OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Greg Wagner
Controller

ChiaYu Ma
Deputy Controller

Anna Van Degna
Director of Public Finance

MEMORANDUM

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

FROM: Anna Van Degna, Director of the Controller's Office of Public Finance
Bridget Katz, Deputy Director, Controller's Office of Public Finance
Grant Carson, Debt Capital Markets Specialist, Controller's Office of Public Finance
Bob Beck, Director, Treasure Island Development Authority
Jamie Querubin, Finance Manager, Treasure Island Development Authority
Leigh Lutenski, Deputy Director – Joint Development, Office of Economic and Workforce Development

DATE: **November 5, 2024**

SUBJECT: **Ordinance Authorizing Certificates of Participation (Treasure Island – Stage 2 Infrastructure Projects) – Not to Exceed $65,000,000 and Approving Related Documents and Actions**

Ordinance Appropriating $65,550,000 to the Treasure Island Development Authority including $65,000,000 of Certificates of Participation proceeds and $550,000 of Treasure Island Infrastructure and Revitalization Financing District Tax Increment and Treasure Island Community Facilities District Special Taxes – FY2024-25

Resolution Authorizing Stage 2 Contribution – City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island); Confirming Annexation of Property to City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) as Improvement Area No. 3

Resolution Authorizing Stage 2 Contribution – City and County of San Francisco Infrastructure and Revitalization Financing District No. 1 (Treasure Island) – Not to Exceed $25,000,000

Recommended Action

Staff respectfully requests that the Board of Supervisors ("Board") consider and approve the following:

(i) Ordinance authorizing Certificates of Participation (Treasure Island – Stage 2 Infrastructure Projects) in a principal amount not to exceed $65,000,000 and approving related documents and actions ("COPs Ordinance");

(ii) Ordinance appropriating $65,550,000 to the Treasure Island Development Authority, including $65,000,000 of Certificates of Participation proceeds and $550,000 of Treasure Island Infrastructure and Revitalization Financing District Tax Increment and Treasure Island Community Facilities District Special Taxes – FY2024-25 ("COPs Appropriation Ordinance);

(iii) Resolution authorizing Stage 2 Contribution – City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) ("CFD") and confirming annexation of property to the CFD as Improvement Area No. 3 ("CFD Resolution"); and

(iv) Resolution authorizing Stage 2 Contribution – City and County of San Francisco Infrastructure and Revitalization Financing District No. 1 (Treasure Island) ("IRFD") in an amount not to exceed $25,000,000 ("IRFD Resolution").

Background

Since 1997, the City and County of San Francisco ("City") and the Treasure Island Development Authority ("TIDA") have worked together on the Treasure Island/Yerba Buena Island Development Project ("Project") to redevelop the former Treasure Island Naval Station ("NSTI") in connection with the conveyance of the Navy-owned lands to TIDA. In early 2003, TIDA and the Treasure Island Community Development, LLC ("TICD" or the "Developer") entered into an Exclusive Negotiating Agreement and began work on a Development Plan.

In 2011, TICD and TIDA entered into the Disposition and Development Agreement ("DDA") and TICD and the City entered into the Development Agreement ("DA") to deliver the Project.

The development plan for the Project anticipates a new San Francisco neighborhood consisting of up to 8,000 new residential housing units, as well as new commercial and retail space, two hotels, and 290 acres of parks and public open space, including shoreline access and cultural uses. Transportation amenities being built for the project will enhance mobility on the Yerba Buena Island and Treasure Island as well as link the islands to mainland San Francisco. The Project's master plan also includes public facilities serving the Project, utility improvements; new and upgraded streets, public byways, bicycle, transit, and pedestrian facilities; and a new ferry terminal.

The DDA provides that the purposes of the Project are (i) alleviating blight in the Project site through development of physical improvements consistent with the development requirements established by the City and TIDA, (ii) geotechnically stabilizing the Project site, (iii) constructing infrastructure and stormwater management facilities to support the Project and other proposed uses on NSTI, such as roads and utilities, and including infrastructure and stormwater management facilities to support the construction of affordable housing units, (iv) constructing and improving certain public parks and open spaces, (v) remediating certain existing hazardous substances, and (vi) selling and ground leasing developable parcels for construction of dwelling units and commercial and public facilities.

The Financing Plan attached to the DDA and DA provides for reimbursement to the Developer for costs incurred to construct public infrastructure, primarily through the issuance of special tax bonds issued for the CFD and tax increment bonds issued by the IRFD, and the Financing Plan also establishes a perpetual special tax funding mechanism for the costs of operating and maintaining park and open space improvements within the Project Site.

Financing Plan Amendment

In May 2024, the Board of Supervisors approved Resolution No. 196-24 and Ordinance No. 93-24, which approved an Amended and Restated Disposition and Development Agreement and an Amended and Restated Development Agreement for the Project, respectively. Pursuant to Resolution No. 196-24 and Ordinance No. 93-24, the Board of Supervisors also approved an Amended and Restated Financing Plan, which, among other things, provides for the issuance of general fund-backed public financing that will generate a maximum of $115,000,000 of net proceeds ("Stage 2 Alternative Financing") to finance Stage 2 public infrastructure project costs (as defined in the Financing Plan, "Stage 2 Qualified Project Costs"). It is anticipated that the Stage 2 Alternative Financing will be issued in the form of three tranches of certificates of participation ("Stage 2 COPs") – this proposed COPs Ordinance would authorize the issuance of the first proposed tranche of Stage 2 COPs under this program ("FY25 COPs").

The Planning Commission recommended approval of Ordinance No. 93-24 after holding a duly noticed public hearing on April 4, 2024. The Budget and Finance Committee held a duly noticed public hearing to consider Ordinance No. 93-24 and Resolution No. 196-24 on April 17, 2024.

Performance Milestones

Pursuant to Section 4.1(d)(v) of the Amended and Restated Financing Plan, each Stage 2 Alternative Financing legislative package will describe "the performance milestones to be met by the Developer before approval by the Board of Supervisors of a subsequent Stage 2 Alternative Financing."

City staff agree the following Stage 2 performance milestones must be met prior to introducing legislation to the Board of Supervisors for subsequent tranches of Stage 2 COPs. TIDA shall certify, in consultation with the Controller's Office, in writing, that the following performance milestones have been met:

(1) Developer must demonstrate that work completed to date funded by the existing tranche(s) of Stage 2 COPs are entirely Stage 2 Qualified Project Costs;

(2) Developer must demonstrate a reasonable level and pace of spending on the existing tranche(s) of Stage 2 COPs issued to date to justify the issuance of the next series of Stage 2 COPs;

(3) Developer must demonstrate a reasonable readiness to award a construction contract to continue Stage 2 infrastructure work once the next tranche of Stage 2 COPs are issued;

(4) Developer must provide a construction draw-down schedule to demonstrate that proceeds of the next tranche of Stage 2 COPs can be spent on Stage 2 Qualified Project Costs in accordance with IRS rules, as reviewed and confirmed by the City's assigned bond counsel; and

(5) Developer must certify it has not received land parcel sales or IRFD/CFD revenues that can otherwise be used to fund the Stage 2 Qualified Project Costs that the Developer has proposed to fund with the next tranche of Stage 2 COPs.

Stage 2 Contribution

The Amended Financing Plan provides for the redirection of residual property tax increment from the IRFD and residual special taxes from one or more improvement areas in the CFD in an amount up to $550,000 per year, to directly offset lease payments related to the Stage 2 COPs paid by the General Fund. The annual contribution ("Stage 2 Contribution") will start in FY 2025 and continue to the earlier of (i) the final maturity date of the COPs and (ii) the date on which the aggregate Stage 2 Contributions are equal to the maximum annual lease payments related to the Stage 2 COPs after issuance of the final tranche of the Stage 2 COPs plus annual fees related to the Stage 2 COPs that are appropriated by the City from the General Fund. The IRFD Resolution and CFD Resolution authorize the payment of the Stage 2 Contribution.

Treasure Island Generated Revenues

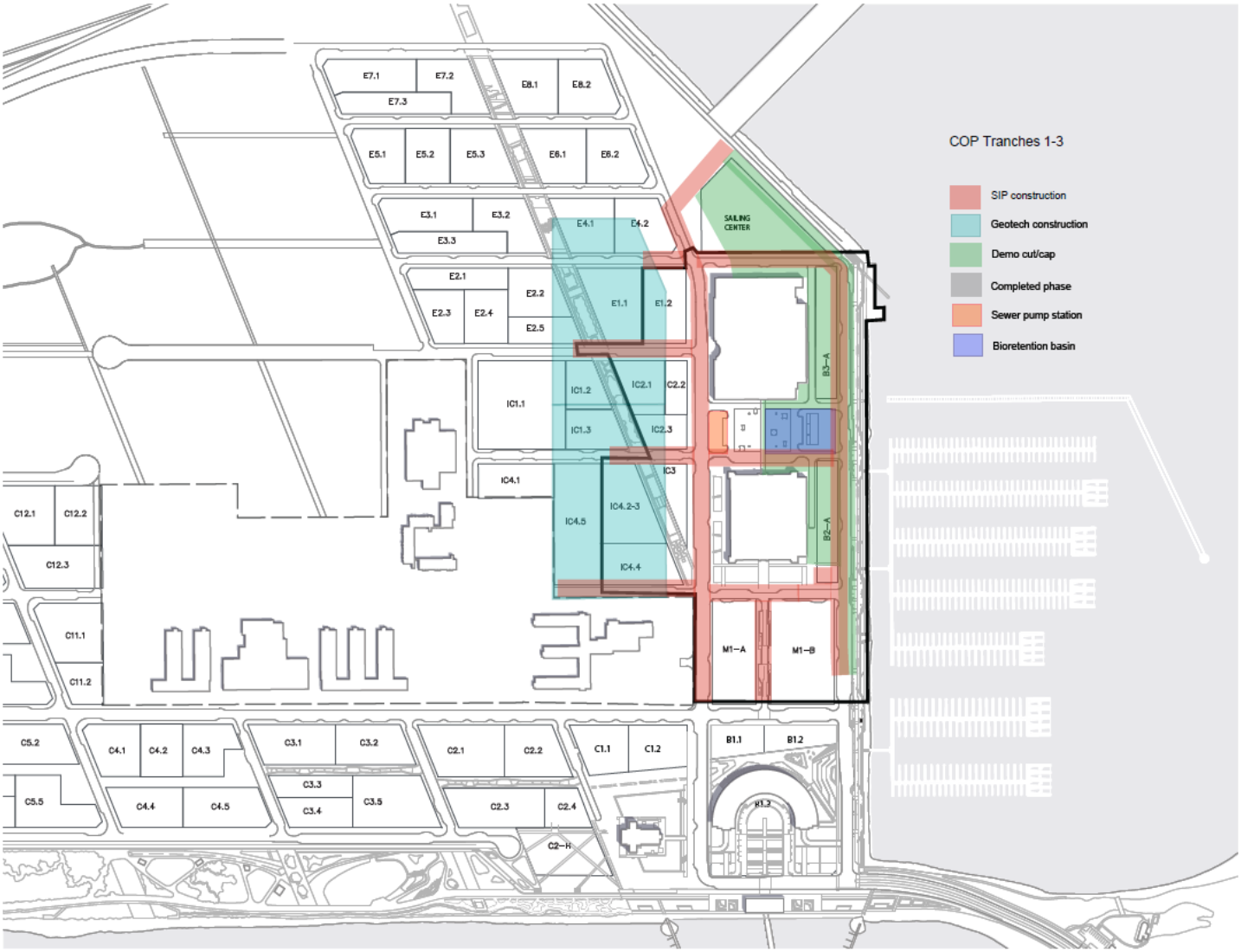
Although the Stage 2 COPs will represent Base Rental payments that are appropriated from the City's General Fund, the City expects that, except for the annual Stage 2 Contribution amount, the Base Rental payments will be paid from General Fund revenues derived from the Treasure Island Project that would not exist but for the Treasure Island Project.

The Capital Plan

Pursuant to Section 4.1(d)(iv) of the Amended and Restated Financing Plan, the City will cause the first tranche of COPs, and subsequent tranches, to be executed and delivered only after the ten-year City Capital Plan is updated to demonstrate capacity for, and incorporates, the Stage 2 COPs in the City's COP program. This will also satisfy the requirement that the COPs are in compliance with Section 10.62 of the City's Administrative Code that the proposed lease payments for the FY25 COPs and the lease payments payable with respect to outstanding general fund COPs will not exceed 3.25% of General Fund discretionary revenue. The City anticipates introducing a subsequent resolution in November 2024 to amend the Adopted Capital Plan and incorporate the Stage 2 COPs.

The Project

The Developer expects to use the proceeds of the FY25 COPs to finance Stage 2 Qualified Project Costs including but not limited to demolition, geotechnical work and street improvements. Demolition includes but is not limited to removal of existing surface improvements, removal of existing subsurface and above ground utilities, capping of utilities at the project limits, building abatement and demolition, and installation of temporary utilities. Geotechnical work includes but is not limited to performing soils vibrocompaction, surcharging, wicks (prefabricated vertical drains) installation, deep soil mixing, and installation of associated erosion control measures. Street improvements includes but is not limited to utilities installation, street lighting, roadways, pump stations, landscaping and irrigation improvements, bioretention facilities, and street furnishings.



Stage 2 COP Construction Sequencing Plan
(diagrammatic only)

The Current Plan of Finance

The proposed COPs Ordinance authorizes the execution and delivery of tax-exempt and/or, taxable FY25 COPs in one or more series with an aggregate par amount not-to-exceed $65.0 million. It additionally allows for the issuance of short-term commercial paper, as needed.

Based on the initial project information, the Office of Public Finance ("OPF") currently anticipates issuing approximately $62.8 million in FY25 COPs, though the final amount will be based on prevailing market assumptions at the expected time of sale. The difference between the expected issuance amount and the $65.0 million not-to-exceed amount allows for changes in the tax-status of the FY25 COPs (tax-exempt vs taxable) as directed by bond counsel, market fluctuations in interest rates prior to the sale or sales of the FY25 COPs, any increased deposits to the debt service reserve fund, and possible additional delivery date expenses if the FY25 COPs are issued in more than one series.

Based upon an estimated 6.34% true interest cost (assuming current market rates plus an interest rate cushion) and an anticipated total par value of $62.8 million, the total principal and interest payments over the approximate 20-year repayment term of the COPs are estimated to be approximately $113.1 million. Based on market conditions or other factors expected at the time of the sale, the FY25 COPs could be structured with up to a 30-year term.

Approximately $5.8 million of proceeds may be allotted to fund a Debt Service Reserve Fund, and approximately $5.7 million of proceeds may fund Capitalized Interest. In addition, approximately $1.2 million is projected to be allotted to cover costs associated with the issuance of the FY25 COPs, assuming one or more issuances. This includes amounts for underwriter compensation, legal fees, municipal advisory fees, trustee fees, rating agency fees, printing costs, and other issuance costs.

For good faith estimates required by Code Section 5852.1 of the California Government regarding the proposed financing, see Attachment 1. The information set forth in Attachment 1 is based on estimates of prevailing market conditions, and the ability to finance the entirety of the projects on a tax-exempt basis. Actual results may differ if assumed market conditions or the final tax status requirements to be determined by bond counsel and the City Attorney's Office closer to the sale of the FY25 COPs.

The table below outlines anticipated sources and uses for the FY25 COPs, based on estimates provided by the Office of Public Finance's municipal advisor KNN Public Finance.

Estimated Sources & Uses of the Proposed FY25 COPs

Sources:	
FY25 COPs Proceeds: Estimated Par Amount	$62,800,000
Uses:	
Project Funds	$50,000,000
CSA Audit Fee (0.2% of Project Funds)	$100,000
Capitalized Interest	$5,705,756
Debt Service Reserve Fund	$5,754,249
Delivery Date Expenses	
Cost of Issuance	$800,000*
Underwriter's Discount	$439,600
Total Uses	**$62,800,000***
Plus: Reserve for Market Uncertainty	*$2,200,395*
Maximum Not-to-Exceed Par Amount	**$65,000,000**

Source: KNN Public Finance

*The Good Faith Estimate in Attachment I as provided by KNN Public Finance includes a bond rounding amount of $396 which is incorporated into Cost of Issuance as additional contingency. For purposes of the Supplemental Appropriation, this amount is reflected in the Reserve for Market Uncertainty.

In addition to appropriating the $65 million not-to-exceed FY25 COP amounts, the COPs Appropriation Ordinance appropriated $550,000 of revenue from Infrastructure and Revitalization Financing District No. 1 (Treasure Island) and Community Facilities District No. 2016-1 (Treasure Island), as described earlier in the memo.

The FY25 Treasure Island COPs

Under the proposed COPs Ordinance, the City will structure the FY25 COPs using a lease-lease back structure.

Property Lease and *Lease Agreement*: Pursuant to the Property Lease, the City leases City-owned property including the improvements thereon to a third-party Trustee, currently U.S Bank Trust Company, National Association ("Trustee"). For the FY25 COPs, the leased property is expected to be the real property and improvements at 1995 Evans Ave. that are used by the San Francisco Police Department for its Traffic Company and Forensic Services Division. Pursuant to the Lease Agreement, 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 FY25 COPs. When the FY25 COPs and any subsequent Stage 2 COPs issued as parity obligations under the Trust Agreement (defined below) are finally paid, the Property Lease and Lease Agreement (each as supplemented) terminate. The City's lease payments under the Lease Agreement are payable from any available source of funds, including the General Fund.

Trust Agreement: Pursuant to the Trust Agreement between the City and the Trustee acting on behalf and for the benefit of FY25 COPs holders, the Trustee administers and disburses payments with respect to the FY25 COPs and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of FY25 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 FY25 COPs and disburses payments for the costs incurred for the Project, as directed by authorized City representatives.

The Property Lease and Lease Agreement, 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 leases.

The Trust Agreement 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 FY25 COPs .

Additional Information

The forms of the related financing documents—including the Preliminary Official Statement (including Appendix A), Purchase Contract, Official Notice of Sale, Notice of Intention to Sell, 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 FY25 COPs. The Official Statement describes the FY25 COPs, including sources and uses of funds; security for the FY25 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 FY25 COPs.

A *Preliminary Official Statement* is distributed to prospective investors prior to the sale of the FY25 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 FY25 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 Advisor with respect to the FY25 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 FY25 COPs are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the FY25 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 FY25 COPs announces the date and time of a competitive sale, including the terms relating to the FY25 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 official bid form for the purchase of the FY25 COPs. Pursuant to the Ordinance, the Controller and the Director of Public Finance are authorized to award the FY25 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 FY25 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 FY25 COPs. Should the FY25 COPs be sold via a negotiated sale with an underwriter(s), the Purchase Contract will be the document that details the terms, compensation, covenants, and conditions for the sale of the FY25 COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents. For a negotiated sale, the City would either work with its Municipal Advisor to select qualified firm(s) from the City's Underwriter Pool, which was established via a competitive Request for Qualifications ("RFQ") process, or award to the highest scoring firm established during the RFQ process.

Continuing Disclosure Certificate: The City is required to provide certain financial information and operating data relating to the City ("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. This undertaking has been made to assist initial purchasers of the FY25 COPs with their compliance with the Securities and Exchange Commission Rule 15c2-12(b)(5).

The CFD Resolution and IRFD Resolution

The IRFD Resolution authorizes the Stage 2 Contribution as a debt of the IRFD in a principal amount not to exceed $25 million, and payment of the Stage 2 Contribution from the 82.5% of Net Available Increment ("Facilities Increment") that is not dedicated to funding Housing Costs (as those terms are defined in the Financing Plan). The Facilities Increment is not pledged as security for the Stage 2 Contribution and Stage 2 Contribution will be payable on a subordinate basis to any bonds issued by the IRFD that are secured by a pledge of the Facilities Increment.

Similarly, the CFD Resolution authorizes the Stage 2 Contribution as a debt of the CFD with respect to the improvement areas of the CFD in an aggregate principal amount not to exceed $25 million; the aggregate principal amount will be allocated among the improvement areas as determined by the Director of the Office of Public Finance in consultation with the City Attorney. The Stage 2 Contribution will be payable from Remainder Taxes as defined in the Financing Plan. The Remainder Taxes are not pledged as security for the Stage 2 Contribution.

The CFD Resolution also confirms annexation of property into the CFD as Improvement Area No. 3 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) ("Improvement Area No. 3"). As described in the CFD Resolution, the annexation occurred as a result of the execution by the landowner, Treasure Island Series 1, LLC, of a Unanimous Approval in the manner contemplated by the Mello-Roos Community Facilities Act of 1982 and by the Resolution of Formation for the CFD (Resolution No. 8-17, which was adopted by the Board of Supervisors on January 24, 2017, and signed by the Mayor on February 3, 2017). The Rate and Method of Apportionment of Special Tax for Improvement Area No. 3 is attached to the CFD Resolution as Exhibit A.

Anticipated Financing Timeline

Preliminary Schedule	Dates*
• Introduction of the COPs Ordinance, COPs Appropriation Ordinance, CFD Resolution, and IRFD Resolution to the Board of Supervisors	November 5, 2024
• Introduction of Capital Plan Amendment Resolution	November 2024
• Capital Planning Committee	December 2, 2024
• Budget and Finance Committee Hearing	December 4, 2024
• Board Considers Approval of Resolutions and Ordinances (1st Reading)	December 10, 2024
• Final Board Approval of the Ordinances (2nd Reading)	December 17, 2024
• Sale and Closing of FY25 COPs	Spring 2025

*Please note that dates are estimated unless otherwise noted.

Please contact Anna Van Degna (Anna.VanDegna@sfgov.org), Bridget Katz (Bridget.Katz@sfgov.org), Grant Carson (Grant.Carson@sfgov.org), or Bob Beck (Bob.Beck@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
Benjamin McClosky, Interim Mayor's Budget Director
Harvey Rose, Budget Analyst

Severin Campbell, Budget Analyst
Greg Wagner, Controller
Carmen Chu, City Administrator
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney
Andrico Penick, Director of Real Estate Division
Brian Strong, Office of Resilience and Capital Planning

Attachment 1

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 the City's Municipal Advisor, KNN Public Finance.

1. True interest cost of the FY25 COPs: 6.34%

2. Finance charge for the FY25 COPs, 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): $1,239,996

3. Amount of FY25 COPs 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 FY25 COPs: $50,100,000

4. Total payment amount for the FY25 COPs, being the sum of (a) debt service on the FY25 COPs to final maturity, and (b) any financing costs not paid from proceeds of the FY25 COPs: $113,094,595

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