

File No. 201006

Committee Item No. 3

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date October 7, 2020

Board of Supervisors Meeting

Date _____

Cmte Board

- Motion
- Resolution
- Ordinance
- Legislative Digest
- Budget and Legislative Analyst Report
- Youth Commission Report
- Introduction Form
- Department/Agency Cover Letter and/or Report
- MOU
- Grant Information Form
- Grant Budget
- Subcontract Budget
- Contract/Agreement
- Form 126 – Ethics Commission
- Award Letter
- Application
- Public Correspondence

OTHER (Use back side if additional space is needed)

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Completed by: Linda Wong

Date October 2, 2020

Completed by: Linda Wong

Date _____

1 [Appropriation - Certificates of Participation to Department of Public Health - 101 Grove Exit
2 Project and San Francisco General Hospital Chiller and Cooling Tower Replacement Project
3 - \$149,750,000 - FY2020-2021]

4 **Ordinance appropriating \$149,750,000 of Certificates of Participation proceeds for**
5 **Department of Public Health to fund improvements to facilities for the 101 Grove Exit**
6 **Project and the San Francisco General Hospital Chiller and Cooling Tower**
7 **Replacement Project in FY2020-2021; and placing these funds on Controller’s**
8 **Reserve pending the sale of the Certificates of Participation.**

9

10 Note: Additions are single-underline italics Times New Roman;
11 deletions are ~~strikethrough italics Times New Roman~~.
12 Board amendment additions are double underlined.
13 Board amendment deletions are ~~strikethrough normal~~.

13

14 Be it ordained by the People of the City and County of San Francisco:

15

16 Section 1. The sources of funding outlined below are herein appropriated to reflect
17 the funding available in Fiscal Year 2020-2021. Commercial Paper may be used as a
18 funding source in the interim, prior to sale of the Certificates of Participation.

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1 **SOURCES Appropriation**

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3	Fund / Department ID	Project & Activity / Authority	Account	Description	Amount
4	15383 CPXCF	10035436 - 0001	480141	Proceeds from	\$106,750,000
5	DPH 101Grove /	HC COP Project Reserves -	Proceeds from	Certificates of	
6	251912 HAD DPH	Master Project Reserves /	Certificates of	Participation	
7	Admin Exec	11159 - HC DPH Civic Center	Participation		
8		Relocation			
9					
10	21281 SFGH-2020	10009193 - 0009	480141	Proceeds from	\$43,000,000
11	COP / 251664	HG Chiller And Generator -	Proceeds from	Certificates of	
12	HGH Construction	HG CHILLER REPLACE	Certificates of	Participation	
13		PWRPLNT CHN /	Participation		
14		11258 - HG SFGH Chiller and			
15		Generator			
16	Total Sources Appropriation				\$149,750,000

17

18 Section 2. The uses of funding outlined below are herein appropriated in FY 2020-
 19 2021 and reflect the projected uses of funding for Department of Public Health for
 20 improvements to facilities for the 101 Grove Exit Project and the San Francisco General
 21 Hospital Chiller and Cooling Tower Replacement Project.

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1 **USES Appropriation**

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3 **Fund / Project & Activity / Account Description Amount**
Department ID Authority

4 15383 CPXCF 10036218 - 0002 567000 Project Fund - \$84,000,000

5 DPH 101Grove / HA K & M Renovation - Bldgs,Struct&Imprv LHH

6 251912 HAD DPH COP Funding / Proj-Budget Improvements,

7 Admin Exec 11159 - HC DPH Civic K&M

8 Center Relocation

9

10 15383 CPXCF 10036219 - 0002 567000 Project Fund - \$2,500,000

11 DPH 101Grove / HP AITC Relocation - COP Bldgs,Struct&Imprv AITC

12 251974 HPH Funding / Proj-Budget

13 DiseaseCntl 11159 - HC DPH Civic

14 Center Relocation

15

16 15383 CPXCF 10035436 - 0001 581130 City Services \$173,000

17 DPH 101Grove / HC COP Project Reserves - GF-Con-Internal Auditor 0.2%

18 251912 HAD DPH Master Project Reserves / Audits Audit Fee

19 Admin Exec 11159 - HC DPH Civic

20 Center Relocation

21

22 15383 CPXCF 10035436 - 0001 573610 Debt Service \$9,490,000

23 DPH 101Grove / HC COP Project Reserves - COI - Certificate of Reserve Fund

24 251912 HAD DPH Master Project Reserves / Participation

25 Admin Exec 11159 - HC DPH Civic

Center Relocation

1	Fund / Department ID	Project & Activity / Authority	Account	Description	Amount
2	15383 CPXCF	10035436 - 0001	573610	Capitalized	\$6,792,500
3	DPH 101Grove /	HC COP Project Reserves -	COI - Certificate of	Interest Fund	
4	251912 HAD DPH	Master Project Reserves /	Participation		
5	Admin Exec	11159 - HC DPH Civic			
6		Center Relocation			
7					
8	15383 CPXCF	10035436 - 0001	573610	Costs of	\$644,500
9	DPH 101Grove /	HC COP Project Reserves -	COI - Certificate of	Issuance	
10	251912 HAD DPH	Master Project Reserves /	Participation		
11	Admin Exec	11159 - HC DPH Civic			
12		Center Relocation			
13					
14	15383 CPXCF	10035436 - 0001	573610	Underwriter's	\$900,000
15	DPH 101Grove /	HC COP Project Reserves -	COI - Certificate of	Discount	
16	251912 HAD DPH	Master Project Reserves /	Participation		
17	Admin Exec	11159 - HC DPH Civic			
18		Center Relocation			
19					
20	15383 CPXCF	10035436 - 0001	573610	Reserve for	\$2,250,000
21	DPH 101Grove /	HC COP Project Reserves -	COI - Certificate of	Market	
22	251912 HAD DPH	Master Project Reserves /	Participation	Uncertainty	
23	Admin Exec	11159 - HC DPH Civic			
24		Center Relocation			
25					

1	Fund / Department ID	Project & Activity / Authority	Account	Description	Amount
2	21281 SFGH-2020	10009193 - 0009	567000	Project Fund -	\$34,700,000
3	COP / 251664	HG Chiller and Generator -	Bldgs,Struct&Imprv	SFGH Chiller &	
4	HGH Construction	HG CHILLER REPLACE	Proj-Budget	Cooling Tower	
5		PWRPLNT CHN /		Replacement	
6		11258 - HG SFGH Chiller			
7		and Generator			
8					
9	21281 SFGH-2020	10009193 - 0009	581130	City Services	\$69,400
10	COP / 251664	HG Chiller and Generator -	GF-Con-Internal	Auditor 0.2%	
11	HGH Construction	HG CHILLER REPLACE	Audits	Audit Fee	
12		PWRPLNT CHN /			
13		11258 - HG SFGH Chiller			
14		and Generator			
15					
16	21281 SFGH-2020	10009193 - 0009	573610	Debt Service	\$3,840,000
17	COP / 251664	HG Chiller and Generator -	COI - Certificate of	Reserve Fund	
18	HGH Construction	HG CHILLER REPLACE	Participation		
19		PWRPLNT CHN /			
20		11258 - HG SFGH Chiller			
21		and Generator			
22					
23					
24					
25					

	Fund / Department ID	Project & Activity / Authority	Account	Description	Amount
1					
2	21281 SFGH-2020	10009193 - 0009	573610	Capitalized	\$2,750,000
3	COP / 251664	HG Chiller and Generator -	COI - Certificate of	Interest Fund	
4	HGH Construction	HG CHILLER REPLACE	Participation		
5		PWRPLNT CHN /			
6		11258 - HG SFGH Chiller			
7		and Generator			
8					
9	21281 SFGH-2020	10009193 - 0009	573610	Costs of	\$600,600
10	COP / 251664	HG Chiller and Generator -	COI - Certificate of	Issuance	
11	HGH Construction	HG CHILLER REPLACE	Participation		
12		PWRPLNT CHN /			
13		11258 - HG SFGH Chiller			
14		and Generator			
15					
16	21281 SFGH-2020	10009193 - 0009	573610	Underwriter's	\$315,000
17	COP / 251664	HG Chiller and Generator -	COI - Certificate of	Discount	
18	HGH Construction	HG CHILLER REPLACE	Participation		
19		PWRPLNT CHN /			
20		11258 - HG SFGH Chiller			
21		and Generator			
22					
23					
24					
25					

	Fund / Department ID	Project & Activity / Authority	Account	Description	Amount
1					
2	21281 SFGH-2020	10009193 - 0009	573610	Reserve for	\$725,000
3	COP / 251664	HG Chiller and Generator -	COI - Certificate of	Market	
4	HGH Construction	HG CHILLER REPLACE	Participation	Uncertainty	
5		PWRPLNT CHN /			
6		11258 - HG SFGH Chiller			
7		and Generator			
8					
9	Total Uses Appropriation				\$149,750,000

10

11 Section 3. The uses of funding outlined above for \$149,750,000 are herein placed on
 12 Controller's Reserve pending sale of Certificates of Participation, sale of commercial paper
 13 as interim financing, or the confirmation of sufficient commercial paper program capacity to
 14 certify available funds.

15

16 Section 4. The Controller is authorized to record transfers between funds and adjust the
 17 accounting treatment of sources and uses appropriated in this ordinance as necessary to
 18 conform with Generally Accepted Accounting Principles and other laws.

19

20 APPROVED AS TO FORM: FUNDS AVAILABLE
 21 DENNIS J. HERRERA, City Attorney Ben Rosenfield, Controller

22

23 By: /s/ _____ By: /s/ _____
 24 JON GIVNER BEN ROSENFELD
 25 Deputy City Attorney Controller

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

October 2, 2020

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: October 7, 2020 Budget and Finance Committee Meeting

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Item	File	Page
3 & 4	20-1006 Appropriation - Certificates of Participation to Department of Public Health - 101 Grove Exit Project and San Francisco General Hospital Chiller and Cooling Tower Replacement Project - \$149,750,000 - FY2020-2021	
	20-1007 Authorizing Taxable and/or Tax-Exempt Certificates of Participation (Multiple Capital Projects) - Not to Exceed \$157,000,000	1

Items 3 & 4 Files 20-1006 & -1007	Department: Controller’s Office
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EXECUTIVE SUMMARY

Legislative Objectives

- File 20-1006: is an ordinance that would appropriate \$149.75 million in Certificates of Participation (COPS) proceeds for Department of Public Health projects in FY 2020-21.
- File 20-1007: is an ordinance authorizing the issuance of Certificates of Participation of an amount not-to-exceed \$157,000,000 to finance the cost of undertaking repairs and improvements related to Department of Public Health capital improvement projects and the retirement of commercial paper previously issued to finance the acquisition of the Homeless Services center at 1064-1068 Mission Street.

Key Points

- The proposed Certificates of Participation will finance construction of office facilities to relocated Department of Public Health staff from 101 Grove Street, including: Laguna Honda hospital Wing Reuse and AITC Immunization and Travel Clinic Relocation.
- In addition, the Certificates of Participation would fund the General Hospital Chiller and Cooling Tower Replacement and pay down previously issued commercial paper related to the Homeless Service Center.

Fiscal Impact

- The total debt service of the proposed Certificates of Participation is approximately \$225,820,000, including (a) repayment of principal up to \$157,000,000 reflecting the COPS proceeds for projects, debt service reserve, capitalized interest, and issuance costs, and (b) \$68,820,000 in interest payments funded by the General Fund and other sources.
- The Office of Public Finance has concluded that issuance and sale of the debt obligations will allow the City to remain within the total annual debt-servicing cap set on Certificates of Participation, which may not exceed more than 3.25 percent of discretionary revenue, per Administrative Code Section 10.62(b).

Recommendation

- Approve the proposed ordinance

MANDATE STATEMENT

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding indebtedness does not exceed 3.25 percent of discretionary revenue as determined by the Controller and Director of Public Finance.

Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

City Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance after the Controller certifies the availability of funds.

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

File 20-1006: is an ordinance would appropriate \$149.75 million in Certificates of Participation proceeds for Department of Public Health projects in FY 2020-21.

File 20-1007: is an ordinance authorizing the issuance of Certificates of Participation of an amount not-to-exceed \$157,000,000 to finance the cost of undertaking repairs and improvements related to Department of Public Health capital improvement projects (detailed below) and the retirement of commercial paper previously issued to finance the acquisition of the Homeless Services center at 1064-1068 Mission Street.

In addition, File 20-1007 includes the following templates and forms that the Board of Supervisors is being asked to approve for subsequent use in entering into the actual negotiations over lease-leaseback contract terms and the underwriting process:

- Allows for taxable and tax-exempt Certificates of Participation
- The terms and legal obligations between the City, as lessor, and the Trustee, as lessee, for the execution of the leasing agreement, including base rental payments
- The Seventh Supplement to Trust Agreement between the City, as lessor, and Trust agent, as lessee, for the execution of the leaseback agreement
- The Seventh Supplement to Property Lease between the City and the Trustee
- The Seventh Supplement to the Project Lease between the City and the Trustee
- The bid offering, or Note of Intention to Sell

- The Official Notice of Sale, or the underwriting agreement through which the underwriter will conduct and execute the Certificate sale
- The Purchase Agreement, that specifies the requirement the offering may be executed through a competitive sale or a negotiated sale
- The Preliminary Official Statement

Lease and leaseback funding structure.

Certificates of Participation (COPs) are structured as lease-leaseback financing, in which (1) the City leases City-owned property to a third-party trustee (“property lease”), and 2) the trustee leases the property back to the City (“project lease”). Payments of interest and principle are funded out of the leaseback rents the City pays to the lessor/trustee that serves as the counterpart to the lease-leaseback agreement. The trustee in turn passes these monies as payments of interest and principal to entities that hold the various series of Certificates of Participation issued by the City. The trustee is responsible for collecting and distributing all payments due, overseeing compliance with contracts and the terms of the leasing agreements, and the exercise of remedies in the event of default by the City. Debt is secured against the collateral provided by the leased back property.

The City entered into the original property lease, project lease, and trustee agreement with U.S. Bank National Association in 2009, in which the City issued COPs for the redevelopment of Laguna Honda Hospital. The City has previously entered into three supplements to the original 2009 property lease, project lease, and trustee agreements to finance various capital projects. Additionally, the Board has authorized additional forms of supplements to these leases for three additional issuances of COPs which the City has not yet issued. According to the memorandum from the Office of Public Finance, to facilitate the COPs financing, several buildings at the Laguna Honda Hospital campus at 375 Laguna Honda Boulevard will be leased to the trustee.

Competitive or Negotiated Sale

The Office of Public Finance currently intends to sell the Certificates of Participation via a competitive sale rather than a negotiated sale based on the current recommendation of the City’s municipal advisors. However, if tax-exempt municipal market conditions deteriorate significantly, the Director of the Office of Public Finance, in consultation with the Controller and the City’s municipal advisors, may choose to pursue a negotiated sale, using the City’s Underwriter Pool which was selected via a competitive Request for Qualifications (RFQ) process.

Public Health Capital Improvement Projects

The proposed ordinances would finance the following Department of Public Health projects related to the relocation of Department staff from 101 Grove Street, all of which have been previously approved in the FY 2020 – FY 2029 Capital Plan.¹

Laguna Honda Hospital (LHH) Wings Reuse: The renovation of the Laguna Honda Hospital K&M Wings includes interior renovations to create new office space to accommodate the relocation of approximately 400 Department of Public Health staff currently located at 101 Grove Street, and other building and sewer system improvements.

AITC Immunization and Travel Clinic Relocation: The AITC Immunization and Travel Clinic is part of the Disease Control & Prevention Branch of the Department, providing comprehensive pre-travel medical services and immunization US and to international travelers. The clinic will be relocated to the City-owned building at 25 Van Ness Avenue, including renovation of ground floor suites at 25 Van Ness Avenue to accommodate clinic staff and services.

In addition, the Certificates of Participation would fund the following Department of Public Health projects:

General Hospital Chiller and Cooling Tower Replacement: The General Hospital Chiller and Cooling Tower is the centralized water chilling center that supplies cold water to several medical building and clinical facilities at SFGH. The system is aging, and is deemed to be an urgently needed critical repair.

Homeless Service Center: The Certificates would provide funding to pay down \$5,000,000 in commercial paper obligations issued to finance the construction of a Homeless Service Center at 1064-1068 Mission Street.

Commercial Paper

The Office of Public Finance expects to use the City's existing commercial paper program to finance initial project costs, such as pre-development, design, and permitting. File 20-1007 requests the Board of Supervisors to authorize funding raised through issuance of the proposed Certificates of Participation to be used to refinance previously authorized issuance of commercial paper obligation of \$7.25 million (File 19-1019) to finance the construction of Homeless Service Center at 1064-1068 Mission Street. According to the Office of Public Finance memorandum to the Board of Supervisors, when the Board of Supervisors approved the prior COPS issuance (File 19-1019) and appropriation (File 19-1012) in November 2019 to construct the Homeless Service Center, allowing the City to use commercial paper pending the issuance of COPS, the Office of Public Finance stated their intention to submit future legislation authorizing a larger COPS package that would incorporate the original authorization.

¹ According to the FY 2020 – FY 2029 Capital Plan, the Department of Public Health completed master planning for seismic improvements for 101 Grove Street in 2016. Department staff are to be relocated to space at Zuckerberg General Hospital, Laguna Honda Hospital, and other City-owned buildings.

The City’s current commercial paper program authorized under Resolutions No. 494-19 allow the City to issue upwards to \$250 million in short-term obligations. Of this total, \$83.3 million is presently unencumbered.

FISCAL IMPACT

Exhibit 1 below shows the costs of the issuing the proposed Certificates of Participation.

Exhibit 1: Uses of Proposed Certificate of Participation Proceeds

Sources	
<u>DPH COPs Proceeds</u>	\$147,175,000
Uses	
<u>Project Costs</u>	
LHH Wings Reuse Project	\$84,000,000
AITC Travel Clinic Relocation	\$2,500,000
SFGH Chiller & Cooling Tower Replacement	\$34,700,000
Homeless Services Center	\$5,000,000
<i>Subtotal, Project Costs</i>	<i>\$126,200,000</i>
<u>Financing Costs</u>	
Debt Service Reserve Fund	\$11,780,000
Capitalized interest	\$6,185,000
Cost of Issuance	\$1,652,600
Underwriter's Discount	\$1,105,000
CSA Audit Fee (0.2%)	\$252,400
<i>Subtotal, Financing Costs</i>	<i>\$20,975,000</i>
Total Uses	\$147,175,000
Reserve for Market Uncertainty	\$9,825,000
Total not-to-exceed amount	\$157,000,000

Source: Office of Public Finance

Project descriptions for each of the projects is noted above and issuance cost line items are detailed in Appendix I.

The total debt service of the proposed Certificates of Participation is approximately \$225,820,000, including (a) repayment of principal up to \$157,000,000 reflecting the COPs proceeds for projects, debt service reserve, capitalized interest, and issuance costs, and (b) \$68,820,000 in interest payments funded by the General Fund and other sources. According to the Office of Public Finance, the City will remain under the cap on total annual debt servicing, which may not exceed more than 3.25 percent of discretionary revenue, per Administrative Code Section 10.62(b).

RECOMMENDATION

Approve the proposed ordinances.

File 20-1007: Appendix I

The maximum not to exceed of the authorized issuance is \$157,000,000. The Controller's Office currently estimates the actual par amount at the time of sale will be approximately \$147,175,000.

Capitalized interest, estimated at \$6,185,000, will be used to fund initial interest payments, including those of the commercial paper issued to finance projects prior to issuance of the COPs closer to project completion.

Debt Service Reserve Fund is included to provide investor with some surety and insurance against the risks associated with the requirement that the debt servicing payments attached to the COPs obligations must be authorized as part of the annual appropriation process. These funds are invested in security instruments allowable under federal law, and may be used, as part of any future refinancing of the Certificates, if re-financing would allow the City to lower the annual debt service. Barring this, these funds will be held until term, at which point they will be used to cover the final year debt servicing costs.²

Cost of issuance is estimated at \$1,652,600 for professional service fees and related costs.

Underwriters discount is the difference between the price paid by the underwriter to the City, and the price the underwriter expected to get at the time the Certificates are resold through a competitive public auction.³

Reserve for market uncertainty reflects the allowance in the event that market conditions change between the time Board of Supervisors passes the authorization of the ordinance, and the time of actual issuance. Certain factors – for instance, a spike in interest rates - could result in an increase into total project servicing costs. The reserve is the difference between the best current estimate of actual project costs, and the cap on the projects combined not-to-exceed total par amount. If market conditions do not warrant this allowance at the time of issuance, the City would borrow a smaller amount than the maximum not-to-exceed amount.

² The debt service fund is equal to one year of projected debt service, with the actual amount determined at the time of issuance.

³ If underwriters subsequently re-market the Certificate at a lower interest rate than those paid to the City to acquire the Certification, the premium realized at the time of re-sale can be taken as underwriter's discount. Actual level of this component will be determined at the time of issuance; it is understood that the City's maximum allowance for underwriters' carrying costs and associated risks will not exceed \$1,105,000.



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Anna Van Degna
Director of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Anna Van Degna, Director of the Controller's Office of Public Finance
Luke Brewer, Controller's Office of Public Finance

A handwritten signature in blue ink, appearing to read "AVD", enclosed in a blue oval.

DATE: Monday, August 31, 2020

SUBJECT: Ordinance Authorizing Certificates of Participation (Multiple Capital Projects) – Not to Exceed \$157,000,000 for Department of Public Health Facilities Improvements

Supplemental Appropriation Ordinance for Certificates of Participation and Commercial Paper Notes to Department of Public Health of \$149,750,000

Recommended Action

We respectfully request that the Board of Supervisors (the "Board") review and consider for adoption the ordinance ("Ordinance") authorizing the execution and delivery of the Certificates of Participation (Multiple Capital Improvement Projects) ("DPH COPs") in an aggregate principal amount not-to-exceed \$157,000,000 to finance or refinance certain capital improvement projects for the Department of Public Health ("DPH"), including but not limited to certain projects generally known as the Homeless Services Center, Laguna Honda Hospital Wings K&M Reuse Project, AITC Immunization and Travel Clinic Relocation, and San Francisco General Hospital ("SFGH") Chiller and Cooling Tower Replacement Project.

A supplemental ordinance appropriating the proceeds of the DPH COPs will be introduced to the Board to accompany the Ordinance authorizing the DPH COPs. Both pieces of legislation are anticipated to be heard at the Budget and Finance Committee meeting on September 30, 2020.

Background

On April 30, 2019, the Board approved Resolution No. 215-19, adopting the City's Ten-Year Capital Plan (FY2020 – 2029) ("Adopted Capital Plan"), which demonstrated the City's ability to fully fund up to \$108 million for the Public Health 101 Grove Exit project with General Fund supported certificates of participation ("101 Grove Exit COPs"). DPH has been planning the relocation of the staff located at 101 Grove Street building as part of its Civic Center Relocation Strategy to prioritize moving staff out of seismically unsafe buildings, reduce reliance on leased space, and make timely investments in critical infrastructure systems of existing City assets.

2 | Office of Public Finance – Ordinance Authorizing Certificates of Participation for Department of Public Health Facilities – Not to Exceed \$157,000,000

As part of the 101 Grove Exit COPs, on November 19, 2019, the Board approved Resolution No. 494-19, authorizing the Controller to cause the execution of commercial paper notes (“CP Notes”) to finance the costs of the construction of a Homeless Services Center at 1064-1068 Mission Street (“Homeless Services Center”) in the amount of \$5 million. On December 10, 2019 the Board approved by Ordinance No. 282-19, which appropriated \$7.25 million of COP proceeds. Due to the time-sensitive need to fund the larger 1064-68 Mission Street project, the approval of the first \$5 million (of the total \$108 million of projects contemplated in the Adopted Capital Plan for the 101 Grove Exit project) occurred early, with a plan to return to the Board with a full legislative package for the issuance of long-term COPs to refinance the CP Notes issued for the Homeless Services Center at the same time as the COP funding for the other 101 Grove Exit Projects. A portion of the COPs contemplated to be approved by the proposed Ordinance will refinance the CP Notes issued for the Homeless Services Center.

In the same Adopted Capital Plan, \$60 million of Certificates of Participation were included as a Recession Allowance in FY2022 for Critical Repairs (“Critical Repairs COPs”). Critical Repairs COPs have historically been included in the City’s General Fund Debt Program as a capital source specifically for the kind of economic downturn the City is currently experiencing. Based on the Mayor’s proposed budget for FY2021 & FY2022, certain capital projects that were originally planned to be funded with cash on hand need to be either deferred or considered for debt financing. While it is feasible to defer certain projects, there are critical repairs and replacements requiring more immediate funding action in order to continue providing essential services. A portion of the COPs contemplated for approval by the proposed Ordinance will finance the SFGH Chiller and Cooling Tower Replacement Project which is deemed a critical repair.

The Capital Plan

As previously mentioned, the Adopted Capital Plan included project funding of \$108 million from the 101 Grove Exit COPs and \$60 million of funding from Critical Repairs COPs. The \$126.2 million of funding included in the proposed DPH COPs utilizes the full balance of the 101 Grove Exit COPs, with \$91.5 million to be used for projects originally identified for the 101 Grove Exit and the remaining balance of \$16.5 million and \$18.2 million of the Critical Repairs COPs going to fund the SFGH Chiller & Cooling Tower Replacement Project, as laid out in **Table 2** below.

Table 2: Sources & Uses of Capital Planned COP Project Funds

<u>SOURCES:</u>	Public Health 101 Grove Exit	FY2022 Critical Repairs Recession	Total
Capital Planned Project Fund	\$108,000,000	\$60,000,000	\$168,000,000
<u>USES:</u>			
101 Grove Exit			
LHH K&M Wings Reuse Project	\$84,000,000	-	\$84,000,000
AITC Travel Clinic Relocation	\$2,500,000	-	\$2,500,000
<u>Homeless Services Center</u>	<u>\$5,000,000</u>	<u>-</u>	<u>\$5,000,000</u>
Subtotal 101 Grove Exit Projects	\$91,500,000	-	\$91,500,000
SFGH Chiller & Cooling Tower Replacement	\$16,500,000	\$18,200,000	\$34,700,000
Total	\$108,000,000	\$18,200,000	\$126,200,000
<i>Balance of Capital Planned Project Fund</i>	-	<i>\$41,800,000</i>	

3 | Office of Public Finance – Ordinance Authorizing Certificates of Participation for Department of Public Health Facilities – Not to Exceed \$157,000,000

The remaining \$41.8 million of funding from the Critical Repairs COPs will be programmed in the coming months to meet the most critical capital needs in the City.

Because there is no new COP funding beyond what was included in the Adopted Capital Plan, the anticipated incremental debt service associated with the delivery and execution of the COPs complies with the City's policy of limiting General Fund debt service payments at or below 3.25% of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan.

The Projects

The proposed Ordinance authorizes the execution and delivery of one or more series of tax-exempt and, if needed, taxable COPs in an aggregate principal amount not-to-exceed \$157 million to finance or refinance certain DPH capital improvement projects totaling \$126.2 million:

Table 1: Summary of COP Funding by DPH Project	Project Funds	Reserves & Financing Costs	Total Appropriations
Projects Currently Being Appropriated ^[1]			
Laguna Honda Hospital K & M Wings Reuse Project	\$84,000,000	\$19,665,000	\$103,665,000
AITC Immunization and Travel Clinic Relocation	\$2,500,000	\$585,000	\$3,085,000
SFGH Chiller & Cooling Tower Replacement Project	\$34,700,000	\$8,300,000	\$43,000,000
Subtotal	\$121,200,000	\$28,550,000	\$149,750,000
Projects Previously Appropriated ^[1]			
Homeless Services Center	\$5,000,000	\$2,250,000	\$7,250,000
Total	\$126,200,000	\$30,800,000	\$157,000,000

[1] The difference between the not to exceed Par Amount of \$157,000,000 for the COPs and the total amount appropriated in the supplemental appropriation ordinance of \$149,750,000 is the \$7,250,000 previously appropriated for the Homeless Services Center. Details of that project and its budget were provided to the Board in November 2019 when it was approved and are not discussed further herein.

Laguna Honda Hospital K & M Wings Reuse Project (101 Grove Exit)

Laguna Honda Hospital's ("LHH") Administration Building, the K and M wings, will be renovated to house over 400 DPH administrative staff. Staff will be relocated from 101 Grove Street and other leased buildings not owned by DPH, including 1380 Howard Street, and 101 New Montgomery Street. This project implements DPH's 101 Grove Exit/Civic Center Relocation Strategy of prioritizing staff moves out of seismically unsafe buildings (101 Grove Street), reduced reliance on leased space, and timely investment in critical infrastructure systems of existing City assets.

Existing Building. The K and M wings were built in 1930 and 1938 respectively, and additional stories were added in connecting corridors in 1955 and 1957 respectively. Both wings are 5 stories with a small penthouse. The Administration Building was removed from State of California OSHPD jurisdiction in 2016 and is classified as an office building under local jurisdiction

Floor	Project Area (GSF)
Level 8	2,918
Level 7	24,624
Level 6	24,050
Level 5	24,658
Level 4	22,470
Level 3	21,230
Total	119,976

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(City and County of San Francisco). The highest occupied floor level never exceeds 75 feet above the ground level exit and street access for that space, so the building is not classified as a high-rise.

The building is heated by a central plant boiler that feeds low pressure steam to radiators located along the exterior walls of the building. There is no central air distribution system. Cooling and ventilation are currently provided by operable windows. Domestic hot water to each of the buildings is provided by existing water heaters.

Project Scope. This project includes the interior renovation of the existing vacant K and M wings into new office areas and a critical replacement of the main sewer line that serves the larger Administration Building. Interior renovations include individual offices, break rooms, conference rooms, all-gender toilets, and other support spaces. Aging utility distribution systems, including but not limited to plumbing, heating, and electrical, are to be replaced to comply with current codes. All of these systems are at the end of their useful life and further delayed investment may preclude the eventual reuse of this facility.

The project scope also includes but is not limited to the following:

- Voluntary seismic upgrades
- Hazardous material abatement and interior demolition
- Installation of new interior partitions, doors, ceilings, finishes, and wall/ceiling mounted fixtures
- Modernization of existing elevators that are original to the building (1930s)
- Design of a replacement heating system that will allow for future conversion to electric
- Existing gas hot water boilers will be replaced with electric boilers
- Accessibility upgrades to building entrance, bathrooms, and elevators
- LHH's physical location is optimal for the use of a natural ventilation system for the buildings
- Supplemental localized HVAC systems will be utilized where natural ventilation is not an option
- Replacement of existing windows, to be automated as part of the natural ventilation system design

AITC Immunization and Travel Clinic Relocation (101 Grove Exit)

The AITC Immunization & Travel Clinic is part of the Disease Control & Prevention Branch, Population Health Division, of the San Francisco DPH. AITC has been serving the public at 101 Grove Street since its inception in 1999. The clinic was initially launched as a facility where adults could receive CDC-recommended vaccinations. Over time AITC expanded its capabilities and now functions as a full-service pre-travel preventive medicine provider for individuals, groups, and families, offering all US-licensed vaccines for teens and adults and for international travelers of any age.

Included in Public Health's 101 Grove Street exit plan, the AITC Immunization & Travel Clinic is currently located on the first floor of 101 Grove Street, which consists of approximately 971 square feet of dedicated clinical space and associated storage space, with administrative space located on the 2nd floor. The 101 Grove Street building is seismically vulnerable (with a SHR-4 rating), and DPH is planning on moving all programs out of the building, including the AITC Immunization & Travel Clinic.

The clinic is slated to relocate into Suites 27a and 27b on the ground floor of 25 Van Ness Avenue, a City-owned office building, and the clinic will have its own separate entrance and address known as "27 Van Ness Avenue". 27 Van Ness Avenue is an ideal location for the AITC Immunization & Travel Clinic due to its public accessibility and because the building is already owned by the City under the jurisdiction of the City's Real Estate Division. The total suite size at 27 Van Ness Avenue is approximately 2,400 sq. ft., and it will be fully renovated to accommodate AITC Immunization & Travel Clinic.

SFGH Chiller & Cooling Tower Replacement Project

DPH has identified an urgent funding need from COPs of \$34.7 million for the critical replacement of the SF General Hospital (SFGH) Chiller and Cooling Tower. The existing centralized chilled water system supplies cooling water to SFGH’s Ambulatory Care Building (No. 5), Research Building (No. 3) and the central Service Building (No. 2). These buildings total 750,000 square feet including 85% of the City’s Ambulatory Care services. The chilled water systems consist of two Absorption (steam driven) Chillers and two Cooling Towers. Of the two existing chillers, one is no longer operational (46 years old), and the other is unreliable (14 years old); the average service life of similar equipment is 10-15 years. With only one chiller in service, the chilled water capacity has been halved. The remaining chiller experiences a high rate of failure and requires costly repairs. On extreme heat days SFGH is not able to maintain required building air temperatures. The existing Cooling Towers are suffering from worn construction and failing foundations and are considered structurally unstable.

The consequences of not funding this project until FY2022 prolongs the period of deficient chiller capacity and higher risk of system failure, drastically impacting the ability to provide healthcare services and support occupancies in mild to extreme heat conditions for certain SFGH buildings. SFGH has installed piping to connect a rental 500-ton electric temporary chiller, which will be available for less than 180 days of the year and is only able to provide 25% of total cooling capacity. The best case scenario is 75% cooling capacity from the one existing permanent chiller and one temporary chiller. The worst case scenario would be 25% cooling capacity from only the one temporary chiller, should the existing permanent chiller become nonoperational.

The SFGH Chiller and Cooling Tower Replacement project will support the City’s electrification goals by replacing the steam driven Chillers with Electric Chillers, thereby reducing the demand for natural gas. The new centralized chilled water system will also be able to supply cooling to other building as they are retrofitted, further extending the future electrification benefit. Due to reliability, age of equipment, potential for mechanical/structural failure and impact to patient care, it is critical that this project is funded to allow SFGH to replace this critical equipment.

The Current Plan of Finance

The proposed Ordinance authorizes the execution and delivery of tax-exempt or, if determined by bond counsel, taxable COPs in one or more series in an aggregate par amount not-to-exceed \$157,000,000. Based on the cost estimates and delivery schedules for the projects, the Office of Public Finance (“OPF”) anticipates issuing \$147,175,000 in COPs, though the final amount will be based on prevailing market assumptions at the expected time of sale. The difference between the expected issuance amount and the \$157,000,000 not-to-exceed amount provides flexibility in the tax-status of the DPH COPs as directed by bond counsel, for market fluctuations until the sale or sales of the DPH COPs, any increased deposits to the debt service reserve fund, and possible additional delivery date expenses were the DPH COPs to be issued in more than one series.

Commercial Paper: The current plan of finance anticipates utilizing the City’s commercial paper program (“CP Program”), which was launched in June 2010 pursuant to Resolution No. 85-09 and Resolution No. 136-10, to finance certain project costs, including preliminary design, planning, and permitting. Pursuant to Resolution No. 247-13 approved in July 2013, the City’s total CP Program authorization is \$250.0 million, of which \$83.3 million is currently unencumbered. OPF is currently planning to free up additional capacity

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in the CP Program through the issuance of COPs this Fall for the Animal Care and Control Project, and early in 2021 for the Hall of Justice Relocation Acquisition Projects.

Based upon an estimated 4.67% all-in true interest cost (approximately 250 basis points or 2.50% above current market rates) and an anticipated total par value of \$147.18 million, the total principal and interest payments over the approximate 20-year term of the DPH COPs are estimated to be approximately \$225.82 million. Based on market conditions expected at the time of the sale, the DPH COPs could be structured with up to a 30-year term. Table 2 below outlines anticipated sources and uses for the DPH COPs, based on estimates determined by the Office of Public Finance.

Table 3: Estimated Sources & Uses of the Proposed DPH COPs

Sources:

DPH COP Proceeds

Estimated Par Amount	\$147,175,000
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Uses:

Project Funds

LHH K+M Wings Facilities Improvements	\$84,000,000
AITC Immunization Travel Clinic	\$2,500,000
Homeless Services Center	\$5,000,000
SFGH Chiller & Cooling Tower Replacement	\$34,700,000
CSA Audit Fee (0.2% of project)	\$252,400

Capitalized Interest	\$6,185,000
Debt Service Reserve Fund	\$11,780,000

Delivery Date Expenses

Cost of Issuance	\$1,652,600
Underwriter's Discount	\$1,105,000

Total Uses	\$147,175,000
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<i>Plus: Reserve for Market Uncertainty</i>	<i>\$9,825,000</i>
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Maximum Not-to-Exceed Par Amount	\$157,000,000
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Approximately \$11,780,000 of proceeds may be allotted to fund a Debt Service Reserve Fund, if recommended by the Director of Public Finance, in connection with the sale of the COPs. In addition, approximately \$2,757,600 may be allotted to cover costs associated with the issuance of the COPs, assuming one or more issuances. This includes amounts for underwriter compensation, legal fees, municipal advisory fees, trustee fees, rating agency fees, printing costs, and other issuance costs.

For good faith estimates required by Code Section 5852.1 of the California Government regarding the proposed financing, see [Attachment 1](#). The information set forth in [Attachment 1](#) is based on estimates of

prevailing market conditions, and the ability to finance the entirety of the projects on a tax-exempt basis. Actual results may differ if assumed market conditions change.

The Certificates

Under the proposed Ordinance, the City will structure the DPH COPs using a lease-lease back structure. This lease will be a supplemental to a lease which currently supports the City's outstanding Series 2012A COPs and Series 2019-R1 COPs, and the planned Series 2020 Hall of Justice COPs (the "Master Lease") by utilizing subsequent supplement agreements as permitted by the Original Trust Agreement, Original Property Lease, and Original Project Lease, each by and between the City and a third-party trustee, currently U.S. Bank National Association (the "Trustee").

It is anticipated that the City-owned Laguna Honda Hospital Campus located at 375 Laguna Honda Boulevard will serve as the expanded leased property for the COPs (the "Leased Property"). To facilitate the financing, the Leased Property securing the COPs will consist of a substantial portion the Laguna Honda Hospital campus, including any and all buildings located on such portion of the campus. The Pavilion Building and the North Residence Building located at Laguna Honda currently serve as the leased assets for the City's outstanding Series 2012A COPs and Series 2019-R1 Refunding COPs. Subsequently, OPF has submitted legislation for the Board's consideration, authorizing the Series 2020-R1 Refunding COPs which would be secured by the Master Lease and facilitate the addition of the San Bruno Jail Complex located at 1 Moreland Drive, San Bruno as leased property under the Master Lease, (together with the Laguna Honda Hospital Campus, the "Leased Properties").

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

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

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

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

Official Statement

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

A Preliminary Official Statement is distributed to prospective bidders prior to the sale of the COPs and, within seven days of the public offering of the COPs, 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 certificates.

The Board and the Mayor, in adopting and approving the proposed Ordinance, approve and authorize the use and distribution of the Official Statement by the municipal advisor with respect to the COPs. In accordance with rule 15c2-12 of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are "deemed final" as of their respective dates. The Controller will also certify that such document does not contain any material misstatement or omissions prior to it being distributed to the investing marketplace. A form of the Preliminary Official Statement is attached for your approval prior to its publication.

Additional Information

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

Official Notice of Sale and Notice of Intention to Sell (if the DPH COPs are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the DPH COPs. Such Notice of Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

The Official Notice of Sale for the DPH COPs announces the date and time of a competitive sale, including the terms relating to the DPH COPs; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

The Official Bid Form attached to the Official Notice of Sale is the form of the official bid for the purchase of the DPH COPs. Pursuant to the Resolution, the Controller is authorized to award the DPH COPs to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

Purchase Contract (if the DPH COPs are sold on a negotiated basis): The City will work with its Municipal Advisor to determine whether a negotiated or competitive sale will be most advantageous for the COPs based on market conditions closer to the sale of the DPH COPs. Should the DPH COPs be sold via a negotiated sale with an underwriter(s), the Purchase Contract will be the document that details the terms, covenants, and conditions for the sale of the DPH COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents. For a negotiated sale, the City would

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work with its Municipal Advisor to select qualified firms from the City’s Underwriter Pool via a competitive Request for Proposal (“RFP”) process.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the City (the “Annual Report”) not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist initial purchasers of the DPH COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

Milestones	Dates*
• Introduction of the Ordinance to the Board of Supervisors	September 1, 2020
• Capital Planning Committee	September 14, 2020
• Budget and Finance Committee Hearing	October 7, 2020
• Board Considers Approval of the Ordinance (1 st Reading)	October 20, 2020
• Final Board Approval of the Ordinance (2 nd Reading)	October 27, 2020
• First Reimbursements to DPH from Commercial Paper	November 2020
• Sale and Closing of the DPH COPs	TBD

*Please note that dates are estimated unless otherwise noted.

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

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andrea Bruss, Mayor’s Office
Andres Powers, Mayor’s Office
Ashley Groffenberger, Mayor’s Acting Budget Director
Harvey Rose, Budget Analyst
Severin Campbell, Budget Analyst
Ben Rosenfield, Controller
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney
Andrico Penick, Director of Real Estate Division
Dr. Grant Colfax, Director of Health, Department of Public Health
Grieg Wagner, Chief Financial Officer, Department of Public Health

Attachment 1

GOOD FAITH ESTIMATES

For purposes of compliance with Section 5852.1 of the California Government Code, the following information are good faith estimates provided by the City's Municipal Advisor, Backstrom McCarley Berry & Co.

1. True interest cost of the COPs: 4.67%
2. Finance charge for the COPs, including all fees and charges for third parties (including underwriter's compensation, municipal advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$2,757,600.
3. Amount of COP proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest funded with proceeds of the COPs: \$126,200,000.
4. Total payment amount for the COPs, being the sum of (a) debt service on the COPs to final maturity, and (b) any financing costs not paid from proceeds of the COPs: \$225,820,000.

The information set forth above is based up estimates of prevailing market conditions, and the ability to finance the entirety of the project on a tax-exempt basis. Actual results may differ if assumed market conditions change.

From: [Peacock, Rebecca \(MYR\)](#)
To: [BOS Legislation, \(BOS\)](#); [GIVNER, JON \(CAT\)](#); [Rosenfield, Ben \(CON\)](#)
Cc: [Kittler, Sophia \(MYR\)](#); [Katz, Bridget \(CON\)](#); [Catapang, Ysabel \(CON\)](#); [Patil, Lillian \(MYR\)](#)
Subject: Mayor -- [Ordinance] -- [Appropriation – San Francisco Certificates of Participation of \$149,750,000 for the Department of Public Health - FY2020-21]
Date: Tuesday, September 1, 2020 4:51:26 PM
Attachments: [FY 20-21 COP \(DPH - 101 Grove Exit & SFGH Chiller\) Redline 8.14.20.doc](#)
[2. OPF BOS Cover Memo - Ordinance to Authorize COPs - DPH Facilities NTE....pdf](#)

Attached for introduction to the Board of Supervisors is an **ordinance appropriating \$149,750,000 of San Francisco Certificates of Participation proceeds for Department of Public Health to fund improvements to facilities for the 101 Grove Exit Project and the San Francisco General Hospital Chiller and Cooling Tower Replacement Project in FY2020-21; and placing these funds on Controller’s Reserve pending the sale of the Certificates of Participation.**

[@GIVNER, JON \(CAT\)](#) & [@Rosenfield, Ben \(CON\)](#), can you please reply-all to this email to indicate your approval? Thanks!

Please let me know if you have any questions.

Rebecca Peacock ([they/she](#))
(415) 554-6982 | Rebecca.Peacock@sfgov.org
Office of Mayor London N. Breed
City & County of San Francisco