



CITY AND COUNTY OF SAN FRANCISCO  
OFFICE OF THE CONTROLLER


Ben Rosenfield  
Controller

Todd Rydstrom  
Deputy Controller

Nadia Sesay  
Director  
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director of Public Finance 

SUBJECT: Resolution Approving the Form and Authorizing the Distribution of the Preliminary Official Statement Related to the Execution and Delivery of the City and County of San Francisco Certificates of Participation, Series 2017A (Moscone Convention Center Expansion Project)

DATE: March 20, 2017

This memorandum, together with the accompanying attachment, is being submitted to your office in connection with the execution and delivery of the the City and County of San Francisco Certificates of Participation, Series 2017A (Moscone Convention Center Expansion Project) to ensure that the City complies with its obligations under federal securities laws.

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.

We are attaching the revised Preliminary Official Statement for your approval prior to its publication. We would like to respectfully request consideration of the resolution at the April 6, 2017 Budget and Finance Committee meeting.

Background

In 2013, the Board of Supervisors (the "Board") approved Ordinance No. 26-13 (the "2013 Ordinance") authorizing the execution and delivery of City and County of San Francisco Certificates of Participation (Moscone Convention Center Expansion Project), in an amount not to exceed \$507,880,000 (the "Certificates") to finance a portion of the costs of the acquisition, construction

and installation of certain additions and improvements to the George R. Moscone Convention Center (the “Moscone Expansion Project”).

### The Project

The proceeds of the Certificates will be used to finance the reconfiguration of the North and South exhibit halls of the Moscone Center to create up to 500,000 gross square feet of contiguous exhibit space including supporting “pre-function” space and up to 600,000 gross square feet of new ballroom space, meeting space, and loading and service space; construct a new bridge for improved public access to open spaces and a bridge for internal access between Moscone North and South.

### The Certificates

Per the 2013 Ordinance, the City will structure the Certificates as an abatable asset transfer lease by and between the City and a third-party trustee pursuant to a property lease, project lease and trust agreement.

Pursuant to the property lease, the City leases a City-owned property to a third-party trustee. Pursuant to the project lease, the City leases back the leased property, together with the improvements financed with proceeds of the Certificates, from the third-party trustee. The City makes annual base rental payments to the third-party trustee in amounts required to repay the Certificates. When the Certificates are finally paid, the property lease and the project lease terminate. The City’s general fund secures the repayment of the Certificates (see The Current Plan of Finance below).

Pursuant to the trust agreement between the City and a third-party trustee acting on behalf and for the benefit of Certificates holders, the trustee administers and disburses Certificate payments and enforces the covenants and remedies in the event of a default by the City. The trust agreement provides for the terms of the Certificates, 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 Certificates and disburses payments for the costs incurred for the Project, as directed by authorized City representatives. The Ordinance delegates selection of the third-party trustee to the Director of Public Finance, and the trustee will be selected based on the lowest fees and other considerations via a competitive request for proposal.

*The Leased Property:* To facilitate the financing, portions of the Moscone Center, including the Moscone Expansion Project, are expected to be encumbered by the leases to secure the Certificates.

### Plan of Finance

The 2013 Ordinance authorized the execution and delivery of Certificates in a par amount not to exceed \$507,880,000. Based on Project cost estimates and schedule, the Office of Public Finance expects to issue \$474,260,000 under current market conditions. The additional authorized amount above the expected issuance amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Certificates, and the attendant

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. Of the \$500.0 million expected aggregate costs of the Project, the Certificates will contribute approximately \$400,551,140 to the Project, with District assessments and the City's contribution for preliminary pre-development costs of \$5.2 million comprising the balance of Project sources.

The City anticipates to execute and deliver the Certificates in late April 2017. From August 2014 to the expected delivery date, the Project anticipates incurring project expenditures totaling approximately \$190.0 million using the City's commercial paper program. To date, \$176.1 million in commercial paper has been issued to finance the project. The City anticipates executing and delivery its Certificates to refund commercial paper issued to date and fund future remaining project costs within the aggregate \$500.0 million project budget. The Certificates will finance the project fund, debt service reserve fund, capitalized interest through six months beyond estimated project completion, and costs of issuance of the Certificates. Substantial completion of the Project is anticipated to occur on or around November 2018.

Table 1 outlines anticipated sources and uses for the Certificates.

Table 1: Anticipated Sources and Uses from the Certificates

**Estimated Sources**

Expected Par Amount	\$475,210,000
<b>Total Not to Exceed Sources:</b>	<b>\$475,210,000</b>

**Estimated Uses:**

Project Fund Deposits		\$400,551,140
Project Fund	\$206,501,140	
CP Redemption Fund	\$190,050,000	
CP Program Fees & Interest	\$4,000,000	
Other Fund Deposits		\$72,191,861
CSA Audit Fee	\$801,102	
Debt Service Reserve Fund	\$31,472,425	
Capitalized Interest Fund	\$39,918,333	
Delivery Date Expenses		\$2,466,999
Cost of Issuance	\$803,764	
Underwriter's Discount	\$1,663,235	
Expected Par Amount		\$475,210,000
<b>Total Estimated Uses</b>		<b>\$475,210,000</b>

Approximately \$2,466,999 will be allotted for costs associated with the issuance of the Certificates. This includes amounts for legal fees, financial advisory fees, rating agency fees, printing cost, bond insurance, and other issuance costs.

Based upon a conservative estimate of 4.52% true interest cost as defined in the proposed Resolution, OPF estimates that average fiscal year debt service on the Certificates is approximately \$30,721,582. The anticipated total par value of \$475,210,000 is estimated to result in approximately \$381,239,430 in interest payments over the life of the Certificates. The total principal and interest payment over the approximate 30-year life of the Certificates is approximately \$856,449,430.

### Official Statement

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

A *Preliminary Official Statement* is distributed to prospective bidders prior to the sale of the Certificates and within seven days of the public offering of the Certificates, 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 of Supervisors and the Mayor, in adopting and approving the proposed Resolution, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Certificates. 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 final as of their dates. The Official Statement is attached for your approval prior to its publication.

*Method of Sale:* The Office of Public Finance anticipates to sell the Certificates through a competitive sale process pursuant to the authorizing 2013 Ordinance.

### Additional Information

The proposed Resolution will be introduced at the Board of Supervisors meeting on Tuesday, March 21, 2017. The related forms of Official Statement, including the Appendix A, will also be submitted.

*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 Certificates. 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.

The Official Notice of Sale for the Certificates announces the date and time of the competitive bond sale, including the terms relating to the Certificates; 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 Certificates. Pursuant to the Resolution, the Controller is authorized to award the Certificates 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.

#### *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.

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

#### Financing Timeline

Schedule milestones in connection with the financing may be summarized as follows:

<u>Milestone</u>	<u>Date*</u>
Approval of ordinance authorizing the Certificates	February 2013
Introduction of POS resolution to the Board of Supervisors	March 21, 2017
Consideration by the Board of Supervisors Budget & Finance Committee	April 6, 2017
Issuance and delivery of Certificates	Late April 2017

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

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

cc: Angela Calvillo, Clerk of the Board of Supervisors  
Mawuli Tugbenyoh, Mayor's Office  
Melissa Whitehouse, Mayor's Budget Director  
Harvey Rose, Budget Analyst  
Ben Rosenfield, Controller  
Naomi Kelly, City Administrator  
Mohammed Nuru, Director of Public Works  
John Noguchi, Director, Convention Facilities Department  
Brook Mebrahtu, Project Manager  
Mark Blake, Deputy City Attorney