107-0632015-002

Agenda Item Nos. 5(c), 5(d), 5(e) & 5(f)
Meeting of October 20, 2015

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee, Executive Director

SUBJECT: Approving an Amended Budget for the period July 1, 2015 through June 30, 2016, to increase, by an amount not to exceed $135,000,000, Bond Proceeds to be received by the Successor Agency and to Increase its expenditure Authority by $135,000,000 and Authorizing the Executive Director to submit the Budget to the Mayor's Office and the Board of Supervisors (Resolution 62-2015)

Authorizing the Issuance of Tax Allocation Refunding Bonds in an Aggregate Principal Amount Not to Exceed $125,000,000, and Approving and Directing the Execution of an Indenture of Trust, a Bond Purchase Contract and Redemption Agreements, and Approval of Other Related Documents and Actions; Mission Bay North Project Area (Resolution 63-2015)

Authorizing the Issuance of New Money and Refunding Tax Allocation Bonds for the Mission Bay South Redevelopment Project Area in Aggregate Principal Amounts Not to Exceed $45,000,000 and $115,000,000, Respectively, and Approving and Directing the Execution of a First Supplemental Indenture of Trust, A Bond Purchase Contract and Redemption Agreements, and Approval of Other Related Documents and Actions; Mission Bay South Redevelopment Project Area (Resolution 64-2015)

Authorizing the Issuance of Tax Allocation Bonds for the Mission Bay South Redevelopment Project Area in an Aggregate Principal Amount Not to Exceed $90,000,000, and Approving and Directing the Execution of an Indenture of Trust and a Bond Purchase Contract, and Approval of Other Related Documents and Actions; Mission Bay South Redevelopment Project Area (Resolution 65-2015)

EXECUTIVE SUMMARY

The Office of Community Investment and Infrastructure (OCII) proposes several bond issuances: two refunding bonds to lower the interest cost of existing Mission Bay debt and two new money bonds to fund infrastructure in the Mission Bay South project area. Issuing the new money bonds requires an amendment of the existing FY 15-16 OCII budget.

OCII proposes issuing two refunding bond series: 2015 Series A Tax Allocation Refunding Bonds for Mission Bay North (2015A) and 2015 Series B Tax Allocation Refunding Bonds (2015B) for Mission Bay South. Issuing these bonds would refinance six outstanding Mission Bay tax allocation bonds, four in Mission Bay North (MBN) and two in Mission Bay South (MBS), reducing the anticipated cost of debt service by a net present value of over $13.5 million, assuming current or reasonably foreseeable market conditions.

OCII also proposes issuing two new money bond series for Mission Bay South, Series 2015C & 2015D, with an aggregate principal amount not to exceed $135 million. These bonds would fund infrastructure reimbursements in MBS, enabling the pace of development to continue. The OCII would issue these bonds in two series: up to $45 million in Series 2015C, a parity bond, and up to $90 million in Series 2015D, a subordinate bond.

Issuing the proposed bonds requires the Commission on Community Investment and Infrastructure to approve three bond resolutions. These resolutions approve in form several critical bond documents for each series, which consist of the Bond Indenture, the Bond Purchase Agreement, and, in the case of the refunding issues, the Redemption Agreements, all of which are required to seek Oversight Board and Department of Finance (DOF) approval for the bond sale. The bond resolutions also approve the bond underwriter selections. Finally, the resolutions authorize and direct OCII staff to take all actions necessary to complete the proposed transactions, request the Oversight Board to make certain determinations, direct OCII to proceed with the transaction, and set forth the not to exceed limits for the principal amount of the bonds, the interest rate, and the underwriter's discount. For the 2015D subordinate bonds, the resolution authorizes up to $90 million in bond issuance over a series of issuances, but requires that the Executive Director approve the amount of each issuance.

Issuing the proposed new money bond series requires a budget resolution to amend the FY 15-16 budget to increase OCII's expenditure authority to include the $135 million in bond proceeds from the proposed Series 2015C and 2015D bonds. The budget resolution also authorizes the Executive Director to submit the amended budget to the Mayor and Board of Supervisors.

The proposed bond issuance is being planned under the provisions of OCII's Debt Policy, which was last updated on August 19, 2014. Following DOF approval, or non-objection to the bond issuance, Commission action will be required to approve the Preliminary Official Statement before the proposed transactions can be completed.

Staff recommends approval of the four proposed resolutions authorizing bonding authority and increasing budgetary expenditure authority so that the bond transactions can proceed.

DISCUSSION

Resolutions #63-2015 #64-2015, and #65-2015 would authorize OCII to issue four bonds, two refunding bonds and two new money bonds:

<u>Refunding Bonds</u>

- 2015 Series A Tax Allocation Refunding Revenue Bonds, Mission Bay North
- 2015 Series B Tax Allocation Refunding Revenue Bonds, Mission Bay South

<u>New Money Bonds</u>

- 2015 Series C, Tax Allocation Revenue Bonds, Mission Bay South
- 2015 Series D, Subordinate Tax Allocation Revenue Bonds, Mission Bay South

The enforceable obligation, structure and limits of the proposed bonds are described below.

Enforceable Obligation: Mission Bay North and South Owner Participation Agreements

The bonds described above will be issued pursuant to obligations established under the Mission Bay North and South Owner Participation Agreements "OPAs" between the former San Francisco Redevelopment Agency now OCII, and FOCIL-MB, LLC, ("Master Developer"). These obligations contain protocols for financing infrastructure improvements in the Mission Bay Project Areas, including the sale of bonds. The OPAs are enforceable obligations consistent with Redevelopment Dissolution Law: Cal. Health & Safety Code 34170 et. seq. and have been included on all Recognized Obligation Payment Schedules ("ROPS") to date, including ROPS 15-16A for the period of July to December 2015.

Refunding Bonds: Mission Bay North and South Bonds, Series 2015 A & B

OCII proposes issuing two refunding bonds, Series 2015A and Series 2015B, to refund existing Mission Bay debt and lower the cost of borrowing. Series 2015A would refund Mission Bay North Bonds 2005D, 2006B, 2009C, and 2011C. Series 2015B bonds would refund Mission Bay South Bonds 2009D and 2011D. At current or reasonably foreseeable market interest rates, the proposed refundings would generate gross debt savings of approximately $17.5 million and net present value savings of about $13.5 million. The savings numbers are illustrative and based on current market conditions. Final results will depend upon market conditions at the time the refunding is priced.

OCII debt policy establishes a guideline that, when refunding a bond, present value savings for each refunded bond should be three (3) percent of outstanding bond principal. The present value savings as a percent of refunded principal for each of the proposed refundings ranges from about six (6) percent to nine (9) percent, which exceeds the OCII debt policy guideline. Assuming current market conditions, the proposed refundings would require a combined refunding bond issuance of approximately $200 million. Final results will depend upon market conditions at the time the refunding is priced.

OCII debt policy allows flexibility in the guideline described above. Should market conditions change such that the above metric drops below three (3) percent, staff would support refunding all bonds with positive savings for four reasons. One, as current interest rates are extremely low, it is unlikely greater savings could be realized by waiting for better market conditions. Two, the large size of the proposed transaction makes the marginal issuance cost of each additional bond very small. Three, consolidating the debt portfolio and eliminating individual loans and bonds simplifies state and secondary market reporting and administration. Four, refunding savings will create additional debt capacity, which will allow for additional new money bonds to be issued, advancing the completion of Mission Bay development.

New Money Bonds: Mission Bay South Bonds, Series 2015C & 2015D

OCII proposes issuing two new money bonds, Series 2015C and 2015D to fund infrastructure development in Mission Bay South. New money bonds are required because existing infrastructure funding in Mission Bay South is nearly fully expended. The proceeds of the $56.3 million Series 2014A Mission Bay South bonds, sold in March of 2014, are expected to be spent by calendar year end. Issuing the proposed Series 2015C and 2015D bonds is anticipated to raise up to $125 million in additional infrastructure funding (after costs of issuance and funding bond reserve).

Series 2015C

The proposed 2015C bonds will be issued against existing tax increment and will be issued at parity with the Series 2015B refunding bonds described above. This means the obligation to pay the debt service on the Series 2015C bonds is equal to that of the Series 2015B bonds and any parity bonds. In order to issue parity bonds, the proposed bonds must pass a "parity bonds test," which requires that the available tax increment from current tax rolls cover 125% of the debt service of the outstanding bonds plus the new bonds. The proposed Series 2015C bonds pass this test, will be sized to the maximum amount subject to this test, and will use all the parity debt capacity. As the Series 2015C bonds will be issued at parity with the proposed Series 2015B refunding bonds, OCII is requesting Commission approval to issue both bonds in a single Resolution #64-2015.

Series 2015D

The Series 2015D bonds will be issued against the expected future assessed valuation currently in the pipeline (buildings completed, under construction, or planned) but not yet on the tax rolls. As the parity test does not allow any consideration of future additions to the assessed value, the Series 2015D bonds cannot be structured as a parity bond and must be structured as a subordinate bond. This means that debt service on the Series 2015D bonds will be paid only after debt service is paid on the senior bonds (e.g. 2015B & 2015C and any parity bonds).

The structure of the Series 2015D bonds has certain inherent risks that have been considered and mitigated by OCII. First, because Series 2015D bonds depend on additions to the current tax rolls to pay debt service and such additional revenue may be delayed, repayment is less certain. To account for this uncertainty, the bonds will be structured such that only minimal debt service will be due in the first five years. Second, because investors assume more risk with subordinate bonds, they will require higher interest rates. To mitigate this increased cost, OCII will structure the bonds to accommodate an early call. Given sufficient growth in the tax rolls, an early call will allow the subordinate bonds to be refunded at a future date with lower cost parity bonds, subject to statutory constraints. Third, because the Series 2015D bonds depend on expected assessed valuation to achieve the required debt service coverage, OCII has requested authority to issue $90 million, which would leverage the full expected assessed valuation in Mission Bay South. However, OCII may initially issue only a portion of the $90 million, and issue the remainder of the $90 million authorized amount at a later time. As described in Resolution #65-2015, the amount of each issuance shall be determined by the Executive Director.

As the market has less appetite for subordinate bonds, the Series 2015D bonds will not be offered to the general public but rather, will be sold in a private placement transaction. In a private placement transaction, any investor buying the bonds must be a Qualified Institutional Investor, as defined in the subordinate Bond Indenture, which is generally defined as a "qualified institutional investor" or certain types of "accredited investors" as defined by Securities Exchange Commission (SEC) regulations. In both instances, the intent is to limit the sale of the subordinate bonds to an investor or investors with "sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of the prospective investment" (SEC Investor Bulletin 9/23/2013). This requirement ensures that only investors with sufficient knowledge to understand the transaction's inherent risks can acquire the bonds. To ensure the bonds are not sold or distributed to small investors, they will be sold only in large quantities. The placement agent will market the bonds to multiple potential accredited investors. However, to ensure that the total financing package described above can be implemented successfully, an affiliate of the master developer has agreed to be the buyer of last resort if there is insufficient market interest.

Bond Structure & Limits

OCII proposes the following "not-to-exceed" limits for the four proposed bond series as detailed below.

Bond Series		**"Not-to-Exceed" Limits in Resolutions**		
		Principal Amount	True Interest Cost	Underwriter's Discount*
MBN 2015A	(Refunding)	$125	5.50%	0.70%
MBS 2015B	(Refunding)	$115	5.50%	0.70%
MBS 2015C	(New Parity Bonds)	$45	5.50%	0.70%
MBS 2015D	(New Subordinate Bonds)	$90	9.00%	0.06%

* For 2015D this will be a placement fee, not an underwriters discount. The Limit set in the Resolution is $50,000 which would round to .06% of $90 million.

The true interest cost listed above is the real cost of taking on the proposed additional debt. As the true interest cost includes all ancillary fees and costs, the true interest cost may be higher than the market interest rate. The underwriter's discount is the difference the price the underwriter pays the issuer and the price at which it sells the offering to the public and reflects the underwriter's fee for issuing the bonds. The Underwriter's discount was established on the advice of OCII's Financial Advisor, based on current industry practice and to accommodate a reasonable range of market conditions.

Underwriter Selection

The resolutions under consideration authorize the selection of the underwriter for Series 2015A, 2015B and 2015C and the selection of the placement agent for Series 2015D. Series 2015A, 2015B, and 2015C utilize an underwriter because the bonds will be publically offered. Series 2015D utilizes a placement agent because the bonds will be offered as a private placement. OCII's recommended selections were made based on a competitive selection process that was administered according to Section IX.C.5 of the OCII Purchasing Policy, which authorizes OCII staff to select a Contractor from a City and County of San Francisco (CCSF) panel established using the City's competitive selection process. This process is described below.

OCII staff directed Public Financial Managers (PFM), the financial advisor for the proposed transactions, to issue a Request for Proposals (RFP) for bond underwriting services. On July 7th, 2015, PFM issued the RFP and sent it to the members of the City's underwriter panel, giving the panel members ten (10) days to respond. PFM received eight (8) responses. These responses were reviewed by a panel that included Bob Gamble of PFM, Jamie Querubin of the CCSF Controller's Office of Public Finance, and John Daigle, OCII Senior Financial Analyst. The review panel evaluated the proposals on the following criteria: experience in selling California tax allocation bonds, especially since January 1, 2012 (i.e. post dissolution); the number and size of financings in which the firm and the primary service providers participated; the relevance of that experience to the proposed transactions; the depth and quality of the discussion of the structure, credit and marketing of the proposed transactions; and the proposed underwriter's discount. The panel also considered OCII's Local Business Enterprise and Small Business Enterprise contracting goals.

Based on the position of Stifel Nicolaus & Co. ("Stifel") as the leader in post dissolution bond issuance and their sound discussion of the proposed transactions, the panelists ranked Stifel first. Due to the complexity of the MBS credit analysis, the panel recommends assigning Stifel as managing underwriter to the 2015B and 2015C issuances.

The panelists ranked Citigroup Global Markets Inc. ("Citi") second. Although OCII has not used Citi for tax allocation bond underwriting in recent years, because the MBN transaction refunds existing bonds in a project area that is built out, project area specific knowledge is less important to the credit analysis. The panel recommends assigning Citi as the managing underwriter to the 2015A bonds. Using Citi for the 2015A bonds allows OCII to both procure high quality services and diversify its stable of underwriters.

The panelists ranked Backstrom McCarley Berry, LLC ("Backstrom") third. Backstrom has worked with OCII on many financings in recent years, including, as lead underwriter, the Series 2014C bonds and, as co-manager, the 2014A MBS bonds. This experience and knowledge was reflected in Backstrom's proposal. The panel recommends making Backstrom the co-manager for the 2015A, 2015B, and 2015C issuances.

Pursuant to OCII's SBE and LBE policy goals, the panel recommends Blaylock Beal Van as co-manager for the 2015 B and 2015C bonds and Stinson Securities as co-manager for the 2015A bonds. Both firms have provided OCII satisfactory service in co-managers in the past year and, of firms in the SBE category, were ranked highest by the panel.

Based on their demonstrated experience as a private placement agent and their least cost fee structure, the panel recommends Citi as the placement agent for the 2015D issuance.

In Summary, the panel made the following recommendations:

- For the Series 2015A Bonds, Citigroup Global Markets Inc., as managing underwriter and Backstrom, McCarley Berry & Co, LLC and Stinson Securities, LLC as co-managers.
- For the Series 2015B&C Bonds, Stifel, Nicolaus & Company, Inc., as managing underwriter and Backstrom, McCarley Berry & Co, LLC and Blaylock, Beal Van, LLC as co-managers.

- For the Series 2015D Bonds, Citigroup Global Markets, as placement agent.

Budget Amendment

Resolution #62-2015 approves a budget amendment necessary to authorize the expenditure of the $135 million in infrastructure dollars expected to be raised by the issuance of the Series 2015C and 2015D bonds. Currently, the FY15-16 Budget does not include this authority. Although the Series 2015C and 2015D bonds were under consideration at the time the FY15-16 Budget was prepared and submitted to the Commission, because the size of the bond issuance is dependent upon the tax rolls, which were incomplete at the time, the size of the proposed bonds could not be reasonably estimated and therefore could not be included in the budget. As the information necessary to size the bonds is now available, OCII is requesting that the Commission approve a budget amendment to increase the OCII's expenditure authority to include expenditure of the $135 million in anticipated bond proceeds. OCII is also requesting the Commission authorize the Executive Director to submit the amended budget to the Mayor and Board of Supervisors.

Proposed Board Action

Resolution #62-2015	Approving an amended budget to include $135,000,000 expenditure authority for the proceeds of MBS 2015C and MBS 2015D new money bonds and authorizing the OCII Director to submit the amended budget to the Mayor and Board of Supervisors for approval.
Resolution #63-2015	Authorizing the issuance of the $125,000,000 MBN 2015A refunding bonds and approving certain related documents and actions.
Resolution #64-2015	Authorizing the issuance of the $115,000,000 MBS 2015B refunding bonds and the $45,000,000 MBS 2015C parity new money bonds and approving certain related documents and actions.
Resolution #65-2015	Authorizing the issuance of the $90,000,000 MBS 2015D subordinate new money bonds and approving certain related documents and actions.

Next Steps

The estimated timing of next steps is described below:

November 9	Consideration by Oversight Board. Pending approval, distribution of documents to DOF
November 17	Consideration by Commission of Fiscal Consultant contract
December 15	Consideration by Commission of issuance, related staff action and transaction documents, including preliminary offering statements
December 15	Financing Authority consideration of bond related actions.
Early January	Pending approval, Bond Pricing
Late January	Pending approval, Bond Closing

Enabling Law

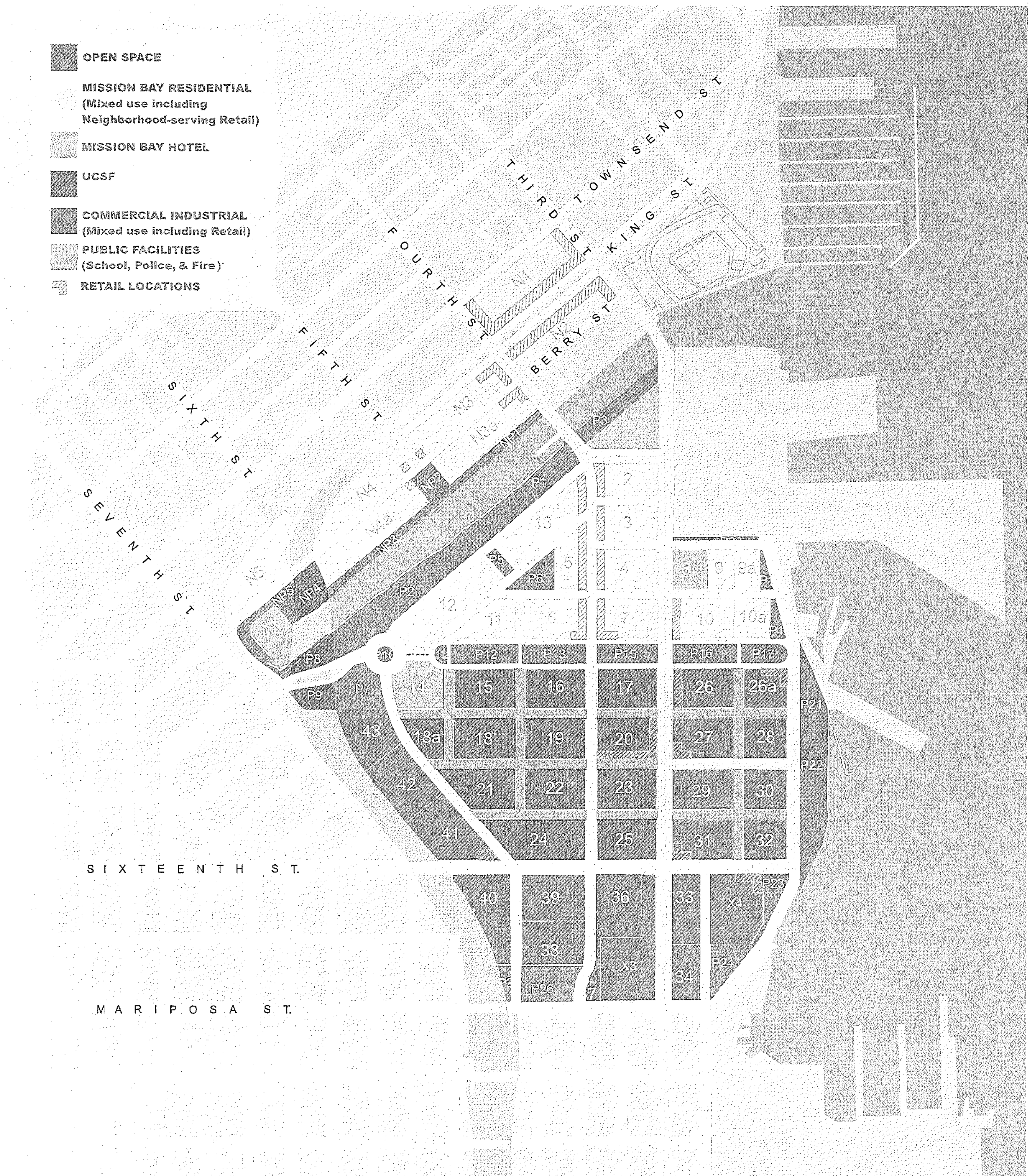
Redevelopment Dissolution Law grants Successor Agencies the authority to issue bonds, subject to review and approval by the Oversight Board and the Department of Finance, for the purpose of creating savings in the use of tax increment to service debt, to smooth debt service spikes, and to fulfill enforceable obligations including irrevocable pledge of property tax increment and requiring the issuance of bonds secured by this pledge. California Health and Safety Code Section 34177.5(a)(1).

California Environmental Quality Act

The issuance of refunding bonds is not a "project," as defined by the California Environmental Quality Act ("CEQA") in CEQA Guidelines Section 15378(b) (5), because the action will not result in a physical change in the environment and therefore is not subject to environmental review under CEQA.

(Originated by John Daigle, Sr. Financial Analyst)

Tiffany Bohee
Executive Director



MISSION BAY LAND USE PLAN

SAN FRANCISCO, CALIFORNIA | November 2005

MISSION BAY SOUTH PROPOSED NEW MONEY BONDS

Proposed Bonding Authority		$135,000,000
Typical Reserves and Issuance Costs	8.0%	($10,800,000)
Net Bond Proceeds		**$124,200,000**

MISSION BAY SOUTH PUBLIC INFRASTRUCTURE

	Already Expended and Reimbursable*	Projected Expended and Reimbursable* Next 12-18 mo.	Total
Streets and Utilities			
Block 1	$579,740	$3,884,245	$4,463,984
Blocks 2-7, 13, Phase 1	$6,058,514	$1,833,520	$7,892,034
Blocks 2-7, 13, Phase 2	$7,441,500	$0	$7,441,500
Blocks 11,12	$3,467,864	$9,586,187	$13,054,051
MB Drive and Circle	$1,257,149	$99,144	$1,356,294
Blocks 8,9,9a	$4,083,868	$5,068,062	$9,151,931
Blocks 36-39/X3	$12,658,703	$1,359,818	$14,018,520
Block 40	$4,398,731	$4,300,660	$8,699,392
I-280 Ramp / Mariposa / Owens	$978,966	$2,644,507	$3,623,473
Total Streets and Utilities	**$40,925,035**	**$28,776,144**	**$69,701,178**
Pump Stations			
PS#6	$15,104	$1,792,602	$1,807,706
SDPS#5	$7,515,351	$5,544,206	$13,059,556
Total Pump Stations	**$7,530,455**	**$7,336,808**	**$14,867,262**
Parks			
P6	$660,858	$628,371	$1,289,229
P10,11,11a	$420,551	$1,673,777	$2,094,328
P16	$660,058	$51,955	$712,013
P19	$168,813	$1,213,602	$1,382,415
P23,24	$857,556	$9,096,478	$9,954,035
P26	$2,171,466	$655,817	$2,827,283
Total Parks	**$4,939,302**	**$13,320,001**	**$18,259,303**
Other			
Warranty and Close Out	$857,829	$1,293,565	$2,151,394
Insurance	$677,653	$910,974	$1,588,627
Soil, Environmental and Water Quality	$0	$3,643,997	$3,643,997
Project Administration	$0	$7,703,995	$7,703,995
Interest and Financing Costs	$0	$6,865,868	$6,865,868
Total Other	**$1,535,482**	**$20,418,399**	**$21,953,881**
TOTAL	**$54,930,273**	**$69,851,351**	**$124,781,624**

*** NOTE: All costs are estimates; only actual costs of public infrastructure are eligible for reimbursement, and actual costs may be significantly higher or lower than estimates.**