

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

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: June 13, 2019 Special Budget and Finance Committee Meeting

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Item 1 File 19-0494 <i>(Continued from the June 6, 2019)</i>	Department: Office of Public Finance (OPF)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <p>File 19-0494 is an ordinance calling and providing for a special election on March 3, 2020, to submit a proposition to San Francisco voters to incur \$628,500,000 of general obligation bonded indebtedness to finance the construction, acquisition, improvement, renovation, and seismic retrofitting of the Emergency Firefighting Water System, firefighting facilities and infrastructure, police facilities and infrastructure, facilities for the Department of Emergency Management’s 9-1-1 Call Center, and other disaster response infrastructure and facilities.</p> <p>File 19-0500 is a resolution determining and declaring that the public interest and necessity demand the construction, acquisition, improvement, renovation, and seismic retrofitting of the Emergency Firefighting Water System, firefighting facilities and infrastructure, police facilities and infrastructure, facilities for the Department of Emergency Management’s 911 Call Center, and other disaster response infrastructure and facilities; providing for the levy and collection of taxes to pay the bond principal and interest; adopting findings under the California Environmental Quality Act (CEQA); and waiving time limits in Administrative Code, Section 2.34.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In June 2010, voters approved Proposition B, which authorized the issuance of \$412,300,000 of Earthquake Safety and Emergency Response (ESER) general obligation bonds to finance the construction, acquisition, improvement, and retrofitting of police and fire facilities and replacement of the Emergency Firefighting Water System. • In June 2014, San Francisco voters approved Proposition A, which authorized the issuance of an additional \$400,000,000 of ESER general obligation bonds to fund the continuation of certain projects funded by the 2010 ESER bonds as well as new ESER projects. • All of the authorized 2010 and 2014 ESER bonds have been sold and appropriated. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The bonds would be sold in four issuances between 2020 and 2028, and are projected to have an annual interest rate of 6.0 percent over approximately 20 years. Total debt service payments are estimated to be \$1,080,000,000, including approximately \$451,500,000 in interest and \$628,500,000 in principal, with estimated average annual debt service payments of \$38,500,000. • A single family residence with an assessed value of \$500,000 would pay average annual additional property taxes to the City of \$73.18 per year to cover the debt service. • The proposed issuances are consistent with the City’s policies to keep the property tax rate for City general obligation bonds below the FY 2005-06 rate. <p style="text-align: center;">Recommendation</p> <p>Approval of the proposed legislation is a policy decision for the Board of Supervisors.</p>	

MANDATE STATEMENT

According to Article 16, Section 18(a) of the State of California Constitution, no county, city, town, township, board of education, or school district, shall incur any indebtedness or liability for any purpose exceeding in any year the income and revenue provided for such year, without the approval of two-thirds of the voters of the public entity voting at an election to be held for that purpose.

City Administrative Code Section 2.34 requires that a resolution of public interest and necessity for the acquisition, construction or completion of any municipal improvement be adopted by the Board of Supervisors not less than 141 days before the election at which such proposal will be submitted to the voters. These time limits may be waived by resolution of the Board of Supervisors.

BACKGROUND

In June 2010, the voters of San Francisco approved Proposition B, which authorized the issuance of \$412,300,000 of Earthquake Safety and Emergency Response (ESER) general obligation bonds to finance the construction, acquisition, improvement, and retrofitting of 19 Fire Stations, a new Public Safety Building, repair, replacement and expansion of the City's Emergency Firefighting Water System and other firefighting infrastructure and facilities related to earthquake safety.

In June 2014, San Francisco voters approved Proposition A, which authorized the issuance of an additional \$400,000,000 of ESER general obligation bonds to fund the continuation of certain projects funded by the 2010 ESER bonds as well as new ESER projects. All of the authorized 2010 and 2014 ESER bonds have been sold and appropriated, as shown in Table 1 below.

**Table 1: 2010 and 2014 Earthquake Safety and Emergency Response
General Obligation Bond Appropriations**

Description	ESER 2010 Appropriations	ESER 2014 Appropriations	Total
Public Safety Building	\$239,000,000		\$239,000,000
Emergency Firefighting Water System ¹	102,400,000	\$54,347,209	156,747,209
Neighborhood Fire Stations	66,906,311	80,353,118	147,259,429
Traffic Company & Forensic Services Division		163,375,148	163,375,148
Office of Chief Medical Examiner		67,533,024	67,533,024
Police Facilities		29,643,932	29,643,932
Oversight and Cost of Bond Issuance	3,993,689	4,747,568	8,741,257
Total	\$412,300,000	\$400,000,000	\$812,300,000

DETAILS OF PROPOSED LEGISLATION

File 19-0494: The proposed ordinance would call and provide for a special election to be held in San Francisco on March 3, 2020, in order to submit to San Francisco voters a proposition to incur \$628,500,000 of general obligation bonded indebtedness to finance the construction, acquisition, improvement, renovation, and seismic retrofitting of the Emergency Firefighting Water System, firefighting facilities and infrastructure, police facilities and infrastructure, facilities for the Department of Emergency Management's 9-1-1 Call Center, and other disaster response infrastructure and facilities.

File 19-0500: The proposed resolution would determine and declare that the public interest and necessity demand the construction, acquisition, improvement, renovation, and seismic retrofitting of the Emergency Firefighting Water System, firefighting facilities and infrastructure, police facilities and infrastructure, facilities for the Department of Emergency Management's 9-1-1 Call Center, and other disaster response infrastructure and facilities.

Both the proposed ordinance (File 19-0494) and resolution (File 19-0500) would:

- Authorize landlords to pass-through 50 percent of the resulting property tax increase to residential tenants under Administrative Code, Chapter 37;
- Find that the estimated cost of \$628,500,000 for such proposed projects will be too great to be paid out of the ordinary annual income and revenue of the City and will require expenditures greater than the amount allowed by the annual tax levy;
- Recite the estimated cost of such proposed projects;

¹ The Emergency Firefighting Water System is an independent fire protection system, also referred to as the Auxiliary Water Supply System which was designed after the 1906 Earthquake and Fire as a secondary defense against fires in the event the domestic water system fails. It includes a reservoir, two storage tanks, two pump stations, approximately 135 miles of pipes with approximately 1,600 hydrants and 52 connection along the waterfront to allow fire engines to pump water from the Bay. The Emergency Firefighting Water System also includes 153 underground cisterns throughout the City, which store water available for firefighting.

- Fix the maximum rate of interest on the bonds and provide for the levy and collection of taxes to pay both principal and interest on the bonds;
- Find that a portion of the proposed bond is not a project under the California Environmental Quality Act (CEQA) and adopt findings under CEQA for the remaining portion of the proposed bond;
- Find that the proposed bonds are in conformity with the General Plan, and the eight priority policies of Planning Code, Section 101.1(b); and
- Waive the time requirements specified in Administrative Code, Section 2.34.

Possible uses of the bond proceeds are shown in Table 2 below.

Table 2: Possible Uses of the Proposed 2020 ESER Bond

Program	2020 Bond Budget	Explanation
Emergency Firefighting Water System	\$153,500,000	SFPUC completed planning studies in 2013 and 2018 that will inform the selection and design of specific projects to be funded through ESER 2020. Funding will be focused on improving high-pressure fire suppression capabilities of the City's western neighborhoods. Approximately \$157 million was previously appropriated as part of the ESER 2010 and ESER 2014 bonds.
Neighborhood Fire Stations	275,000,000	Preliminary assessment of the neighborhood fire stations determined that the cost to correct structural and seismic deficiencies would require more than \$350 million (in 2009 dollars). Approximately \$148 million was previously appropriated as part of the ESER 2010 and ESER 2014 bonds. This programmatic area would also fund a new firefighter training facility on Treasure Island to replace the current facility acquired from the U.S. Navy that is planned to close to make way for a development project on the island.
Police Facilities	121,000,000	A March 2013 comprehensive facility report identified up to \$250 million (in 2013 dollars) of various mechanical, electrical and other renovation and seismic upgrades needed to correct deficiencies at police district stations. Approximately \$30 million was previously appropriated as part of the ESER 2014 bond.
Disaster Response Facilities	70,000,000	The public facilities that could be pressed into service after a disaster includes some City-owned buildings known to have seismic vulnerabilities and functional and/or life-safety deficiencies that could hinder their use. ESER 2020 funding would allow the City to make seismic upgrades and functional and life-safety improvements to support deployment of aid, provide shelter and coordinate disaster response at select City-owned buildings after a disaster.
9-1-1 Call Center	9,000,000	Expansion of the 9-1-1 Call Center will increase the number of dispatcher work stations and reconfigure the supervisor bridge for better visual oversight of all dispatchers.
Total	\$628,500,000	

FISCAL IMPACT**Rationale for Proposed Costs**

According to Ms. Heather Green, Capital Planning Director in the Office of the City Administrator, the proposed funding amounts are based on recent examples of similar seismic station retrofits or replacements and SFPUC estimates for Emergency Firefighting Water System improvements until the next planned bond in 2027.

The proposed 2020 ESER Bond does not specify which fire stations, police stations, disaster response facilities, or Emergency Firefighting Water System projects would be renovated or the scope of work that would be completed for each station or project. Ms. Green notes, with the exception of the 9-1-1 Call Center project, specific projects have not yet been detailed, as specific projects would be subject to CEQA review which is infeasible to accomplish prior to March 2020. If the proposed \$628.5 million ESER Bond is approved by voters, Police and Fire Department staff would work with Public Works and SFPUC staff to prioritize the needs of each specific facility, station, and project and to scope the individual projects. All issuances of the bonds and appropriations of the bond fund proceeds would be subject to Board of Supervisors approval, at which time CEQA review and approval of the specific projects would be required and the project costs would be identified.

Proposed Bond Financing Costs

If the proposed \$628,500,000 of ESER General Obligation Bonds are approved by the San Francisco voters in March 2020, Mr. Vishal Trivedi, Financial Analyst in the Office of Public Finance, anticipates that these bonds would be sold in four issuances between 2020 and 2028. According to Mr. Trivedi, the \$628,500,000 of ESER General Obligation Bonds are projected to have an annual interest rate of 6.0 percent over approximately 20 years, with estimated total debt service payments of \$1,080,000,000, including approximately \$451,500,000 in interest and \$628,500,000 in principal, with estimated average annual debt service payments of \$38,500,000.

Repayment of such annual debt service would be recovered through increases to the annual property tax rate. A single family residence with an assessed value of \$500,000, assuming a homeowners exemption of \$7,000, would pay average annual additional property taxes to the City of \$73.18 per year to cover the debt service on the proposed \$628,500,000 of ESER General Obligation Bonds.

Oversight and bond issuance costs are included in the budget shown in Table 2 above. According to Mr. Trivedi, 0.2 percent of project funds would be allocated to the City Services Auditor audit function and 0.1 percent of the par would be allocated to the General Obligation Bond Oversight Committee. The Office of Public Finance typically assumes issuance costs of approximately \$600,000 per issuance and a 1 percent underwriter's discount, although these costs are subject to change per transaction.

Debt Limit

Section 9.106 of the City Charter limits the amount of general obligation bonds the City can have outstanding at any given time to three percent of the total assessed value of property in San Francisco. The FY 2018-19 total assessed value of property in the City is approximately \$259.3 billion, such that the general obligation debt limit is currently approximately \$7.78 billion. According to Mr. Trivedi, as of June 30, 2019, there will be \$2,293,487,973 of general obligation bonds outstanding, or approximately 0.9 percent of the total assessed value of property in the City. If the subject \$628,500,000 of ESER General Obligation Bonds are issued as proposed, the outstanding general obligation bonds would total \$2,921,987,973, or approximately 1.1 percent of the total assessed value of property.

The proposed issuances are consistent with the City's current debt management policy and the intent of the City's approved Ten Year Capital Plan, to keep the property tax rate for City general obligation bonds below the FY 2005-06 rate by issuing new bonds as older ones are retired and the tax base grows, though this property tax rate may vary based on other factors.

POLICY CONSIDERATION

Approval of the proposed resolution (File 19-0500) requires two-thirds or more of the Board of Supervisors approval and approval by the Mayor. In addition, approval of this \$628,500,000 General Obligation Bond would require approval by at least two-thirds of San Francisco voters.

RECOMMENDATION

Approval of the proposed ordinance and resolution is a policy decision for the Board of Supervisors.

Items 2 and 3 Files 19-0501 and 19-0495 <i>(Continued from the June 6, 2019)</i>	Department Mayor's Office of Housing and Community Development
EXECUTIVE SUMMARY	
Legislative Objectives	
<p>File 19-0501: The proposed resolution would determine and declare that the public interest and necessity demand the construction, development, acquisition, improvement, rehabilitation, preservation, and repair of affordable housing improvements to be financed through bonded indebtedness in an amount not-to-exceed \$500,000,000.</p>	
<p>File 19-0495: The proposed ordinance would call and provide for a special election to be held in San Francisco on November 5, 2019, in order to submit to San Francisco voters a proposition to incur not-to-exceed \$500,000,000 of general obligation bonded indebtedness to finance the construction, development, acquisition, improvement, rehabilitation, preservation, and repair of affordable housing improvements.</p>	
Key Points	
<ul style="list-style-type: none"> • Proposition A, approved by the voters in 2015, provided for the issuance of \$310 million in general obligation bonds for affordable housing development in the City. The proposed ordinance would approve placing a new proposition on the November 2019 ballot to approve the issuance of \$500 million in general obligation bonds for affordable housing development in the City. • Of the \$500 million in new general obligation bonds: \$150 million would be allocated to the rehabilitation of public housing; \$210 million to construction/ acquisition/ rehabilitation of housing affordable to households with income up to 80 percent of the Area Median Income (AMI); \$30 million to preservation of housing for households between 30 percent and 120 percent of AMI; \$20 million to create housing opportunities for middle income households; and \$90 million to senior housing. 	
Fiscal Impact	
<ul style="list-style-type: none"> • Estimated repayment of the bonds over 20 years is \$897 million, of which \$397 million is interest and \$500 million is principal. Average annual debt service is \$40.7 million. • The estimated additional property tax to a residence with an assessed value of \$500,000 is \$77.43 per year. • The proposed issuances are consistent with the City's policies to keep the property tax rate for City general obligation bonds below the FY 2005-06 rate. 	
Recommendation	
<ul style="list-style-type: none"> • Approval of the proposed ordinance and resolution is a policy decision for the Board of Supervisors. 	

MANDATE STATEMENT

According to Article 16, Section 18(a) of the State of California Constitution, no county, city, town, township, board of education, or school district, shall incur any indebtedness or liability for any purpose exceeding in any year the income and revenue provided for such year, without the approval of two-thirds of the voters of the public entity voting at an election to be held for that purpose.

Section 9.105 of the City's Charter provides that the Board of Supervisors is authorized to approve the issuance and sale of general obligation bonds in accordance with State law or local procedures adopted by ordinance.

BACKGROUND

On November 3, 2015, San Francisco voters approved Proposition A, which authorized the issuance of not-to-exceed \$310,000,000 in taxable and tax-exempt general obligation bonds for affordable housing. The 2015 bond proceeds will be fully disbursed by July 2019. As shown in Table 1 below, the 2015 Affordable Housing General Obligation Bond resulted in the development or preservation of 1,613 housing units as affordable.

Table 1: 2015 Affordable Housing General Obligation Bond Budget

Description	Original Budget	New or Preserved Affordable Housing Units	Average Funding per Unit
Public Housing	\$77,420,000	517	\$149,749
Low-Income Housing	96,775,000	548	176,597
Mission Neighborhood Housing	48,385,000	273	177,234
Middle-Income Housing	77,420,000	275	281,527
Oversight and Cost of Bond Issuance	10,000,000	--	--
Total	\$310,000,000	1,613	\$192,188

DETAILS OF PROPOSED LEGISLATION

File 19-0495: The proposed ordinance would call and provide for a special election to be held in San Francisco on November 5, 2019, in order to submit to San Francisco voters a proposition to incur not-to-exceed \$500,000,000 of general obligation bonded indebtedness to finance the construction, development, acquisition, improvement, rehabilitation, preservation, and repair of affordable housing improvements.

File 19-0501: The proposed resolution would determine and declare that the public interest and necessity demand the construction, development, acquisition, improvement, rehabilitation, preservation, and repair of affordable housing improvements to be financed through bonded indebtedness in an amount not-to-exceed \$500,000,000.

Both the proposed ordinance (File 19-0495) and resolution (File 19-0501) would:

- Authorize landlords to pass-through 50 percent of the resulting property tax increase to residential tenants under Administrative Code, Chapter 37;
- Provide for the levy and collection of taxes to pay both principal and interest on the bonds;
- Adopt findings under the California Environmental Quality Act (CEQA); and
- Find that the proposed bonds are in conformity with the General Plan, and the eight priority policies of Planning Code, Section 101.1(b).

Possible uses of the bond proceeds are shown in Table 2 below.

Table 2: Possible Uses of the Proposed 2019 Affordable Housing Bond

Program	2019 Bond Budget	Eligible Uses	Populations Served
Public Housing	\$150,000,000	Repair and rebuilding of distressed public housing and its underlying infrastructure	Existing public housing residents; new generations of residents earning 0-80% AMI; low-income families living in new units added to public housing sites
Low-Income Housing	210,000,000	Construction, acquisition, and rehabilitation of permanently affordable rental housing serving individuals and families earning from 0-80% AMI	Working families; veterans; seniors; people with disabilities; transitional aged youth; people experiencing homelessness
Affordable Housing Preservation	30,000,000	Acquisition and/or rehabilitation of rental housing at risk of losing affordability	Low- to middle-income households earning 30-120% AMI
Middle-Income Housing	20,000,000	Creation of new affordable housing opportunities through down payment assistance loans and the purchase of buildings or land for new affordable construction	Households earning 80-175% AMI; Teacher Next Door educators earning up to 200% AMI
Senior Housing	90,000,000	Creation of new affordable senior housing rental opportunities through new construction and acquisition	Seniors earning from 0-80% AMI
Total	\$500,000,000		

FISCAL IMPACT**Rationale for Proposed Costs**

According to Ms. Amy Chan, Director of Policy and Legislative Affairs at MOHCD, the program allocations and unit counts are based on typical per unit costs. Specific projects have not yet been detailed as they would be subject to CEQA review. The number of units estimated to be built or preserved under each program and the cost assumptions are shown in Table 3 below.

Table 3: Cost Assumptions for 2019 Affordable Housing Bond

Program	2019 Bond Budget	New or Preserved Units	Cost Assumption
Public Housing	\$150,000,000	965	Rehabilitation cost of approximately \$27,000 per unit (550 units); new construction average cost of approximately \$325,000 per unit (415 units)
Low-Income Housing	210,000,000	1,000	New construction gap funding need of approximately \$210,000 per unit
Affordable Housing Preservation	30,000,000	90	Acquisition/rehabilitation cost of approximately \$330,000 per unit
Middle-Income Housing	20,000,000	60	Average down payment assistance loan of approximately \$330,000
Senior Housing	90,000,000	300	New construction gap funding need of approximately \$300,000 per unit
Total	\$500,000,000	2,415	

If the proposed \$500 million of affordable housing bonds is approved by voters, all issuances of the bonds and appropriations of the bond fund proceeds would be subject to Board of Supervisors approval, at which time CEQA review and approval of the specific projects would be required and the project costs would be identified.

Proposed Bond Financing Costs

If the proposed \$500 million of general obligation bonds for affordable housing are approved by the San Francisco voters in November 2019, Mr. Vishal Trivedi, Financial Analyst in the Office of Public Finance, anticipates that these bonds would be sold in three issuances between 2020 and 2023. According to Mr. Trivedi, the affordable housing general obligation bonds are anticipated to be federally taxable and to have an annual interest rate of 6.5 percent over approximately 20 years, with estimated total debt service payments of \$897 million, including approximately \$397 million in interest and \$500 million in principal, with estimated average annual debt service payments of \$40,730,000.

Repayment of such annual debt service would be recovered through increases to the annual property tax rate. A single family residence with an assessed value of \$500,000, assuming a homeowners exemption of \$7,000, would pay average annual additional property taxes to the City of \$77.43 per year to cover the debt service on the proposed \$500,000,000 of affordable housing bonds.

Oversight and bond issuance costs are included in the amounts shown in Table 2 above. According to Mr. Trivedi, 0.2 percent of project funds would be allocated to the City Services Auditor audit function and 0.1 percent of the par would be allocated to the General Obligation Bond Oversight Committee. The Office of Public Finance typically assumes issuance costs of approximately \$600,000 per issuance and a 1 percent underwriter's discount, although these costs are subject to change per transaction.

Debt Limit

Section 9.106 of the City Charter limits the amount of general obligation bonds the City can have outstanding at any given time to three percent of the total assessed value of property in San Francisco. The FY 2018-19 total assessed value of property in the City is approximately \$259.3 billion, such that the general obligation debt limit is currently approximately \$7.78 billion. According to Mr. Trivedi, as of June 30, 2019, there will be \$2,293,487,973 of general obligation bonds outstanding, or approximately 0.9 percent of the total assessed value of property in the City. If the subject \$500,000,000 of affordable housing bonds are issued as proposed, the outstanding general obligation bonds would total \$2,793,487,973, or approximately 1.1 percent of the total assessed value of property.

The proposed issuances are consistent with the City's current debt management policy and the intent of the City's approved Ten Year Capital Plan, to keep the property tax rate for City general obligation bonds below the FY 2005-06 rate by issuing new bonds as older ones are retired and the tax base grows, though this property tax rate may vary based on other factors.

POLICY CONSIDERATION

Approval of the proposed resolution (File 19-0501) requires two-thirds or more of the Board of Supervisors approval and approval by the Mayor. In addition, approval of this \$500,000,000 General Obligation Bond would require approval by at least two-thirds of San Francisco voters.

RECOMMENDATION

Approval of the proposed ordinance and resolution is a policy decision for the Board of Supervisors.