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
Controller's Office of Public Finance

SUBJECT: Resolution Authorizing the Sale of not to exceed $12,500,000 in aggregate principal amount of City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2013A (Equipment Lease Program)

DATE: April 16, 2013

Recommended Action:
The Controller's Office of Public Finance respectfully requests consideration of the attached resolution by the Budget and Finance Committee on Wednesday, April 24, 2013.

Attached are an original and four copies of the Resolution Authorizing the sale of not to exceed $12,500,000 in aggregate principal amount of City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2013A (Equipment Lease Program) (the "Series 2013A Bonds"). The related financing documents—including the Preliminary Official Statement which includes Appendix A, Equipment Lease Supplement No. 19, which includes the Certificate of Approval, Nineteenth Supplemental Indenture, Notice of Intention to Sell, and the Official Notice of Sell.

Background:

The Equipment Lease Program
In June 1990, the voters approved Proposition C which authorized the City to issue up to $20,000,000 of lease revenue bonds to acquire equipment for City departments. The Proposition C authorization provides for a 5% annual adjustment to the original $20,000,000 authorization. The annual 5% adjustment is made each July 1. As of July 1, 2012, the maximum authorized amount was $58,505,214 (see Attachment A).

The City and County of San Francisco Finance Corporation (the "Finance Corporation") is a non profit public benefit corporation. The Finance Corporation was formed in 1991 to provide a means to finance equipment, the acquisition, construction and installation of facilities, and tangible, real and personal property for the City's general governmental purposes.

The equipment lease program also functions as a revolving bond fund. That is, for each dollar in bond principal that is repaid, a new dollar can be issued. The Finance Corporation has issued $182,100,000 in equipment lease revenue bonds. To date, $157,990,000 has been repaid leaving $24,110,000 in equipment lease revenue bonds outstanding (see Attachment B). Given the annual adjustment factor of 5% on July 1, 2012, as of April 1, 2013 the amount available for issuance will be $34,395,214 ($25,035,214 plus the amount principal ($9,360,000) paid on April 1, 2013).

Under the equipment lease program, the Finance Corporation issues bonds to acquire a specified list of equipment for the City. Pursuant to an Agency Agreement between the City and the Finance Corporation, the City has the responsibility for acquiring the equipment. Under the Equipment Lease, the City rents the equipment from the Finance Corporation. The City's semi-annual lease payments are made 15 days prior to the date that the Finance Corporation must pay bondholders. The City's annual lease payments are made in amounts sufficient to pay the principal and interest due on the bonds and any related administration costs (such as the Trustee costs). All of the Finance Corporation's equipment lease revenue bonds are payable on each October 1 and April 1, so the City's payments are due on September 15 and March 15. Unlike most other City bond offerings, principal is payable twice per year.

The purpose of the equipment lease program is to aid City departments in the acquisition of equipment that they could not reasonably pay for within the limits of their annual budget. Instead, the departments can leverage their money as a lease payment to finance the equipment. As such, the Board of Directors of the Finance Corporation has a policy that no individual item can have a per unit cost of less than $20,000 unless (1) it is an integral part of a system (such as a computer network) or (2) the number of units to be acquired is so large that the department could not pay for the acquisition from it annual operating budget.

Lease payments to be made on equipment to be purchased in this fiscal year will be carried in the City's fiscal year 2013-2014 budget.

The Proposed Series 2013A Bonds:

The Series 2013A Bonds will fund part of the City's annual equipment purchase program for fiscal year 2012-2013. The request for equipment to be financed by Series 2013A Bonds is for approximately $10,271,760. The City Departments requesting equipment consists of the following:

Table 2: Department Request Detail

Department		Amount
Fire Department	$	3,846,238
General Service Agency		145,621
Adult Probation		175,517
City Attorney		125,369
District Attorney		168,565
Dept. of Public Health		899,820
Dept. of Public Works		1,723,332
Dept. of Human Services		432,887
Emergency Communication Department		29,606
Juvenile Hall		100,295
Public Defender		125,369
Police Department		889,700
Recreation & Parks		1,432,718
Department of Elections		89,227
Sheriff Department		32,550
Department of Technology		54,947
Total	**$**	**10,271,760**

A complete list of the individual equipment items is included herewith as Attachment C. The equipment identified in Attachment C was previously approved by the Board of Supervisors as part of the Fiscal year 2012-2013 budget process. The Mayor's Office and the Controller's Office will ensure that the respective departments will budget sufficient money to make their annual rental payment in fiscal year 2013-2014 and in subsequent years.

The City requests that the Finance Corporation issue its Lease Revenue Bonds, Series 2013A Bonds in an amount not to exceed $12,500,000 to finance part of the fiscal year 2012-2013 equipment acquisitions. While we currently only expect to issue $11,875,000 in bonds, the added authorization gives the City sufficient flexibility to address any changes in bond market conditions.

The Series 2013A Bonds are expected to be sold by competitive bid on or about May 14, 2013 assuming stable bond market conditions and close approximately two weeks after the sale. Debt service will be payable on April 1 and October 1 of each year commencing October 1, 2013. Principal repayment will begin on April 1, 2014 and will be made semi-annually through and including April 1, 2019. Because there is a time lag between the sale of the bonds and the receipt of the equipment, a portion of interest payment through October 1, 2014 will be capitalized from bond proceeds. That is to say that the Finance Corporation will borrow money to make those interest payments as required by California statutes pertaining to leases. Under State law, a lease payment cannot be made until the lessee has beneficial use of the asset being leased. Since there is a time delay in acquiring the equipment, the City will not have immediate beneficial use of the assets and therefore cannot immediately begin to make its lease payments. However, investors are still owed interest on their investment, so the interest payment is borrowed as part of the bond offering. This is known as "capitalized interest."

Financing Structure:

The financing will be structured as a lease financing whereby the City will lease the equipment from the Finance Corporation at annual rentals sufficient to amortize the acquisition costs. The annual City lease payments will be pledged as security for the bonds. As such, the lease payments are due to the Trustee 15 days prior to a bond debt service payment on 3/15 and 9/15.

Financing Parameters:

The anticipated amount of bonds required to be issued to fund the cost of the equipment acquisitions is estimated at 11,875,000 based on current interest rates and market conditions. The Resolutions authorizes the issuance of not to exceed par amount of $12,500,000. The estimated sources and uses of the bond financing are as follows:

Table 1: Estimated Sources and Uses from the Issuance of the 2013A Bonds.

Estimated Sources of Funds		
Par Amount of Bonds	$	11,875,000
Total Estimated Sources	$	11,875,000
Estimated Uses of Funds		
Acquisition Fund		10,271,760
Debt Service Reserve Fund		1,187,500
Interest Fund (Capitalized Interest)		57,228
Underwriters Discount		59,375
Working Capital		5,000
Cost of Issuance		294,137
Total Estimated Uses of Funds:	$	11,875,000

The acquisition costs for the equipment includes any sales or license taxes payable thereon. The debt service reserve account is funded at 10% of the par amount of the bonds. The costs of issuance primarily include amounts for legal fees, trustee fees, financial advisory fees, rating agency fees, printing costs and other costs associated with issuing the bonds.

Fiscal Impact:

Debt service for fiscal year 2013-2014 is $1,326,617. (See Table 3 below). The numbers below are based upon conservative estimates. The overall effective interest rate on the bonds will be approximately 2.62% given the current market conditions.

Each department will pay annual debt service for each item of equipment acquired. The number of years the debt service is payable varies according to the useful life of the equipment acquired. Debt service on majority of the equipment being acquired is payable from October 1, 2013 through October 1, 2016. The debt service on the equipment with the longest useful life is payable through and including April 1, 2019.

Table 3: Aggregate Debt Service Schedule.

Payment Date		Principal		Interest		Gross Debt Service		Gross D/S by FY
10/1/2013	$	-	$	41,050	$	41,050	$	-
4/1/2014		1,225,000		60,566		1,285,566		1,326,617
10/1/2014		1,660,000		56,891		1,716,891		
4/1/2015		1,670,000		51,081		1,721,081		3,437,973
10/1/2015		1,675,000		44,401		1,719,401		
4/1/2016		1,685,000		36,780		1,721,780		3,441,181
10/1/2016		1,690,000		28,271		1,718,271		
4/1/2017		450,000		18,638		468,638		2,186,909
10/1/2017		450,000		15,780		465,780		
4/1/2018		455,000		12,518		467,518		933,298
10/1/2018		455,000		8,832		463,832		
4/1/2019		460,000		4,669		464,669		928,501
	$	11,875,000	$	379,478	$	12,254,478	$	12,254,478

Additional Information:

Financial Advisor for the Series 2013A Bonds is Kitahata & Company. Co-Bond Counsel for the bonds is Squire, Sanders & Dempsey. The Finance Corporation's Counsel is Dannis Woliver Kelley.

The Board of Supervisors and the Mayor, in adopting and approving the Resolutions, will also approve and authorize the use and distribution of the Official Statement/Preliminary Official Statement that is prepared by the Working Group. Such approval is anticipated on or about April 24, 2013. For purposes of the Securities and Exchange Act of 1934, the Controller and the Chief Financial Officer of the Finance Corporation certifies, on behalf of the City, that the Preliminary and Final Official Statement are final as of their respective dates.

The Preliminary Official Statement: The Resolution also approves the form of Preliminary and final Official Statement relating to the Bonds (the "Official Statement"). The information contained in the Appendix A to the Official Statement was updated as of March 1, 2013 and was prepared by City staff for inclusion in the Official Statement.

Federal securities laws impose on the City the obligation to ensure that its offering documents are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the disclosure documents as well as City staff charged with preparing the documents. The Official Statement is attached for your approval prior to its publication.

Documents Enclosed Herewith:

In preparation for the meeting, enclosed please find the following items:

1) Draft bond documents, in substantially final form, for the Finance Corporation's Lease Revenue Bonds, Series 2013A enabling the financing of the fiscal years 2012-2013 equipment acquisition which consist of the following:

   a) Preliminary Official Statement describing the bonds, the lease and the project for the purpose of selling the Bonds to investors. It also contains Appendix A dated March 1, 2013 which describes the City's government and organization, the budget, property taxation, other City tax revenues, other revenue sources, general fund programs and expenditures, employment costs, post retirement obligations, investments, capital financing, bonds, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management; and

   b) Equipment Lease Supplement No.19 representing the supplement to the Equipment Lease dated January 1991 and as amended and restated as of October 1998 between the Finance Corporation as lessor and the City as lessee of the Equipment, defining the equipment and describing the rental stream pledged as security for the Bonds. It also contains the Certificate of Approval.

   c) Twentieth Supplemental Indenture representing the supplement to the Indenture dated January 1991 and as amended and restated as of October 15, 1998 between the Trustee (as fiduciary for the bondholders), the Finance Corporation and the City.

   d) Notice of Intention to Sell representing the advertisement of the sale of the Bonds, to be published in The Bond Buyer and the Independent.

   e) Official Notice of Sale describing the bid process for the Bonds and the sale and award thereof.

Attachments (A, B C)

Enclosures (1, a through e)

Cc:	Jason Elliott, Mayor's Liaison	Kate Howard, Mayor's Budget Director
	Harvey Rose, Budget Analyst	Ben Rosenfield, Controller
	Angela Calvillo, Clerk of the Board	Kenneth D. Roux, Deputy City Attorney
	Janet Mueller, Corporate Counsel	Board of Directors of the Finance Corporation