OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

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Deputy Controller

Anna Van Degna
Director of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Anna Van Degna, Director of the Office of Public Finance
Bridget Katz, Office of Public Finance
Vishal Trivedi, Office of Public Finance

DATE: Friday, December 7, 2018

SUBJECT: **Master Resolution Authorizing the Issuance of General Obligation Bonds (Proposition A, 1992/Proposition C, 2016) – Not to Exceed $260,684,550;**

Resolution Authorizing the Sale of Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016) Series 2019A – Not to Exceed $75,000,000;

Ordinance Appropriating Proceeds of General Obligation Bonds, Series 2019A

We respectfully request that the Board of Supervisors (the "Board") consider for review and adoption the resolutions authorizing the issuance of General Obligation Bonds for the Preservation and Seismic Safety ("PASS") Program in an aggregate amount of $260,684,550 and the sale of a not-to-exceed par amount of $75,000,000 in City and County of San Francisco Taxable General Obligation Bonds (Social Bonds - Affordable Housing, 2016), Series 2019A (the "Bonds"), which will be used to finance the acquisition, improvement, and rehabilitation of at-risk multi-unit residential buildings and to convert such structures to affordable housing; and the ordinance appropriating the proceeds.

In connection with this request, legislation approving the sale and issuance of the bonds, supplemental appropriation ordinances to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, December 11, 2018. We respectfully request that the items be heard at the scheduled January 10, 2019 meeting of the Budget and Finance Committee.

Background:

Proposition A, 1992: As adopted in 1992, the Seismic Safety Loan Program ("SSLP") authorized the sale of up to $350,000,000 of general obligation bonds intended to support the seismic strengthening of unreinforced masonry buildings (UMBs). Currently, $260,684,550 of the original SSLP financing authorization remains available for future bond issuances.

Per the SSLP, the $350,000,000 total authorization was allocated across two separate loan programs: (i) a $150,000,000 below-market rate (BMR) loan program for seismic improvements to affordable housing UMBs, and (ii) a $200,000,000 market rate (MR) loan program intended for commercial or other UMBs.

1) Below Market Rate Program (BMR): The BMR program was structured such that borrowers would pay back principal and 1/3 of the City's borrowing costs, leaving a net impact to the property tax levy of 2/3 of interest cost generated by the loan amount. Additionally, $60,000,000 of the BMR program allocation was permitted to be deferred for 20 or 55 years, which resulted in an additional short-term impact to the property tax rolls.

   Of the $150,000,000 originally authorized for the BMR loan program, $45,315,450 of bonds have been issued to date, all of which have been deferred loans. This leaves $104,684,550 in available funding authority for BMR loans, of which $14,684,550 is eligible to be deferred.

2) Market Rate Program (MR): The MR program was structured as a pass-through, with borrowers paying the full borrowing cost to the City, plus an additional 1% interest to cover administration costs.

   Of the $200,000,000 originally authorized for the MR program, $44,000,000 of bonds have been issued to date, leaving $156,000,000 in available funding authority for MR loans.

BMR and MR loans may be combined within the same bond financing to achieve a low-cost blended interest rate.

Proposition C, 2016: Due to low historical demand for SSLP loans funded through this general obligation bond program, in November 2016 the City's voters approved Proposition C, which amended the 1992 authorization to broaden the scope of the original program. Proposition C added the eligibility to finance the cost to acquire, improve, and rehabilitate and to convert at-risk multi-unit residential buildings to affordable housing, to perform needed seismic, fire, health, and safety upgrades and other major rehabilitation for habitability, and related costs. On October 30, 2018, the Board of Supervisors approved Ordinance No. 270-18, amending the Administrative Code to authorize and implement a Seismic Safety Retrofit and Affordable Housing Loan Program (SSRAHLP) to be funded by the sale of the authorized general obligation bonds.

Financing Parameters

The proposed legislation will authorize the issuance of bonds for the purposes allowed under the November 2016 Proposition C, approve the sale of the first tranche of bonds under the program, and approve the appropriation of bond proceeds from that sale.

Table 1 below outlines the not-to-exceed sources and uses for the Bonds, based on an estimate provided by Sperry Capital Inc., a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board of Supervisors regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

Table 1: Estimated Sources and Uses from the Bonds

Maximum Not to Exceed Amount:	**$75,000,000**
Estimated Sources:	
Par Amount	$75,000,000
Total Estimated Sources:	**$75,000,000**
Estimated Uses:	
Project Fund Deposits:	
Project Fund	$71,461,128
CSA Audit Fee	$142,922
Total Project Fund Deposits:	$71,604,050
Cost of Issuance	$600,000
Underwriter's Discount	$220,950
CGOBOC Fee	$75,000
Total Delivery Expense:	$895,950
Reserve for Market Uncertainty	$2,500,000
Total Estimated Uses:	**$75,000,000**

Source: Sperry Capital

Based upon an assumed current market interest rate of 5.53%, which assumes the issuance of the Bonds on a federally taxable basis, the Office of Public Finance estimates a not-to-exceed average annual debt service of approximately $4,700,000. The not-to-exceed par amount of $75,000,000 is estimated to generate approximately $113,500,000 in interest payments and approximately $188,500,000 in total debt service over the life of the Bonds. The debt service estimates assume a 40-year term, which the Office of Public Finance and the Mayor's Office of Housing Community Development, in consultation with the City's municipal advisers, determined most closely aligns with the underlying loan repayment term. The Bonds will mature on or before June 15, 2059.

<u>Property Tax Impact</u>

Repayment of annual debt service on the Bonds will be recovered through increases in the annual property tax rate. As previously discussed, borrowers of BMR loans are expected to repay principal and 1/3 of the City's borrowing cost, and borrowers of MR loans are expected to repay the full borrowing cost to the City, plus an additional 1% interest to cover administrative costs. Therefore, we anticipate a portion of the City's borrowing cost and, subsequently, a portion of the impact on property taxes, may be reduced due to these loan repayments.

The increase in the property tax rate associated with the Bonds is estimated to range from 0.00003% up to 0.00172% per $100 of assessed value or $0.03 up to $1.72 per $100,000 of assessed value over the anticipated 40-year term of the bonds. The owner of a residence with an assessed value of $600,000, assuming a homeowner's exemption of $7,000, would pay additional property taxes to the City estimated to range from $0.19 up to $10.19 per year if the not-to-exceed $75,000,000 Bonds are sold.

Method of Sale & Bond Purchase Agreement: The Office of Public Finance is proposing a negotiated sale in connection with this transaction. The Bonds will be structured as taxable bonds with a final maturity of 35 to 40 years in order to benefit the needs of an affordable housing loan program. Citigroup has been selected to serve as Senior Underwriter, and Raymond James and Loop Capital Markets have been selected to serve as Co-underwriters. All three firms were selected through a competitive process, based on their responses to a Request for Proposal that was distributed to the City's Underwriter Pool, and in consultation with the City's municipal advisors on the transaction. The proposed Resolution approves the form of the Bond Purchase Agreement, which provides the terms of sale of the bonds by the City to the selected underwriters.

"Social Bond" Designation:

The City intends to designate the Bonds as "Social Bonds" since the proceeds will be used to finance socially beneficial projects ("Social Projects"), particularly the acquisition and conversion of at-risk buildings to affordable housing through MR and BMR loans.

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 general obligation debt limit for fiscal year 2018-19 is approximately $7.78 billion, based on a net assessed valuation of approximately $259.3 billion. As of December 1, 2018, the City had outstanding approximately $2.46 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.95% of the net assessed valuation for fiscal year 2018-19. If all of the City's voter-authorized and unissued general obligation bonds were issued, the total debt burden would be 1.40% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by approximately 0.03% to 0.98%— within the 3.00% legal debt limit.

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 2018-19 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, December 11, 2018. The forms of the related financing documents—including the Bond Purchase Agreement, Preliminary Official Statement, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted.

Bond Purchase Agreement: The City intends to pursue a negotiated sale of the Bonds; the Purchase Contract details the terms, covenants, and conditions for the sale of the Bonds through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

Official Notice of Sale: Should the bonds be sold competitively, the Official Notice of Sale would announce the date and time for a competitive bond sale, including the terms relating to sale of the Bonds; form of bids, and delivery of bids; and closing procedures and documents.

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, in a competitive sale 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 2019A Bonds. Such Notice of Intention to Sell would 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 by the co-financial advisors 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).

<u>Financing Timeline</u>:

Milestones:	Dates*:
Capital Planning Committee	December 3
Board of Supervisors Introduction	December 11
Budget & Finance Committee Hearing	January 10
Board Approval of Resolution and 1st Reading of Appropriation Ordinance	January 22
Final Board Approval of Appropriation Ordinance (2nd Reading)	January 29
Estimated Sale & Closing	February 2019

*Please note that dates are preliminary and may change.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 (anna.vandegna@sfgov.org), Vishal Trivedi at 415-554-4862 (vishal.trivedi@sfgov.org) or Bridget Katz at 415-554-6240 (bridget.katz@sfgov.org) if you have any questions.