



**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 the Controller's Office of Public Finance  
Luke Brewer & Marisa Pereira Tully, Controller's Office of Public Finance 

**DATE:** Friday, May 21, 2021

**SUBJECT:** Ordinance Authorizing Certificates of Participation (Multiple Capital Improvement Projects) – Not to Exceed \$67,500,000 for Critical Repairs and Recovery Stimulus

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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 of the Certificates of Participation (Multiple Capital Improvement Projects) (the "COPs") in an aggregate principal amount not-to-exceed \$67,500,000 to finance or refinance certain capital improvement projects, including but not limited to certain projects within the City's 10-Year Capital Plan for Fiscal Years 2022-2031 (the "Capital Plan") generally consisting of critical repairs, renovations and improvements to City-owned buildings, facilities and works utilized by various City departments and local economic stimulus projects, generally consisting of repairs, renovations and improvements, designed to help build a more resilient and equitable San Francisco as part of the City's recovery from the COVID-19 pandemic, including through the retirement of certain commercial paper notes of the City issued for such purposes. The proceeds of the COPs are proposed to be appropriated in Fiscal Year 2022 in the Annual Budget and Appropriation Ordinance ("AAO") with the Ordinance accompanying as trailing legislation.

### Background

On April 20, 2021, the Board approved Resolution No. 159-21, adopting the City's Ten-Year Capital Plan (FY2022 – 2031) ("Adopted Capital Plan"), which demonstrated the City's ability to fully fund \$60.8 million for Critical Repairs projects and \$50.0 million for Economic Recovery Stimulus projects with General Fund supported certificates of participation. In coordinating this year's Capital Budget, Capital Planning has been identifying capital projects which meet the City's programmatic goals to be funded by these COPs (i) upkeeping the City's assets which are in need of critical repairs; and (ii) stimulating the economy for a more expeditious recovery following the reopening of the City following the COVID-19 pandemic.

## The Projects

The City has historically included Critical Repairs COPs in the Capital Plan’s General Fund Debt Program as a capital source specifically for the kind of economic downturn the City is currently experiencing. Based on the Mayor’s proposed budget for FY2022 & FY2023, certain capital projects that would typically be funded with cash on hand are either being deferred or considered for the COPs. While it is feasible to defer certain projects, there are critical repairs and replacements requiring more immediate funding action in order to continue providing essential services. The Recovery Stimulus COPs will support projects that serve as local economic stimulus and help build a more resilient and equitable San Francisco as part of the City’s recovery from the COVID-19 pandemic.

Only a portion of the full COP project funding amounts included in the Capital Plan is being utilized as the Mayor’s proposed budget includes General Fund cash sources for a subset of the projects previously identified for COP support. **By utilizing cash in addition to COP funding for Critical Repairs and Recovery Stimulus projects the total interest cost to the City for these projects is reduced.**

The proposed projects to be funded by the COPs for both the Critical Repairs and Economic Recovery programs are shown in the tables below:

### Critical Repairs COPs

Department	Project	Amount
ADM	City Hall HVAC & Elevators	\$8,275,000
ADM	1 S. Van Ness Bathrooms & Elevators	2,100,000
ADM	Hall of Justice HVAC	4,800,000
DPH	Laguna Honda Hospital Emergency Power	7,600,000
DPW	Curb Ramps with Basements	4,000,000
DPW	Infill Sidewalks in Bayview	2,000,000
DT	Fiber Backbone	2,500,000
REC	Stow Lake ADA Improvements	900,000
SHF	County Jail 2 Elevators & Fire Safety Systems	5,407,000
SHF	County Jail 5 Security Electronics & Fire Safety Systems	4,450,000
WAR	Davies Hall Elevators	2,200,000
-	COVID Impact Contingency	3,000,000
<b>Subtotal Critical Repairs COPs</b>		<b>\$47,232,000</b>

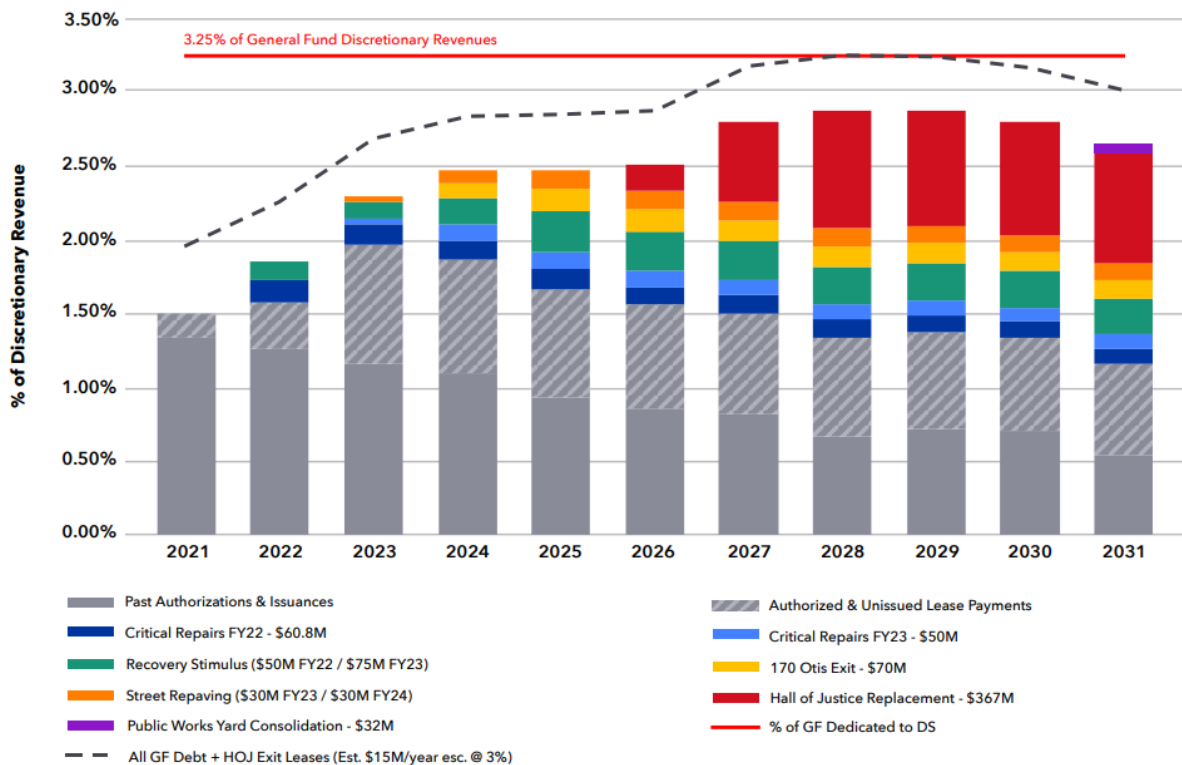
### Recovery Stimulus COPs

Department	Project	Amount
OEWD	SF Wholesale Produce Market (roadway improvements etc.)	3,000,000
DPW	Better Market Street (pedestrian & streetscape improvements)	3,000,000
DPH	Zuckerberg SF General New Childcare Center	1,500,000
-	Matching Funds Contingency	2,000,000
<b>Subtotal Recovery Stimulus COPs</b>		<b>\$9,500,000</b>
<b>Total COPs</b>		<b>\$56,732,000</b>

## The Capital Plan

As previously mentioned, the Adopted Capital Plan included \$60.8 million for Critical Repairs projects and \$50.0 million for Economic Recovery Stimulus projects in FY 2022. At that level, the anticipated incremental debt service associated with the delivery and execution of the COPs complied 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. Because the amount to be funded through COPs is now less, the related debt service will be lower than the projections included in the Capital Plan and displayed below.

### Capital Plan General Fund Debt Program FY2022-31



## 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 \$67.5 million. Based on the cost estimates and delivery schedules for the projects, the Office of Public Finance ("OPF") currently anticipates issuing \$64.8 million in tax-exempt COPs, though the final amount will be based on prevailing market assumptions at the expected time of sale. The difference between the expected issuance amount and the \$67.5 million not-to-exceed amount allows for changes in the anticipated tax-status of the COPs as directed by bond counsel following further review of projects, for market fluctuations until the sale or sales of the COPs, any increased deposits to the debt service reserve fund, and possible additional delivery date expenses were the COPs to be issued in more than one series.

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*Commercial Paper:* The current plan of finance anticipates utilizing the City's commercial paper program ("CP 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 CP Program authorization is \$250.0 million, of which \$198.6 million will be unencumbered going into Fiscal Year 2022. OPF freed up significant capacity in the CP Program through the issuance of the Series 2020 COPs in November 2020 for the Animal Care and Control Project, and the issuance of the 2021A COPs this May for the Hall of Justice Relocation Acquisition Projects.

Based upon an estimated 4.75% true interest cost (approximately 250 basis points or 2.50% above current market rates) and an anticipated total par value of \$64.8 million, the total principal and interest payments over the approximate 20-year term of the COPs are estimated to be approximately \$102.9 million. Based on market conditions expected at the time of the sale, the COPs could be structured with up to a 30-year term. The table below outlines anticipated sources and uses for the COPs, based on estimates provided by the Office of Public Finance's municipal advisor KNN Public Finance.

#### Estimated Sources & Uses of the Proposed COPs

##### Sources:

###### COP Proceeds

Estimated Par Amount	\$64,800,000
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##### Uses:

Project Funds	\$56,732,000
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CSA Audit Fee (0.2% of project)	\$113,464
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Capitalized Interest	\$1,640,000
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Debt Service Reserve Fund	\$5,065,000
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###### Delivery Date Expenses

Cost of Issuance	\$779,536
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Underwriter's Discount	\$470,000
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<b>Total Uses</b>	<b>\$64,800,000</b>
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<i>Plus: Reserve for Market Uncertainty</i>	<i>\$2,045,000</i>
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<b>Maximum Not-to-Exceed Par Amount</b>	<b>\$67,500,000</b>
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Source: KNN Public Finance

Approximately \$5.07 million 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 \$1.25 million may be allotted to cover costs associated with the issuance of the COPs, assuming one or more issuances. This includes amounts for underwriter compensation, legal fees, municipal advisory fees, trustee fees, rating agency fees, printing costs, and other issuance costs.

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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 projects on a tax-exempt basis. Actual results may differ if assumed market conditions or the tax status changes.

### **The Certificates**

Under the proposed Ordinance, the City will structure the COPs using a lease-lease back structure. This lease will be a supplemental to a lease which currently supports the City's outstanding Series 2012A COPs, Series 2019-R1 COPs, Series 2021A COPs and various other Board authorized but unissued certificates of participation (the "Master Lease") by 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 and the San Bruno Jail Complex located at 1 Moreland Drive, San Bruno will serve as the leased property for the COPs (the "Leased Property"). The City may add additional properties, as determined in coordination with the Director of Property, to the Master Lease in order to secure the COPs based on the timing of issuances of other series of authorized but unissued certificates of participation.

*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 projects, 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 Trustee is required to deposit base rental payments in the base rental fund to be applied as necessary to make debt service payments with respect to the COPs on October 1 and April 1 of each year during the term of the Trust Agreement.

### **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

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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 municipal advisor 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. 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.

### **Additional Information**

The forms of the related financing documents—including the Bond Purchase Contract, Notice of Intention to Sell, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted, as described below.

*Official Notice of Sale and Notice of Intention to Sell* (if the COPs are sold competitively): 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.

The Official Notice of Sale for the COPs announces the date and time of a 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 Ordinance, 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.

*Purchase Contract* (if the COPs are sold on a negotiated basis): The City will work with its Municipal Advisor to determine whether a negotiated or competitive sale will be most advantageous for the COPs based on market conditions closer to the sale of the COPs. Should the COPs be sold via a negotiated sale with an underwriter(s), 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. For a negotiated sale, the City would work with its Municipal Advisor to select qualified firms from the City's Underwriter Pool via a competitive Request for Proposal ("RFP") process.

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

## Anticipated Financing Timeline

Milestones	Dates*
• Capital Planning Committee	May 10, 2021
• Introduction of the Ordinance to the Board of Supervisors	June 1, 2021
• Budget and Appropriations Committee Hearings (ADM Budget Hearing)	June 2021
• Board Considers Approval of the Ordinance (1 <sup>st</sup> Reading)	July 20, 2021
• Final Board Approval of the Ordinance (2 <sup>nd</sup> Reading)	July 27, 2021
• Sale and Closing of the COPs	TBD

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

Please contact Anna Van Degna ([Anna.VanDegna@sfgov.org](mailto:Anna.VanDegna@sfgov.org)) or Luke Brewer ([Luke.Brewer@sfgov.org](mailto:Luke.Brewer@sfgov.org)) if you have any questions. Your consideration of this matter is greatly appreciated.

cc: Angela Calvillo, Clerk of the Board of Supervisors  
Andrea Bruss, Mayor's Office  
Andres Powers, Mayor's Office  
Ashley Groffenberger, Mayor's Budget Director  
Harvey Rose, Budget Analyst  
Severin Campbell, Budget Analyst  
Ben Rosenfield, Controller  
Mark Blake, Deputy City Attorney  
Kenneth Roux, Deputy City Attorney  
Andrico Penick, Director of Real Estate Division  
Brian Strong, Office of Resilience and Capital Planning

# Attachment 1

## GOOD FAITH ESTIMATES

For purposes of compliance with Section 5852.1 of the California Government Code, the following information are good faith estimates provided by the City's Municipal Advisor, KNN Public Finance.

1. True interest cost of the COPs: 4.75%
2. Finance charge for the COPs, including all fees and charges for third parties (including underwriter's compensation, municipal advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$1,250,000.
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: \$56,845,464.
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: \$102,930,000.

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 tax-exempt basis. Actual results may differ if assumed market conditions or the tax-status changes.