



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, Public Finance Director

SUBJECT: Ordinance Authorizing the Execution and Delivery of City and County of San Francisco Certificates of Participation (City Office Building - 1500 Mission Street) in an Aggregate Amount Not to Exceed \$321,765,000

DATE: Monday, April 24, 2017

Recommended Action:

I respectfully request that the Board of Supervisors consider for review and adoption the ordinance approving the execution and delivery of \$321,765,000 in City and County of San Francisco Certificates of Participation ("Certificates") to fund the development costs and related FF&E (furniture, fixture, or other equipment), technology, and moving costs for the 1500 Mission Street office building ("Project"). The ordinance appropriating the proceeds of the Certificates was introduced to the Board of Supervisors (the "Board") on April 4, 2017 and is anticipated to be heard at Budget and Finance Committee meeting on May 11, 2017.

In connection with this request, we would like to respectfully request consideration of the ordinance at the May 11, 2017 Budget and Finance Committee meeting.

Background:

In December 2014, per Ordinance No. 254-14, the Board approved a Conditional Land Disposition and Acquisition Agreement with Related California Urban Housing, LLC ("Related") to develop a city-owned office building located at 1500 Mission Street, subject to environmental review and approval. In addition to the city-owned office building, Related also plans to develop, adjacent to the office building, a 39-story, 550 residential unit development with ground floor retail located at Mission Street and South Van Ness Avenue.

On March 21, 2017, per Resolution No. 94-17 and Resolution No. 95-17, the Board approved the sale of three city-owned buildings located at 1660 Mission Street, 1680 Mission Street, and 30 Van Ness Avenue for a total combined sale price of \$122,000,000. Upon the closing of these three properties estimated in early May 2017, the City will receive the proceeds from the sales and dedicate \$27,065,000 to prepay the City's remaining debt service attributable to the 30 Van Ness property tied to outstanding debt on City Certificates of Participation, Series 2001A and Series 2007A. The prepayment of this debt is a precondition to closing the sale of 30 Van Ness. In addition, an estimated \$1,000,000 of the sales proceeds will be dedicated sales commissions and closing costs related to the sale of all three properties. The remaining \$93,935,000 in net sales proceeds will go directly to finance a portion of the development costs for the 1500 Mission Street project.

The 1500 Mission Street Project:

The proposed ordinance authorizes the City to execute and deliver not-to-exceed par amount of \$321,765,000 in City and County of San Francisco Certificates of Participation (1500 Mission) to fund a portion of the development costs, including construction and improvement, and related FF&E (furniture, fixture, or other equipment), technology, and moving costs for a city-owned office building located at 1500 Mission Street (the "Project").

Located at the intersection of Van Ness Avenue and Mission Street, the proposed office building at 1500 Mission Street will be a newly constructed 16-story building with an estimated 430,845 rentable square feet. The proposed office building was designed and developed through collaboration between San Francisco Real Estate Division (on behalf of numerous City departments and stakeholders) and Related California, the project developer. The inspiration for the project is the proposed "One-Stop Permit Center," bringing together 14 San Francisco permitting agencies to a single location to create a more efficient permitting process and experience. The size and location of the project allows for multiple city departments to be located in a single building. In addition to the administrative office workspace for multiple City departments, the proposed office building provides training and conference space as well as a childcare facility. Construction on the project is scheduled to commence in Fall 2017 with a tentative completion date in Fall 2019.

The Project's estimated total development cost and budget, including related FF&E (furniture, fixture, or other equipment), technology, and moving costs, is \$356,088,386. As mentioned above, \$93,935,000 of net sales proceeds from the sale of 1660 Mission, 1680 Mission, and 30 Van Ness will finance a portion of the project, and the remaining project costs will be paid by Certificates of Participation proceeds.

The Certificates:

Under the proposed ordinance, the City will structure the Certificates as an abatement lease-lease back structure 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 ordinance 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 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 Leased Property: It is anticipated that the 1500 Mission office building will serve as the Leased Property (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 Current Plan of Finance:

The proposed ordinance authorizes the execution and delivery of Certificates in a par amount not to exceed \$321,765,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to deliver \$317,265,000 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, as well as required deposits for capitalized interest, debt service reserve fund, and other delivery date expenses and costs of issuance.

Commercial Paper: The current plan of finance anticipates utilization of the City's commercial paper program launched by the City in June 2010 (Resolution No. 85-09 and Resolution 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 (Resolution 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.

Maximum Not to Exceed Amount:	\$321,765,000
<i>COP Reserve for Market Uncertainty</i>	<i>\$4,500,000</i>
Sources:	
COP Par Amount	<u>317,265,000</u>
Total Sources:	\$317,265,000
Uses:	
Project Fund Deposits:	
Development Costs (Net)	231,505,953
FF&E, DT and Moving Costs	<u>29,397,433</u>
Subtotal Project Fund Deposits:	\$260,903,386
CSA Audit Fee	<u>653,382</u>
Total Project Fund Deposits:	\$261,556,768
COP Delivery Expenses:	
Reserve Fund	21,832,100
CP Interest & Fees/Capitalized Interest	31,051,471
Cost of Issuance	603,807
Underwriter's Discount	<u>2,220,855</u>
Total COP Delivery Expenses:	\$55,708,232
Total Uses:	\$317,265,000
<i>COP Reserve for Market Uncertainty</i>	<i>\$4,500,000</i>
Maximum Not to Exceed Amount:	\$321,765,000

The authorized amount above the expected delivery amount of \$317,265,000 allows for fluctuations in market conditions from the date of 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 30 years.

Based upon conservative estimates of approximately 5.50% interest rate, the Office of Public Finance estimates that fiscal year net base rental payments on the Certificates average approximately \$21,044,000. The anticipated total par amount of \$317,265,000 is estimated to result in approximately \$343,440,075 in interest payments over the life of the Certificates. The total base rental payments over the life of the Certificates total approximately \$660,705,075. 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 ordinance 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 ordinance 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.

Additional Information:

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, April 25, 2017 and presented to the Capital Planning Committee on Monday, May 1, 2017. 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 15c212(b)(5).

Financing Timeline:

<u>Milestones:</u>	<u>Dates*:</u>
Capital Planning Committee	April 24
Board Introduction	April 25
Budget & Finance Committee Hearing	May 11
Board Approval of Resolution and 1st Reading of Appropriation Ordinance	May 23
Final Board Approval (2nd Reading)	June 6
Estimated Sale & Closing	TBD

*Please note that dates are preliminary and may change.

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

CC: Angela Calvillo, Clerk of the Board of Supervisors
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