



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 Office of Public Finance
Vishal Trivedi, Office of Public Finance
Beau Scott, Office of Public Finance

DATE: Tuesday, December 13, 2022

SUBJECT: Ordinance Appropriating \$244,000,000 of the Series 2023ABC General Obligation Bond Proceeds

Resolution Authorizing the Issuance and Sale of General Obligation Bonds (Health and Recovery, 2020) Series 2023A in an amount not to exceed \$30,000,000

Resolution Authorizing the Issuance and Sale of General Obligation Bonds (Embarcadero Seawall, 2018) Series 2023B in an amount not to exceed \$42,000,000

Resolution Authorizing the Issuance and Sale of General Obligation Bonds (Affordable Housing, 2019) Series 2023C in an amount not to exceed \$172,000,000

Recommended Action:

We respectfully request that the Board of Supervisors (the "Board") consider for review and adoption the resolutions authorizing the issuance and approving the sale of general obligation bonds for the following bond programs: 1) For the 2018 Embarcadero Seawall bond program, a second issuance in an amount not to exceed \$30,000,000 (the "2023A Bonds"); 2) For the 2020 Health and Recovery bond program, a second issuance in an amount not to exceed \$42,000,000 (the "2023B Bonds"); and 3) For the 2019 Affordable Housing bond program, a second issuance in an amount not to exceed \$172,000,000 (the "2023C Bonds").

In connection with this request, a 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, December 13, 2022. We will request that the items be heard at the scheduled Budget and Finance Committee meeting on January 25, 2023.

Background

On November 6, 2018, a two-thirds majority of voters of the City and County of San Francisco (the "City") approved Proposition A, the Embarcadero Seawall Earthquake Safety General Obligation Bond. Proposition A authorizes the sale of up to \$425,000,000 of general obligation bonds to finance the construction, reconstruction, acquisition, improvement, demolition, seismic strengthening and repair of the Embarcadero Seawall and other critical infrastructure. The purpose of the program is to protect the waterfront, BART and Muni, buildings, historic piers, and roads from earthquakes, flooding, and rising seas by: repairing the 100-year-old Embarcadero Seawall; strengthening the Embarcadero; and fortifying transit infrastructure and utilities serving residents and businesses. From this authorization, \$49,675,000 of bonds have been issued to date, and \$375,325,000 remains unissued.

On November 5, 2019, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Affordable Housing General Obligation Bond. Proposition A authorizes the sale of up to \$600,000,000 in general obligation bonds to finance the construction, development, acquisition, and preservation of housing, affordable to extremely-low, low and middle-income households through programs that will prioritize vulnerable populations in the City and prevent the displacement of residents; to repair and reconstruct distressed and dilapidated public housing developments and their underlying infrastructure; to assist the City's middle-income residents or workers in obtaining affordable rental or home ownership opportunities including down payment assistance and support for new construction of affordable housing for San Francisco Unified School District and City College of San Francisco employees; and to pay related costs. From this authorization, \$254,585,000 of bonds have been issued to date, and \$345,415,000 remains unissued.

On November 3, 2020, a two-thirds majority of voters of the City approved Proposition A, a San Francisco Health and Recovery General Obligation Bond. Proposition A authorizes the sale of up to \$487,500,000 in general obligation bonds to (i) stabilize, improve, and make permanent investments in supportive housing facilities, shelters, and/or facilities that deliver services to persons experiencing mental health challenges, substance use disorder, and/or homelessness; (ii) improve the accessibility, safety and quality of parks, open spaces and recreation facilities; and (iii) improve the accessibility, safety and condition of the City's streets and other public right-of-way and related assets. From this authorization, \$258,505,000 of bonds have been issued to date, and \$228,995,000 remains unissued.

Financing Parameters

The proposed legislation will approve the issuance and sale of the Series 2023A, 2023B, and 2023C bonds (together the "Series 2023ABC Bonds") under 2018 Embarcadero Seawall Proposition A, 2019 Affordable Housing Proposition A, and 2020 H&R Proposition A, and appropriation of the bond proceeds from the sale. Table 1 below outlines the sources and uses for the Bonds, based on an estimate provided by Fieldman, Rolapp & Associates, Inc., a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board of Supervisors regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

Table 1: Estimated Sources & Uses of the 2023ABC General Obligation Bonds

	Series 2023A (2020 Health & Recovery)	Series 2023B (2018 Embarcadero Seawall)	Series 2023C (2019 Affordable Housing)	Total
Estimated Sources:				
<u>Not-to-Exceed Par Amount</u>	\$30,000,000	\$42,000,000	\$172,000,000	\$244,000,000
Estimated Par	\$28,855,000	\$39,090,000	\$168,315,000	\$236,260,000
Reserve for Market Uncertainty	\$1,145,000	\$2,910,000	\$3,685,000	\$7,740,000
Total Sources	\$30,000,000	\$42,000,000	\$172,000,000	\$244,000,000
Estimated Uses:				
<u>Project Fund Deposit</u>				
Project Fund	\$28,500,000	\$38,617,000	\$166,271,653	\$233,388,653
CSA Audit Fee	<u>\$57,000</u>	<u>\$77,234</u>	<u>\$332,543</u>	<u>\$466,777</u>
Total Project Fund Deposits	\$28,557,000	\$38,694,234	\$166,604,196	\$233,855,430
<u>Delivery Date Expenses</u>				
Cost of Issuance	\$124,870	\$161,226	\$700,914	\$987,010
CGOBOC Fee	\$28,855	\$39,090	\$168,315	\$236,260
Underwriter's Discount	<u>\$144,275</u>	<u>\$195,450</u>	<u>\$841,575</u>	<u>\$1,181,300</u>
Total Delivery Date Expenses	\$298,000	\$395,766	\$1,710,804	\$2,402,560
Reserve for Market Uncertainty	\$1,145,000	\$2,910,000	\$3,685,000	\$7,740,000
Total Uses	\$30,000,000	\$42,000,000	\$172,000,000	\$244,000,000

Source: Fieldman, Rolapp & Associates, Inc.

Based upon an estimated market interest rate of 6.56% for the general obligation bonds, the Office of Public Finance estimates that this would result in an average annual debt service cost of about \$18,600,000. The anticipated par amount of \$236,260,000 is estimated to generate about \$234,574,000 in interest payments, resulting in approximately \$469,653,000 in total debt service over the anticipated 25-year term of the bonds.

Detailed descriptions of the projects to be financed with proceeds of the Bonds are included in the Bond Accountability Reports to be prepared by the Port of San Francisco, Mayor's Office of Housing and Community Development, and Department of Recreation and Parks. In addition, a portion of the Bond proceeds will be used to pay certain expenses incurred in connection with the issuance and delivery of the Bonds, and the periodic oversight and review of the Projects by City Services Auditor ("CSA Audit") and the Citizens' General Obligation Bond Oversight Committee ("CGOBOC").

Property Tax Impact

Repayment of annual debt service on the 2023ABC Bonds will be recovered through increases in the annual property tax rate, which is estimated to average \$0.00567 per \$100 of assessed value or \$5.67 per \$100,000 of assessed value over the anticipated 25-year term of the bonds. The owner of a residence with an assessed value of \$600,000, assuming a homeowner's exemption of \$7,000, would pay average additional property taxes to the City of approximately \$33.62 per year if the proposed amount of \$236,260,000 of Bonds are sold.

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. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's general obligation debt limit for fiscal year 2022-23 is approximately \$9.86 billion, based on a net assessed valuation of approximately \$328.5 billion. As of October 1, 2022, the City had outstanding approximately \$2.63 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.80% of the net assessed valuation for fiscal year 2022-23. If all of the City's voter-authorized and unissued general obligation bonds were issued, the total debt burden would be 1.25% 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 0.07%, to 0.87% — 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 2022-23 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

Additional Information

The appropriation ordinance and resolutions are expected to be introduced at the Board of Supervisors meeting on Tuesday, December 13, 2022. The forms of the related financing documents — including the Bond Purchase Agreement, Preliminary Official Statement, Appendix A, the Continuing Disclosure Certificate and related documents — will also be submitted at that time.

Bond Purchase Agreement: The City intends to pursue a competitive sale of the 2023ABC Bonds; however, should bond structure or market conditions indicate the preferability of a negotiated transaction, the Bond Purchase Contract details the terms, covenants, and conditions for the sale of the Bonds through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

Official Notice of Sale: The Official Notice of Sale announces the date and time for a competitive bond sale, including the terms relating to sale of the Bonds; form of bids, and delivery of bids; and closing procedures and documents. 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, in a competitive sale the Controller's Office 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 the 2023ABC Bonds. Such Notice of Intention to Sell would be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

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 Annual Comprehensive 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.

Prior to the distribution of the Preliminary and Final Official Statements, the documents will be thoroughly and critically reviewed by City staff (in consultation with the City's professional advisors, including the City's co-disclosure counsel) to provide the most current material financial and other material information available.

Board members have a responsibility under federal securities laws to ensure that staff is aware of information that Board members may have unique in their capacity as board members that would have a material bearing of the capacity of the City to repay the bonds. Board members cannot approve a Preliminary Official Statement if they are aware that it contains material misstatements or omissions. 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 financial advisor 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, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolutions, City staff will revise the Official Statement, including the Appendix A.

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).

Financing Timeline

Milestones:

Capital Planning Committee Hearing of Resolutions
Board of Supervisors (BoS) Introduction
Budget & Finance Committee Hearing
BoS Consideration of Resolutions and First Reading of Ordinance
BoS Second Reading of Ordinance
Estimated Sale & Closing

Dates*:

Dec 5 & Dec 12
December 13
January 25
January 31
February 7
March/April 2023

**Please note that dates are preliminary and may change.*

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna (anna.vandegna@sfgov.org) or Vishal Trivedi (vishal.trivedi@sfgov.org) if you have any questions.