



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: Tuesday, February 6, 2024

SUBJECT: Resolution Authorizing Issuance of Refunding General Obligation Bonds,
Series 2024-R1

Supplemental Appropriation Ordinance for Refunding General Obligation Bonds

Recommended Actions

We respectfully request that the Board of Supervisors (the "Board") consider for review and adoption the resolution (the "2024 Refunding Resolution") which (1) approves the issuance and sale of not to exceed \$644,675,000 aggregate principal amount of City and County of San Francisco General Obligation Refunding Bonds, Series 2024-R1 (the "2024 Refunding Bonds" or the "Bonds") to refund certain outstanding general obligation bonds of the City; (2) approves the form and authorizing the execution and delivery of an Escrow Agreement relating to certain Prior Bonds (defined below); (3) approves the form and authorizes the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement relating to the sale of said bonds; (4) ratifies certain actions previously taken; and (5) grants general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of said bonds, as defined herein. We also respectfully request the Board pass the Supplemental Appropriation Ordinance ("Ordinance") appropriating the proceeds of the 2024 Refunding Bonds in the amount of \$644,675,000.

Background

Since 1992, a two-thirds majority of voters of the City and County of San Francisco (the "City") have approved 28 propositions authorizing the issuance of general obligation bonds ("GO Bonds") totaling \$6.98 billion for various projects. Of this amount, \$5.72 billion of bonds have been issued and \$2.59 billion remains outstanding. \$1.26 billion in bonds have been authorized but are yet to be issued. When the City issues GO Bonds, there are provisions included which give the City the option to refinance the bonds after a certain period of time, should interest rates be more favorable and produce savings to the City.

See Attachment 1 for a full list of GO Bond authorizations and series outstanding as of January 1, 2024.

Prior Board of Supervisors Actions

In March 2020, the Board adopted Resolution No. 097-20 (the "2020 Master Refunding Resolution") which authorized the issuance of multiple series of general obligation refunding bonds in an aggregate principal amount of \$1,482,995,000 for the purpose of refunding the City's outstanding GO Bonds. The 2020 Master Refunding Resolution also approved the sale of the first of four now-issued series of such refunding bonds in an amount not to exceed \$255,000,000, designated Series 2020-R1. Other series of GO refunding bonds subsequently approved by the Board and issued pursuant to the 2020 Master Refunding Resolution include two series in an amount not to exceed \$220,000,000, designated Series 2021-R1 and 2021-R2, and a fourth series in an amount not to exceed \$385,000,000, designated Series 2022-R1.

Prior City Actions

In 2020, the City issued \$195,250,000 of General Obligation Refunding Bonds, Series 2020-R1 to refinance outstanding general obligation bonds, resulting in gross debt service savings of \$38.2 million over 15 years and net present value debt service savings of \$31.2 million or 13.4% of refunded par. In 2021, the City issued Series 2021-R1 and 2021-R2, totaling \$178,135,000 of General Obligation Refunding Bonds. The two 2021 refunding series produced gross debt service savings of \$35.6 million over 12 years and net present value debt service savings of \$32.8 million or 15.9% of the refunded par. In 2022, the City issued General Obligation Refunding Bonds, Series 2022-R1 in the amount of \$327,300,000 to refinance outstanding general obligation bonds, resulting in gross debt service savings of \$30.6 million over 12 years and net present value debt service savings of \$25.8 million or 7% of the refunded par amount of the refunded par.

Current Plan of Finance

The 2020 Master Refunding Resolution authorized and directed the Director of the Office of Public Finance ("OPF") to determine which series of outstanding Prior Bonds would be refinanced with the proceeds of refunding bonds and to provide for the sale of any series of refunding bonds using the approved form of such documents, subject to certain terms and conditions including the following:

- (i) each series of refunding bonds must achieve aggregate net present value savings of at least 3% of outstanding principal of the total Prior Bonds to be refunded by such series;
- (ii) the true interest cost of the refunding bonds must not exceed 12%;
- (iii) the refunding bonds must not have a final maturity date later than the maturity date of the bonds to be refunded; and
- (iv) the costs of issuance must not exceed 2% and underwriter's discount must not exceed 1% of the principal amount of the refunding bonds

The 2024 Refunding Resolution approves the sale of the 2024 Refunding Bonds, designated Series 2024-R1, in an amount not to exceed \$644,675,000, to refund all or a portion of the bonds listed in Table 1 below ("Prior Bonds").

Table 1: 2024 General Obligation Refunding Candidates

| General Obligation Bond Refunding Candidates | Original Par Amount | Outstanding Par Amount | Callable Par Amount | Final Maturity |
|---|------------------------|---------------------------|------------------------|----------------|
| 2023 GO Refunding Candidates (Callable on June 15, 2023) | | | | |
| Series 2015B (Transportation & Road Improvement Bonds, 2014) | \$67,005,000 | \$33,740,000 | \$33,740,000 | 2035 |
| Refunding Series 2015-R1 | \$293,910,000 | \$164,190,000 | \$164,190,000 | 2035 |
| Series 2016A (Clean & Safe Neighborhood Parks, 2008) | \$8,695,000 | \$5,735,000 | \$5,735,000 | 2035 |
| Series 2016B (Clean & Safe Neighborhood Parks, 2012) | \$43,220,000 | \$18,620,000 | \$18,620,000 | 2035 |
| Series 2016C (Earthquake Safety and Emergency Response, 2010) | \$25,215,000 | \$17,190,000 | \$17,190,000 | 2035 |
| Series 2016D (Earthquake Safety and Emergency Response, 2014) | \$109,595,000 | \$58,000,000 | \$58,000,000 | 2035 |
| Series 2016E (Road Repaving & Street Safety, 2011) | \$44,145,000 | \$30,095,000 | \$30,095,000 | 2035 |
| Subtotal 2023 GO Refunding Candidates | \$591,785,000 | \$327,570,000 | \$327,570,000 | |
| 2024 GO Refunding Candidates (Callable on June 15, 2024) | | | | |
| Series 2017A (Public Health and Safety, 2016) | \$173,120,000 | \$96,445,000 | \$90,670,000 | 2036 |
| Series 2018A (Clean & Safe Neighborhood Parks, 2012) | \$76,710,000 | \$37,480,000 | \$35,400,000 | 2037 |
| Series 2018B (Transportation & Road Improvement Bonds, 2014) | \$174,445,000 | \$85,235,000 | \$80,505,000 | 2037 |
| Series 2018C (Earthquake Safety and Emergency Response, 2014) | \$189,735,000 | \$116,640,000 | \$110,735,000 | 2038 |
| Series 2018E (Public Health and Safety, 2016) | \$49,955,000 | \$31,030,000 | \$29,475,000 | 2038 |
| Subtotal 2024 GO Refunding Candidates | \$663,965,000 | \$366,830,000 | \$346,785,000 | |
| Total GO Refunding Candidates Callable 2023 - 2024 | \$1,255,750,000 | \$694,400,000 | \$674,355,000 | |

To position the City to access the market as expeditiously as possible when an opportunity to achieve savings exists, the proposed Resolution authorizes the execution and delivery of GO Bonds in one or more series, in an aggregate par amount not to exceed \$644,675,000 to refund the outstanding bonds in the tables above. Interest rates and capital markets continue to be volatile as of the date of this memo, and the Controller's Office of Public Finance will continue to monitor market conditions up through the anticipated pricing and closing of the transaction in April and May of 2024. In accordance with the City's approved Debt Policy, the 2024 Refunding Bonds 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.

For good faith estimates required by Code Section 5852.1 of the California Government Code regarding the proposed financing, see Attachment 2. The information set forth in Attachment 2 is based on estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.

The requested not-to-exceed par amount of approximately \$644.7 million for the 2024 Refunding Bonds reflects the current estimated refunding bond proceeds required to refund the callable bonds. Conditions that could change the anticipated bond par amount include fluctuations in market interest rates between the date of authorization by the Board and the sale of the 2024 Refunding Bonds, changes in the refunding escrow, or changes in the estimated delivery date expenses.

Debt Limit

The City Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3.00% of the assessed value of property in the City. For purposes of this

provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's general obligation debt limit for fiscal year 2023-24 is approximately \$10.32 billion, based on a net assessed valuation of approximately \$343.9 billion. As of January 1, 2024, the City had approximately \$2.59 billion in aggregate principal amount of general obligation bonds outstanding, which equals approximately 0.75% of the net assessed valuation for fiscal year 2023-24. If all of the City's voter-authorized and unissued general obligation bonds were issued (an additional \$1.26 billion), the total debt burden would be 1.12% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the 2024 Refunding Bonds, after their issuance, the debt ratio is estimated to change only slightly as the bonds will be used to refund currently outstanding principal.

Additional Information

The Ordinance was introduced on January 30, 2024, and the 2024 Refunding Resolution is expected to be introduced on February 6, 2024 along with the form of the Preliminary Official Statement and Appendix A. Draft forms of other financing documents described below will also be submitted for informational purposes.

Method of Sale & Bond Purchase Agreement: A negotiated sale is planned in connection with this transaction in order to maximize flexibility on the timing and structure of the sale to enhance refunding savings and bonding capacity while maintaining tax rates within the City's Capital Plan constraint. OPF will issue a Request for Proposals ("RFP") to firms within the City's Underwriter Pool, which was established via a competitive process. An underwriting syndicate has not been selected at this time, but will be determined in consultation with the City's Municipal Advisors based on the evaluation of the proposals received pursuant to the RFP, to be identified in the final adopted text of the sale resolution. The Bond Purchase Agreement details the terms, covenants, and conditions for the sale of the Bonds through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

Official Statement: The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the Bonds. The Official Statement describes the Bonds, including sources and uses of funds; security for the Bonds; 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 Bonds.

A Preliminary Official Statement is distributed to prospective investors prior to the sale of the Bonds 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 Bonds.

The Board of Supervisors and the Mayor, in adopting and approving the 2024 Refunding Resolution, approve and authorize the use and distribution of the Official Statement by the underwriters with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller or Director of Public Finance will certify, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates.

Escrow Agreement: The Escrow Agreement allows for the creation of escrow funds to pay the principal and interest due on the Prior Bonds. 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 Prior Bonds.

Official Notice of Sale and Notice of Intention to Sell (if bonds are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the Bonds. 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 Bonds announces the date and time of a competitive sale, including the terms relating to the Bonds; 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 Bonds. Pursuant to the Resolution, the Controller is authorized to award the Bonds 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.

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, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management.

Pursuant to the 2024 Refunding Resolution, the Board hereby designates the Controller or Director of Public Finance to finalize and revise the Official Statement, including the Appendix A, to, among other things, include the most recent City financial information or other material information relevant to investors, and to otherwise make corrections and clarifications needed so that such offering document complies with federal securities laws.

Anticipated Financing Timeline

| Milestones | Dates* |
|--|----------------------|
| • Introduction of Supplemental Appropriation Ordinance to the Board of Supervisors (Board) | January 30, 2024 |
| • Introduction of 2024 Refunding Resolution to the Board | February 6, 2024 |
| • Budget & Finance Committee Hearing | March 6, 2024 |
| • Board Considers Approval of 2024 Refunding Resolution | March 12, 2024 |
| • Board Considers Approval of Appropriation Ordinance (1 st Reading) | March 19, 2024 |
| • Final Board Approval of Appropriation Ordinance (2 nd Reading) | March 19, 2024 |
| • Sale of the 2024 Refunding Bonds | Estimated April 2024 |
| • Closing of the 2024 Refunding Bonds | May 2024 |

*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), Vishal Trivedi (vishal.trivedi@sfgov.org), or Grant Carson (grant.carson@sfgov.org) if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Tom Paulino, 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

Attachment 1

GO BONDS OUTSTANDING AS OF JANUARY 1, 2024

| Bond Authorization Name | Election Date | Authorized Amount | Series | Bonds Issued | Bonds Outstanding | Authorized & Unissued |
|--|---------------|-------------------|---------|-----------------|-------------------|-----------------------|
| Seismic Safety Loan Program | 11/3/92 | \$350,000,000 | 1994A | \$35,000,000 | - | |
| | | | 2007A | \$30,315,450 | \$12,172,632 | |
| | | | 2015A | \$24,000,000 | - | |
| Reauthorization to Repurpose for Affordable Housing | 11/8/16 | | 2019A | \$72,420,000 | \$68,700,000 | |
| | | | 2020C | \$102,580,000 | \$93,580,000 | \$85,684,550 |
| Clean & Safe Neighborhood Parks | 2/5/08 | \$185,000,000 | 2008B | \$42,520,000 | - | |
| | | | 2010B | \$24,785,000 | - | |
| | | | 2010D | \$35,645,000 | \$24,190,000 | |
| | | | 2012B | \$73,355,000 | - | |
| | | | 2016A | \$8,695,000 | \$5,735,000 | - |
| San Francisco General Hospital & Trauma Center Earthquake Safety | 11/4/08 | \$887,400,000 | 2009A | \$131,650,000 | - | |
| | | | 2010A | \$120,890,000 | - | |
| | | | 2010C | \$173,805,000 | \$117,950,000 | |
| | | | 2012D | \$251,100,000 | - | |
| | | | 2014A | \$209,955,000 | - | - |
| Earthquake Safety and Emergency Response Bond | 6/8/10 | \$412,300,000 | 2010E | \$79,520,000 | - | |
| | | | 2012A | \$183,330,000 | - | |
| | | | 2012E | \$38,265,000 | - | |
| | | | 2013B | \$31,020,000 | - | |
| | | | 2014C | \$54,950,000 | - | |
| | | | 2016C | \$25,215,000 | \$17,190,000 | - |
| Road Repaving & Street Safety | 11/8/11 | \$248,000,000 | 2012C | \$74,295,000 | - | |
| | | | 2013C | \$129,560,000 | - | |
| | | | 2016E | \$44,145,000 | \$30,095,000 | - |
| Clean & Safe Neighborhood Parks | 11/6/12 | \$195,000,000 | 2013A | \$71,970,000 | - | |
| | | | 2016B | \$43,220,000 | \$18,620,000 | |
| | | | 2018A | \$76,710,000 | \$37,480,000 | |
| | | | 2019B | \$3,100,000 | - | - |
| Earthquake Safety and Emergency Response Bond | 6/3/14 | \$400,000,000 | 2014D | \$100,670,000 | - | |
| | | | 2016D | \$109,595,000 | \$58,000,000 | |
| | | | 2018C | \$189,735,000 | \$116,640,000 | - |
| Transportation and Road Improvement | 11/4/14 | \$500,000,000 | 2015B | \$67,005,000 | \$33,740,000 | |
| | | | 2018B | \$174,445,000 | \$85,235,000 | |
| | | | 2020B | \$135,765,000 | \$100,450,000 | |
| | | | 2021C-1 | \$104,785,000 | \$83,230,000 | |
| | | | 2021C-2 | \$18,000,000 | - | - |
| Affordable Housing Bond | 11/3/15 | \$310,000,000 | 2016F | \$75,130,000 | \$38,780,000 | |
| | | | 2018D | \$142,145,000 | \$85,790,000 | |
| | | | 2019C | \$92,725,000 | \$21,845,000 | - |
| Public Health and Safety Bond | 6/7/16 | \$350,000,000 | 2017A | \$173,120,000 | \$96,445,000 | |
| | | | 2018E | \$49,955,000 | \$31,030,000 | |
| | | | 2020D-1 | \$111,925,000 | \$77,650,000 | |
| | | | 2020D-2 | \$15,000,000 | - | - |
| Embarcadero Seawall Earthquake Safety | 11/6/18 | \$425,000,000 | 2020A | \$49,675,000 | - | |
| | | | 2023B | \$39,020,000 | - | \$336,305,000 |
| Affordable Housing Bond | 11/5/19 | \$600,000,000 | 2021A | \$254,585,000 | \$168,425,000 | |
| | | | 2023C | \$170,780,000 | \$107,025,000 | \$174,635,000 |
| Earthquake Safety and Emergency Response Bond | 3/3/20 | \$628,500,000 | 2021B-1 | \$69,215,000 | \$64,335,000 | |
| | | | 2021B-2 | \$11,500,000 | - | |
| | | | 2021E-1 | \$74,090,000 | \$59,520,000 | |
| | | | 2021E-2 | \$13,000,000 | - | \$460,695,000 |
| Health and Recovery Bond | 11/4/20 | \$487,500,000 | 2021D-1 | \$194,255,000 | \$164,395,000 | |
| | | | 2021D-2 | \$64,250,000 | - | |
| | | | 2023A | \$28,785,000 | \$28,785,000 | \$200,210,000 |
| SUBTOTAL | | \$5,978,700,000 | | \$4,721,170,450 | \$1,847,032,632 | \$1,257,529,550 |
| General Obligation Refunding Bonds | Dated Issued | | | Bonds Issued | Bonds Outstanding | |
| Series 2015-R1 | 2/25/15 | | | \$293,910,000 | \$164,190,000 | |
| Series 2020-R1 | 5/7/20 | | | \$195,250,000 | \$154,940,000 | |
| Series 2021-R1 | 5/6/21 | | | \$91,230,000 | \$75,990,000 | |
| Series 2021-R2 | 9/16/21 | | | \$86,905,000 | \$43,585,000 | |
| Series 2022-R1 | 5/18/22 | | | \$327,300,000 | \$302,060,000 | |
| SUBTOTAL | | | | \$994,595,000 | \$740,765,000 | |
| TOTALS | | \$5,978,700,000 | | \$5,715,765,450 | \$2,587,797,632 | \$1,257,529,550 |

Attachment 2

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, Del Rio Advisors, LLC, assuming an estimated par of \$584,450,000:

| | 2024 Refunding Bonds |
|--|-------------------------|
| 1. True interest cost: | <u>3.21%</u> |
| 2. Finance charges, 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): | <u>\$3,461,125</u> |
| 3. Amount of bond proceeds expected to be received by the City, net of payments identified in 2 above and any reserve or capitalized interest funded with bond proceeds: | <u>\$643,374,949</u> |
| 4. Total payment amount for the bonds, being the sum of (a) debt service on the bonds to final maturity, and (b) any financing costs not paid from bond proceeds: | <u>\$780,152,931</u> |

The information set forth above is based upon estimates of prevailing market conditions as of November 17, 2023, and the ability to refinance the Prior Bonds on a tax-exempt basis. Actual results may differ if assumed market conditions change.