



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO


Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Anna Van Degna
Director of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Anna Van Degna, Director of the Controller's Office of Public Finance
Luke Brewer, Controller's Office of Public Finance 

DATE: Monday, February 22, 2021

SUBJECT: Resolution approving the issuance of General Obligation Refunding Bonds, Series 2021-R1 and Series 2021-R2 – Not-to-Exceed \$220,000,000

Supplemental Appropriation Ordinance for General Obligation Refunding Bonds

Recommended Actions

We respectfully request that the Board of Supervisors (the "Board") consider for review and adoption the resolution (the "2021 Refunding Resolution") which (1) approves the issuance and sale of not to exceed \$220,000,000 aggregate principal amount of City and County of San Francisco General Obligation Refunding Bonds, Series 2021-R1 and Series 2021-R2 (together the "2021 Refunding Bonds") to refund certain outstanding general obligation bonds of the City; (2) approves the form and authorizes the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement relating to the sale of said bonds; (3) ratifies certain actions previously taken; and (4) grants general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of said bonds, as defined herein.

Background

Since 1992, a two-thirds majority of voters of the City and County of San Francisco (the "City") have approved 28 propositions authorizing the issuance of general obligation bonds ("GO Bonds") totaling \$7.2 billion for various projects. Of this amount, \$4.9 billion of bonds have been issued and \$2.5 billion remain outstanding. \$2.3 billion are authorized but are yet to be issued. When the City issues GO Bonds, there are provisions included which give the City the option to refinance the bonds after a certain period of time, should interest rates be more favorable and produce savings to the City.

See [Attachment 1](#) for a full list of GO Bond authorizations and series outstanding as of February 1, 2021.

Prior Board of Supervisors Actions

The Board adopted Resolution No. 097-20 in March 2020 (the “2020 Master Refunding Resolution”). The 2020 Master Refunding Resolution authorized the issuance of \$1,482,995,000 aggregate principal amount of general obligation refunding bonds from time to time in one or more series for the purpose of refunding the City’s outstanding GO Bonds and approved the sale of the first series of such refunding bonds in an amount not to exceed \$255,000,000 designated Series 2020-R1.

Prior City Actions

On April 30, 2020, the City issued \$195,250,000 of General Obligation Refunding Bonds, Series 2020-R1 to refinance outstanding general obligation bonds resulting in gross debt service savings of \$38 million over 15 years and net present value debt service savings of \$31.2 million or 13.4% of refunded par.

Current Plan of Finance

The 2020 Master Refunding Resolution authorized and directed the Director of the Office of Public Finance (“OPF”) to determine which series of outstanding Prior GO Bonds would be refinanced with the proceeds of refunding bonds and to provide for the sale of any series of refunding bonds using the approved form of such documents, subject to certain terms and conditions including the following:

- (i) each series of refunding bonds must achieve aggregate net present value savings of at least 3% of outstanding principal of the total Prior Bonds to be refunded by such series;
- (ii) the true interest cost of the refunding bonds must not exceed 12%;
- (iii) the refunding bonds must not have a final maturity date later than the maturity date of the bonds to be refunded; and
- (iv) the costs of issuance must not exceed 2% and underwriter’s discount must not exceed 1% of the principal amount of the refunding bonds

The 2021 Refunding Resolution approves the sale of the 2021 Refunding Bonds, designated Series 2021-R1 and Series 2021-R2, in an amount not to exceed \$220 million, to refund all or a portion of the bonds listed in Table 1 below (“Prior Bonds”).

Table 1: 2021 General Obligation Refunding Candidates

2021 General Obligation Bond Refunding Candidates	Original Par Amount	Outstanding Par Amount	Callable Par Amount	Final Maturity
<i>Refunding Candidates callable June 15, 2021</i>				
Series 2013A (Clean & Safe Neighborhood Parks, 2012)	\$71,970,000	\$36,785,000	\$34,690,000	2033
Series 2013B (Earthquake Safety & Emergency Response, 2010)	\$31,020,000	\$15,860,000	\$14,955,000	2033
Series 2013C (Road Repaving & Street Safety, 2011)	\$129,560,000	\$66,195,000	\$62,425,000	2033
Subtotal Refunding Candidates callable June 15, 2021	\$232,550,000	\$118,840,000	\$112,070,000	
<i>Refunding Candidates callable December 15, 2021</i>				
Refunding Series 2011-R1	\$339,475,000	\$120,760,000	\$94,125,000	2030
Total 2021 GO Refunding Candidates	\$572,025,000	\$239,600,000	\$206,195,000	

The Prior Bonds will be refunded by two series of refunding bonds. Series 2021-R1 will refund the Prior Bonds that can be refinanced beginning June 15, 2021, and Series 2021-R2 will refund the Prior Bonds that can be refinanced beginning December 15, 2021. Because of the staggered refinancing dates, separating the 2021 Refunding Bonds into two series will preserve the tax-exempt status of all 2021 Refunding Bonds. Based on IRS federal tax laws, the City cannot close the refunding bond transactions any earlier than 90 days prior to June 15, 2021 and December 15, 2021, respectively, without triggering a taxable issuance. This means that the Series 2021-R2 refunding bonds cannot close until September 16, 2021, while Series 2021-R1 could close as early as March 17, 2021.

However, the City has the option to price both series at the same time this spring by issuing Series 2021-R2 as forward delivery bonds. This means that when the bonds are priced, investors agree to purchase the bonds at the negotiated interest rates at a specified date in the future. Forward delivery bonds are typically only issued by highly rated issuers such as the City and are initially purchased by large institutional investors due to the interest rate risk exposure. The negotiated interest rates on the forward delivery bonds are current market rates + an interest rate risk premium per month until closing. For example:

If the City prices its Series 2021-R2 Refunding Bonds on April 15, 2021 and closes the transaction on September 16, 2021, this would be a 5-month forward delivery. Based on a survey done of underwriting firms as of February 2021, the estimated forward delivery premium, or additional cost, per month for the City would be 4 basis points (0.04%). Therefore, for a 5-month forward delivery, the City’s total premium, or additional interest rate cost, would be 20 basis points (0.20%) over current market rates. Put another way, if the current market rate for a City bond maturing in 10-years is 1.80%, then investors purchasing this forward delivery bond would expect to receive an interest rate of 2.00%.

Pricing Date	Closing Date	Term of Forward Delivery	Fwd Delivery Premium / Month	Total Fwd Delivery Premium	Current Market Interest Rate (10-Year)	Fwd Delivery Interest Rate
4/15/2021	9/16/2021	5-Months	0.04%	0.20%	1.80%	2.00%
(A)	(B)	$\frac{(B) - (A)}{= (C)}$	(D)	$\frac{(C) * (D)}{= (E)}$	(F)	$\frac{(E) + (F)}{= (G)}$

In consultation with the City’s municipal advisor, OPF is currently evaluating issuing Series 2021-R2 as forward delivery bonds in order to price them concurrently with Series 2021-R1 this spring. This would allow the City to lock in refunding savings with interest rates at all-time lows, hedging against the risk of rising interest rates, and achieve certain economies of scale by packaging the refunding issuances together. The alternative would be for the City to wait until September to issue the Series 2021-R2 refunding bonds separately. While interest rates are at historic lows now, there is no certainty as to whether interest rates will be higher or lower in September.

Based on bond market conditions as of February 2021, the City could issue the tax-exempt 2021 Refunding Bonds in the Spring of 2021 to refund the Prior Bonds and generate gross savings to property taxpayers of approximately \$25.2 million based on an estimated interest rate of 1.86%. On a net present value (“NPV”) basis, OPF estimates the debt service savings to be approximately \$23.0 million, or 11.17% of the total outstanding principal of the Prior Bonds to be refunded (\$206.2 million), which exceeds the City’s policy requirement that savings be at least 3.00% of the Prior Bond amount. This assumes Series 2021-R2 as a forward delivery sold at the same time as Series 2021-R1 in April 2021, with a 20 basis point (0.20%) premium over current market rates.

OPF will continue to monitor market conditions and evaluate the cost-benefit of the forward delivery and may revise the par amount of the refunding prior to the final sale or pricing date.

Table 2 below outlines the not-to-exceed sources and uses for the General Obligation Refunding Bonds, Series 2021-R1 and Series 2021-R2, based on an estimate provided by Montague DeRose and Associates, LLC, a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

Table 2: Estimated Sources & Uses of the 2021 Refunding Bonds

Sources:	Series 2021-R1	Series 2021-R2	Total
<u>Refunding Bond Proceeds</u>			
Par Amount	\$95,850,000	\$87,810,000	\$183,660,000
Premium	\$19,326,284	\$9,098,279	\$28,424,563
Total Sources	\$115,176,284	\$96,908,279	\$212,084,563
<u>Uses:</u>			
Refunding Escrow	\$114,594,953	\$96,376,085	\$210,971,038
<u>Delivery Date Expenses</u>			
Cost of Issuance	\$407,854	\$373,268	\$781,122
Underwriter's Discount	\$173,477	\$158,926	\$332,403
Total Uses	\$115,176,284	\$96,908,279	\$212,084,563
<i>Reserve for Market Uncertainty</i>			<i>\$7,915,437</i>
Not-to-Exceed Par Amount			\$220,000,000

Source: Montague DeRose and Associates, LLC

The requested not-to-exceed par amount of \$220 million for the 2021 Refunding Bonds exceeds the current estimated refunding bond proceeds amount of approximately \$212 million in order to provide flexibility to capture the benefit of more favorable market conditions should they be available at the time of sale. Conditions that could result in a change in the anticipated bond par amount include fluctuations in market interest rates between the date of authorization by the Board and the sale of the 2021 Refunding Bonds, changes in the refunding escrow or changes in estimated delivery date expenses.

Based upon an estimated true interest cost of 1.86%, OPF estimates that average fiscal year debt service on the 2021 Refunding Bonds is approximately \$19.3 million. The anticipated total par value of \$183.7 million is estimated to result in approximately \$48.1 million in interest payments over the life of the 2021 Refunding Bonds. The total principal and interest payment over the approximate 12-year life of the 2021 Refunding Bonds is approximately \$231.8 million.

For good faith estimates required by Code Section 5852.1 of the California Government regarding the proposed financings, see Attachment 2. The information set forth in Attachment 2 is based on estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.

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. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's general obligation debt limit for fiscal year 2020-21 is approximately \$9.04 billion, based on a net assessed valuation of approximately \$301.4 billion. As of February 1, 2021, the City had approximately \$2.50 billion in aggregate principal amount of general obligation bonds outstanding, which equals approximately 0.83% of the net assessed valuation for fiscal year 2020-21. If all of the City's voter-authorized and unissued general obligation bonds were issued (\$2.3 billion), the total debt burden would be 1.59% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the 2021 Refunding Bonds, after their issuance, the debt ratio is estimated to slightly decrease.

Additional Information

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, February 23, 2021 with the form of the Preliminary Official Statement and Appendix A. The Appropriation Ordinance related to the sale of the 2021 Refunding Bonds was introduced on January 12, 2021.

Method of Sale: A negotiated sale is planned in connection with this transaction in order to maximize flexibility on the timing and structure of the sale to enhance refunding savings and bonding capacity while maintaining tax rates within the City's Capital Plan constraint. OPF issued a Request for Proposals ("RFP") to firms within the City's Underwriter Pool, which was established via a competitive process. An underwriting syndicate was selected in consultation with the City's Municipal Advisor based on the evaluation of the proposals received pursuant to the RFP consisting of BofA Securities, Inc. and Citigroup Global Markets Inc. as senior managers and Loop Capital Markets and TD Securities LLC as co-managers.

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 investors 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 Resolution, approve and authorize the use and distribution of the Official Statement by the underwriters with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller will certify, 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 Refunding Resolution, the Board hereby delegates to the Controller to finalize and revise the Official Statement, including the Appendix A, to, among other things, include the most recent City financial information or other material information relevant to investors, and to otherwise make corrections and clarifications needed so that such offering document complies with federal securities laws.

Anticipated Financing Timeline

Milestones	Dates*
• Introduction of Appropriation to the Board of Supervisors	January 12, 2021
• Introduction of Resolutions to the Board of Supervisors	February 23, 2021
• Budget & Finance Committee Hearing	March 10, 2021
• Board Considers Approval of 2021 Refunding Resolution	March 16, 2021
• Board Considers Approval of Appropriation Ordinance (1 st Reading)	March 23, 2021
• Final Board Approval of Appropriation Ordinance (2 nd Reading)	March 23, 2021
• Sale of the 2021 Refunding Bonds	Estimated April 2021
• Closing of the 2021-R1 Refunding Bonds	April/May 2021
• Closing of the 2021-R2 Refunding Bonds	September 2021

*Please note that dates are estimated unless otherwise noted and assumes a forward delivery of Series 2021-R2. If OPF determines not to issue the 2021 Refunding Bonds concurrently, the sale of Series 2021-R2 would be anticipated in September 2021.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna (anna.vandegna@sfgov.org), Luke Brewer (luke.brewer@sfgov.org), or Vishal Trivedi (vishal.trivedi@sfgov.org) if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andres Powers, Mayor's Office
Ashley Groffenberger, Mayor's Budget Director
Ben Rosenfield, Controller
Carmen Chu, City Administrator
Harvey Rose, Budget Analyst
Severin Campbell, Budget Analyst
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney

Attachment 1

GO BONDS OUTSTANDING AS OF FEBRUARY 1, 2021

Bond Authorization Name	Election Date	Authorized Amount	Series	Bonds Issued	Bonds Outstanding	Authorized & Unissued
Seismic Safety Loan Program	11/3/92	\$350,000,000	1994A	\$35,000,000	-	
			2007A	\$30,315,450	\$17,151,740	
			2015A	\$24,000,000	-	
<i>Reauthorization to Repurpose for Affordable Housing</i>	11/8/16		2019A	\$72,420,000	\$71,525,000	
			2020C	\$102,580,000	\$102,580,000	\$85,684,550
Clean & Safe Neighborhood Parks	2/5/08	\$185,000,000	2008B	\$42,520,000	-	
			2010B	\$24,785,000	-	
			2010D	\$35,645,000	\$32,910,000	
			2012B	\$73,355,000	-	
			2016A	\$8,695,000	\$6,855,000	-
San Francisco General Hospital & Trauma Center Earthquake Safety	11/4/08	\$887,400,000	2009A	\$131,650,000	-	
			2010A	\$120,890,000	-	
			2010C	\$173,805,000	\$160,465,000	
			2012D	\$251,100,000	\$139,315,000	
			2014A	\$209,955,000	\$145,960,000	-
Earthquake Safety and Emergency Response Bond	6/8/10	\$412,300,000	2010E	\$79,520,000	-	
			2012A	\$183,330,000	-	
			2012E	\$38,265,000	\$26,755,000	
			2013B	\$31,020,000	\$15,860,000	
			2014C	\$54,950,000	\$38,175,000	
			2016C	\$25,215,000	\$20,450,000	-
Road Repaving & Street Safety	11/8/11	\$248,000,000	2012C	\$74,295,000	-	
			2013C	\$129,560,000	\$66,195,000	
			2016E	\$44,145,000	\$35,795,000	-
Clean & Safe Neighborhood Parks	11/6/12	\$195,000,000	2013A	\$71,970,000	\$36,785,000	
			2016B	\$43,220,000	\$22,255,000	
			2018A	\$76,710,000	\$43,145,000	
			2019B	\$3,100,000	-	-
Earthquake Safety and Emergency Response Bond	6/3/14	\$400,000,000	2014D	\$100,670,000	\$69,920,000	
			2016D	\$109,595,000	\$68,985,000	
			2018C	\$189,735,000	\$132,715,000	-
Transportation and Road Improvement	11/4/14	\$500,000,000	2015B	\$67,005,000	\$39,985,000	
			2018B	\$174,445,000	\$98,115,000	
			2020B	\$135,765,000	\$135,765,000	\$122,785,000
Affordable Housing Bond	11/3/15	\$310,000,000	2016F	\$75,130,000	\$46,130,000	
			2018D	\$142,145,000	\$98,120,000	
			2019C	\$92,725,000	\$25,225,000	-
Public Health and Safety Bond	6/7/16	\$350,000,000	2017A	\$173,120,000	\$112,175,000	
			2018E	\$49,955,000	\$35,195,000	
			2020D-1	\$111,925,000	\$111,925,000	
			2020D-2	\$15,000,000	-	-
Embarcadero Seawall Earthquake Safety	11/6/18	\$425,000,000	2020A	\$49,675,000	\$9,475,000	\$375,325,000
Affordable Housing Bond	11/5/19	\$600,000,000				\$600,000,000
Earthquake Safety and Emergency Response Bond	3/3/20	\$628,500,000				\$628,500,000
Health and Recovery Bond	11/4/20	\$487,500,000				\$487,500,000
SUBTOTAL		\$5,978,700,000		\$3,678,905,450	\$1,965,906,740	\$2,299,794,550
General Obligation Refunding Bonds	Dated Issued			Bonds Issued	Bonds Outstanding	
Series 2011-R1	11/9/12			\$339,475,000	\$120,760,000	
Series 2015-R1	2/25/15			\$293,910,000	\$220,830,000	
Series 2020-R1	5/7/20			\$195,250,000	\$195,250,000	
SUBTOTAL				\$828,635,000	\$536,840,000	
TOTALS				\$4,507,540,450	\$2,502,746,740	\$2,299,794,550

Attachment 2

GOOD FAITH ESTIMATES

For purposes of compliance with Section 5852.1 of the California Government Code, the following estimated information has been provided by the City's Municipal Advisor, Montague DeRose and Associates, LLC:

	Series 2021-R1	Series 2021-R2	Total 2021 Refunding Bonds
1. True interest cost:	<u>1.98%</u>	<u>1.54%</u>	<u>1.86%</u>
2. Finance charges, including all fees and charges for third parties (including underwriter's compensation, financial advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties):	<u>\$581,500</u>	<u>\$532,000</u>	<u>\$1,113,500</u>
3. Amount of bond proceeds expected to be received by the City, net of payments identified in 2 above and any reserve or capitalized interest funded with bond proceeds:	<u>\$114,595,000</u>	<u>\$96,376,000</u>	<u>\$210,971,000</u>
4. Total payment amount for the bonds, being the sum of (a) debt service on the bonds to final maturity, and (b) any financing costs not paid from bond proceeds:	<u>\$130,564,500</u>	<u>\$101,263,000</u>	<u>\$231,827,500</u>

The information set forth above is based up estimates of prevailing market conditions, and the ability to refinance the Prior Bonds on a tax-exempt basis. Actual results may differ if assumed market conditions change.