



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 
Controller's Office of Public Finance

SUBJECT: Ordinance Authorizing the Execution and Delivery of Certificates of Participation (Affordable Housing Projects)

DATE: November 16, 2015

I respectfully request that the Board of Supervisors (the "Board") consider for review and adoption the ordinance authorizing the execution and delivery of not to exceed par amount of \$95,000,000 in City and County of San Francisco Certificates of Participation and related supporting documents financing the construction of the Affordable Housing Projects.

In connection with this request, the ordinance approving the execution and delivery of the certificates and related supporting documents are expected to be introduced at the Tuesday, November 17, 2015 Board meeting, and we respectfully request that the items be heard at the Wednesday, December 2, 2015 Budget and Finance Committee meeting.

The Affordable Housing Projects:

The proposed ordinance authorizes the City to execute and deliver not to exceed par amount of \$95,000,000 in City and County of San Francisco Certificates of Participation (Affordable Housing Projects) in one or more series (the "Certificates") to finance the development, construction or rehabilitation of various affordable rental housing projects (the "Project") in the City with funds from the Housing Trust Fund (HTF).

Background

In November 2012, San Francisco voters approved a City Charter amendment that created the Housing Trust Fund (HTF). Codified in Charter Section 16.110, the legislation provides General Fund revenue annually to the Mayor's Office of Housing and Community Development (MOHCD) for the purpose "creating, acquiring and rehabilitating affordable housing and promoting home ownership programs in the City". As an eligible use of the Housing Trust Fund, the Mayor's Office of Housing and Community Development desires to finance the costs of

certain projects including, certain Rental Assistance Demonstration (“RAD”) projects within the City and County of San Francisco as well as predevelopment costs for future construction of new affordable housing on City-owned parcels.

Approximately 85% of the proceeds are anticipated to fund a portion of the Rental Assistance Demonstration (RAD) program. RAD changes the way the Federal government subsidizes public housing and also moves the ownership and property management of the properties to community based non-profit affordable housing developers.

Approximately 15% of the proceeds are anticipated to fund predevelopment costs for future construction of new affordable housing at three different City-owned parcels.

Actual allocation of funds to projects may vary, however in all cases the expenditures will be consistent with the affordable housing requirements of the Housing Trust Fund as described in Section 16.110 of the San Francisco Charter.

The Certificates:

On July 29, 2008, Resolution No. 351-08 authorized the City and County of San Francisco Certificates of Participation, Series 2009A (Multiple Capital Improvement Projects) (“Series 2009A”) to provide funds for certain capital improvements of the City under a Trust Agreement, dated as of May 1, 2009, between the City and the Trustee (the "Original Trust Agreement"). The Original Trust Agreement provides for the delivery of additional Certificates of Participation to provide funds for additional capital projects of the City by the execution and delivery of a supplement to the Trust Agreement, and authorizes said Certificates of Participation to be secured by a supplement to the Property Lease (“Original Property Lease”) and a supplement to the Project Lease (“Original Project Lease”).

On May 5, 2009, Ordinance No. 74-09 authorized the City and County of San Francisco Certificates of Participation, Series 2009B (Multiple Capital Improvement Projects) (“Series 2009B”) in order to provide funds for certain street improvements. In connection with this financing, as permitted under the Original Trust Agreement, Original Property Lease, and Original Project Lease, the City and the Trustee entered a First Supplement to Original Trust Agreement, First Supplement to Property Lease, and First Supplement to Project Lease, each dated as of September 1, 2009, supplementing the Original Trust Agreement, Original Property Lease, and Original Project Lease, respectively.

On October 26, 2010, Ordinance No. 264-10 authorized the City and County of San Francisco Certificates of Participation, Series 2012A (Multiple Capital Improvement Projects) (“Series 2012A”) in order to provide funds for capital improvements to various City streets. In connection with this financing, as permitted under the Original Trust Agreement, Original Property Lease, and Original Project Lease, the City and the Trustee entered a Second Supplement to Original Trust Agreement, Second Supplement to Property Lease, and Second Supplement to Project, each dated as of June 1, 2012, supplementing the Original Trust Agreement, Original Property Lease, and Original Project Lease, respectively.

Under the proposed ordinance, the City will structure the transaction financing the Affordable Housing Project as an asset-transfer lease supplement to Series 2009A, Series 2009B, and Series 2012A, under subsequent supplements as permitted by the Original Trust Agreement, Original Property Lease, and Original Project Lease.

Original Property Lease and Original Project Lease: Pursuant to the Original Property Lease, the City leases a City-owned property to a third party trustee. Pursuant to the Original Project Lease, the City leases back the leased property, together with the improvements financed with proceeds of the Certificates, from the third party trustee. The City makes annual base rental payments to the third party trustee in amounts required to repay the Certificates. When the Certificates are finally paid, the Property Lease and Project Lease terminate. The City's general fund secures the repayment of the Certificates (see The Current Plan of Finance below).

Original Trust Agreement: Pursuant to the Original Trust Agreement between the City and a third party trustee acting on behalf and for the benefit of Certificates holders, the trustee administers and disburses Certificate payments and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the Certificates, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The trustee holds proceeds derived from the sale of the Certificates and disburses payments for the costs incurred for the Project, as directed by authorized City representatives. The ordinance delegates selection of the third party trustee to the Director of Public Finance, and the trustee will be selected based on the lowest fees and other considerations via a competitive request for proposal.

The Leased Property: It is anticipated that the City-owned Laguna Honda Hospital campus located at 375 Laguna Honda Boulevard (the "Leased Property") will serve as the Leased Property for the Certificates. To facilitate the financing, the Leased Property to the secure the Certificates consists of the Pavilion Building and the North Residence Building constructed in 2009 on the campus of the City's Laguna Honda Hospital. The two buildings also serve as the leased asset for outstanding Series 2009A, Series 2009B, and Series 2012A.

The subsequent supplements to the Original Property Lease and Original Project Lease between the City and U.S. Bank National Association, as trustee, requires the City to make base rental payments on each September 25 and March 25 during the term of the supplemental leases in an amount sufficient to pay total base rental payments when due.

The subsequent supplements to the Original Trust Agreement between the City and U.S. Bank National Association, as trustee, require that the base rental payments be deposited in the base rental fund maintained by the trustee. On October 1 and April 1 of each year during the term of the agreement, the trustee will apply such amounts as is necessary to make base rental payments with respect to the Certificates.

The Current Plan of Finance:

The proposed ordinance authorizes the execution and delivery of Certificates in a par amount not to exceed \$95,000,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to execute and deliver \$83,440,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected delivery amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Certificates, and the attendant increases in required deposits for capitalized interest, debt service reserve fund, and delivery date expenses in the event interest rates were to increase from current levels.

Of the \$1,600,000,000 expected aggregate costs of the Project, the Certificates are anticipated to contribute approximately \$75,000,000.

The total cost for RAD Phase I and II is approximately \$1,400,000,000 for the full portfolio rehabilitation across fourteen sites, of which an estimated \$64,000,000 will be from proceeds from sale of the Certificates. RAD will allow the City to leverage investor equity, debt financing, and City funding for the rehabilitation of over 3,475 public housing units. Rental subsidies from HUD will repay permanent loans and subsidize the operating costs of this housing for the low income residents.

Total development costs for construction of affordable housing on the city-owned parcels is expected to be approximately \$200,000,000, of which an estimated \$11,000,000 will be from proceeds from sale of the Certificates.

A portion of the proceeds will fund the debt service reserve account for the Certificates established under the trust agreement and pay costs of execution and delivery of the Certificates.

The Certificates: The Certificates are expected to be executed and delivered in an amount sufficient to fully pay the costs of the Project, including any capitalized interest financing and delivery expenses for the Project. Table 1 outlines anticipated sources and uses for the Certificates.

Table 1: Anticipated Sources and Uses from the Delivery of the Certificates.

Estimated Sources		<u>Amount</u>
<u>Par Amount</u>		\$ 83,440,000
Total Estimated Sources		\$ 83,440,000
Estimated Uses		
Refunding Fund Deposit		\$ 75,150,000
Project Fund	75,000,000	
Controller's Audit Fee	150,000	
Other Fund Deposits		\$ 7,169,836
Debt Service Reserve Fund	7,169,836	
Other Costs of Issuance		\$ 1,120,164
Cost of Issuance	700,000	
Underwriter's Discount	420,164	
Total Estimated Uses		\$ 83,440,000

The authorized amount above the expected delivery amount of \$83,440,000 allows for fluctuations in market conditions from the date of recommendation by the Capital Planning Committee and authorization by the Board to the time of the sale of the Certificates. The Office of Public Finance expects the Certificates to have a maturity of approximately 30 years.

Based upon conservative estimates of approximately 7.528% interest rate, the Office of Public Finance estimates that fiscal year net base rental payments on the Certificates average approximately \$7,088,151. The anticipated total par amount of \$83,440,000 is estimated to result in approximately \$129,795,199 in interest payments over the life of the Certificates. The total base rental payments over the life of the Certificates total approximately \$213,235,199. Based on market conditions expected to exist at the time of the sale, the Certificates could be structured with up to a 30-year life.

Method of Sale and Purchase Contract: In connection with the execution and delivery of the Certificates, the proposed ordinance delegates to the Director of Public Finance the authority to sell the Certificates by either a competitive or negotiated sale pursuant to a purchase contract.

The execution and delivery of the Certificates will proceed subject to the Board's review and approval of the form of Official Statement prepared in connection with the Certificates.

Financing Timeline:

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

<u>Milestone</u>	<u>Date*</u>
• Consideration by the Capital Planning Committee	November 16, 2015
• Introduction of legislation and supporting materials to the Board	November 17, 2015
• Closing & delivery of Certificates	TBD

*Please note that dates are estimated unless otherwise noted.

Additional Information:

The Capital Planning Committee reviewed and recommended the ordinance to the Board of Supervisors on Monday, November 16, 2015. The ordinance is expected to be introduced at the Board of Supervisors meeting on Tuesday, November 17, 2015. The related financing documents—including the Supplement to Trust Agreement, Supplement to Project Lease, Supplement to Property Lease, Preliminary Official Statement, Official Notice of Sale, Notice of Intention to Sell, Appendix A, and Purchase Contract—will also be submitted.

The Preliminary Official Statement: The proposed ordinance also approves the form of Preliminary and final Official Statement relating to the Certificates (the "Official Statement").

The Official Statement has been updated to reflect the City's financial condition, including the adopted ten-year capital plan; update to the Five-Year Financial Plan; the Controller's release of the Revenue Letter; and the adoption by the Board and approval by the Mayor of the Original Budget. The information contained in the Appendix A to the Official Statement was updated as of June 17, 2015 and was prepared by City staff for inclusion in the Official Statement.

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.

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.

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.

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

Your consideration of this matter is greatly appreciated. Please contact Nadia Sesay at 415-554-5956 or nadia.sesay@sfgov.org if you have any questions.

CC: Angela Calvillo, Clerk of the Board of Supervisors
Ben Rosenfield, Controller
Nicole Elliot, Director of Legislative & Government Affairs
Kate Howard, Mayor's Budget Director
Olson Lee, Mayor's Office of Housing and Community Development (MOHCD)
Kate Hartley, MOHCD
Benjamin McCloskey, MOHCD
Harvey Rose, Budget and Legislative Analyst
Brian Strong, Director, Capital Planning Program
Mark Blake, Deputy City Attorney