



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: Resolution Approving the Form and Authorizing the Distribution of the Official Statement Among Other Matters in Connection with the Upcoming Sale of the City and County of San Francisco Refunding Certificates of Participation (City Office Buildings – Multiple Properties Project), Series 2015-R1

DATE: May 5, 2015

This memorandum, together with the accompanying attachment, is being submitted to your office in connection with the execution and delivery of the above-captioned obligations to ensure that the City complies with its obligations under federal securities laws (as further discussed).

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.

We are attaching the revised Official Statement for your approval prior to its publication. We would like to respectfully request consideration of the resolution at the May 13, 2015 Budget and Finance Committee meeting.

Background

In 2013, the Board approved Resolution No. 299-13 for the issuance of one or more series of City and County of San Francisco Refunding Certificates of Participation [Series 2003 (Juvenile Hall Replacement Project), Series 2004-R1 (San Francisco Courthouse Project), and Series 2007A (City Office Buildings – Multiple Properties Project)], in an amount not to exceed \$236,000,000. In April 2014, the City successfully refunded Certificates of Participation Series 2003 and Series 2004-R1 (“2014 Refunding”). Currently, the Certificates of Participation (City Office Buildings – Multiple Properties Project) Series 2007A are currently refundable, and market conditions provide for savings with the sale of City and

County of San Francisco Refunding Certificates of Participation (City Office Buildings – Multiple Properties Project), Series 2015-R1 (the “Refunding Certificates”). The City-owned office building located at 1 South Van Ness Avenue (the “Leased Asset”) may serve as the leased asset for the transaction. 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 term of any Lease Agreement shall not be extended beyond its current term.

Current Plan of Finance

As of April 2015, the City anticipates issuing \$140,675,000 in Refunding Certificates that together with other monies would refund \$139,704,923 of outstanding 2007A COPs.

Based on current market conditions, the transaction is estimated to result in aggregate savings to the City of about \$8,435,619 on a gross basis. On a net present value basis, OPF estimates the debt service savings to be approximately \$7,083,952 or 5.04% of the outstanding par amount of the 2007A COPs to be refunded.

OPF will continue to monitor market conditions and have reserved the right to amend the par amount of the Refunding Certificates up to the day before the sale, so long as the net present value savings achieved by the refunding is at least 3% of refunded par.

Table 1 below outlines anticipated sources and uses for the Refunding Certificates.

Table 1: Anticipated Sources and Uses from the Refunding Certificates

<u>Estimated Sources</u>	<u>Amount</u>
Par Amount	\$ 140,610,463
Other Sources of Funds	\$ 8,917,559
Prior Reserve Fund	8,917,559
Total Estimated Sources	\$ 149,528,022
<u>Estimated Uses</u>	
Refunding Fund Deposit	\$ 139,704,923
Other Fund Deposits	\$ 8,586,650
Debt Service Reserve Fund	8,586,650
Other Costs of Issuance	\$ 1,236,449
Cost of Issuance	607,150
Underwriter's Discount	629,299
Total Estimated Uses	\$ 149,528,022

In addition, approximately \$1,310,525 will be allotted for costs associated with the issuance of the Refunding Certificates. This includes amounts for legal fees, financial advisory fees, rating agency fees, printing cost, bond insurance, and other issuance costs.

Based upon a conservative estimate of 3.83% true interest cost as defined in the proposed Resolution, OPF estimates that average fiscal year debt service on the Refunding Certificates is approximately \$8,590.696. The anticipated total par value of \$140,675,000 is estimated to result in approximately \$80,535,424 in interest payments over the life of the Refunding Certificates. The total principal and interest payment over the approximate 25 year life of the Refunding Certificates is approximately \$221,210,424.

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 Certificates, 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 Certificates.

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. The Official Statement is attached for your approval prior to its publication.

Additional Information

The proposed Resolution will be introduced at the Board of Supervisors meeting on Tuesday, May 5, 2015. 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.

Official Notice of Sale and 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 Certificates. 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 Certificates announces the date and time of the competitive bond sale, including the terms relating to the Certificates; 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 form of the official bid for the purchase of the Certificates. Pursuant to the Resolution, the Controller is authorized to award the Certificates 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.

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.

The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of enumerated events. These covenants have been made in order to assist initial purchasers of the Certificates in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

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	May 5, 2015
Consideration by the Board of Supervisors Budget & Finance Committee	May 13, 2015
Issuance and delivery of Refunding Certificates	June 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.

- cc: Angela Calvillo, Clerk of the Board of Supervisors
- Nicole Elliot, Mayor’s Office
- Kate Howard, Mayor’s Budget Director
- Harvey Rose, Budget Analyst
- Ben Rosenfield, Controller
- Mark Blake, Deputy City Attorney