



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 of Public Finance

SUBJECT: CITY AND COUNTY OF SAN FRANCISCO TAXABLE GENERAL OBLIGATION BONDS
Unreinforced Masonry Building Seismic Safety Loan Program, Series 2014C

DATE: Tuesday, June 24, 2014

I respectfully request that the Board of Supervisors consider for review and adoption the resolution authorizing the sale and issuance of general obligation bonds financing the Seismic Safety Loan Program (SSLP).

In connection with this request, legislation approving the sale and issuance of the bonds, supplemental appropriation ordinance to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, June 24, 2014, and we respectfully request that the items be heard on the July 9, 2014 meeting of the Budget and Finance Committee.

Background:

A two-thirds majority of voters of the City approved Proposition A in November 1992 ("Proposition A"), which authorized the issuance of not to exceed \$350,000,000 in general obligation bonds to provide loans for the seismic strengthening of unreinforced masonry buildings (the "Seismic Safety Loan Program"). Of the amount authorized under Proposition A, \$150,000,000 is allocated to affordable housing buildings and \$200,000,000 is allocated to market-rate residential, commercial and institutional buildings. Proposition A allows a maximum of \$35,000,000 of the general obligation bonds to be issued each fiscal year, with unissued portions of the authorized maximum amount carried over and issued in future years.

The first series of Proposition A bonds was sold on March 1, 1994 (the "Series A Bonds") pursuant to Resolution 160-94 (the "1994 Resolution"), as adopted by the Board of Supervisors on February 22, 1994 and approved by the Mayor on February 25, 1994. Proceeds from the sale of the Series A Bonds were used to fund the Seismic Safety Loan Program and have been repaid in full.

The Board of Supervisors adopted on February 6, 2007 and the Mayor approved on February 16, 2007 Resolution No. 65-07 that authorized the second issuance of general obligation bonds (the "2007 Bonds") in an amount not to exceed \$35,000,000 financing the Seismic Safety Loan Program. The City has issued 2007 Bonds in the principal amount of \$30,315,450 funding Seismic Safety Loan Program loans. Of the 2007 Bonds originally issued, aggregate principal in the amount of \$25,193,793 remains outstanding.

The proposed not to exceed \$24,000,000 in City and County of San Francisco Taxable General Obligation Bonds (Seismic Safety Loan Program, 1992) (the "Bonds") will finance a portion of the seismic improvements to Buildings 113/114 and 104 located along the Central Waterfront of San Francisco at Pier 70. Construction of all of the seismic work is expected to commence in October 2014 and completion is expected first quarter of calendar 2017. The City anticipates issuing the Bonds in October 2014.

Seismic Safety Loan Program Background:

The Seismic Safety Loan Program is administered by the Mayor's Office of Housing and Community Development (MOHCD) under Administrative Code Sections 66 and 66A and the Seismic Safety Loan Program Regulations adopted through Ordinance No. 122-06. MOHCD administers the program and the cash proceeds from the bond sales are used to make loans to individual property owners whose applications are approved by its UMB Seismic Safety Loan Committee. Recipients of the loans complete the necessary seismic repairs to their unreinforced masonry buildings. Repayments from seismic safety loans are used to pay the debt service on the general obligation bonds. Property Taxes assessed on all taxable property owners in the City pay the difference between the cost of debt service and repayments by loan recipients. With the City's most recent 2007 Bonds, MOHCD funded and administers a Seismic Safety Loan Program portfolio with an outstanding balance of approximately \$25,193,783. Attachment 1 provides additional detail on the existing SSLP loan and project portfolio.

Project Background:

On May 23, 2014, the UMB Seismic Safety Loan Committee approved a loan in the amount of \$20,100,871 for the 20th Street Historic Buildings on Pier 70, San Francisco. Building 113/114 (1885 Union Iron Works Machine Shop) and Building 104 (the 1896 Office Building) are both located at Pier 70 and are unreinforced masonry buildings in need of rehabilitation and verified by a structural engineer to be unreinforced masonry construction.

Buildings 113/114 and 104 are located on 69 acres of Port Commission property on San Francisco's Central Waterfront, just south of Mission Bay. In 2010, the Port completed the community planning process to determine a Master Plan for Pier 70 and through a competitive process, the Port selected Orton Development Inc. (ODI) in February 2012 as the developer for the historic rehabilitation of Pier 70's 20th Street Historic Buildings, a set of six large historic buildings located on or near 20th Street that includes Building 113/114 and 104.

Financing Parameters:

The proposed resolution authorizes the issuance of not to exceed par amount of \$24,000,000. The Bonds are anticipated to contribute approximately \$20,100,871 to the Seismic Safety Loan Program to

fund loans for the Buildings 113/114 and 104 seismic projects. Table 1 outlines anticipated sources and uses for the Bonds.

Table 1: Anticipated Sources and Uses for the Bonds.

Estimated Sources		Amount
<u>Par Amount</u>		<u>\$ 22,485,000</u>
Total Estimated Sources		<u><u>\$ 22,485,000</u></u>
Estimated Uses		
SSLP Loan - Project Account		\$ 20,100,871
Bond Account		1,712,654
Other Costs of Issuance		671,475
Costs of Issuance	502,838	
Underwriter's Discount	168,638	
Total Estimated Uses		<u><u>\$ 22,485,000</u></u>

Based upon a conservative estimate of 5.1% interest rate, OPF estimates that average fiscal year debt service on the Bonds is approximately \$1,791,000. During the period of construction of the seismic improvements to Buildings 113/114 and 104, interest payments on the Bonds will be paid from the Bond Account. The total par amount is estimated to result in approximately \$13,343,000 million in interest payments over the life of the Bonds. The total principal and interest payment over the approximate 20 year life of the Bonds is approximately \$35,828,000.

In addition, the project is subject to the periodic oversight and review by the Citizens' General Obligation Bond Oversight Committee ("CGOBOC") but are not subject to the requirement set forth in Administrative Code Section 5.31(c), pertaining to the deposit of a portion of gross bond proceeds in a fund established by the Controller's Office to cover the costs of CGOBOC.

Financing Timeline:

The Bonds are expected to be issued and delivered in October 2014. Schedule milestones in connection with the financing may be summarized as follows:

Milestone	Date*
Consideration by the Capital Planning Committee	June 23, 2014
Introduction of authorizing resolution to the Board	June 24, 2014
Issuance and delivery of Bonds	October 2014
Closing of SSLP Loan, Lease and Construction Loan	October 2014

*Please note that dates are estimated unless otherwise noted.

Debt Limit:

The City Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3.00% of the assessed value of property in the City. As of June 16, 2014, there were \$1.94 billion in general obligation bonds outstanding or approximately 1.12% of the net assessed value of property in the City for Fiscal Year 2013-14. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.44% of the net assessed value of

property in the City. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by approximately 0.02% to 1.14%— within the 3.00% legal debt limit.

Capital Plan:

The Capital Planning Committee approved a financial constraint regarding the City's planned use of general obligation bonds such that debt service on approved and issued general obligation bonds would not increase property owners' long-term property tax rates above fiscal year 2006 levels. The fiscal year 2006 property tax rate for the general obligation bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Bonds, the property tax rate for general obligation bonds for fiscal year 2014-15 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

Additional Information:

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, June 24, 2014. The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Bond Purchase Contract, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

Official Notice of Sale: The Official Notice of Sale for the Bonds announces the date and time of the competitive bond sale, including the terms relating to the Bonds; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Bonds may be bid separately by series or bids may be received for all of the Bonds.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Bonds. Pursuant to the Resolutions, the Controller is authorized to award the Bonds to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

Notice of Intention to Sell: The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell City and County of San Francisco General Obligation Bonds Unreinforced Masonry Building Seismic Safety Loan Program, Series 2014C. 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.

Bond Purchase Contract: The Bond Purchase Contract is an agreement between the City and an underwriter for the purchase of the Bonds under the terms of a negotiated sale. The proposed resolution authorizes the Controller and the Director of Public Finance to determine if a negotiated sale is expected to provide a lower cost of financing or more flexibility than a competitive sale. Upon such a determination, the proposed resolution further authorizes Controller and Director of Public Finance to select one or more underwriters for the sale of the Bonds at a rate of compensation not to exceed 0.5% of the principal amount of the Series 2014C Bonds sold. The Controller or the Director of Public Finance shall provide the name of the underwriter or underwriters selected for any negotiated sale at the earliest practical Board meeting occurring after the selection thereof.

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

A, the most recent Comprehensive Annual Financial Report of the City, the City's Investment Policy, and other forms of legal documents for the benefit of investors, holders and owners of the Bonds.

A *Preliminary Official Statement* is distributed to prospective bidders prior to the sale of the Bonds and within seven days of the public offering, the *Final Official Statement* (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) is distributed to the initial purchasers of the Bonds.

The Board of Supervisors and the Mayor, in adopting and approving the Resolutions, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller certifies, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates.

Appendix A: The City prepares the Appendix A: "City and County of San Francisco—Organization and Finances" (the "Appendix A") for inclusion in the Official Statement. The Appendix A describes the City's government and organization, the budget, property taxation, other City tax revenues and other revenue sources, general fund programs and expenditures, employment costs and post-retirement obligations, investment of City funds, capital financing and bonds, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolution, City staff will revise the Official Statement, including the Appendix, to reflect new information regarding the Mayor's Proposed Budget, Controller's Revenue Letter, and June election results.

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

Your consideration of this matter is greatly appreciated. Please contact me at 554-5956 if you have any questions. Thank you.

CC: Angela Calvillo, Clerk of the Board
(via email) Jason Elliott, Mayor's Office
Kate Howard, Mayor's Budget Office
Teresa Yanga, Mayor's Office of Housing and Community Development
Anne Romero, Mayor's Office of Housing and Community Development
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