



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER


Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director of Public Finance 

SUBJECT: Ordinance Approving the Form and Authorizing the Distribution of the Preliminary Official Statement Related to the Execution and Delivery of the City and County of San Francisco Certificates of Participation Series 2017B, (HOPE SF)

DATE: March 20, 2017

This memorandum, together with the accompanying attachment, is being submitted to your office in connection with the execution and delivery of the the City and County of San Francisco Certificates of Participation, Series 2017B (HOPE SF) to ensure that the City complies with its obligations under federal securities laws.

Federal securities laws impose on the City the obligation to ensure that its offering documents are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the disclosure documents as well as City staff charged with preparing the documents.

We are attaching the revised Preliminary Official Statement for your approval prior to its publication. We would like to respectfully request consideration of the Ordinance at the April 6, 2017 Budget and Finance Committee meeting.

Background:

On October 26, 2010, the Board approved Ordinance No. 266-10, authorizing the execution and delivery of Certificates of Participation to finance the HOPE SF program, an initiative to replace four public housing developments in the City. The Project to be funded by the Certificates includes a three-phase revitalization project for the Hunters View public housing development, which will demolish and replace deteriorated public housing sites and create a new, mixed-income community, as well as associated facilities, parks, and playgrounds. There will be 750

new housing units created, including 267 public housing units to be replaced. Ordinance No. 266-10 provided that the Certificates “shall be executed and delivered on or before June 30, 2013”. However, due to the availability of interim funding sources for the Project, issuance of the Certificates was postponed to 2017.

Approval of the proposed legislation would amend Ordinance 266-10 to authorize the City to issue, on or before June 30, 2018, a not to exceed par amount of \$38,000,000 in City and County of San Francisco Taxable Certificates of Participation (HOPE SF), Series 2017B (the “Certificates”), to, in part, repay commercial paper certificates that have been issued to finance the Project, as well as to finance the completion of certain capital improvements described below. The Ordinance will also authorize the preparation, execution, and delivery of a revised final official statement for the issuance, and will approve the amended revised preliminary official statement, which has been updated to reflect current City information. The City anticipates issuing the Certificates in May 2017.

Under the proposed Ordinance, the City will structure the Certificates as an abatable asset-transfer lease by and between the City and a third-party trustee pursuant to the Property Lease, Project Lease and Trust Agreement. It is anticipated that the City-owned Mission Police Station located at 630 Valencia Street, Bayview Police Station located at 201 Williams Avenue, Northern Police Station located at 1125 Fillmore, and Tenderloin Police Station located at 301 Eddy (the “Leased Property”) will serve as collateral for the Certificates to secure the City’s repayment obligations under the leases.

The Project Lease requires the City to make rental payments on each April 1 and September 1 during the term of the Project Lease, commencing on September 1, 2017 and semi-annually thereafter, in an amount sufficient to pay total lease payments when due.

A trust agreement between the City and a trustee requires that the rental payments be deposited in the debt service fund maintained by the trustee. On April 1 and September 1 of each year, commencing September 1, 2017 and semi-annually thereafter, the trustee will apply such amounts as is necessary to make rental payments with respect to the Certificates.

The Project:

The Certificates will finance the three phases of the HOPE SF project (the “Project”) consisting of a three-phase master revitalization project for the Hunters View housing development in the Bayview-Hunters Point neighborhood of San Francisco. The Hunters View development is part of the larger HOPE SF initiative to replace eight publicly owned housing developments in the City. The overall Hunters View project consists of demolishing severely deteriorated public housing sites and constructing a sustainable, mixed-income community with neighborhood retail, community facilities, parks and playgrounds, to include 750 new housing units consisting of 267 public housing units (replaced on a one-for-one basis), as well as market-rate and affordable rental and ownership housing. The total estimated cost of all phases of the Project is \$450 million.

The Project is managed by the Mayor’s Office of Housing and Community Development, in partnership with the Successor Agency to the Former San Francisco Redevelopment Agency and the San Francisco Housing Authority. Proceeds of the Certificates will be used to repay any outstanding commercial paper certificates of participation issued to provide interim financing for the Project.

Plan of Finance:

The Ordinance authorizes the issuance of not to exceed par amount of \$38,000,000. Based on current Project cost estimates and schedules, the Office of Public Finance expects to issue \$28,995,000 under current market conditions. The additional authorized amount above the expected issuance amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Certificates.

Table 1 outlines anticipated sources and uses for the Certificates.

Table 1: Anticipated Sources and Uses from the Issuance of the Certificates.

Estimated Sources

Expected Par Amount	\$28,995,000
<i>Reserve for Market Uncertainty</i>	<i>9,005,000</i>
<hr/>	
Total Not to Exceed Sources:	\$38,000,000

Estimated Uses:

Project Fund Deposits	
Project Fund	\$4,687,420
CP Redemption Fund	\$20,262,580
CP Program Fees & Interest	\$1,287,420
CSA Audit	\$52,475
<hr/>	
Projects Subtotal	\$26,289,895
Other Fund Deposits	
Debt Service Reserve Fund	\$1,997,725
Delivery Date Expenses	
Cost of Issuance	\$504,415
Underwriter's Discount	\$202,965
<hr/>	
Expenses Subtotal	\$707,380
Expected Par Amount	\$28,995,000
<i>Reserve for Market Uncertainty</i>	<i>9,005,000</i>
<hr/>	
Total Estimated Uses	\$38,000,000

Sale of the Certificates:

The sale of the Certificates is tentatively scheduled for the week of May 15, 2017. The Certificates are to be sold on a competitive basis at an interest rate not to exceed 12 percent per year and will have a final maturity of 2047, or 30 years. Based upon conservative estimates given current market conditions, OPF estimates that the overall effective interest rate would be approximately 5.7%.

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

A *Preliminary Official Statement* is distributed to prospective bidders prior to the sale of the Certificates 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 Certificates.

The Board of Supervisors and the Mayor, in adopting and approving the Ordinance, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Certificates. 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. The Preliminary Official Statement is attached for your approval prior to its publication.

Method of Sale: In connection with the execution and delivery of the Certificates, the Ordinance delegates to the Director of Public Finance the authority to sell the Certificates by either a competitive or negotiated sale, subject to the Director of Public Finance's determination that a negotiated sale will result in the lowest borrowing cost to the City.

Additional Information:

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, March 21, 2017. 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 and Notice of Intention to Sell: The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the Certificates. Such Notice of

Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

The Official Notice of Sale for the Certificates announces the date and time of the competitive bond sale, including the terms relating to the Certificates; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

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.

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.

The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of enumerated events. These covenants have been made in order to assist initial purchasers of the Certificates in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Financing Timeline:

Schedule milestones in connection with the financing may be summarized as follows:

<u>Milestone</u>	<u>Date*</u>
Approval of Ordinance Authorizing the Certificates	October 2010
Introduction of POS Ordinance to the Board	March 21, 2017
Consideration by the Board of Supervisors Budget & Finance Committee	April 6, 2017
Issuance and Delivery of Certificates	May/June 2017

*Please note that dates are estimated unless otherwise noted.

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

cc: Angela Calvillo, Clerk of the Board
Harvey Rose, Budget Analyst
Ben Rosenfield, Controller
Mawuli Tugbenyoh, Mayor's Office
Melissa Whitehouse, Mayor's Budget Office
Ted Conrad, Mayor's Budget Office
Ken Roux, Deputy City Attorney
Benjamin McCloskey, Mayor's Office of Housing and Community Development