



**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 General Obligation Bonds, (Public Health and Safety, 2016), Series 2017A

**DATE:** November 1, 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 Public Health and Safety program at its meeting on Tuesday, November 1, 2016.

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 November 16, 2016 meeting of the Budget and Finance Committee.

**Background:**

On June 7, 2016, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Public Health and Safety General Obligation Bond. Proposition A authorizes the City and County of San Francisco to issue \$350,000,000 in General Obligation Bonds to fund capital projects to renovate, expand, and seismically enhance fire safety and healthcare facilities, construct a larger and more modern City ambulance center, and to repair and modernize neighborhood fire stations, and to build, acquire, and improve facilities to better serve homeless individuals and families (the "2016 Proposition A"). The projects to be funded through the proposed bond sale include: seismic improvements and upgrades to fire safety systems to Building 5 on the campus of Zuckerberg San Francisco General Hospital, renovation and expansion of the Southeast Health Center and other neighborhood health clinics, a higher-capacity and seismically safer ambulance facility to improve emergency medical response,

capital improvements to City fire stations facilities, and the acquisition and construction of homeless services facilities (the “Project”).

The proposed resolutions authorize the issuance of not-to-exceed \$350,000,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds, as well as the sale of not-to-exceed \$176,000,000 of City and County of San Francisco General Obligation Bonds (Public Health and Safety Bonds, 2016), Series 2017A (the “Bonds”). The Bonds will be the first series of bonds to be issued under the 2016 Proposition A.

Proceeds from the Bonds will partially finance the following:

- Zuckerberg San Francisco General, Building 5 – Bond funding would allow for seismic improvements to the hospital structure; fire and life safety improvements throughout the building including an upgraded fire alarm system, sprinklers, and associated electrical and mechanical work; consolidation of clinical services, ADA improvements, and upgrades to the City’s only existing 24-hour psychiatric emergency facility.
- Community Health Centers – Proceeds from the bond sale will allow the Department of Public Health to expand services and increase access at the City’s neighborhood health centers, including Southeast Health Center, Castro Mission Health Center, Maxine Hall Health Center, and Chinatown Public Clinic.
- San Francisco Fire Department Ambulance Deployment Facility and Neighborhood Fire Stations – The bond will allow for the construction of a new ambulance deployment center at 2245 Jerrold Ave., next to Fire Station 9. The new, seismically safe facility will improve the City’s capacity to meet current and future demands for emergency medical services. Bond fund will also be used to improve selected neighborhood fire stations to provide improved safety and a healthy work environment for firefighters.
- Homelessness Services – Funding will go toward supporting existing shelter sites at 1001 Polk St. and 525 5<sup>th</sup> St., which represent 57 percent of the City’s permanent shelter capacity, as well as a family shelter at 260 Golden Gate Ave. Examples of work to be completed at these shelters include sanitation and plumbing replacement, modernization of life safety systems, ADA improvements, kitchen capacity expansion, HVAC work, electrical and seismic upgrades, and roof repairs. Funding may also be used to create a deployment facility for the San Francisco Outreach Team to improve coordination and delivery of homeless services.

The remaining authorization under the 2016 Proposition A will be issued subject to review by the Capital Planning Committee, the consideration and adoption by the Board of Supervisors, and approval by the Mayor of subsequent authorizing resolutions. The resolutions will also authorize the reimbursement of eligible City funds expended on these projects in anticipation of bond proceeds.

**Financing Parameters:**

The proposed resolution authorizes the sale of not-to-exceed par amount of \$176,000,000. Based on current project cost estimates and schedules, the Office of Public Finance expects to issue \$174,060,000 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 \$171,250,000 to public health and safety projects. Table 1 outlines anticipated sources and uses for the Bonds.

**Table 1: Anticipated Sources and Uses for the Bonds.**

|   |                      |
|---|----------------------|
| <b>Sources</b>  |                      |
| Par Amount  | \$174,060,000        |
| Reserve Proceeds                                      | \$1,940,000          |
| <b>Total Not-To-Exceed Amount</b>                     | <b>\$176,000,000</b> |
| <b>Uses</b>   |                      |
| <u>Projects</u>                                       |                      |
| Public Health and Safety Project Funds                | 171,251,296          |
| Controller's Audit Fund                               | 342,503              |
| Projects Subtotal                                     | 171,593,799          |
| <u>Other Costs of Issuance</u>                        |                      |
| Costs of Issuance                                     | 551,541              |
| Underwriter's Discount                                | 1,740,600            |
| Citizens' General Obligation Bond Oversight Committee | 174,060              |
| Costs of Issuance Subtotal                            | 2,466,201            |
| Total Uses  | \$174,060,000        |
| Reserve Pending Bond Sale <sup>1</sup>                | 1,940,000            |
| <b>Total Uses with Reserve</b>                        | <b>\$176,000,000</b> |

Based upon a conservative estimate of 3.90% interest rate, OPF estimates that average fiscal year debt service on the Bonds is approximately \$13,800,000. The anticipated total par value of \$174,060,000 is estimated to result in approximately \$93,210,000 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 \$267,270,000. Based on market conditions expected to exist at the time of the sale, the Bonds may be structured with a 30-year life. The City intends to

<sup>1</sup> The Reserve Pending Sale accounts for variations in interest rates prior to the sale of the proposed Bonds.

sell the Bonds through a competitive sale process, but in the case of a dramatic change in market conditions, reserves the option to seek a negotiated sale with underwriter(s) selected competitively.

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 Project by the Citizens' General Obligation Bond Oversight Committee ("CGOBOC"). Detailed descriptions of the Project financed with proceeds of the Bonds are included in the Bond Report prepared by San Francisco Public Works and the Department of Public Health.

**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 2016-17 is approximately \$6.35 billion, based on a net assessed valuation of approximately \$211.5 billion. As of August 1, 2016, the City had outstanding approximately \$2.09 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.99% of the net assessed valuation for fiscal year 2016-17. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by 0.08% to 1.07% — within the 3.00% legal debt limit. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.80% of the net assessed value of property in the City.

**Property Tax Impact**

For Series 2017A, 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 be \$0.00652 per \$100 or \$6.52 per \$100,000 of assessed valuation over the anticipated 20-year term of the bonds based on current valuations. 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 \$38.69 per year if the anticipated \$174,060,000 Bonds are sold.

**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 2016-17 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, November 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 2017A 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 January 2017. Schedule milestones in connection with the financing may be summarized as follows:

| <b>Milestone</b>  | <b>Date*</b>     |
|---|------------------|
| Consideration by the Capital Planning Committee                               | October 17, 2016 |
| Introduction of authorizing legislation and supporting materials to the Board | November 1, 2016 |
| Issuance and delivery of the Bonds  | January 2017     |

\*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. Thank you.