

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

July 8, 2022

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst



SUBJECT: Jun, 2022 Budget and Appropriations Committee Meeting

TABLE OF CONTENTS

Item	File	Page
1	21-1194 Appropriation - \$112,000,000 of Certificate of Participation Proceeds - Land Acquisition, Public Housing Repairs, Educator Housing, Elevators - \$34,800,000 of Certificate of Participation Proceeds for Various Financing Costs - FY2022-2023	1

<p>Item 1 File 21-1194 <i>(Continued from June 27, 2022)</i></p>	<p>Department: Controller</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would appropriate \$146.8 million in certificates of participation proceeds for land acquisition, affordable housing development, renovation of public housing cooperatives, educator housing, and single-room occupancy elevators. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The proposed ordinance does not authorize new debt. The Board of Supervisors will have to consider separate legislation to do so once the projects have been reviewed by the Capital Planning Committee and the Office of Public Finance, as required by state and local law. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Preliminary estimates suggest debt service will be \$12.6 million per year or \$251.1 million over 20 years and paid for by the General Fund. <p style="text-align: center;">Policy Considerations</p> <ul style="list-style-type: none"> • Administrative Code Section 10.62 limits debt service of COPs and other lease financing to 3.25 percent of discretionary General Fund revenues. The City is below that cap but will hit it in FY 2027-28 if it issues debt as scheduled in the 10 Year Capital Plan. The Capital Plan assumed \$110 million in COPs would be authorized in FY 2021-22 and \$225 million would be authorized in FY 2022-23. Certain projects have been instead funded by cash or postponed, leaving \$80 - \$120 million of potential COP project funds available from this unused capacity, depending on the level of General Fund revenues. • The City may exceed the policy limit for COP debt service by a 2/3 vote of the Board of Supervisors, which would be required for future debt issuances that push the City’s debt service above 3.25 percent of General Fund revenues. According to the Office of Public Finance, credit rating agencies consider compliance with established debt policies when evaluating the credit worthiness of debt issuers and departing from the City’s debt policy may jeopardize the City’s credit rating, resulting in higher interest on future debt issuances. • Alternatively, the City may re-order projects in the capital plan to change the timing or funding source or both in order to remain below the COP debt service limit. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed ordinance is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

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.

BACKGROUND

Administrative Code Section 3.21 states that the Board of Supervisors may authorize long-term financing of capital projects that have been reviewed by the Capital Planning Committee. Administrative Code Section 10.62 allows the Board of Supervisors to authorize certificates of participation, a form of long-term debt.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$146.8 million in certificates of participation proceeds, as shown below.

Exhibit 1: Uses of COPs Proceeds

Acquisition in CDLAC High-Need/Resource Areas	40,000,000
Acquisition for non-profit sites	30,000,000
HUD / Public Housing Coop. Repairs	20,000,000
Educator Housing	12,000,000
SRO Elevators	10,000,000
Subtotal, Projects	112,000,000
<i>Other Costs</i>	
City Services Audit Fee (2% project costs)	224,000
Capitalized Interest ^a	12,982,084
Debt Service Reserve Fund ^b	12,555,582
Costs of Issuance ^c	885,959
Underwriter's Discount ^d	977,375
Subtotal Other Costs	27,625,000
Total Proposed COPs Issuance	139,625,000
Reserve for Market Uncertainty	7,175,000
Total Authorization	146,800,000

Source: Proposed ordinance

^a Capitalized interest accrues during the project construction and prior to completion and placement of the asset in service.

^b The debt service reserve fund provides for one year of debt service payments.

^c Costs of issuance include bond counsel, financial advisors, and other costs associated with the issuance of the COPs.

^d The underwriters discount is the difference between the price paid to the issuer for the COPs issuance and the prices at which the certificates are initially offered to the investing public; this is the fee an underwriter charges when purchasing certificates of participation (COPs) for resale to the public.

As shown above, proposed uses include \$40 million for land acquisition for affordable housing in California Debt Limit Allocation Committee-defined “high-resource” areas (which includes economic, environmental, and education factors), \$30 million for site acquisition to provide stability for community-based organizations, \$20 million for public housing renovations, \$12 million for educator housing, and \$10 million for elevator repairs at single room occupancy sites.

Additional Authorization Required

The proposed ordinance does not authorize new debt. The Board of Supervisors will have to consider separate legislation to do so once the projects have been reviewed by the Capital Planning Committee and the Office of Public Finance, as required by state and local law.

FISCAL IMPACT

Debt Service

As of this writing, the Office of Public Finance is still finalizing the estimate the debt service of the \$146.8 million in COP debt, though preliminary estimates suggest \$12.6 million per year or \$251.1 million over 20 years. Debt service will be paid from the City’s General Fund.

POLICY CONSIDERATIONS

City Debt Policy and 10-Year Capital Plan

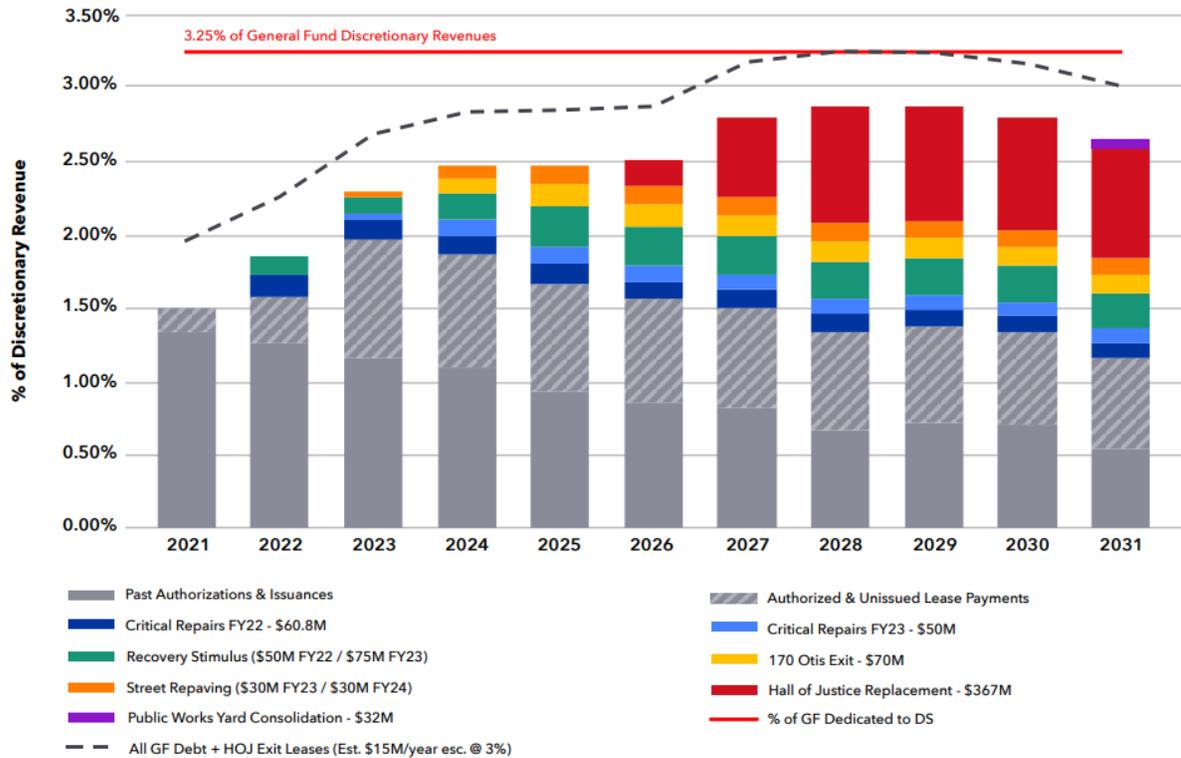
Administrative Code Section 10.62 limits debt service of COPs and other lease financing to 3.25 percent of discretionary General Fund revenues. According to the City’s Capital Plan for FY 2021-22 to 2030-31 shown below in Exhibit 2, the City is below that cap but will hit it in FY 2027-28 if it issues debt as scheduled in the 10 Year Capital Plan.

The City’s ten-year capital plan is updated every two years. The Capital Plan for FY 2022-2031 provided for \$765 million of project funding from Certificates of Participation debt (COP) over the ten-year term. The Capital Plan assumed \$110.8 million in COPs-funded Critical Repairs/Recovery Stimulus projects would be authorized in FY 2021-22 and \$125 million would be authorized in FY 2022-23. Additionally, the Capital Plan assumed the issuance of COPs to fund \$70 million of project costs for the 170 Otis Exit and \$30 million for Streets projects.

Last year, the City determined to dedicate a portion of current year General Fund monies to certain capital projects, which reduced the Capital Plan assumption for COP project funding in FY 2021-22 from \$110.8 million to \$56.73 million. File 22-0683, pending at the Budget & Appropriations Committee as of this writing, authorizes \$79.2 million of COP project funding for the Critical Repairs/Recovery Stimulus COP projects for FY 2022-23 rather than the \$125 million originally assumed in the Capital Plan for FY 2022-23 (as well as an additional \$30 million of Streets project funding which had already been assumed), leaving \$99.9 million of potential COP project funds available from this unused capacity. Given the uncertainty of future General Fund

revenues, the Controller’s Office suggests this translates into a range of \$80 million to \$120 million in COP debt capacity relative to the policy limit.

Exhibit 2: Projected Debt Service FY 2021-22 through FY 2030-31



Source: Capital Plan FY 2022-2031

The City may exceed the policy limit for COP debt service by a 2/3 vote of the Board of Supervisors, which would be required for future debt issuances that push the City’s debt service above 3.25% of General Fund revenues. According to the Office of Public Finance, credit rating agencies consider compliance with established debt policies when evaluating the credit worthiness of debt issuers and departing from the City’s debt policy may jeopardize the City’s credit rating, resulting in higher interest on future debt issuances.

Alternatively, the City may re-order projects in the capital plan to change the timing or funding source or both in order to remain below the COP debt service limit.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.