



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, San Francisco Board of Supervisors

FROM: Anna Van Degna, Director of the Office of Public Finance
Jamie Querubin, Office of Public Finance

DATE: Friday, September 21, 2018

SUBJECT: Resolution Authorizing the Issuance of Special Tax Bonds – Community Facilities District No. 2014-1 (Transbay Transit Center) Not to Exceed Aggregate Principal Amount of \$200,000,000; Confirming Annexation of Properties into City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center);

Ordinance Appropriating Proceeds of Special Tax Bonds, Series 2018A and Series 2018B

Recommended Action:

We respectfully request that the Board of Supervisors (the "Board") consider for review and approval the resolution authorizing the issuance and sale of an aggregate not to exceed par amount of \$200,000,000 in City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2018A and Series 2018B (the "Bonds") to finance or refinance capital improvements for the Transbay Transit Center (now, the "Salesforce Transit Center") and adjacent infrastructure, and confirming the annexation of property into the district. Related to the resolution, we also respectfully request for review and approval of the ordinance appropriating the proceeds.

Background:

Over the past decade, the City has engaged in several efforts to plan for future development and construction of public infrastructure for the area surrounding the Salesforce Transit Center and the extension of the Caltrain rail tracks to the Salesforce Transit Center to accommodate Caltrain and California High Speed Rail (the "DTX"). In 2005, the Transbay Redevelopment Project Area was adopted with the purpose of redeveloping 10 acres of property owned by the State of California in order to generate funding for the Transbay Joint Powers Authority ("TJPA") to construct the new Salesforce Transit Center.

In 2012, the City adopted the Transit Center District Plan ("TCDP") after a multi-year public planning process. In adopting the TCDP, the Board of Supervisors authorized the formation of a Mello-Roos

2 | Resolution Authorizing Community Facilities District (Transbay Transit Center) Special Tax Bonds & Ordinance Appropriating the Proceeds

community facilities district (“CFD”) within the TCDP boundary for new large developments to provide funding for the new Transbay project and related public infrastructure.

In 2015, the Board approved the formation of the CFD to fund certain public infrastructure related to the Transbay Project, and authorized bonded indebtedness for the CFD in an aggregate amount not to exceed \$1.4 billion. The Transbay CFD District (“District”) is located in downtown San Francisco immediately south of Market Street near the City’s new Salesforce Transit Center. Properties that receive a zoning bonus that allows for development exceeding the current height and floor-to-area ratios in the City’s Planning Code must participate in the CFD.

Pursuant to a Joint Community Facilities Agreement between the City and TJPA, 82.6% of the CFD special tax proceeds will finance a portion of the Transbay project, including the DTX, the train-related components of the Salesforce Transit Center Phase I (the “Train Box”), and the Rooftop Park. The remaining 17.4% of CFD special tax proceeds will finance streetscape enhancements within the CFD and capacity enhancements for the closest San Francisco Bay Area Rapid Transit District (“BART”) stations.

First Issuance of Special Tax Bonds:

In November 2017, the City, on behalf of the Community Facilities District No. 2014-1 (Transbay Transit Center) completed the first issuance of Special Tax Bonds Series 2017A and 2017B (the “2017 Bonds”) in the aggregate amount of \$207.5 million.

Recommended for Approval - Second Issuance of Special Tax Bonds:

The proposed resolution authorizes the second sale of special tax bonds in a par amount not to exceed \$200,000,000. Based on Project cost estimates and schedules, the Office of Public Finance currently expects to deliver approximately \$173.0 million of Bonds based on certain assumptions regarding market conditions at the expected time of sale (discussed further under “Plan of Finance”).

Both the 2017 Bonds and the proposed 2018 Bonds will be secured by a pledge of the special tax revenues collections in the CFD. Special taxes are only levied on property in the CFD for which both a Certificate of Occupancy and Tax Commencement Authorization have been issued and may only be levied on taxable property for 30 years. There are currently 5 completed buildings subject to the Special Tax levy and a sixth building – Park Tower – is expected to become subject to the Special Tax shortly. The Bonds are sized based on the projected annual Special Tax levy on these buildings. During fiscal year 2018-19, the CFD anticipates collecting approximately \$15.5 million in annual special tax revenues, with annual collection increasing to approximately \$19.4 million by fiscal year-end 2019-20, and to approximately \$19.8 million by fiscal year-end 2020-21.

Project Description:

The proceeds of the Bonds will be used to finance or refinance portions of the Salesforce Transit Center and adjacent public infrastructure, including sidewalk widening and extensions, pedestrian bulbs, bus islands, curb ramps, additional pedestrian crosswalks, and certain station capacity enhancements delivered by BART.

Plan of Finance: Table 1 outlines anticipated sources and uses for the Bonds, based on current market conditions.

Table 1: Estimated Sources and Uses from the Bonds

Estimated Sources:	
Estimated Par Amount	\$173,032,670
 Estimated Uses:	
Project Fund Deposits:	
Transbay Plan Infrastructure Project Fund	25,864,276
CSA Audit Fee ¹	51,729
BART Transbay Plan Infrastructure Project Fund ²	1,000,000
Transbay Transit Center Project Fund	127,507,973
	154,423,977
 Other Fund Deposits:	
Debt Service Reserve Fund	13,341,833
Capitalized Interest Fund	2,213,500
	2,213,500
 Delivery Date Expenses:	
Cost of Issuance	3,053,360
	3,053,360
 Total Estimated Uses:	 \$173,032,670

Source: Stifel, Nicolaus & Company, Inc.
 (Note 1) The CSA Audit Fee is a fee payable to the Controller’s Office City Services Auditor unit on all City-delivered projects that receive City-issued bond financing.
 (Note 2) Pursuant the Joint Community Facilities Agreement (JCFA) between the City and BART, a portion of the Transbay Plan Infrastructure Project Fund proceeds are allocable to BART.

The requested not-to-exceed par amount of \$200,000,000 exceeds the current estimated par amount of \$173.0 million in order to provide flexibility to capture the benefit of more favorable market conditions should they be available at the time of sale. Conditions that could result in a change in the anticipated project fund and/or par amount, include: (1) Bonds are issued on a federally tax-exempt basis, as determined by the Director of the Office of Public Finance in consultation with the City Attorney; (2) Bonds are issued with a debt service reserve fund surety policy or smaller cash reserve fund; (3) fluctuations in market interest rates between the date of authorization by the Board and the sale of the Bonds; (4) there are changes in required deposits for capitalized interest; and lastly, (5) there are changes in estimated delivery date expenses.

Based upon current market conditions, a 30-year term and an overall borrowing cost of 4.27%, which assumes the issuance of all bonds on a federally taxable basis, the Office of Public Finance estimates an average annual debt service of approximately \$10.7 million. The anticipated total par amount of \$173.0 million is estimated to result in approximately \$153.0 million in interest payments over the life of the Bonds. The total debt service over the life of the Bonds is estimated at approximately \$328.5 million¹

¹ Other key assumptions underlying the debt service estimates include: 1) Level debt service structure; 2) Debt Service Reserve Fund sized at Maximum Annual Debt Service and funded with bond proceeds; and 3) Capitalized Interest on the amount proportional to Park Tower (Block 5) until 9/1/2018.

4 | Resolution Authorizing Community Facilities District (Transbay Transit Center) Special Tax Bonds & Ordinance Appropriating the Proceeds

As a companion piece of legislation to the resolution, the Office of Public Finance is also requesting the approval of a Supplemental Appropriation Ordinance to finance project costs and associating financing costs. The Bonds, including the 2017 Bonds, are limited obligations of the City, secured and payable solely from the Special Tax Revenues and the funds pledged under the Fiscal Agent Agreement and are not payable from any other source of funds. The general fund of the City is not liable for the payment of the principal of or interest on the Bonds, and neither the credit nor the taxing power of the City or the State of California or any its political subdivision is pledged to the payment of the Bonds.

Method of Sale & Bond Purchase Agreement: We are proposing a negotiated sale in connection with this transaction. The Bonds are repaid from special tax revenues from specific projects within the district and are outside of the City's customary credit profile. The Office of Public Finance has selected Stifel, Nicolaus & Company, Incorporated ("Stifel") to serve as Senior Underwriter and intends to select one or more additional underwriter(s) to serve as Co-underwriter(s). Firms are selected from the City's Underwriter Pool, which was established via a competitive process. The proposed Resolution approves the form of the Bond Purchase Agreement which provides the terms of sale of the bonds by the City to the selected underwriters.

"Green Bond" Designation:

As it did with the 2017B Bonds, the City intends to designate the 2018B Bonds as "Green Bonds" (also known as "Climate Bonds") since the proceeds will be used to finance environmentally beneficial projects ("Green Projects"). The particular capital improvements that the City has defined as "Green Projects" in connection with the 2018B Bonds are part of the development of the Salesforce Transit Center and its related facilities, including the Train Box and Salesforce Park (together, the "Transbay Project"), which have been certified by the Climate Bonds Initiative.

Capital Plan:

The Bonds are limited obligations of the City. They are payable solely from the special tax revenues within the CFD. Therefore, this transaction is not subject to the policy constraints of the Capital Plan.

Teeter Plan:

In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the City Controller to allocate to the City's taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan.

In November 2017, in connection with the approval of the 2017 Bonds, the Board approved for the Community Facilities District 2014-1 (Transbay Transit Center) to receive 100% of the levy of special taxes per year without discounting the level of delinquencies which might occur. Under the Teeter Plan, the City makes all the taxing agencies "whole" and assumes the minor risk of being paid at some future date. In return, the City receives the interest (currently at 18%) and penalties (currently 10%) when taxes are ultimately paid. The net effect of this adjustment would be an increase in special tax revenues to the City at least in the short term while providing credit enhancement for Bonds.

5 | Resolution Authorizing Community Facilities District (Transbay Transit Center) Special Tax Bonds & Ordinance Appropriating the Proceeds

Property Annexation – 250 Howard (Park Tower):

As a part of the authorizing resolution, the Office of Public Finance is seeking confirmation of the annexation of the property located at 250 Howard Street into the District. This property, known as Park Tower (also referred to as “Block Five”) was annexed into the District on July 18, 2018.² In order for a property to be annexed into the District, the Board of Supervisors must adopt a resolution determining that the property has been added to the District. Approval of this resolution confirms the annexation of 250 Howard (Park Tower) into the CFD, which is a necessary condition to be deemed a taxable property under the CFD.

Financing Timeline:

Milestones:

Capital Planning Committee
Board Introduction
Budget & Finance Committee Hearing
Board Approval of Resolution and 1st Reading of Appropriation Ordinance
Final Board Approval (2nd Reading)
Estimated Sale & Closing

Dates*:

September 10
September 25
October 4
October 16
October 23
November 2018

*Please note that dates are preliminary and may change.

Additional Information

The legislation was presented to the Capital Planning Committee on Monday, September 10, 2018 and is expected to be introduced at the Board of Supervisors meeting on Tuesday, September 25, 2018. The related financing documents—including the Bond Purchase Agreement, First Supplemental to the Fiscal Agent Agreement, Continuing Disclosure Agreement, Preliminary Official Statement, and Appendix A—will also be submitted.

First Supplemental to Fiscal Agent Agreement: The proposed resolution also approves the form of First Supplemental to the Fiscal Agent Agreement which supplements the original Fiscal Agent Agreement approved with the 2017 Bonds. Pursuant to the Fiscal Agent Agreement between the City and the Fiscal Agent, the Fiscal Agent administers and disburses bond payments. The Fiscal Agent Agreement provides for the terms of the bond redemption, prepayment provisions, and other related administrative provisions. The Fiscal Agent holds the CFD special taxes and the bonds proceeds derived from the sale of the Bonds and will disburse the proceeds as directed by authorized City representatives. The Director of Public Finance has selected Zions Bank, a Division of ZB, National Association to serve as Fiscal Agent.

The Preliminary Official Statement: The proposed resolution also approves the form of Preliminary and final Official Statement relating to the Bonds (the “Official Statement”). The Preliminary Official Statement summarizes the security for the Bonds, the current status of properties subject to the Special Tax, and known potential risks to investors.

Federal securities laws impose on the City the obligation to ensure that this document is accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies

² The Office of Public Finance sent a memorandum dated July 9, 2018 notifying the Clerk of the Board of Supervisors and full the Board of Supervisors of the annexation of the property at 250 Howard (Park Tower) into Community Facilities District No. 2014-1 (Transbay Transit Center).

6 | Resolution Authorizing Community Facilities District (Transbay Transit Center) Special Tax Bonds & Ordinance Appropriating the Proceeds

approving the document as well as City staff charged with preparing the document. The draft Preliminary Official Statement is attached for your approval prior to its publication.

Contents Included in the Preliminary Official Statement:

Appendix A: The City prepares the Appendix A: “City and County of San Francisco—Organization and Finances” (the “Appendix A”) which 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. The information contained in the Appendix A to the Preliminary Official Statement was updated as of August 1, 2018 and was prepared by City staff for inclusion in the Official Statement. Any additional information available to reflect a new financial condition will be reflected in a newly dated Appendix A prior to the finalization of the Preliminary Official Statement.

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).

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 or anna.vandegna@sfgov.org or Jamie Querubin at 415-554-6902 or jamie.querubin@sfgov.org if you have any questions.

CC: Ben Rosenfield, Controller
Mark Blake, Deputy City Attorney
Ken Roux, Deputy City Attorney
Mark Zabaneh, Executive Director, Transbay Joint Powers Authority
Mary Pryor, NWC Partners, Consultant for Transbay Joint Powers Authority
Bruce Robertson, Finance Manager, Public Works
Shannon Cairns, Project Manager, Public Works
Nikki Foletta, Principal Planner Grants Development, Bay Area Rapid Transit (BART)