


CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst 

SUBJECT: March 23, 2022 Budget and Finance Committee Meeting

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Item 2 File 21-1302	Department: Building Inspection (DBI)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • This proposed ordinance would allocate \$200,000 to the Department of Building Inspection for community-based organizations to conduct tenant outreach at HUD-funded properties and other publicly financed residential developments and de-appropriate \$200,000 from the Mayor’s Office of Housing and Community Development to fund this expansion of the DBI Code Enforcement Outreach Program. <p>Key Points</p> <ul style="list-style-type: none"> • Since 1996, DBI has operated its Code Enforcement Outreach Program to ensure that tenants and landlords know their rights and responsibilities regarding the housing code and housing code enforcement. • DBI plans to use the proposed appropriation to expand its Code Enforcement Outreach Program activities in public housing and HUD-funded properties citywide, as it is currently focused on the Bayview neighborhood. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed ordinance would increase the Code Enforcement Outreach Program budget from \$1.74 million to \$1.94 million. • MOHCD has not spent any of the \$200,000 and has not entered into any related contracts, so the proposed budget reduction will not impact their operations. <p>Policy Consideration</p> <ul style="list-style-type: none"> • The funding for this program was originally a \$200,000 add-back to MOHCD in both fiscal years of the FY 2021-22 – FY 2022-23 Annual Appropriation Ordinance. Although the proposed ordinance moves the \$200,000 that was allocated for FY 2021-22, funding remains at MOHCD for FY 2022-23. <p>Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed ordinance is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

Since 1996, the Department of Building Inspection (DBI) has operated a Code Enforcement Outreach Program. The program's purpose is to ensure that tenants and landlords know their rights and responsibilities regarding the housing code and housing code enforcement. Through the Code Enforcement Outreach Program, the Department contracts with Community-Based Organizations (CBOs) to conduct outreach to tenants and landlords throughout the City to build trust and establish lines of communication regarding housing code enforcement. According to James Sanbonmatsu, Chief Housing Inspector for DBI, the Code Enforcement Outreach Program also often resolves tenant-landlord code disputes exclusively through the CBOs and without the City having to get involved. According to DBI staff, the CBOs rely on their knowledge of the community, their cultural competencies, and their reputations within the community to form relationships with tenants and landlords and assist to bring rental housing units up to code. According to DBI Chief Housing Inspector Sanbonmatsu, the Code Enforcement Outreach Program is the only program of its kind in the country.

Common housing code violations the Code Enforcement Outreach Program non-profits address include problems with windows, doors, sinks, toilets, leaky pipes, and broken heaters. The CBOs also aim to identify more serious housing habitability violations and work with tenants to initiate the inspection process to address the habitability violations. In 2021, the program reached 3,500 tenants in 250 buildings across San Francisco and funded 16-20 outreach officers at five different CBOs. Each CBO has a certain population it focuses on, with some conducting their work citywide and others focusing on specific neighborhoods, racial or language groups, or types of housing (e.g., public housing). The five current contracted CBOs are: the Housing Rights Committee of San Francisco, Causa Justa/Just Cause, the San Francisco Apartment Association, Chinatown Community Development Center, and the Tenderloin Housing Clinic.

DETAILS OF PROPOSED LEGISLATION

This proposed ordinance would allocate \$200,000 to DBI for community-based organizations to conduct tenant outreach at HUD-funded properties and other publicly financed residential developments. According to DBI staff, the Department plans to use the proposed appropriation to expand its Code Enforcement Outreach Program activities. In particular, according to DBI Chief Building Inspector Sanbonmatsu, the goal of the Department is to expand the program's outreach

work in public housing and HUD-funded properties.¹ The Department would like to focus the additional funding on expanding their public housing outreach program citywide, as it is currently focused on the Bayview neighborhood.

The proposed ordinance de-appropriates \$200,000 from MOHCD to fund this expansion of the DBI Code Enforcement Outreach Program. The de-appropriation is from the Community-Based Organization Services budget at MOHCD. This money was originally allocated to MOHCD in the FY 2021-22 budget as a Board add-back to fund a new nonprofit outreach program to tenants in public housing residences. MOHCD assigns staff to HUD-funded properties that have City funding to address tenant concerns, but not all HUD-funded properties have City funding nor City staff available to address those tenants’ concerns.

FISCAL IMPACT

The current program budget for the Code Enforcement Outreach Program is \$1,740,000 for FY 2021-22. As shown below in Exhibit 1, the proposed ordinance would increase the Code Enforcement Outreach Program budget from \$1.74 million to \$1.94 million.

Exhibit 1: Current and Proposed Code Enforcement Outreach FY 2021-22 Program Budget (in dollars)

	Amount
FY 21-22 Code Enforcement Outreach Program Budget	\$1,740,000
Proposed appropriation	200,000
Proposed FY 21-22 Code Enforcement Outreach Program budget	\$1,940,000

Source: DBI

According to Benjamin McCloskey, MOHCD Deputy Director of Finance & Administration, MOHCD has not spent any of the \$200,000 and has not entered into any related contracts, so the proposed budget reduction will not impact their operations.

POLICY CONSIDERATION

As noted above, the funding for this program was originally a \$200,000 add-back to MOHCD in both fiscal years of the FY 2021-22 – FY 2022-23 annual appropriation ordinance. Although the proposed ordinance moves the \$200,000 that was allocated for FY 2021-22, funding remains at MOHCD for FY 2022-23.

¹ Public housing is housing that is owned by the San Francisco Housing Authority, whereas HUD-funded properties are any property that receives federal housing funding.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Items 3 & 4 Files 22-0081 & 22-0082	Department: Controller’s Office
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EXECUTIVE SUMMARY

Legislative Objectives

- File 22-0081 is an ordinance appropriating \$385 million of the refunding bond series to be sold in the Spring of 2022.
- File 22-0082 is a resolution approving the issuance and sale of refunding bonds in an amount not to exceed \$385 million, designated as Series 2022-R1, to refund outstanding general obligation bonds.

Key Points

- In March 2020, the Board approved a resolution which authorized the Director of Public Finance to determine the amount, date, and other provisions for the future sale of refunding bonds, up to \$1,482,995,000 (File 20-0088), which would be sold in series. Sales of all series of refunding bonds are subject to Board of Supervisors approval. The Board has previously approved refunding bonds in March 2020 and March 2021. The Office of Public Finance has identified \$395.4 million in outstanding general obligation bonds of which \$369.4 million can be paid before the bonds reach their stated maturity date.
- The Office of Public Finance plans to issue refunding bonds, designated as Series 2022-R1, in an amount not to exceed \$385 million. As required by the resolution approving the issuance of up to \$1.483 billion in refunding bonds (File 20-0088), the proposed refunding bonds will mature between 2032 and 2034.

Fiscal Impact

- Based on bond market conditions as of January 2022, the City could issue Series 2022-R1 tax-exempt refunding bonds in the Spring of 2022 in order to realize savings. Based on current market conditions, the Office of Public Finance estimates that the 2022 refunding bonds will be sold at an interest rate of 1.95 percent and result in \$47.6 million in total debt service savings.
- The combined cost of issuance and underwriters discount of the proposed refunding bonds is estimated at \$2.4 million, which is less than one percent of the principal amount, below the maximum allowed. The Office of Public Finance proposes allowing for a negotiated sale of the refunding bonds.
- The debt ratio will not change significantly, either staying the same or decreasing slightly and therefore remain in compliance with the City’s debt limit.

Recommendation

- Approve the proposed resolution and ordinance.

MANDATE STATEMENT

City Charter Section 9.109 authorizes the Board of Supervisors to approve the refunding or general obligation bonds which are expected to result in net debt service savings.

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

The City’s Debt Policy

California Senate Bill (SB) 1029 provides for the issuer of state or local government debt, no later than 30 days prior to the issuance of debt, to certify that the issuer has adopted local debt policies and that the issuance is consistent with the debt policies. The Board of Supervisors previously approved the City’s Debt Policy as recommended by the Controller’s Office of Public Finance in February 2020 (File 20-0089).

In March 2020, the Board approved a resolution which authorized the Director of Public Finance to determine the amount, date, and other provisions for the future sale of refunding bonds, up to \$1,482,995,000 (File 20-0088), which would be sold in series. Sales of all series of refunding bonds are subject to Board of Supervisors approval. In March 2020, the Board also approved “Series 2020-R1,” the first series of refunding bonds in an amount not to exceed \$255 million (File 20-0088). In March 2021, the Board approved a resolution for the sale of refunding bonds, designated as Series 2021-R1 and Series 2021-R2, in an amount not to exceed \$220 million, to refund all or a portion of prior bonds (File 21-0183). In March 2021, the Board also approved an ordinance to appropriate \$220 million of the refunding bond series to be sold in 2021 (File 21-0028).

DETAILS OF PROPOSED LEGISLATION

The Board of Supervisors is being asked to approve the following resolution and ordinance:

File 22-0082: The proposed resolution approves the issuance and sale of refunding bonds in an amount not to exceed \$385 million, designated as Series 2022-R1, to refund outstanding general obligation bonds. The resolution authorizes the Controller or the Director of Public Finance to finalize and distribute the official Preliminary Statement and escrow agreement for the sale of the Series 2022-R1 Bonds and for City officials to take other actions necessary to finalize the agreements for the bond transactions.

File 22-0081: The proposed ordinance appropriates \$385 million of the refunding bond series to be sold in the Spring of 2022.

FISCAL IMPACT

The Office of Public Finance has identified \$395.4 million in outstanding general obligation bonds of which \$369.4 million can be paid before the bonds reach their stated maturity date, as shown in Exhibit 1 below.

Exhibit 1: Series 2022-R1 General Obligation Bond Refunding Candidates

Prior Bonds	Original Par Amount	Outstanding Par Amount	Callable Par Amount^a	Final Maturity
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
Total	\$654,940,000	\$395,355,000	\$369,350,000	

Source: Office of the Controller Memo to Board of Supervisors, January 10, 2022

^a "Callable" amount is the amount of outstanding bonds that can be paid prior to their maturity date.

File 22-0081 is an ordinance that would appropriate up to \$385 million in bond proceeds, shown in Exhibit 2 below. According to the Office of Public Finance, the requested not-to-exceed par amount of \$385 million exceeds the current estimated refunding bond proceeds amount of \$379,515,000 to provide flexibility in case of fluctuations in market conditions between the date of Board authorization and bond sale, changes in the refunding escrow, or changes in estimated delivery date expenses.

As required by the resolution approving the issuance of up to \$1.483 billion in refunding bonds (File 20-0088), the proposed refunding bonds will mature between 2032 and 2034.

Exhibit 2: Estimated Sources and Uses of the 2022 Refunding Bonds

	Appropriation (File 22-0081)	Estimated Actuals Series 2022-R1
Sources		
<i>Refunding Bond Proceeds</i>		
Par Amount	\$385,000,000	\$379,515,000
Premium	-	-
Total Sources	\$385,000,000	\$379,515,000
Uses		
Refunding Escrow	\$382,100,000	\$377,095,898
<i>Delivery Date Expenses</i>		
Cost of Issuance	1,360,000	901,042
Underwriter's Discount	1,540,000	1,518,060
<i>Subtotal Delivery Date Expenses</i>	<i>\$2,900,000</i>	<i>\$2,419,102</i>
Total Uses	\$385,000,000	\$379,515,000
Reserve for Market Uncertainty		\$5,485,000
Not-to-Exceed Par Amount	\$385,000,000	\$385,000,000

Source: Office of Public Finance, Fieldman Rolapp and Associates, Inc.

Debt Service Savings

According to the Office of Public Finance, based on bond market conditions as of January 2022, the City could issue Series 2022-R1 tax-exempt refunding bonds in the Spring of 2022 to realize savings. Based on current market conditions, the Office of Public Finance estimates that the 2022 refunding bonds will be sold at an interest rate of 1.95 percent and result in \$47.6 million in total debt service savings. According to the Office of Public Finance, the sale of the refunding bonds is tentatively scheduled for the week of March 28, 2022.

The resolution approving the issuance of up to \$1.483 billion in refunding bonds (File 20-0088) required refunding bonds to achieve three percent present value savings of the par value of the refunded bonds. The net present value of the debt service savings of the proposed refunding bonds is estimated to be approximately \$42.7 million, equal to 11.6 percent of the \$395.5 million outstanding principal of the bonds to be refunded, which exceeds the three percent minimum present value savings threshold.

Debt Issuance Costs

The resolution approving the issuance of up to \$1.483 billion in refunding bonds (File 20-0088) requires the costs of such issuances to not exceed two percent, and, for a negotiated sale, the underwriter’s discount to not exceed one percent of the principal amount of the refunding bonds. As shown above in Exhibit 2, the combined cost of issuance and underwriters discount of proposed bonds is estimated at \$2.4 million, which is less than one percent of the principal amount and below the maximum allowed.

The Office of Public Finance proposes allowing for a negotiated sale of the refunding bonds because the transaction is complicated: the series to be refunded includes multiple separate series with different initial origination dates, and multiple interest rates payable over time on

each of the refunded series. According to the Office of Public Finance, the following underwriters for the Series 2022-R1 bonds have been selected: Wells Fargo Bank, National Association (co-senior manager), Stifel, Nicolaus & Company, Incorporated (co-senior manager), Raymond James & Associates, Inc. (co-manager), TD Securities (USA) LLC (co-manager), Samuel A. Ramirez & Co., Inc. (co-manager), and Siebert Williams Shank & Co, LLC (co-manager). The Office of Public Finance states that each underwriter was selected pursuant to a Request for Proposal issued in December 2021 for vendors included in the City's prequalified pool of underwriting and investment banking firms.¹

Debt Limit

Section 9.106 of the City Charter limits general obligation bond debt to three percent of the assessed value of property in the City. As of January 1, 2022, the City has approximately \$2.92 billion in aggregate principal amount of general obligation bonds outstanding, equal to approximately 0.94 percent of the net assessed value in FY 2021-22. If all the City's voter-authorized and unissued general obligation bonds were issued (an additional approximate \$1.5 billion), the total general obligation bond debt would be 1.42 percent of the net assessed value of property in the City. According to Office of Public Finance staff, if the Board of Supervisors approves the proposed 2022 Refunding Bonds, the debt ratio will not change significantly, either staying the same or decreasing slightly and therefore remain in compliance with the City' debt limit.

RECOMMENDATION

Approve the proposed resolution and ordinance.

¹ The Office of Public Finance selected the top two scoring Senior Managers and the top four scoring Co-Managers for the underwriting syndicate. Evaluation panelists included a staff member from the Office of Public Finance and two municipal advisors working on the bond transaction for the City.

Item 5 File 22-0210	Department: Controller’s Office
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution (1) re-authorizes the issuance by the City of both tax-exempt and taxable lease revenue commercial paper certificates of participation; (2) replaces a \$100,000,000 letter of credit that expired in February 2022; (3) authorizes financing documents, including the first supplement to the trust agreement, second amendment to the site lease, second amendment to the sublease, revolving credit agreement, fee agreement, dealer agreements, and other related financing documents; and (4) authorizes other related actions.

Key Points

- Commercial paper is short-term interim financing for capital projects that permits the City to pay capital project costs on an ongoing basis. Under the City’s Commercial Paper Program, the City leases City property to a third-party trustee as security for the commercial paper, and leases back this City property from the third-party trustee.
- The City has four Series of Commercial Paper supported by lines of credit from three banks. Until February 2022, two revolving credit agreements and one letter of credit agreement supported the City’s \$250,000,000 Commercial Paper Program. The letter of credit provided by State Street Bank supporting \$100,000,000 in commercial paper expired in February 2022 and would be replaced by the proposed \$100,000,000 revolving line of credit provided by Bank of the West.
- Series 3 and 4 were previously secured by Fire Station 10 and Police Taraval Station in addition to the Public Safety Building. However, since the Public Safety Building’s valuation of \$280,000,000 is sufficient to secure the \$100,000,000 line of credit from Bank of the West, the proposed second amendment to the site lease and second amendment to the sublease would remove Fire Station 10 and Police Taraval Station from the Commercial Paper Program’s leased assets.

Fiscal Impact

- The City would incur one-time estimated General Fund costs of \$600,000 for fees related to the new line of credit for the City’s bond counsel and municipal advisor, bank counsel, rating agency fees, and other related closing costs.
- In addition, the City would incur estimated ongoing General Fund costs of \$608,508 per year to pay fees for the new line of credit

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

According to City Charter Section 9.113 (e), the Board of Supervisors has the authority to borrow money by the issuance of tax anticipation notes, temporary notes, commercial paper, or other short-term debt instruments.

BACKGROUND

Commercial Paper

Commercial paper is short-term interim financing for capital projects that permits the City to pay capital project costs on an ongoing basis. Commercial paper notes are issued, as needed, to pay capital project costs as they are incurred, supported by a line of credit provided by a bank. Commercial paper has a fixed maturity date of up to 270 days (approximately nine months), compared with a fixed maturity date of 20 to 30 years for long-term debt, such as general obligation bonds. On the maturity date, commercial paper may be refinanced for additional periods of up to 270 days.

Commercial paper may be issued in anticipation of the issuance of previously authorized, but not yet issued long-term debt, or for short-term financing of equipment and/or vehicles. The use of commercial paper can reduce overall borrowing costs associated with the issuance of long-term debt because commercial paper interest rates are typically lower than long-term interest rates.

The City's Commercial Paper Program

The Board of Supervisors approved the creation of the City's Commercial Paper Program in 2009, which allowed the City to issue up to \$150,000,000 in commercial paper (Commercial Paper Series 1 and 2) (File 09-0197). The Board of Supervisors approved an increase of \$100,000,000 in the Commercial Paper Program (Commercial Paper Series 3 and 4) in 2013, allowing the City to issue up to \$250,000,000 in commercial paper (File 13-0627). The Board of Supervisors reauthorized \$150,000,000 in commercial paper in 2016 (File 16-0427). The City's Commercial Paper Program generally applies to the City's General Fund departments, with the exception of the Port. The City's enterprise departments have authorization for separate commercial paper programs, including the Public Utilities Commission, Airport, and San Francisco Municipal Transportation Agency.

Two banks –U.S. Bank and State Street Bank and Trust Company (State Street Bank) – provide lines of credit to support \$150,000,000 of the City's Commercial Paper Program.¹ The two revolving credit agreements were extended by two years in May 2021 and are scheduled to expire in May 2023. A separate letter of credit provided by State Street Bank supporting \$100,000,000 in commercial paper expired in February 2022. To replace the expired letter of

¹ Each of the banks provides a line of credit that guarantees that the bank will repay the outstanding commercial paper in the event that the City is unable to make required payments to the commercial paper investors.

credit, the Controller’s Office of Public Finance has selected Bank of the West through a competitive process to provide a line of credit.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (1) re-authorizes the issuance by the City of both tax-exempt and taxable lease revenue commercial paper certificates of participation;² (2) replaces a \$100,000,000 letter of credit that expired in February 2022; (3) authorizes financing documents, including the first supplement to the trust agreement, second amendment to the site lease, second amendment to the sublease, revolving credit agreement, fee agreement, dealer agreements, and other related financing documents; and (4) authorizes other related actions.

Lines of Credit

Until February 2022, two revolving credit agreements and one letter of credit agreement supported the City’s \$250,000,000 Commercial Paper Program. As mentioned above the letter of credit provided by State Street Bank supporting \$100,000,000 in commercial paper expired in February 2022 and would be replaced by the proposed \$100,000,000 revolving line of credit provided by Bank of the West.

Under the proposed resolution, three revolving credit agreements would support the City’s Commercial Paper Program. These agreements would include:

- \$75,000,000 in an existing line of credit provided by U.S. Bank, which is scheduled to expire in May 2023;
- \$75,000,000 in an existing line of credit provided by State Street Bank, which is scheduled to expire in May 2023; and
- \$100,000,000 in a new line of credit provided by Bank of the West from approximately May 2022 to May 2026 (a term of four years).

The Controller’s Office of Public Finance selected Bank of the West through a competitive request for proposal process to provide the new line of credit of \$100,000,000.

Financing Documents

Revolving Credit Agreement

Under the proposed revolving credit agreement between the City and Bank of the West, the City can draw on up to \$100,000,000 under the new line of credit. The City would draw on the line of credit only in the event that the City could not make the required payments to the commercial paper investors. In the event that the City draws on the line of credit, interest on the commercial paper purchased by the banks could increase up to 12 percent per year. The terms of the

² The tax-exempt commercial paper is used for eligible tax-exempt capital projects and taxable lease revenue commercial paper certificates of participation are used for projects that do not qualify for federal and state tax exemptions.

proposed revolving credit agreement are the same as the existing agreements between the City and U.S. Bank and State Street Bank.

According to an Office of Public Finance memo to the Board of Supervisors, the City expects to repay the banks, in the event that the City draws on the lines of credit, through refinancing commercial paper or issuing long-term debt. However, under extraordinary circumstances such as the 2008 financial crisis, the City may not be able to repay the banks immediately, in which case the City could potentially pay interest on the commercial paper at a rate of up to 12 percent per year.

Fee Agreement

The City will pay a fee to Bank of the West for the revolving line of credit equal to approximately 0.12 percent³ of the line of credit of \$109,000,000,⁴ or \$130,800 per year. The City's previous \$100,000,000 letter of credit provided by State Street Bank had an annual fee of 0.38 percent, or \$414,200 per year. The new revolving credit agreement results in annual savings of \$283,400 to the Commercial Paper Program.

Dealer Agreement

According to the Office of Public Finance memo, the Office of Public Finance will enter into dealer agreements with one or more commercial dealers, selected through a competitive request for proposals process. The dealers would sell commercial paper on behalf of the City to investors. The proposed dealer agreement(s) between the City and the selected dealer(s) define the responsibilities of the dealers.

The fees paid by the City to the selected dealer(s) will not exceed 0.125 percent per year of the weighted average of the principal amount of commercial paper notes outstanding each quarter. For example, for the \$100,000,000 new line of credit provided by Bank of the West, the City would pay the dealer a maximum fee of \$125,000 for the year, based on \$100,000,000 in outstanding commercial paper debt.

Lease and Sublease Agreements and Trust Agreement

Under the City's Commercial Paper Program, the City leases City property to a third-party trustee as security for the commercial paper and leases back this City property from the third-party trustee. The City has committed the properties shown in Exhibit 1 below to secure the lines of credit from U.S. Bank and State Street Bank and the proposed line of credit from Bank of the West for the commercial paper. These properties have a value equal to 186 percent of the not-

³ The fee is based on the City's highest general fund credit rating by each of the three credit rating agencies – Fitch, Moody's, and S&P. The fee percentage of 0.12 percent reflects that the City's highest general fund ratings are AA- or above (Fitch and S&P) and Aa3 or above (Moody's), currently rated AA (Fitch), AA+ (S&P) and Aa1 (Moody's) and on negative outlook by all three rating agencies. In the case where the City's ratings were downgraded by one notch there would not be a fee increase. The fee percentage increases by 0.125 percentage points for each additional notch downgrade of the City's credit rating.

⁴ The \$109,000,000 total includes \$9,000,000 in interest at the maximum rate of 12% for 270 days.

to-exceed Commercial Paper Program amount of \$250,000,000, or \$464,100,000, as shown in Exhibit 1 below.

Exhibit 1: City Properties Proposed to Secure Commercial Paper Program

Property	Valuation as of April 2016
\$150 Million Provided by U.S. Bank and State Street Bank	
<i>Series 1 and Series 2 Commercial Paper</i>	
Public Works Corporate Yard	\$46,000,000
Police Academy	29,000,000
Fire College	33,300,000
Fire Station 1	6,000,000
Public Health Clinic	18,800,000
Human Services Agency Central Office	<u>51,000,000</u>
Subtotal	\$184,100,000
\$100,000,000 Provided by Bank of the West (proposed)	
	Valuation as of March 2022
<i>Series 3 and 4 Commercial Paper</i>	
Public Safety Building	\$280,000,000
Subtotal	\$280,000,000
Total	<u>\$464,100,000</u>

Source: Office of Public Finance, Real Estate Division

Under the proposed first supplement to the trust agreement, U.S. Bank serves as the third-party trustee, responsible for (1) authenticating and delivering the commercial paper; (2) leasing properties from the City; and (3) subleasing these properties back to the City. The City's sublease payments are equal to the principal and interest due on outstanding commercial paper debt. Under the proposed second amendment to the site lease, U.S. Bank would enter into a site lease with the City for the Public Safety Building to secure Commercial Paper Series 3 and 4. Under the proposed second amendment to the sublease, the City would lease back the Public Safety Building from U.S. Bank.

Series 3 and 4 were previously secured by Fire Station 10 and Police Taraval Station in addition to the Public Safety Building. However, since the Public Safety Building's valuation of \$280,000,000 is sufficient to secure the \$100,000,000 in line of credit from Bank of the West, the proposed second amendment to the site lease and second amendment to the sublease would remove Fire Station 10 and Police Taraval Station from the Commercial Paper Program's leased assets.

City Capital Projects Accessing the City's Commercial Paper Program

Under Administrative Code Section 10.62(b), City capital projects that have been approved by the Board of Supervisors will be eligible to access the Commercial Paper Program to provide

interim financing. Capital projects that currently have approval to obtain short-term interim financing through the Commercial Paper Program are shown in Exhibit 2 below.

Exhibit 2: Capital Projects with Board Approval to Access Commercial Paper Program

Year Approved	Project	Project Description	Total COP/CP Amount Approved
2013	TIDA Utility Infrastructure System	Utility infrastructure improvements on Treasure Island and Yerba Buena Island	\$13,500,000
2016	Housing Trust Fund	Development, acquisition, rehabilitation of affordable housing	95,000,000
2019	HOPE SF	Rebuilding of public housing under the jurisdiction of the San Francisco Housing Authority	83,600,000
2019	Hall of Justice Relocation - Tenant Improvements ^a	Improvement of Hall of Justice facilities and acquisition of adjacent property	58,195,000
2020	DPH Facilities COPs	DPH capital improvement projects, including construction of office facilities to relocate DPH staff from 101 Grove Street and General Hospital Chiller and Cooling Tower Replacement, and acquisition of Homeless Services Center	157,000,000
2021	Police Vehicle Acquisition ^b	Acquisition of 60 vehicles for the Police Department	2,425,000
2021	Critical Repairs & Recovery Stimulus COPs	Multiple projects approved by the Board of Supervisors in the 10-Year Capital Plan including improvements to City facilities and public right-of-way and projects that would stimulate the local economy	67,500,000
Total			\$477,220,000

Source: Office of Public Finance

^a The Board of Supervisors authorized the issuance of \$62 million in certificates of participation for Hall of Justice Relocation Tenant Improvements in 2019, of which \$3,805,000 has been issued to date. The remaining balance (\$58,195,000) reflects the amount eligible to access the Commercial Paper Program.

^b The Board of Supervisors did not authorize the issuance of certificates of participation for the Police vehicle acquisition, only commercial paper. The City intends to pay down the commercial paper from the General Fund over a five-year period once it is issued.

The Controller may draw on commercial paper prior to Board of Supervisors' approval of long-term financing in the event of an emergency declared under Charter Section 3.100. However, this has not occurred to date according to Luke Brewer, Controller's Office of Public Finance Debt Specialist.

FISCAL IMPACT

The proposed resolution replaces the expired \$100,000,000 letter of credit held by State Street Bank with a \$100,000,000 revolving line of credit to be held by Bank of the West. The City would incur one-time estimated General Fund costs of \$600,000 for fees related to the new line of credit

for the City's bond counsel and municipal advisor, bank counsel, rating agency fees and other related closing costs.

The City would incur estimated ongoing General Fund costs of \$608,508 per year to pay fees for the new line of credit, as shown in Exhibit 3 below.

Exhibit 3: Estimated Ongoing Costs for \$100 Million New Line of Credit

Cost	Amount
Line of Credit Fee (0.12%)	\$130,800
Dealer(s) Fee (0.05%)	50,000
<u>Other Fixed Expenses</u>	
Credit Surveillance Fees ^a	45,500
Issuing and Paying Agent Fee ^b	5,200
Risk Management Property Insurance Premiums ^c	377,008
Subtotal Other Fixed Expenses	\$427,708
Total	\$608,508

Source: Office of Public Finance

^a The credit surveillance fee is for credit agencies to monitor the City's financial condition.

^b The issuing and paying agent fee is for the coordination and issuance of the commercial paper by U.S. Bank, which is the paying agent.

^c The risk management property insurance premiums refers to property insurance for the public safety building.

The Commercial Paper Program currently has \$25,560,000 in outstanding commercial paper, as shown in Exhibit 4 below. An additional \$43,510,000 of project fund appropriation has been released for spending under the Commercial Paper Program authority, but commercial paper has not yet been issued for these projects according to Debt Specialist Brewer. To reduce interest costs to projects, commercial paper is not issued until the City has already paid invoices or billed hours to a project. Most capital projects initially use the commercial paper authority through appropriation release requests⁵ sent to the Controller's Office so that project staff can enter into contracts and begin work. Once spending has occurred, project staff submit reimbursement requests to the Office of Public Finance, which results in commercial paper issuance.

⁵ Appropriations for debt issuances are typically placed on Controller's Reserve until funding is available.

Exhibit 4: Current Outstanding Commercial Paper

Issuance Date	Maturity Date	Project	Tax Status	Outstanding Principal Amount	Interest Rate
3/16/22	3/31/22	Housing Trust Fund	Taxable	\$19,510,000	0.55%
3/16/22	3/31/22	DPH Facilities – Homeless Services Center (101 Grove Exit)	Tax-Exempt	\$3,064,755	0.40%
3/16/22	3/31/22	DPH Facilities – Laguna Honda Hospital Improvements & M&O Wings Reuse Project (101 Grove Exit)	Tax-Exempt	\$1,916,322	0.40%
3/16/22	3/31/22	Critical Repairs – DT Fiber Backbone	Tax-Exempt	\$1,068,923	0.40%
Total				\$25,560,000	

Source: Office of Public Finance

Commercial paper is paid through the issuance of long-term debt, such as certificates of participation. As mentioned above, the use of commercial paper can reduce overall borrowing costs associated with the issuance of long-term debt because commercial paper interest rates are typically lower than long-term interest rates. For example, the interest rate on outstanding tax-exempt commercial paper is 0.40 percent (as shown above), which is less than true interest costs for certificates of participation of 2.12% in 2021, 2.45% in 2020 and 3.06% in 2019.

RECOMMENDATION

Approve the proposed resolution.

<p>Items 7 & 8 Files 21-0761 & 22-0211</p>	<p>Department: Mayor’s Office of Housing and Community Development</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution (File 22-0211) would (a) retroactively approve four grant agreements for the distribution of COVID-19 rental assistance through MOHCD’s Emergency Rental Assistance Program in an aggregate amount not to exceed \$52,050,000 for a term from July 1, 2021 through June 30, 2023; (b) authorize the Mayor and the Director of MOHCD to execute the agreements; and (c) grant authority to City officials to take actions necessary to execute the agreements. • The proposed ordinance (File 21-0761) would amend the Administrative Code to revise the eligible uses for monies in the COVID-19 Rent Resolutions and Relief Fund. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Since the introduction of File 22-0211, MOHCD has updated the funding plan for its rental assistance grantees. The Department will introduce an amended resolution to (1) approve revised grant agreements with three (instead of four) grantees: Catholic Charities, Eviction Defense Collaborative, and Mission Neighbor Centers; (2) remove references to La Raza Community Resource Center; and (3) adjust the resolution amount from \$52,050,000 to \$40,550,000 to match the proposed revised grant amounts. The revised agreements are no longer retroactive. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed revised grant agreement amounts are: \$14.1 million for Catholic Charities, \$16.6 million for Eviction Defense Collaborative, and \$9.85 million for Mission Neighborhood Centers, which total \$40,550,000. • The grant agreements allow the organizations to use local funds for administrative costs, in addition to financial assistance to renters. The proposed revised grant agreements would provide approximately \$33.9 million in financial assistance. Households will receive \$15,000 on average, though assistance is based on need. Based on that \$15,000 average distribution, 2,259 households are expected to be served by the three proposed revised grants. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The proposed ordinance would eliminate restrictions on financial assistance and add eligibility criteria for tenants to align with an existing City rent relief program. <p style="text-align: center;">Recommendations</p> <ol style="list-style-type: none"> 1. Approve File 22-0211, as amended by the Department, for a total not to exceed amount of \$40,550,000 for three grant agreements with Catholic Charities, Eviction Defense Collaborative, and Mission Neighbor Centers. 2. Approval of File 21-0761 is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

San Francisco voters approved Proposition I in November 2020, increasing the real estate transfer tax to 5.5 percent on transactions of \$10 million to \$25 million and to 6 percent on transactions of \$25 million or more, which according to the November 2020 Voter Guide, was estimated to increase real estate transfer tax revenues by \$196 million. The tax is a General Fund revenue.

Unpaid Residential Rent in San Francisco

In the October 27, 2020 Budget and Legislative Analyst's Office report, "Estimate of unpaid residential rent in San Francisco due to COVID-19 pandemic and related public health orders," we estimated that the unpaid residential rent in San Francisco between April 2020 and September 2020 totaled between \$81.3 million and \$196.2 million. Given the ongoing above average unemployment rate in the City, the actual amount of unpaid rent from September 2020 to present is likely higher than those estimates.

COVID-19 Rent Resolution and Relief Fund

In August 2020, the Board of Supervisors approved a resolution stating the Board's intention to appropriate revenue generated by Proposition I to: (a) provide rent relief to San Francisco tenants who have been unable to pay rent due to the COVID-19 pandemic; and (b) to social housing efforts, such as the acquisition and development of affordable housing (File 20-0708). In October 2020, the Board of Supervisors amended the Administrative Code to establish the COVID-19 Rent Resolution and Relief Fund (File 20-0611) with the intent to deposit a portion of the revenues generated by the increase in the real estate transfer tax to the fund.¹

MOHCD COVID-19 Rent Relief Funding

In April 2021, the Board of Supervisors approved an ordinance appropriating \$10,050,000 from property tax revenues to the Mayor's Office of Housing and Community Development (MOHCD)

¹ The Board of Supervisors also amended the Administrative Code to establish the Housing Stability Fund (File 20-1183) with the intent of depositing a portion of the revenues generated by the increase in the real estate transfer tax.

for rent relief under the Rent Resolution and Relief Fund, (File 20-1364).² In addition, the Fiscal Years (FYs) 2021-22 and 2022-23 Annual Appropriation Ordinance allocated \$32 million from the General Fund for rent relief, and \$10 million in Our City, Our Home funding from the Department of Homelessness and Supportive Housing has been allocated to MOHCD for rent relief.

In addition to the \$52.1 million in local funding described above, the MOHCD is also administering \$26.2 million in federal funding for rent relief for a total of \$78.3 million administered by MOHCD. The State is administering additional federal funding of \$86.6 million for rent relief for San Francisco residents according to MOHCD staff, for a total of a total of \$164.9 million in federal and local funding for rent relief for San Francisco residents.

According to MOHCD staff, more than \$21 million of federal funding administered by MOHCD has been spent to date to provide rent relief to more than 3,000 low-income households, but no local funding has been spent. According to the California COVID-19 Rent Relief Dashboard maintained by the State Housing & Community Development Agency, as of March 15, 2022, \$105,924,489 had been paid to 9,230 participants in the State rent relief program for San Francisco.

Original Grant Agreements

In April 2021, MOHCD issued a Request for Proposals (RFP) for community-based organizations to provide rent relief to San Francisco renters. Based on nine proposals received, MOHCD awarded grants to seven community-based organizations to provide rental assistance to tenants and landlords through the Emergency Rental Assistance Program (ERAP) as well as federally funded and locally funded COVID-19 rent relief programs. MOHCD initially awarded \$25 million in federally funded grants to the seven organizations and is in the process of awarding \$51 million in locally funded grants to six of the seven organizations for a total of \$76 million in grants awarded or pending. These grant awards are shown in Exhibit 1 below.

² The ordinance also appropriated \$10,050,000 from property tax revenues for the acquisition, creation, and operation of affordable, social housing under the Housing Stability Fund, for a total appropriation of \$20,100,000.

Exhibit 1: MOHCD Administered Grant Funding for COVID-19 Rent Relief

Organization	Existing Contract Amount (Federal Funding)	New Contract Amount (Local Funding)	Existing and New Contract Amount
Eviction Defense Collaborative	\$6,000,000	\$16,600,000*	\$22,600,000
Catholic Charities	6,000,000	14,100,000*	20,100,000
Mission Neighborhood Centers	4,000,000	9,850,000*	13,850,000
Young Community Developers	2,000,000	4,600,000	6,600,000
HOMEY	2,000,000	4,100,000	6,100,000
La Raza CRC	4,000,000	0**	4,000,000
Native American Health Center	<u>1,000,000</u>	<u>1,750,000</u>	<u>2,750,000</u>
<i>Subtotal Contracts</i>	\$25,000,000	\$51,000,000	\$76,000,000
Outreach/Unallocated	1,209,983	1,050,000	2,259,983
Total City Administered Funding	\$26,209,983	\$52,050,000	\$77,050,000

Source: MOHCD

* According to the City Attorney's Office, new contracts for Eviction Defense Collaborative, Catholic Charities, and Mission Neighborhood Centers are subject to Board of Supervisors' approval because the combined amount of the original and proposed agreements are greater than \$10 million. Amounts differ from draft grant agreements and the proposed resolution.

**The proposed resolution includes an \$8.4 million grant amount for La Raza, but MOHCD intends to amend the proposed resolution to remove this grant amount according to MOHCD staff.

All existing grants administering federal funding were for one-year and five-months terms beginning on May 1, 2021 and ending on September 30, 2022. The original grant agreements did not require Board of Supervisors approval because the agreement amounts did not exceed \$10 million or have terms that exceeded 10 years.

Of the grantees that are subject of the proposed resolution (Catholic Charities, Eviction Defense Collaborative, and Mission Neighborhood Centers), MOHCD staff reports total spending of \$12.5 million of the combined \$16.0 million in federal funding and have provided rent relief to a total of 1,818 households, as follows:

- \$3.8 million spent by Catholic Charities of the Archdiocese of San Francisco, serving 601 households;
- \$4.8 million spent by the Eviction Defense Collaborative, serving 625 households; and
- \$4.0 million spent by Mission Neighborhood Centers, Inc., serving 592 households.

According to MOHCD, remaining federal funding will be spent in the coming weeks to serve approximately 500 additional households. In addition, La Raza Community Resource Center has spent a portion of the federal funding provided in their original grant agreement, but MOHCD did not provide detailed information on how much spending has occurred.

DETAILS OF PROPOSED LEGISLATIONFile 21-0761

The proposed ordinance would amend the Administrative Code to revise the COVID-19 Rent Resolutions and Relief Fund to:

- Allow MOHCD to provide direct financial assistance to tenants, in addition to landlords;
- Allow grants to nonprofit community-based organizations to administer rent relief from the Fund;
- Eliminate restrictions on the amount of financial assistance and other eligibility criteria for receiving financial assistance;
- Authorize MOHCD to develop rules for additional eligibility criteria, prioritization, and the amount of financial assistance; and
- Extend the use of the Fund for COVID-19 related purposes from March 31, 2023 to June 30, 2023.

File 22-0211

The proposed resolution would: (a) retroactively approve grant agreements for the distribution of COVID-19 rental assistance through MOHCD's Emergency Rental Assistance Program in an aggregate amount not to exceed \$52,050,000 for a term from July 1, 2021 through June 30, 2023; (b) authorize the Mayor and the Director of MOHCD to execute the agreements; and (c) grant authority to City officials to take actions necessary to execute the agreements.

Under the proposed resolution, MOHCD is requesting to provide additional grant amounts to four existing grantees: Catholic Charities, Eviction Defense Collaborative, Mission Neighborhood Centers, and La Raza Community Resource Center. Rather than amending the existing grant agreements, the Department is entering into new grant agreements for the same purpose in recognition of the new local funding (as distinct from the federal sources that funded the original grant agreements, which require different compliance under federal rules).

Amended Resolution

Since introduction of the proposed resolution, MOHCD has updated the funding plan for its rental assistance grantees. The Department will introduce an amended resolution to: (1) approve revised grant agreements with three grantees (instead of four): Catholic Charities, Eviction Defense Collaborative, and Mission Neighborhood Centers; (2) remove references to La Raza Community Resource Center; and (3) adjust the resolution amount to match the proposed revised grant amounts, as detailed in Exhibit 2 below. The proposed revised grant agreements are no longer retroactive.

Performance Monitoring

According to the proposed draft grant agreements, MOHCD may monitor the grantee to: (a) determine if the grantee has achieved its objectives; (b) assess program performance; (c) determine the ethnic and income composition of program beneficiaries and staff; and (d) access

the grantee's financial management. The agreements require grantees to submit reports at least once per quarter, however the Department stated invoicing occurs monthly.

COVID-19 Rent Resolutions and Relief Fund Financial Assistance and Eligibility

Currently, funds in the Rent Resolution and Relief Fund may be used to provide grants to landlords who agree to waive unpaid rent related to COVID-19. Such grants may cover up to 50 percent of unpaid rent (and up to 65 percent for landlords with 10 or fewer units) up to \$3,000 per unit per month. The proposed ordinance would allow MOHCD to provide financial assistance to tenants, as well as landlords, and eliminates restrictions on the amount of financial assistance. The proposed ordinance also requires that tenants demonstrate the following: (a) household income does not exceed 80 percent of Area Median Income (AMI); (b) financial hardship attributable to the COVID-19 pandemic; and (c) risk of homelessness or housing instability. MOHCD would establish rules for the amount of financial assistance, additional eligibility criteria, and prioritization.

FISCAL IMPACT

Agreement Amounts Inconsistent with Resolution

The proposed resolution would approve four grant agreements totaling \$52,050,000 based on the total rental provided to all grantees. However, the underlying four grant agreements that require Board of Supervisors' approval amounts total \$77,437,500. This is in part because the proposed grant agreements unintentionally include the original agreement amounts (totaling \$20 million) and a 25 percent contingency on each (totaling \$15,487,500). MOHCD staff report that they intend to remove the grant agreement with La Raza, distribute those grant funds to the other organizations, as shown above in Exhibit 1 above, and remove the contingency amounts. The Department has provided our Office a draft revised resolution and revised grant agreements with Eviction Defense Collaborative, Catholic Charities, and Mission Neighborhood Centers, which are summarized in Exhibit 2 below.

Exhibit 2: Proposed Revised Grant Agreements

	Catholic Charities	Eviction Defense	Mission Neighborhood	Total
Sources				
<u>Original Agreement</u>				
Treasury ERA (Federal)	6,000,000	6,000,000	4,000,000	16,000,000
<u>Proposed Agreement</u>				
Our City, Our Home (Proposition C)	2,400,000	4,200,000	1,750,000	8,350,000
COVID-19 Rent Relief & Rent Resolution Fund	2,400,000	3,950,000	1,550,000	7,900,000
General Fund	<u>9,300,000</u>	<u>8,450,000</u>	<u>6,550,000</u>	<u>24,300,000</u>
<i>Subtotal Proposed Agreement</i>	<i>14,100,000</i>	<i>16,600,000</i>	<i>9,850,000</i>	<i>40,550,000</i>
Total Sources	20,100,000	22,600,000	13,850,000	56,550,000
Uses				
<u>Original Agreement</u>				
Financial Assistance	6,000,000	6,000,000	4,000,000	16,000,000
<u>Proposed Additional Amount</u>				
Salaries	1,145,812	1,490,480	911,436	3,547,728
Fringe	355,914	342,810	186,378	885,102
Contractual Services	389,482	15,000	88,000	492,482
Equipment	22,201	8,000	11,300	41,501
Space Rental	166,526	155,000	0	321,526
Financial Assistance to Households	11,403,800	14,073,115	8,407,572	33,884,487
Other	264,632	186,000	72,198	522,830
Indirect Costs	<u>351,633</u>	<u>329,594</u>	<u>173,116</u>	<u>854,344</u>
<i>Subtotal Proposed Agreement</i>	<i>14,100,000</i>	<i>16,600,000</i>	<i>9,850,000</i>	<i>40,550,000</i>
Total Uses	20,100,000	22,600,000	13,850,000	56,550,000

Source: MOHCD

As shown above in Exhibit 2, the proposed revised grant agreements would be funded by a combination of Our City, Our Home funds (\$8.35 million), COVID-19 Rent Relief and Resolution appropriations (\$7.9 million), and the General Fund (\$24.3 million).

Financial Assistance to Households

The grant agreements allow the organizations to use local funds for administrative costs, in addition to financial assistance to renters. The original agreement only permitted the organizations to use federally funded grants for an average of \$10,500 in financial assistance serving approximately 1,523 households. The proposed revised grant agreements would provide approximately \$33.9 million in financial assistance using local funds. Households will receive \$15,000, on average, though assistance is based on need. Based on that \$15,000 average

distribution, 2,259 households are expected to be served by the three proposed revised grants, as shown below in Exhibit 3.

Exhibit 3: Financial Assistance to Households

	Catholic Charities	Eviction Defense	Mission Neighborhood	Total
Original Agreement				
Financial Assistance	\$6,000,000	\$6,000,000	\$4,000,000	\$16,000,000
Assistance per Household	\$10,500	\$10,500	\$10,500	\$10,500
Households served	571	571	381	1,523
Proposed Revised Agreements				
Financial Assistance	\$11,403,800	\$14,073,115	\$8,407,572	\$33,884,487
Average Assistance per Household	\$15,000	\$15,000	\$15,000	\$15,000
Household Served	760	938	561	2,259
Total Financial Assistance	\$17,403,800	\$20,073,115	\$12,407,572	\$49,884,487
Total Households served	1,331	1,509	942	3,782

Source: Original Grant Agreements and Proposed Revised Grant Agreements

POLICY CONSIDERATION

Currently, grants from the COVID-19 Rent Resolution and Relief Fund cover 50 to 65 percent of unpaid rent but landlords receiving grants must waive all unpaid rent. However, grants funded by federal funding, through the State program, cover up to 80 percent of unpaid rent incurred between April 2020 and March 2021. Furthermore, grants funded by the City program, using direct federal funding, would cover up to 100 percent of rent for six months starting in April 2021. The existence of the State and City rental assistance programs, which cover up to 80 percent and 100 percent, respectively, of unpaid rent for households making up to 80 percent of Area Median Income (AMI), may disincentivize landlords to accept grants funded by the COVID-19 Rent Resolution and Relief Fund based on the existing restrictions on financial assistance. The proposed ordinance would eliminate restrictions on financial assistance and add eligibility criteria for tenants to align with the City program, using direct federal funding.

RECOMMENDATIONS

1. Approve File 22-0211, as amended by the Department, for a total not to exceed amount of \$40,550,000 for three grant agreements with Catholic Charities, Eviction Defense Collaborative, and Mission Neighborhood Centers.
2. Approval of File 21-0761 is a policy matter for the Board of Supervisors.