



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 Controller's Office of Public Finance

DATE: Friday, May 20, 2022

SUBJECT: Ordinance Authorizing Certificates of Participation (Multiple Capital Improvement Projects) – Not to Exceed \$140,000,000 for Critical Repairs, Recovery Stimulus and Street Repaving Projects

Recommended Action

We respectfully request that the Board of Supervisors (the "Board") review and consider for adoption the ordinance ("Ordinance") authorizing the execution and delivery of the Certificates of Participation (Multiple Capital Improvement Projects) (the "FY23 COPs") in an aggregate principal amount not-to-exceed \$140,000,000 to finance certain capital improvement projects, including but not limited to certain projects within the City's 10-Year Capital Plan for Fiscal Years 2022-2031 (the "Capital Plan") generally consisting of (a) street repaving and reconstruction, (b) critical repairs, including renovations and improvements to City-owned buildings, facilities and works utilized by various City departments and (c) local economic stimulus projects, generally consisting of repairs, renovations and improvements, designed to help build a more resilient and equitable San Francisco as part of the City's recovery from the COVID-19 pandemic. The proceeds of the FY23 COPs are proposed to be appropriated in Fiscal Year 2022-23 in the Annual Budget and Appropriation Ordinance ("AAO") with the Ordinance accompanying as trailing legislation. Proceeds of the long-term FY23 COPs will also be used to fund related financing costs and reserves. Additionally proceeds of the FY23 COPs will likely be used to refinance/retire certain commercial paper notes of the City issued on an interim basis for such purposes.

Background

On April 20, 2021, the Board approved Resolution No. 159-21, adopting the City's Ten-Year Capital Plan (FY2022 – 2031) ("Adopted Capital Plan"), which demonstrated the City's ability to fully fund, in Fiscal Year 2022, \$60.8 million for Critical Repairs projects and \$50.0 million for Economic Recovery Stimulus projects with General Fund supported certificates of participation ("COPs"). On July 27, 2021, the Board passed Ordinance No. 123-21, authorizing the issuance of not-to-exceed \$67,500,000 of COPs to finance \$56,732,000 in Critical Repair and Economic Recovery Stimulus projects in the Fiscal Year 2021-22 budget (the "FY22 COPs").

2 | Office of Public Finance – Ordinance Authorizing Certificates of Participation for Critical Repair, Recovery Stimulus and Street Repaving Projects – Not to Exceed \$140,000,000

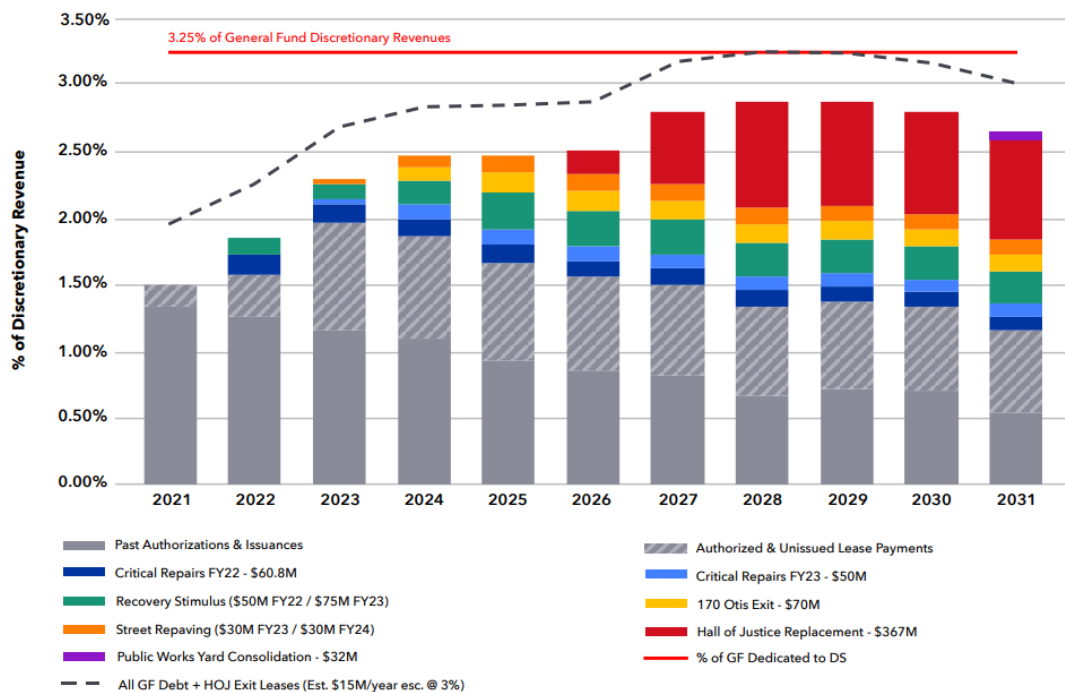
The Adopted Capital Plan also demonstrated the City’s ability to fully fund, in FY 2022-23, \$50.0 million for Critical Repairs projects, \$75.0 million for Recovery Stimulus projects and \$30.0 million for Street Repaving. The proposed funding for Recovery Stimulus projects from the FY23 COPs is only \$29.2 million.

In coordinating this year’s Capital Budget, Capital Planning has been identifying capital projects which meet the City’s programmatic goals to be funded by these COPs (i) upkeeping the City’s assets which are in need of critical repairs; and (ii) stimulating the economy for a more expeditious recovery following the reopening of the City following the COVID-19 pandemic.

The Capital Plan

As previously mentioned, the Adopted Capital Plan included \$50.0 million for Critical Repairs projects, \$75.0 million for Economic Recovery Stimulus projects, and \$30.0 million for Street Repaving in FY 2023. At that level, the anticipated incremental debt service associated with the delivery and execution of the COPs complied with the City’s policy of limiting General Fund debt service payments at or below 3.25% of General Fund Discretionary Revenue, as set forth and maintained in the Capital Plan. Because the total amount to be funded through FY23 COPs for Recovery Stimulus is \$29.2 million, less than the capital planned \$75.0 million, the related debt service will be lower than the projections included in the Capital Plan and displayed below.

**Capital Plan General Fund Debt Program
FY2022-31**



The Projects

The City has historically included options like Critical Repairs and Street Repaving COPs in its Capital Plan’s General Fund Debt Program as a capital source specifically to maintain existing infrastructure and to stimulate economic recovery. Based on the Mayor’s proposed budget for FYs 2022-23 & 2023-24, certain capital projects that would typically be funded with cash on hand are either being deferred or considered

3 | Office of Public Finance – Ordinance Authorizing Certificates of Participation for Critical Repair, Recovery Stimulus and Street Repaving Projects – Not to Exceed \$140,000,000

for the COPs. While it is feasible to defer certain projects, there are critical repairs and replacements requiring more immediate funding action in order to continue providing essential services. The Recovery Stimulus COPs are intended to support projects that can serve as local economic stimulus and help build a more resilient and equitable San Francisco as part of the City’s recovery from the COVID-19 pandemic.

The proposed projects to be funded by the FY23 COPs for the Critical Repairs, Recovery Stimulus and Street Repaving COP programs are shown in the tables below. The Critical Repairs and Recovery Stimulus projects funded by last year’s FY22 COPs are included as Attachment 2.

Critical Repairs Projects – FY23 COPs

Department	Project	Amount
ADM	GGP Barrier Removals - Public RoW - JFK Drive & Stanyan Curb	\$900,000
ADM	1 SVN Fire Detection System Emergency Equipment	1,000,000
ADM	1099 Sunnydale - Boiler	\$400,000
ADM	1650M - Chiller/Cooling Tower	500,000
ADM	25 VN - Elevator Controls	\$1,000,000
ADM	50 Raymond - Exterior Siding Replacement	500,000
ADM	555 7th Street Elevator Project & Exterior Improvements	\$2,250,000
ADM	City Hall - Flat Roof - Waterproofing	2,500,000
ADM	Civic Center - Steam Loop Renewal	\$3,738,000
ADM	Underground Fuel Tank Replacements	9,225,727
DPH	Clin Lab Automation System	\$4,000,000
DPH	ZSFG Improvements	7,000,000
DPW	Curb Ramps with Basements	\$3,000,000
DPW	Operations Yard Tenant Improvements & HVAC	2,580,751
JUV	YGC Elevator Modernization, Air Exchange & Exhaust Fans	\$1,476,000
REC	RP ADA TPC Harding Park	900,000
SHF	425 7th St Roof Replacement & Building Management System	\$4,825,000
WAR	Davies Hall Elevator Modernization	2,200,000
-	Cost Overrun Contingency	\$2,004,522
Subtotal Critical Repairs COPs		\$50,000,000

Recovery Stimulus Projects – FY23 COPs

Department	Project	Amount
ART	MCCLA - Seismic Retrofit	\$9,580,000
DPH	LHH - Simon Cooling Center	975,000
DPW	Innes Ave rebuild in Bayview Hunters Point	\$5,000,000
DPW	Japantown Buchanan Mall Improvements Project	2,000,000
DPW	Street Tree Planting & Establishment - Equity Priority Neighborhoods	\$2,000,000
DPW	Sunset Blvd Hosebib Installation	935,000
DPW	Sunset Boulevard Recycled Water Irrigation Improvements	\$1,200,000
TIS	DT Fiber to Public Housing	2,500,000
TIS	Opera House Roof Replacement	\$5,000,000
Subtotal Recovery Stimulus COPs		\$29,190,000

4 | Office of Public Finance – Ordinance Authorizing Certificates of Participation for Critical Repair, Recovery Stimulus and Street Repaving Projects – Not to Exceed \$140,000,000

Street Repaving – FY23 COPs

Department	Project	Amount
DPW	Street Resurfacing & Reconstruction	\$30,000,000
Total FY23 COPs		\$109,190,000

The Current Plan of Finance

The proposed Ordinance authorizes the execution and delivery of tax-exempt and/or, taxable COPs in one or more series with an aggregate par amount not-to-exceed \$140 million. Based on the initial project information, the Office of Public Finance (“OPF”) currently anticipates issuing \$136.15 million in COPs, though the final amount will be based on prevailing market assumptions at the expected time of sale. The difference between the expected issuance amount and the \$140.0 million not-to-exceed amount allows for changes in the tax-status of the COPs (tax-exempt vs taxable) as directed by bond counsel, market fluctuations in interest rates prior to the sale or sales of the COPs, any increased deposits to the debt service reserve fund, and possible additional delivery date expenses if the COPs are issued in more than one series.

Commercial Paper: The current plan of finance anticipates utilizing the City’s commercial paper program (“CP Program”), which was launched in FY2009-10 pursuant to Resolution Nos. 85-09 and 136-10, to finance certain project costs, including preliminary design, planning, and permitting. Pursuant to Resolution No. 247-13 approved in July 2013, the City’s total CP Program authorization was increased to \$250.0 million. Pursuant to Resolution No. 184-16 approved in May 2016, the Board re-authorized CP Series 1&2 at \$150,000,000, and pursuant to Resolution No. 116-22 approved in April 2022, the Board re-authorized CP Series 3&4 at \$100,000,000. Of the \$250.0 million total authorization for the City’s CP Program, approximately \$178 million was unencumbered as of May 20, 2022.

Based upon an estimated 6.44% true interest cost (approximately 250 basis points or 2.50% above current market rates) and an anticipated total par value of \$136.15 million, the total principal and interest payments over the approximate 20-year repayment term of the COPs are estimated to be approximately \$253.3 million. Based on market conditions or other factors expected at the time of the sale, the COPs could be structured with up to a 30-year term.

Approximately \$12.2 million of proceeds may be allotted to fund a Debt Service Reserve Fund, and approximately \$12.3 towards Capitalized Interest. In addition, approximately \$1.8 million is projected to be allotted to cover costs associated with the issuance of the COPs, assuming one or more issuances. This includes amounts for underwriter compensation, legal fees, municipal advisory fees, trustee fees, rating agency fees, printing costs, and other issuance costs.

For good faith estimates required by Code Section 5852.1 of the California Government regarding the proposed financing, see [Attachment 1](#). The information set forth in [Attachment 1](#) is based on estimates of prevailing market conditions, and the ability to finance the entirety of the projects on a tax-exempt basis. Actual results may differ if assumed market conditions or the final tax status requirements to be determined by bond counsel and the City Attorney’s Office closer to the sale of the FY23 COPs.

5 | Office of Public Finance – Ordinance Authorizing Certificates of Participation for Critical Repair, Recovery Stimulus and Street Repaving Projects – Not to Exceed \$140,000,000

The table below outlines anticipated sources and uses for the COPs, based on estimates provided by the Office of Public Finance’s municipal advisor KNN Public Finance.

Estimated Sources & Uses of the Proposed COPs

Sources:

<u>COP Proceeds:</u> Estimated Par Amount	\$136,150,000
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Uses:

Project Funds	\$109,190,000
CSA Audit Fee (0.2% of project)	\$218,380

Capitalized Interest	\$12,659,000
Debt Service Reserve Fund	\$12,243,700

Delivery Date Expenses

Cost of Issuance	\$885,870
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Underwriter's Discount	\$953,050
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Total Uses	\$136,150,000
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<i>Plus: Reserve for Market Uncertainty</i>	<i>\$3,850,000</i>
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Maximum Not-to-Exceed Par Amount	\$140,000,000
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Source: KNN Public Finance

The FY23 COPs

Under the proposed Ordinance, the City will structure the FY23 COPs using a lease-lease back structure. This lease will be a supplement to a lease which currently supports the City’s outstanding Series 2012A COPs, Series 2019-R1 COPs, Series 2020-R1 COPs, Series 2021A COPs, and various other Board authorized but unissued certificates of participation (the “Master Lease”) by utilizing subsequent supplement agreements as permitted by the Original Trust Agreement, Original Property Lease, and Original Project Lease, each by and between the City and a third-party trustee, currently U.S. Bank National Association (the “Trustee”).

It is anticipated that the City-owned Laguna Honda Hospital Campus located at 375 Laguna Honda Boulevard and the San Bruno Jail Complex located at 1 Moreland Drive, San Bruno will serve as two of the leased property assets for the FY23 COPs (the "Leased Property") under the Master Lease. The City may add additional properties and/or substitute alternative City-owned properties, as determined in coordination with the Director of Property, City Attorney and the City’s Bond Counsel, to the Master Lease in order to secure the FY23 COPs at the time of their issuance. This may occur based on the timing of issuances of other series of authorized but unissued certificates of participation under the master lease and/or other facts and circumstances regarding the existing Leased Property at the time of issuance of the FY23 COPs.

Original Property Lease and Original Project Lease: Pursuant to the Original Property Lease, the City leases City-owned properties to the Trustee. Pursuant to the Original Project Lease, the City leases back the leased property, together with the improvements thereon, from the Trustee. The City makes annual base rental payments to the Trustee in amounts representing the fair rental value for the improved leased

property and equal to the amounts required to repay all COPs issued and outstanding under the Master Lease (the Master Lease COPs”). When the Master Lease COPs are finally paid, the Property Lease and Project Lease (each as supplemented) terminate. Amounts annually budgeted and appropriated from the City’s General Fund are the source of the City’s rental payments securing the Master Lease COPs.

Original Trust Agreement: Pursuant to the Original Trust Agreement between the City and the Trustee acting on behalf and for the benefit of COPs holders, the Trustee administers and disburses payments with respect to the COPs and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the COPs, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the COPs and disburses payments for the costs incurred for the projects, as directed by authorized City representatives.

The subsequent supplements to the Original Property Lease and Original Project Lease, each between the City and the Trustee, require the City to make base rental payments on each September 25 and March 25 during the term of the supplemental leases in an amount sufficient to pay total base rental payments when due. The Trustee is required to deposit base rental payments in the base rental fund to be applied as necessary to make debt service payments with respect to the COPs on October 1 and April 1 of each year during the term of the Trust Agreement.

Official Statement

The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of its COPs. The Official Statement describes the COPs including sources and uses of funds; security for the COPs; 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 COPs.

A Preliminary Official Statement is distributed to prospective bidders/underwriters prior to the sale of the COPs and, within seven days of the public offering of the COPs, 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 certificates.

The Board and the Mayor, in adopting and approving the proposed Ordinance, approve and authorize the use and distribution of the Official Statement by the municipal advisor with respect to the COPs. In accordance with rule 15c2-12 of the Securities and Exchange Act of 1934, as amended, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are “deemed final” as of their respective dates. The Controller will also certify that such document does not contain any material misstatement or omissions prior to it being distributed to the investing marketplace. A form of the Preliminary Official Statement is attached for your approval prior to its publication.

Additional Information

The forms of the related financing documents—including the Bond Purchase Contract, Notice of Sale, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted, as described below.

7 | Office of Public Finance – Ordinance Authorizing Certificates of Participation for Critical Repair, Recovery Stimulus and Street Repaving Projects – Not to Exceed \$140,000,000

Official Notice of Sale and Notice of Intention to Sell (“Notice of Sale”). If the COPs are sold on a competitive basis, the Notice of Intention to Sell provides legal notice to prospective bidders of the City’s intention to sell the COPs. 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.

The Official Notice of Sale for the COPs announces the date and time of a competitive sale, including the terms relating to the COPs; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

The Official Bid Form attached to the Official Notice of Sale is the form of the official bid for the purchase of the COPs. Pursuant to the Ordinance, the Controller is authorized to award the COPs 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.

Purchase Contract: The City will work with its Municipal Advisor to determine whether a negotiated or competitive sale will be most advantageous to the issuance of COPs based on market conditions closer to the sale of the COPs. Should the COPs be sold via a negotiated sale with an underwriter(s), the Purchase Contract details the terms, covenants, and conditions for the sale of the COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents. For a negotiated sale, the City would work with its Municipal Advisor to select qualified firms from the City’s Underwriter Pool via a competitive Request for Proposal (“RFP”) process.

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.

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 COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

Milestones	Dates*
• Capital Planning Committee	May 16, 2022
• Introduction of the Ordinance to the Board of Supervisors	June 1, 2022
• Budget and Appropriations Committee Hearings (ADM Budget Hearing)	June 2022
• Board Considers Approval of the Ordinance (1 st Reading)	July 19, 2022
• Final Board Approval of the Ordinance (2 nd Reading)	July 26, 2022
• Sale and Closing of the COPs	TBD

*Please note that dates are estimated unless otherwise noted.

8 | Office of Public Finance – Ordinance Authorizing Certificates of Participation for Critical Repair, Recovery Stimulus and Street Repaving Projects – Not to Exceed \$140,000,000

Please contact Anna Van Degna (Anna.VanDegna@sfgov.org), Vishal Trivedi (Vishal.Trivedi@sfgov.org) or Bridget Katz (Bridget.Katz@sfgov.org) if you have any questions. Your consideration of this matter is greatly appreciated.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andrea Bruss, Mayor's Office
Andres Powers, Mayor's Office
Ashley Groffenberger, Mayor's Budget Director
Harvey Rose, Budget Analyst
Severin Campbell, Budget Analyst
Ben Rosenfield, Controller
Carmen Chu, City Administrator
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney
Andrico Penick, Director of Real Estate Division
Brian Strong, Office of Resilience and Capital Planning

Attachment 1

GOOD FAITH ESTIMATES

For purposes of compliance with Section 5852.1 of the California Government Code, the following information are good faith estimates provided by the City's Municipal Advisor, KNN Public Finance.

1. True interest cost of the COPs: 6.44%
2. Finance charge for the COPs, including all fees and charges for third parties (including underwriter's compensation, municipal advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$1,838,920.
3. Amount of COP proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest funded with proceeds of the COPs: \$109,408,380.
4. Total payment amount for the COPs, being the sum of (a) debt service on the COPs to final maturity, and (b) any financing costs not paid from proceeds of the COPs: \$253,257,000.

The information set forth above is based on estimates of prevailing market conditions, with an additionally assumed cushion of 2.50% (250 basis points), and the ability to finance the entirety of the project on a tax-exempt basis. Actual results may differ if assumed market conditions or the tax-status diverge from these assumptions.

Attachment 2

FY22 COPS: CRITICAL REPAIRS & RECOVERY STIMULUS PROJECTS

Critical Repairs Projects – FY22 COPS

Department	Project	Amount
ADM	City Hall HVAC & Elevators	\$8,275,000
ADM	1 S. Van Ness Bathrooms & Elevators	2,100,000
ADM	Hall of Justice HVAC	4,800,000
DPH	Laguna Honda Hospital Emergency Power	7,600,000
DPW	Curb Ramps with Basements	4,000,000
DPW	Infill Sidewalks in Bayview	2,000,000
DT	Fiber Backbone	2,500,000
REC	Stow Lake ADA Improvements	900,000
SHF	County Jail 2 Elevators & Fire Safety Systems	5,407,000
SHF	County Jail 5 Security Electronics & Fire Safety Systems	4,450,000
WAR	Davies Hall Elevators	2,200,000
ART	AAACC - Seismic Cost Escalation	1,340,000 [1]
DEM	Dispatch Floor Remodel	1,570,700 [1]
-	COVID Impact Contingency	- [1]
Subtotal Critical Repairs COPS		\$47,232,000

Recovery Stimulus Projects – FY22 COPS

Department	Project	Amount
OEWD	SF Wholesale Produce Market (roadway improvements etc.)	3,000,000
DPW	Better Market Street (pedestrian & streetscape improvements)	3,000,000
DPH	Zuckerberg SF General New Childcare Center	1,500,000
-	Matching Funds Contingency	2,000,000
Subtotal Recovery Stimulus COPS		\$9,500,000

Total FY 22 COPS	\$56,732,000
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[1] The FY22 COPS appropriated \$3 million for COVID Impact Contingency under the Critical Repairs Projects. During the upcoming budget process, it is anticipated that those funds will be re-appropriated to the two new projects noted.