

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Anna Van Degna, Public Finance Director
Grant Carson, Controller's Office of Public Finance
Keith Sevigny, Controller's Office of Public Finance

DATE: January 27, 2026

SUBJECT: **Resolution re-authorizing the City Commercial Paper Program's Series 3&4 in an amount not to exceed \$100,000,000 and authorizing the delivery of an alternate credit facility to support the program**

Recommended Action

We respectfully request that the Board of Supervisors ("Board") review and consider for approval the resolution ("Resolution") re-authorizing the issuance of Lease Revenue Commercial Paper Certificates of Participation, Series 3 & Series 4 (Tax-Exempt) and Series 3-T & Series 4-T (Taxable) (together "CP Series 3&4"), in an aggregate principal amount not to exceed \$100,000,000 to finance the acquisition, construction, and rehabilitation of capital improvements and capital equipment approved by the Board and the Mayor; authorizing the delivery of an alternate credit facility in the aggregate total stated amount (reflecting support for principal and interest on the CP Series 3&4) of \$109,000,000; and approving and authorizing execution of a second supplement to trust agreement, a third amendment to site lease, a third amendment to sublease, a revolving credit agreement, a fee agreement, an offering memorandum, dealer agreements and certain other related financing documents, and authorizing other related actions.

Background

The City launched its Commercial Paper Program (defined below) to finance project costs on an interim basis in connection with the acquisition, improvement, renovation, and construction of real property and the acquisition of capital equipment and vehicles. Pursuant to Resolution No. 85-09, approved in March 2009 ("2009 Program Resolution"), the Board established a \$150,000,000 commercial paper program ("CP Series 1&2" or "CP Series 2") and pursuant to Resolution No. 247-13 approved in July 2013, the authorization for the CP Program was increased by \$100,000,000 ("CP Series 3&4" or "CP Series 3") to \$250,000,000 (together, the "CP Program"). Pursuant to Resolution No. 086-23 approved in February 2023, the Board re-authorized CP Series 1&2 at \$150,000,000.

Commercial Paper instruments are short-term financing notes (i.e. a bridge to long-term financing), the proceeds of which are used to pay on an interim basis the cost of capital projects and equipment as such expenditures are incurred. Commercial Paper durations range from one (1) to 270 days. The City's long-term debt obligations typically have a final maturity of 20- to 30-years. On the maturity date of a commercial paper note ("CP note"), the CP note may be "rolled" (or refinanced) with the issuance of new

CP notes for additional periods of up to 270 days until such CP note is either refunded by long-term obligations or paid down directly from other available funds.

Seismic and Other Public Safety Emergency

The Commercial Paper program has also been designed to be part of the City's resiliency strategy in the event of an earthquake or other natural disaster. Pursuant to Resolution No. 136-10, adopted by the Board in June 2010, in the event of an emergency declared under Charter Section 3.100, the Controller is authorized to draw on commercial paper prior to Board approval of long-term take-out financing. This exception applies only to emergencies declared under Charter Section 3.100 Powers and Responsibilities, which provides that the Mayor, with the concurrence of the Board, may direct City personnel and resources as necessary to meet an emergency.

Financing Structure

Credit Facility

In general, commercial paper programs are supported by bank credit facilities. The credit facilities currently supporting the City's \$250,000,000 CP Program include two revolving credit agreements ("RCAs"). The CP Series 2 credit facility with Wells Fargo ("Wells Fargo RCA") will expire in March 2026. The CP Series 3 credit facility with BMO Bank ("BMO Bank RCA") will expire in April 2026.

The City, through the Controller's Office of Public Finance ("OPF"), conducted a procurement process to select a credit facility provider for CP Series 3 via a competitive Request For Proposals solicitation. The City received five (5) proposals for CP Series 3 and BMO Bank was selected by the evaluation panel. The Resolution approves an amended and restated revolving credit agreement with BMO Bank ("BMO Bank RCA") in support of CP Series 3 in a stated amount not to exceed \$109,000,000, representing the \$100,000,000 not to exceed principal amount of CP notes plus an interest component, with a three (3) year term anticipated to begin in March 2026 and expire in March 2029. The BMO Bank RCA may be extended by mutual agreement between the City and BMO Bank. Table 1 below provides an overview of the CP Program's expiring and proposed credit facilities.

Table 1: CP Series 3 Expiring and Proposed Credit Facilities

CP Series 3 Facility (expiring)	Commitment Amount	Term	Facility Type	Fee
BMO Bank RCA	\$100,000,000	March 2026	RCA	0.12%
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CP Series 3 Facility (proposed)	Commitment Amount	Term	Facility Type	Fee
BMO Bank RCA	\$100,000,000	March 2029	RCA	0.31%

Fee Agreement

The Resolution also approves an amended and restated fee agreement with BMO Bank, who proposed an annual commitment fee of 31 basis points (0.31%). This equates to \$343,532 annually based on a not-to-exceed line of credit to be provided by BMO Bank of \$109,000,000 (the principal amount of CP Series

3 plus 270 days of interest at the maximum rate of 12%) in connection with the BMO Bank RCA. The City's existing BMO Bank RCA supporting CP Series 3 has an annual commitment fee of 12 basis points (0.12%) or \$132,980 annually. The amended and restated BMO Bank RCA results in an annual increase of \$210,552 to CP Series 3, not including one-time transaction costs associated with the replacement of the expiring credit agreement. The increased annual commitment fee associated with the BMO Bank RCA is attributable to general fee increases in the bank credit market since 2023.

As shown in Table 2 below, the proposed commitment fee structure presumes that the City's essential lease credit ratings remain at their current rating levels of Aa2/AA/AA+ by Moody's Investors Service ("Moody's"), S&P Global Ratings ("S&P"), and Fitch Ratings ("Fitch") respectively (collectively, the "Rating Agencies"). Assuming the City maintains ratings from Moody's, S&P, and Fitch on its essential lease obligation debt, the commitment fee will be based on the on the "level" (noted in Table 2 below) corresponding with the lowest rating assigned to the City's essential lease obligation debt.

Table 2: BMO Bank RCA Commitment Fee Structure

Level	Moody's Rating	S&P Rating	Fitch Rating	Commitment Fee Rate
Level 1	Aa3 or above	AA- or above	AA- or above	0.310%
Level 2	A1	A+	A+	0.460%
Level 3	A2	A	A	0.610%
Level 4	A3	A-	A-	0.760%
Level 5	Baa1 or below	BBB+ or below	BBB+ or below	1.060%

Amended and Restated Revolving Credit Agreement Terms

If the City's unenhanced lease obligation bond ratings rating fall below BBB+/Baa1, the BMO Bank RCA would terminate and amounts owed to BMO Bank would be immediately due and payable, subject to the limits concerning maximum rent set forth in the Sublease in accordance with State law, which would allow for several years to repay the financing. The BMO Bank RCA may be terminated by the City for any reason, at any time, pursuant to the provisions outlined in the Amended and Restated Revolving Credit Agreement and the Fee Agreement.

The City is required to repay BMO Bank if there are amounts drawn under the credit facility in accordance with the terms and conditions set forth in the BMO Bank RCA. It is expected BMO Bank will be repaid from the remarketing of commercial paper or the proceeds of long-term take-out financing. However, under extraordinary circumstances, such as those during the financial dislocation in 2008, advances from BMO Bank might not be immediately repaid. In such event, interest borne by the commercial paper notes could increase to 12% per annum.

Leased Assets

As a requirement of the CP Program, the City leases certain City-owned real properties ("Leased Assets") to a third-party trustee, and the trustee simultaneously leases the Leased Assets back to the City in return for lease payments in amounts necessary to pay any principal and interest due on any outstanding CP

Notes. Currently, the following Leased Asset is used for the CP Series 3 program: Public Safety Building. In connection with the replacement of the current facility, the City intends to release the Public Safety Building property from the lease and substitute that property with the Police Academy and the Office of the Chief Medical Examiner. Table 3 shows the proposed assets for CP Series 3. Following the transaction, the Public Safety Building will be unencumbered.

Table 3: Summary of Proposed Assets for CP Series 3

Police Academy	\$35,250,000
Office of the Chief Medical Examiner	99,677,383
Total	\$134,927,383

Additional Information

In addition to the Amended and Restated Revolving Credit Agreement and Fee Agreement described above, the forms of the following related financing documents described above will also be submitted to the Board.

Second Supplement to the Trust Agreement: Pursuant to the Original Trust Agreement between the City and U.S. Bank Trust Company, National Association ("Trustee"), the Trustee administers and disburses payments with respect to the CP Series 3 notes and enforces the covenants and remedies in the event of a default by the City. The Trustee holds proceeds derived from the sale of CP Series 3 notes and disburses payments for the costs incurred for the designated projects, as directed by authorized City representatives. The Original Trust Agreement will be amended by the Second Supplement to Trust Agreement to, among other things, provide Trustee acknowledgement of the BMO Bank RCA, update certain definitions and addresses for notices.

Third Amendment to Site Lease and the Third Amendment to Sublease: Pursuant to the Original Site Lease, the City leases a City-owned property (or properties) to the Trustee. Pursuant to the Original Sublease, the City leases back the leased property, together with the improvements thereon, from the Trustee. The City is then required to make annual base rental payments to the Trustee equal to the amounts required to repay the CP Series 3 Notes but not in excess of the fair rental value for the leased property. The City will covenant to budget and appropriate rental payments in respect of the CP Series 2 Notes, if and to the extent due, from any legally available source of funds. The Original Site Lease and the Original Sublease, as previously amended, will be amended by the Third Amendment to Site Lease and the Third Amendment to Sublease to, among other things, reflect the BMO Bank RCA, extend the term of the Original Site Lease and the Original Sublease, and release the Public Safety Building property from the lease and substitute with the Police Academy and the Office of the Chief Medical Examiner.

Second Amended and Restated Delivery and Paying Agent Agreement: This Agreement sets forth the duties of the Paying Agent, including acting as (i) depository for the safekeeping of the Commercial Paper Certificates, (ii) delivery agent on behalf of the City in connection with the delivery of the CP Series 3 notes, and (iii) as paying agent to undertake certain obligations on behalf of the holders of the Commercial Paper Certificates in connection with the BMO Bank RCA.

Commercial Paper Dealer Agreements: These Commercial Paper Dealer Agreements set forth the duties of the CP Dealers, including soliciting and arranging the sales of the CP Series 3 notes on behalf of the

City at such rates and maturities as then prevailing in the market. The City, through the Controller's Office of Public Finance ("OPF"), conducted a procurement process to select new CP Dealers for the City's CP Program via a competitive RFP solicitation. The City received five (5) proposals for its CP Program. US Bank and Wells Fargo were selected by the evaluation panel to serve as CP dealers for the CP Series 3 Program. The proposed CP dealer fees of 5 basis points (0.05%) per annum on outstanding CP Series 3 notes are consistent with the current CP dealer fees.

Offering Memorandum: In connection with the issuance from time to time of CP Series 3 notes, an offering memorandum was prepared which provides a summary of certain provisions of the Trust Agreement, the lease documents and the BMO Bank RCA. The offering memorandum contains no operating or financial information about the City, and prospective investors are advised to make their investment decision based upon information about TD Bank. Under Securities and Exchange Rule 15c2-12, the City is not required, and has not committed, to provide annual financial and operating data to the holders of the CP Series 3 notes.

Anticipated Timeline

The Resolution is expected to be introduced at the January 27, 2026 Board of Supervisors Meeting and is requested to be heard at the Budget and Finance ("B&F") Committee on February 11, 2026.

Milestones	Dates*
• Introduction of Resolution	January 27, 2026
• B&F Committee Meeting	February 11, 2026
• Board Considers Approval of the Resolution	February 24, 2026
• Execution of Agreements and Reinstatement of CP Series 3 Facility	March 2026

*Please note that dates are estimated unless otherwise noted.

Please contact Anna Van Degna (Anna.VanDegna@sfgov.org) at 415-554-5956, Grant Carson (grant.carson@sfgov.org) at 628-652-9638 or Keith Sevigny (Keith.Sevigny@sfgov.org) at 628-652-9652 if you have any questions. Your consideration of this matter is greatly appreciated.

cc: Angela Calvillo, Clerk of the Board of Supervisors
 Sophia Kittler, Mayor's Budget Director
 Adam Thongsavat, Mayor's Office, Liaison to the Board of Supervisors
 Sally Oerth, Director of Real Estate, ADM
 Nicolas Menard, Budget & Legislative Analyst's Office
 Greg Wagner, Controller
 Mark Blake, Deputy City Attorney
 Kenneth Roux, Deputy City Attorney