



**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE CONTROLLER**

**Ben Rosenfield**  
**Controller**

**Todd Rydstrom**  
**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 General Obligation Bonds, (Transportation and Road Improvement Bonds, 2014), Series 2015B

**DATE:** May 1, 2015

I respectfully request that the Board of Supervisors consider for review and adoption the resolution authorizing the sale and issuance of general obligation bonds financing the Transportation and Road Improvement program.

In connection with this request, legislation approving the issuance and sale of the bonds, supplemental appropriation ordinance to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, May 5, 2015, and we respectfully request that the items be heard at the scheduled May 13, 2015 meeting of the Budget and Finance Committee.

**Background:**

On July 8, 2014, the Board of Supervisors passed a resolution declaring that the public interest and necessity demands the acquisition, construction, and improvement of street, transportation and related infrastructure. On July 24, 2014, the Board of Supervisors approved an ordinance calling and providing for a special election to be held on November 4, 2014 for the purpose of submitting to San Francisco voters a proposition to incur \$500,000,000 of bonded debt of the City and County to finance the construction, acquisition, and improvement of certain transportation and transit related improvements, and related costs. On November 4, 2014, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Transportation and Road Improvement General Obligation Bond. Proposition A authorizes the City and County of San Francisco to issue \$500,000,000 in General Obligation Bonds to implement many of the infrastructure repairs and improvements identified by Mayor Ed Lee's Transportation 2030 Task Force (the "2014 Proposition A"). The projects to be funded through the proposed bond sale include: pedestrian safety improvements, SFMTA facility upgrades, accessibility improvements, traffic signal improvements, Muni Forward Rapid Network improvements,

street infrastructure improvements, Caltrain upgrades, streetscape and other transit corridor improvements (the "Project").

The proposed resolutions authorize the issuance of not-to-exceed \$500,000,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds, as well as the sale of not-to-exceed \$67,540,000 of City and County of San Francisco General Obligation Bonds (Transportation and Road Improvement Bonds, 2014), Series 2015B (the "Bonds"). The Bonds will be the first series of bonds to be issued under the 2014 Proposition A.

As described more fully in the 2014 Proposition A Bond Status Report, dated January 22, 2015, proceeds from the Bonds will partially finance the following:

- Muni Forward Rapid Network Improvements – The proceeds will support design and construction on the first set of efficiency and connectivity improvement projects on Muni's high ridership lines.
- Caltrain Upgrades - The proceeds will allow San Francisco to contribute its share toward the Communications-Based Overlay Signal System (CBOSS) or Positive Train Control project, which will enhance Caltrain safety and operating performance.
- Major Transit Corridor Improvements - The proceeds will allow for upgrades for streets that form the trunk of the transit system, to increase transit speed and reliability along major corridors.
- Pedestrian Safety Improvements – The proceeds will initiate capital improvements that will address safety issues at the most dangerous intersections or corridors in San Francisco to create a safer, more welcoming environment for pedestrians and make progress towards San Francisco's Vision Zero initiative.

The remaining authorization under the 2014 Proposition A will be issued subject to review by the Capital Planning Committee, the consideration and adoption by the Board of Supervisors, and approval by the Mayor of subsequent authorizing resolutions.

**Financing Parameters:**

The proposed resolution authorizes the sale of not-to-exceed par amount of \$67,540,000. Based on current project cost estimates and schedules, the Office of Public Finance expects to issue \$66,870,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected issuance amount allows for fluctuations in market conditions from the date of authorization by the Board to the time of the sale of the Bonds.

The Bonds are anticipated to contribute approximately \$66,001,534 to transportation and road projects. Table 1 outlines anticipated sources and uses for the Bonds.

**Table 1: Anticipated Sources and Uses for the Bonds.**

<b>Sources</b>	
Par Amount	\$66,870,000
Reserve Proceeds	\$670,000
<b>Total Not-To-Exceed Amount</b>	<b>\$67,540,000</b>
<b>Uses</b>	
<u>Projects</u>	
Transportation & Road Improvement Project Funds	66,001,534
Controller's Audit Fund	132,003
<b>Projects Subtotal</b>	<b>66,133,537</b>
<u>Other Costs of Issuance</u>	
Costs of Issuance	502,418
Underwriter's Discount	167,175
Citizens' General Obligation Bond Oversight Committee	66,870
<b>Costs of Issuance Subtotal</b>	<b>736,463</b>
<b>Total Uses</b>	<b>\$66,870,000</b>
Reserve Pending Bond Sale <sup>1</sup>	\$670,000
<b>Total Uses with Reserve</b>	<b>\$67,540,000</b>

Based upon a conservative estimate of 3.15% interest rate, OPF estimates that average fiscal year debt service on the Bonds is approximately \$4,503,000. The anticipated total par value of \$66,870,000 is estimated to result in approximately \$23,180,000 in interest payments over the life of the Bonds. The total principal and interest payment over the approximate 20-year life of the Bonds is approximately \$90,050,000. Based on market conditions expected to exist at the time of the sale coupled with the Capital Planning Committee constraints, the Bonds could be structured with a 25-year life.

In addition, a portion of the Bonds will pay certain expenses incurred in connection with their issuance and delivery and the periodic oversight and review of the Project by the Citizens' General Obligation Bond Oversight Committee ("CGOBOC"). Detailed descriptions of the Project financed with proceeds of the Bonds are included in the Bond Reports prepared by the San Francisco Municipal Transportation Agency (SFMTA).

**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 gross general obligation debt limit for fiscal year 2014-15 is approximately \$5.45 billion, based on a net assessed valuation of approximately \$181.8 billion. As of April 1, 2015, the City had outstanding approximately

<sup>1</sup> The Reserve Pending Sale accounts for variations in interest rates prior to the sale of the proposed Bonds.

\$2.05 billion in aggregate principal amount of general obligation bonds, which equals approximately 1.13% of the net assessed valuation for fiscal year 2014-15. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.83% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by 0.03% to 1.16%— within the 3.00% legal debt limit.

#### **Property Tax Impact**

For Series 2015B, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which, according to the Controller's Office, would average \$0.00317 per \$100 or \$3.17 per \$100,000 of assessed valuation over the anticipated 20-year term of the bonds. The owner of a residence with an assessed value of \$500,000, assuming a homeowner's exemption of \$7,000, would pay average annual additional Property Taxes to the City of \$15.63 per year if the anticipated \$66,870,000 Transportation and Road Improvement General Obligation Bonds are sold.

#### **Capital Plan:**

The Capital Planning Committee approved a financial constraint regarding the City's planned use of general obligation bonds such that debt service on approved and issued general obligation bonds would not increase property owners' long-term property tax rates above fiscal year 2006 levels. The fiscal year 2006 property tax rate for the general obligation bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Bonds, the property tax rate for general obligation bonds for fiscal year 2015-16 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

#### **Additional Information:**

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, May 5, 2015. The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

*Official Notice of Sale:* The Official Notice of Sale for the Bonds announces the date and time of the competitive bond sale, including the terms relating to the Bonds; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Bonds may be bid separately by series or bids may be received for all of the Bonds.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Bonds. Pursuant to the Resolutions, 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.

*Notice of Intention to Sell:* The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the 2015B 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.

*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 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 Bonds.

A *Preliminary Official Statement* is distributed to prospective bidders 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 Resolutions, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller certifies, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates.

*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 Resolution, City staff will revise the Official Statement, including the Appendix A.

*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 Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

**Financing Timeline:**

The Bonds are expected to be issued and delivered in July 2015. Schedule milestones in connection with the financing may be summarized as follows:

<b>Milestone</b>	<b>Date*</b>
Consideration by the Capital Planning Committee	May 4, 2015
Introduction of authorizing legislation and supporting materials to the Board	May 5, 2015
Issuance and delivery of the Bonds	July 2015

\*Please note that dates are estimated unless otherwise noted.

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

CC: Angela Calvillo, Clerk of the Board  
(via email) Harvey Rose, Budget Analyst  
Ben Rosenfield, Controller  
Nicole Elliott, Mayor's Office  
Kate Howard, Mayor's Budget Office  
Ken Roux, Deputy City Attorney  
Alicia John-Baptiste, San Francisco Municipal Transportation Agency  
Sonali Bose, San Francisco Municipal Transportation Agency  
John Thomas, Department of Public Works  
Ariel Espiritu Santo, San Francisco Municipal Transportation Agency