



**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*  
Vishal Trivedi, Office of Public Finance  
Bridget Katz, Office of Public Finance

**DATE:** Monday, June 3, 2019

**SUBJECT:** Ordinance Authorizing the Issuance of Refunding Certificates of Participation, Series 2019-R1 (Multiple Capital Improvement Projects) – Not to Exceed \$160,000,000;  
  
Ordinance Appropriation Proceeds

---

This memorandum and its accompanying attachments are being submitted to your office in connection with the execution and delivery of the above-captioned obligations to ensure that the City complies with its obligations under federal securities laws (as further discussed).

Federal securities laws impose on the City the obligation to ensure that its offering documents are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the disclosure documents as well as City staff charged with preparing the documents.

We are attaching the Preliminary Official Statement for your approval prior to its publication. We would like to respectfully request consideration of the Ordinance, which is being submitted with the Mayor's Proposed Budget, at the Budget and Finance Committee meetings of the full Board during June 2019.

### Background

In 2008, the Board approved Resolution No. 351-08 for the issuance of up to \$185,000,000 aggregate principal amount of City and County of San Francisco Certificates of Participation, Series 2009A (Multiple Capital Improvement Projects) (the "2009A COPs") and the associated Trust Agreement, Property Lease, and Project Lease. In 2009, the Board approved the First Supplement to the Trust Agreement and the First Supplement to the Project Lease by Ordinance No. 74-09, which also authorized the issuance of up to \$42,000,000 aggregate principal amount of City and County of San Francisco Certificates of Participation, Series 2009B (Multiple Capital Improvement Projects) (the "2009B COPs"). The 2009A COPs and 2009B

2 | *Ordinance Authorizing the Issuance of Refunding Certificates of Participation, Series 2019-R-1 (Multiple Capital Improvement Projects) – Not to Exceed \$160,000,000 & Ordinance Appropriating the Proceeds*

COPs are currently refundable, and market conditions provide for savings with the sale of City and County of San Francisco Refunding Certificates of Participation, Series 2019 R-1 (Multiple Capital Improvement Projects) (the “Refunding Certificates”). The Leased Property for the 2009A and 2009B COPs consists of the Link Building and the East Residence Building on the campus of the City’s Laguna Honda Hospital. The 62-acre site is on property located at 375 Laguna Honda Boulevard on the western sloped of Twin Peaks. This property, or a portion of it, will serve as the Leased Property for the proposed Refunding Certificates. The proposed Ordinance establishes certain parameters for the execution and delivery of the Refunding Certificates, including (i) a maximum interest rate of 12%; (ii) a maximum term for the Third Supplement to Project Lease of twenty (20) years from the date of execution, and (iii) a maximum base rental payable under the Third Supplement to Project Lease of \$15,381,705.

**Current Plan of Finance**

As of May 2019, the City anticipates issuing \$148,000,000 in Refunding Certificates that, together with other monies, would refund \$112,395,000 of outstanding 2009A COPs and \$28,905,000 of outstanding 2009B COPs. 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 Certificates, any increased deposits for the debt service reserve fund, and other potential increased delivery date expenses.

Based on current market conditions, the transaction is estimated to result in aggregate savings to the City of about \$14,000,000 on a gross basis. On a net present value basis, OPF estimates the debt service savings to be approximately \$13,200,000 or 9.4% of the outstanding par amount of the 2009A and 2009B COPs to be refunded.

OPF will continue to monitor market conditions and have reserved the right to amend the par amount of the Refunding Certificates up to the day before the sale, so long as the net present value savings achieved by the refunding is at least 3% of refunded par. Table 1 below outlines anticipated sources and uses for the Refunding Certificates.

**Table 1: Anticipated Sources and Uses from the Refunding Certificates**

<b>Total Appropriation Amount:</b>	<b>\$176,500,000</b>
<i>Reserve Proceeds</i>	<b>\$12,000,000</b>
<b>Estimated Sources:</b>	
Par Amount	\$148,000,000
Prior Debt Service Reserve Fund	\$16,500,000
<b>Total Estimated Sources:</b>	<b>\$164,500,000</b>
<b>Estimated Uses:</b>	
Refunding Cash Deposit	\$145,669,650
Debt Service Reserve Fund	\$13,800,500
Project Fund Deposits:	
Project Fund	\$2,750,000
CSA Audit Fee	\$5,500
Total Project Fund Deposits:	\$2,755,500
Cost of Issuance	\$1,000,000
Underwriter's Discount	\$1,274,350
Total Delivery Expense:	\$2,274,350
<b>Total Estimated Uses:</b>	<b>\$164,500,000</b>
<i>Reserve for Market Uncertainty</i>	<b>\$12,000,000</b>
<b>Total Appropriation Amount:</b>	<b>\$176,500,000</b>

In addition, approximately \$2,300,000 will be allotted for costs associated with the issuance of the Refunding Certificates. This includes amounts for underwriting, legal fees, municipal advisory fees, rating agency fees, title insurance, printing cost, and other issuance costs.

Based upon an estimate of 2.94% true interest cost, the Office of Public Finance ("OPF") estimates that maximum fiscal year debt service on the Refunding Certificates will be approximately \$14,200,000. The anticipated total par value of \$148,000,000 is estimated to result in approximately \$29,500,000 in interest payments over the life of the Refunding Certificates. The total principal and interest payment over the approximate 16-year term of the Refunding Certificates is estimated to be approximately \$177,500,000.

**Official Statement**

The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of its Refunding Certificates. The Official Statement describes the Refunding Certificates, including sources and uses of funds; security for the Refunding Certificates; 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 Certificates.

4 | *Ordinance Authorizing the Issuance of Refunding Certificates of Participation, Series 2019-R-1 (Multiple Capital Improvement Projects) – Not to Exceed \$160,000,000 & Ordinance Appropriating the Proceeds*

A *Preliminary Official Statement* is distributed to prospective bidders prior to the sale of the Refunding Certificates and within seven days of the public offering of the Refunding Certificates, 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 certificates.

The Board of Supervisors and the Mayor, in adopting and approving the proposed Resolution, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Refunding Certificates. In accordance with rule 15c2-12 of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates. The Official Statement is attached for your approval prior to its publication.

### **Additional Information**

The proposed Ordinance will be introduced at the Board of Supervisors meeting on Monday, June 3, 2019. The related forms of Official Statement, including the Appendix A, will also be submitted.

*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.

*Official Notice of Sale and 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 Certificates. 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.

The Official Notice of Sale for the Certificates announces the date and time of the competitive sale, including the terms relating to the Certificates; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

The Official Bid Form attached to the Official Notice of Sale is the form of the official bid for the purchase of the Certificates. Pursuant to the Resolution, the Controller is authorized to award the Certificates 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.

*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.

The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of enumerated events. These covenants have been made in order to assist initial purchasers of the Certificates in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

5 | *Ordinance Authorizing the Issuance of Refunding Certificates of Participation, Series 2019-R-1 (Multiple Capital Improvement Projects) – Not to Exceed \$160,000,000 & Ordinance Appropriating the Proceeds*

**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	June 3, 2019
Consideration by the Board of Supervisors Budget & Finance Committee	June 2019
Issuance and delivery of 2019 R-1 COPS	October or November 2019

\*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 ([anna.vandegna@sfgov.org](mailto:anna.vandegna@sfgov.org)), Vishal Trivedi at 415-554-4862 ([vishal.trivedi@sfgov.org](mailto:vishal.trivedi@sfgov.org)), or Bridget Katz at 415-554-6240 ([bridget.katz@sfgov.org](mailto:bridget.katz@sfgov.org)) if you have any questions.