



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Greg Wagner
Controller

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MEMORANDUM

TO: Board of Supervisors of the City and County of San Francisco

FROM: Controller's Office of Public Finance

DATE: **April 15, 2025**

SUBJECT: Ordinance Authorizing Refunding Certificates of Participation,
Series 2025R (Multiple Capital Improvement Projects)

Supplemental Appropriation Ordinance for Refunding Certificates of Participation

Recommended Action

We respectfully request that the Board of Supervisors (the "Board") review and consider for adoption the ordinance (the "COP Authorizing Ordinance") authorizing the execution and delivery of the Series 2025R Refunding Certificates of Participation (Multiple Capital Improvement Projects) (the "Refunding COPs") to refinance the previously issued and outstanding Series 2017B Certificates of Participation (Moscone Convention Center Expansion Project) (the "2017B COPs"). A supplemental ordinance appropriating the proceeds of the Refunding COPs will be introduced to the Board to accompany the COP Authorizing Ordinance (together the "Ordinances").

Background

The City and County of San Francisco (the "City") has traditionally funded various parts of its capital planning program through the issuance of Certificates of Participation ("COPs"). When the City issues COPs it typically includes an optional call feature allowing the City to refinance the outstanding principal or par amount after a specified optional call date, should interest rates produce savings for the City. The City's currently outstanding 2017B COPs have an optional call date of October 1, 2025, such that the City will be able to refund the outstanding 2017B COPs later this year. A summary of the 2017B COPs is shown in **Table 1** below:

Table 1: Summary of 2017B COPs

Outstanding Series	Par Amount Outstanding	Average Interest Rate	Optional Call Date	Final Maturity	Average Annual Debt Service
2017B COPs	\$332,515,000	4.03%	10/1/2025	4/1/2042	\$27,200,000

The 2017B COPs were issued on July 6, 2017, to finance and refinance the costs of certain capital improvements associated with the City's Moscone Convention Center Expansion Project (the "Project"). As part of the plan of finance for the Project, non-residential hotels located within the City voted to establish the Moscone Expansion District (the "MED") in 2013 to help finance the cost of improvements. The City is authorized to charge each hotel an assessment based on its revenues from room rentals ("MED Assessments").

As outlined in the adopted MED Management Plan (Board File #131128), MED Assessments are available to pay for debt service on the 2017B COPs for amounts in excess of the City's annual general fund Base Contribution (as defined in the MED Management Plan). The City's Base Contribution started at \$8.2 million in fiscal year 2018-19, increasing by 3% per year through fiscal year 2027-28 up to a cap of \$10.7 million annually for the remainder of the term of the 2017B COPs or the proposed Refunding COPs. The City's obligation to pay debt service on the 2017B COPs or the Refunding COPs is not based or contingent upon the amount of available MED Assessments.

Plan of Finance

The COP Authorizing Ordinance would authorize the issuance of not-to-exceed \$350,000,000 in Refunding COPs to refinance the 2017B COPs. At current market rates, the Refunding COPs are projected to generate savings; however, interest rates and capital markets are subject to volatility. The Controller's Office of Public Finance ("OPF") will continue to monitor market conditions through the anticipated pricing and closing of the transaction in the fall of 2025. In accordance with the City's approved Debt Policy, the Refunding COPs will only be issued if the transaction produces minimum debt service savings of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue's True Interest Cost ("TIC") as the discount rate.

For good faith estimates required by Code Section 5852.1 of the California Government Code regarding the proposed financing, see **Attachment 1**. The information set forth in **Attachment 1** is based on estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.

The not-to-exceed sources and uses included in the Supplemental Appropriation Ordinance for the Refunding COPs is shown below in **Table 2**:

Table 2: Supplemental Appropriation Ordinance for the Refunding COPsSources:Refunding COP Proceeds

Not-To-Exceed Par Amount	\$350,000,000
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Prior 2017B Debt Service Reserve Fund	<u>\$29,000,000</u>
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Total Sources	\$379,000,000
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Uses:2017B COPs Repayment

Refunding Escrow	\$340,000,000
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Delivery Date Expenses

Cost of Issuance	\$1,500,000
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Underwriter's Discount	\$4,000,000
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Debt Service Reserve Fund	\$27,000,000
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Total Uses	\$372,500,000
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<i>Plus: Reserve for Market Uncertainty</i>	<i>\$6,500,000</i>
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Total Uses (including Reserve for Market Uncertainty)	\$379,000,000
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The Capital Plan

The anticipated debt service associated with the delivery and execution of the Refunding COPs will be lower than the existing debt service of the 2017B COPs and, therefore, complies with the City's policy of limiting General Fund debt service payments at or below 3.25% of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan adopted per Resolution 626-24 in December 2024.

The Refunding COPs

Under the proposed Refunding COPs Ordinance, the City will structure the Refunding COPs using a lease-lease back structure. The 2017B COPs are currently structured as a standalone lease agreement, wherein the northern portion of the Moscone Convention Center ("Moscone North"), located at 747 Howard Street, serves as the sole leased asset. As compared to a standalone lease, OPF, in consultation with its municipal advisor, has determined that adding the Refunding COPs to the City's existing shared lease (the "Master Lease") will likely result in a stronger credit profile, allowing the Refunding COPs to be issued at lower interest rates. The Master Lease currently supports the City's outstanding Series 2019R-1 COPs, Series 2020-R1 COPs, Series 2021A COPs, Series 2023A COPs, Series 2023B COPs, Series 2024-R1 COPs, and Series 2024A COPs (the "Master Lease COPs") by utilizing subsequent supplement agreements as permitted by the Original Trust

Agreement, Original Property Lease, and Original Project Lease, each by and between the City and a third-party trustee, currently U.S. Bank National Association (the "Trustee").

The Master Lease currently includes the City-owned Laguna Honda Hospital campus located at 375 Laguna Honda Boulevard, San Francisco; the San Bruno Jail Complex located at 1 Moreland Drive, San Bruno; and the office building located at 1 South Van Ness, San Francisco. The current plan of finance assumes that Moscone North will be added to the other properties under the Master Lease (together, the "Leased Properties"). The Public Finance Director can designate additional properties to be added as assets under the Master Lease as needed.

Original Property Lease and Original Project Lease: Pursuant to the Original Property Lease, the City leases City-owned property to the Trustee. Pursuant to the Original Project Lease, the City leases back the leased property, together with the improvements thereon, from the Trustee. The City makes annual base rental payments to the Trustee in amounts representing the fair rental value for the improved leased property and equal to the amounts required to repay the Master Lease COPs. When the Master Lease COPs are finally paid, the Property Lease and Project Lease (each as supplemented) terminate. The City's general fund secures the payment of the City's rental payments in respect to the Master Lease COPs.

Original Trust Agreement: Pursuant to the Original Trust Agreement between the City and the Trustee acting on behalf and for the benefit of Master Lease COPs holders, the Trustee administers and disburses payments with respect to the Master Lease COPs and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the Master Lease COPs, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the Master Lease COPs and disburses payments for the costs incurred for the Project, as directed by authorized City representatives.

The subsequent supplements to the Original Property and Project Leases, each between the City and the Trustee, require the City to make base rental payments on each September 25 and March 25 during the term of the supplemental leases in an amount sufficient to pay total base rental payments when due.

The subsequent supplement to the Original Trust Agreement between the City and the Trustee requires that the base rental payments be deposited in the base rental fund maintained by the trustee. On October 1 and April 1 of each year during the term of the Trust Agreement, the Trustee will apply such amounts as is necessary to make debt service payments with respect to the Master Lease COPs.

Additional Information

The forms of the related financing documents—including the Preliminary Official Statement, Bond Purchase Contract, Notice of Intention to Sell, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted, as described below.

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

A *Preliminary Official Statement* is distributed to prospective investors prior to the sale of the Refunding COPs. Within seven business 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 Refunding COPs.

The Board of Supervisors and the Mayor, in adopting and approving the proposed COP Authorizing Ordinance, approve and authorize the use and distribution of the Official Statement by the City's Municipal Advisor with respect to the Refunding COPs. In accordance with rule 15c2-12 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 "deemed final" as of their respective dates.

Form of Official Notice of Sale and Notice of Intention to Sell (if the Refunding COPs are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the Refunding COPs. 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 Refunding COPs announces the date and time of a competitive sale, including the terms relating to the Refunding COPs; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

The Official Bid Form attached to the Official Notice of Sale is the form of the official bid for the purchase of the Refunding COPs. Pursuant to the COP Authorizing Ordinance, the Controller is authorized to award the Refunding COPs 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.

Form of Purchase Contract (if the Refunding COPs are sold on a negotiated basis): The City will work with its Municipal Advisor to determine whether a negotiated or competitive sale will be most advantageous for the transaction based on market conditions closer to the sale of the Refunding COPs. Should the Refunding COPs be sold via a negotiated sale with an underwriter(s), the Purchase Contract will be the document that details the terms, covenants, and conditions for the sale of the Refunding COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents. For a negotiated sale, the City would work with its Municipal Advisor to select qualified firms from the City's Underwriter Pool via a competitive Request for Proposal ("RFP") process.

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 to assist initial purchasers of the Refunding COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

Milestones	Dates*
• Introduction of the Ordinances at the Board of Supervisors	April 15, 2025
• Budget and Finance Committee Hearing for Ordinances	May 21, 2025
• Board Consideration of the Ordinances (1 st Reading)	June 3, 2025
• Final Board Consideration of Ordinances (2 nd Reading)	June 10, 2025
• Sale and Closing of the Refunding COPs	Fall 2025

*Please note that dates are estimated unless otherwise noted.

Please feel free to contact Anna Van Degna (Anna.VanDegna@sfgov.org), Bridget Katz (Bridget.Katz@sfgov.org), or Grant Carson (Grant.Carson@sfgov.org) if you have any questions. Your consideration of this matter is greatly appreciated.

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 Municipal Advisor, KNN Public Finance.

1. True interest cost of the COPs: 3.49%
2. Finance charge for the COPs, 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): \$2,384,823.
3. Amount of COP 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 COPs: \$304,793,622.
4. Total payment amount for the COPs, being the sum of (a) debt service on the COPs to final maturity, and (b) any financing costs not paid from proceeds of the COPs: \$405,780,802.

The information set forth above is based on estimates of prevailing market conditions as of March 26, 2025. Actual results may differ if assumed market conditions change.