



CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

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Deputy Controller

Anna Van Degna
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Anna Van Degna, Director of Public Finance *AVD*

SUBJECT: City and County of San Francisco General Obligation Bonds
(Earthquake Safety and Emergency Response, 2014), Series 2018C
(Affordable Housing, 2015), Series 2018D
(Public Health and Safety, 2016), Series 2018E

DATE: Friday, March 30, 2018

I respectfully request that the Board of Supervisors consider for review and adoption to the Board the resolutions authorizing the sale of general obligation bonds financing the Earthquake Safety and Emergency Response (ESER), Affordable Housing, and Public Health and Safety programs at its Tuesday, April 3, 2018 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 April 12, 2018 meeting of the Budget and Finance Committee.

Background:

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, \$210,265,000 has been issued to date, leaving \$189,735,000 remaining from the 2014 Proposition A funds.

On November 3, 2015, a two-thirds majority of voters of the City approved Proposition A ("2015 Proposition A"), the San Francisco Affordable Housing General Obligation Bond. Proposition A authorizes the City and County of San Francisco to issue \$310,000,000 in general obligation bonds to fund capital projects to prioritize affordable housing projects for vulnerable populations including working families,

veterans, seniors, and disabled persons. The projects to be funded through the proposed bond sale include: the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; the repair and reconstruction of dilapidated public housing; funding of a middle-income rental program; and the provision of homeownership down payment assistance opportunities for educators and middle-income households. Of the total authorization, \$75,130,000 has been issued to date, leaving \$234,870,000 remaining from the 2015 Proposition A funds.

On June 7, 2016, a two-thirds majority of voters of the City approved Proposition A (“2016 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 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. Of the total authorization, \$173,120,000 has been issued to date, leaving \$176,880,000 remaining from the 2016 Proposition A funds.

The proposed resolutions authorize the sale of not-to-exceed \$189,735,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response, 2014), Series 2018C (the “2018C Bonds”), as well as the sale of not-to-exceed \$146,000,000 of City and County of San Francisco General Obligation Bonds (Affordable Housing, 2015), Series 2018D (the “2018D Bonds”), and the sale of not-to-exceed \$52,500,000 of City and County of San Francisco General Obligation Bonds (Public Health and Safety, 2016), Series 2018E (the “2018E Bonds”). The 2018C Bonds will be the third and final series of bonds to be issued under 2014 Proposition A. The 2018D Bonds will be the second series of bonds to be issued under 2015 Proposition A. The 2018E Bonds will be the second series of bonds to be issued under 2016 Proposition A.

As described more fully in the 2014 ESER Accountability Report, dated February 2018, proceeds from the 2018C Bonds will partially finance projects within the following program categories:

- **Traffic Company & Forensic Services Division** – Construction costs, the Public Art Program, project management costs, permitting, construction management fees, and testing & special inspection expenses for this facility.
- **Police Stations** – Design services and construction for Mission Station, Ingleside Station, the Police Academy, Park Station, and a package of mechanical, electrical and plumbing improvements.
- **Neighborhood Fire Stations (NFS)** – Fire Station 35 (remainder of the design-build contract, construction, permits, city administrative services, in house architectural, engineering, and construction management services), Public Art Program, and Materials Testing and Special Inspection services (MTSI), Program Management, Focused Scope projects (fund remaining construction costs for the exterior envelope packages 1 and 2, heating, ventilation, and air conditioning (HVAC) package 1, fully fund remaining construction for the Apparatus Bay doors

packages 4 and 5), remaining stations with Access Control needs, and replenish the NFS program reserves.

As detailed more fully in the 2015 Affordable Housing Bond Accountability Report, dated March 2018, proceeds from the 2018D Bonds will partially finance projects within the following categories:

- **Public Housing Projects** – Accelerating the reconstruction and rehabilitation of distressed public housing facilities, including infrastructure replacement, as well as the creation of net new units within reconstruction programs.
- **Low-Income Housing Projects** – Funding the acquisition and rehabilitation of existing rent-controlled buildings to protect against the loss of affordable units, as well as purchase properties for the development of new affordable housing, and accelerate the production of new affordable housing, in particular through the Mission Area Plan program.
- **Mission Neighborhood Housing** – Loans for the development of a 143-unit affordable housing development at 1990 Folsom Street.
- **Middle-Income Housing** - Increasing the cap on Down Payment Assistance loans and the range of eligible households, expand the Teacher Next Door program to provide housing assistance to San Francisco schoolteachers, and allow for the development or preservation of middle-income rental opportunities.

As detailed more fully in the 2016 Public Health and Safety Bond Accountability Report, dated April 2018, proceeds from the 2018E Bonds will partially finance projects within the following categories:

- **San Francisco Fire Department Ambulance Deployment Facility** – Construction costs and all project controls costs for this facility, including but not limited to, Public Arts Program, project management, permitting, construction management, architectural and engineering design services, and materials testing & special inspection.
- **Homelessness Services** – The balance of the property purchase transaction for 440 Turk Street; construction costs for 1068 Mission Street; and construction and project controls costs, including but not limited to scope feasibility studies, architectural and engineering design services, construction management, permitting, materials testing and special inspection, for 1001 Polk St, 260 Golden Gate Avenue, and 525 5th Street.

The remaining authorization amounts under 2015 Proposition A and 2016 Proposition A will be issued at a later date, 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.

Financing Parameters:

The proposed resolutions authorize the sale of not-to-exceed combined par amount of \$388,235,000 for Series 2018C, 2018D, and 2018E. Based on current bond market conditions, project cost estimates and schedules, the Office of Public Finance expects to issue \$382,075,000. 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 \$187,380,041 to earthquake safety projects, \$140,486,986 to affordable housing projects, and \$49,460,049 to public health and safety projects (collectively, the "Projects"). Table 1 outlines anticipated sources and uses for the Bonds, based on a estimate provided by Hilltop Securities Inc., a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

Table 1: Anticipated Sources and Uses for the Bonds.

	ESER Series 2018C	Housing Series 2018D	Public Health Series 2018E	Total
Sources				
Par Amount	\$189,735,000	\$142,255,000	\$50,085,000	\$382,075,000
Reserve Proceeds		\$3,745,000	\$2,415,000	\$6,160,000
Total Not-To-Exceed Amount	\$189,735,000	\$146,000,000	\$52,500,000	\$388,235,000
Uses				
<u>Projects</u>				
Project Funds	\$187,380,041	\$140,486,986	\$49,460,049	\$377,327,076
Controller's Audit Fund	\$374,760	\$280,974	\$98,920	\$754,654
Projects Subtotal	\$187,754,801	\$140,767,960	\$49,558,969	\$378,081,730
<u>Costs of Issuance</u>				
Transaction Costs	\$367,451	\$277,872	\$100,308	\$743,758
Underwriter's Discount	\$1,423,013	\$1,066,913	\$375,638	\$2,865,563
Citizens' General Obligation Bond Oversight Committee	\$189,735	\$142,255	\$50,085	\$382,075
Costs of Issuance Subtotal	\$1,980,199	\$1,487,040	\$526,031	\$3,993,270
Total Uses	\$189,735,000	\$142,255,000	\$50,085,000	\$382,075,000
Reserve Pending Bond Sale ¹		\$3,745,000	\$2,415,000	\$6,160,000
Total Uses with Reserve	\$189,735,000	\$146,000,000	\$52,500,000	\$388,235,000

Based upon conservative estimates given current market conditions, the Office of Public Finance estimates that the overall effective interest rate on the bonds would be approximately 4.6%, resulting in an average annual debt service of approximately \$29,397,000 and a total debt service of approximately \$587,808,000. The Bonds are expected to have a final maturity of June 15, 2038. However, based on market conditions at the time of the sale coupled with the Capital Planning Committee constraints, the Bonds could be structured with a 25-year term.

In addition to the Projects, a portion of the bond proceeds 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 Bond Reports prepared by San Francisco Public

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

Works, the Public Utilities Commission, the Mayor's Office of Housing and Community Development, 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 2017-18 is approximately \$7.02 billion, based on a net assessed valuation of approximately \$234.1 billion. As of April 2018, the City has outstanding approximately \$2.32 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.99% of the net assessed valuation for fiscal year 2017-18. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.47% 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 0.16% to 1.15%— within the 3.00% legal debt limit.

Property Tax Impact

For Series 2018C, 2018D, and 2018E, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which, according to the Controller's Office, are estimated to average \$0.01253 per \$100 or \$12.53 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 \$74.30 per year if the anticipated \$382,075,000 City and County of San Francisco General Obligation 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 2017-18 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, April 3, 2018. 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 2018C, 2018D, and 2018E 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 May 2018. Schedule milestones in connection with the financing may be summarized as follows:

Milestone	Date*
Consideration by the Capital Planning Committee	March 19, 2018
Introduction of authorizing legislation and supporting materials to the Board	April 3, 2018
Issuance and delivery of the Bonds	May 2018

*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.