



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Anna Van Degna
Director of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

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

SUBJECT: Ordinance approving the issuance and sale of Refunding Lease Revenue Bonds (Open Space Fund) by the City and County of San Francisco Finance Corporation (the "Corporation") payable from the Park, Recreation and Open Space Fund in an amount not-to-exceed \$41,320,000

DATE: Monday, April 9, 2018

Recommended Action

The Office of Public Finance respectfully requests that the Board of Supervisors consider for review and adoption the ordinance approving the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (the "Corporation") payable from the Park, Recreation and Open Space Fund (the "Open Space Fund") to refinance lease revenue bonds previously issued to finance various park projects. The ordinance appropriating the proceeds of the refunding bonds will be presented to the Board of Supervisors at a future meeting.

In connection with this request, we would like to respectfully request consideration of the ordinance at the April 19, 2018 Budget and Finance Committee meeting.

Background

The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the Corporation ultimately payable from the Open Space Fund in an amount not-to-exceed \$41,320,000. The Corporation is a non-profit public benefit corporation duly organized and validly existing under the Nonprofit Public Benefit Corporation Law (Section 5110 et seq. of the California Corporations Code). The Corporation was formed in 1991 by the Chief Administrative Officer of the City and County of San Francisco (the "City") pursuant to a resolution of the Board of Supervisors. The purpose of the Corporation is to provide a means to finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

On March 7, 2000 voters in the City approved Proposition C which extended the Park, Recreation and Open Space Fund (the "Open Space Fund") and property tax set aside for 30 years. Proposition C also authorized the issuance of revenue bonds and the incurrence of other obligations secured by the Open Space Fund. In 2006, the Corporation entered into lease arrangements (further described below) obligating the City to make base rental payments (and certain other payments) to the Corporation, and the Corporation issued the first series of revenue bonds (the "2006 Bonds") under this authority and a trust agreement (further described below) in an aggregate principal amount of \$27,005,000, pursuant to Resolution No. 565-06 and Ordinance No. 249-04. The base rental payments to the Corporation, appropriated and paid by the City out of the Open Space Fund, provide the Corporation with sufficient funds to pay debt service on the 2006 Bonds. In 2007, the Corporation issued the second series of revenue bonds (the "2007 Bonds") under this authority and the amended trust agreement in an aggregate principal amount of \$42,435,000, pursuant to Ordinance No. 199-07. Among other things, the amendments to the leases increased the amount of the City's base rental payments to provide the Corporation with sufficient funds to pay debt service on the 2007 Bonds (and the 2006 Bonds).

The 2006 Bonds and 2007 Bonds were previously issued to finance the design, construction, renovation and installation of various Park projects, including:

- *Buena Vista Park (District 8)*
- *Chinese Recreation Center (District 2)*
- *Hamilton Playground, Recreation Center and Pool (District 5)*
- *Junipero Serra Playground and Clubhouse (District 7)*
- *Kelloch-Velasco Park (District 10)*
- *Lake Merced (District 7)*
- *Larsen Park Sava Pool (District 4)*
- *Lincoln Park Assessment and Master Plan (District 1)*
- *Lincoln Playground (District 1)*
- *Midtown Terrace Playground (District 7)*
- *Moscone Recreation Center (District 1)*
- *Potrero Hill Playground (District 10)*
- *St. Mary's Recreation Center Playground (District 9)*
- *Fields Initiative – Phase II (Districts 4, 5, 6 and 11)*
- *Franklin Square Playground Renovation (District 6)*

The 2006 Bonds and 2007 Bonds are currently refundable, and market conditions provide for savings with the issuance and sale of City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds (Open Space Fund), Series 2018A (the "Refunding Bonds"). The ordinance imposes, among others, the following terms and conditions:

- i) the Refunding Bonds must achieve 3% net present value savings;
- ii) the true interest cost of the Refunding Bonds must not exceed 12%;
- iii) the term of any lease agreement shall not be extended beyond its current term.

The Refunding Bonds

Under the proposed ordinance, the City will structure the Refunding Bonds using a lease-lease back structure between the City and the Corporation pursuant to the existing Site Lease, Master Lease and Trust Agreement, as amended. Pursuant to an Assignment Agreement, the Corporation will assign its right to the third-party trustee (the "Trustee") under the amended Trust Agreement, for the benefit of the owners of the Refunding Bonds, substantially all of the Corporation's rights under the amended Master

Lease, including the right to receive and collect the base rental payments from the City under such Master Lease (and such rights as may be necessary to enforce payment of the base rental payments).

Site Lease and Master Lease: Pursuant to the Site Lease, the City leases a City-owned property to the Corporation. Pursuant to the Master Lease, the City leases back the leased property from the Corporation. The City makes annual base rental payments to the third-party Trustee, as the Corporation's assignee under the Assignment Agreement, in amounts required to repay the Refunding Bonds. When the Refunding Bonds are finally paid, the Site Lease and the Master Lease terminate (assuming no other lease revenue bonds have been issued for park purposes under these Lease Agreements and the Trust Agreement). The Open Space Fund is the source of funding for the repayment of the Refunding Bonds (see "The Current Plan of Finance" section below).

Trust Agreement: Pursuant to the Trust Agreement and the Assignment Agreement between the Corporation and a Trustee acting on behalf of and for the benefit of Refunding Bond holders, the Trustee administers and disburses bond payments and enforces the covenants and remedies in the event of a default. The Trust Agreement provides for the terms of the Refunding Bonds, 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 Refunding Bonds and disburses the proceeds, as directed by authorized City representatives, including for the refunding of the 2006 Bonds and the 2007 Bonds. The ordinance delegates selection of the Trustee to the Director of Public Finance.

The Trust Agreement requires that the base rental payments be deposited semi-annually in the base rental fund maintained by the Trustee. The Trustee will apply such amounts as is necessary to make debt service (i.e., semi-annual interest and annual principal or sinking fund) payments with respect to the Refunding Bonds.

The Leased Property. It is anticipated that one or more of the following City-owned properties, under the jurisdiction of the San Francisco Recreation and Parks Department will serve as the leased assets for the transaction (together, the "Leased Assets"): the Betty Ann Ong Chinese Recreation Center, located at 1199 Mason Street, the Sunset Recreation Center, located at 2201 Lawton Street, the Palace of Fine Arts, located at 3601 Lyon Street & Marina Boulevard, and potentially other Recreation and Parks Department properties..

Assignment Agreement. An agreement that assigns specified rights (including the Corporation's right to receive lease revenues) as well as title and interest to the Leased Assets until the Refunding Bonds are repaid in full.

The Current Plan of Finance

The proposed ordinance authorizes the sale and issuance of Refunding Bonds in a par amount not to exceed \$41,320,000. Based on current market conditions, the Office of Public Finance anticipates issuing \$40,510,000 in Refunding Bonds that together with other sources of monies would refund \$14,175,000 of outstanding 2006 Bonds and \$26,335,000 of outstanding 2007 Bonds. The additional authorized amount above the expected issuance amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Refunding Bonds, any increased deposits for the debt service reserve fund, and other increased delivery date expenses.

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Based upon a conservative estimate of 3.500% for an all-in true interest cost as defined in the proposed ordinance, the Office of Public Finance estimates that maximum fiscal year debt service on the Refunding Bonds is approximately \$4,731,390. The anticipated total par value of \$40,150,000 is estimated to result in approximately \$7,495,394 in interest payments over the life of the Refunding Bonds. The total principal and interest payments over the approximate 11-year life of the Refunding Bonds is estimated to be approximately \$48,005,394. The term of the Refunding Bonds will mirror the existing term of the 2007 Bonds, with a final maturity on July 1, 2029.

Based on current market conditions, the Refunding Bonds transaction is estimated to result in aggregate savings to the City of about \$3,442,716 on a gross basis. On a net present value (NPV) basis, the Office of Public Finance estimates the debt service savings to be approximately \$1,876,142 or 4.6% of the outstanding par amount of the 2006 Bonds and 2007 Bonds to be refunded. This NPV percent savings of refunded par meets the City's debt policy objective of 3% or higher.

Table 1 outlines anticipated sources and uses for the Refunding Bonds, based on an estimate provided by Backstrom McCarley Berry & Co., LLC, a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board of Supervisors regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

Table 1. Estimated Sources and Uses of Refunding Bonds (Open Space Fund)

Estimated Sources

Estimated Par Amount	\$	40,510,000
Other Sources - Prior Debt Service Reserve Fund (2006 Bonds)	\$	2,007,482
Other Sources - Prior Debt Service Reserve Fund (2007 Bonds)	\$	<u>3,058,810</u>
<u>Total Estimated Sources</u>	\$	45,576,292

Estimated Uses

Refunding Fund Deposit (2006 Bonds)	\$	14,521,466
Refunding Fund Deposit (2007 Bonds)	\$	26,310,966
Debt Service Reserve Fund	\$	4,051,000
Cost of Issuance	\$	550,000
Underwriter's Discount	\$	<u>142,860</u>
<u>Total Estimated Uses</u>	\$	45,576,292

In addition, approximately \$4,051,000 may be allotted to fund a Debt Service Reserve Fund, to be funded if recommended by the Director of the Office of Public Finance. Approximately \$692,860 will be allotted to cover costs associated with the issuance of the Refunding Bonds. This includes amounts for underwriter compensation, legal fees, financial advisory fees, rating agency fees, printing costs, and other issuance costs.

Additional Information

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 Refunding Bonds announces the date and time of the competitive bond sale, including the terms relating to the Refunding Bonds; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Refunding Bonds may be bid separately by series or bids may be received for all of the Refunding Bonds.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Refunding Bonds. Pursuant to the ordinance, the Controller is authorized to award the Refunding 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 Corporation's intention to sell the Refunding 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 Corporation of the Refunding Bonds. The Official Statement describes the Refunding Bonds, including sources and uses of funds; security for the Refunding 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 Refunding Bonds.

A Preliminary Official Statement is distributed to prospective bidders prior to the sale of the Refunding 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 Refunding Bonds.

The Board of Supervisors and the Mayor, in adopting and approving the ordinance, approve and authorize the use and distribution of the Official Statement by the co-municipal advisors with respect to the Refunding 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 certificates, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the ordinance, City staff will revise the Official Statement as appropriate, including the Appendix A.

Continuing Disclosure Certificate: The City covenants, on behalf of the Corporation, 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 Refunding Bonds in complying with the Securities and Exchange Commission Rule 15c212(b)(5).

Financing Timeline

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

<u>Milestone</u>	<u>Date*</u>
Introduction of authorizing ordinance to the Board of Supervisors	April 10, 2018
Consideration by the Board of Supervisors Budget & Finance Committee	April 19, 2018
Issuance and sale of Refunding Bonds	June 2018

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 or Jamie Querubin at 415-552-6902 if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andres Powers, Mayor's Office
Kelly Kirkpatrick, Mayor's Acting Budget Director
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