



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director of Public Finance

SUBJECT: City and County of San Francisco General Obligation Bonds, Earthquake Safety and Emergency Response Bonds, Series 2014C (2010) and 2014D (2014)

DATE: Tuesday, July 15, 2014

I respectfully request that the Board of Supervisors consider for review and adoption the resolution authorizing the sale and issuance of general obligation bonds financing the Earthquake Safety and Emergency Response (ESER) program.

In connection with this request, legislation approving the sale and issuance of the bonds, supplemental appropriation ordinances to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, July 15, 2014, and we respectfully request that the items be heard at the earliest available meeting of the Budget and Finance Committee.

Background:

A two-thirds majority of voters of the City approved Proposition B in June 2010 (the "2010 Proposition B"), which authorized the issuance of not to exceed \$412,300,000 in general obligation bonds to finance the construction, acquisition, improvement, retrofitting, rehabilitation and completion of earthquake safety and emergency responsiveness facilities and infrastructure (the "Earthquake Safety Projects"). Of the \$412,300,000 authorized to be issued by the 2010 Proposition B, \$332,135,000 has been issued to date. In June 2014, voters approved Proposition A (the "2014 Proposition A"), which authorized the issuance of up to an additional \$400,000,000 in general obligation bonds for the completion of these Earthquake Safety Projects.

The proposed resolutions authorize the issuance of not to exceed \$57,840,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010), Series 2014C (the "2014C Bonds"), as well as the issuance of not to exceed \$106,095,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2014), Series 2014D (the "2014D Bonds", and together with the 2014C Bonds, the "Bonds"). The 2014C Bonds will be the fifth series of bonds to be issued under the 2010 Proposition B, and the 2014D Bonds

will be the first series of bonds to be issued under the 2014 Proposition A. The two series authorized by the proposed resolutions represent a not to exceed aggregate principal amount of \$163,935,000.

As described more fully in the 2010 Proposition B Accountability Report dated April 16, 2014, and the 2014 Proposition A Bond Report, Safeguarding San Francisco report dated January 24, 2014, proceeds from the 2014C and 2014D Bonds will finance the following:

- Auxiliary Water Supply System (AWSS) project – planning, design, and construction of pipeline, tunnel and cistern projects.
- Neighborhood Fire Stations project – complete construction of focused scope projects and the design of Fire Station 5 and construction of Station 16.
- Public Safety Building project – complete construction of the Public Safety Building.
- District Police Stations – rehabilitate and seismically upgrade selected police district stations throughout the City.
- Medical Examiner Facility – relocate the Medical Examiner Facility from the seismically vulnerable Hall of Justice at 850 Bryant Street to a seismically safe facility.
- Traffic Company & Forensic Services Division – relocate the motorcycle police and crime lab from the seismically vulnerable Hall of Justice and the Hunters Point Shipyard to a safe facility.

The remaining authorization under the 2010 Proposition B and 2014 Proposition A will be issued subject to review by the Capital Planning Committee, the consideration and adoption by the Board of Supervisors and approval by the Mayor of subsequent authorizing resolutions.

Financing Parameters:

The proposed resolution authorizes the issuance of not to exceed aggregate par amount of \$163,935,000. Based on current project cost estimates and schedules, the Office of Public Finance expects to issue \$156,205,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected issuance amount allows for fluctuations in market conditions from the date of authorization by the Board to the time of the sale of the Bonds.

The Bonds are anticipated to contribute approximately \$154.30 million to the ESER projects. Table 1 outlines anticipated sources and uses for the Bonds.

Table 1: Anticipated Sources and Uses for the Bonds.

	<u>ESER (2010)</u> <u>Series 2014C</u>	<u>ESER (2014)</u> <u>Series 2014D</u>	<u>Aggregate</u>
<u>Par Amount</u>	<u>\$ 55,170,000</u>	<u>\$101,035,000</u>	<u>\$156,205,000</u>
Total Estimated Sources	<u>\$ 55,170,000</u>	<u>\$101,035,000</u>	<u>\$156,205,000</u>
Estimated Uses			
Project Fund Deposit	<u>\$ 54,494,738</u>	<u>\$ 99,805,046</u>	<u>\$154,299,784</u>
Emergency Firefighting Water System (AWSS)	31,003,224	20,000,000	51,003,224
Neighborhood Fire Stations	11,600,000	8,150,600	19,750,600
Public Safety Building	11,782,742	-	11,782,742
District Police Stations	-	6,882,939	6,882,939
Traffic Company & Forensic Services Division	-	14,264,674	14,264,674
Medical Examiner Facility	-	50,307,621	50,307,621
Controller's Audit Fund	108,772	199,212	307,818
Other Costs of Issuance	<u>675,262</u>	<u>1,229,954</u>	<u>1,905,216</u>
Costs of Issuance	233,902	421,674	655,576
Underwriter's Discount	386,190	707,245	1,093,435
CGOBOC	55,170	101,035	156,205
Total Estimated Uses	<u>\$ 55,170,000</u>	<u>\$101,035,000</u>	<u>\$156,205,000</u>

Based upon a conservative estimate of 5.02% interest rate, OPF estimates that average fiscal year debt service on the Bonds is approximately \$12.41 million. The anticipated total par value of \$156,205,000 is estimated to result in approximately \$91.90 million in interest payments over the life of the Bonds. The total principal and interest payment over the approximate 20- year life of the Bonds is approximately \$248.10 million. Based on market conditions expected to exist at the time of the sale coupled with the Capital Planning Committee constraints, the Bonds could be structured with a 25-year life.

In addition, a portion of the Bonds will pay certain expenses incurred in connection with their issuance and delivery and the periodic oversight and review of the Projects by the Citizens' General Obligation Bond Oversight Committee ("CGOBOC"). Detailed descriptions of the Projects financed with proceeds of the Bonds are included in the ESER Accountability Reports and Bond Reports prepared by the Department of Public Works.

Financing Timeline:

The Bonds are expected to be issued and delivered in September 2014. Schedule milestones in connection with the financing may be summarized as follows:

Milestone	Date*
Introduction of authorizing legislation and supporting materials to the Board	July 15, 2014
Consideration by the Capital Planning Committee	July 21, 2014
Issuance and delivery of the Bonds	September 2014

*Please note that dates are estimated unless otherwise noted.

Debt Limit:

The City Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3.00% of the assessed value of property in the City. As of July 15, 2014, there are \$1.94 billion in general obligation bonds outstanding or approximately 1.12% of the net assessed value of property in the City. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.44% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by 0.09% to 1.21%—within the 3.00% legal debt limit.

Capital Plan:

The Capital Planning Committee approved a financial constraint regarding the City's planned use of general obligation bonds such that debt service on approved and issued general obligation bonds would not increase property owners' long-term property tax rates above fiscal year 2006 levels. The fiscal year 2006 property tax rate for the general obligation bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Bonds, the property tax rate for general obligation bonds for fiscal year 2014-15 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

Additional Information:

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, July 15, 2014. The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

Official Notice of Sale: The Official Notice of Sale for the Bonds announces the date and time of the competitive bond sale, including the terms relating to the Bonds; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Bonds may be bid separately by series or bids may be received for all of the Bonds.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Bonds. Pursuant to the Resolutions, the Controller is authorized to award the Bonds to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

Notice of Intention to Sell: The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response, 2010), Series 2014C and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response, 2014), Series 2014D. Such Notice of Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

Official Statement: The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the Bonds. The Official Statement describes the Bonds, including sources and uses of funds; security for the Bonds; risk factors; and tax and other legal matters, among other information. The Official Statement also includes the City's Appendix A, the most recent Comprehensive Annual Financial Report of the City, the City's Investment Policy, and

other forms of legal documents for the benefit of investors, holders and owners of the Bonds.

A *Preliminary Official Statement* is distributed to prospective bidders prior to the sale of the Bonds and within seven days of the public offering, the *Final Official Statement* (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) is distributed to the initial purchasers of the Bonds.

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

Appendix A: The City prepares the Appendix A: “City and County of San Francisco—Organization and Finances” (the “Appendix A”) for inclusion in the Official Statement. The Appendix A describes the City’s government and organization, the budget, property taxation, other City tax revenues and other revenue sources, general fund programs and expenditures, employment costs and post-retirement obligations, investment of City funds, capital financing and bonds, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolution, City staff will revise the Official Statement, including the Appendix A.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the City (the “Annual Report”) not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist initial purchasers of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Your consideration of this matter is greatly appreciated. Please contact me at 554-5956 if you have any questions. Thank you.

CC: Angela Calvillo, Clerk of the Board
(via email) Gabriella Judd Cirelli, Department of Public Works
Jason Elliott, Mayor’s Office
Charles A. Higuera, Department of Public Works
Kate Howard, Mayor’s Budget Office
Richard Morales, Public Utilities Commission
David Myerson, AWSS Project Manager
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