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 Office of Public Finance
Marisa Pereira Tully, Office of Public Finance
Vishal Trivedi, Office of Public Finance

DATE: Monday, September 21, 2020

SUBJECT: Resolution Authorizing the Sale of Taxable General Obligation Bonds (Affordable Housing, 2016 – Preservation & Seismic Safety) Series 2020F – Not to Exceed $102,580,000

Recommended Action:

We respectfully request that the Board of Supervisors (the "Board") consider for review and approval the resolution authorizing the second issuance of General Obligation Bonds for the Preservation and Seismic Safety ("PASS") Program with a not-to-exceed par amount of $102,580,000 in City and County of San Francisco Taxable General Obligation Bonds (Affordable Housing, 2016 – Preservation & Seismic Safety), Series 2020F (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 in addition to providing financing for seismic improvements of unreinforced masonry buildings.

In connection with this request, legislation approving the sale of this series of 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, September 22, 2020. We request that the items be heard at the scheduled Budget and Finance Committee meeting on September 30, 2020.

Background:

Proposition A (Earthquake Loan Bond Program) was approved by the voters in November 1992. The program, also known as the Seismic Safety Loan Program (or "SSLP"), authorized $350,000,000 of general obligation bonds to provide loans for the seismic strengthening of unreinforced masonry buildings (UMBs). Per the SSLP, the $350,000,000 total authorization was allocated into two separate loan programs; a $150,000,000 below-market rate (BMR) loan program for seismic improvements to affordable housing UMBs, and a $200,000,000 market rate (MR) loan program intended for commercial or other UMBs, as further described below. Currently, $188,264,550 of the original SSLP financing authority remains for future bond issuances.

The SSLP general obligation bond program allowed for two different categories of loans to be made using bond proceeds:

1) Below Market Rate (BMR) Program: The BMR program was structured so that borrowers would pay back the borrowed principal and pay an interest rate at 1/3 of the City's borrowing costs, leaving a net impact to the property tax levy of 2/3 of the 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, $76,352,489 has been issued to date, $49,669,340 of which have been deferred loans. This leaves $73,647,511 in available funding authority, of which $10,330,660 is eligible to be deferred.

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

   Of the $200,000,000 originally authorized for the MR program, $85,382,961 of bonds have been issued to date, leaving $114,617,039 in available funding authority for MR loans.

The BMR and MR loans will likely be combined to achieve a low-cost blended interest rate and maximize program capacity.

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[1] to be funded by the sale of the authorized general obligation bonds.

On February 1, 2019, the Board of Supervisors approved Resolution No. 18-1218 authorizing the issuance and sale of not to exceed $260,684,550 aggregate principal amount of General Obligation Bonds (Proposition A, 1992/Proposition C, 2016) also referred to as Preservation and Seismic Safety (PASS) bond program. Of the total authorization, $72,420,000 has been issued to date. Prior to the onset of the Covid-19 pandemic in March of 2020, loans deployed from proceeds of the first issuance had 100% performance with no defaults or delinquencies. The City, through the Mayor's Office of Housing and Community Development, established a Covid-19 forbearance policy to stabilize the affordable housing operations which included 100% forbearance of principal and interest for 6 months; monthly performance monitoring; forborne loan payments adding to and extending the loan term; non-performing loans worked out within 12 months; and, an optional 6 month extension with catch up and ongoing monthly payments as financially

[1] The Seismic Safety Retrofit and Affordable Housing Loan Program (SSRAHLP) is now also referred to as the Preservation and Seismic Safety (PASS) loan program.

feasible. Seven projects, accounting for approximately 63% of the issued portfolio, are currently participating in the forbearance program with loan values totaling $22.8 million. In recognition of the impact of the pandemic in San Francisco, loans in the forthcoming second issuance will be required to include increased operating and debt service reserves of up to 1 year; assumption of limited or no rent increases and implementation of the City's rent and eviction moratorium; increased operating expenses including utility, cleaning, PPE, maintenance and staffing costs; and, up to a 100% discount on commercial revenue depending on the feasibility of businesses to safely open and successfully operate in compliance with the City's Health Order governing business operations during the Covid-19 pandemic. Additionally, projects are required to achieve stabilization prior to closing on PASS financing. This ensures that projects meet the minimum required 1.10 debt service coverage ratio, residential and commercial occupancy and rental achievement, and full funding of all reserves prior to loan closing.

Financing Parameters:

The proposed legislation would authorize the sale of the second tranche of bonds under the PASS loan program and approve the appropriation of bond proceeds from that sale.

Table 1 outlines the not-to-exceed sources and uses for the Bonds, based on an estimate provided by Del Rio Advisors, 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:	**$102,580,000**
Sources:	
Par Amount	$102,580,000
Total Sources:	**$102,580,000**
Uses:	
Project Fund Deposits	
Project Fund	$101,228,014
CSA Audit Fee	$202,456
Total Project Fund Deposits:	$101,430,470
Cost of Issuance	$790,500
Underwriter's Discount	$256,450
CGOBOC Fee	$102,580
Total Delivery Expense:	$1,149,530
Total Uses:	**$102,580,000**

Based upon a current market interest rates of 3.51%, which assumes the issuance of the Bonds on a federally taxable basis, the Office of Public Finance estimates average annual debt service of approximately $4,820,000. The not-to-exceed par amount of $102,580,000 is estimated to generate approximately

$87,479,415 in interest payments and approximately $190,059,000 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 adviser, determined most closely aligns with the underlying loan repayment term. The final maturity of the Bonds will be on or before June 15, 2060.

Property Tax Impact:

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 an interest rate at 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 over the City's borrowing costs to cover administrative costs. Therefore, we anticipate a portion of the City's borrowing cost and, subsequently, then a portion of the impact on property taxes, will 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 0.00167% or $0.03 up to $1.67 per $100,000 of assessed valuation 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 $0.17 up to $9.88 per year if the not-to-exceed $102,580,000 Bonds are sold.

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 2020-21 is approximately $9.04 billion, based on a net assessed valuation of approximately $301.4 billion. As of September 1, 2020, the City had outstanding approximately $2.15 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.71% of the net assessed valuation for fiscal year 2020-21. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.44% 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 0.04% from 0.71% to 0.75%— 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, assuming current assessed valuation projections, the property tax rate for general obligation bonds for fiscal year 2020-21 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, September 22nd, 2020. The related financing documents—including the Bond Purchase Agreement, Preliminary Official Statement, Appendix A and the Continuing Disclosure Certificate and other documents—will also be submitted.

Method of Sale & Bond Purchase Agreement: The Bonds are expected to be structured as taxable bonds with a final maturity of 40 years in order to benefit the needs of an affordable housing loan program. The Office of Public Finance is proposing a negotiated sale in connection with this transaction due the unique structure. RBC Capital Markets, LLC has been selected to serve as Senior Underwriter, and UBS Financial Services, Inc. and Blaylock Van, LLC have been selected to serve as Co-managers. Both 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.

Bond Purchase Agreement: The City intends to pursue a negotiated sale of the 2020F 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, should the bonds be sold via a competitive sale. Pursuant to the Resolution, 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 2020F 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 investors 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.

Prior to the distribution of the Preliminary and Final Official Statements, the documents will be thoroughly and critically reviewed by City staff (in consultation with the City's professional advisors, including Disclosure Counsel) to provide the most current material financial and other material information available.

Board members have a responsibility under federal securities laws to ensure that staff is aware of information that Board members may have unique in their capacity as board members that would have a material bearing of the capacity of the City to repay the bonds. Board members cannot approve a

Preliminary Official Statement if they are aware that it contains material misstatements or omissions.

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 financial advisor with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller will certify, 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, 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	September 14
Board of Supervisors Introduction	September 22
Budget & Finance Committee Hearing	September 30
Board Approval of Resolution and 1st Reading of Appropriation Ordinance	October 6
Final Board Approval of Appropriation Ordinance (2nd Reading)	October 20
Estimated Sale & Closing	Oct/Nov 2020

**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 Marisa Pereira Tully at (marisa.pereira.tully@sfgov.org) if you have any questions.