



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 *AVD*
Luke Brewer, Controller's Office of Public Finance *LB*
Bob Beck, Director of the Treasure Island Development Authority

DATE: Friday, August 25, 2020

SUBJECT: Resolution Authorizing the Issuance of Improvement Area No. 1 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) Special Tax Bonds, Series 2020

Resolution Confirming Annexation of Property to the City and County of San Francisco Community Facilities District No. 2016 (Treasure Island) as Improvement Area No. 2

Recommended Actions

Resolution for Special Tax Bonds

We respectfully request that the Board of Supervisors ("Board") consider for review and approval the resolution ("Bond Resolution") which authorizes the issuance of not to exceed \$17,990,000 aggregate principal amount of Improvement Area No. 1 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) Special Tax Bonds, Series 2020 ("Bonds").

Resolution for CFD Annexation

Additionally, we respectfully request that the Board consider for review and approval the resolution ("Annexation Resolution") confirming that property is annexed to City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) ("Treasure Island CFD" or the "District") as Improvement Area No. 2; and determining other matters in connection therewith.

Background

Since 1997, the City and County of San Francisco ("City") and the Treasure Island Development Authority ("TIDA") have been working together on the Treasure Island/ Yerba Buena Island Development Project ("Project") in order to redevelop the former Treasure Island Naval Station ("NSTI") following the

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conveyance of the Navy-owned lands to TIDA. In early 2003, TIDA and the Treasure Island Community Development, LLC¹ (“TICD” or the “Developer”) entered into an Exclusive Negotiating Agreement and began work on a Development Plan. In 2011, TICD and TIDA entered into the Disposition and Development Agreement (“DDA”) and TICD and the City entered into the Development Agreement (“DA”) to deliver the Project. A Financing Plan is attached to the DDA and DA and provides for reimbursement to the Developer for costs incurred to construct public infrastructure with special tax bonds issued under the Mello-Roos Community Facilities Act of 1982 and tax increment bonds issued by the City and County of San Francisco Infrastructure and Revitalization Financing District No. 1 (Treasure Island).

The development plan for the Project anticipates a new San Francisco neighborhood consisting of up to 8,000 new residential housing units, as well as new commercial and retail space, a hotel, and 290 acres of parks and public open space, including shoreline access and cultural uses. Transportation amenities being built for the project will enhance mobility on the Yerba Buena Island and Treasure Island as well as link the islands to mainland San Francisco. Some amenities include a combined police/fire emergency services building; utility improvements including new water, sewer, storm, gas, electrical and communications infrastructure with new water storage reservoirs and a wastewater treatment plant; new and upgraded streets, public byways, bicycle, transit, and pedestrian facilities; and a new ferry terminal.

The Treasure Island CFD

On January 24, 2017, following a public hearing and landowner vote, the Board adopted Resolution No. 8-17 (“Resolution of Formation”) establishing the Treasure Island CFD, an initial improvement area in the Treasure Island CFD entitled “Improvement Area No. 1 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island)” (“Improvement Area No. 1”), and a Future Annexation Area for the Treasure Island CFD. The Treasure Island CFD was formed to provide funding for certain public infrastructure to be built as a result of the Project and certain ongoing public services.

Improvement Area No. 1

Improvement Area No. 1 consists of up to four development parcels (1Y, 2Y-H, 3Y, and 4Y) located on Yerba Buena Island, which are expected to be developed with 266 residential units at buildout.

At the time of the formation of the Treasure Island CFD and Improvement Area No. 1, the Board of Supervisors also adopted Resolution No. 12-17 to authorize the issuance and sale of special tax bonds for Improvement Area No. 1 in an aggregate principal amount not to exceed \$250,000,000.

The proposed Bond Resolution supplements Resolution No. 12-17 to authorize an aggregate principal amount not to exceed \$17,990,000 for the first bond issuance and approve related documents. If the Bonds are issued in the principal amount of \$17,990,000, the remaining bond authority for Improvement Area No. 1 would be \$232,010,000.

Future Annexation Area

The purpose of establishing the Future Annexation Area was to provide for streamlined annexations of future phases of the Project into the Treasure Island CFD.

In the Resolution of Formation the Board resolved that parcels in the Future Annexation Area may be annexed into the Treasure Island CFD as part of an existing improvement area or as part of its own Improvement Area (“Future Improvement Area”) through unanimous approval (a “Unanimous Approval”)

1. The existing members of TICD are (1) Treasure Island Holdings, LLC, a joint venture comprised of a subsidiary of Lennar Corporation and a non-managing third-party investor member, (2) TICD Hold Co., LLC, an indirect subsidiary of Lennar, (3) KSWM Treasure Island, LLC, a joint venture comprised of affiliates of Stockbridge Capital Group, LLC, Kenwood Investments, and Wilson Meany, LP, and (4) Stockbridge TI Co-Investors, LLC, an affiliate of Stockbridge.

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of the owners of the annexing parcels at the time of annexation, in accordance with certain “Annexation Approval Procedures” defined in the Resolution of Formation.

Under the Board-approved Annexation Approval procedures, if a property owner submits a Unanimous Approval and the Director of the Office of Public Finance (“OPF”) accepts the Unanimous Approval in writing after concluding that it meets the requirements set forth in the Annexation Approval Procedures, then the Unanimous Approval shall be deemed accepted by the City, and the Clerk of the Board shall record an amendment to the notice of special tax lien (for annexation into an existing improvement area) or a new notice of special tax lien (for a Future Improvement Area). If the conditions in the Annexation Approval Procedures are met, then further Board approval is not required for the annexation.

Annexation of Improvement Area No. 2

On April 13, 2020, an affiliate of the Developer, Treasure Island Series 1, LLC, submitted a Unanimous Approval to the Director of OPF requesting the annexation of certain parcels (“Annexation Property”) in the Future Annexation Area into the Treasure Island CFD. The Unanimous Approval identified, specified and approved (1) the annexation of the Annexation Property to the Treasure Island CFD as a Future Improvement Area designated “Improvement Area No. 2 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island),” (2) the maximum amount of bonded indebtedness and other debt for such Future Improvement Area of \$278,200,000, (3) the rate and method of apportionment of special tax for such Future Improvement Area, and (4) the initial appropriations limit for such Future Improvement Area of \$76,000,000. After reviewing the Unanimous Approval, with the City Attorney’s office and the TIDA Director, the Director of OPF concluded that the Unanimous Approval complies with the Annexation Approval Procedures, accepted the Unanimous Approval and provided a written letter of acceptance to the Clerk of the Board and Treasure Island Series 1, LLC. On May 11, 2020, the Clerk of the Board executed the Notice of Special Tax Lien for Improvement Area No. 2 of the Treasure Island CFD, which was recorded by the Assessor-Recorder on May 15, 2020.

By adopting the Annexation Resolution, the Board of Supervisors will:

- (i) confirm that the Annexation Property is annexed into Improvement Area No. 2,
- (ii) ratify and confirm direction to the Clerk of the Board of Supervisors to (A) record notice of annexation, (B) record a consolidated map of the boundaries of the Treasure Island CFD, and (C) to record additional such maps from time to time as Unanimous Approvals are received from property owners in the Future Annexation Area,
- (iii) confirm that the maximum aggregate principal amount of bonds and other debt for Improvement Area No. 2 is \$278,200,000,
- (iv) confirm that the rate and method of apportionment of the Special Tax among the parcels of real property within Improvement Area No. 2 is on file with the Clerk of the Board
- (v) confirm that the annual appropriations limit of Improvement Area No. 2, as defined by subdivision (h) of Section 8 of Article XIII B of the California Constitution is \$76,000,000.

The Special Tax Bonds of Improvement Area No. 1

The proposed Bond Resolution authorizes the first sale of special tax bonds for the Treasure Island CFD with respect to Improvement Area No. 1, in a par amount not to exceed \$17,990,000. The proposed Bonds will be secured by a pledge of special taxes levied on taxable property in Improvement Area No. 1. In accordance with Ordinance No. 22-17 and the Rate and Method of Apportionment of Special Tax for

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Improvement Area No. 1 (“RMA”) adopted at formation, the City began levying special taxes on a portion of taxable property located on development parcel 4Y within Improvement Area No. 1 in Fiscal Year 2019-20. Parcel 4Y currently has one building under construction known as the Bristol, which is planned for 124 residential units of which 110 units are subject to the special tax.

Current Plan of Finance

The proposed Bonds will be sold without a rating (“Non-Rated”). Non-Rated special tax bonds have unique credit considerations and risk factors for investors which are discussed in the Official Statement. *The Bonds are limited obligations of the City, secured by and payable solely from the special taxes levied in Improvement Area No. 1.*

The General Fund of the City is not liable for the payment of principal or interest on the Bonds, and the credit of the City is not pledged to the payment of the Bonds.

Under the Fiscal Agent Agreement, the City, on behalf of the District, has covenanted for the benefit of the owners of the Bonds that, under certain circumstances, the City will commence judicial foreclosure proceedings with respect to delinquent special taxes on property within Improvement Area No. 1, and will diligently pursue such proceedings to completion.

Although the proposed Bonds will be secured by a pledge of special taxes levied on all of the taxable property in Improvement Area No. 1 pursuant to the RMA, the Bonds have been sized to leverage the projected annual special tax levy on the Bristol such that maximum projected special tax revenues are equal to approximately 110% of debt service on the Bonds. For Fiscal Year 2019-20, \$833,688 in special taxes were collected in Improvement Area No. 1 from Parcel 4Y. Per the RMA, the special taxes escalate at 2.00% annually.

Value-to-Lien Ratio

Under the City's *Local Goals and Policies – Community Facilities Districts and Special Tax Districts*, the City is required to sell the Bonds to achieve at least a 3-to-1 value-to-lien ratio based on (i) an appraised value (in this case) or assessed value and (ii) special tax and assessment debt encumbering the taxable property. The value-to-lien ratio based on the not to exceed par amount of \$17,990,000 and the current appraised value (as of July 1, 2020) of the property in Improvement Area No. 1 of \$86,560,000 is 4.8-to-1.

Integra Realty Resources, Inc. (the “Appraiser”) has prepared an Appraisal Report dated August 14, 2020 with a valuation date of July 1, 2020, estimating the market value of the fee simple interest in three parcels within Improvement Area No. 1 currently subject to the special taxes. The Appraiser concluded in the Appraisal Report that the market value in bulk of the fee simple interest of these parcels is \$86,560,000, subject to certain assumptions and limiting conditions set forth therein. The value of individual parcels in Improvement Area No. 1 may vary significantly, and no assurance can be given that should Special Taxes levied on one or more of the parcels become delinquent, and should the delinquent parcels be offered for sale at a judicial foreclosure sale, that any bid would be received for the property or, if a bid is received, that such bid would be sufficient to pay such parcel’s delinquent Special Taxes.

Use of Proceeds

The proceeds of the Bonds will (i) finance or reimburse expenditures on public improvements for the Project, (ii) fund a debt service reserve fund for the Bonds, (iii) fund capitalized interest on the Bonds, if

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any, (iv) fund administrative expenses, and (v) finance costs of issuance. More specifically, the proceeds of the proposed Bonds are expected to reimburse the Developer for developer qualified costs, such as on-site infrastructure costs, such as utility improvements, street improvements, curb, gutter and sidewalk improvements, streetlights, and traffic signals, and related pre-development costs.

Table 1 below outlines anticipated sources and uses for the Bonds, based on current market conditions.

Table 1: Estimated Sources & Uses of the Special Tax Bonds, Series 2020

<u>Sources:</u>	
Bond Proceeds	
Par Amount	\$17,165,000
Premium	581,000
Total Sources	\$17,746,000
<u>Uses:</u>	
Improvement Fund	\$15,184,000
Debt Service Reserve Fund	1,313,000
<u>Delivery Date Expenses</u>	
Cost of Issuance	\$1,000,000
Underwriter's Discount	215,000
CSA Audit Fee	34,000
Total Uses	\$17,746,000
Reserve for Market Uncertainty	\$244,000
Not-to-Exceed Par Amount	\$17,990,000

Source: Stifel, PFM and CSG Advisors, Inc.

The requested not-to-exceed par amount of \$17,990,000 exceeds the current estimated par amount of \$17,165,000 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 project fund and/or par amount include fluctuations in market interest rates between the date of authorization by the Board and the sale of the Bonds, changes in required deposits for reserves or in estimated delivery date expenses.

Interest Rate; Projected Debt Service

Based upon current market conditions, a 30-year term and a true interest cost of 3.84%, which assumes the issuance of all bonds on a tax-exempt basis, the OPF estimates an average annual debt service of approximately \$1.04 million. The anticipated total par amount of \$17.165 million is estimated to result in approximately \$16.127 million in interest payments over the life of the Bonds. The total debt service over the life of the Bonds is estimated at approximately \$31.292 million.

Negotiated Sale of the Bonds; Underwriters

A negotiated sale is planned in connection with this transaction. The Bonds are repaid from special tax revenues from taxable property within Improvement Area No. 1 and are outside of the City's customary credit profile. Prior to formation, OPF selected Stifel, Nicolaus & Company, Incorporated ("Stifel") to serve

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as Senior Underwriter and Backstrom McCarley Berry & Co. LLC, (“Backstrom”) to serve as Co-underwriter (together, “Underwriters”). The Underwriters are in the City’s Underwriter Pool, which was established via a competitive process. The proposed Bond Resolution approves the form of the Bond Purchase Agreement (described further below) which provides the terms of sale of the Bonds by the City to the Underwriters.

The Capital Plan

The Bonds are limited obligations of the City payable solely from the special tax revenues within Improvement Area No. 1 and therefore are not subject to policy constraints of the Ten-Year Capital Plan.

Additional Information

The Resolutions are expected to be introduced at the Board of Supervisors meeting on Tuesday, August 25, 2020. The forms of the financing documents related to the Special Tax Bonds—including the Bond Purchase Agreement, Fiscal Agent Agreement, Preliminary Official Statement, the Continuing Disclosure Certificate and related documents—will also be submitted.

Bond Purchase Agreement: The City intends to pursue a fixed rate negotiated sale of the Bonds. The Bond Purchase Agreement details the terms, covenants, and conditions for the sale of the Bonds through the Underwriters, as well as agreements regarding expenses, closing and disclosure documents.

Fiscal Agent Agreement: The proposed Bond Resolution also approves the form of the Fiscal Agent Agreement pursuant to which the Fiscal Agent administers and disburses bond payments. The Fiscal Agent Agreement provides for the terms of the bond redemption, prepayment provisions, and other related administrative provisions. The Fiscal Agent holds the Treasure Island CFD special taxes and the bonds proceeds derived from the sale of the Bonds and will disburse the proceeds as directed by authorized City representatives.

Official Statement: The Official Statement provides information for investors in connection with the public offering by the City of the Bonds. The Official Statement describes the Bonds, the Project, including sources and uses of funds; security for the Bonds; risk factors; an appraisal of the property and tax and other legal matters, among other information.

A *Preliminary Official Statement* is distributed to 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 prospective purchasers of the Bonds.

Federal securities laws impose on the City the obligation to ensure that this document is accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the document as well as City staff charged with preparing the document. Much of the information in the Official Statement was provided by the Developer, and the Developer will certify in writing that the information provided by the Developer is accurate and complete in all material respects. The draft Preliminary Official Statement has been submitted for your review prior to its publication.

The Board of Supervisors and the Mayor, in adopting and approving the Bond Resolution, approve and authorize the use and distribution of the Preliminary and Final Official Statements by the Underwriters

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and co-financial advisors 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.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the Bonds (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 the Underwriters of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

Milestones	Dates*
• Presentation to Capital Planning Committee	January 27, 2020
• Introduction of Resolutions to the Board of Supervisors	August 25, 2020
• Budget & Finance Committee Hearing	September 16, 2020
• Board Approval of Resolutions	September 22, 2020
• Sale and Closing of the Bonds	Estimated October 2020

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna (anna.vandegna@sfgov.org) at 415-554-5956 or Luke Brewer (luke.brewer@sfgov.org) at 415-554-7693, if you have any questions.

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

Attachment 1

GOOD FAITH ESTIMATES

For purposes of compliance with Section 5852.1 of the California Government Code, the following information are good faith estimates provided by the City's Underwriters, and the City's Co-Municipal Advisors, PFM, and CSG Advisors Incorporated:

1. True interest cost of the Bonds: 3.84%
2. Finance charge for the Bonds, including all fees and charges for third parties (including underwriter's compensation, municipal advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$1,249,000.
3. Amount of Bond proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest funded with proceeds of the Bonds: \$15,184,000.
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 proceeds of the Bonds: \$31,292,000.

The information set forth above is based up estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.