

Items 10, 11, and 12 Files 10-1158, 10-1192, and 10-1167	Department(s): Controller's Office of Public Finance (OPF) and the Mayor's Office of Housing (MOH)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed legislation would, in order to partially finance the Mayor's Office of Housing's HOPE SF Project in Hunters View (a) authorize the issuance of Certificates of Participation (COPs) in a not-to-exceed amount of \$38,000,000 (File 10-1158), (b) appropriate \$38,000,00 in COP proceeds (File 10-1192), and (c) authorize the acceptance and expenditure of \$30,000,000 in Infill Infrastructure Grant funds from the California State Department of Housing and Community Development (File 10-1167). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Hunters View is the first project under HOPE SF, a joint program between the Mayor's Office of Housing, San Francisco Housing Authority (SFHA), San Francisco Redevelopment Agency, and a private joint venture developer (composed of (a) the John Stewart Company, (b) Devine and Gong, Inc., and (c) the Ridge Point Non-Profit Housing Corporation) to construct 350 affordable rental housing units, including the (a) replacement of the decaying 267 SFHA-owned public housing units, and (b) construction of 83 additional new affordable rental housing units. The total estimated cost of the project is \$258,654,917. • The Office of Public Finance is requesting approval to issue and appropriate \$38,000,000 in Certificates of Participation to partially fund the HOPE SF Project in Hunters View (Files 10-1158 and 10-1192). The total estimated project cost of \$258,654,917 is anticipated to be funded by (a) \$45,000,000 in City funds (including the proposed issuance of \$38,000,000 in COPs plus \$4,148,419 in City General Funds and \$2,851,581 in other City monies), (b) other non-City public funding sources totaling \$114,516,693 (including \$30,000,000 in State Infill Infrastructure Grant funds, the subject of File 10-1167), and (c) \$99,138,224 in private funding sources. • The Budget and Legislative Analyst notes that as of the writing of this report, (a) the Real Estate Division had not yet finalized the estimated value of the two police stations which would serve as collateral for the proposed COPs, and (b) not all funding sources for the SF HOPE Project at Hunters View have been secured (see Footnote 8 below). Therefore approval of the proposed ordinances to issue COPs and appropriate the proceeds of such COPs is a policy matter for the Board of Supervisors. However, because the proposed resolution to accept and expend grant funds does not require the City to provide any matching funds, the Budget and Legislative Analyst recommends approval of the proposed resolution (10-1167). <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed COPs are estimated to have an interest rate of 8.0 percent and average annual debt service of approximately \$3,058,000, for a total debt service over 25 years of \$82,076,000 including (a) interest payments of \$46,966,000 and (b) principal payments of \$35,110,000. Debt 	

service payments will be paid with General Fund revenues subject to annual appropriations approval by the Board of Supervisors.

- The requested acceptance and expenditure of \$30,000,000 in Infill Infrastructure Grant funds from the California State Department of Housing and Community Development has no fiscal impact to the City because the subject grant does not require any matching funds to be provided by the City.

Recommendation

- Approve the proposed resolution (File 10-1167).
- Approval of the proposed ordinances (Files 10-1158 and 10-1192) is a policy matter for the Board of Supervisors.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

According to San Francisco Charter Section 9.118, any lease with a term of over ten years or expenditures of over \$10,000,000 is subject to approval by the Board of Supervisors. The proposed issuance of \$38,000,000 of COPs requires the City to enter into a lease which exceeds ten years and \$10,000,000, due to the asset transfer model described in the Financing Background Section below.

Project Background

According to Mr. Craig Adelman, Deputy Director of the Mayor's Office of Housing (MOH), HOPE SF is a Mayoral initiative, in conjunction with the San Francisco Housing Authority (SFHA), composed of separate projects to revitalize eight SFHA-owned public housing projects in San Francisco including (a) Hunters View, (b) Potrero Terrace, (c) Potrero Annex, (d) Sunnydale, (e) Westside Courts, (f) Alice Griffith, (g) Hunters Point, and (h) Westbrook/Hunters Point East. The proposed \$38,000,000 in COPs would only be used to fund the HOPE SF Project at Hunters View.

Hunters View is the first of the eight SFHA-owned public housing projects to be revitalized under the HOPE SF Program. Hunters View currently consists of 267 public housing units spread over a 20-acre site in the Bayview Hunters Point neighborhood.

120 of the public housing units are uninhabitable, such that Hunters View only currently houses 147 families (267 total units less 120).

Under the proposed HOPE SF Project in Hunters View, which has a current estimated cost of \$258,654,917, SFHA, San Francisco Redevelopment Agency (SFRA), MOH, and a joint venture between three private developers would construct 350 affordable rental housing units, including (a) the replacement of the decaying 267 SFHA owned public housing units, and (b) the

construction of 83 additional new affordable rental housing units.¹ All the newly constructed 350 affordable housing rental units would be constructed on SFHA land, but the actual buildings would be owned by the joint venture's three private developers. The three private developers include (a) the John Stewart Company, (b) Devine and Gong, Inc., and (c) Ridge Point Non-Profit Housing Corporation. According to Mr. Adelman, the joint venture was selected by SFHA through a competitive Request for Proposals process.

According to Mr. Adelman, due to various requirements which accompany the public funding provided to the project in the form of deferred loans (see Footnote 4 below), the affordability of the housing units would be guaranteed for at least 55 years. Mr. Adelman noted that 15 years after the project is completed, it is anticipated that SFHA would exercise its option to acquire all of the 350 (267 replacement units plus 83 new units) affordable rental housing units from the joint venture's private developers.

However, there is no requirement that SFHA actually exercises this option or completes this transaction. Should SFHA not exercise such an option, the 350 affordable rental housing units would remain the property of the joint venture. However, the affordability of such units would be maintained because, as discussed above, the affordability of the units is guaranteed for at least 55 years. The Budget and Legislative Analyst notes that if at any point the affordability of the units is no longer required, and SFHA has not exercised their option to purchase the units, the joint venture private developers would own market-rate rental units which had been partially financed through City funds.

According to Mr. Adelman, due to the phased construction approach of the HOPE SF Project in Hunters View, tenants of units which are under construction will be relocated to other vacant existing units which have not yet begun construction within the Hunters View project area, and that all current tenants whose lease is in good standing would be entitled to move into a newly constructed housing unit.

Mr. Adelman stated that demolition of the existing affordable housing units has begun, and construction is anticipated to begin in December of 2010 and be completed in December of 2016.

Financing Background

According to Ms. Nadia Sesay, Director of the Controller's Office of Public Finance, Certificates of Participation (COPs) are a form of long term debt which are sold to investors in consideration for a portion of the lease revenues from a specific City-owned property, such that the investors "participate" in lease revenues. Under a typical COP structure, the City leases a City-owned property to a trustee in consideration for a one-time rent payment from the trustee to the City that is equal to the proceeds from the issuance of such COPs. The trustee subsequently subleases the

¹ In addition to the 350 affordable rental housing units, the three private developers would also entirely separately finance and construct an additional 380 for-sale housing units (including 59 affordable for-sale housing units). However, because such units would be entirely constructed and financed by the three private developers with no City funds, this report only includes information regarding the 350 affordable rental units which would be constructed using a combination of public and private funds, and does not apply to the 380 for-sale housing units to be separately financed and constructed by the joint venture private developers.

same City-owned property back to the City in return for semi-annual rent payments equal to the debt service (including principal and interest) due on the COPs. This lease-sublease structure is known as an asset transfer model. Under such an asset transfer model, the City-owned property leased to the trustee serves as collateral to the trustee on the issued COPs. After the COPs are fully repaid by the City, the City-owned property, previously leased to the trustee, reverts back to the City.

The proposed not-to-exceed \$38,000,000 issuance of COPs would use two police stations as the City-owned property to be leased to the trustee under this asset transfer model as described above, including (a) the Mission Police Station at 630 Valencia Street, and (b) the Bayview Police Station at 201 Williams Avenue. According to Mr. John Updike, Assistant Director of the Real Estate Division, as of the writing of this report, the Real Estate Division has not yet finalized their estimation of the value of the subject police stations. However, Mr. Updike stated that he is confident that the value of the two police stations is in excess of the proposed COP issuance amount of \$38,000,000, and therefore sufficient to support the proposed COP issuance. Mr. Updike also stated that the finalized estimated values of the two Police Stations will be provided directly to the Budget and Finance Committee at its meeting of October 13, 2010 meeting.

DETAILS OF PROPOSED LEGISLATION

In order to provide a portion of the funding to the Mayor's Office of Housing's HOPE SF Project at Hunters View, the proposed two ordinances and one resolution would (a) authorize the issuance of Certificates of Participation (COPs) in a not-to-exceed amount of \$38,000,000 (File 10-1158) (b) appropriate the \$38,000,000 proceeds of the proposed COP issuance (File 10-1192), placing such funds on Controller's reserve pending issuance of the COPs, and (c) approve the acceptance and expenditure of a \$30,000,000 Infill Infrastructure Grant from the California State Department of Housing and Community Development (File 10-1167).

Table 1 below shows the sources of funds totaling \$258,654,917 for the HOPE SF Project at Hunters View.

Table 1: Sources of Funds for the HOPE SF Project at Hunters View

Row	City Funds	
A	Proposed COPs Issuance (subject of Files 10-1158 and 10-1192)	\$38,000,000
B	General Fund Contributions ²	4,148,419
C	Other MOH Contributions ³	2,851,581
D	Subtotal Local Funds	\$45,000,000
	Other Public Funds	
E	San Francisco Housing Authority Deferred Loan ⁴	8,087,723
F	San Francisco Housing Authority Cash from Land Sales ⁵	9,175,000
G	San Francisco Redevelopment Agency Deferred Loan ⁶	37,253,970
H	State Infill and Infrastructure Grant (subject of File 10-1167)	30,000,000
I	State Multi-family Housing Program Deferred Loan ⁷	10,000,000
J	Federal Grants ⁸	20,000,000
K	Subtotal State Funds	\$114,516,693
L	Private Investor Contributions ⁹	99,138,224
M	Total Sources	\$258,654,917

A discussion of the financing sources which are the subject of the proposed legislation including (a) \$38,000,000 in COPs (Files 10-1158 and 10-1192), and (b) \$30,000,000 in State Infill Infrastructure Grant (File 10-1167) follows.

² According to Mr. Adelman, the \$4,148,419 in General Fund monies includes (a) \$1,500,000 which was previously appropriated to MOH by the Board of Supervisors in the FY 2007-2008 budget, and (b) \$2,648,419 which will be requested for future appropriation, subject to approval by the Board of Supervisors.

³ Mr. Adelman stated Other MOH Contributions totaling \$2,851,581 include (a) \$597,500 in Federal grant monies administered by MOH, who in turn awarded such funds to the HOPE SF Project at Hunters View, and (b) \$2,254,081 a deferred loan (see Footnote 4 below) to the project by MOH, funded through a work order from SFRA.

⁴ For the purposes of this report, "deferred" loans are loans provided to the joint venture project developer which are not required to be repaid unless the affordability of the housing units is reduced in any way. According to Mr. Adelman, the terms of these loans guarantees affordability for at least 55 years, at which time the loan becomes repayable, or can continued to be deferred with a negotiated extension of the period of affordability.

⁵ The contribution of \$9,175,000 from SFHA is from the proceeds SFHA anticipates from selling land where the 380 new for-sale housing units will be built (including 59 affordable for-sale housing units) to be constructed and entirely financed by the joint venture private developer (see Footnote 1 above).

⁶ Mr. Adelman stated that SFRA typically approves deferred loans as project funding is needed, such that the SFRA deferred loan of \$37,253,970 includes (a) \$9,817,251 in previously approved and awarded deferred loans, and (b) \$27,436,719 in anticipated deferred loans which have not yet been provided to the project. Mr. Adelman noted that such deferred loans are not subject to an application and award process, as grants are, and that the subject deferred loans are included in SFRA's funding plan.

⁷ According to Mr. Adelman, the \$10,000,000 in Multi-family Housing Program Deferred Loan were previously approved and awarded by the State.

⁸ According to Mr. Adelman, the Federal Grant of \$20,000,000 under the Housing and Urban Development (HUD) HOPE VI grant program, has not yet been approved. Mr. Adelman stated that SFRA will apply for the grant in November of 2010, and anticipates award between January and March of 2011. Mr. Adelman also noted that the City has previously received five awards of HUD HOPE VI grants, and is therefore confident that the additional \$20,000,000 in HOPE VI grants will be awarded.

⁹ Private Investor Contributions include (a) \$147,579 in cash investment plus (b) \$98,990,645 in anticipated proceeds from the sale by the joint venture private developer of Federal Income Tax credits for affordable housing projects.

Certificates of Participation (COPs)

As shown in Row A of Table 1 above, funding for the MOH's HOPE SF Project at Hunters View includes \$38,000,000 in Certificates of Participation. The proposed ordinances would (a) approve the not-to-exceed issuance of \$38,000,000 in COPs (File 10-1158) and (b) appropriate the proceeds from such an issuance (File 10-1192), placing the entire appropriation on Controller's reserve pending the sale of the proposed COPs and the related short-term commercial paper (see Policy Considerations Section below).

The proposed ordinance (File 10-1158) would also provide the Director of Finance with the discretionary authority to (a) sell any portion of the proposed COPs through either a negotiated or competitive sale, and (b) designate any portion of the proposed COPs as Federally Taxable debt where it is required according to Federal Tax Law.

The proposed ordinance (File 10-1158) would additionally provide the Director of Public Finance with the discretionary authority to designate any portion of the proposed COPs which would be eligible to be exempt from Federal Income Tax as Federally Taxable Build America Bonds. Typically, the City sells COPs which are exempt from Federal Income Taxes. However, under provisions of the Federal American Recovery and Reinvestment Act of 2009, a new category of taxable bonds were created called Build America Bonds. In accordance with the sale of Build America Bonds, the Federal government pays the City an amount approximating the Federal Income Taxes payable by the investor for received interest income. Ms. Sesay stated that there are some unique risks associated with the sale of the Build America Bonds, such as (a) whether the Build America Bond program might be altered or repealed in the future by Congress and (b) the timeliness of payments by the Federal government to the City of the Federal Income Taxes which the Federal Government received from the bondholder. Therefore, the proposed ordinance provides the Director of Public Finance with the discretionary authority to designate a portion of the proposed COPs as Federally Taxable Build America Bonds if such a sale is considered to be in the best interest of the City.

Infill and Infrastructure Grant

As shown in Row H of Table 1 above, the proposed resolution (File 10-1167) would authorize the acceptance and expenditure of \$30,000,000 in Infill Infrastructure Grant funds from the California State Department of Housing and Community Development for the Mayor's Office of Housing's HOPE SF Project in Hunters View. According to Mr. Adelman, on May 20, 2010, the Department of Housing and Community Development awarded the subject \$30,000,000 to the MOH for redesigning and replacing major site infrastructure at the HOPE SF Project in Hunters View including (a) roads, (b) sidewalks, and (c) utility lines.

As discussed above, Table 1 shows the sources of funds for the HOPE SF Project at Hunters View totaling \$258,654,917. Table 2 below shows the uses of such funds also totaling \$258,654,917.

Table 2: Uses of Funds for the HOPE SF Project at Hunter's View

Row	Project Costs	
N	Construction	\$209,632,471
O	Design, Engineering, and Environmental Review	15,794,084
P	Legal Costs and Other Fees	19,074,343
Q	Relocation Costs	1,154,019
R	Total Project Costs	\$245,654,917
	COP Costs	
S	Financing Reserve Amount to Allow For Market Fluctuations ¹⁰	2,890,000
T	Debt Service Reserve Fund	3,387,800
U	Capitalized Interest ¹¹	5,617,600
V	Costs of Issuance and Underwriter's Discount	1,104,600
W	Subtotal COP Costs	\$13,000,000
X	Total Uses	\$258,654,917

FISCAL IMPACT

Certificates of Participation (COPs)

Ms. Sesay anticipates issuing \$35,110,000 in COPS (\$38,000,000 less the \$2,890,000 in reserve to allow for market fluctuations shown in Row S of Table 2 above), at an annual interest rate of 8.0 percent and average annual debt service of approximately \$3,058,000, for a total debt service over 25 years of \$82,076,000¹² including (a) interest payments of \$46,966,000 and (b) principal payments of \$35,110,000.

Ms. Sesay stated that the \$3,058,000 average annual debt service payments would be paid over the next 25 years with General Fund revenues subject to annual appropriations approval by the Board of Supervisors to the HOPE SF Fund established under City Administrative Code Section 10.100-370. Section 10.100-370 states that "it shall be the policy of the City" to make annual deposits to the HOPE SF Fund in the amount of \$5,000,000, such that the annual contributions of \$5,000,000 would be more than sufficient to pay the average annual debt services of \$3,058,000.

¹⁰ According to Ms. Sesay, the current estimated amount of COPs to be issued is \$35,110,000, or \$2,890,000 less than the proposed not-to-exceed amount of \$38,000,000. Ms. Sesay noted that the requested excess amount of \$2,890,000 (as shown in Row S of Table 2 above) provides sufficient additional funds for potential market fluctuations between the time of approval of the COPs and the anticipated COP issuance date of October of 2012 (see Policy Considerations Section below for a discussion on the reason OPF is requesting issuance authority two years in advance of the anticipated issuance date).

¹¹ According to Ms. Sesay, due to anticipated future budget constraints, \$5,617,600 of the proposed issuance of \$38,000,000 in COPs would be set aside to create a Capitalized Interest fund (Row U of Table 2 above), from which interest-only debt service payments will be made from the anticipated issuance date of October of 2012 through October of 2014. After the Capitalized Interest fund (initially funded from the proceeds of the proposed COP issuance) is depleted in October of 2014, the City will use ongoing General Fund appropriations to make interest and principal debt service payments through the term of the COPs.

¹² According to Ms. Sesay, the average annual debt service of \$3,058,000 does not equal the total debt service of \$82,076,000 divided by 25 years because the average does not include interest only debt service payments made from the capitalized interest fund.

Infill and Infrastructure Grant

The proposed resolution would authorize the acceptance and expenditure of \$30,000,000 in Infill Infrastructure Grant funds from the California State Department of Housing and Community Development for the Mayor's Office of Housing's HOPE SF Project in Hunters View. As discussed above, the \$30,000,000 in grant funds would be used to finance the construction of infrastructure in Hunters View including (a) roads, (b) sidewalks, and (c) utility lines. Mr. Adelman noted that all \$30,000,000 of grant funds would be used to partially finance the \$209,632,471 in total project construction costs shown in Table 2 above.

The subject grant does not require any matching funds to be provided by the City, such that the proposed resolution does not have a fiscal impact on the City.

POLICY CONSIDERATION

The proposed issuance of COPs is not anticipated to occur for two years.

As discussed above, Ms. Sesay anticipates issuing the proposed COPs in October of 2012, or approximately two years from the writing of this report. Ms. Sesay stated that prior to the anticipated COPs issuance date of October of 2012, the Office of Public Finance (OPF) intends to provide the needed project financing to the HOPE SF Project in Hunters View beginning in December of 2010 (the date which construction is anticipated to begin) through the issuance of short-term debt known as commercial paper. Ms. Sesay further advises that, after the issuance of the COPs in October of 2012, the OPF would then repay such short-term commercial paper debt with the proceeds from the proposed issuance of COPs¹³.

Ms. Sesay stated that OPF is requesting approval to issue the COPs two years in advance of the anticipated COP issuance date because, according to the commercial paper program previously authorized by the Board of Supervisors on March 17, 2009 (File 09-0197), prior to issuing any short-term commercial paper, OPF must have approval from the Board of Supervisors to issue the long term COPs which will refund previously issued short term commercial paper.

Ms. Sesay noted that the exact amount of commercial paper which will be issued and subsequently refunded from the proceeds from the proposed COPs is not currently known because in order to minimize the City's overall cost of borrowing, OPF continuously evaluates whether or not, based on ongoing changes in market conditions, it is in the best interest of the City to issue short-term commercial paper as compared to issuing long-term Certificates of Participation.

¹³ Ms. Sesay stated that short-term commercial paper does not require debt service payments, such that interest compounds on the amount of outstanding commercial paper until the date when the short-term commercial paper is refunded with the proposed COP issuance. Ms. Sesay noted that the \$5, 617,600 capitalized interest account shown in Table 2 above includes sufficient funds to pay any interest due on the refunded commercial paper. The principal amount of any issued short term commercial paper would be refunded from the \$25,000,000 in project funds generated by the COPs (\$38,000,000 in total issuance authority less the \$13,000,000 in financing costs shown in Table 2 above).

The debt service on the proposed issuance of COPs would be paid from the City's General fund, while the proceeds of the COP issuance would provide for the construction of privately owned buildings.

As discussed above, the proposed HOPE SF Project at Hunters View provides for the construction of 350 affordable housing units (replacement of 267 existing public housing units plus 83 new units) which would be privately owned buildings. All the newly constructed affordable housing rental units would be constructed on SFHA-owned land, but the actual buildings would be owned by the joint venture. Therefore, the annual debt service paid from the City's General Fund to repay the proposed issuance of \$38,000,000 in COPs, would provide for capital improvements to privately owned property.

According to Mr. Adelman, affordable rental housing units are considered public assets regardless of the owner of such affordable rental housing units, and the proposed COP issuance is in the best interest of the City because the proposed COP issuance will result in an overall increase in the number of affordable rental housing units. Mr. Adelman noted that MOH has previously provided funding to over 11,000 privately owned affordable rental housing units, such that the proposed issuance of City debt to finance privately owned affordable rental housing units is, according to Mr. Adelman, the prevailing structure with which affordable housing is developed nationwide.

Conclusion

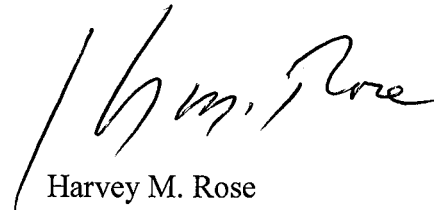
The Budget and Legislative Analyst note that (a) as of the writing of this report, the Real Estate Division had not yet finalized the estimated value of the subject police stations which would serve as collateral on the proposed COPs, and (b) not all funding sources for the SF HOPE Project at Hunters View have been secured (see Footnotes 7 and 9). As discussed above, the project is to be constructed in phases, and as such, according to Mr. Adelman, it is typical to secure funding by phase instead of securing all of the project funding prior to beginning the project.

However, due to the uncertainty regarding (a) the value of the two police stations, including the Mission Police Station and the Bayview Police Station, both of which would serve as collateral for the proposed COPs, and (b) the uncertainty as to the availability of the \$20,000,000 in HUD grant funds which have not yet been awarded (see Footnote 8 above) and are necessary to complete the project, the Budget and Legislative Analyst considers approval of the proposed ordinances to issue COPs and appropriate the proceeds of such COPs to be a policy matter for the Board of Supervisors.

However, because the proposed resolution (File 10-1167) to accept and expend grant funds does not require any matching funds from the City's General Fund, the Budget and Legislative Analyst recommends approval of the proposed resolution (10-1167).

RECOMMENDATIONS

1. Approval of the proposed ordinances (Files 10-1158 and 10-1192) is a policy decision for the Board of Supervisors.
2. Approve the proposed resolution (File 10-1167).



Harvey M. Rose

cc: Supervisor Avalos
Supervisor Mirkarimi
Supervisor Elsbernd
President Chiu
Supervisor Alioto-Pier
Supervisor Campos
Supervisor Chu
Supervisor Daly
Supervisor Dufty
Supervisor Mar
Supervisor Maxwell
Clerk of the Board
Cheryl Adams
Controller
Greg Wagner