

File No. 101158

Committee Item No. 10
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: October 13, 2010

Board of Supervisors Meeting

Date _____

Cmte Board

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Completed by: Victor Young
Completed by: Victor Young

Date: October 8, 2010
Date: _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

[Taxable and/or Tax Exempt Certificates of Participation (HOPE SF) - Not to Exceed \$38,000,000]

Ordinance authorizing the execution and delivery of Taxable and/or Tax Exempt Certificates of Participation (HOPE SF) in an aggregate principal amount not to exceed \$38,000,000 to finance certain capital improvement projects; approving the form of a Trust Agreement between the City and County of San Francisco and the trustee (including certain indemnities contained therein); granting authorization for the selection of a trustee; approving the form of a Property Lease between the City and the Trustee named therein relating to certain property generally known as the Mission Police Station, certain property generally known as the Bayview Station of the San Francisco Police Department and certain other City-owned property; approving the form of a Project Lease between the City and the Trustee (including certain indemnities contained therein); delegating to the Director of Public Finance the authority to sell the Certificates of Participation by either a competitive or negotiated sale; approving the form of an Official Notice of Sale and a Notice of Intention to Sell the Taxable and/or Tax Exempt Certificates of Participation (HOPE SF), if sold by competitive sale; authorizing certain actions relating to the Taxable and/or Tax Exempt Certificates of Participation (HOPE SF), if sold by negotiated sale including approving the form of a Purchase Contract between the City and an underwriter named therein; approving the form of an Official Statement in preliminary form; approving the form of a Continuing Disclosure Certificate; granting general authority to City officials to take necessary actions in connection with the authorization, sale, execution and delivery of the Taxable and/or Tax Exempt Certificates of Participation (HOPE SF); approving

1 **modifications to documents; and ratifying previous actions taken in connection**
2 **therewith.**

3
4 WHEREAS, The City established the HOPE SF program in 2007 to rebuild its severely
5 distressed public housing sites, while increasing affordable housing and ownership
6 opportunities and improving the quality of life for existing residents and the surrounding
7 communities; and

8 WHEREAS, The Board of Supervisors of the City and County of San Francisco (the
9 "Board of Supervisors" or the "Board") desires to provide for the financing of a portion of the
10 HOPE SF program (the "Project") with proceeds from the sale of taxable and/or tax exempt
11 certificates of participation (the "Certificates"), and to authorize the delivery in the form of
12 taxable Build America Bonds, as defined herein, of all or a portion of any taxable Certificates
13 delivered; and

14 WHEREAS, In connection with the Certificates, the City shall enter into a property
15 lease, a project lease, a trust agreement and certain other related documents; and

16 WHEREAS, The Certificates will be payable from rental payments paid by the City for
17 the use and occupancy of certain land and facilities subject to the project lease; and

18 WHEREAS, This Board has been presented with the form of certain documents
19 referred to herein relating to the Certificates, and the Board has examined and is approving
20 each document and desires to authorize and direct the execution of such documents and the
21 consummation of such financing; and

22 WHEREAS, The adoption of this Ordinance shall constitute authorization of the
23 Certificates as obligations within the meaning of Section 864 of the California Code of Civil
24 Procedure and Section 53511 of the Government Code and any Validation Act that is effective
25 after this Ordinance is adopted; and

1 WHEREAS, The Certificates may be sold by competitive sale pursuant to an official
2 notice of sale and a notice of intention to sell or, in accordance with certain procedures, by
3 negotiated sale pursuant to a purchase contract; and

4 Be it ordained by the People of the City and County of San Francisco, as follows:

5 Section 1. Recitals. All of the recitals herein are true and correct.

6 Section 2. Conditions Precedent. All conditions, things and acts required by law to
7 exist, to happen and to be performed precedent to the execution and delivery of the
8 Certificates shall exist, have happened and have been performed in due time, form and
9 manner in accordance with applicable law, and the City is authorized pursuant to its charter
10 and applicable law to enter into the transactions described herein in the manner and form
11 provided in this Ordinance.

12 Section 3. File Documents. The documents presented to this Board and on file with the
13 Clerk of the Board or a designee of said clerk (collectively and individually, the "Clerk of the
14 Board") are contained in File No. 101158.

15 Section 4. Approval of the Certificates. The Board hereby approves the execution and
16 delivery of the Certificates, which shall be executed and delivered on or before June 30, 2013
17 and in accordance with the Trust Agreement, defined below, between the City and the trustee
18 named therein (the "Trustee"), as the same is finally executed and delivered. The proceeds of
19 the Certificates will be used to (i) finance the Project; (ii) fund a reserve fund or the costs of a
20 reserve surety policy, if any, as the Controller of the City or a designee of the controller
21 (collectively and individually, the "Controller") shall determine; (iii) fund capitalized interest
22 when due, if necessary or desirable; and (iv) pay costs of execution and delivery of the
23 Certificates. The Certificates shall be designated as "City and County of San Francisco
24 Certificates of Participation (HOPE SF)" or such other designation as deemed appropriate by
25 the Director of Public Finance of the City or a designee of said director (collectively and

1 individually, the "Director of Public Finance"). The Certificates, if sold and delivered in both
2 taxable and tax exempt form and/or as Build America Bonds, may be designated as separate
3 series. "Build America Bonds" means any taxable Certificates issued in the manner
4 authorized by the American Recovery and Reinvestment Act of 2009, as hereafter revised or
5 amended, and in compliance with the provisions of Section 54AA of the Internal Revenue
6 Code of 1986 (the "Code"), to finance capital expenditures.

7 The Trustee shall be authorized to cause the execution and delivery of the Certificates
8 in an aggregate principal amount not to exceed \$38,000,000, with an interest rate not to
9 exceed 12 percent per annum. The Certificates shall be subject to prepayment as set forth in
10 the Trust Agreement. To the extent deemed necessary or desirable by the Director of Public
11 Finance, this Board authorizes the procurement of credit enhancement for the Certificates,
12 including, but not limited to, municipal bond insurance or a debt service reserve fund surety
13 policy, if any. Notwithstanding Section 16 hereof, the documents authorized herein may be
14 modified or amended to permit the procurement of credit enhancement for the Certificates, to
15 the extent deemed necessary or desirable by the Director of Public Finance, upon
16 consultation with the City Attorney.

17 Section 5. Approval of the Trust Agreement; Authorization for Selection of Trustee. The
18 form of a trust agreement (the "Trust Agreement") between the City and the Trustee, as
19 presented to this Board, a copy of which is on file with the Clerk of the Board, is hereby
20 approved. The Mayor of the City or a designee of the Mayor (collectively, the "Mayor") is
21 hereby authorized to execute the Trust Agreement, and the Clerk of the Board is hereby
22 authorized to attest to and affix the seal of the City on the Trust Agreement, with such
23 changes, additions and modifications as the Mayor may make or approve in accordance with
24 Section 16 hereof. The Director of Public Finance is hereby authorized to select the Trustee
25 in accordance with City policies and procedures, including but not limited to, the City's policy

1 to provide locally disadvantaged minority business enterprises and women enterprises equal
2 opportunity to participate in the performance of all City contracts.

3 In connection with any Build America Bonds, the Director of Public Finance is
4 authorized to make any necessary or desirable changes to the Trust Agreement, including but
5 not limited to any election required so that the City is entitled, with respect to such Certificates,
6 to receive interest subsidy payments pursuant to Section 6431 of the Code. If such election is
7 made, the Director of Public Finance is further authorized to approve language to be inserted
8 into the Trust Agreement, and/or to enter into a separate agreement with the Trustee, to
9 require the Trustee to file any documentation or certificates with the Internal Revenue Service
10 required in connection with any such interest subsidy payments.

11 Section 6. Approval of the Property Lease. The form of a property lease (the "Property
12 Lease") between the City and the Trustee, as presented to this Board, a copy of which is on
13 file with the Clerk of the Board, is hereby approved. The Mayor is hereby authorized to
14 execute the Property Lease, and the Clerk of the Board, is hereby authorized to attest to and
15 affix the seal of the City on the Property Lease, with such changes, additions and
16 modifications as the Mayor may make or approve in accordance with Section 16 hereof.

17 Section 7. Approval of the Project Lease; Approval of Base Rental Payments. The form
18 of a project lease between the City and the Trustee (the "Project Lease"), providing for the
19 financing of the Project, as presented to this Board, a copy of which is on file with the Clerk of
20 the Board, is hereby approved. The Mayor is hereby authorized to execute the Project Lease,
21 and the Clerk of the Board is hereby authorized to attest and to affix the seal of the City on the
22 Project Lease with such changes, additions and modifications as the Mayor may make or
23 approve in accordance with Section 16 hereof, provided however, that the maximum Base
24 Rental (as defined in the Project Lease) scheduled to be paid under the Project Lease for the
25 use and occupancy of certain land and facilities (the "Leased Property"), in any fiscal year

1 shall not exceed \$4.5 million and the term of the Project Lease shall not extend beyond 35
2 years.

3 Section 8. Approval of the Leased Property. The Board hereby approves of the use
4 and occupancy of all or a portion of the Leased Property by the City. The Board also hereby
5 approves of the payment by the City of the Base Rental for the use and occupancy of all or a
6 portion of the following Leased Property: Mission Police Station, located at 630 Valencia
7 Street in the City, Bayview Station of the San Francisco Police Department, located at 201
8 Williams Avenue in the Bayview District of the City, and certain other City-owned property not
9 specifically named herein.

10 Section 9. Sale and Award of Certificates by Competitive Sale. In the event the Director
11 of Public Finance determines to sell the Certificates by competitive sale, the Director of Public
12 Finance, on behalf of the Controller, is hereby authorized and directed to receive bids for the
13 purchase of the Certificates, and the Controller is hereby authorized and directed to award the
14 Certificates to the bidder whose bid represents the lowest true interest cost to the City, all in
15 accordance with the procedures described in the Official Notice of Sale (as defined herein).

16 Section 10. Approval of Form of Official Notice of Sale. The form of an official notice of
17 sale relating to the Certificates (the "Official Notice of Sale"), as presented to this Board, a
18 copy of which is on file with the Clerk of the Board, is hereby approved. The Director of Public
19 Finance is hereby authorized to approve the distribution of an Official Notice of Sale for the
20 Certificates, with such changes, additions modifications or deletions as the Director of Public
21 Finance may approve upon consultation with the City Attorney; such approval to be
22 conclusively evidenced by the distribution of the Official Notice of Sale to potential purchasers
23 of the Certificates.

24 Section 11. Approval of Notice of Intention to Sell Relating to the Certificates. The form
25 of a notice of intention to sell relating to the Certificates (the "Notice of intention to Sell"), as

1 presented to this Board, a copy of which is on file with the Clerk of the Board, is hereby
2 approved. The Director of Public Finance is hereby authorized to approve the publication of
3 the Notice of Intention to Sell relating to the Certificates, with such changes, additions,
4 modifications or deletions as the Director of Public Finance may approve upon consultation
5 with the City Attorney; such approval to be conclusively evidenced by the publication of the
6 Notice of Intention to Sell relating to the Certificates.

7 Section 12. Authorization for Negotiated Sale; Approval of Purchase Contract;
8 Selection of Underwriters. The Director of Public Finance, in consultation with the Controller,
9 is hereby authorized to sell the Certificates by negotiated sale pursuant to one or more
10 purchase contracts (the "Purchase Contract") by and between the City and the underwriter(s)
11 named therein, if the Director determines that such manner of sale is in the best interest of the
12 City, such determination to be conclusively evidenced by the execution and delivery of a
13 purchase contract for the Certificates. The form of such Purchase Contract as presented to
14 this Board, a copy of which is on file with the Clerk of the Board, is hereby approved. The
15 Controller is hereby authorized to execute the Purchase Contract with such charges, additions
16 and modifications as the Controller may make or approve in accordance with Section 16
17 hereof; provided however, that the Underwriters' discount under any such Purchase Contract
18 shall not exceed 2.00% of the principal amount of the Certificates. In order to facilitate the
19 sale of the Certificates by negotiated sale, the Director of Public Finance is hereby authorized
20 and directed to appoint one or more financial institutions to act as underwriter for the
21 Certificates in accordance with City policies and procedures, including, but not limited to, the
22 City's policy to provide locally disadvantaged minority business enterprises and women
23 enterprises an equal opportunity to participate in the performance of all City contracts.

24 Section 13. Approval of the Official Statement in Preliminary and Final Form. The form
25 of an official statement relating to the Certificates (the "Official Statement"), as presented to

1 this Board, a copy of which is on file in preliminary form with the Clerk of the Board, is hereby
2 approved. The Director of Public Finance and the Controller, each, is hereby authorized to
3 approve the preliminary Official Statement in said form, with such changes, additions,
4 modifications or deletions as either officer may approve upon consultation with the City
5 Attorney, and to deem the preliminary Official Statement final for purposes of Rule 15c2-12 of
6 the Securities and Exchange Act of 1934, as amended, to execute a certificate to that effect,
7 and to cause the preliminary Official Statement to be delivered, in printed or electronic form, to
8 potential purchasers of the Certificates, such approval to be conclusively evidenced by the
9 delivery of said deemed-final certificate. The Controller is hereby further authorized and
10 directed to sign the Official Statement in final form. The Controller or the Director are hereby
11 authorized to direct the Co-Financial Advisors to cause to be printed and mailed, or distributed
12 electronically, to prospective bidders, copies of the Preliminary Official Statement and the final
13 Official Statement.

14 Section 14. Approval of the Continuing Disclosure Certificate. The form of a Continuing
15 Disclosure Certificate of the City, as presented to this Board, a copy of which is on file with the
16 Clerk of the Board, is hereby approved. The Controller is hereby authorized to execute the
17 Continuing Disclosure Certificate, with such changes, additions, modifications or deletions as
18 the Controller may approve upon consultation with the City Attorney; such approval to be
19 conclusively evidenced by the execution and delivery of the Continuing Disclosure Certificate.

20 Section 15. General Authority. The Mayor, the City Attorney, the Controller, the Director
21 of Public Finance, the Clerk of the Board and other officers of the City and their duly
22 authorized deputies and agents are hereby authorized and directed, jointly and severally, to
23 take such actions and to execute and deliver such certificates, agreements, requests or other
24 documents as they may deem necessary or desirable to accomplish the proposed financing
25 through the execution and delivery of the Certificates, to enter into the Trust Agreement,

1 Property Lease, Purchase Contract, if any, and Project Lease, to facilitate the execution and
2 delivery of the Certificates, to prepare and deliver or cause to be prepared and delivered such
3 certificates and documents necessary in connection with the Build America Bonds, including
4 any elections or determinations required in connection therewith, to obtain bond insurance or
5 other credit enhancements with respect to the financing of the Project, to obtain title
6 insurance, clear any encumbrances to title, survey property and carry out other title work and
7 otherwise to carry out the provisions of this Ordinance.

8 Section 16. Modifications, Changes and Additions. The Mayor or the Controller is
9 hereby authorized to approve and make such modifications, changes or additions to the Trust
10 Agreement, Property Lease, Continuing Disclosure Certificate, Purchase Contract or the
11 Project Lease, upon consultation with the City Attorney, as may be necessary or desirable in
12 the interests of the City, and which changes do not materially increase the obligations of the
13 City under the Trust Agreement, Property Lease, Purchase Contract or the Project Lease. The
14 Mayor's or the Controller's approval of such modifications, changes or additions shall be
15 conclusively evidenced by the execution and delivery by the Mayor and the Clerk of the Board
16 of the Trust Agreement, Property Lease and the Project Lease and by the execution and
17 delivery by the Controller of the Continuing Disclosure Certificate and Purchase Contract, if
18 any.

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24 ///
25 ///

1 Section 17. Ratification of Prior Actions. All actions authorized and directed by this
2 Ordinance and heretofore taken are hereby ratified, approved and confirmed by this Board.

3
4 APPROVED AS TO FORM:

5 DENNIS J. HERRERA
6 City Attorney

7 By: Kenneth David Roux
8 KENNETH DAVID ROUX
9 Deputy City Attorney



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director *NS*
Office of Public Finance

SUBJECT: Ordinance Authorizing the Execution and Delivery of Certificates of Participation (HOPE SF)

DATE: September 13, 2010

Approval of the Ordinance would authorize the City to issue not to exceed par amount of \$38,000,000 in City and County of San Francisco Certificates of Participation (HOPE SF), Series 2011B (the "Certificates") to finance capital improvements described below. The City anticipates issuing the Certificates in October 2012.

Background:

Under the proposed Ordinance, the City will structure the Certificates as an abatable asset-transfer lease by and between the City and a third-party trustee pursuant to the Property Lease, Project Lease and Trust Agreement. It is anticipated that the City-owned Mission Police Station located at 630 Valencia Street and Bayview Police Station located at 201 Williams Avenue (the "Leased Property") will serve as collateral for the Certificates to secure the City's repayment obligations under the leases.

The Project Lease requires the City to make base rental payments on each March 25 and September 25 during the term of the Project Lease, commencing on March 25, 2013 and semi-annually thereafter, in an amount sufficient to pay total lease payments when due.

A trust agreement between the City and a trustee requires that the rental payments be deposited in the debt service fund maintained by the trustee. On April 1 and October 1 of each year, commencing April 1, 2013 and semi-annually thereafter, the trustee will apply such amounts as is necessary to make rental payments with respect to the Certificates.

Based upon conservative estimates, the Office of Public Finance estimates that fiscal year net base rental payments on the Certificates average approximately \$3,058,000. The total estimated par amount of \$35,110,000 is estimated to result in approximately \$46,966,000 in interest payments over the life of the Certificates. The net base rental payments over the life of the Certificates total approximately \$76,459,000.

Proceeds of the Certificates may be used to reimburse the City for funds advanced from the City's general fund for the Project, and to repay any outstanding commercial paper certificates of participation issued to provide interim financing for the Project.

The Preliminary Official Statement: The proposed Ordinance also approves the form of Preliminary and final Official Statement relating to the Certificates (the "Official Statement"). The Official Statement has been updated to reflect the City's financial condition, including the Mayor's submission of the Proposed Budget; the Controller's release of the Revenue Letter; and the adoption by the Board and approval by the Mayor of the Original Budget. The information contained in the Appendix A to the Official Statement was updated as of August 31, 2010 and was prepared by City staff for inclusion in the Official Statement.

Federal securities laws impose on the City the obligation to ensure that its offering documents are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the disclosure documents as well as City staff charged with preparing the documents. The Official Statement is attached for your approval prior to its publication.

Method of Sale: In connection with the execution and delivery of the Certificates, the proposed Ordinance delegates to the Director of Public Finance the authority to sell the Certificates by either a competitive or negotiated sale, subject to the Director of Public Finance's determination that a negotiated sale will result in the lowest borrowing cost to the City. The Ordinance authorizes the sale of the Certificates by negotiated sale pursuant to a Purchase Contract, if a negotiated sale is expected to provide the lower cost of borrowing as compared to a competitive sale method. If a negotiated sale method is pursued, one or more firms from the City's underwriter pool will be selected to serve as underwriter(s) for the Certificates.

Build America Bonds: The City customarily issues federally tax-exempt bonds to finance its various capital improvements. Under the provisions of the American Recovery and Reinvestment Act of 2009 (the "Act"), a new category of taxable bonds was created to finance certain governmental purposes called Build America Bonds ("BABs"). BABs are a type of long-term taxable obligation that would otherwise qualify for tax exemption. Under the Act or under any other provision of the Internal Revenue Code that creates a substantially similar direct-pay subsidy program in the future, the City may elect to issue the Certificates as taxable obligations where the interest portion of payments made by the City to investors for the Certificates is taxable. On each interest payment date, the City will elect to receive payments from the federal government based upon the payments made by the City for the Certificates allocable to interest.

The City is considering the BABs in connection with the issuance of the Certificates. There are, however, legal issues/risks associated with BABs, including 1) whether the federal payments

**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

Legislative Objectives

- 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).

Key Points

- 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).

Fiscal Impact

- 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) Sunnysdale, (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

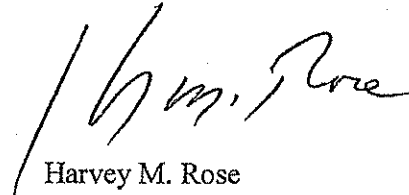
The Budget and Legislative Analyst note that (a) as of the writing of this report, the Real Estate Division had not yet finalized the estimated value of the subject police stations which would serve as collateral on the proposed COPs, and (b) not all funding sources for the SF HOPE Project at Hunters 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