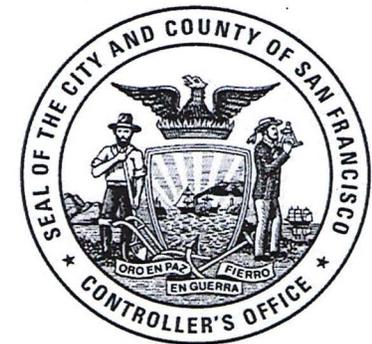
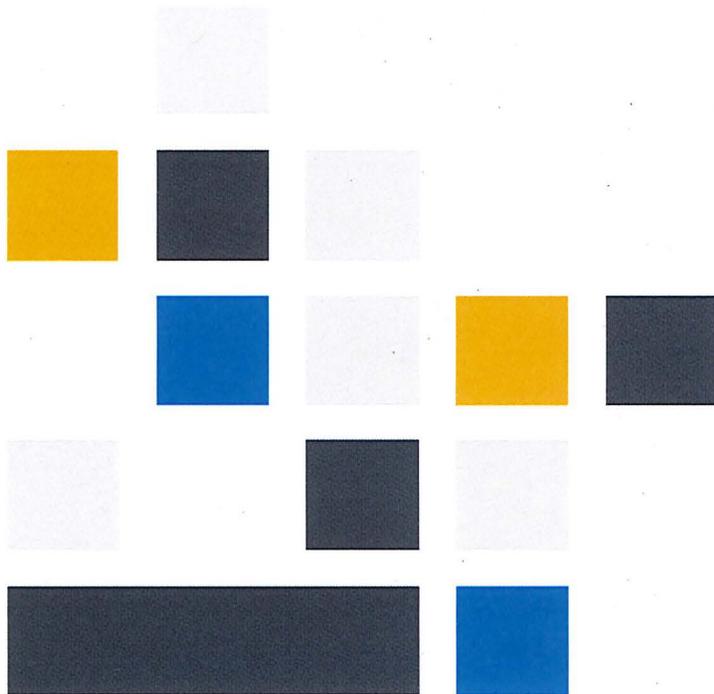


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General Obligation Refunding Bonds & Debt Policy Update

BUDGET AND FINANCE COMMITTEE

- Refunding Resolution: Authorizes the issuance from time to time, in one or more series, of not to exceed \$1,482,955,000 aggregate principal amount General Obligation Refunding Bonds and approves the first sale of Refunding Bonds, Series 2020-R1, not to exceed \$255,000,000; and
- Debt Policy Resolution: Approves the Controller's Office of Public Finance Debt Policy



February 26, 2020

City and County of San Francisco
Office of the Controller
Office of Public Finance

The Debt Policy Resolution

DEBT POLICY - HISTORICAL CONTEXT

- OPF has long maintained a written Debt Policy.
- Pursuant to a change in state law, the City formally adopted this policy in June of 2017 (Resolution 250-17)
- From time to time, the Debt Policy is reviewed and adopted to reflect changes in State or Federal law or regulatory guidance, as well as industry best practices, per the Government Finance Officers Association  gfoa.org/bestpractices
- In January of 2019, the Board adopted certain updates to the Debt Policy including:
 - i. addition of a "Use of Proceeds Policy" which covers Green Bonds & Social Bonds
 - ii. allowing for the flexibility to structure General Obligation Bonds with a term up to 40 years to align with the terms of certain affordable housing loans
- Currently OPF is seeking authorization to formally update its Debt Policy again after conducting its periodic review with the City Attorney's Office



The Debt Policy Resolution (cont'd)

SUMMARY OF THE RESOLUTION & PROPOSED POLICY UPDATES

- OPF is seeking formal approval of an update to its Debt Policy in accordance with California Government Code Section 8855
- Updates to the Debt Policy include:
 - (i) refining the City's disclosure practices, which are detailed in Appendix I
 - The changes to the disclosure practices include formal revisions to procedural steps for preparing and vetting the City's ongoing disclosure to bond investors, as required by federal securities law
 - A Board of Supervisors training has been scheduled for April 7th to review the City's current disclosure practices
 - (ii) to allow for the use of negotiated sales for complex refinancings;
 - A determination to sell bonds via a negotiated sale requires consultation with the Controller and the City's Municipal Advisor(s) as well as a competitive process for underwriter selection



General Obligation Refunding Bond Authorization

SUMMARY OF THE REFUNDING BOND AUTHORIZATION

- OPF is seeking authorization to issue City and County of San Francisco General Obligation Refunding Bonds from time to time over the next five (5) years to refund outstanding general obligation bonds (“GO Bonds”)
- When the City issues GO Bonds, there are provisions included which give the City the option to refinance the Prior GO Bonds after a certain period of time (8-10 years), should interest rates be more favorable and produce savings
- With Board authorization the City can issue GO Refunding Bonds and use the proceeds of the Refunding Bonds to refinance the Prior GO Bonds
- The City currently has \$2.39 billion in GO Bonds outstanding, of which \$1.48 billion can be refunded over the next five years (*through June 30, 2025*), including \$233.1 million which can be refinanced beginning in March 2020



The Refunding Resolution

TERMS AND CONDITIONS OF THE REFUNDING RESOLUTION

- The Refunding Resolution authorizes and directs the Director of OPF to determine which series of outstanding Prior GO Bonds would be refinanced with the proceeds of Refunding Bonds, subject to certain terms and conditions including the following:
 - i. each series of Refunding Bonds must achieve aggregate net present value savings of at least 3% of outstanding principal of the total Prior Bonds to be refunded by such series;
 - ii. the true interest cost of the refunding bonds must not exceed 12%;
 - iii. the refunding bonds must not have a final maturity date later than the maturity date of the bonds to be refunded; and
 - iv. the costs of issuance must not exceed 2% and underwriter's discount must not exceed 1% of the principal amount of the refunding bonds
- OPF must return to the Board with supplemental appropriation ordinances for each Refunding Bond Series under this authorization
- The authority to issue Refunding Bonds under the Refunding Resolution expires on June 30, 2025



Proposed Refunding Bond Series 2020-R1

SUMMARY OF THE PROPOSED 2020-R1 REFUNDING BONDS

- The following Prior Bonds have been identified by OPF as refunding candidates which can be refunded in March 2020 and are estimated to produce savings based on bond market conditions as of January 2020:

Series 2020-R1 General Obligation Refunding Candidates

Prior Bonds	Original Par Amount	Refundable Par Amount
Refunding Series 2008-R1	\$232,075,000	\$3,480,000
Series 2010E (Earthquake Safety & Emergency Response, 2010)	\$79,520,000	\$35,730,000
Series 2012A (Earthquake Safety & Emergency Response, 2010)	\$183,330,000	\$108,025,000
Series 2012B (Clean & Safe Neighborhood Parks, 2008)	\$73,355,000	\$42,425,000
Series 2012C (Road Repaving & Street Safety, 2011)	\$74,295,000	\$43,435,000
Total	\$642,575,000	\$233,095,000

- Estimated gross savings to property taxpayers of approximately **\$31.64 million** based on an estimated interest rate of 2.19%
- On a net present value ("NPV") basis, debt service savings are estimated to be **\$26.83 million**, or **11.51%** of the total outstanding principal (\$233.1 million) of the Prior Bonds to be refunded



Approval of the Series 2020-R1 Refunding Bonds, not to exceed \$255,000,000

CURRENT PLAN OF FINANCE

- With the Refunding Resolution, OPF is seeking approval of the initial series of Refunding Bonds, Series 2020-R1
- Not to exceed par amount of \$255,000,000
- Final Maturity of June 15, 2035
- Estimated True Interest Cost: 2.19%

SOURCES AND USES

Sources:

<u>Refunding Bond Proceeds</u>	
Par Amount	\$198,925,000
Premium	\$39,099,597
Total Sources	\$238,024,597

Uses:

Refunding Escrow	\$236,800,136
<u>Delivery Date Expenses</u>	
Cost of Issuance	\$905,805
Underwriter's Discount	\$318,656
Total Uses	\$238,024,597

Reserve for Market Uncertainty \$16,975,403

Not-to-Exceed Par Amount **\$255,000,000**

Source: Montague DeRose and Associates, LLC



Anticipated Financing Timeline

MILESTONES

DATES*

- Introduction of Refunding Appropriation to the Board of Supervisors January 14, 2020
- Introduction of Resolutions to the Board of Supervisors January 28, 2020
- Budget & Finance Committee Hearing – Resolution & Appropriation February 26, 2020
- Board Considers Approval of Resolution March 3, 2020
- Board Considers Approval of Appropriation Ordinance (1st Reading)
- Final Board Approval of Appropriation Ordinance (2nd Reading) March 10, 2020
- Sale and Closing of the 2020-R1 Refunding Bonds March/April 2020

*Please note that dates are estimated unless otherwise noted.



APPENDIX



Government Code

RELEVANT CALIFORNIA GOVERNMENT CODE 8855

1. The issuer of any proposed debt issue of state or local government shall, no later than 30 days prior to the sale of any debt issue, submit a report of the proposed issuance by any approved method... The commission may require information to be submitted in the report of proposed debt issuance that it considers appropriate. Failure to submit the report shall not affect the validity of the sale. The report of proposed debt issuance shall include a certification by the issuer that it has adopted local debt policies concerning the use of debt and that the contemplated debt issuance is consistent with policy.

A local debt policy shall include all of the following:

- A. The purposes for which the debt proceeds may be used.
 - B. The types of debt that may be issued.
 - C. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
 - D. Policy goals related to the issuer's planning goals and objectives.
 - E. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.
2. In the case of an issue of bonds the proceeds of which will be used by a governmental entity other than the issuer, the issuer may rely upon a certification by that other governmental entity that it has adopted the policies described [above], and references to the "issuer" shall be deemed to refer instead to the other governmental entity.



Rule 15c2-12 allows the SEC to indirectly regulate public debt issuing municipalities

Rule 15c2-12 applies to underwriters. Underwriters are required to obtain a municipal issuer's [Official Statement](#) and a [Continuing Disclosure Agreement](#) before they can underwrite municipal securities.

A [Continuing Disclosure Agreement](#) requires the issuer to provide:

- **An [Annual Report](#)** updating key financial and operational data, and
- **[Prompt notice](#)** of the occurrence of certain **[material events](#)**



New Amendments to Rule 15c2-12

- Uneven disclosure of direct purchase transactions has created the impetus for SEC to adopt enhanced investor disclosure requirements.
- Two new material events will be included in Continuing Disclosure Agreements for bond offerings that close on or after February 27, 2019 – must be disclosed within 10 business days of the event.

NEW EVENT 15

New or amended “financial obligation” – if material*

*if a reasonable investor would consider it to be material, based on the total facts and circumstances

NEW EVENT 16

Default, acceleration event, termination event, modification of terms or similar events under a “financial obligation,” any of which reflect financial difficulties

