CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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June 25, 2022

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst

SUBJECT: June 27, 2022 Budget and Appropriations Committee Meeting

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Item 3 **File 21-1194** *(Continued from June 22, 2022)*	**Department:** **Controller**

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate $160 million in certificates of participation proceeds for land acquisition, affordable housing development, renovation of public housing cooperatives, educator housing, and single-room occupancy elevators.

Key Points

- The proposed ordinance does not authorize new debt. The Board of Supervisors will have to consider separate legislation to do so once the projects have been reviewed by the Capital Planning Committee and the Office of Public Finance, as required by state and local law.

Fiscal Impact

- Preliminary estimates suggest debt service will be $13.7 million per year or $273.6 million over 20 years and paid for by the General Fund.

Policy Considerations

- Administrative Code Section 10.62 limits debt service of COPs and other lease financing to 3.25 percent of discretionary General Fund revenues. The City is below that cap but will hit it in FY 2027-28 if it issues debt as scheduled in the 10 Year Capital Plan. The Capital Plan assumed $110 million in COPs would be authorized in FY 2021-22 and $225 million would be authorized in FY 2022-23. Certain projects have been instead funded by cash or postponed, leaving $80 - $120 million of potential COP project funds available from this unused capacity, depending on the level of General Fund revenues.
- The City may exceed the policy limit for COP debt service by a 2/3 vote of the Board of Supervisors, which would be required for future debt issuances that push the City's debt service above 3.25 percent of General Fund revenues. According to the Office of Public Finance, credit rating agencies consider compliance with established debt policies when evaluating the credit worthiness of debt issuers and departing from the City's debt policy may jeopardize the City's credit rating, resulting in higher interest on future debt issuances.
- Alternatively, the City may re-order projects in the capital plan to change the timing or funding source or both in order to remain below the COP debt service limit.

Recommendation

- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance after the Controller certifies the availability of funds.

BACKGROUND

Administrative Code Section 3.21 states that the Board of Supervisors may authorize long-term financing of capital projects that have been reviewed by the Capital Planning Committee. Administrative Code Section 10.62 allows the Board of Supervisors to authorize certificates of participation, a form of long-term debt.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate $160 million in certificates of participation proceeds, as shown below. According to the sponsor's office, the projects are based on the Housing Stability Oversight Board FY 2022-23 budget recommendations, which are attached as an appendix to this report.

Exhibit 1: Uses of COPs Proceeds

Land Acquisition	60,000,000
Affordable Housing Development	20,000,000
Renovation of Public Housing Cooperatives	20,000,000
Educator Housing	12,000,000
SRO Elevators	10,000,000
Subtotal, Projects	122,000,000
Other Costs	
City Services Audit Fee (2% project costs)	244,000
Capitalized Interest [a]	14,145,244
Debt Service Reserve Fund [b]	13,680,162
Costs of Issuance [c]	1,000,649
Underwriter's Discount [d]	1,064,945
Subtotal Other Costs	30,135,000
Total Proposed COPs Issuance	152,135,000
Reserve for Market Uncertainty	7,865,000
Total Authorization	160,000,000

Source: Proposed ordinance

[a] Capitalized interest accrues during the project construction and prior to completion and placement of the asset in service.
[b] The debt service reserve fund provides for one year of debt service payments.
[c] Costs of issuance include bond counsel, financial advisors, and other costs associated with the issuance of the COPs.
[d] The underwriters discount is the difference between the price paid to the issuer for the COPs issuance and the prices at which the certificates are initially offered to the investing public; this is the fee an underwriter charges when purchasing certificates of participation (COPs) for resale to the public.

The proposed ordinance does not authorize new debt. The Board of Supervisors will have to consider separate legislation to do so once the projects have been reviewed by the Capital Planning Committee and the Office of Public Finance, as required by state and local law.

FISCAL IMPACT

Debt Service

As of this writing, the Office of Public Finance is still finalizing the estimate the debt service of the $160 million in COP debt, though preliminary estimates suggest $13.7 million per year or $273.6 million over 20 years. Debt service will be paid from the City's General Fund.

POLICY CONSIDERATIONS

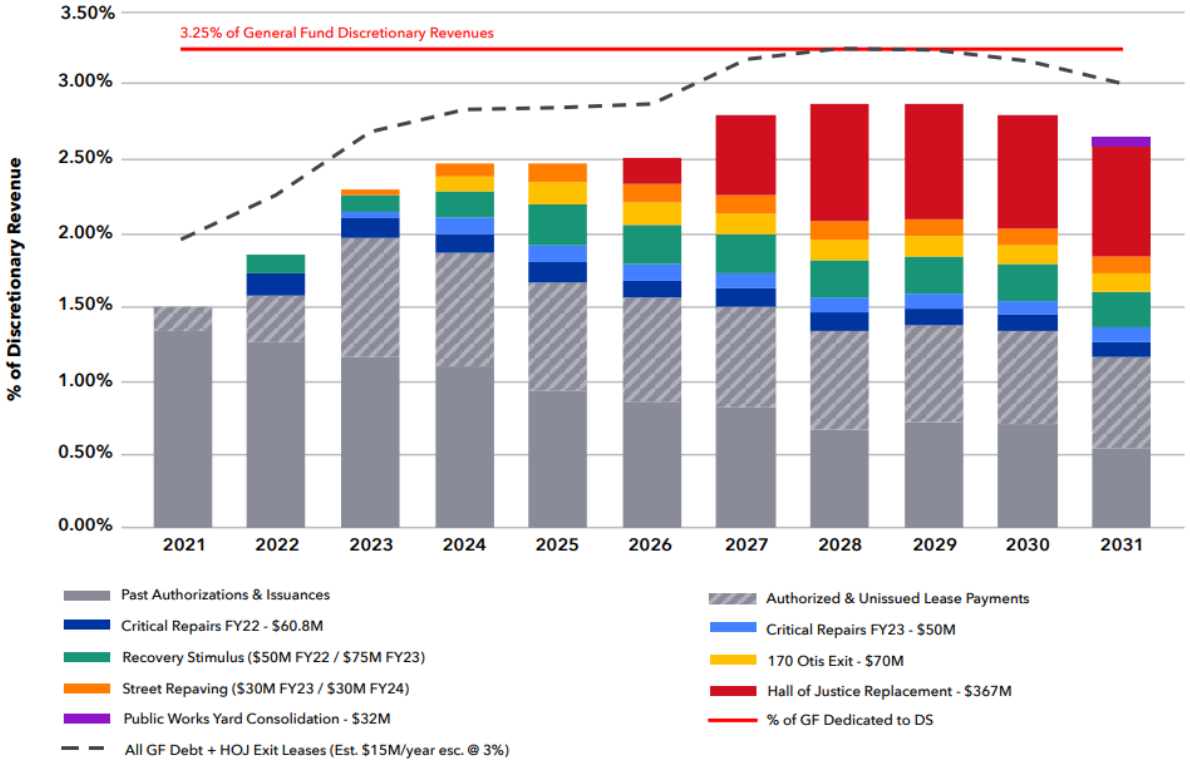
City Debt Policy and 10-Year Capital Plan

Administrative Code Section 10.62 limits debt service of COPs and other lease financing to 3.25 percent of discretionary General Fund revenues. According to the City's Capital Plan for FY 2021-22 to 2030-31 shown below in Exhibit 2, the City is below that cap but will hit it in FY 2027-28 if it issues debt as scheduled in the 10 Year Capital Plan.

The City's ten-year capital plan is updated every two years. The Capital Plan for FY 2022-2031 provided for $765 million of project funding from Certificates of Participation debt (COP) over the ten-year term. The Capital Plan assumed $110.8 million in COPs-funded Critical Repairs/Recovery Stimulus projects would be authorized in FY 2021-22 and $125 million would be authorized in FY 2022-23. Additionally, the Capital Plan assumed the issuance of COPs to fund $70 million of project costs for the 170 Otis Exit and $30 million for Streets projects.

Last year, the City determined to dedicate a portion of current year General Fund monies to certain capital projects, which reduced the Capital Plan assumption for COP project funding in FY 2021-22 from $110.8 million to $56.73 million. File 22-0683, pending at the Budget & Appropriations Committee as of this writing, authorizes $79.2 million of COP project funding for the Critical Repairs/Recovery Stimulus COP projects for FY 2022-23 rather than the $125 million originally assumed in the Capital Plan for FY 2022-23 (as well as an additional $30 million of Streets project funding which had already been assumed), leaving $99.9 million of potential COP project funds available from this unused capacity. Given the uncertainty of future General Fund revenues, the Controller's Office suggests this translates into a range of $80 million to $120 million in COP debt capacity relative to the policy limit.

Exhibit 2: Projected Debt Service FY 2021-22 through FY 2030-31



Source: Capital Plan FY 2022-2031

The City may exceed the policy limit for COP debt service by a 2/3 vote of the Board of Supervisors, which would be required for future debt issuances that push the City's debt service above 3.25% of General Fund revenues. According to the Office of Public Finance, credit rating agencies consider compliance with established debt policies when evaluating the credit worthiness of debt issuers and departing from the City's debt policy may jeopardize the City's credit rating, resulting in higher interest on future debt issuances.

Alternatively, the City may re-order projects in the capital plan to change the timing or funding source or both in order to remain below the COP debt service limit.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

HOUSING STABILITY FUND OVERSIGHT BOARD

FY2022-23 BUDGET RECOMMENDATIONS

(UNANIMOUSLY APPROVED MARCH 30, 2022)

BACKGROUND

On November 3, 2020, the voters of the City and County of San Francisco overwhelmingly voted to approve Proposition I, substantially increasing the transfer tax on large real estate transactions – a tax that the Board of Supervisors resolved to commit to funding social housing and COVID rent assistance.[1] The Controller estimates that in FY 2022-23 alone, Prop I will generate approximately $170 million in new revenue for the city. After taking into consideration estimated allocations for other mandated 'baselined' budget commitments we estimate that $136M should be available for Housing Stability Fund based upon the Controller's more recent Prop I revenue estimates.

In 2020 the Board of Supervisors also unanimously approved an ordinance creating the Housing Stability Fund for the "acquisition, creation, and operation of affordable Social Housing." That ordinance created this oversight board which was charged with presenting to the Board of Supervisors recommendations for uses of Proposition I revenue allocated to the fund.[2]

On January 11, 2022, the Housing Stability Fund Oversight Board published the city's first public call for recommendations for funding social housing. In response to this invitation, the Oversight Board received 14 written proposals from members of the Board of Supervisors, housing providers, grassroots organizations, and individuals representing multiple communities from across the city.[3] We have also heard from scores of San Franciscans about the critical and urgent need for bolder solutions to the affordable housing crisis.

As we expressly stated in our call for recommendations, this Board is not in a position to approve any specific project or organization for funding. Rather our responsibility and intention is to identify compelling potential solutions to target unmet needs and gaps in existing programs that could be addressed by the fund – with special attention to advancing racial, social, and geographic equity. Based upon our identification of such promising solutions, the following are our general findings and specific recommendations regarding the uses of Proposition I revenue to acquire, develop, and operate social housing in the City and County of San Francisco.

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[1] In 2021 the Board of Supervisors allocated $42 million in Prop I revenue to support a local COVID rent relief program and made commitments to allocate an additional $32 million of FY2021-22 revenue if needed. The local rent assistance program will launch April 1 with both Prop I's $42 million and additional funding from Proposition C.

[2] Ordinance No. 201183

[3] Written recommendations to the HSFOB can be found here:
https://sf.gov/meeting/housing-stability-fund-oversight-board-meeting-4 and
https://sf.gov/meeting/housing-stability-fund-oversight-board-meeting-5

SOCIAL HOUSING PRIORITIES

1. SUPPORT AND FUND THE ACQUISITION OF LAND TO BUILD AFFORDABLE SOCIAL HOUSING ($60 million)

San Francisco is one of the most urbanized and developed counties in the country. Vacant and undeveloped land is scarce. Without the acquisition of additional land for affordable housing it would be practically impossible to advance proposals for new co-op ownership developments, teacher and workforce housing, senior housing, or municipal housing. In addition, the lack of available sites in some parts of the city have left many neighborhoods underserved by affordable housing. Therefore, we specifically recommend allocating:

- $60 million - Land acquisition for 100% affordable social housing developments[4] including up to $20 million for land acquisitions for educator housing.[5]
    - Priorities for funding:
        - Acquisitions that advance geographic or racial equity.
        - Surplus SFUSD lands with plans that include educator housing.
        - Privately-owned sites with entitlements ready for construction.
        - Underutilized church sites for workforce, senior and Transitional Age Youth housing.
        - Workforce housing with permanent affordability.
        - Limited-equity housing cooperatives.
        - Opportunities that leverage non-LIHTC sources. For example, HAF and CDFI lending, AFL-CIO Housing Investment Trust, foundation grants etc.
        - Other priorities determined through a participatory public process and informed by the feasibility analysis proposed below.
    - NOFA application process for community-based nonprofit and labor organizations.
    - Funding may include assistance for options to buy, holding costs and pre-development expenses.
    - In addition to supporting additional MOHCD staffing to implement an acquisition program, this funding may also reimburse costs of other City Departments (e.g.,Planning, OEWD) to assist in evaluating public sites for potential affordable housing development.
    - In order to accomplish geographic equity, the NOFA should support the acquisition of smaller sites in underserved neighborhoods if larger sites are not available.

[4] Social housing is defined at SF Administrative Code Sec. 10.100-78 (e).

[5] The Board of Supervisors previously expressed its intention to dedicate 20% of HSF expenditures to educator housing through December 2022. Section 2, Ordinance No. 201183. Our recommendations for site acquisitions ($20M) and capital costs ($12M) for new educator housing honor that intention.

2. PROVIDE CAPITAL FUNDING FOR NEW AFFORDABLE HOUSING CONSTRUCTION AND ACCESSIBILITY UPGRADES AND REPAIRS FOR EXISTING PUBLIC HOUSING AND OTHER AFFORDABLE HOUSING ($52 million total).

Insufficiently funded and overly prescriptive federal and state affordable housing programs create special challenges to develop new affordable housing or to improve existing housing for many San Franciscans. State funding priorities essentially exclude many rapidly gentrifying neighborhoods and fail to fund smaller sites in a city where larger developable sites are scarce. Some of our city's highest need populations live in SROs that tend to be ignored by state and federal programs. The Housing Stability Fund was in part established to address these high-need but hard to fund categories of affordable housing.

- $12 million: Construction costs for 100% Educator housing, serving educator incomes as defined in Prop E, including affordable rental, or limited equity cooperative or ownership.
- $15 million: NOFA for non-LIHTC housing development/construction costs that meet affordable social housing requirements.
- $15 million: NOFA for accessibility, life-safety upgrades, and emergency repairs to non-RAD public housing, and/or existing Limited Equity Housing Cooperatives and HUD-funded Housing Cooperatives, including technical assistance, organizing, capital needs, and consultant costs, as needed, to help tenant associations and tenant councils identify upgrades and repairs. Funds to be disbursed by MOHCD and/or DBI.
- $10 million: For elevator installation or upgrades in SROs - NOFA for accessibility upgrades to nonprofit-owned buildings that serve Extremely Low-Income residents.

3. EXPAND AND STRENGTHEN THE CITY'S HOUSING ACQUISITION AND PRESERVATION PROGRAMS ($12 million in addition to the previously appropriated $64 million).

A vast majority of San Franciscans are renters and many are put at increasing risk of displacement as more rental units are being placed on the market. The City's housing acquisition and preservation program plays an important role in protecting tenants against displacement. While MOHCD has not yet deployed over $64 million in funding allocated to the preservation program in FY 21-22, we understand that the relaunch of that program is imminent and additional funding will be needed to address the backlog and unmet needs. In addition, MOCHD and Qualified Nonprofit Organizations have proposed additional investments to the program to make it more sustainable and collaborative.

- $11.5 million in addition to unused FY21-22 HSF appropriations for additional funding to the City's Housing Preservation programs, including the Small Sites Program as well as larger apartments and SRO buildings.

- $0.5 million NOFA to develop and support sustainable systems for the program including developing a joint asset management model.

4. BUILD PUBLIC AND COMMUNITY CAPACITY TO SUPPORT INCLUSIVE AND INNOVATIVE AFFORDABLE HOUSING SOLUTIONS ($9 million).

The Oversight Board received many proposals for creative solutions to some persistent housing challenges. Almost half of the submissions proposed forms of shared equity or cooperative ownership or management. Additional proposals for new forms of community or public ownership were also submitted. The Oversight Board supports investing in the City's capacity to evaluate the feasibility of both new forms of social housing as well as improvements to existing models of social housing (such as LEHCs). The Oversight Board also supports building capacity of underserved neighborhoods and populations to develop or participate in housing cooperatives, land trusts, and other innovative social housing models.

- $3 million - City staffing and consultants for HSF and feasibility analyses: MOHCD staffing & overhead for HSF affairs, HSF NOFAs, coordination with COPA and QNPs, and land valuation for acquisitions. Feasibility studies for: bonding capacity from Prop I revenue for cross-subsidy mixed-income social housing, additional financing models for public projects such as a revolving loan fund, new strategies for developing Limited Equity Housing Cooperatives including consideration of partnerships with land trusts , creation of a municipally-run housing agency, and permanent real estate cooperatives.

- $6 million - NOFAs for housing innovation capacity: NOFA for existing and new organizations for pre-development, with an emphasis on innovative solutions beyond LIHTC projects; NOFA for business plans for new or expanding nonprofits with the potential to implement social housing; NOFA for capacity building for new limited-equity housing cooperatives; NOFA for growing capacity of new and existing community land trusts.

- Funding recommendations and NOFAs should be designed to assure that the housing and programs developed, funded, or supported affirmatively address the unmet needs of BIPOC, LGBTQ+, immigrant, and other underserved communities through a racial, social, economic and geographic equity lens, consistent with the goal of expanding social housing in the City while advancing key principles of equity and inclusion.

5. ASSURE EQUITABLE ACCESS FOR SENIORS AND PEOPLE WITH DISABILITIES TO AFFORDABLE SENIOR AND FAMILY HOUSING.

A majority of San Francisco's senior tenants and people with disabilities have incomes below 50% AMI, disqualifying them from most of the affordable housing units in MOHCD's pipeline. Equitable access for seniors and people with disabilities should be a principle of social housing. Yet not all housing developments have the capacity to internally subsidize rents to reach

extremely low-income tenants. A project-based rent subsidy for social housing is an appropriate and cost effective policy to address this need.

- $4 million: Operating subsidy for social housing developments to make senior and accessible units affordable for extremely low income seniors and people with disabilities. $4M in annual subsidies will make more than 400 units of unaffordable 50% AMI senior and accessible units truly affordable to extremely low income tenants with incomes of 20% AMI. Recommendation to continue funding in subsequent years.

TOTAL: $ 136 million

CONCLUSION

The Housing Stability Fund Oversight Board thanks the many individual San Franciscans who submitted proposals and spoke out at our public hearings to encourage us to think boldly about our city's potential to create affordable social housing. We also acknowledge the following organizations and offices that submitted written proposals that helped ground our agenda with both specific recommendations and larger visions for change:

- Community Tenants Association
- GLBTQ+ Asian Pacific Alliance (GAPA)
- International Brotherhood of Electrical Workers (IBEW), Local 6
- Mission Economic Development Agency (MEDA)
- Self Help for the Elderly
- Senior and Disability Action
- SF Berniecrats
- SF Community Land Trust
- SF Jobs with Justice
- SF Labor Council
- Supervisor Gordon Mar
- Supervisor Myrna Melgar

Item 4 **File 22-0693** *(Continued from June 22, 2022)*	**Department:** Recreation and Park

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the first amendment to an agreement between the Recreation and Park Department and the Francisco Park Conservancy to provide the Francisco Park Conservancy a credit of up to $443,000 against its obligation to fund maintenance at the Francisco Park over the next four years.

Key Points

- In July 2016, the Board of Supervisors approved an agreement with the Francisco Park Conservancy to accept $25,000,000 in construction and design services for the new Francisco Park and annual funding (now escalated to $199,263) to pay ongoing maintenance. Park construction commenced in 2019 and was completed in April 2022 at a cost of $27.5 million.
- During construction, PG&E require electrical tie-in further than anticipated, resulting in the unexpected costs of approximately $1,154,692. After deducting $269,100 that Francisco Park Conservancy owed the Department for project management, the remaining unfunded cost for the PG&E requirements is $885,592.
- The proposed amendment states that the Recreation and Parks Department will seek funding for the remaining $885,592 in PG&E-related construction costs during the Board phase of the FY 2022-23 budget process and that the parties will split the remaining cost regardless of whether funding is secured.

Fiscal Impact

- The proposed amendment would cost the City up to $443,000 in foregone revenue, to be credited against Francisco Park Conservancy's maintenance funding obligations for the next four years. Funding for the PG&E-related construction costs are not included in the Mayor's proposed budget for FY 2022-23 – FY 2023-24.

Policy Consideration

- The Department reports that it is agreeing to split the cost related to PG&E construction requirements with the Francisco Park Conservancy despite the original agreement requiring Francisco Park Conservancy to cover all construction costs because the PG&E requirements were not part of the original construction budget.
- According to its 2021 financial statement, as of December 2021, the Francisco Park Conservancy had $2,029,880 of unrestricted net assets, excluding the park. In 2021, the organization raised $2.1 million and raised $3.5 million in 2020.

Recommendation

- Approval of the proposed resolution is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (1) have anticipated revenues of $1 million or more, or (2) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

In 2014, the Board of Supervisors approved the jurisdictional transfer of the 3.29-acre Francisco Reservoir land from the San Francisco Public Utilities Commission (SFPUC) to the Recreation and Park Department (File 14-0782) for the creation of a new park in the Russian Hill neighborhood. In September 2014, the Recreation and Park Department and SFPUC entered into a Memorandum of Understanding (MOU) for the purchase of the land, in which the Recreation and Park Department would make payments to SFPUC totaling an estimated $10,669,725 over 12 years, sourced from their Open Space Acquisition Fund.

Francisco Park Conservancy Agreement

In July 2016, the Board of Supervisors approved an ordinance authorizing the Recreation and Park Department to enter into an agreement with the Francisco Park Conservancy[1] to accept from the Francisco Park Conservancy $25,000,000 in construction and design services for the new Francisco Park, and annual cash grants of approximately $150,000 per year (now escalated to $199,263) to pay for the Recreation and Park Department's costs for one full-time dedicated gardener and custodial staffing (File 16-0718). The agreement between the Francisco Park Conservancy and the Recreation and Park Department is for an initial term of 20 years, with three automatic 10-year extensions, for a total term of up to 50 years through 2066. Either party may terminate the agreement at the end of the initial 20-year term or the 10-year extensions.

Construction

Under the agreement, Francisco Park Conservancy is responsible for furnishing and funding labor, materials, management, and oversight for the design and construction of Francisco Park. Construction on the park began in 2019. According to the Recreation and Park Department, the Francisco Park Conservancy reports that they have spent approximately $27.5 on park improvements since construction began in 2019. In April 2022, the park was opened to the public.

During construction, PG&E imposed requirements on the project resulting in the unexpected costs of approximately $1,154,692. According to the Department, these costs were due to PG&E's requirement that the park tie in for power two blocks away from the park site, further than anticipated. This required trenching two city blocks, and the associated costs included paving work, and salaries for workers onsite. After deducting $269,100 that Francisco Park Conservancy

[1] The Francisco Park Conservancy is a nonprofit public benefit corporation formed by Russian Hill neighbors in the 2014 for the purposes of designing and founding the Francisco Park.

owed the Department for project management, the remaining unfunded cost for the PG&E requirements is $885,592. Deducting this pending payment reduces the cost to the City if both parties split the remaining costs related to the PG&E construction requirements.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the first amendment to an agreement between the Recreation and Park Department and the Francisco Park Conservancy. The amendment states that the Recreation and Parks Department will seek funding for the remaining $885,592 in PG&E-related construction costs during the Board phase of the FY 2022-23 budget process and that the parties will split the remaining cost regardless of whether funding is secured.

FISCAL IMPACT

Under the proposed amendment, the City's share of the remaining costs may be credited against Francisco Park Conservancy's maintenance funding obligations for the next four years. The proposed amendment would cost the City up to $443,000 in foregone revenue.

Funding for the foregone revenue is not included in the Mayor's proposed budget for FY 2022-23 – FY 2023-24; the gardener and custodial positions remain grant funded. Department staff report that it would be funded either from a future appropriation from the Department's Open Space Funds, or from an appropriation of a yet-to-be determined amount of "add-back" funds from the Board of Supervisors during the FY 2022-23 budget process.

Original Agreement Costs

The proposed foregone revenue is in addition to the City's estimated costs under the agreement's original terms: $10,000 per year for materials and supplies related to park maintenance, and a one-time $430,000[2] in General Fund costs ($250,000 for environmental review and $180,000 for Recreation and Park Department project manager to oversee the project).

POLICY CONSIDERATION

The proposed resolution seeks permission from the Board of Supervisors to amend the City's agreement with the Francisco Park Conservancy to allow the Department of Recreation and Park to credit up to half ($443,000) of the $885,592 construction funding gap resulting from the unanticipated PG&E construction requirements. The Department reports that it is agreeing to split the unanticipated construction costs with the Francisco Park Conservancy despite the original agreement requiring that Francisco Park Conservancy to cover all construction costs because this was an unforeseen requirement when the agreement was made. Recreation and Park staff report that the amended agreement would still provide funding for the City's ongoing

[2] The $430,000 in funds were secured in the Department's FY 2016-17 budget through the Board of Supervisors budget review and re-appropriation process.

maintenance costs for Francisco Park, which we calculate will total approximately $17.5 million through FY 2065-66, after accounting for the proposed $443,000 reduction in maintenance obligations.[3] The existing agreement provides for mediation if either party cannot meet its obligations.

According to its 2021 financial statement, as of December 2021, the Francisco Park Conservancy had $2,029,880 of unrestricted net assets, excluding the park. In 2021, the organization raised $2.1 million and raised $3.5 million in 2020. As of this writing, we did not receive more recent detailed information about the Francisco Park Conservancy's financial position, though Recreation and Park staff report that the organization continues to fundraise.

RECOMMENDATION

Approval of the proposed resolution is a policy matter for the Board of Supervisors.

[3] Assuming the current cost of approximately $200,000 escalate by 3% per year over 44 years.

Item 5 **File 22-0683** *(Continued from June 22, 2022)*	**Department:** Controller, City Administrator

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would authorize the sale of not to exceed $140.0 million in Certificates of Participation (COPs) and approve documents associated with the transaction.

Key Points

- The City's Ten-Year Capital Plan for FY 2022-2031 included $765 million of Certificates of Participation debt, of which the Board of Supervisors approved issuance of $67.5 million in FY 2021-22.
- The Mayor's proposed budget for FY 2022-24 includes $140.0 million in COPs proceeds for Critical Repair projects ($50 million), Recovery Stimulus projects ($29.2 million), Street Resurfacing projects ($30 million) and associated costs, including a reserve for market uncertainty.

Fiscal Impact

- According to the Office of Public Finance, estimated average annual debt service on the $136.2 million COPs issuance amount is approximately $12.2 million. Total debt service over the anticipated 20-year term is approximately $253.3 million, which includes approximately $136.2 million in principal and $117.1 million in interest and true interest cost of 6.44%. Debt service will be paid from the City's General Fund.

Policy Consideration

- When the Board of Supervisors approved issuance of $67.5 million in COPs in FY 2021-22, the Office of Public Finance estimated a true interest rate of 4.75%. Due to increasing interest rates, the Office of Public Finance estimates a true interest rate in FY 2022-23 of 6.44%. According to discussion with the Director of Public Finance, the City's Capital Plan provided for interest rates of 6.5% for tax-exempt debt. The actual interest rate on the proposed COPs depends on market conditions at the time of issuance, the City's bond rating, and other market factors, including demand for municipal debt.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding general fund appropriation debt does not exceed 3.25 percent of discretionary revenue as determined by the Controller and Director of Public Finance. Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Ten-Year Capital Plan

The City's ten-year capital plan is updated every two years. The Capital Plan for FY 2022-2031provided for $765 million of Certificates of Participation debt (COP) over the ten-year term, of which the Board of Supervisors authorized issuance of $67.5 million for FY 2021-21 (File 21-0645). The COP proceeds were to be used for critical repair and recovery stimulus projects, and while the Capital Plan provided for $110 million in COP proceeds to fund these projects in FY 2021-22, the City determined that $43.5 million of General Fund could be allocated to critical repair and recovery stimulus projects.[1]

The Office of Public Finance has not yet issued the COPs approved in FY 2021-22. According to the Office of Public Finance staff, the projects are initially funded with short-term commercial paper, and the Office will issue the COPs when a sufficient percentage of project budgets have been spent.[2] The status of projects approved by the Board of Supervisors in FY 2021-22 is shown in Attachment I.

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[1] Although not defined in the Capital Plan, according to the City Administrator's Office of Resilience and Capital Planning, Recovery Stimulus projects refer to projects that are "shovel ready" and would deliver immediate local economic stimulus by creating construction jobs, as well as additional benefits (advance racial equity, reduce climate & hazard risks, support small businesses). Critical Repair projects refer to improvements to City facilities and public right-of-way.

[2] The Internal Revenue Service requires that tax-exempt debt be spent within three years of debt issuance. Therefore, the Office of Public Finance will schedule debt issuance to ensure compliance with IRS rules.

DETAILS OF PROPOSED LEGISLATION

File 22-0683 is an ordinance that would:

- authorize sale of up to $140.0 million of Certificates of Participation in one more series on a tax or tax-exempt basis
- authorize a competitive, negotiated, or direct placement sale for the COPs
- authorize the Director of Public Finance to appoint underwriters for a negotiated sale, appoint a placement agent for a direct placement or award a bid to a bidder with the lowest true interest cost for a competitive sale
- authorize use of the proceeds to pay for issuance costs, capital project costs, or to retire related commercial paper
- approve the form of the Supplement to the Trust Agreement between the City and U.S. Bank National Association, as Trustee
- approve the form of the Supplement to the Property Lease between the City and U.S. Bank National Association
- approve the Supplement to the Project Lease for Laguna Honda Hospital and County Jail Complex for additional base rent
- approve the form of the Official Notice of Sale and Notice of Intention to Sell the COPs
- approve the form of the Continuing Disclosure Certification
- approve the form of the preliminary and final Official Statement
- approve the form of a Purchase Contract for the COPs
- grant authority to City officials to modify the aforementioned documents in furtherance of the COPs sale

Supplement to Property and Project Leases, and Trust Agreement

COPs are structured as a lease-lease back, in which the City leases the City-owned property to the Trustee and leases back the property. The City would enter into the one or more Supplements to existing Property and Project Leases and Trust Agreement with U.S. Bank National Association, in which the City-owned Laguna Honda Hospital campus at 375 Laguna Honda Boulevard and the San Bruno Jail Complex at 1 Moreland Drive in San Bruno would serve as the leased property to secure the proposed COPs. The City may add or substitute properties to the Master Lease in order to secure the COPs based on the timing of issuances of other series of authorized but unissued certificates of participation.

Commercial Paper

The City may issue commercial paper, a form of short-term debt, in advance of issuing COPs to fund project costs and then use COPs proceeds to repay related commercial debt obligations.

According to the Office of Public Finance, of the $250 million in commercial paper authority, $178 million unencumbered as of May 20, 2022.

Method of Sale

According to Office of Public Finance staff, the Office will work with their municipal finance advisor to determine the best method of sale of the COPs, whether competitive or negotiated, based on market conditions at that time. If the City chooses to pursue a negotiated sale, as authorized by the proposed ordinance, the Office of Public Finance will use the City's Underwriting Pool, which was selected via a competitive process.

Projects and Uses of Proceeds

The Capital Plan for FY 2022-2031 provided for issuance of $225.0 in COPs to fund projects and File 22-0683 approves $109.2 million to fund projects and in as shown in Exhibit 1 below:

Exhibit 1: FY 2022-23 COPs Funded Projects in Capital Plan

Project	Proposed COPs in Capital Plan	Proposed Issuance of COPs (File 22-0683)
Relocation of Human Services Agency Headquarters	$70.0 million	n/a
Critical Repairs	$50.0 million	$50.0 million
Recovery Stimulus	$75.0 million	$29.2 million
Street Resurfacing	$30.0 million	$30.0 million
Total	$225.0 million	$109.2 million

Source: Capital Plan

The projects to be funded by the proposed COPs in FY 2022-23 differ from the Capital Plan, as shown in Exhibit 1 above. According to Capital Planning Committee staff, the Human Services Agency (HSA) is working with the Real Estate Division to identify an alternative site for the HSA offices, which could include selling 170 Otis Street (the current HSA office site), purchasing a property in the southeast section of the city for client services, and leasing or purchasing space in the Civic Center for administrative staff. Also, of the $75.0 million proposed for Recovery Stimulus projects, only projects totaling $29.2 million met the "shovel-ready" criteria.

Exhibit 2 below shows the estimated uses of the COPs proceeds.

Exhibit 2: Uses of COPs Proceeds

Projects	$109,190,000
Other Costs	
City Services Audit Fee (2% project costs)	218,380
Capitalized Interest [a]	12,659,000
Debt Service Reserve Fund [b]	12,243,700
Costs of Issuance [c]	885,870
Underwriter's Discount [d]	953,050
Subtotal Other Costs	26,960,000
Total Proposed COPs Issuance	136,150,000
Reserve for Market Uncertainty	3,850,000
Total Not to Exceed Authorization	$140,000,000

Source: Office of Public Finance

[a] Capitalized interest accrues during the project construction and prior to completion and placement of the asset in service.
[b] The debt service reserve fund provides for one year of debt service payments.
[c] Costs of issuance include bond counsel, financial advisors, and other costs associated with the issuance of the COPs.
[d] The underwriters discount is the difference between the price paid to the issuer for the COPs issuance and the prices at which the certificates are initially offered to the investing public; this is the fee an underwriter charges when purchasing the COPs for resale to the public.

The projects to be funded by the COPs proceeds are shown in Exhibit 3 below.

Exhibit 3: Proposed Critical Repair and Recovery Repair Stimulus Projects

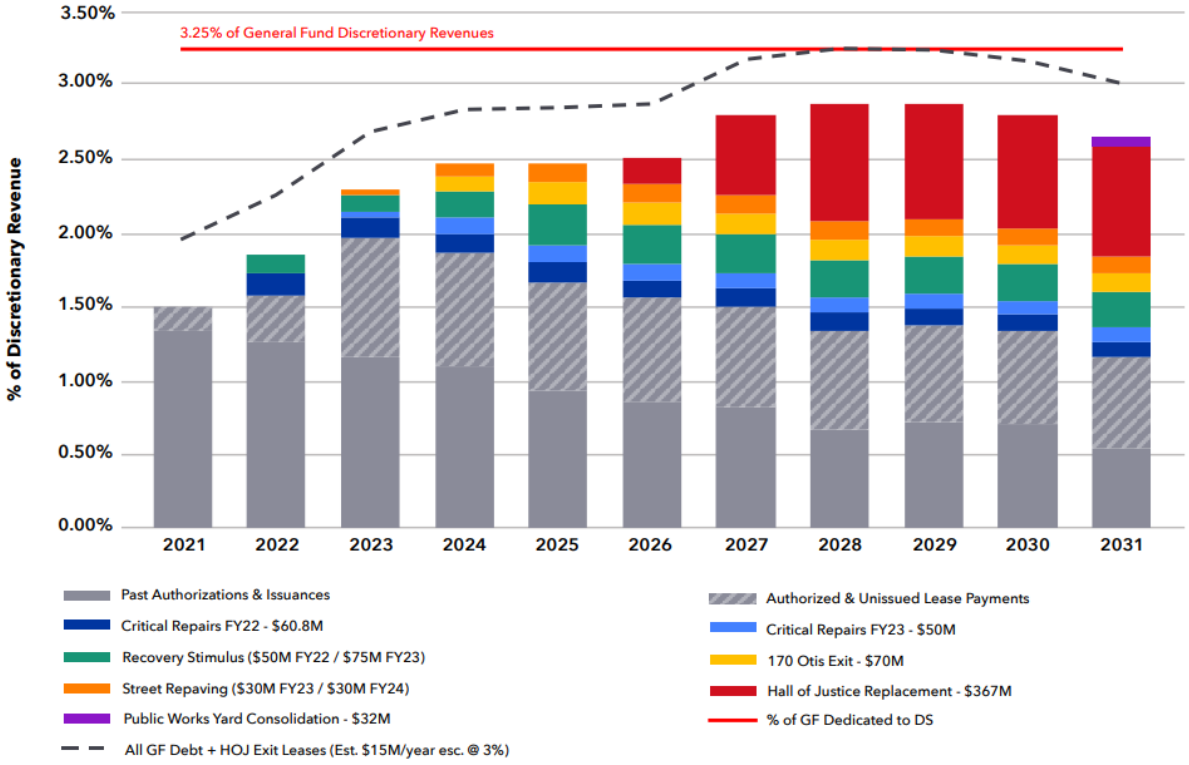
Dept	Project	Amount
	Critical Repair Projects	
ADM	GGP Barrier Removals - Public RoW - JFK Drive & Stanyan Curb	900,000
ADM	1 South Van Ness Fire Detection System Emergency Equipment	1,000,000
ADM	1099 Sunnydale - Boiler	400,000
ADM	1650M - Chiller/Cooling Tower	500,000
ADM	25 Van Ness - Elevator Controls	1,000,000
ADM	50 Raymond - Exterior Siding Replacement	500,000
ADM	555 7th Street Elevator Project & Exterior Improvements	2,250,000
ADM	City Hall - Flat Roof - Waterproofing	2,500,000
ADM	Civic Center - Steam Loop Renewal	3,738,000
ADM	Underground Fuel Tank Replacements	9,225,727
DPH	Clinical Lab Automation System	4,000,000
DPH	ZSFG Improvements	7,000,000
DPW	Curb Ramps with Basements	3,000,000
DPW	Operations Yard Tenant Improvements & HVAC	2,580,751
JUV	Youth Guidance Center Elevator Modernization/Air Exchange/ Exhaust Fans	1,476,000
REC	Recreation & Park ADA Improvements/ Harding Park	900,000
SHF	425 7th St Roof Replacement & Building Management System	4,825,000
WAR	Davies Hall Elevator Modernization	2,200,000
-	Cost Overrun Contingency	2,004,522
	Subtotal Critical Repairs COPs	**$50,000,000**
	Recovery Stimulus Projects	
ART	MCCLA - Seismic Retrofit	$9,580,000
DPH	Laguna Honda Hospital - Simon Cooling Center	975,000
DPW	Innes Ave Rebuild in Bayview Hunters Point	5,000,000
DPW	Japantown Buchanan Mall Improvements Project	2,000,000
DPW	Street Tree Planting & Establishment - Equity Priority Neighborhoods	2,000,000
DPW	Sunset Blvd Hosebib Installation	935,000
DPW	Sunset Boulevard Recycled Water Irrigation Improvements	1,200,000
TIS	DT Fiber to Public Housing	2,500,000
TIS	Opera House Roof Replacement	5,000,000
	Subtotal Recovery Stimulus COPs	**$29,190,000**
DPW	**Street Resurfacing and Construction**	**$30,000,000**
	Total	**$109,190,000**

A description of each project and intended use is included in Appendix II.

City Debt Policy

Administrative Code Section 10.62 limits debt service of COPs and other lease financing to 3.25 percent of discretionary General Fund revenues. According to the projections provided by the Controller's Office, the incremental increase in debt service from the proposed COPs as well as planned COPs through FY 2030-31 will be below that cap. Exhibit 4 below shows the projected debt service over the term of the Capital Plan FY 2022-2031.

Exhibit 4: Projected Debt Service FY 2021-22 through FY 2030-31



Source: Capital Plan FY 2022-2031

FISCAL IMPACT

Debt Service

According to the Office of Public Finance, estimated average annual debt service on the estimated $136.2 million COPs issuance amount is approximately $12.2 million. Total debt service over the anticipated 20-year term is approximately $253.3 million, which includes approximately $136.2 million in principal and $117.1 million in interest and true interest cost of 6.44%. Debt service will be paid from the City's General Fund.

POLICY CONSIDERATION

Interest Rate Impact

When the Board of Supervisors approved issuance of $67.5 million in COPs in FY 2021-22, the Office of Public Finance estimated a true interest rate of 4.75%. Due to increasing interest rates, the Office of Public Finance estimates a true interest rate in FY 2022-23 of 6.44%. According to discussion with the Director of Public Finance, the City's Capital Plan provided for interest rates of 6.5% for tax-exempt debt. The actual interest rate on the proposed COPs depends on market conditions at the time of issuance, the City's bond rating, and other market factors, including demand for municipal debt.

RECOMMENDATION

Approve the proposed ordinance.

Attachment I

Program	Dept	Project	FY22	Status
Critical Repairs	ADM	City Hall HVAC	$6.3M	In construction, completion by March 2024
Critical Repairs	ADM	City Hall Elevators	$2.0M	Bid/Award June 2022, completion by Feb. 2024
Critical Repairs	ADM	Hall of Justice Boiler / Chiller	$4.8M	In Design (DPW/Vendor), phased completion by January 2024 and June 2024
Critical Repairs	ADM	1 S. Van Ness Bathrooms	$1.3M	Bid/Award June 2022, completion by June 2023
Critical Repairs	ADM	1 S. Van Ness Elevators	$0.8M	Permitting June 2022, completion by June 2024
Critical Repairs	ADM	COVID Impact Contingency	$3.0M	Programmed for planned projects to begin FY23
Recovery Stimulus	ADM	Matching Contingency	$2.0M	Programmed for planned projects to begin FY23
Critical Repairs	DPH	LHH Emergency Power	$7.6M	Planning - Need additional funding $2m to complete project
Recovery Stimulus	DPH	ZSFG New Childcare Center	$1.5M	Construction Jan 2022, close-out Feb 2023
Critical Repairs	DPW	Curb Ramps with Basements	$4.0M	Ongoing program, in construction, spend down by June 2023
Critical Repairs	DPW	Infill Sidewalks in Bayview	$2.0M	Ongoing program, in construction, spend down by December 2023
Recovery Stimulus	DPW	Street Tree Planting	$2.5M	Ongoing program, in construction - spend down by December 2022
Recovery Stimulus	DPW	Better Market Street (pedestrian and streetscape improvements)	$3.0M	In Construction - spend down by December 2023
Critical Repairs	DT	Fiber Backbone	$2.5M	In construction, spend down December 2022, $2.7m additional funding needed for completion. No additional funding proposed in FY23/FY24 budget
Recovery Stimulus	DT	Fiber to Affordable Housing	$10.0M	In construction Jan-March 2022, Spend down by Dec 2023
Recovery Stimulus	OEWD	SF Wholesale Produce Market Marshalling Yard	$3.0M	In construction Apr-June 2022, Spend-down by March 2024
Critical Repairs	REC	Stow Lake ADA	$0.9M	Bid/Award - Need additional funding $100K to complete
Critical Repairs	SHF	County Jail 2 Elevators	$4.0M	In planning, under contract with DPW, completion by December 2023
Critical Repairs	SHF	County Jail 2 Fire Safety Systems	$1.0M	In planning, under contract with DPW, completion by March 2023

Program	Dept	Project	FY22	Status
Critical Repairs	SHF	County Jail 5 Security Electronics	$4.5M	In planning, under contract with DPW, completion by March 2024
Critical Repairs	SHF	County Jail 5 Fire Safety Systems	$0.4M	In planning, under contract with DPW, completion by March 2023
Critical Repairs	WAR	Davies Hall Elevators	$2.2M	Planning, need additional funding, $2.2m proposed funding programmed for FY23

Attachment II

Program	Dept	Project	Description	Funding
Recovery Stimulus	ART	Mission Cultural Center for Latino Arts Seismic Retrofit	This is the remaining scope of work to complete seismic retrofit of MCCLA.	$8.6M
Recovery Stimulus	ART	MCCLA - Seismic Cost Escalation	Cost escalation is 8% over 2019 cost estimate ($10M funded in FY22) from Facility Assessment, or $800,000. Relocation/storage costs are $10,000 per month for 14 months, or $140,000.	$1M
Recovery Stimulus	DPH	Laguna Honda Hospital Cooling Center	Installation of cooling capability to an existing ventilation system in order to convert the existing gathering space into a safe space for patients. The proposed cooling station will fill the cooling needs in heat waves until the ongoing HVAC upgrades are complete.	$1M
Recovery Stimulus	DPW	Innes Ave Rebuild	Entire segment of Innes Ave between Toland and Rankin must be redesigned and rebuilt to City standards, since Jerrold Ave will no longer be accessible once the Produce Market Expansion is complete.	$5M
Recovery Stimulus	DPW	Japantown Buchanan Mall Improvements	This is a project to implement improvements to the Japantown Buchanan Mall, between Post and Sutter, a culturally significant public plaza. Improvements included replacing the side walkways, landscaping with culturally relevant plants, enhancing and restoring historic public artwork, and installing new pedestrian lighting.	$2M
Recovery Stimulus	DPW	Street Trees in Priority Areas	Plant and establish new and replacement trees in equity priority neighborhoods with low tree canopy coverage such as the Tenderloin, Mission, SOMA, Excelsior, Bayview.	$2M
Recovery Stimulus		Sunset Blvd Hosebib Installation	Install or repair quick coupler hose bibs on median islands to allow new trees and plants to be watered. Related to next project below.	$0.9M

Program	Dept	Project	Description	Funding
Recovery Stimulus	DPW	Sunset Boulevard Recycled Water Irrigation Improvements	The objective of this project is to provide recycle water to the Sunset Blvd. irrigation system. The SFPUC Oceanside Recycle Water Treatment Plant (in construction) pumps recycle water via a 16" force main (FM) to GGP. This project aims to connect to the 16" FM so recycle water can be utilized for the Sunset Blvd. irrigation system.	$1.2M
Recovery Stimulus	DT	Fiber to Public Housing	This project will build a fiber network to support free Internet access to tenants in public and affordable housing sites, navigation centers and homeless and emergency shelters throughout the City.	$2.5M
Recovery Stimulus	WAR	Opera House Roof Replacement	Phase 1 funding to begin project to replace all metal roofing from coping at top parapet down to coping at lower parapet; replace built-up roof at Annex building only.	$5M
Critical Repairs	ADM	1 SVN Fire Detection System Emergency Equipment	1 SVN Fire Detection Emergency Equipment - emergency generator and diesel fire pump motor replacement	$1M
Critical Repairs	ADM	1099 Sunnydale - Boiler	Air handler and boiler replacement	$0.4M
Critical Repairs	ADM	1650M - Chiller/Cooling Tower	Mechanical Equipment Refurbishment	$0.5M
Critical Repairs	ADM	25 VN - Elevator Controls	25VN Elevator Control Upgrade	$1M
Critical Repairs	ADM	50 Raymond - Exterior Siding Replacement	Replacement of building siding and waterproofing	$0.5M
Critical Repairs	ADM	555 7th - Elevator Project	Sole elevator needs to be replaced	$1.5M
Critical Repairs	ADM	555 7th - Exterior Wood Siding Replacement and Paint	The exterior siding has dry rot and is allowing water inside the building; needs replacement and painting.	$0.75M
Critical Repairs	ADM	City Hall - Flat Roof - Waterproofing	Flat roof needs additional waterproofing & repairs	$2.5M
Critical Repairs	ADM	Civic Center - Steam Loop Renewal	Due to holes and old piping, the steam loop has numerous and dangerous leaks which pose an imminent threat to the system and the well-being of persons and property in the vicinity of same. Said piping needs to be replaced.	$3.7M
Critical Repairs	ADM	Underground Fuel Tank Replacements	Mandated replacement of aging tanks for diesel and gasoline fuel at the DPW yard and HOJ station. The aging tanks will all be replaced with double-walled tanks with similar capacities. This funds approximately 50% of the total need.	$9.2M

Program	Dept	Project	Description	Funding
Critical Repairs	DPH	Clinical Lab Systems	The old lab equipment is beyond end of life and has failed several times. Through the design process it was discovered that the new equipment is approximately 3X larger than the existing and the existing is required to remain operational during the new installation and equipment validation.	$4M
Critical Repairs		ZSFG - Bldg 5 Kitchen Upgrade and HVAC Upgrade	Kitchen last updated in 1982. Flooring, Ceiling, Mechanical and electrical work required throughout. Food storage areas require renovation and upgrade. Regulatory compliance issue with ceiling type and air handling. This is an OSHPD Project.	$1.5M
Critical Repairs		ZSFG - Fire alarm Backbone and infrastructure	Failing outdated Fire alarm infrastructure needs to be replaced. The existing system was installed in the original 1970's project.	$4.4M
Critical Repairs		ZSFG - Freight Elevator Modernization	Freight elevator modernization, cab replacements, security upgrades, loading dock security gates, point of entry tracking. Architectural, Mechanical, Electrical, IT/IS, other trades. OSHPD Project.	$1.2M
Critical Repairs	DPW	Curb Ramps with Basements	Planning, design, and construction of curb ramps with sub-sidewalk basements.	$3M
Critical Repairs	DPW	Operations Yard Tenant Improvements & HVAC	Engineering and the installation of a new HVAC system in building A, to include adding a new air filtration system. Also includes tenant improvements to create administrative space for the new SAS department.	$2.6M
Critical Repairs		YGC Air Exchange & Exhaust Fans	Air exchange handler and exhaust fans are original equipment, dated 1949, and functioning at less than 50% capacity in numerous buildings. The severe lack of proper air exchange and exhaust functionality compromises the air quality for employees and the public in the YGC building; limits filtration of outside air contaminates; and allows buildup of indoor air contaminates, prevents proper air circulation; traps heat, humidity, and odors in the buildings; and creates uncontrolled cold air drafts in different areas in the buildings.	$0.5M
Critical Repairs	JUV	YGC Elevator Modernization - East & West Elevators	Capital funding was provided to modernize only one (1) of three (3) elevators in the Juvenile Probation Administration Bldg that serves the general public including ADA members. The public and staff with physical mobility disabilities are negatively impacted from the requirement to find some method of getting from their building entry point to the only operational elevator.	$1M

Program	Dept	Project	Description	Funding
Critical Repairs	MOD	Golden Gate Park ADA (Stanyan St. Curb)	ADA Facilities RPD: Stanyan Curb ramp installation/repair. Complaint-based.	$0.4M
Critical Repairs	MOD	Golden Gate Park ADA (JFK Drive)	ADA Facilities RPD: JFK Dr Curb ramp installation/repair. Complaint-based.	$0.5M
Critical Repairs	REC	ADA Harding Park	The project at Harding Park is being conducted as part of the City and County of San Francisco's ADA Transition Plan to meet the requirements of the Americans with Disabilities Act per 28 CFR Part 35 of Title II.	$0.9M
Critical Repairs	SHF	425 7th St – Building Management System	425 7th street is in need of a modern BMS to coordinate and conduct day to day operations in an efficient manner.	$1.4M
Critical Repairs	SHF	425 7th St – Roof	Roof replacement	$3.4M
Critical Repairs	WAR	Davies Hall Elevator	Continued modernization of Davies Symphony Hall elevators.	$2.2M
Critical Repairs	Other	Cost Overrun Contingency	Cost Overrun Contingency	$2M