



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 the Office of Public Finance
Vishal Trivedi, Office of Public Finance

DATE: Friday, March 29, 2018 *AJD*

SUBJECT: Master Resolution Authorizing the Issuance of General Obligation Bonds (Proposition A, 2018) – Not to Exceed \$425,000,000;

Resolution Authorizing the Sale of General Obligation Bonds (Embarcadero Seawall Earthquake Safety, 2018) Series 2019B – Not to Exceed \$50,000,000;

Ordinance Appropriating Proceeds of General Obligation Bonds, Series 2019B

We respectfully request that the Board of Supervisors (the "Board") consider for review and adoption the resolutions authorizing the issuance of general obligation bonds for the Embarcadero Seawall Earthquake Safety Program in an aggregate amount of \$425,000,000 and the sale of a not-to-exceed par amount of \$50,000,000 in City and County of San Francisco Taxable General Obligation Bonds (Embarcadero Seawall Earthquake Safety, 2018), Series 2019B (the "Bonds"), which will be used to finance planning, design, and some initial construction projects to inform the first phase of needed seismic improvements to the Embarcadero Seawall.

In connection with this request, legislation authorizing the issuance of the bonds, a resolution approving the sale, a supplemental appropriation ordinance to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, April 2, 2019. We respectfully request that the items be heard at the scheduled May 8, 2019 meeting of the Budget and Finance Committee.

Background:

Proposition A, 2018: Approved by San Francisco voters on November 6, 2018, the Embarcadero Seawall Earthquake Safety program authorized the sale of up to \$425,000,000 of general obligation bonds intended to finance the construction, reconstruction, acquisition, improvement, demolition, seismic strengthening and repair of the Embarcadero Seawall and other critical infrastructure. The purpose of the program was to protect the waterfront, BART and Muni, buildings, historic piers, and roads from earthquakes, flooding,

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and rising seas by: repairing the 100-year-old Embarcadero Seawall; strengthening the Embarcadero; and fortifying transit infrastructure and utilities serving residents and businesses.

Proceeds from the bonds will partially reimburse planning funds already expended for the initial scoping and development of the seawall improvements, continued planning and design work for the larger seawall improvement program, as well as some pilot projects intended to guide the subsequent phases of the project.

Financing Parameters

The proposed legislation will authorize the issuance of bonds for the purposes allowed under the November 2018 Proposition A, approve the sale of the first series of bonds under the program, and approve the appropriation of bond proceeds from that sale. Table 1 below outlines the not-to-exceed sources and uses for the Bonds, based on an estimate provided by Urban Futures Inc., 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 from the Bonds

Estimated Sources:	
Par Amount	\$47,010,000
Total Estimated Sources:	\$47,010,000
Estimated Uses:	
Project Fund Deposits:	
Project Fund	\$45,800,000
CSA Audit Fee	91,600
Total Project Fund Deposits:	\$45,891,600
Delivery Expenses:	
Costs of Issuance	\$601,290
GOBOC Fee	47,010
Underwriter's Discount	470,100
Total Delivery Expenses	\$1,118,400
 Total Estimated Uses	 \$47,010,000
 Reserve for Market Uncertainty	 \$2,990,000
 Maximum Not-to-Exceed Par Amount	 \$50,000,000

Source: Urban Futures, Inc.

Based upon an estimated market interest rate of 3.94% for tax exempt general obligation bonds, the Office of Public Finance estimates an average annual debt service of approximately \$3,400,000. The estimated

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par amount of \$47,010,000 is estimated to generate approximately \$21,700,000 in interest payments and approximately \$68,300,000 in total debt service over the anticipated 20-year term of the Bonds. The Bonds are expected to mature on or before June 15, 2039.

In addition, a portion of the Bonds will pay certain expenses incurred in connection with their issue and delivery, and the periodic oversight and review of the Projects by City Services Auditor (“CSA Audit”) 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 to be prepared by the Port of San Francisco.

Property Tax Impact

For Series 2019B, repayment of annual debt service on the Bonds will be recovered through increases in the annual property tax rate, which is estimated to average \$0.00132 per \$100 of assessed value or \$1.32 per \$100,000 of assessed value 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 additional property taxes to the City of approximately \$7.81 per year if the anticipated \$47,010,000 Bonds are sold.

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 2018-19 is approximately \$7.78 billion, based on a net assessed valuation of approximately \$259.3 billion. As of March 1, 2019, the City had outstanding approximately \$2.53 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.97% of the net assessed valuation for fiscal year 2018-19. If all of the City’s voter-authorized and unissued general obligation bonds were issued, the total debt burden would be 1.40% 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 approximately 0.02% to 0.99%— within the 3.00% legal debt limit.

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 2018-19 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 2, 2019. The forms of 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 announces the date and time for a competitive bond sale, including the terms relating to sale of the Bonds; form of bids, and delivery of bids; and closing procedures

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and documents.

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, in a competitive sale 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 2019B Bonds. Such Notice of Intention to Sell would be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

Bond Purchase Agreement: The City intends to pursue a competitive sale of the 2019B Bonds; but if market conditions should necessitate a negotiated sale with an underwriter, the Purchase Contract details the terms, covenants, and conditions for the sale of the Bonds through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

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 municipal 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).

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Financing Timeline:

Milestones:

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

Dates*:

March 25
April 2
May 8
May 14
May 21
June 2019

*Please note that dates are preliminary and may change.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 (anna.vandegna@sfgov.org), Vishal Trivedi at 415-554-4862 (vishal.trivedi@sfgov.org) or Bridget Katz at 415-554-6240 (bridget.katz@sfgov.org) if you have any questions.

CC: Ben Rosenfield, Controller
Angela Calvillo, Clerk of the Board
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Katharine Petrucione, Port of San Francisco
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