



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director of Public Finance

SUBJECT: City and County of San Francisco Finance Corporation,
Lease Revenue Refunding Bonds (Moscone Expansion Project),
Series 2008-1 and 2008-2

DATE: Tuesday, September 2, 2014

I respectfully request that the Board of Supervisors consider for review and adoption an ordinance (the "Ordinance") that (1) authorizes the remarketing of the City and County of San Francisco Finance Corporation (the "City") Lease Revenue Refunding Bonds, Series 2008-1 and Series 2008-2 (the "Bonds"); (2) approves the form of Reimbursement Agreement, Fee Agreement, Custody Agreement, and Remarketing Supplement; and (3) other necessary actions in connection with the remarketing of the Bonds.

In connection with this request, the Ordinance and related supporting documents will be introduced at the Board of Supervisors meeting on Tuesday, September 2, 2014 and I respectfully request that the item be heard at the Wednesday, September 17, 2014 meeting of the Budget and Finance Committee.

Background

In 1996, the City's voters approved Proposition A which authorized the lease financing of an expansion of the City's George R. Moscone Convention Center (Moscone Center West) through the issuance by the City and County of San Francisco Finance Corporation (the "Corporation") on behalf of the City of lease revenue bonds in an aggregate principal amount not to exceed \$157.5 million.

On October 16, 2000 the Board of Supervisors adopted Ordinance No. 241-00 (the "2000 Ordinance") which approved the issuance of not to exceed \$157.5 million of aggregate principal

amount of the City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2000-1, Series 2000-2, and Series 2000-3 (collectively, the "Prior Bonds"). Proceeds from the Prior Bonds along with other City monies financed the acquisition, construction, and improvements to a free-standing expansion of the City's George R. Moscone Convention Center known as Moscone West located on the northwest corner of Howard and Fourth Streets in the City. Moscone West added approximately 300,000 square feet of exhibit and meeting space to the Moscone Center and brought the total to approximately 900,000 square feet of exhibit space and meeting rooms.

The Board of Supervisors adopted on August 12, 2008 and the Mayor approved on August 22, 2008 Ordinance No. 203-08 approving the issuance, execution and delivery of the City's Variable Rate Lease Revenue Refunding Bonds, (Moscone Center Expansion Project) Series 2008-1 and Series 2008-2 (the "2008 Bonds") to replace credit enhancement previously provided by the Ambac bond insurance company on the Prior Bonds. In 2008, Ambac's credit ratings were downgraded and caused the variable interest rates on the 2008 Bonds to rise sharply.

On September 11, 2008, the City issued \$145,340,000 of 2008 Bonds to refund \$144,300,000 of the Prior Bonds. Simultaneous with the issuance of the 2008 Bonds, the City replaced Ambac with letters of credit, one from Bank of America N.A. and the other from State Street Bank and Trust Corporation pursuant to separate but identical reimbursement agreements for Series 2008-1 and Series 2008-2. As of September 2, 2014, the remaining outstanding principal balance of the 2008 Bonds is \$116,020,000. The existing reimbursement agreements provide support for the payment of principal and interest on the 2008 Bonds that will expire in October 2014.

Plan of Finance

Following a competitive solicitation, the Controller's Office of Public Finance selected and has reached agreement with State Street Bank and Trust Corporation ("State Street") on the terms and conditions of substitute direct-pay letters of credit. The following is a general summary of the terms and conditions of the Reimbursement Agreements and Fee Agreements in connection with proposed remarketing of the Bonds:

1. Commitment Fee: The annualized commitment fee to be paid by the City for the State Street letter of credit is 0.35% of the principal amount of the facility, payable annually in arrears through the expiration of the renewal letter of credit on October 8, 2019. The current commitment fee for the existing direct pay letters of credit is 0.70% for Series 2008-1 and 0.72% for Series 2008-2.
2. Commitment Fee Schedule: In the event the City's credit ratings are downgraded, the Commitment Fee payable by the City for the letter of credit increases according the following schedule:

Level	Moody's	S&P	Fitch Rating	LOC Commitment Fee Rate
LEVEL 1	Aa3 or above	AA- or above	AA- or above	0.35%
LEVEL 2	A1	A+	A+	0.45%
LEVEL 3	A2	A	A	0.55%
LEVEL 4	A3	A-	A-	0.65%
LEVEL 5	Baa1	BBB+	BBB+	0.80%
LEVEL 6	Baa2	BBB	BBB	0.95%
LEVEL 7	Below Baa2	Below BBB	Below BBB	Default
WITHDRAWAL OR CANCELLATION				Default

3. Interest Rate: In the event the letter of credit is drawn, the interest rate for such drawing has been revised to the greater of: i) each Bank's respective prime rate plus 1.0%; ii) the federal funds rate plus 2.0%; and iii) 6.00%.

Upon their remarketing, the Series 2008-1 and Series 2008-2 Bonds will be supported by direct-pay letters of credit issued by State Street. The Fee Agreement and the Remarketing Supplement further describe and summarize the substitute letters of credit contained in the Reimbursement Agreement.

The Controller's Office of Public Finance will continue to monitor market conditions to determine the most cost effective and economical structure for the bonds financing the expansion of the Moscone Convention Center known as Moscone Center West.

Financing Timeline

The Bonds are expected to be remarketed in October 2014. Schedule milestones in connection with the financing may be summarized as follows:

Milestone	Date*
Introduction of legislation and supporting materials to the Board	September 2, 2014
Consideration by the Budget and Finance Committee	September 17
Consideration by the Board of Supervisors	September 30
Remarketing of the Bonds	October 8

*Please note that dates are estimated unless otherwise noted.

Additional Information

The Ordinance is expected to be introduced at the Board of Supervisors meeting on Tuesday, September 2, 2014. The related financing documents—including the Reimbursement Agreement, Fee Agreement, Custodian Agreement and Remarketing Supplement—will also be submitted.

As a condition to the provision of the Letter of Credit, Wells Fargo and State Street have been appointed to act as custodian and agent with respect to Bank Bonds, if any, for the letter of credit bank. The Custodian Agreement sets forth the terms and conditions upon which the Bank Bonds will be held, remarketed, and/or released. It also specifies that the Custodian will only take direction with respect to such Bank Bonds from the letter of credit bank rather than the City or the Corporation.

Your consideration of this matter is greatly appreciated. Please contact me at 554-5956 if you have any questions. Thank you.

Cc (via email): Angela Calvillo, Clerk of the Board of Supervisors
 Kate Howard, Mayor's Budget Office
 Harvey Rose, Budget Analyst
 Ben Rosenfield, Controller
 Mark Blake, Deputy City Attorney