2009B COPs, Series 2012A COPs, planned Series 2019-R1 Refunding COPs, and planned Series 2020 Hall of Justice COPs utilizing subsequent supplement agreements as permitted by the Original Trust Agreement, Original Property Lease, and Original Project Lease, each by and between the City and a third-party trustee, currently U.S. Bank National Association (the "Trustee").

It is anticipated that the City-owned Laguna Honda Hospital campus located at 375 Laguna Honda Boulevard will serve as the leased property for the COPs (the "Leased Property"). To facilitate the financing, the Leased Property to secure the COPs will consist of a substantial portion of the Laguna

Honda Hospital campus, including any and all buildings located on such portion of the campus. The Pavilion Building and the North Residence Building located at Laguna Honda currently serve as the leased assets for the outstanding Series 2009A COPs, Series 2009B COPs, Series 2012A, and such buildings and land are intended to serve as the leased assets for the City's planned Series 2019-R1 Refunding COPs, which, when issued, will refinance the outstanding Series 2009A COPs and Series 2009B COPs.

*Original Property Lease and Original Project Lease.* Pursuant to the Original Property Lease, the City leases a City-owned property to the Trustee. Pursuant to the Original Project Lease, the City leases back the leased property, together with the improvements thereon, from the Trustee. The City makes annual base rental payments to the Trustee in amounts representing the fair rental value for the improved leased property and equal to the amounts required to repay the COPs. When the COPs are finally paid, the Property Lease and Project Lease (each as supplemented) terminate. The City's general fund secures the payment of the City's rental payments in respect of the COPs.

*Original Trust Agreement.* Pursuant to the Original Trust Agreement between the City and the Trustee acting on behalf and for the benefit of COPs holders, the Trustee administers and disburses payments with respect to the COPs and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the COPs, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the COPs and disburses payments for the costs incurred for the Project, as directed by authorized City representatives.

The subsequent supplements to the Original Property Lease and Original Project Lease, each between the City and the Trustee, require the City to make base rental payments on each September 25 and March 25 during the term of the supplemental leases in an amount sufficient to pay total base rental payments when due.

The subsequent supplement to the Original Trust Agreement between the City and the Trustee require that the base rental payments be deposited in the base rental fund maintained by the trustee. On October 1 and April 1 of each year during the term of the Trust Agreement, the Trustee will apply such amounts as is necessary to make debt service payments with respect to the COPs.

### **The Current Plan of Finance**

The proposed Ordinance authorizes the execution and delivery of tax-exempt or, if determined by bond counsel, taxable COPs in one or more series in an aggregate par amount not to exceed \$83,600,000. Based on Project cost estimates and schedule, the Office of Public Finance anticipates selling \$81,235,000 in COPs under market assumptions prevailing at the expected time of sale. The difference between the expected issuance amount and the \$83,600,000 not-to-exceed amount provides flexibility in case the City needs to issue taxable COPs as directed by bond counsel, for market fluctuations until the sale of the COPs, any increased deposits to the debt service reserve fund, and possible additional delivery date expenses.

*Commercial Paper.* The current plan of finance anticipates utilizing the City's commercial paper program, which was launched in June 2010 pursuant to Resolution No. 85-09 and Resolution No. 136-10, to finance certain Project costs, including preliminary design, planning, and permitting. Pursuant to Resolution No.

5 | Office of Public Finance – Ordinance Authorizing Certificates of Participation (HOPE SF) – Not-to-Exceed \$83,600,000

247-13 approved in July 2013, the City's total commercial paper program authorization is \$250.0 million, of which \$52.6 million is currently unencumbered.

Based upon an estimated 6.60% all-in true interest cost (approximately 3.30% above current market rates) and an anticipated total par value of \$81,235,000, the total principal and interest payments over the assumed 20-year term of the COPs are estimated to be approximately \$183,600,000. Based on market conditions expected at the time of the sale, the COPs could be structured with up to a 30-year term. Table 2 outlines anticipated sources and uses for the COPs, based on estimates determined by the Office of Public Finance.

Table 2: Estimated Sources and Uses of the COPs

Estimated Sources:	
Par Amount	\$83,600,000
Estimated Uses:	
HOPE SF developments	56,942,127
CSA Audit Fee (0.2% of project fund)	113,884
Total Project Fund Deposits:	\$57,056,011
Debt Service Reserve Fund	\$6,697,401
Capitalized Interest/CP Interest & Fees	\$16,210,645
Costs of Issuance	\$702,298
Underwriter's Discount	568,645
Total Delivery Expenses	\$1,270,943
Total Estimated Uses	\$81,235,000
<i>Reserve for Market Uncertainty</i>	<i>\$2,365,000</i>
Maximum Not-to-Exceed Par Amount	\$83,600,000

Approximately \$6,700,000 of proceeds may be allotted to fund a Debt Service Reserve Fund, if recommended by the Director of Public Finance in connection with the sale of the COPs. In addition, approximately \$1,271,000 will be allotted to cover costs associated with the issuance of the COPs, assuming one or more issuances. This includes amounts for underwriter compensation as outlined separately above, legal fees, municipal advisory fees, trustee fees, rating agency fees, printing costs, and other issuance costs.

For good faith estimates required by Code Section 5852.1 of the California Government regarding the proposed financing, see Attachment 1. The information set forth in Attachment 1 is based on estimates of prevailing market conditions, and the ability to finance the entirety of the project on a tax-exempt basis. Actual results may differ if assumed market conditions change.

## **Official Statement**

The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of its COPs. The Official Statement describes the COPs including sources and uses of funds; security for the COPs; 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 COPs.

A Preliminary Official Statement is distributed to prospective bidders prior to the sale of the COPs and, within seven days of the public offering of the COPs, 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 initial purchasers of the certificates.

The Board and the Mayor, in adopting and approving the proposed Ordinance, approve and authorize the use and distribution of the Official Statement by the co-municipal advisors with respect to the COPs. In accordance with rule 15c2-12 of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are "deemed final" as of their respective dates. In accordance with the City's disclosure policies, the Controller has certified that he has reviewed the form of POS and compared such document with the City's financial statements. The Controller will also certify that such document does not contain any material misstatement or omissions prior to it being distributed to the investing marketplace. A form of the Preliminary Official Statement is attached for your approval prior to its publication.

## **The Capital Plan**

The anticipated incremental debt service associated with the delivery and execution of the COPs complies with the City's policy of limiting General Fund debt service payments at or below 3.25% of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan.

## **Additional Information**

The related forms of Official Statement, including the Appendix A, will also be submitted.

*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 certificates, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management.

*Official Notice of Sale and 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 COPs. Such Notice of Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

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The Official Notice of Sale for the COPs announces the date and time of the competitive sale, including the terms relating to the COPs; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

The Official Bid Form attached to the Official Notice of Sale is the form of the official bid for the purchase of the COPs. Pursuant to the Resolution, the Controller is authorized to award the COPs 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.

*Bond Purchase Agreement:* The City intends to pursue a competitive sale of the COPs; but if market conditions should necessitate a negotiated sale with an underwriter, the Purchase Contract details the terms, covenants, and conditions for the sale of the COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

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

### Anticipated Financing Timeline

	<u>Date*</u>
Introduction of authorizing resolution to the Board of Supervisors Capital Planning Committee.	October 8, 2019
Consideration by the Board of Supervisors Budget & Finance Committee	October 21, 2019
Delivery and Execution of the COPs	November 11, 2019
	TBD

\*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 or Jamie Querubin at 415-554-6902 if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors  
Andrea Bruss, Mayor's Office  
Andres Powers, Mayor's Office  
Kelly Kirkpatrick, Mayor's Budget Director  
Harvey Rose, Budget Analyst  
Ben Rosenfield, Controller.  
Mark Blake, Deputy City Attorney  
Kenneth Roux, Deputy City Attorney  
Dan Adams, Acting Director, Mayor's Office of Housing and Community Development

## ATTACHMENT 1

For purposes of compliance with Section 5852.1 of the California Government Code, the following estimated information has been provided by the City's Co-Municipal Advisors, KNN Public Finance and Ross Financial:

1. True interest cost of the COPs: 6.601%
2. Finance charge for the COPs, including all fees and charges for third parties (including underwriter's compensation, financial advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$1,270,943.
3. Amount of COP 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 COPs: \$57,056,011.
4. Total payment amount for the COPs, being the sum of (a) debt service on the COPs to final maturity, and (b) any financing costs not paid from proceeds of the COPs: \$183,586,404.

The information set forth above is based up estimates of prevailing market conditions, and the ability to finance the entirety of the project on a taxable basis. Actual results may differ if assumed market conditions change.

OFFICE OF THE MAYOR  
SAN FRANCISCO



LONDON N. BREED  
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors   
FROM: Sophia Kittler  
RE: Appropriation – San Francisco Certificates of Participation (Hope SF) of  
\$83,600,000 for Mayor's Office of Housing and Community Development -  
FY2019-20  
DATE: Tuesday, October 8, 2019

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**Ordinance appropriating \$83,600,000 of San Francisco Certificates of Participation (Hope SF) proceeds for Mayor's Office of Housing and Community Development and placing these funds on Controller's Reserve pending the sale of the Certificates of Participation.**

Should you have any questions, please contact Sophia Kittler at 415-554-6153.

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1 DR. CARLTON B. GOODLETT PLACE, ROOM 200  
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