



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
Vishal Trivedi, Controller's Office of Public Finance

DATE: Monday, January 10, 2022

SUBJECT: Resolution approving the issuance and sale of General Obligation Refunding Bonds, Series 2022-R1 - Not-to-Exceed \$385,000,000

Supplemental Appropriation Ordinance for General Obligation Refunding Bonds

Recommended Actions

We respectfully request that the Board of Supervisors (the "Board") consider for review and adoption the resolution (the "2022 Refunding Resolution") which (1) approves the issuance and sale of not to exceed \$385,000,000 aggregate principal amount of City and County of San Francisco General Obligation Refunding Bonds, Series 2022-R1 (the "2022 Refunding Bonds" or the "Bonds") to refund certain outstanding general obligation bonds of the City; (2) approves the form and authorizing the execution and delivery of an Escrow Agreement relating to certain Prior Bonds (defined below); (3) approves the form and authorizes the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement relating to the sale of said bonds; (4) ratifies certain actions previously taken; and (5) grants general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of said bonds, as defined herein. We also respectfully request the Board pass the Supplemental Appropriation Ordinance ("Ordinance") appropriating the proceeds of the 2022 Refunding Bonds in the amount of \$385,000,000.

Background

Since 1992, a two-thirds majority of voters of the City and County of San Francisco (the "City") have approved 28 propositions authorizing the issuance of general obligation bonds ("GO Bonds") totaling \$7.2 billion for various projects. Of this amount, \$5.7 billion of bonds have been issued and \$2.4 billion remain outstanding. \$1.5 billion are authorized but are yet to be issued. When the City issues GO Bonds, there are provisions included which give the City the option to refinance the bonds after a certain period of time, should interest rates be more favorable and produce savings to the City.

See [Attachment 1](#) for a full list of GO Bond authorizations and series outstanding as of January 1, 2022.

Prior Board of Supervisors Actions

The Board adopted Resolution No. 097-20 in March 2020 (the “2020 Master Refunding Resolution”). The 2020 Master Refunding Resolution authorized the issuance of \$1,482,995,000 aggregate principal amount of general obligation refunding bonds from time to time in one or more series for the purpose of refunding the City’s outstanding GO Bonds and approved the sale of the first three series of such refunding bonds in an amount not to exceed \$255,000,000 designated Series 2020-R1, and two series in an amount not to exceed \$220,000,000, designated Series 2021-R1 and 2021-R2.

Prior City Actions

In 2020, the City issued \$195,250,000 of General Obligation Refunding Bonds, Series 2020-R1 to refinance outstanding general obligation bonds resulting in gross debt service savings of \$38.2 million over 15 years and net present value debt service savings of \$31.2 million or 13.4% of refunded par. In 2021, the City issued two series totaling \$178,135,000 of General Obligation Refunding Bonds, Series 2021-R1 and 2021-R2. The two 2021 refunding series produced gross debt service savings of \$35.6 million over 12 years and net present value debt service savings of \$32.8 million or 15.9% of the refunded par.

Current Plan of Finance

The 2020 Master Refunding Resolution authorized and directed the Director of the Office of Public Finance (“OPF”) to determine which series of outstanding Prior Bonds would be refinanced with the proceeds of refunding bonds and to provide for the sale of any series of refunding bonds using the approved form of such documents, subject to certain terms and conditions including the following:

- (i) each series of refunding bonds must achieve aggregate net present value savings of at least 3% of outstanding principal of the total Prior Bonds to be refunded by such series;
- (ii) the true interest cost of the refunding bonds must not exceed 12%;
- (iii) the refunding bonds must not have a final maturity date later than the maturity date of the bonds to be refunded; and
- (iv) the costs of issuance must not exceed 2% and underwriter’s discount must not exceed 1% of the principal amount of the refunding bonds

The 2022 Refunding Resolution approves the sale of the 2022 Refunding Bonds, designated Series 2022-R1, in an amount not to exceed \$385 million, to refund all or a portion of the bonds listed in Table 1 below (“Prior Bonds”).

Table 1: 2022 General Obligation Refunding Candidates

<u>2022 GO Refunding Candidates (Callable on June 15, 2022)</u>	<u>Original Par Amount</u>	<u>Outstanding Par Amount</u>	<u>Callable Par Amount</u>	<u>Final Maturity</u>
Series 2012D (SFGH & Trauma Center Earthquake Safety, 2008)	\$251,100,000	\$130,435,000	\$121,115,000	2032
Series 2014A (SFGH & Trauma Center Earthquake Safety, 2008)	\$209,955,000	\$137,480,000	\$128,575,000	2033
Series 2012E (Earthquake Safety and Emergency Response, 2010)	\$38,265,000	\$25,050,000	\$23,260,000	2032
Series 2014C (Earthquake Safety and Emergency Response, 2010)	\$54,950,000	\$36,160,000	\$34,045,000	2034
Series 2014D (Earthquake Safety and Emergency Response, 2014)	\$100,670,000	\$66,230,000	\$62,355,000	2034
Subtotal 2022 GO Refunding Candidates	\$654,940,000	\$395,355,000	\$369,350,000	

Based on bond market conditions as of December 21, 2021, the City could issue the 2022 Refunding Bonds in the Spring of 2022 to refund the Prior Bonds and generate gross savings to property taxpayers of approximately \$47.6 million based on an estimated interest rate of 1.95%. On a net present value (“NPV”) basis, OPF estimates the debt service savings to be approximately \$42.7 million, or 11.6% of the total outstanding principal of the Prior Bonds to be refunded (\$369.4 million), which exceeds the City’s debt policy requirement that savings be at least 3.00% of the Prior Bond amount.

OPF will continue to monitor market conditions and may revise the par amount of the refunding prior to the final sale or pricing date. OPF anticipates pricing the 2022 Refunding Bonds in March and closing in April 2022.

Table 2 below outlines the estimated sources and uses for the General Obligation Refunding Bonds, Series 2022-R1, based on an estimate provided by Fieldman Rolapp and Associates, Inc., a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

Table 2: Estimated Sources & Uses of the 2022 Refunding Bonds

<u>Sources:</u>	Series 2022-R1
<u>Refunding Bond Proceeds</u>	
Par Amount	\$379,515,000
Total Sources	\$379,515,000
<u>Uses:</u>	
Refunding Escrow	\$377,095,898
<u>Delivery Date Expenses</u>	
Cost of Issuance	\$901,042
Underwriter's Discount	\$1,518,060
Total Uses	\$379,515,000
<i>Reserve for Market Uncertainty</i>	<i>\$5,485,000</i>
Not-to-Exceed Par Amount	\$385,000,000

Source: Fieldman, Rolapp Associates, Inc.

The requested not-to-exceed par amount of \$385 million for the 2022 Refunding Bonds exceeds the current estimated refunding bond proceeds amount of approximately \$379.5 million in order to provide flexibility to capture the benefit of more favorable market conditions should they be available at the time of sale. Conditions that could result in a change in the anticipated bond par amount include fluctuations in market interest rates between the date of authorization by the Board and the sale of the 2022 Refunding Bonds, changes in the refunding escrow, or changes in estimated delivery date expenses.

Based upon an estimated true interest cost of 1.95%, OPF estimates average annual debt service for the 2022 Refunding Bonds of approximately \$34.2 million. The anticipated total par value of \$379.5 million is estimated to result in approximately \$44.2 million in interest payments over the life of the 2022 Refunding Bonds. Based on these assumptions, the total principal and interest payments over the approximate 12-year life of the 2022 Refunding Bonds is estimated to be approximately \$423.7 million.

For good faith estimates required by Code Section 5852.1 of the California Government regarding the proposed financing, see Attachment 2. The information set forth in Attachment 2 is based on estimates of prevailing market conditions. Actual results will be based on market conditions at the time of the sale of the 2022 Refunding Bonds.

Debt Limit

The City Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3.00% of the assessed value of property in the City. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's general obligation debt limit for fiscal year 2021-22 is approximately \$9.36 billion, based on a net assessed valuation of approximately \$312.0 billion. As of January 1, 2022, the City had approximately \$2.92 billion in aggregate principal amount of general obligation bonds outstanding, which equals approximately 0.94% of the net assessed valuation for fiscal year 2021-22. If all of the City's voter-authorized and unissued general obligation bonds were issued (an additional \$1.5 billion), the total debt burden would be 1.42% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the 2022 Refunding Bonds, after their issuance, the debt ratio is estimated to change only slightly as the bonds will be used to refund currently outstanding principal.

Additional Information

The Ordinance is expected to be introduced at the Board of Supervisors meeting on Tuesday, January 11, 2022, and the 2022 Refunding Resolution is expected to be introduced on January 18, 2022 with the form of the Preliminary Official Statement and Appendix A.

Method of Sale & Bond Purchase Agreement: A negotiated sale is planned in connection with this transaction in order to maximize flexibility on the timing and structure of the sale to enhance refunding savings and bonding capacity while maintaining tax rates within the City's Capital Plan constraint. OPF issued a Request for Proposals ("RFP") to firms within the City's Underwriter Pool, which was established via a competitive process. An underwriting syndicate has not been selected at this time, but will be determined in consultation with the City's Municipal Advisors based on the evaluation of the proposals received pursuant to the RFP, to be identified in the final adopted text of the sale resolution. The Bond Purchase Agreement details the terms, covenants, and conditions for the sale of the Bonds through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

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

A *Preliminary Official Statement* is distributed to prospective 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 initial purchasers of the Bonds.

The Board of Supervisors and the Mayor, in adopting and approving the 2022 Refunding Resolution, approve and authorize the use and distribution of the Official Statement by the underwriters with respect to the Bonds. For purposes 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.

Escrow Agreement: The Resolution approves the form of Escrow Agreement, allowing for the creation of escrow funds to pay the principal and interest due on the Prior Bonds. The escrow agent will hold any escrow obligations pursuant to the Escrow Agreement in an irrevocable trust fund account for the City for the benefit of the owners of the Prior Bonds.

Official Notice of Sale and Notice of Intention to Sell (if bonds are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City’s intention to sell the Bonds. 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 Bonds announces the date and time of a competitive sale, including the terms relating to the Bonds; 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 Bonds. Pursuant to the Resolution, the Controller is authorized to award the Bonds 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.

Pursuant to the 2022 Refunding Resolution, the Board hereby delegates to the Controller to finalize and revise the Official Statement, including the Appendix A, to, among other things, include the most recent City financial information or other material information relevant to investors, and to otherwise make corrections and clarifications needed so that such offering document complies with federal securities laws.

Anticipated Financing Timeline

Milestones	Dates*
• Introduction of Ordinance to the Board of Supervisors (Board)	January 11, 2022
• Introduction of 2022 Refunding Resolution to the Board	January 18, 2022
• Budget & Finance Committee Hearing	February 16, 2022
• Board Considers Approval of 2022 Refunding Resolution	March 1, 2022
• Board Considers Approval of Appropriation Ordinance (1 st Reading)	March 8, 2022
• Final Board Approval of Appropriation Ordinance (2 nd Reading)	March 8, 2022
• Sale of the 2022 Refunding Bonds	Estimated March 2022
• Closing of the 2022 Refunding Bonds	April 2022

*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), Vishal Trivedi (vishal.trivedi@sfgov.org), or Luke Brewer (luke.brewer@sfgov.org) if you have any questions.

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

Attachment 1

GO BONDS OUTSTANDING AS OF JANUARY 1, 2022

Bond Authorization Name	Election Date	Authorized Amount	Series	Bonds Issued	Bonds Outstanding	Authorized & Unissued
Seismic Safety Loan Program	11/3/92	\$350,000,000	1994A	\$35,000,000	-	
			2007A	\$30,315,450	\$15,571,283	
			2015A	\$24,000,000	-	
Reauthorization to Repurpose for Affordable Housing	11/8/16		2019A	\$72,420,000	\$70,605,000	
			2020C	\$102,580,000	\$96,895,000	\$85,684,550
Clean & Safe Neighborhood Parks	2/5/08	\$185,000,000	2008B	\$42,520,000	-	
			2010B	\$24,785,000	-	
			2010D	\$35,645,000	\$30,090,000	
			2012B	\$73,355,000	-	
			2016A	\$8,695,000	\$6,500,000	-
San Francisco General Hospital & Trauma Center Earthquake Safety	11/4/08	\$887,400,000	2009A	\$131,650,000	-	
			2010A	\$120,890,000	-	
			2010C	\$173,805,000	\$146,725,000	
			2012D	\$251,100,000	\$130,435,000	
			2014A	\$209,955,000	\$137,480,000	-
Earthquake Safety and Emergency Response Bond	6/8/10	\$412,300,000	2010E	\$79,520,000	-	
			2012A	\$183,330,000	-	
			2012E	\$38,265,000	\$25,050,000	
			2013B	\$31,020,000	-	
			2014C	\$54,950,000	\$36,160,000	
			2016C	\$25,215,000	\$19,415,000	-
Road Repaving & Street Safety	11/8/11	\$248,000,000	2012C	\$74,295,000	-	
			2013C	\$129,560,000	-	
			2016E	\$44,145,000	\$33,990,000	-
Clean & Safe Neighborhood Parks	11/6/12	\$195,000,000	2013A	\$71,970,000	-	
			2016B	\$43,220,000	\$21,100,000	
			2018A	\$76,710,000	\$41,345,000	
			2019B	\$3,100,000	-	-
Earthquake Safety and Emergency Response Bond	6/3/14	\$400,000,000	2014D	\$100,670,000	\$66,230,000	
			2016D	\$109,595,000	\$65,500,000	
			2018C	\$189,735,000	\$127,615,000	-
Transportation and Road Improvement	11/4/14	\$500,000,000	2015B	\$67,005,000	\$38,005,000	
			2018B	\$174,445,000	\$94,030,000	
			2020B	\$135,765,000	\$113,265,000	
			2021C-1	\$104,785,000	\$104,785,000	
			2021C-2	\$18,000,000	-	-
Affordable Housing Bond	11/3/15	\$310,000,000	2016F	\$75,130,000	\$43,730,000	
			2018D	\$142,145,000	\$94,120,000	
			2019C	\$92,725,000	\$24,120,000	-
Public Health and Safety Bond	6/7/16	\$350,000,000	2017A	\$173,120,000	\$107,185,000	
			2018E	\$49,955,000	\$33,900,000	
			2020D-1	\$111,925,000	\$81,925,000	
			2020D-2	\$15,000,000	-	-
Embarcadero Seawall Earthquake Safety	11/6/18	\$425,000,000	2020A	\$49,675,000	-	\$375,325,000
Affordable Housing Bond	11/5/19	\$600,000,000	2021A	\$254,585,000	\$180,390,000	\$345,415,000
Earthquake Safety and Emergency Response Bond	3/3/20	\$628,500,000	2021B-1	\$69,215,000	\$69,215,000	
			2021B-2	\$11,500,000	-	
			2021E-1	\$74,090,000	\$74,090,000	
			2021E-2	\$13,000,000	-	\$460,695,000
Health and Recovery Bond	11/4/20	\$487,500,000	2021D-1	\$194,255,000	\$194,255,000	
			2021D-2	\$64,250,000	\$29,250,000	\$228,995,000
SUBTOTAL		\$5,978,700,000		\$4,482,585,450	\$2,352,971,283	\$1,496,114,550
General Obligation Refunding Bonds				Bonds Issued	Bonds Outstanding	
Series 2015-R1	2/25/15			\$293,910,000	\$208,800,000	
Series 2020-R1	5/7/20			\$195,250,000	\$181,945,000	
Series 2021-R1	5/6/21			\$91,230,000	\$91,230,000	
Series 2021-R2	9/16/21			\$86,905,000	\$86,905,000	
SUBTOTAL				\$667,295,000	\$568,880,000	
TOTALS		\$5,978,700,000		\$5,149,880,450	\$2,921,851,283	\$1,496,114,550

Attachment 2

GOOD FAITH ESTIMATES

For purposes of compliance with Section 5852.1 of the California Government Code, the following estimated information has been provided by the City's Municipal Advisor, Fieldman, Rolapp & Associates, Inc.:

	2022 Refunding Bonds
1. True interest cost:	<u>1.95%</u>
2. Finance charges, 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):	<u>\$2,419,102</u>
3. Amount of bond proceeds expected to be received by the City, net of payments identified in 2 above and any reserve or capitalized interest funded with bond proceeds:	<u>\$377,095,898</u>
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 bond proceeds:	<u>\$423,725,252</u>

The information set forth above is based upon estimates of prevailing market conditions, and the ability to refinance the Prior Bonds on a tax-exempt basis. Actual results may differ if assumed market conditions change.