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
Vishal Trivedi, Office of Public Finance
Keith Sevigny, Office of Public Finance

DATE: **Thursday, January 19, 2023**

SUBJECT: **Resolution re-authorizing the City Commercial Paper Program's Series 1&2 in an amount not to exceed $150,000,000 and authorizing the delivery of an alternate credit facility to support the program**

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 1 & Series 2 (Tax-Exempt) and Series 1-T & Series 2-T (Taxable) (together "CP Series 1&2"), in an aggregate principal amount not to exceed $150,000,000 to finance the acquisition, construction, and rehabilitation of capital improvements and capital equipment approved by the Board and the Mayor; authorizing the delivery of an alternate credit facility in the principal amount of $163,500,000; and approving and authorizing execution of a second supplement to trust agreement, a second amendment to site lease, a second amendment to sublease, a revolving credit agreement, a fee agreement, an offering memorandum, dealer agreements and certain other related financing documents, and authorizing other related actions.

We respectfully request consideration of the Resolution at the February 15, 2023 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" or "CP Series 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 Facilities

The credit facilities currently supporting the City's $250,000,000 CP Program include three revolving credit agreements ("RCAs"). The Series 1 & 2 credit facilities were extended in May 2021 by two years to May 2023. The Series 3 credit facility with State Street Bank expired in February 2022. The City procured a new RCA for Series 3 from Bank of the West. The Bank of the West RCA will expire in April of 2026.

The City, through the Controller's Office of Public Finance ("OPF"), conducted a procurement process to select a new credit facility provider for CP Series 1 & 2 via a competitive Request For Proposals solicitation. The City received six (6) proposals and Wells Fargo was selected by the evaluation panel. The Resolution approves a new revolving credit agreement with Wells Fargo ("Wells Fargo RCA") in support of a combined CP Series 1&2 ("CP Series 2") in an amount of $150,000,000 with a three (3) year term anticipated to begin in March 2023 and expire in March 2026. Table 1 below provides an overview of the CP Program's expiring and proposed credit facilities.

Table 1: Summary of Credit Facilities for the CP Program

CP Series 1 & 2 Facilities (expiring)	
US Bank RCA	$75,000,000
State Street Bank RCA	75,000,000
	$150,000,000
Replacement CP Series 2 Facility (proposed)	
Wells Fargo RCA	$150,000,000
CP Series 3 Facility (existing)	
Bank of the West RCA	$100,000,000
Total CP Program	**$250,000,000**

Fee Agreement

The Resolution also approves a fee agreement with Wells Fargo, who proposed an annual commitment fee of 25 basis points (0.25%). This equates to $408,750 annually based on a not-to-exceed revolving line of credit to be provided by Wells Fargo of $163,500,000 (the principal amount of CP Series 1 & 2 plus interest at the maximum rate of 12% for 270 days) in connection with the Wells Fargo RCA. The City's existing State Street RCA supporting CP Series 1 has an annual commitment fee of 40 basis points (0.40%) or $327,000 annually. The City's existing US Bank RCA supporting CP Series 2 has an annual commitment fee of 38 basis points (0.38%) or $310,650 annually. Together, the existing State Street RCA and US Bank RCA equate to annual commitment fees of $637,650 on the CP Series 1 & 2 program. The new Wells Fargo RCA results in annual savings of $228,900 to CP Series 1 & 2 and the City's CP Program, not including one-time transaction costs associated with the replacement of the expiring credit agreements.

As shown in Table 2 below, the proposed commitment fee structure presumes that the City's general obligation bond credit ratings remains at their current rating levels of Aaa/AAA/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 if any of one of the City's general obligation bond ratings fall below "Level 1" as noted in Table 2 below.

Table 2: CP Series 2 Wells Fargo RCA Commitment Fee Structure

Level	Fitch Rating	S&P Rating	Moody's Rating	Commitment Fee Rate
Level 1	AA+ or above	AA+ or above	Aa1 or above	0.250%
Level 2	AA	AA	Aa2	0.275%
Level 3	AA-	AA-	Aa3	0.300%
Level 4	A+	A+	A1	0.350%
Level 5	A	A	A2	0.400%
Level 6	A-	A-	A3	0.450%
Level 7	BBB+	BBB+	Baa1	0.600%
Level 8	BBB	BBB	Baa2	0.850%
Level 9	BBB- or below	BBB- or below	Baa3 or below	1.200%

Revolving Credit Agreement Terms

Should the City's general fund secured obligations credit rating fall below Baa3/BBB-/BBB-, the Wells Fargo RCA would terminate and amounts owed to Wells Fargo 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 Wells Fargo RCA may be terminated by the City for any reason, at any time, pursuant to the provisions outlined in the Revolving Credit Agreement and the Fee Agreement.

The City is required to repay Wells Fargo should there be amounts drawn under the credit facility in accordance with the terms and conditions set forth in the Wells Fargo RCA. It is expected Wells Fargo 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 Wells Fargo 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 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. Based on the updated Real Estate Division valuation of the leased asset pool currently pledged to CP Series 1 & 2 reflected in the table below, the City intends to release the Police Academy property from the lease, reducing the total pledged value to $187,000,000, an amount sufficient to support the CP Series 1 & 2 Program.

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

Table of Leased Assets, Series 1 & 2 [1]	
Corporate Yard	$72,000,000
Fire College	46,000,000
Fire Station 1	7,200,000
DPH Public Health Clinic	18,800,000
Police Academy	35,250,000
Human Services Central Offices	43,000,000
Total	**$225,250,000**

Table of Leased Assets, Series 3 [2]	
Public Safety Building	$301,000,000
Total	**$301,000,000**

Sources:
(1) City and County of San Francisco, Real Estate Division, Memorandum(s) dated January 12, 2023.
(2) City and County of San Francisco, Real Estate Division, Memorandum(s) dated April 5, 2022.

Additional Information

The forms of the related financing documents—including the Second Supplement to the Trust Agreement, Second Amendment to Site Lease and the Second Amendment to Sublease, Second Amended and Restated Delivery and Paying Agent Agreement, First Amendment to Commercial Paper Dealer Agreement, Offering Memorandum and related documents—will also be submitted, as described below.

Second Supplement to the Trust Agreement: 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. The Original Trust Agreement will be amended by the Second Supplement to Trust Agreement to, among other things, provide Trustee acknowledgement of the Wells Fargo RCA, update certain definitions and addresses for notices.

Second Amendment to Site Lease and the Second Amendment to Sublease: 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. The Original Site Lease and the Original Sublease will be amended by the Second Amendment to Site Lease and the Second Amendment to Sublease to, among other things, reflect the Wells Fargo RCA and to release the Police Academy property from the leasehold.

Second Amended and Restated Delivery and Paying Agent Agreement: This Agreement sets forth the duties of the Paying Agent, including acting as (i) depository for the safekeeping of the Commercial Paper Certificates, (ii) delivery agent on behalf of the City in connection with the delivery of the Commercial Paper Certificates, and (iii) as paying agent to undertake certain obligations on behalf of the holders of the Commercial Paper Certificates in connection with the Wells Fargo RCA.

First Amendment to Commercial Paper Dealer Agreement(s): The Original 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. The term of the Original Dealer Agreement continues until the cessation of the CP Program, and will be amended by the First Amendment to Commercial Paper Dealer Agreement to, among other things, name Wells Fargo Bank as the replacement CP Series 2 facility provider and add a termination date of May 31, 2026 to coincide with the expiration of the Wells Fargo RCA.

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 Wells Fargo RCA.

Anticipated Timeline

The Resolution is expected to be introduced at the January 31, 2023 Board of Supervisors Meeting and is requested to be heard at the Budget and Finance ("B&F") Committee on February 15, 2023.

Milestones	Dates*
• Introduction of Resolution	January 31, 2023
• B&F Committee Meeting	February 15, 2023
• Board Considers Approval of the Resolution	February 28, 2023
• Execution of Agreements and Reinstatement of CP Series 2 Facility	March 2023

*Please note that dates are estimated unless otherwise noted.

Please contact Anna Van Degna (Anna.VanDegna@sfgov.org) at 415-554-5956, Vishal Trivedi (vishal.trivedi@sfgov.org) or Keith Sevigny (Keith.Sevigny@sfgov.org) at 415-554-7693 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
Anna Duning, 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