



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 24, 2023

SUBJECT: Ordinance Authorizing Issuance of Certificates of Participation, Series 2023A (Affordable Housing and Community Facilities Projects) Not-to-Exceed \$146,800,000

Background

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 2023A Certificates of Participation (Affordable Housing and Community Facilities Projects) ("2023A COPs") in an aggregate principal amount not-to-exceed \$146,800,000 to finance or refinance certain affordable housing and capital improvement projects for the Mayor's Office of Housing and Community Development ("MOHCD"), including but not limited to site acquisition, demolition and site preparation, design work, construction, repairs, renovations, improvements and the equipment of such facilities, including through the retirement of certain commercial paper notes of the City issued for such purposes.

The Affordable Housing and Community Facilities COPs were appropriated during the FY2023 budget process (Ord. #171-22). Although this appropriation was not heard by Capital Planning Committee at that time, this program has since been incorporated into the Proposed Capital Plan for FY2024-33 (the "Proposed Capital Plan") (file #230265). This Ordinance will allow the City to issue Certificates of Participation to fund the Affordable Housing and Community Facilities Projects. The appropriation included funding for up to \$112,000,000 for housing and community development projects in the categories described below, as well as \$34,800,000 allocated for financing costs, reserves, capitalized interest, and oversight.

The Capital Plan

The Proposed Capital Plan includes a projection of annual lease payments for existing, authorized and unissued Certificates of Participation over the next ten years. These projections include the anticipated issuance of Affordable Housing and Community Facilities Certificates of Participation to fund \$112,000,000 of projects as listed in Table 1 below:

Table 1: Affordable Housing and Community Facilities Projects

Acquisition NOFA Affordable Housing Development	\$40,000,000
Public Housing/HUD co-op repairs	20,000,000
Affordable Housing for Educators	12,000,000
Elevators in the SRO portfolio	10,000,000
<u>Acquisition for non-profit (community facilities) sites</u>	<u>30,000,000</u>
Total	\$112,000,000

As the issuance of the 2023A COPs is incorporated into the Proposed Capital Plan projections, the anticipated incremental debt service associated with the delivery and execution of the 2023A COPs 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.

The Projects and Plan of Finance

The proposed Ordinance authorizes the execution and delivery of one or more series of taxable or tax-exempt COPs in an aggregate principal amount not-to-exceed \$146,800,000 to finance or refinance certain DPH capital improvement projects totaling \$112,000,000. The MOHCD has created an implementation plan for the project proceeds and has begun issuing Requests for Proposal (RFPs) for eligible projects within the various program categories, to be funded with proceeds from COPs or commercial paper. As these project proposals are received and selected, full project lists will become available and funding can be provided as needed.

Based on the cost estimates and delivery schedules for the projects, the Office of Public Finance ("OPF") anticipates issuing a total of \$138,825,000 in COPs, though the final amount will be based on prevailing market assumptions at the expected time of sale(s). The difference between the expected issuance amount and the \$146,800,000 not-to-exceed amount provides for flexibility in the tax-status of the COPs—as directed by bond counsel—an allowance for market fluctuations until the sale or sales of the COPs, potential increased deposits to the debt service reserve fund or capitalized interest cost, and possible additional delivery date expenses should the COPs be issued in more than one series.

Commercial Paper: The current plan of finance anticipates utilizing the City's commercial paper program ("CP Program"), which was launched in June 2010 pursuant to Resolution No. 85-09 and Resolution No. 136-10, to finance certain project costs, including preliminary design, planning, and permitting. Pursuant to Resolution No. 247-13 approved in July 2013, the City's total CP Program authorization is \$250.0 million, of which \$216.9 million is currently unencumbered.

Based upon an estimated 6.30% all-in true interest cost and an anticipated total par value of \$138.825 million, the total principal and interest payments over the approximate 20-year term of the COPs are estimated to be approximately \$243.33 million. Based on market conditions expected at the time of the sale, the COPs could be structured with up to a 30-year term. Table 2 below outlines anticipated sources and uses for the COPs, based on estimates determined by the Office of Public Finance.

Table 2: Estimated Sources & Uses of the Proposed Affordable Housing and Community Facilities COPs

Sources:

Affordable Housing and Community Facilities COP Proceeds

Estimated Par Amount	\$138,825,000
----------------------	---------------

Uses:

Project Funds

Acquisition NOFA for Affordable Housing Development	\$40,000,000
Public Housing/HUD co-op repairs	\$20,000,000
Affordable Housing for Educators	\$12,000,000
Elevators in the SRO Portfolio	\$10,000,000
Acquisition for Non-profit Sites	\$30,000,000
CSA Audit Fee (0.2% of project)	\$224,000
Capitalized Interest	\$12,676,101
Debt Service Reserve Fund	\$12,376,758

Delivery Date Expenses

Cost of Issuance	\$854,016
Underwriter's Discount	\$694,125

Total Uses	\$138,825,000
-------------------	----------------------

<i>Plus: Reserve for Market Uncertainty</i>	<i>\$7,975,000</i>
---	--------------------

Maximum Not-to-Exceed Par Amount	\$146,800,000
---	----------------------

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 2023A 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, Series 2021A COPs, and proposed Series 2023-R1 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 to 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.

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 2023A COPs. The Official Statement describes the 2023A COPs, including sources and uses of funds; security for the 2023A 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 Annual Comprehensive 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 2023A COPs.

A *Preliminary Official Statement* is distributed to prospective investors prior to the sale of the 2023A 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 2023A COPs.

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 Advisors with respect to the 2023A 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.

Official Notice of Sale and Notice of Intention to Sell (if the 2023A COPs are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City’s intention to sell the 2023A 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 2023A COPs announces the date and time of a competitive sale, including the terms relating to the 2023A 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 2023A COPs. Pursuant to the Resolution, the Controller is authorized to award the 2023A 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 2023A 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 transaction based on market conditions closer to the sale of the 2023A COPs. Should the 2023A 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 2023A 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 2023A COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

Milestones	Dates*
• Introduction of the Resolution to the Board of Supervisors	April 4, 2023
• Capital Planning Committee Hearing	March 27, 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 first tranche of the COPs	July-August 2023

*Please note that dates are estimated unless otherwise noted.

Please contact Anna Van Degna, (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 2023A COPs: 6.30%
2. Finance charge for the 2023A 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): \$1,548,141
3. Amount of 2023A 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 2023A COPs: \$112,224,000.00
4. Total payment amount for the 2023A COPs, being the sum of (a) debt service on the 2023A COPs to final maturity, and (b) any financing costs not paid from proceeds of the 2023A COPs: \$243,327,750.48

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