



**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 *NSS*  
Controller's Office of Public Finance

**SUBJECT:** Resolution Authorizing the Execution and Delivery of Certificates of Participation (Animal Care & Control Renovation Project)

**DATE:** October 28, 2016

I respectfully request that the Board of Supervisors consider for review and adoption the resolution approving the execution and delivery of \$60,500,000 in City and County of San Francisco Certificates of Participation ("Certificates") for the construction of the Animal Care & Control Renovation Project ("Project"). The ordinance appropriating the proceeds of the Certificates was adopted by the Board of Supervisors (the "Board") on May 17, 2016.

In connection with this request, we would like to respectfully request consideration of the resolution at the November 16, 2016 Budget and Finance Committee meeting.

**The Animal Care & Control Renovation Project:**

The proposed resolution authorizes the City to execute and deliver not to exceed par amount of \$60,500,000 in City and County of San Francisco Certificates of Participation (Animal Care & Control Renovation Project) to finance the design and construction of Animal Care and Control's replacement facility at 1419 Bryant Street, a City-owned property.

The scope of the project will address the seismic deficiency of the current building, and renovate the historic building at 1419 Bryant Street and turn it into a safe and humane Animal Care & Control facility. The facility will protect the animals under the care of the Animal Care & Control and provide safe, sanitary housing for animals, even if power and/or water are temporarily interrupted. The facility will also provide improved education and training facilities for the public, animal care staff, and volunteers. Construction on the project is scheduled to commence in summer 2018 with a tentative completion date of fall 2020.

## **The Certificates:**

Under the proposed resolution, the City will structure the Certificates as an abatable asset-transfer lease by and between the City and a third-party trustee pursuant to a Property Lease, Lease Agreement, and Trust Agreement.

*Property Lease and Lease Agreement:* Pursuant to the Property Lease, the City leases a City-owned property to a third party trustee. Pursuant to the Lease Agreement, the City leases back the leased property, together with the improvements financed with proceeds of the Certificates, from the third party trustee. The City makes annual base rental payments to the third party trustee in amounts required to repay the Certificates. When the Certificates are finally paid, the Property Lease and the Lease Agreement terminate. The City's general fund secures the repayment of the Certificates (see The Current Plan of Finance below).

*Trust Agreement:* Pursuant to the Trust Agreement between the City and a third party trustee acting on behalf and for the benefit of Certificates holders, the trustee administers and disburses Certificate payments and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the Certificates, 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 Certificates and disburses payments for the costs incurred for the Project, as directed by authorized City representatives. The resolution delegates selection of the third party trustee to the Director of Public Finance, and the trustee will be selected based on the lowest fees and other considerations via a competitive request for proposal.

*The Leased Property:* It is anticipated that portions of Lot 030, Block 4570, known as Office of the Chief Medical Examiner located at 1 Newhall Street in San Francisco, Lot 002, Block 3904, known as the Animal Care & Control Facility located at 1401 Bryant Street in San Francisco, and Lot 7, Block 2842, known as the Laguna Honda Hospital Campus located at 375 Laguna Honda Blvd., which are all City-owned assets (the "Leased Property"), will serve as the Leased Property for the Certificates.

The Property Lease and Lease Agreement between the City and trustee, requires the City to make base rental payments semi-annually in an amount sufficient to pay total base rental payments when due.

The Trust Agreement between the City and the trustee requires that the base rental payments be deposited semi-annually in the base rental fund maintained by the trustee. The trustee will apply such amounts as is necessary to make base rental payments with respect to the Certificates.

## **The Current Plan of Finance:**

The proposed resolution authorizes the execution and delivery of Certificates in a par amount not to exceed \$60,500,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to deliver \$59,750,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected delivery amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Certificates, and the attendant increases in required deposits for capitalized interest, debt service reserve fund, and delivery date expenses in the event interest rates were to increase from current levels.

*Commercial Paper:* The current plan of finance anticipates utilization of the City's commercial paper program launched by the City in June 2010 (Reso No. 85-09 and Reso No. 136-10) to finance certain interim costs of the Project, including preliminary design, planning, and permitting costs. The City increased the total authorization level of its commercial paper program to \$250,000,000 in July 2013 (Reso No. 247-13).

*The Certificates:* The Certificates are expected to be executed and delivered in an amount sufficient to fully pay the costs of the Project, including any previously issued commercial paper and capitalized interest financing the Project. Table 1 outlines anticipated sources and uses for the Certificates.

**Table 1: Anticipated Sources and Uses from the Delivery of the Certificates.**

**Estimated Sources**

Expected Par Amount		\$59,580,000
Reserve Proceeds		\$920,000
<b>Total Not to Exceed Sources:</b>		<b>\$60,500,000</b>

**Estimated Uses:**

Project Fund Deposits		\$49,098,000
Project Fund	\$49,000,000	
CSA Audit Fee	\$98,000	
Other Fund Deposits		\$9,282,300
Debt Service Reserve Fund	\$5,409,600	
Reserve/Capitalized Interest Fund	\$3,872,700	
Delivery Date Expenses		\$1,199,700
Cost of Issuance	\$603,900	
Underwriter's Discount	\$595,800	
Expected Par Amount		\$59,580,000
Reserve for Market Uncertainty		\$920,000
<b>Total Estimated Uses</b>		<b>\$60,500,000</b>

The authorized amount above the expected delivery amount of \$59,580,000 allows for fluctuations in market conditions from the date of recommendation by the Capital Planning Committee and authorization by the Board of Supervisors to the time of the sale of the Certificates. The Office of Public Finance expects the Certificates to have a maturity of approximately 20 years.

Based upon conservative estimates of approximately 6.500% interest rate, the Office of Public Finance estimates that fiscal year net base rental payments on the Certificates average approximately \$5,369,556. The anticipated total par amount of \$59,580,000 is estimated to result in approximately \$50,495,900 in interest payments over the life of the Certificates. The total base rental payments over the life of the Certificates total approximately \$110,075,900. Based on market conditions expected to exist at the time of the sale, the Certificates could be structured with up to a 30-year life.

*Method of Sale and Purchase Contract:* In connection with the execution and delivery of the Certificates, the proposed resolution delegates to the Director of Public Finance the authority to sell the Certificates by either a competitive or negotiated sale, subject to the Director of Public Finance's determination that a negotiated sale will result in the lowest borrowing cost to the City.

The resolution authorizes the sale of the Certificates by negotiated sale pursuant to a Purchase Contract, if a negotiated sale is expected to provide the lower cost of borrowing as compared to a competitive sale method. If a negotiated sale method is pursued, one or more firms from the City's pool underwriters will be selected to serve as underwriter(s) for the Certificates.

**The Capital Plan:**

The anticipated additional debt service as a result of the delivery and execution of the Certificates complies 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 City's Capital Plan. In March 2016, the Capital Plan was amended, per Resolution No. 98-16, to include the delivery and execution of the Certificates to finance the design and construction of the Animal Care & Control Facility.

**Additional Information:**

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, November 1, 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 Certificates announces the date and time of the competitive bond sale, including the terms relating to the Certificates; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Certificates may be bid separately by series or bids may be received for all of the Certificates.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Certificates. Pursuant to the Resolutions, the Controller is authorized to award the Certificates 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 Certificates. 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 Certificates. The Official Statement describes the Certificates, including sources and uses of funds; security for the Certificates; 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 Certificates.

A *Preliminary Official Statement* is distributed to prospective bidders prior to the sale of the Certificates 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 Certificates.

The Board of Supervisors and the Mayor, in adopting and approving the resolution, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Certificates. 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 Certificates, 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 Certificates in complying with the Securities and Exchange Commission Rule 15c-12(b)(5).

**Financing Timeline:**

Schedule milestones in connection with the financing may be summarized as follows:

<u>Milestone</u>	<u>Date*</u>
• Consideration by the Capital Planning Committee	October 17, 2016
• Introduction of legislation and supporting materials to the Board	November 1, 2016
• Closing & delivery of Certificates	TBD

\*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Nadia Sesay at 415-554-5956 or [nadia.sesay@sfgov.org](mailto:nadia.sesay@sfgov.org) if you have any questions.

CC: Angela Calvillo, Clerk of the Board of Supervisors  
Ben Rosenfield, Controller  
Nicole Elliott, Director of Legislative & Government Affairs  
Melissa Whitehouse, Mayor's Budget Director  
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