OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

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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, Controller's Office of Public Finance
Bob Beck, Director of the Treasure Island Development Authority

DATE: **Tuesday, May 4, 2021**

SUBJECT: Resolution Authorizing the Issuance of Improvement Area No. 1 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) Special Tax Bonds, Series 2021 Not to Exceed $41,340,000

Recommended Actions

We respectfully request that the Board of Supervisors ("Board") consider for review and approval the resolution (the "Bond Resolution") which authorizes the issuance of not to exceed $41,340,000 aggregate principal amount of Improvement Area No. 1 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) Special Tax Bonds, Series 2021 ("Bonds").

Background

Since 1997, the City and County of San Francisco ("City") and the Treasure Island Development Authority ("TIDA") have worked together on the Treasure Island/Yerba Buena Island Development Project ("Project") in order to redevelop the former Treasure Island Naval Station ("NSTI") in connection with the conveyance of the Navy-owned lands to TIDA. In early 2003, TIDA and the Treasure Island Community Development, LLC [1] ("TICD" or the "Developer") entered into an Exclusive Negotiating Agreement and began work on a Development Plan.

In 2011, TICD and TIDA entered into the Disposition and Development Agreement ("DDA") and TICD and the City entered into the Development Agreement ("DA") to deliver the Project. The Financing Plan attached to the DDA and DA contemplates reimbursement to the Developer for costs incurred to construct public infrastructure through the issuance of special tax bonds issued under the Mello-Roos Community Facilities Act of 1982 and tax increment bonds issued by the City and County of San Francisco Infrastructure and Revitalization Financing District No. 1 (Treasure Island).

1. The existing members of TICD are (1) Treasure Island Holdings, LLC, a joint venture comprised of a subsidiary of Lennar Corporation and a non-managing third-party investor member, (2) TICD Hold Co., LLC, an indirect subsidiary of Lennar, (3) KSWM Treasure Island, LLC, a joint venture comprised of affiliates of Stockbridge Capital Group, LLC, Kenwood Investments, and Wilson Meany, LP, and (4) Stockbridge TI Co-Investors, LLC, an affiliate of Stockbridge.

The development plan for the Project anticipates a new San Francisco neighborhood consisting of up to 8,000 new residential housing units, as well as new commercial and retail space, a hotel, and 290 acres of parks and public open space, including shoreline access and cultural uses. Transportation amenities being built for the project will enhance mobility on the Yerba Buena Island and Treasure Island as well as link the islands to mainland San Francisco. Some amenities include a combined police/fire emergency services building; utility improvements including new water, sewer, storm, gas, electrical and communications infrastructure with new water storage reservoirs and a wastewater treatment plant; new and upgraded streets, public byways, bicycle, transit, and pedestrian facilities; and a new ferry terminal.

The Treasure Island CFD

On January 24, 2017, following a public hearing and landowner vote, the Board adopted Resolution No. 8-17 ("Resolution of Formation") establishing the Treasure Island CFD, an initial improvement area in the Treasure Island CFD entitled "Improvement Area No. 1 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island)"("Improvement Area No. 1"), and a Future Annexation Area for the Treasure Island CFD. The Treasure Island CFD was formed to provide funding for certain public infrastructure to be built as a result of the Project and certain ongoing public services.

<u>Improvement Area No. 1</u>

Improvement Area No. 1 (or "IA No. 1") consists of up to four development parcels (1Y, 2Y-H, 3Y, and 4Y) located on Yerba Buena Island, which are expected to include 266 residential units at buildout.

At the time of the formation of the Treasure Island CFD and Improvement Area No. 1, the Board of Supervisors also adopted Resolution No. 12-17 to authorize the issuance and sale of special tax bonds for Improvement Area No. 1 in an aggregate principal amount not to exceed $250,000,000.

In October 2020, the City, on behalf of IA No. 1 of the Treasure Island CFD, completed the first issuance of Special Tax Bonds, Series 2020 (the "2020 Bonds") in the amount of $17,135,000, which were applied to finance, among other things, land acquisition and certain public infrastructure improvements.

The proposed Bond Resolution supplements Resolution No. 12-17 to authorize an aggregate principal amount not to exceed $41,340,000 and approve related documents. If the full not to exceed amount of Bonds are issued, the remaining bond authority for Improvement Area No. 1 would be $191,525,000.

The Special Tax Bonds of Improvement Area No. 1

The proposed Bond Resolution authorizes the second sale of special tax bonds for the Treasure Island CFD with respect to Improvement Area No. 1, in a par amount not to exceed $41,340,000. The proposed Bonds will be secured by a pledge of special taxes levied on taxable property in Improvement Area No. 1. In accordance with Ordinance No. 22-17 and the Rate and Method of Apportionment of Special Tax for Improvement Area No. 1 ("RMA") adopted at formation, the City began levying special taxes on a portion of taxable property located on development parcel 4Y within Improvement Area No. 1 in Fiscal Year 2019-20. Parcel 4Y currently has one building under construction known as the Bristol, which is planned for 124 residential units of which 110 units are subject to the special tax.

Current Plan of Finance

The proposed Bonds will be sold without a rating ("Non-Rated"), given the risks associated with land secured financings. The transaction is for new real estate development projects, such as Treasure Island.

still underway and would not receive an investment grade rating. Non-Rated special tax bonds (or "Land Secured bonds") have unique credit considerations and risk factors for investors which are discussed in the Official Statement, including:

- Until fully built-out, all Land-Secured bonds bear some degree of development risk. In troubled real estate markets, projects can struggle and may be abandoned by developers and homebuilders potentially leading to inability or refusal to pay special taxes when due.
- Taxpayer concentration risk, as the Bonds are secured by only the vertical developers at this time.

The Bonds are limited obligations of the City, secured by and payable solely from the special taxes levied in Improvement Area No. *1; the Bonds will be payable on a parity basis with the 2020 Bonds*.

The General Fund of the City is not liable for the payment of principal or interest on the Bonds, and the credit of the City is not pledged to the payment of the Bonds.

The Bonds still carry the "City and County of San Francisco" issuer name and market recognition, and as such the City is subject to reputational risk.

Under the Fiscal Agent Agreement, the City, on behalf of the District, has covenanted for the benefit of the owners of the Bonds that, under certain circumstances, the City will commence judicial foreclosure proceedings with respect to delinquent special taxes on property within Improvement Area No. 1, and will diligently pursue such proceedings to completion.

The proposed Bonds will be secured by a pledge of special taxes levied on all of the taxable property in Improvement Area No. 1 pursuant to the RMA, and at current projected interest rates produce approximately 130% debt service coverage on the 2020 Bonds and the proposed Bonds when compared to maximum projected special tax revenues. Per the RMA, the special taxes escalate at 2.00% annually.

Value-to-Lien Ratio

Under the City's *Local Goals and Policies – Community Facilities Districts and Special Tax Districts*, the City is required to sell the Bonds to achieve at least a 3-to-1 value-to-lien ratio ("VTL") based on (i) an appraised value (in this case) or assessed value and (ii) special tax and assessment debt encumbering the taxable property. The VTL based on the not to exceed $58,475,000 aggregate par amount for the proposed Bonds ($41,340,000) and the 2020 Bonds (plus $17,135,000) and the current appraised value (as of March 1, 2021) of the property in Improvement Area No. 1 of $175,430,000 would be 3.0-to-1. At this time, the Office of Public Finance ("OPF") is evaluating whether to issue the full not to exceed amount of $41,340,000 for the Bonds or less, which would result in a VTL higher than 3.0-to-1. The Bonds are expected to be sized based on expected schedule of issuance of building permits for the additional buildings on Parcels 1Y, 3Y and 4Y.

Integra Realty Resources, Inc. (the "Appraiser") has prepared an Appraisal Report dated April 14, 2021 with a valuation date of March 1, 2021, estimating the market value of the fee simple interest in three parcels within Improvement Area No. 1 currently subject to the special taxes. The Appraiser concluded in the Appraisal Report that the market value of the fee simple interest of these parcels is $175,430,000, subject to certain assumptions and limiting conditions set forth therein. The value of individual parcels in Improvement Area No. 1 may vary significantly, and no assurance can be given that should Special Taxes levied on one or more of the parcels become delinquent, and should the delinquent parcels be offered for sale at a judicial foreclosure sale, that any bid would be received for the property or, if a bid is received, that such bid would be sufficient to pay such parcel's delinquent Special Taxes. Land values for properties that are not yet fully developed can be extremely volatile, which is why OPF is currently evaluating whether to issue fewer bonds than the maximum requested principal amount of $41,340,000.

Use of Proceeds

The proceeds of the Bonds will (i) finance or reimburse expenditures on public improvements for the Project, (ii) fund a debt service reserve fund for the Bonds, (iii) fund capitalized interest on the Bonds, if any, (iv) fund administrative expenses, and (v) finance costs of issuance. More specifically, the proceeds of the proposed Bonds are expected to reimburse the Developer for developer qualified costs, such as on-site infrastructure costs, such as utility improvements, street improvements, curb, gutter and sidewalk improvements, streetlights, and traffic signals, and related pre-development costs.

Table 1 below outlines anticipated sources and uses for the Bonds, based on current market conditions, at the not to exceed par amount of $41,340,000.

Table 1: Estimated Not to Exceed Sources & Uses of the Special Tax Bonds, Series 2021

Sources:	
Bond Proceeds	
Not to Exceed Par Amount	$41,340,000
Premium	2,610,000
Total Sources	**$43,950,000**
Uses:	
Improvement Fund	$37,605,000
Debt Service Reserve Fund	3,175,000
Capitalized Interest Fund	1,800,000
Delivery Date Expenses	
Cost of Issuance	$750,000
Underwriter's Discount	620,000
Total Uses	**$43,950,000**

Source: Stifel and CSG Advisors Inc.

OPF currently anticipates a smaller bond issuance but is requesting the not to exceed par amount of $41,340,000 based on the 3-to-1 value to lien policy limitation. Conditions that could result in a change in the anticipated par amount include accelerated or delayed development, a delayed issuance of the Bonds, increases in the Appraised Value, fluctuations in market interest rates between the date of authorization by the Board and the sale of the Bonds, changes in required deposits for reserves or in estimated delivery date expenses.

Interest Rate; Projected Debt Service

Based upon current market conditions, a 30-year term and a true interest cost of 3.66%, which assumes the issuance up to the not to exceed amount of the Bonds on a tax-exempt basis, the OPF estimates an average annual debt service of approximately $2.55 million. The not to exceed total par amount of $41.34 million is estimated to result in approximately $35.53 million in interest payments over the life of the Bonds. The total debt service over the life of the Bonds is estimated at approximately $76.87 million.

Negotiated Sale of the Bonds; Underwriters

A negotiated sale is planned in connection with this transaction. The Bonds are repaid from special tax revenues from taxable property within Improvement Area No. 1 and are outside of the City's customary credit profile. Through a competitive Request for Proposals ("RFP") process, Stifel, Nicolaus & Company, Incorporated ("Stifel") was selected to serve as Senior Underwriter and RBC Capital Markets, LLC, ("RBC") was selected to serve as Co-underwriter (together, "Underwriters"). The Underwriters were selected via the RFP process to the City's Underwriter Pool, which was also established via a competitive process. The proposed Bond Resolution approves the form of the Bond Purchase Agreement (described further below) which provides the terms of sale of the Bonds by the City to the Underwriters.

The Capital Plan

The Bonds are limited obligations of the City payable solely from the special tax revenues within Improvement Area No. 1 and therefore are not subject to policy constraints of the Ten-Year Capital Plan.

Additional Information

The Bond Resolution is expected to be introduced at the Board of Supervisors meeting on Tuesday, May 4, 2021. The forms of the financing documents related to the Special Tax Bonds—including the Bond Purchase Agreement, First Supplement to Fiscal Agent Agreement, Preliminary Official Statement, the Continuing Disclosure Certificate, and related documents—will also be submitted.

Bond Purchase Agreement: The City intends to issue the Bonds on a fixed rate basis through a negotiated sale with the Underwriters. The Bond Purchase Agreement sets forth the terms, covenants, and conditions for the sale of the Bonds with the Underwriters, as well as agreements regarding expenses, closing and disclosure documents.

First Supplement to Fiscal Agent Agreement: The proposed Bond Resolution also approves the form of a First Supplement to Fiscal Agent Agreement pursuant to which the Fiscal Agent administers and disburses bond payments. The City, on behalf of the CFD, executed the Fiscal Agent Agreement in connection with the issuance of the 2020 Bonds, and the First Supplement to Fiscal Agent Agreement will apply specifically to the Bonds. The Fiscal Agent Agreement, as proposed to be supplemented, provides for the terms of the bond redemption, prepayment provisions, and other related administrative provisions. The Fiscal Agent holds the Treasure Island CFD special taxes and the bonds proceeds derived from the sale of the Bonds and will disburse the proceeds as directed by authorized City representatives.

Official Statement: The Official Statement provides all material information for investors in connection with the public offering by the City of the Bonds. The Official Statement describes the Bonds, the Project, including sources and uses of funds; security for the Bonds; risk factors; an appraisal of the property and tax and other legal matters, among other material information.

A *Preliminary Official Statement* is distributed to investors prior to the sale of the Bonds and, within seven days of the public offering, 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 prospective purchasers of the Bonds.

The antifraud provisions of the federal securities laws require that offering documents prepared by issuers of municipal securities, like the special tax bonds here, that the document be accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the document as well as City staff charged with preparing the document. Much of the information in the Official Statement was provided by the Developer, and the Developer will certify in writing that the information provided by the Developer is accurate and complete in all material respects. The draft Preliminary Official Statement, which has been critically reviewed by the City's staff and outside financial professionals, has been submitted for your review prior to its publication.

The Board of Supervisors and the Mayor, in adopting and approving the Bond Resolution, approve and authorize the use and distribution of the Preliminary and Final Official Statements by the Underwriters and co-financial advisors with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City and the District, that the Preliminary and Final Official Statements are final as of their dates.

Continuing Disclosure Certificate: The City covenants, on behalf of the District, to provide certain financial information and operating data relating to the Bonds (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 the Underwriters of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

Milestones	Dates*
• Introduction of Resolutions to the Board of Supervisors	May 4, 2021
• Presentation to Capital Planning Committee	May 10, 2021
• Budget & Finance Committee Hearing	May 19, 2021
• Board Approval of the Resolution	May 25, 2021
• Sale and Closing of the Bonds	Estimated July 2021

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna (anna.vandegna@sfgov.org) or Luke Brewer (luke.brewer@sfgov.org), if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andres Powers, Mayor's Office
Ashley Groffenberger, Mayor's Budget Director
Ben Rosenfield, Controller
Carmen Chu, City Administrator
Ken Bukowski, Deputy City Administrator
Harvey Rose, Budget & Legislative Analyst
Severin Campbell, Budget & Legislative Analyst
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney

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 Underwriters, and the City's Municipal Advisor CSG Advisors Incorporated assuming the maximum bond authorization of $41,340,000:

1. True interest cost of the Bonds: 3.66%

2. Finance charge for the Bonds, 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): $1,370,000.

3. Amount of Bond 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 Bonds: $37,605,000.

4. Total payment amount for the Bonds, being the sum of (a) debt service on the Bonds to final maturity, and (b) any financing costs not paid from proceeds of the Bonds: $76,875,000.

The information set forth above is based up estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.