



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Greg Wagner
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MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Anna Van Degna, Public Finance Director
Grant Carson, Controller's Office of Public Finance
Keith Sevigny, Controller's Office of Public Finance

DATE: **January 27, 2026**

SUBJECT: **Resolution re-authorizing the City Commercial Paper Program's Series 1&2 in an amount not to exceed \$150,000,000 and authorizing the delivery of an alternate credit facility to support the program**

Recommended Action

We respectfully request that the Board of Supervisors ("Board") review and consider for approval a resolution ("Resolution") re-authorizing the issuance of Lease Revenue Commercial Paper Certificates of Participation, Series 1 & Series 2 (Tax-Exempt) and Series 1-T & Series 2-T (Taxable) (together "CP Series 1&2"), in an aggregate principal amount not to exceed \$150,000,000 to finance the acquisition, construction, and rehabilitation of capital improvements and capital equipment approved by the Board and the Mayor; authorizing the delivery of an alternate credit facility in the aggregate total stated amount (reflecting support for principal and interest on the CP Series 1&2) of \$163,500,000; and approving and authorizing execution of a third supplement to a trust agreement, a third amendment to a site lease, a third amendment to a sublease, a letter of credit and reimbursement agreement, a fee agreement, an offering memorandum, dealer agreements and certain other related financing documents, and authorizing other related actions.

Background

The City launched its Commercial Paper Program (defined below) to finance project costs on an interim basis in connection with the acquisition, improvement, renovation, and construction of real property and the acquisition of capital equipment and vehicles. Pursuant to Resolution No. 85-09, approved by the Board in March 2009 ("2009 Program Resolution"), the Board established a \$150,000,000 commercial paper program ("CP Series 1&2" or "CP Series 2") and pursuant to Resolution No. 247-13 approved by the Board in July 2013, the Board authorized an increase in the capacity of the City's Commercial Paper Program by \$100,000,000 ("CP Series 3&4" or "CP Series 3") to \$250,000,000 (herein, the "Commercial

Paper Program”). Pursuant to Resolution No. 86-23 approved by the Board in February 2023, the Board re-authorized CP Series 1&2 at \$150,000,000.

Commercial Paper instruments are short-term financing notes (i.e. a bridge to long-term financing), the proceeds of which are used to pay on an interim basis the cost of capital projects and equipment as such expenditures are incurred. Commercial Paper terms range from one (1) to 270 days. The City’s long-term debt obligations typically have terms ranging from 20 to 30 years. On the maturity date of a commercial paper note (“CP note”), the CP note may be “rolled” (or refinanced) with the issuance of new CP notes for additional periods of up to 270 days until such CP note is either refunded by long-term obligations or paid down directly from other available funds.

Seismic and Other Public Safety Emergency

The Commercial Paper Program has also been designed to be part of the City’s resiliency strategy in the event of an earthquake or other natural disaster. Pursuant to Resolution No. 136-10, adopted by the Board in June 2010, in the event of an emergency declared under Charter Section 3.100, the Controller is authorized to draw on commercial paper prior to Board approval of long-term take-out financing. This exception applies only to emergencies declared under Charter Section 3.100 Powers and Responsibilities, which provides that the Mayor, with the concurrence of the Board, may direct City personnel and resources as necessary to meet an emergency.

Financing Structure

Credit Facility

In general, commercial paper programs are supported by bank credit facilities. The credit facilities currently supporting the City’s \$250,000,000 Commercial Paper Program include two revolving credit agreements (“RCAs”). The CP Series 2 credit facility with Wells Fargo (“Wells Fargo RCA”) will expire in March 2026. The \$100,000,000 CP Series 3 credit facility with BMO Bank (“BMO Bank RCA”) will expire in April 2026 and a separate memo will be provided which outlines the details for CP Series 3.

The City, through the Controller’s Office of Public Finance (“OPF”), conducted a competitive procurement process to select a credit facility provider for CP Series 2. The City received five (5) proposals for CP Series 2 and TD Bank was selected. The proposed Resolution approves a new letter of credit and reimbursement agreement with TD Bank (“TD Bank LOC”) in support of CP Series 2 in an amount of \$163,500,000, representing the \$150,000,000 not to exceed principal amount of the CP Series 2 notes plus an interest component, with a three (3) year term anticipated to begin in March 2026 and expire in March 2029. The TD Bank LOC may be extended by mutual agreement between the City and TD Bank. Table 1 below provides an overview of the CP Program’s expiring and proposed credit facilities.

Table 1: CP Series 2 Expiring and Proposed Credit Facilities

<u>CP Series 2 Facility (expiring)</u>	<u>Commitment Amount</u>	<u>Term</u>	<u>Facility Type</u>	<u>Fee</u>
Wells Fargo RCA	\$150,000,000	March 2026	RCA	0.25%
<u>CP Series 2 Facility (proposed)</u>	<u>Commitment Amount</u>	<u>Term</u>	<u>Facility Type</u>	<u>Fee</u>
TD Bank LOC	\$150,000,000	March 2029	LOC	0.30%

Fee Agreement

The Resolution also approves a fee agreement with TD Bank, which proposed an annual commitment fee of 30 basis points (0.30%). This equates to \$490,500 annually based on a not-to-exceed letter of credit to be provided by TD Bank of \$163,500,000 (the principal amount of CP Series 2 plus 270 days of interest at the maximum rate of 12%) in connection with the TD Bank LOC. The City's existing Wells Fargo RCA supporting CP Series 2 has an annual commitment fee of 25 basis points (0.25%) or \$408,750 annually. The new TD Bank LOC results in an annual increase of \$81,750 to CP Series 2, not including one-time transaction costs associated with the replacement of the expiring credit agreement. The increased annual commitment fee associated with the TD Bank LOC is attributable to general fee increases in the bank credit market as well as the shift from a line of credit to a letter of credit facility.

As shown in Table 2 below, the proposed commitment fee structure presumes that the City's unenhanced lease obligation credit ratings remain at their current rating levels of "Aa2/AA/AA+" by Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P"), and Fitch Ratings ("Fitch"), respectively (collectively, the "Rating Agencies"). Assuming the City maintains ratings from Moody's, S&P, and Fitch on its unenhanced lease obligation debt, the commitment fee will be based on the on the "level" (noted in Table 2 below) corresponding to the higher of the two lowest ratings assigned to the City's unenhanced lease obligation debt.

Table 2: TD LOC Commitment Fee Structure

Level	Moody's Rating	S&P Rating	Fitch Rating	Commitment Fee Rate
Level 1	Aa2 or above	AA or above	AA or above	0.30%
Level 2	Aa3	AA-	AA-	0.35%
Level 3	A1	A+	A+	0.45%
Level 4	A2	A	A	0.60%
Level 5	A3	A-	A-	0.75%
Level 6	Baa1 or below	BBB+ or below	BBB+ or below	0.90%

Letter of Credit and Reimbursement Agreement

If the City's unenhanced lease obligation bond ratings rating fall below "BBB+/Baa1", the TD Bank LOC would terminate and amounts owed to TD Bank would be immediately due and payable, subject to the limits concerning maximum rent set forth in the Sublease in accordance with State law, which would allow for several years to repay the financing. The TD Bank LOC may be terminated by the City for any reason, at any time, pursuant to the provisions outlined in the Letter of Credit and Reimbursement Agreement and the Fee Agreement.

The City is required to repay TD Bank if there are amounts drawn under the credit facility in accordance with the terms and conditions set forth in the Reimbursement Agreement. It is expected TD Bank will be repaid from the remarketing of commercial paper or the proceeds of long-term take-out financing. However, under extraordinary circumstances, such as those during the financial dislocation in 2008, advances from TD Bank might not be immediately repaid. In such event, interest borne by the commercial paper notes could increase to a maximum of 12% per annum. Such advances under the Letter of Credit

would become a Term Loan bearing interest at rates and maturing on the date set forth under the Reimbursement Agreement.

Leased Assets

As a requirement of the CP Program, the City leases certain City-owned real properties ("Leased Assets") to a third-party trustee, and the trustee simultaneously leases the Leased Assets back to the City in return for lease payments in amounts necessary to pay any principal and interest due on any outstanding CP Notes. Currently, the following assets are used for the CP Series 2 Program: (i) Corporate Yard, (ii) Fire College, (iii) Fire Station 1, (iv) DPH Public Health Clinic, and (v) Human Services Central Offices. In connection with the replacement of the current facility, the City intends to release the DPH Public Health Clinic and Human Services Central Offices properties from the lease and substitute those properties with the Ambulance Deployment Facility. Table 3 shows the proposed assets for CP Series 2. Following the transaction, the DPH Public Health Clinic and Human Services Central Office will be unencumbered.

Table 3: Summary of Proposed Leased Property for CP Series 2

Corporate Yard	\$72,000,000
Fire College	46,000,000
Fire Station 1	7,200,000
Ambulance Deployment Facility ⁽¹⁾¹	74,136,863
Total	\$199,336,863

Additional Information

In addition to the Letter of Credit and Reimbursement Agreement and Fee Agreement described above, the forms of the following related financing documents described above will also be submitted to the Board.

Third Supplement to the Trust Agreement: Pursuant to the Original Trust Agreement between the City and U.S. Bank Trust Company, National Association ("Trustee"), the Trustee administers and disburses payments with respect to the CP Series 2 notes and enforces the covenants and remedies in the event of a default by the City. The Trustee holds proceeds derived from the sale of CP Series 2 notes and disburses payments for the costs incurred for the designated projects, as directed by authorized City representatives. The Original Trust Agreement will be amended by the Third Supplement to Trust Agreement to, among other things, provide Trustee acknowledgement of the TD Bank LOC, update certain definitions and addresses for notices.

Third Amendment to Site Lease and the Third Amendment to Sublease: Pursuant to the Original Site Lease, the City leases a City-owned property (or properties) to the Trustee. Pursuant to the Original Sublease, the City leases back the leased property, together with the improvements thereon, from the Trustee. The City is then required to make annual base rental payments to the Trustee equal to the amounts required

¹⁾¹ Proposed to replace DPH Public Health Clinic and Human Services Central Offices. The Ambulance Deployment Facility valuation is based on a Real Estate Division Memorandum dated December 15, 2025.

to repay the CP Series 2 Notes but not in excess of the fair rental value for the leased property. The City will covenant to budget and appropriate rental payments in respect of the CP Series 2 Notes, if and to the extent due, from any legally available source of funds. The Original Site Lease and the Original Sublease, as previously amended, will be amended by the Third Amendment to Site Lease and the Third Amendment to Sublease to, among other things, reflect the TD Bank LOC, extend the term of the Original Site Lease and the Original Sublease, and release the DPH Public Health Clinic and Human Services Central Offices properties from the lease and substitute the Ambulance Deployment Facility.

Third Amended and Restated Delivery and Paying Agent Agreement: This Agreement sets forth the duties of the Paying Agent, including acting as (i) depository for the safekeeping of the CP Series 2 notes, (ii) delivery agent on behalf of the City in connection with the delivery of the Commercial Paper Certificates, and (iii) as paying agent to undertake certain obligations on behalf of the holders of the Commercial Paper Certificates in connection with the TD Bank LOC.

Commercial Paper Dealer Agreements: These Commercial Paper Dealer Agreements set forth the duties of the CP Dealers, including soliciting and arranging the sales of the CP Series 2 notes on behalf of the City at such rates and maturities then prevailing. The City, through the Controller's Office of Public Finance ("OPF"), conducted a procurement process to select new CP Dealers for the City's CP Program via a competitive RFP solicitation. The City received five (5) proposals for its CP Program. J.P. Morgan and Bank of America were selected by the evaluation panel to serve as CP dealers for the CP Series 2 Program. The proposed CP dealer fees of 5 basis points (0.05%) per annum on outstanding CP Series 2 notes are consistent with the current CP dealer fees.

Offering Memorandum: In connection with the issuance from time to time of CP Series 2 notes, an offering memorandum was prepared which provides summaries of certain provisions of the Trust Agreement, the lease documents and the TD Bank LOC. The offering memorandum contains no operating or financial information about the City, and prospective investors are advised to make their investment decision based upon information about TD Bank. Under Securities and Exchange Rule 15c2-12, the City is not required, and has not committed, to provide annual financial and operating data to the holders of the CP Series 2 notes.

Anticipated Timeline

The Resolution is expected to be introduced at the January 27, 2026 Board of Supervisors Meeting and is requested to be heard at the Budget and Finance ("B&F") Committee on February 11, 2026.

Milestones	Dates*
• Introduction of Resolution	January 27, 2026
• B&F Committee Meeting	February 11, 2026
• Board Considers Approval of the Resolution	February 24, 2026
• Execution of Agreements and Reinstatement of CP Series 2 Facility	March 2026

*Please note that dates are estimated unless otherwise noted.

Please contact Anna Van Degna (Anna.VanDegna@sfgov.org) at 415-554-5956, Grant Carson (grant.carson@sfgov.org) at 628-652-9638 or Keith Sevigny (Keith.Sevigny@sfgov.org) at 628-652-9652 if you have any questions. Your consideration of this matter is greatly appreciated.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Sophia Kittler, Mayor's Budget Director
Adam Thongsavat, Mayor's Office, Liaison to the Board of Supervisors
Sally Oerth, Director of Real Estate, ADM
Nicolas Menard, Budget & Legislative Analyst's Office
Greg Wagner, Controller
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Kenneth Roux, Deputy City Attorney