



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 Office of Public Finance
Vishal Trivedi, Office of Public Finance
Marisa Pereira Tully, Office of Public Finance

DATE: Monday, September 21, 2020

SUBJECT: Resolutions Authorizing Issuance and Sale of Taxable General Obligation Bonds (Affordable Housing, 2019) Series 2020C – Not to Exceed \$260,000,000

We respectfully request that the Board of Supervisors (the “Board”) consider for review and adoption the resolutions approving the sale of taxable general obligation bonds for the 2019 Affordable Housing bond program in an amount not to exceed \$260,000,000.

In connection with this request, legislation authorizing the issuance of bonds from this program, approving the sale of this first series of bonds, a supplemental appropriation ordinance to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, September 22, 2020. We request that the items be heard at the scheduled Budget and Finance Committee meeting on September 30, 2020.

Background:

On November 5, 2019, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Affordable Housing General Obligation Bond. Proposition A authorizes the City and County of San Francisco to issue \$600,000,000 in General Obligation Bonds finance the construction, development, acquisition, and preservation of housing affordable to extremely-low, low and middle-income households through programs that will prioritize vulnerable populations in the City and prevent the displacement of residents; to repair and reconstruct distressed and dilapidated public housing developments and their underlying infrastructure; to assist the City's middle-income residents or workers in obtaining affordable rental or home ownership opportunities including down payment assistance and support for new construction of affordable housing for San Francisco Unified School District and City College of San Francisco employees; and to pay related costs.

The projects to be funded by this issuance of include infrastructure and vertical gap financing for Potrero and Sunnydale public housing developments, acquisition and rehabilitation of rent-controlled housing under the Small Sites program, as well as predevelopment and gap funding for low-income, middle-income, and senior housing units.

Financing Parameters

The proposed legislation will authorize the issuance of bonds for the purposes allowed under the November 2019 Proposition A, approve the sale of the first series of bonds, and appropriate of the bond proceeds from the sale. Table 1 below outlines the not-to-exceed sources and uses for the Bonds, based on an estimate provided by Public Resources Advisory Group, a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board of Supervisors regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

Table 1: Estimated Sources and Uses from the Bonds

	<u>2020C</u>
Maximum Not to Exceed Amount:	\$260,000,000
<i>Reserve for Market Uncertainty</i>	<i>\$4,445,000</i>
Estimated Sources:	
Par Amount	<u>\$255,555,000</u>
Total Estimated Sources:	\$260,000,000
Estimated Uses:	
Project Fund Deposits:	
Project Fund	\$252,620,000
CSA Audit Fee	<u>\$505,240</u>
Total Project Fund Deposits:	\$253,125,240
Cost of Issuance	\$1,151,985
Underwriter's Discount	\$1,022,220
CGOBOC Fee	<u>\$255,555</u>
Total Delivery Expense:	\$2,429,760
<i>Reserve for Market Uncertainty</i>	<i>\$4,445,000</i>
Total Estimated Uses:	\$260,000,000

Source: Public Resources Advisory Group

Based upon an estimated market interest rate of 3.39% for taxable general obligation bonds, the Office of Public Finance estimates that this would result in an average annual debt service cost of about \$13,500,000.

The anticipated par amount of \$255,555,000 is estimated to generate approximately \$149,400,000 in interest payments, resulting in approximately \$405,000,000 in total debt service over the 30-year life of the bonds.

Detailed descriptions of the Projects financed with proceeds of the Bonds are included in the Bond Reports to be prepared by the Mayor's Office of Housing and Community Development. In addition, a portion of the Bond proceeds will be used to pay certain expenses incurred in connection with their issue and delivery, and the periodic oversight and review of the Projects by City Services Auditor ("CSA Audit") the Citizens' General Obligation Bond Oversight Committee ("CGOBOC").

Property Tax Impact

For Series 2020C, repayment of annual debt service on the Bonds will be recovered through increases in the annual property tax rate, which is estimated to average 0.00454% or \$4.54 per \$100,000 of assessed value over the anticipated 20-year term of the bonds. The owner of a residence with an assessed value of \$600,000, assuming a homeowner's exemption of \$7,000, would pay average additional property taxes to the City of approximately \$26.91 per year if the anticipated \$255,555,000 Bonds are sold.

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 September 1, 2020, the City had outstanding approximately \$2.15 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.71% 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, 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 approximately 0.085% to 0.8%— 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 2020-21 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, September 22, 2020. The forms of the related financing documents—including the Bond Purchase Agreement, Preliminary Official Statement, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted.

Method of Sale & Bond Purchase Agreement: The Bonds are expected to be structured as taxable bonds with a final maturity of 30 years in order to benefit the needs of an affordable housing loan program. The Office of Public Finance is proposing a negotiated sale in connection with this transaction due the unique structure. Morgan Stanley & Co. LLC has been selected to serve as Senior Underwriter, and Citigroup Global

Markets, Inc., Raymond James & Associates, Inc., Rice Securities LLC and 280 Securities LLC have been selected to serve as Co-managers. The firms were selected through a competitive process, based on their responses to a Request for Proposal that was distributed to the City's Underwriter Pool, and in consultation with the City's municipal advisors on the transaction. The proposed Resolution approves the form of the Bond Purchase Agreement, which provides the terms of sale of the bonds by the City to the selected underwriters.

Official Notice of Sale: Should the bonds be sold competitively, the Official Notice of Sale would announce the date and time for a competitive bond sale, including the terms relating to sale of the Bonds; form of bids, and delivery of bids; and closing procedures and documents.

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, in a competitive sale 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 the 2020C Bonds. Such Notice of Intention to Sell would 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.

Prior to the distribution of the Preliminary and Final Official Statements, the documents will be thoroughly and critically reviewed by City staff (in consultation with the City's professional advisors, including Disclosure Counsel) to provide the most current material financial and other material information available.

Board members have a responsibility under federal securities laws to ensure that staff is aware of information that Board members may have unique in their capacity as board members that would have a material bearing of the capacity of the City to repay the bonds. Board members cannot approve a Preliminary Official Statement if they are aware that it contains material misstatements or omissions.

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).

Financing Timeline:

Milestones:

Capital Planning Committee
Board of Supervisors Introduction
Budget & Finance Committee Hearing
Board Approval of Resolutions and 1st Reading of Appropriation Ordinance
Final Board Approval of Appropriation Ordinance (2nd Reading)
Estimated Sale & Closing

Dates*:

September 14
September 22
September 30
October 6
October 20
Oct/Nov 2020

*Please note that dates are preliminary and may change.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 (anna.vandegna@sfgov.org), Vishal Trivedi at 415-554-4862 (vishal.trivedi@sfgov.org) or Marisa Pereira Tully at 415-554-6902 (marisa.pereira.tully@sfgov.org) if you have any questions.