



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 Controller's Office of Public Finance
Bridget Katz, Controller's Office of Public Finance

DATE: Friday, September 23, 2022

SUBJECT: Resolution Authorizing the Issuance of Special Tax Bonds – Community Facilities District No. 2014-1 (Transbay Transit Center) - Not to Exceed Principal Amount of \$90,000,000 and Approving Related Documents

Ordinance Appropriating \$90,000,000 of Special Tax Bond Proceeds – Community Facilities District No. 2014-1 (Transbay Transit Center)

Recommended Action

We respectfully request that the Board of Supervisors ("Board") consider for review and approval the resolution ("Resolution") to authorize by the City and County of San Francisco ("City") the issuance of not to exceed \$90 million of Special Tax Bonds, Series 2022A and 2022B ("2022 Bonds") for and on behalf of the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) ("CFD 2014-1") and other matters related thereto. We also respectfully request for review and approval the Ordinance appropriating \$90 million of Special Tax Bond Proceeds ("Ordinance").

Background

Over the past decade, the City engaged in several efforts to plan for future development and construction of public infrastructure for the area surrounding the Salesforce Transit Center ("Transit Center") and the Downtown Rail Extension ("DTX", which involves the extension of the Caltrain rail tracks to the Transit Center to accommodate Caltrain and California High Speed Rail), as further described below. In 2005, the Transbay Redevelopment Project Area was adopted with the purpose of redeveloping property formerly owned by the State of California and to generate funding sources to assist the Transbay Joint Powers Authority ("TJPA") in the construction of the new Transit Center and the DTX.

After a multi-year public planning process, in 2012, the City adopted the Transit Center District Plan ("TCDP"). The TCDP is a comprehensive plan to respond to and support the construction of the Transit Center and the DTX. In adopting the TCDP, the Board authorized the formation of a community facilities district ("CFD") under the Mello-Roos Community Facilities Act of 1982 within the TCDP boundary for new large

2 | Resolution Authorizing the Issuance of and Ordinance Appropriating Transbay CFD 2014-1 Special Tax Bonds

developments to provide funding for the Transit Center, the DTX, and other public infrastructure necessary to support the growth and development of the neighborhood (“Transbay Program”).

In 2014, the Board of Supervisors approved the formation of CFD No. 2014-1 (Transbay Transit Center) and in 2015, the Board of Supervisors approved the levy and collection of special taxes within CFD 2014-1 and authorized bonded indebtedness for CFD 2014-1 in an aggregate principal amount not-to-exceed \$1.4 billion.

Pursuant to a Joint Community Facilities Agreement between the City and TJPA, 82.6% of the CFD 2014-1 special tax proceeds are allocated to fund a portion of the Transbay Program, including DTX, the train-related components of the Transit Center (“Train Box”) and the rooftop park. The remaining 17.4% of CFD 2014-1 special tax proceeds will fund a variety of public infrastructure projects. To date, funds have been allocated for streetscape enhancements within CFD 2014-1, as well as open space, capacity enhancements for Embarcadero and Montgomery San Francisco Bay Area Rapid Transit District (“BART”) stations, and a congestion pricing study for the San Francisco County Transportation Authority (“CTA”).

The Special Tax Bonds of CFD No. 2014-1

It has been the City’s practice to issue one series of special tax bonds for CFD 2014-1 to finance the projects described in the Joint Community Facilities Agreement between the City and TJPA (in this case, the Series 2022B Bonds), and a different series to fund the other public infrastructure projects (in this case, the Series 2022A Bonds).

In November 2017, the City, on behalf of CFD 2014-1, issued its first two series of Special Tax Bonds (Series 2017A and 2017B) in the aggregate principal amount of \$207.5 million. In February 2019, the City, on behalf of CFD 2014-1, issued the second series of Special Tax Bonds (Series 2019A and 2019B) in the aggregate principal amount of \$191.0 million. In May 2020, the City, on behalf of CFD 2014-1, issued a third series of Special Tax Bonds (Series 2020B) in the principal amount of \$81.8 million. In November 2021, the City, on behalf of CFD 2014-1, issued a fourth series of Special Tax Bonds (Series 2021B) in the principal amount of \$33.9 million. To date, \$514.2 million of bonds have been issued, generating \$458.8 million of bond proceeds to fund capital projects. The balance was used to fund an allocable share of the debt service reserve fund, which provides security for all of the outstanding Special Tax Bonds, pay the costs of issuance for each series and fund other related costs, primarily consisting of capitalized interest, for each series. The Resolution presently before the Board authorizes an additional (fifth) issuance of Special Tax Bonds (“2022 Bonds”) in a principal amount not to exceed \$90 million. The City currently contemplates issuing a tax-exempt Series 2022A (non-TJPA-related improvements) and a federally taxable Series 2022B (TJPA-related improvements). The bond sale is proposed for Winter 2022.

Plan of Finance and Use of Proceeds

Use of Proceeds

Proceeds of the 2022 Bonds will be used to finance or reimburse (i) a portion of the planning, design, engineering, right of way acquisition, and construction of certain capital improvements that are part of the Transbay Program, including the Downtown Rail Extension capital improvement project, by the TJPA, including the engineering of the train components of the Salesforce Transit Center building and engineering work related to a new station at Fourth and Townsend; (ii) streetscape and pedestrian improvements around the Salesforce Transit Center; (iii) the acquisition of transit vehicles for use by the San Francisco Municipal

3 | Resolution Authorizing the Issuance of and Ordinance Appropriating Transbay CFD 2014-1 Special Tax Bonds

Transportation Agency; and (iv) capacity enhancements at the Embarcadero BART station, including modifying a stairway and modernizing an elevator.

Table 1 below outlines anticipated sources and uses for the 2022 Bonds, based on market conditions as of September 16, 2022, as further described below.

Table 1: Estimated Sources & Uses of the 2022 Bonds

<u>Sources:</u>	
2022 Bond Proceeds	
Estimated Par Amount	\$79,940,000
Total Sources	\$79,940,000
<u>Uses:</u>	
Improvement Fund	\$71,421,081
Debt Service Reserve Fund	7,119,219
<u>Delivery Date Expenses</u>	
Cost of Issuance	\$1,000,000
Underwriter's Discount	399,700
Total Uses	\$79,940,000

Source: Stifel, Nicolaus & Company, Inc.

Interest Rate; Projected Debt Service

Based upon market conditions as of September 16, 2022 (assuming a 30-year term and tax-exempt issuance for the Series 2022A (non-TJPA) and a taxable issuance for the Series 2022B (or TJPA), staff estimates: (i) a principal amount of \$79.9 million, (ii) a true interest cost of 5.7%, (iii) average annual debt service of \$5.7 million and (v) debt service over the life of the 2022 Bonds of \$169.2 million. The difference between the authorized not-to-exceed amount of \$90 million and the expected par amount of \$79.9 million shown above allows for fluctuations in market conditions from the date of authorization by the Board of Supervisors to the time of the sale of the 2022 Bonds. Although the numbers above assume a tax-exempt issuance for the Series 2022A Bonds and a taxable issuance for the Series 2022B Bonds, the Resolution preserves the flexibility to issue both series on a taxable basis, if necessary. Attachment 2 provides good faith estimates for the 2022 Bonds, as required under Government Code §5852.1.

Negotiated Sale of the 2022 Bonds, Underwriters and Municipal Advisor

Given the unique credit characteristics associated with the special tax bonds, a negotiated sale is planned in connection with this transaction. The 2022 Bonds will be repaid from special tax revenues from specific projects and are outside of the City's customary credit profile. Through a competitive Request for Proposals ("RFP") process conducted in 2021, Stifel, Nicolaus & Company, Incorporated was selected to serve as Senior Underwriter and Piper Sandler & Co. was selected to serve as Co-underwriter (together, the "Underwriters"). The Underwriters that were selected via the RFP process are in the City's Underwriter Pool, which was also established via a competitive process. The proposed Resolution approves the form of the Bond Purchase Agreement, which provides the terms of sale of the 2022 Bonds by the City to the Underwriters. The Municipal Advisor, Del Rio Advisors, LLC, is a member of the City's Municipal Advisor Pool and was chosen originally via an RFP process conducted in 2020 and amended earlier this year.

4 | Resolution Authorizing the Issuance of and Ordinance Appropriating Transbay CFD 2014-1 Special Tax Bonds

Security

The 2022 Bonds will be secured by a pledge of the special tax revenues collected in CFD 2014-1 and will be issued on parity with the special tax bonds issued in 2017, 2019, 2020, and 2021. Special taxes are only levied on property in CFD 2014-1 for which both a Certificate of Occupancy and Tax Commencement Authorization have been issued and may only be levied on a specific taxable property for 30 years (the maximum duration of CFD 2014-1 is 75 years after the initial special tax levy). There are currently 10 completed buildings subject to the special tax levy. The fiscal year 2022-23 estimated tax levy is expected to generate annual special taxes of \$32.1 million.

"Green Bond" Designation

As it did with the prior issuances of special tax bonds for Transit Center costs, the City is designating the 2022B Bonds as "Green Bonds" (also known as "Climate Bonds"). The purpose of designating the 2022B Bonds as Green Bonds is to allow investors to invest directly in bonds which finance environmentally beneficial projects ("Green Projects"). The particular capital improvements that the City has defined as "Green Projects" in connection with the 2022B Bonds are part of the development of the Transbay Program and its related facilities, including the Salesforce Transit Center, the Train Box, Salesforce Park and the Downtown Rail Extension (each as defined herein).

Capital Plan

The 2022 Bonds are limited obligations of the City. They are payable solely from the special taxes levied within CFD 2014-1. Therefore, this transaction is not subject to the policy constraints of the Capital Plan.

Teeter Plan

In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment ("Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the Controller to allocate to taxing agencies located in the City 100% of the secured property taxes billed but not yet collected. In return, as any delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. In November 2017, in connection with the approval of the first issuance of bonds for CFD 2014-1, the Board approved participation of CFD 2014-1 in the Teeter Plan. The net effect of Teeter Plan participation is the receipt by CFD 2014-1 of revenues equal to 100% of the special taxes levied each year, regardless of any property owner delinquencies; the special tax revenues are used to pay debt service on the CFD 2014-1 Bonds and fund PAYGO project costs. Teeter Plan participation helps to provide consistent cash flow and helps to enhance the credit of the CFD 2014-1 Bonds, including the 2022 Bonds, resulting in a lower interest cost on the CFD 2014-1 Bonds.

Anticipated Financing Timeline

The Resolution is expected to be introduced at the Board of Supervisors meeting on Tuesday, September 27, 2022, and the forms of the related financing documents—including the Bond Purchase Agreement, the Fourth Supplement to the Fiscal Agent Agreement, the Preliminary Official Statement and Appendix A, the Continuing Disclosure Certificate and other related documents, as further described in Attachment 1—will be submitted to the Board at that time.

5 | Resolution Authorizing the Issuance of and Ordinance Appropriating Transbay CFD 2014-1 Special Tax Bonds

Milestones

Dates*

- | | |
|--|--------------------|
| • Introduction of Resolution and Ordinance to the Board of Supervisors | September 27, 2022 |
| • Presentation to the Capital Planning Committee | October 3, 2022 |
| • Budget & Finance Committee Hearing | November 2, 2022 |
| • Board Considers Approval of Resolution and Ordinance (First Hearing) | November 8, 2022 |
| • Board Considers Approval of Ordinance (Second Hearing) | November 15, 2022 |
| • Sale and Closing of the 2022 Bonds | December 2022 |

*Please note that dates are estimated unless otherwise noted.

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

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andres Powers, Mayor's Office
Anna Duning, Mayor's Budget Director
Ben Rosenfield, Controller
Carmen Chu, City Administrator
Harvey Rose, Budget Analyst
Severin Campbell, Budget Analyst
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney
Adam Van de Water, Executive Director, Transbay Joint Powers Authority
Carla Short, Interim Executive Director, San Francisco Department of Public Works

Attachment 1

ADDITIONAL INFORMATION

The legislation is expected to be introduced at the Board of Supervisors meeting on September 27, 2022. The forms of the related financing documents for the 2022 Bonds include the Bond Purchase Agreement, Fourth Supplement to Fiscal Agent Agreement, Preliminary Official Statement and Appendix A, and Continuing Disclosure Certificate.

Bond Purchase Agreement: The City intends to pursue a fixed rate negotiated sale of the 2022 Bonds to the Underwriters. The Bond Purchase Agreement details the terms, covenants, and conditions for the sale of the 2022 Bonds to the Underwriters, as well as agreements regarding expenses, closing schedule and initial and continuing disclosure documents.

Fourth Supplement to Fiscal Agent Agreement: The proposed resolution approves the form of a Fourth Supplement to Fiscal Agent Agreement which supplements the original Fiscal Agent Agreement approved with the 2017 Bonds. Pursuant to the Fiscal Agent Agreement between the City and the Fiscal Agent, the Fiscal Agent administers and disburses bond payments. The Fiscal Agent Agreement, as supplemented, provides for the terms of the 2022 Bonds (interest rates, principal amounts, redemption), remedial action to be taken by the City in the event of special tax delinquencies, and other related administrative provisions. The Fiscal Agent holds the special taxes and the 2022 Bonds proceeds derived from the sale of the 2022 Bonds and will disburse the proceeds as directed by authorized City representatives. Zions Bancorporation, National Association serves as the Fiscal Agent.

Preliminary Official Statement: The proposed Resolution also approves the form of a Preliminary and final Official Statement relating to the 2022 Bonds ("Official Statement"). The Preliminary Official Statement summarizes the security for the 2022 Bonds, the current status of properties subject to the Special Tax and known potential risks to investors.

Federal securities laws impose on the City the obligation to ensure that this document is accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the document as well as City staff charged with preparing the document. The draft Preliminary Official Statement is attached for your approval prior to its publication.

Pursuant to the Resolution, the Board hereby delegates to the Controller or another Authorized Officer the authority to finalize and revise the Official Statement, among other things, to include the most recent related and material information to investors, and to otherwise make corrections and clarifications needed so that the Official Statement complies with federal securities laws.

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.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the 2022 Bonds, the City and the CFD ("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. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of enumerated events. These covenants have been made in order to assist the Underwriters of the 2022 Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Attachment 2

GOOD FAITH ESTIMATES

For purposes of compliance with Section 5852.1 of the California Government Code, the following information are good faith estimates provided by Stifel, Nicolaus & Company, Inc., assuming an estimated par of \$79,940,000 and assuming that the Series 2022A Bonds would be a tax-exempt series and that the Series 2022B Bonds would be a federally taxable series:

1. True interest cost of the 2022 Bonds: 5.672936%
2. Finance charge for the 2022 Bonds, including all fees and charges for third parties (including underwriter's compensation, municipal advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$1,399,700.
3. Amount of 2022 Bond proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest that is funded with proceeds of the 2022 Bonds: \$71,421,081.08.
4. Total payment amount for the 2022 Bonds to the final maturity date of the 2022 Bonds, being the sum of (a) debt service on the 2022 Bonds to final maturity, and (b) any financing costs not paid from proceeds of the 2022 Bonds: \$169,215,923.53.

The information set forth above is based on estimates of prevailing market conditions as of September 16, 2022. Actual results may differ.