



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director of Public Finance *NS*

SUBJECT: City and County of San Francisco Taxable General Obligation Bonds, (Affordable Housing), Series 2016F

DATE: July 22, 2016

I respectfully request that the Board of Supervisors consider for review and adoption the resolution authorizing the sale and issuance of general obligation bonds financing the Affordable Housing program.

In connection with this request, legislation approving the issuance and sale of the bonds, 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, July 26, 2016, and we respectfully request that the items be heard at the scheduled September 7, 2016 meeting of the Budget and Finance Committee.

Background:

On November 3, 2015, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Affordable Housing General Obligation Bond. Proposition A authorizes the City and County of San Francisco to issue \$310,000,000 in General Obligation Bonds to fund capital projects to prioritize affordable housing projects for vulnerable populations including working families, veterans, seniors, and disabled persons (the "2015 Proposition A"). The projects to be funded through the proposed bond sale include: the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; the repair and reconstruction of dilapidated public housing; funding of a middle-income rental program; and the provision of homeownership down payment assistance opportunities for educators and middle-income households (the "Project").

The proposed resolutions authorize the issuance of not-to-exceed \$310,000,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds, as well as the sale of not-to-exceed \$77,000,000 of City and County of San Francisco General Obligation Bonds (Affordable

Housing Bonds, 2015), Series 2016F (the “Bonds”). The Bonds will be the first series of bonds to be issued under the 2015 Proposition A.

Proceeds from the Bonds will partially finance the following:

- Public Housing Projects – Bond funding would accelerate the reconstruction and rehabilitation of distressed public housing facilities, including infrastructure replacement, as well as the creation of net new units within reconstruction programs.
- Low-Income Housing Projects - The proceeds will allow the Mayor’s Office of Housing and Community Development to fund the acquisition and rehabilitation of existing rent-controlled buildings to protect against the loss of affordable units, as well as purchase properties for the development of new affordable housing, and accelerate the production of new affordable housing, in particular through the Mission Area Plan program.
- Middle-Income Housing - The bond proceeds will increase the cap on Down Payment Assistance loans and the range of eligible households, expand the Teacher Next Door program to provide housing assistance to San Francisco schoolteachers, and allow for the development or preservation of middle-income rental opportunities.

The remaining authorization under the 2015 Proposition A will be issued subject to review by the Capital Planning Committee, the consideration and adoption by the Board of Supervisors, and approval by the Mayor of subsequent authorizing resolutions.

Financing Parameters:

The proposed resolution authorizes the sale of not-to-exceed par amount of \$77,000,000. Based on current project cost estimates and schedules, the Office of Public Finance expects to issue \$76,025,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected issuance amount allows for fluctuations in market conditions from the date of authorization by the Board to the time of the sale of the Bonds.

The Bonds are anticipated to contribute approximately \$74,500,000 to affordable housing projects. Table 1 outlines anticipated sources and uses for the Bonds.

Table 1: Anticipated Sources and Uses for the Bonds.

Sources	
Par Amount	\$76,025,000
Reserve Proceeds	\$975,000
Total Not-To-Exceed Amount	\$77,000,000
Uses	
<u>Projects</u>	
Affordable Housing Project Funds	74,500,000
Controller's Audit Fund	149,000
Projects Subtotal	74,649,000
<u>Other Costs of Issuance</u>	
Costs of Issuance	539,725
Underwriter's Discount	760,250
Citizens' General Obligation Bond Oversight Committee	76,025
Costs of Issuance Subtotal	1,376,000
Total Uses	\$76,025,000
Reserve Pending Bond Sale ¹	975,000
Total Uses with Reserve	\$77,000,000

Based upon a conservative estimate of 4.03% interest rate, OPF estimates that average fiscal year debt service on the Bonds is approximately \$6,000,000. The anticipated total par value of \$76,025,000 is estimated to result in approximately \$34,325,000 in interest payments over the life of the Bonds. The total principal and interest payment over the approximate 20-year life of the Bonds is approximately \$110,350,000. Based on market conditions expected to exist at the time of the sale, the Bonds may be structured with a 30-year life. The City intends to sell the Bonds through a competitive sale process, but in the case of a dramatic change in market conditions, reserves the option to seek a negotiated sale with underwriter(s) selected competitively.

In addition, a portion of the Bonds will pay certain expenses incurred in connection with their issuance and delivery and the periodic oversight and review of the Project by the Citizens' General Obligation Bond Oversight Committee ("CGOBOC"). Detailed descriptions of the Project financed with proceeds of the Bonds are included in the Bond Report prepared by the Mayor's Office of Housing and Community Development.

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 gross general obligation debt limit for fiscal year 2015-16 is approximately \$5.83 billion, based on a net assessed

¹ The Reserve Pending Sale accounts for variations in interest rates prior to the sale of the proposed Bonds.

valuation of approximately \$194.4 billion. As of June 30, 2016, the City had outstanding approximately \$2.01 billion in aggregate principal amount of general obligation bonds, which equals approximately 1.13% of the net assessed valuation for fiscal year 2015-16. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by 0.04% to 1.17%— within the 3.00% legal debt limit. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.96% of the net assessed value of property in the City.

Property Tax Impact

For Series 2016F, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which, according to the Controller's Office, would be \$0.00289 per \$100 or \$2.89 per \$100,000 of assessed valuation over the anticipated 20-year term of the bonds based on current valuations. The owner of a residence with an assessed value of \$600,000, assuming a homeowner's exemption of \$7,000, would pay average annual additional Property Taxes to the City of \$17.15 per year if the anticipated \$76,025,000 Bonds are sold.

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 2016-17 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

Additional Information:

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, July 26, 2016. The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

Official Notice of Sale: The Official Notice of Sale for the Bonds announces the date and time of the competitive bond sale, including the terms relating to the Bonds; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Bonds may be bid separately by series or bids may be received for all of the Bonds.

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, the Controller 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 2016F Bonds. Such Notice of Intention to Sell will 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 Comprehensive Annual 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.

The Board of Supervisors and the Mayor, in adopting and approving the Resolutions, approve and authorize the use and distribution of the Official Statement 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, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolution, 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).

Purchase Contract: The City intends to pursue a competitive sale of the Bonds; however, if it is determined by the Controller that a negotiated sale would be in the best financial interests of the City, the Purchase Contract details the terms and conditions for the sale of the Bonds through selected underwriter(s).

Financing Timeline:

The Bonds are expected to be issued and delivered in October 2016. Schedule milestones in connection with the financing may be summarized as follows:

Milestone	Date*
Introduction of authorizing legislation and supporting materials to the Board	July 26, 2016
Consideration by the Capital Planning Committee	August 29, 2016
Issuance and delivery of the Bonds	October 2016

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact me at 554-5956 if you have any questions. Thank you.

CC: Angela Calvillo, Clerk of the Board
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