



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 Public Finance
Luke Brewer, Office of Public Finance 

DATE: Tuesday, March 1, 2022

SUBJECT: Resolution re-authorizing the City Commercial Paper Program's Series 3&4 and authorizing the delivery of an alternate credit facility to support the program – Not-to-Exceed \$100,000,000

Recommended Action

We respectfully request that the Board of Supervisors (the "Board") review and consider for approval the resolution ("Resolution") re-authorizing the issuance of Lease Revenue Commercial Paper Certificates of Participation, Series 3 & Series 4 (Tax-Exempt) and Series 3-T & Series 4-T (Taxable) (together "CP Series 3&4"), in an aggregate principal amount not to exceed \$100,000,000 to finance the acquisition, construction, and rehabilitation of capital improvements and capital equipment approved by the Board of Supervisors and the Mayor; authorizing the delivery of an alternate credit facility in the principal amount of \$100,000,000; and approving and authorizing execution of a first supplement to trust agreement, a second amendment to site lease, a second amendment to sublease, a revolving credit agreement, a fee agreement, offering memorandum, dealer agreements and certain other related financing documents, and authorizing other related actions.

We would like to respectfully request consideration of the Resolution at the March 23, 2022 meeting of the Budget and Finance Committee.

Background

The City launched its Commercial Paper Program to pay for project costs in connection with the acquisition, improvement, renovation, and construction of real property and the acquisition of capital equipment and vehicles. Pursuant to Resolution No. 85-09, approved in March 2009 ("2009 Program Resolution"), the Board established a \$150,000,000 commercial paper program ("CP Series 1&2") and pursuant to Resolution No. 247-13 approved in July 2013, the authorization for the CP Program was increased by \$100,000,000 ("CP Series 3&4" or "CP Series 3") to \$250,000,000 (together, the "CP Program"). Pursuant to Resolution No. 184-16 approved in May 2016, the Board re-authorized CP Series 1&2 at \$150,000,000.

Commercial paper is a form of short-term (or interim) financing for capital projects and equipment that permits the City to pay project costs as project expenditures are incurred. Commercial paper has a fixed maturity date, ranging from one to 270 days, compared with a final maturity of 20- to 30-years for the City’s typical long-term obligations. On the maturity date of a commercial paper note (“CP note”), the note may be “rolled” (or refinanced) with the re-issuance of commercial paper notes for additional periods of up to 270 days until the commercial paper is either refunded with the issuance of long-term obligations or paid down directly with other sources of funds.

Seismic and Other Public Safety Emergency:

Per Resolution No. 136-10, adopted by the Board in June 2010, in the event of an emergency declared under Charter Section 3.100, the Controller is authorized to draw on commercial paper prior to Board approval of long-term take-out financing. This exception applies only to emergencies declared under Charter Section 3.100 Powers and Responsibilities, which provides that the Mayor, with the concurrence of the Board, may direct City personnel and resources as necessary to meet an emergency.

Financing Structure

Credit/Liquidity Facilities

The credit/liquidity facilities currently supporting the City’s \$250,000,000 CP Program include two revolving credit agreements (“RCAs”) and one letter of credit agreement (“LOC”). Table 1 below provides an overview of the CP Program’s current and proposed credit/liquidity facilities and the providers (the “Banks”).

Table 1: Summary of Credit/Liquidity Facilities for the CP Program
Series 1 & 2 Facilities (existing)

US Bank RCA	\$75,000,000
State Street Bank RCA	75,000,000
	\$150,000,000
<u>Series 3 Facility (proposed)</u>	
Bank of the West RCA	\$100,000,000
Total CP Program	\$250,000,000

The Series 1 & 2 facilities were extended in May 2021 by two years to May 2023. The LOC of \$100,000,000 provided by State Street Bank supporting CP Series 3 expired on February 25, 2022.

The City, through the Controller’s Office of Public Finance (“OPF”), conducted a procurement process to select a new credit/liquidity facility provider for CP Series 3 via a request for proposals. The City received ten (10) competitive proposals and Bank of the West was selected by the evaluation panel. The Resolution approves a new revolving credit agreement with Bank of the West (“Bank of the West RCA”) in support of CP Series 3 in an amount of \$100,000,000 with a four (4) year term anticipated to begin in May 2022 and expire in May 2026.

Fee Agreement

The Resolution also approves a fee agreement with Bank of the West, who proposed an annual commitment fee of 12 basis points (0.12%). This equates to \$130,800 annually based on a not-to-exceed

revolving line of credit to be provided by Bank of the West of \$109,000,000 (including interest at the maximum rate of 12% for 270 days) in connection with the RCA. The City’s former State Street LOC supporting CP Series 3 had an annual commitment fee of 38 basis points (0.38%) or \$414,200 annually. The new Bank of the West RCA results in annual savings of \$283,400 to CP Series 3 and the City’s CP Program.

As shown in Table 2 below, the proposed commitment fee structure presumes that the City's general fund secured obligations credit rating remains at its current rating levels of Aa1/AA+/AA by Moody's Investors Service ("Moody's), Standard & Poor's ("S&P"), and Fitch Ratings, respectively (collectively, the "Rating Agencies"). The commitment fee may be increased in increments of 0.125% for every notch rating downgrade by at least two rating agencies below Aa1/AA+/AA for the first three (3) notch rating downgrades. Should the City be downgraded by at least two rating agencies to Baa1/BBB+/BBB+ it would be subject to a further fee increase of 0.35%.

Table 2: CP Series 3 Bank of the West RCA Commitment Fee Structure

Level	Fitch Rating	S&P Rating	Moody's Rating	Commitment Fee Rate
Level 1	AA- or above	AA- or above	Aa3 or above	0.120%
Level 2	A+	A+	A1	0.245%
Level 3	A	A	A2	0.370%
Level 4	A-	A-	A3	0.495%
Level 5	BBB+ or below	BBB+ or below	Baa1 or below	0.845%

Revolving Credit Agreement Terms

Should the City's general fund secured obligations credit rating fall below Baa3/BBB-/BBB-, the Bank of the West RCA would terminate and amounts owed to Bank of the West would be immediately due and payable, subject to the limits concerning maximum rent set forth in the Sublease in accordance with State law, which would allow for several years to repay the financing. The Bank of the West RCA may be terminated by the City for any reason, at any time, without penalty. Such reasons might include the Bank's short-term credit ratings falling below P-1/A-1/F-1 by the Rating Agencies; liquidity facility costs increasing due to changes in law, rule or regulation; or the City deciding to retire the CP Program.

The City is required to repay Bank of the West should there be amounts drawn under the liquidity facility in accordance with the terms and conditions set forth in the Bank of the West RCA. It is expected Bank of the West will be repaid from the remarketing of commercial paper or the proceeds of long term take-out financing. However, under extraordinary circumstances, such as those during the financial dislocation in 2008, advances from Bank of the West might not be immediately repaid. In such event, interest borne by the commercial paper notes could increase up to 12% per annum.

Leased Assets

As a requirement of the CP Program’s credit/liquidity facilities, the City leases certain City-owned real properties (the “Leased Assets”) to a third-party trustee as a form of security on any issued commercial paper. The trustee leases the Leased Assets back to the City for lease payments in amounts necessary to pay any principal and interest due on any outstanding CP notes. Table 3 below identifies the Leased Assets that currently secure the CP Program.

Table 3: Summary Estimated Values of Properties Owned by the City Securing the CP Program

Table of Leased Assets, Series 1 & 2		Table of Leased Assets, Series 3	
Corporate Yard	\$46,000,000	Public Safety Building	\$119,000,000
Police Academy	29,000,000	Fire Station 10	10,000,000
Fire College	33,300,000	Police Taraval Station	5,400,000
Fire Station 1	6,000,000	Total	\$134,400,000
Public Health Clinic	18,800,000		
Human Services Central Office	51,000,000		
Total	\$184,100,000		

Source: City and County of San Francisco, Real Estate Division, Memorandum(s) dated April 25, 2016.

The City has re-evaluated the Leased Assets for CP Series 3 and intends to release Fire Station 10 and Police Taraval Station from the Leased Assets, Series 3, as the Public Safety Building's currently total insured value of approximately \$265,000,000 is more than sufficient to secure CP Series 3 under its lease agreements. The final determination will be in consultation with the Real Estate Division who will provide a valuation memo for the Public Safety Building prior to executing the lease amendments.

Additional Information

The forms of the related financing documents—including the Dealer Agreement(s), first supplement to the Trust Agreement, second supplements to the Sublease and the Site Lease, Offering Memorandum and related documents—will also be submitted, as described below.

Dealer Agreement(s): The Resolution also delegates to OPF the authority to appoint one or more Commercial Paper Dealers (the "CP Dealer") and to negotiate a Dealer Agreement with one or more CP Dealers on such terms as the Designated Officers shall deem necessary, advisable or appropriate upon consultation with the City Attorney. The Dealer Agreement sets forth the duties of the CP Dealer, including soliciting and arranging the sales of the commercial paper notes on behalf of the City at such rates and maturities as then prevailing in the market. OPF currently expects to select commercial paper dealers via a competitive proposal process and to enter into Dealer Agreement with a term not less than one (1) year with a cost of not to exceed 0.125% per annum of the weighted average of the principal amount of commercial paper notes outstanding each quarter, paid by the City quarterly in arrears.

Original Trust Agreement & Supplements: Pursuant to the Original Trust Agreement between the City and the Trustee, the Trustee administers and disburses payments with respect to the CP notes and enforces the covenants and remedies in the event of a default by the City. The Trustee holds proceeds derived from the sale of CP notes and disburses payments for the costs incurred for the projects, as directed by authorized City representatives.

Original Site Lease and Sublease & Supplements: Pursuant to the Original Site Lease, the City leases a City-owned property (or properties) to the Trustee. Pursuant to the Original Sublease, the City leases back the leased property, together with the improvements thereon, from the Trustee. The City is then required to make annual base rental payments to the Trustee equal to the amounts as required to repay the CP Notes but not in excess of the fair rental value for the leased property. The City's General Fund secures the payment of the City's rental payments in respect of the CP Notes.

Offering Memorandum: In connection with the sale of CP notes, an offering memorandum is prepared which describes the Trust Agreement, the lease documents and the Bank of the West RCA.

Anticipated Timeline

The Resolution is expected to be introduced at the March 1, 2022 Board of Supervisors Meeting and will be requested to be heard at the Budget and Finance (“B&F”) Committee on March 23, 2022.

Milestones	Dates*
• Introduction of Resolution	March 1, 2022
• B&F Committee Meeting	March 23, 2022
• Board Considers Approval of the Resolution	April 5, 2022
• Execution of Agreements and Reinstatement of CP Series 3 Facility	Est. May 2022

*Please note that dates are estimated unless otherwise noted.

Please contact Anna Van Degna (Anna.VanDegna@sfgov.org) at 415-554-5956 or Luke Brewer (Luke.Brewer@sfgov.org) at 610-241-0315 if you have any questions. Your consideration of this matter is greatly appreciated.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Tom Paulino, Mayor’s Office, Liaison to 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
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney