



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: Board of Supervisors of the City and County of San Francisco

FROM: Controller's Office of Public Finance

DATE: March 27, 2023

SUBJECT: Ordinance Authorizing Issuance of Refunding Certificates of Participation, Series 2023-R1 (Multiple Capital Improvement Projects)

Supplemental Appropriation Ordinance for Refunding Certificates of Participation

Recommended Action

We respectfully request that the Board of Supervisors (the "Board") review and consider for adoption the ordinance ("Ordinance") authorizing the execution and delivery of the Series 2023-R1 Refunding Certificates of Participation (Multiple Capital Improvement Projects) ("2023 Refunding COPs") to refinance various previously outstanding Certificates of Participation ("COPs"). A supplemental ordinance appropriating the proceeds of the 2023 Refunding COPs will be introduced to the Board to accompany the Ordinance authorizing the 2023 Refunding COPs (together the "Ordinances").

Background

The City's capital planning program is partially funded through the issuance of COPs. When the City issues COPs it typically includes an optional call feature allowing the City to refinance the outstanding principal (or par amount) after a specified optional call date, should interest rates be more favorable and produce savings for the City. The City currently has four outstanding series of COPs with optional call dates in 2023, allowing the call feature to potentially be utilized to generate savings in the coming months: the Series 2012A (Multiple Capital Improvement Project) COPs ("2012A COPs"), the Refunding Series 2014-R2 (Juevenile Hall Project) COPs ("2014-R2 COPs"), the Series 2015A (War Memorial Veterans Building) COPs ("2015A COPs"), and the Refunding Series 2015-R1 (City Office Buildings – Multiple Properties) COPs ("2015-R1 COPs").

A summary of the four outstanding series of COPs which could potentially be refinanced for savings is provided in Table 1 below:

Table 1: Summary of the Outstanding COPs to be Refinanced

| <u>Outstanding Series</u> | <u>Par Amount Outstanding</u> | <u>Average Interest Rate</u> | <u>Optional Call Date</u> | <u>Final Maturity</u> | <u>Average Annual Debt Service</u> |
|---------------------------|-------------------------------|------------------------------|---------------------------|-----------------------|------------------------------------|
| 2012A COPs | \$29,465,000 | 4.10% | 4/1/2022 | 4/1/2036 | \$2,800,000 |
| 2014-R2 COPs | \$23,015,000 | 3.66% | 4/1/2022 | 4/1/2034 | \$2,390,000 |
| 2015A COPs | \$112,110,000 | 4.07% | 4/1/2023 | 4/1/2045 | \$7,780,000 |
| 2015-R1 COPs | \$101,725,000 | 4.07% | 9/1/2023 | 9/1/2040 | \$7,980,000 |
| Total | \$266,315,000 | 4.05% | | 4/1/2045 | \$17,100,000 |

The Current Plan of Finance

To position the City to access the market as expeditiously as possible when an opportunity to achieve savings exists, the proposed Ordinance authorizes the execution and delivery of tax-exempt COPs to refund the outstanding 2012A, 2014-R2, 2015A, and 2015-R1 COPs on or after their respective call dates. Interest rates and capital markets are particularly volatile as of the date of this memo, and the Controller’s Office of Public Finance (“OPF”) will continue to monitor market conditions up through the anticipated pricing and closing of the transaction in July and August 2023. In accordance with the City’s approved Debt Policy, the 2023 Refunding COPs will only be issued if the transaction produces minimum debt service savings of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue’s True Interest Cost (“TIC”) as the discount rate. As interest rates change, one or more of the outstanding series to be refunded may be dropped from the transaction to achieve a higher level of savings. The Ordinance provides authorization to refund any outstanding series not refunded by the 2023 Refunding COPs at a later date.

For good faith estimates required by Code Section 5852.1 of the California Government Code regarding the proposed financing, see **Attachment 1**. The information set forth in **Attachment 1** is based on estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.

The Certificates

Under the proposed Ordinance, the City will structure the 2023 Refunding COPs using a lease-lease back structure. This lease will be a supplemental to a lease (the “Master Lease”) which currently supports the City’s outstanding Series 2012A COPs, Series 2019-R1 COPs, Series 2020-R1 COPs, and Series 2021A COPs (the “Master Lease COPs”) by utilizing subsequent supplement agreements as permitted by the Original Trust Agreement, Original Property Lease, and Original Project Lease, each by and between the City and a third-party trustee, currently U.S. Bank National Association (the “Trustee”).

The Master Lease currently includes the City-owned Laguna Honda Hospital campus located at 375 Laguna Honda Boulevard, San Francisco, and the San Bruno Jail Complex located at 1 Moreland Drive, San Bruno (together, the “Leased Properties”). The Director of OPF can designate additional properties to be added as assets under the Master Lease as needed.

Original Property Lease and Original Project Lease: Pursuant to the Original Property Lease, the City leases City-owned property to the Trustee. Pursuant to the Original Project Lease, the City leases back the leased property, together with the improvements thereon, from the Trustee. The City makes annual base rental payments to the Trustee in amounts representing the fair rental value for the improved leased property

and equal to the amounts required to repay the Master Lease COPs. When the Master Lease COPs are finally paid, the Property Lease and Project Lease (each as supplemented) terminate. The City's general fund secures the payment of the City's rental payments in respect of the Master Lease COPs.

Original Trust Agreement: Pursuant to the Original Trust Agreement between the City and the Trustee acting on behalf and for the benefit of Master Lease COPs holders, the Trustee administers and disburses payments with respect to the Master Lease COPs and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the Master Lease COPs, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the Master Lease COPs and disburses payments for the costs incurred for the Project, as directed by authorized City representatives.

The subsequent supplements to the Original Property and Project Leases, each between the City and the Trustee, require the City to make base rental payments on each September 25 and March 25 during the term of the supplemental leases in an amount sufficient to pay total base rental payments when due.

The subsequent supplement to the Original Trust Agreement between the City and the Trustee requires that the base rental payments be deposited in the base rental fund maintained by the trustee. On October 1 and April 1 of each year during the term of the Trust Agreement, the Trustee will apply such amounts as is necessary to make debt service payments with respect to the Master Lease COPs.

The Capital Plan

The anticipated debt service associated with the delivery and execution of the 2023 Refunding COPs will be lower than the COPs to be refunded, and therefore complies with the City's policy of limiting General Fund debt service payments at or below 3.25% of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan adopted per Resolution 159-21 in April 2021.

Additional Information

The forms of the related financing documents—including the Preliminary Official Statement, Escrow Agreement, Bond Purchase Contract, Notice of Intention to Sell, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted, as described below.

Official Statement: The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the 2023 Refunding COPs. The Official Statement describes the 2023 Refunding COPs, including sources and uses of funds; security for the 2023 Refunding COPs; risk factors; and tax and other legal matters, among other information. The Official Statement also includes the City's Appendix A, the most recent Comprehensive Annual Financial Report of the City, the City's Investment Policy, and other forms of legal documents for the benefit of investors, holders and owners of the 2023 Refunding COPs.

A *Preliminary Official Statement* is distributed to prospective investors prior to the sale of the 2023 Refunding COPs and within seven days of the public offering, the Final Official Statement (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) is distributed to the initial purchasers of the 2023 Refunding COPs.

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The Board of Supervisors and the Mayor, in adopting and approving the proposed Ordinance, approve and authorize the use and distribution of the Official Statement by the City's Municipal Advisor with respect to the 2023 Refunding COPs. In accordance with rule 15c2-12 of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are "deemed final" as of their respective dates.

Escrow Agreement: The Resolution approves the form of Escrow Agreement, allowing for the creation of escrow funds to pay the principal and interest due on the Prior 2012A, 2014-R2, 2015A, and 2015-R1 COPs. The escrow agent will hold any escrow obligations pursuant to the Escrow Agreement in an irrevocable trust fund account for the City for the benefit of the owners of the COPs to be refunded.

Official Notice of Sale and Notice of Intention to Sell (if the 2023 Refunding COPs are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the 2023 Refunding COPs. Such Notice of Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

The Official Notice of Sale for the 2023 Refunding COPs announces the date and time of a competitive sale, including the terms relating to the 2023 Refunding COPs; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

The Official Bid Form attached to the Official Notice of Sale is the form of the official bid for the purchase of the 2023 Refunding COPs. Pursuant to the Ordinance, the Controller is authorized to award the 2023 Refunding COPs to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

Purchase Contract (if the 2023 Refunding COPs are sold on a negotiated basis): The City will work with its Municipal Advisor to determine whether a negotiated or competitive sale will be most advantageous for the refunding based on market conditions closer to the sale of the 2023 Refunding COPs. Should the 2023 Refunding COPs be sold via a negotiated sale with an underwriter(s), the Purchase Contract will be the document that details the terms, covenants, and conditions for the sale of the 2023 Refunding COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents. For a negotiated sale, the City would work with its Municipal Advisor to select qualified firms from the City's Underwriter Pool via a competitive Request for Proposal ("RFP") process.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist initial purchasers of the 2023 Refunding COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

| Milestones | Dates* |
|------------------------------------------------------------------------|------------------|
| • Introduction of the Ordinance to the Board of Supervisors | April 4, 2023 |
| • Budget and Finance Committee Hearing | May 10, 2023 |
| • Board Considers Approval of the Ordinances (1 st Reading) | May 16, 2023 |
| • Final Board Approval of the Ordinances (2 nd Reading) | May 23, 2023 |
| • Sale and Closing of the 2023-R1 Refunding COPs | July-August 2023 |

*Please note that dates are estimated unless otherwise noted.

Please contact Anna Van Degna (Anna.VanDegna@sfgov.org), Vishal Trivedi (Vishal.Trivedi@sfgov.org), or Grant Carson (Grant.Carson@sfgov.org) if you have any questions. Your consideration of this matter is greatly appreciated.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andres Powers, Mayor's Office
Anna Duning, Mayor's Budget Director
Harvey Rose, Budget Analyst
Ben Rosenfield, Controller
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney

Attachment 1

GOOD FAITH ESTIMATES

For purposes of compliance with Section 5852.1 of the California Government Code, the following estimated information has been provided by the City's Municipal Advisor, KNN Public Finance:

1. True interest cost of the 2023 Refunding COPs: 3.62%
2. Finance charge for the 2023 Refunding COPs, including all fees and charges for third parties (including underwriter's compensation, financial advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$2,037,825.00
3. Amount of 2023 Refunding COP proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest funded with proceeds of the 2023 Refunding COPs: \$266,059,835.70
4. Total payment amount for the 2023 Refunding COPs, being the sum of (a) debt service on the 2023 Refunding COPs to final maturity, and (b) any financing costs not paid from proceeds of the 2023 Refunding COPs: \$348,589,296.81

The information set forth above is based on estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.