



**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 *NS*

**SUBJECT:** City and County of San Francisco Taxable General Obligation Bonds,  
Unreinforced Masonry Building Seismic Safety Loan Program, Series 2015A

**DATE:** Friday, May 1, 2015

I respectfully request that the Board of Supervisors consider for review and adoption the resolution amending Resolution No. 284-14, to authorize the sale of variable rate taxable general obligation bonds by a private placement, and to approve the form of, and authorize the execution of a declaration of trust and continuing covenant agreement in connection with the sale of the bonds.

Legislation approving the sale and issuance of the bonds, 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 May 13, 2015 meeting of the Budget and Finance Committee.

**Background:**

The Board of Supervisors adopted on July 22, 2014 and the Mayor approved on July 31, 2014, Resolution No. 284-14, authorizing and directing the sale of not to exceed \$24,000,000 aggregate principal amount in City and County of San Francisco Taxable General Obligation Bonds (Seismic Safety Loan Program, 1992) (the "Bonds"). The Bonds will finance a portion of the seismic improvements to Buildings 113/114 and 104 located along the Central Waterfront of San Francisco at Pier 70. Construction of the seismic improvements is expected to be complete in first quarter of calendar 2017.

The City has now determined that it is advisable to sell the Bonds by negotiated sale through a private placement of the Bonds with a financial institution selected by the City pursuant to a competitive process. The following resolution is intended to amend Resolution No. 284-14 to allow for the sale of the Bonds through a private placement and to authorize the variable interest rate structure established in the associated Declaration of Trust. The City anticipates issuing the Bonds in June 2015.

**Financing Structure:**

The proposed resolution authorizes the issuance of not to exceed par amount of \$24,000,000. The Bonds are anticipated to contribute approximately \$20,100,871 to the Seismic Safety Loan Program to fund loans for the Buildings 113/114 and 104 seismic projects.

The continuing covenant agreement will consist of a variable rate direct purchase loan secured by general obligation bonds directly placed with the lender. The structure offered by a direct purchase loan allows for prepayment flexibility without penalty, which particularly suited the needs of this project. The City submitted a Request for Proposals to its approved pool of underwriters, and has selected US Bank as the winning lender due to the favorable loan terms and low borrowing costs offered in their proposal.

The direct loan facility will have a renewable term of five years at a rate of the London Inter-Bank Offered Rate (“LIBOR”) plus a spread of 58 basis points. At current LIBOR rates, this constitutes an interest rate of 0.76%. In the event the City’s credit ratings are downgraded, the interest rate payable by the City for the direct loan facility increases according the following schedule:

**Table 1: Direct Loan Rate Schedule**

<b>Rating Thresholds: GO Bond Rating</b>	<b>Increase to Interest Rate Spread</b>
Equal to Aa2/AA/AA	+ 0.0 bppa
Equal to Aa3/AA-/AA-	+ 10.0 bppa
Equal to A1/A+/A+	+ 15.0 bppa
Equal to A2/A/A	+ 25.0 bppa
Equal to A3/A-/A-	+ 35.0 bppa
Equal to Baa1/BBB+/BBB+	+ 40.0 bppa

Based upon an estimated 2.5% interest rate on the variable rate loan, OPF estimates that average fiscal year debt service on the Bonds is approximately \$1,330,000. The total par amount, based on the estimated 2.5% interest rate, is expected to result in approximately \$5,850,000 million 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 \$26,600,000.

**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 Declaration of Trust, Continuing Covenant Agreement and related documents—will also be submitted.

*Declaration of Trust.* The Declaration of Trust contains specific terms and mechanics for payment to the owners of the Bonds. This document contains financial provisions, including calculations for the interest payments on the Bonds and when such interest is paid, and how Bonds may be redeemed or otherwise paid prior to maturity. The Declaration of Trust also contains provisions governing the records of ownership of the Bonds, how ownership may be transferred, and various related operational provisions.

*Continuing Covenant Agreement:* The Continuing Covenant Agreement is an agreement between the City and the Purchaser of the Bonds, detailing the conditions of the purchase of the Bonds, including the purchase price of the Bonds, the terms of the Bonds (including Maximum Interest Rate), including the representations, warranties and covenants of the City, events of default, remedies available to the Purchaser, indemnity by the City to the Purchaser, and other related miscellaneous provisions.

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

**Financing Timeline:**

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

<b>Milestone</b>	<b>Date*</b>
Introduction of authorizing legislation and supporting materials to the Board	May 5, 2015
Consideration by the Budget and Finance Committee	May 13, 2015
Issuance and delivery of the Bonds	June 2015
Closing of SSLP Loan, Lease and Construction Loan	June 2015

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

CC: Angela Calvillo, Clerk of the Board  
(via email) Harvey Rose, Budget Analyst  
Ben Rosenfield, Controller  
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Jason Elliott, Mayor's Office  
Kate Howard, Mayor's Budget Office  
Teresa Yanga, Mayor's Office of Housing and Community Development  
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