



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: Resolution Providing for the Issuance of City and County of San Francisco General Obligation Refunding Bonds

DATE: November 25, 2014

I respectfully request that the Board of Supervisors consider for review and approval legislation that (1) approves the Official Statement for the City and County of San Francisco General Obligation Refunding Bonds, Series 2015-R1; and (2) other necessary actions in connection therewith.

In connection with this request, the legislation and related supporting documents will be introduced at the Board of Supervisors meeting on Tuesday, November 25, 2014 and I respectfully request that the item be heard at the Wednesday, December 10, 2014 meeting of the Budget and Finance Committee.

Background

In 2011, the Board of Supervisors adopted Resolution No. 448-11 (the "Resolution") that authorizes the issuance of not to exceed \$1,355,991,219 in City and County of San Francisco General Obligation Refunding Bonds (the "Refunding Bonds") from time to time. The Resolution also authorizes and directs the Director of Public Finance to determine which series of outstanding general obligation bonds would be refunded from proceeds of Refunding Bonds and to provide for the sale of any series of Refunding Bonds using the approved forms of such documents, subject to certain terms and conditions. The Resolution imposes, among others, the following terms and conditions:

- i) the refunding bonds must achieve 3% net present value savings;
- 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;

- 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; and
- v) any credit enhancement purchased in connection with refunding bonds must result in present value savings.

In November 2011, the City sold and issued \$339,475,000 of its City and County of San Francisco General Obligation Refunding Bonds, Series 2011-R1. The 2011 Bonds were the first series of bonds to be issued pursuant to the Resolution. The remaining authorization of \$1,695,466,219 will be issued subject to market conditions and the Board's approval of preliminary and final official statements for subsequent refunding bonds.

Current Plan of Finance

As of November 25, 2014, the City could issue \$361.53 million in Refunding Bonds to refund \$398.39 million of outstanding general obligation bonds.

The Refunding Bonds are estimated to result in gross savings to property taxpayers of about \$56.75 million. On a net present value basis, OPF estimates the debt service savings to be approximately \$45.08 million or 11.31% of the par amount of the bonds to be refunded.

OPF will continue to monitor market conditions and may revise the par amount of the refunding up to the day before the sale. We anticipate the transaction to close and settle in Winter 2015. Table 1 outlines anticipated sources and uses for the Refunding Bonds.

Table 1: Anticipated Sources and Uses from the Refunding Bonds.

Estimated Sources	Amounts
Par Amount	\$ 361,525,000
<u>Premium</u>	<u>66,562,358</u>
Total Estimated Sources	<u><u>\$ 428,087,358</u></u>
Estimated Uses	
Refunding Escrow Deposit	\$ 425,778,914
Other Costs of Issuance	<u>2,308,443</u>
Costs of Issuance	500,818
Underwriter's Discount	1,807,625
Total Estimated Uses	<u><u>\$ 428,087,358</u></u>

In addition to funding the escrow, proceeds of the bonds would be used to pay costs of issuance of the bonds, underwriter's discount and bond insurance, if any. Bond insurance will be purchased at the option of the bidder based on the bidder's calculations as to what is most economic (i.e. the cost of the bond insurance is offset by the lower interest rates for insured bonds).

Based upon a conservative estimate of 2.63% true interest cost as defined in the proposed Resolution, OPF estimates that average fiscal year debt service on the Refunding Bonds is

approximately \$24.79 million. The anticipated total par value of \$361.53 million is estimated to result in approximately \$159.05 million in interest payments over the life of the Refunding Bonds. The total principal and interest payment over the approximate 20 year life of the Refunding Bonds is approximately \$520.58 million.

Official Statement

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

A *Preliminary Official Statement* is distributed to prospective bidders prior to the sale of the Refunding Bonds and within seven days of the public offering of the Refunding Bonds, 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 proposed Resolution, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Refunding Bonds. 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 final as of their dates.

Federal securities laws impose on the City the obligation to ensure that its offering documents are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the disclosure documents as well as City staff charged with preparing the documents. The Official Statement is attached for your approval prior to its publication.

Financing Timeline

Schedule milestones in connection with the financing may be summarized as follows:

<u>Milestone</u>	<u>Date*</u>
Introduction of authorizing resolution to the Board of Supervisors	November 25, 2014
Consideration by the Board of Supervisors Budget & Finance Committee	December 2014
Issuance and delivery of Refunding Bonds	Winter 2015

*Please note that dates are estimated unless otherwise noted.

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. As of November 2014, general obligation bonds totaling \$2.09 billion remain outstanding or approximately 1.15% of the net assessed value of property in the City.

If the Board of Supervisors approves the issuance of the Refunding Bonds, the debt ratio would decrease by 0.02% to 1.13% — within the 3.00% legal debt limit.

Additional Information

The proposed Resolution will be introduced at the Board of Supervisors meeting on Tuesday, November 25, 2014. The related forms of Official Statement, including the Appendix A, will also be submitted.

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.

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

cc (via email): Angela Calvillo, Clerk of the Board
 Jason Elliott, Mayor’s Office
 Harvey Rose, Budget Analyst
 Ben Rosenfield, Controller
 Kate Howard, Mayor’s Budget Director
 Mark Blake, Deputy City Attorney