



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER


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Controller

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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
(Earthquake Safety and Emergency Response, 2010), Series 2016C
(Earthquake Safety and Emergency Response, 2014), Series 2016D
(Road Repaving and Street Safety, 2011), Series 2016E

DATE: Thursday, February 25, 2016

I respectfully request that the Board of Supervisors consider for review and adoption the resolutions authorizing the sale and issuance of general obligation bonds financing the Earthquake Safety and Emergency Response (ESER) and Road Repaving and Street Safety (RRSS) programs at its Tuesday, March 1, 2016 meeting.

In connection with this request, legislation approving the sale and issuance of the bonds, supplemental appropriation ordinances to appropriate the bond proceeds, and related supporting documents are expected to be introduced. We respectfully request that the items be heard at the scheduled March 16, 2016 meeting of the Budget and Finance Committee.

Background:

On June 8, 2010, a two-thirds majority of voters of the City approved Proposition B ("2010 Proposition B"), the San Francisco Earthquake Safety and Emergency Response Bond, authorizing the city to issue \$412,300,000 in general obligation bonds to improve fire, earthquake and emergency response and ensure firefighters a reliable water supply for fires and disasters in the City. Of the total authorization, \$387,085,000 of general obligation bonds have been issued to date for earthquake and emergency response projects, leaving \$25,215,000 remaining from the 2010 Proposition B funds.

On June 3, 2014, a two-thirds majority of voters of the City approved Proposition A ("2014 Proposition A"), the San Francisco Earthquake Safety and Emergency Response Bond, authorizing the city to issue \$400,000,000 in general obligation bonds to improve fire, earthquake and emergency response in the City and improve or replace certain seismically unsafe facilities. Of the total authorization, \$100,670,000 has been issued to date, leaving \$299,330,000 remaining from the 2014 Proposition A funds.

On November 8, 2011, a two-thirds majority of voters of the City approved Proposition B (“2011 Proposition B”), the San Francisco Road Repaving and Street S Bond, authorizing the city to issue \$248,000,000 in general obligation bonds to repair and improve roadways and traffic infrastructure in the City. Of the total authorization, \$203,855,000 has been issued to date, leaving \$44,145,000 remaining from the 2014 Proposition B funds.

The proposed resolutions authorize the sale of not-to-exceed \$25,215,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response, 2010), Series 2016C (the “2016C Bonds”), the sale of not-to-exceed \$111,060,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response, 2014), Series 2016D, and the sale of not-to-exceed \$44,145,000 of City and County of San Francisco General Obligation Bonds (Road Repaving and Street Safety, 2011), Series 2016E (the “2016E Bonds”). The 2016C Bonds will be the sixth and final series of bonds to be issued under the 2010 Proposition B. The 2016D Bonds will be the second series of bonds to be issued under the 2014 Proposition A. The 2016E Bonds will be the third and final series of bonds to be issued under the 2011 Proposition B.

As described more fully in the 2010 and 2014 Earthquake Safety and Emergency Response Bond Accountability Reports, both dated November 16, 2015, proceeds from the 2016C and 2016D Bonds will partially finance the following program:

Neighborhood Fire Stations (NFS)

Bond proceeds from this sale will be used to renovate or replace selected fire stations to provide improved safety and a healthy work environment for firefighters, and to address structural, seismic, and other deficiencies with the aim of keeping the facilities operational to allow firefighters to respond to an emergency after a large earthquake or disaster.

As described more fully in the 2014 Earthquake Safety and Emergency Response Bond Accountability Report, dated November 16, 2015, remaining proceeds from the 2016D Bonds will partially finance the following programs:

Office of Chief Medical Examiner

The bond program allocates proceeds toward the project to relocate the Office of the Chief Medical Examiner (OCME) to One Newhall Street in the India Basin neighborhood, from its current facilities which are seismically deficient and undersized, potentially threatening OCME’s continued accreditation. The new facility will be two stories and have a gross area of 46,000 square feet, which will house the four units of the OCME: Field Investigations, Medical/Autopsy, Laboratory, and Administration.

Traffic Control & Forensic Services Division

Bond proceeds will be used to relocate the San Francisco Police Department’s Forensic Services Division (FSD) and Traffic Company (TC) to a site at 1995 Evans Avenue. This project will allow for the consolidation of FSD facilities from two location into a single, seismically-sound and adequately sized location, and it will allow TC operations to be moved from a seismically deficient facility as well.

Police Facilities

The bond program includes funding for facility upgrades to 12 different police facilities located across the City, including mechanical, electrical, fire protection, and structural safety work scopes, as well as code compliance and addressing accessibility requirements. This work will help address seismic issues as well as help to enable emergency response after an earthquake or disaster.

Emergency Firefighting Water System

The bond funding will allow for the seismic improvement of Auxiliary Water Supply System (AWSS) pipelines, tunnels, and physical plant, and the procurement of Flexible Water Supply System (FWSS) components. The water system includes water storage in cisterns and delivery of water for use in fire suppression in many areas of the City. The FWSS program includes components that will provide above-ground water distribution for fire suppression in areas not served by the AWSS. These improvements will help to protect against loss of life and property damage in major fires or potentially in a post-earthquake fire scenario.

As described more fully in the 2011 Road Repaving and Street Safety Bond Accountability Report, dated December 21, 2015, remaining proceeds from the 2016E Bonds will partially finance the following programs:

Street Resurfacing

The bond proceeds will enable Public Works to repave, repair, and reconstruct street segments throughout the City's 865 miles of streets and roadways, ensuring safe transit for pedestrian and vehicle traffic. Specific streets are select through evaluation of pavement condition, traffic usage, location, coordination with other agencies, and pavement inquiries. Projects in this program include pavement resurfacing, curb, gutter, parking strip, and base repairs, bus pad construction, roadway striping, and curb ramps.

Streetscape, Pedestrian, and Bicycle Safety Improvements

The funds from this sale will be used to modernize streets, including the following measures: universal street design and safety components, traffic calming measures, bike safety features, pedestrian lighting and countdown signals, curb bulb-outs, tree planting and landscaping, and storm water management.

Transit & Traffic Signal Improvements

The bond program includes funding for improvements to traffic signals in three areas: 1) Traffic Signal Priority, which enables transit vehicles to receive priority for green signal indications with the goal of minimizing transit delays and enhancing on-time performance; 2) Installation of new traffic signals to improve pedestrian safety and enhance rail and vehicle transit; and 3) Signal infrastructure upgrades along transit routes.

Financing Parameters:

The proposed resolutions authorize the sale of not-to-exceed combined par amount of \$180,420,000 for Series 2016C, 2016D, and 2016E. Based on current project cost estimates and schedules, the Office of Public Finance expects to issue \$179,420,000 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 \$176,498,272 to earthquake safety and road improvement projects. Table 1 outlines anticipated sources and uses for the Bonds:

Table 1: Anticipated Sources and Uses for the Bonds.

	ESER 2010 Series 2016C	ESER 2014 Series 2016D	RRSS 2011 Series 2016E	Total
Sources				
Par Amount	\$25,215,000	\$110,060,000	\$44,145,000	\$179,420,000
Reserve Proceeds		\$1,000,000		\$1,000,000
Total Not-To-Exceed Amount	\$25,215,000	\$111,060,000	\$44,145,000	\$180,420,000
Uses				
<u>Projects</u>				
Project Funds	\$24,804,828	\$108,266,550	\$43,426,894	\$176,498,272
Controller's Audit Fund	\$49,610	\$216,533	\$86,854	\$352,996
Projects Subtotal	\$24,854,438	\$108,483,083	\$43,513,748	\$176,851,269
<u>Other Costs of Issuance</u>				
Costs of Issuance	\$83,197	\$366,257	\$145,657	\$595,111
Underwriter's Discount	\$252,150	\$1,100,600	\$441,450	\$1,794,200
Citizens' General Obligation Bond Oversight Committee	\$25,215	\$110,060	\$44,145	\$179,420
Costs of Issuance Subtotal	\$360,562	1,576,917	\$631,252	\$2,568,731
Total Uses	25,215,000	\$110,060,000	\$44,145,000	\$179,420,000
Reserve Pending Bond Sale ¹		\$1,000,000		\$1,000,000
Total Uses with Reserve	\$25,215,000	\$111,060,000	\$44,145,000	\$180,420,000

Based upon a conservative estimate of approximately 3.6% interest rate, OPF estimates that average fiscal year debt service on the Bonds is approximately \$12,580,000. The anticipated total par value of \$179,420,000 is estimated to result in approximately \$72,255,000 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 \$251,675,000. 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 Projects by the Citizens' General Obligation Bond Oversight Committee ("CGOBOC"). Detailed descriptions of the Projects financed with proceeds of the Bonds are included in the ESER 2010 and 2014 Bond Accountability Reports, and the RRSS 2011 Bond Accountability Report, all prepared by San Francisco Public Works.

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 general obligation debt limit for fiscal year 2015-16 is approximately \$5.83 billion, based on a net assessed valuation of approximately \$194.4 billion. As of February 1, 2015, the City had outstanding approximately \$2.02

¹ The Reserve Pending Sale accounts for variations in interest rates prior to the sale of the proposed bonds.

billion in aggregate principal amount of general obligation bonds, which equals approximately 1.04% of the net assessed valuation for fiscal year 2015-16. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.64% 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 0.09% to 1.13%—within the 3.00% legal debt limit.

Property Tax Impact

For Series 2016C, 2016D, and 2016E, 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 \$0.00647 per \$100 or \$6.47 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 \$600,000, assuming a homeowner's exemption of \$7,000, would pay average annual additional property taxes to the City of \$38.39 per year if the anticipated \$179,420,000 San Francisco General Obligation Bonds are sold for the ESER and RRSS programs.

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, March 1, 2016. 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 2016CDE 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 Spring 2016. Schedule milestones in connection with the financing may be summarized as follows:

Milestone	Date*
Consideration by the Capital Planning Committee	February 22, 2016
Introduction of authorizing legislation and supporting materials to the Board	March 1, 2016
Issuance and delivery of the Bonds	April 2016

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact me at 415-554-5956 if you have any questions. Thank you.