



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER


Ben Rosenfield
Controller

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Deputy Controller

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Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director 
Controller's Office of Public Finance

SUBJECT: Commercial Paper Certificates of Participation Program

DATE: April 25, 2016

This memorandum is being submitted to your office in connection with City's commercial paper program. In March 2009, the Board of Supervisors authorized the establishment of a taxable and tax-exempt commercial paper program in the amount of \$150 million for the purpose of financing on an interim basis various capital projects for the City ("CP Program"). In June 2013, the Board of Supervisors authorized an increase to the existing CP Program in the amount of \$100 million for a total authorized amount of \$250 million. The City's current liquidity facilities under Series 1 & 2 provided by J.P. Morgan Chase and U.S. Bank, supporting a \$100 million portion of the CP Program, are scheduled to expire in June 2016.

To continue to utilize the CP Program, the Controller's Office of Public Finance ("OPF") proposes the execution of two new liquidity facility agreements ("Agreements") provided by U.S. Bank, N.A. in the amount of \$75 million and State Street Bank and Trust Company ("State Street Bank") in the amount of \$75 million or other financial institutions selected by the Controller, for a total of \$150 million. These new liquidity facilities, together with the existing \$100 million letter of credit provided by State Street Bank not yet set to expire, will allow the City to fully utilize the total authorized principal amount of \$250 million of the CP Program. In connection therewith, OPF respectfully requests consideration of the attached resolution (the "Resolution") approving:

- The re-authorization to issue taxable and tax-exempt Commercial paper in an amount not-to-exceed \$250 million;

- the execution of forms of first supplement to trust agreement, first amendment to site lease, first amendment to sublease, revolving credit agreements, fee agreements, dealer agreements and other related financing documents.

We would like to respectfully request consideration of the Resolution at the May 11, 2016 Budget and Finance Committee meeting.

Background

In March 2009, the Board adopted Resolution No. 85-09 (the "2009 Program Resolution") authorizing the establishment of a not-to-exceed \$150 million CP Program. The Program Resolution also approved forms of the Trust Agreement, Delivery & Paying Agent Agreement, Sublease, and Site Lease, all of which are on file with the Clerk of the Board. In June 2013, the Board adopted Resolution No. 136-10 (the "2010 Program Resolution") authorizing an additional \$100 million to the CP Program, for a total authorized level not-to-exceed \$250 million. The 2009 Program Resolution approved forms of the Trust Agreement, Delivery & Paying Agent Agreement, Sublease, and Site Lease, all of which are on file with the Clerk of the Board. Pursuant to the 2009 Program Resolution, the City issues commercial paper notes from time to time to provide interim financing for the acquisition, improvement, renovation, and construction of real property and the acquisition of capital equipment and vehicles.

Commercial paper is an alternative form of short-term (or interim) financing for capital projects that permits the City to pay project costs as project expenditures are incurred. Commercial paper notes are issued and short-term debt is incurred only when needed to pay project costs as they are incurred. Commercial paper has a fixed maturity date from one to 270 days, compared with a final maturity of 20- to 30-years for the City's typical long-term obligation. On the maturity date, the commercial paper note may be "rolled" (or refinanced) with the re-issuance of commercial paper notes for additional periods of up to 270 days. The commercial paper is refunded with the issuance of long-term obligations.

The CP Program achieves savings primarily to the lower cost of borrowing associated with commercial paper, reduced capitalized interest requirements, and overall reduced principal and offset by CP Program fees including but not limited to liquidity facility, commercial paper dealer, delivery and paying agent, and miscellaneous ancillary fees. Based on conservative market assumptions of 0.25% commercial paper interest rate, the total the CP Program is expected to achieve approximately \$15,000,000 in interest costs over the next two years, assuming the maximum commercial paper draws of \$250,000,000.

CP Program Expansion

The City's commercial paper program utilizes third-party credit enhancement to facilitate market access at the lowest interest rates. The City currently has Series 1 & 2 liquidity facilities provided by J.P. Morgan Chase, N.A. of \$50 million, and U.S. Bank, N.A. of \$50 million supporting a \$100 million CP Program, which are scheduled to expire in June 2016. Per the 2010 Program Resolution, which expanded the authorized amount of the CP Program, the City has the option to utilize its full \$250 million authorization of the CP Program, as necessary.

In order to accommodate the City's Ten-Year Capital Plan's proposed delivery of infrastructure investments, OPF proposes expanding the Series 1 & 2 liquidity facilities by \$50 million for a total of \$150 million. The OPF respectfully requests the execution of forms of the revolving credit agreement, fee agreement, and dealer agreement associated with liquidity facilities provided by U.S. Bank, N.A. for an amount of \$75 million and State Street Bank for an amount of \$75 million or another financial institution or institutions selected by the Controller and the Director of the Office of Public Finance. The City has a separate Series 3, 3-T & 4, 4-T letter of credit provided by State Street Bank for an amount of \$100 million that is not scheduled for expiration.

With the proposed new credit support of \$75 million from U.S. Bank, N.A. and \$75 million from State Street Bank, together with the existing \$100 million liquidity facility provided by State Street Bank, the City will have secured an aggregate of \$250 million in credit support for its CP Program. See Table 1 for the summary of credit under the CP Program.

Table 1: Summary of Credit for the Commercial Program.

<u>Series 1 & 2 (Proposed Revolving Credit)</u>	
US Bank	75,000,000
State Street Bank	<u>75,000,000</u>
	150,000,000
<u>Series 3 & 4 (Existing Letter of Credit)</u>	
State Street Bank	<u>100,000,000</u>
	100,000,000
Total CP Program credit	<u><u>250,000,000</u></u>

Projects will be eligible to access the CP Program once the Board of Supervisors and the Mayor have approved the project and/or the long-term, permanent financing for the project (each an "Approved Project"). Currently, the following projects have approval to access the CP Program:

- HOPE SF: In adopting Ordinance No. 266-10, the Board of Supervisors authorized the issuance of not to exceed \$38,000,000 in City and County of San Francisco certificates of participation to partially finance the rebuilding of severely distressed public housing sites, while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (the HOPE SF Project).
- Moscone Expansion Project: In adopting Ordinance No. 26-13, the Board of Supervisors authorized the issuance of not to exceed \$507,880,000 in City and County of San Francisco certificates of participation to finance the costs of additions and

improvements to the Moscone Center. The Board of Supervisors approved the appropriation in Supplemental Appropriations Ordinance No. 25-13.

- **San Francisco General Hospital and Trauma Project:** In adopting Ordinance No. 252-14, the Board of Supervisors authorized the issuance of not to exceed \$41,000,000 in City and County of San Francisco certificates of participation to finance the costs of the acquisition of furniture, fixtures and equipment for the San Francisco General Hospital and Trauma Center.

The CP Program accommodates tax-exempt borrowing, which is used for most City projects, as well as taxable commercial paper notes, for any such projects that do not qualify for tax-exempt debt under federal and state law.

Financing Structure:

As described in the OPF memorandum dated February 10, 2009, the City leases and leases-back certain real property assets to the third-party trustee in consideration for proceeds of any issued commercial paper notes. Table 2 identifies the City-owned properties (the “Leased Assets”) that will serve as the Leased Assets for the CP Program under Series 1 & 2 and Series 3 & 4, as proposed, in consultation with the City’s Real Estate Division.

Table 2: Summary Estimated Values of Properties Owned by the City Securing the CP Program.

<u>Table of Assets, Series 1 & 2</u>		<u>Table of Assets, Series 3 & 4</u>	
Corporate Yard	46,000,000	Public Safety Building	119,000,000
Police Academy	29,000,000	Fire Station 10	10,000,000
Fire College	7,500,000	Police Taraval Station	5,400,000
Alemany Market	30,000,000	Total Lease Value of Assets	134,400,000
Fire Station 1	6,000,000		
Public Health Clinic	15,700,000		
Human Services Central Office	34,000,000		
Total Lease Value of Assets	168,200,000		

Source: City and County of San Francisco, Real Estate Division, Memorandum(s) dated July 29, 2013, October 18, 2015 and April 8, 2016.

The City leases the Leased Assets to the trustee in consideration for proceeds of any issued CP Notes. The trustee leases the Leased Assets back to the City in consideration for lease payments made by the City to the trustee in amounts exactly equal to principal and interest due on any issued CP Notes. The trustee will apply such amounts as is necessary to make debt service payments to holders of any issued CP Notes.

Revolving Credit, Fee Agreement & Dealer Agreements

Revolving Credit Agreement(s)

OPF selected via a competitive proposal process and is negotiating currently with US Bank, N.A. and State Street Bank (the "Banks") to continue and expand from the existing \$100 million in liquidity facilities to \$150 million. The Resolution approves a form of Revolving Credit Agreement that provides for two separate revolving lines of credit (the "Revolving Credits") in the maximum available amount of \$75 million with US Bank, N.A. and \$75 million with State Street Bank that may be drawn upon by the City in respect of principal and actual interest due on any commercial paper notes.

The City is required to repay the Banks should there be amounts drawn under the liquidity facility in accordance with the terms and conditions set forth in the two individual Revolving Credit Agreement(s). It is expected that the Banks will be repaid from the remarketing of commercial paper or the proceeds of long term take-out financing. However, but under extraordinary circumstances such occurred with the financial dislocation in 2008, advances from the Banks might not be immediately repaid. In such event, interest borne by the commercial paper notes could increase up to 12.0% per annum.

OPF currently expects to enter into two separate Revolving Credit Agreement(s) per the Banks with a term of approximately five (5) years at a cost of 0.44% /0.45% of the Bank's commitment amounts, or approximately \$340,000 per annum under each agreement. The current fee structure presumes that the City's general fund secured obligations credit rating remains at its current rating levels of Aa3/AA-/AA- by Moody's Investors Service ("Moody's), Standard & Poor's ("S&P"), and Fitch Ratings, respectively (collectively, the "Rating Agencies"). The commitment fee may be increased in increments of approximately 0.10% for every notch rating downgrade by two rating agencies below Aa3/AA-/AA-. Should the City's general fund secured obligations credit rating fall below Baa3/BBB-/BBB-, the Reimbursement Agreement would terminate and amounts owing to the Banks would be immediately due and payable, subject to the limits concerning maximum rent set forth in the Sublease in accordance with State law, which would allow for several years to repay the financing.

The Revolving Credit Agreement(s) may be terminated by the City pursuant to termination provisions should the Bank's short-term credit ratings fall below P-1/A-1/F-1 by the Rating Agencies; liquidity facility costs increase due to changes in law, rule or regulation; or in the event the City should decide to retire the CP Program. The Revolving Credit Agreement(s) may also be terminated at the option of the City for any reason, subject to a termination fee of up to one (1) year of the commitment fee due to the Banks, or for any optional termination by the City within the first year of the Revolving Credit Agreement(s), the remaining unpaid balance of the first year's commitment fee.

Fee Agreement:

The Resolution also approves the form of Fee Agreement, which sets forth the fees and certain other fees payable by the City to the Banks.

Dealer Agreement:

The Resolution also approves the form of Dealer Agreement and delegates to OPF the authority to appoint one or more Commercial Paper Dealers (the "CP Dealer"). The Dealer Agreement sets forth the duties of the CP Dealer, including soliciting and arranging the sales of the commercial paper notes on behalf of the City at such rates and maturities as then prevailing in the market.

OPF currently expects to select commercial paper dealers via a competitive proposal process and to enter into Dealer Agreement with a term not less than one (1) year with a cost of not to exceed 0.125% per annum of the weighted average of the principal amount of commercial paper notes outstanding each quarter, paid by the City quarterly in arrears.

Financial Parameters:

The parameters set forth in the Resolution respecting the Revolving Credit Agreement(s) and liquidity facilities include and are consistent with those set forth in the 2009 Program Resolution:

- the term of any such liquidity facility shall not be less than one (1) year,
- the interest rate on any bank CP notes shall not exceed 12% per annum, and the amortization of any such bank CP notes shall not be less than three (3) years, and
- the cost of the any such liquidity facility shall not exceed 2.0% per year.

At any time that bank CP notes are outstanding and should the accruing interest rate exceed 12% per annum due to an increase in general market interest rates, the City will pay on a current basis interest not to exceed 12%, with any current interest in excess of 12% deferred until such time that the accruing interest rate falls below 12%. No interest will accrue on any unpaid and deferred interest due to the interest rate ceiling on the bank CP notes. The City will pay the deferred interest until all amounts due to the Banks respecting deferred interest is paid.

Seismic and Other Public Safety Emergency

Per the 2010 Program Resolution, in the event of an emergency declared under Charter Section 3.100, the Controller is authorized to draw on commercial paper before the Board has approved long-term take-out financing. This exception applies only to emergencies declared under Charter Section 3.100. Powers and Responsibilities, which provides that the Mayor, with the concurrence of the Board of Supervisors, may direct City personnel and resources as necessary to meet an emergency.

Additional Information:

The Resolution will be introduced at the Board of Supervisors meeting on Tuesday, April 26, 2016. The related financing documents—including the Revolving Credit Agreement, Fee Agreement, and Dealer Agreement—will also be submitted.

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

Cc (via email): Angela Calvillo, Clerk of the Board
Nicole Elliott, Director of Legislative & Government Affairs
Melissa Whitehouse, Acting Mayor's Budget Director
Harvey Rose, Budget Analyst
Ben Rosenfield, Controller
John Updike, Real Estate Division
Mark Blake, Deputy City Attorney