



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
Jamie Querubin, Public Finance Deputy *JQA*

DATE: Monday, October 7, 2019

SUBJECT: Ordinance Authorizing Certificates of Participation (HOPE SF) – Not-to-Exceed \$83,600,000

Supplemental Appropriation Ordinance for Certificates of Participation (HOPE SF)

Recommended Action

We respectfully request that the Board of Supervisors (the "Board") review and consider for adoption the ordinance ("Ordinance") authorizing the execution and delivery Certificates of Participation ("COPs") in an aggregate principal amount not-to-exceed \$83,600,000 to finance and refinance certain capital improvement projects, including but not limited to certain properties generally known as Hunters View, Sunnysdale, and Potrero Terrace and Annex housing developments as part of the HOPE SF initiative. A supplemental ordinance appropriating the proceeds of the COPs will be introduced to the Board to accompany the Resolution authorizing the COPs, and they are anticipated to be heard at the Budget and Finance Committee meeting on November 13, 2019.

Background

The Certificates of Participation (HOPE SF) will finance a portion of HOPE SF, which is a Mayoral initiative, in conjunction with the San Francisco Housing Authority (SFHA), composed of separate projects to revitalize four SFHA-owned public housing projects in San Francisco including (a) Hunters View, (b) Potrero Terrace & Annex, (c) Sunnysdale, and (d) Alice Griffith. The HOPE SF Project is managed by the Mayor's Office of Housing and Community Development ("MOHCD"), in partnership with the Office of Community Investment and Infrastructure ("OCII"), successor to the San Francisco Redevelopment Agency, and the San Francisco Housing Authority.

Prior HOPE SF COP Issuances

In 2017, the City sold the first series of Certificates of Participation for HOPE SF in the amount of \$28.32 million to partially finance the first three phases of the HOPE SF project (the "Project"), consisting of a master revitalization project for the Hunters View housing development in the Bayview-Hunters Point neighborhood of San Francisco, as part of the larger HOPE SF initiative.

The Project

The proposed Ordinance authorizes the execution and delivery of one or more series of tax-exempt or taxable COPs in an aggregate principal amount not-to-exceed \$83,600,000 to finance and refinance certain capital improvement projects, including but not limited to certain horizontal and vertical development generally known as Hunters View, Sunnydale, and Potrero Terrace and Annex housing developments as part of the HOPE SF initiative (together, the "Project").

Hunters View

The affordable housing in Hunters View Phase IIIA will consist of 112 rental units located on two parcels with a unit mix of 46 one-bedrooms, 10 two-bedrooms, 16 three-bedrooms, 34 four-bedrooms, 5 five-bedrooms and 1 two-bedroom manager's unit. Except for the manager's unit, all units are restricted at 50% San Francisco Area Median Income (SFAMI) with 53 units designated as public housing replacement units and supported by project-based rental assistance vouchers that were awarded to the development on June 28, 2016. The remaining 53 units are tax-credit only. Vertical construction is estimated to start in early 2021.

Associated infrastructure required for the construction of the Hunters View Phase II vertical affordable project includes construction of the streets, curbs, gutters, and utility services as well as grading of the 5 market rate parcels and construction of two open spaces. This work is expected to commence in Fall 2020.

Sunnydale

The second affordable housing development to be built on the Sunnydale HOPE SF revitalization site, Block 6, will provide 167 affordable units including 21 one bedroom, 95 two bedroom, 40 three bedroom, and 11 four bedroom apartments. Per HOPE SF's mission of providing mixed income communities, 75% of the units, or 125 units, will be set aside for Sunnydale public housing households with a Right to Return and will be subsidized through a 20-year project based Section 8 (PBV) contract. The remaining 41 units will be marketed as tax credit units, and all units will have a maximum affordability of 60% TCAC AMI. The Project is Type V wood construction over a concrete garage that is partially underground due to the slope of the site. Construction started in November 2019 with full lease up expected by Fall 2021.

Potrero Terrace and Annex

Phase II for Potrero Terrace and Annex will be divided into three new parcels: City-owned streets, a market-rate parcel for Block A housing (up to 125 units), and an affordable parcel for Block B (up to 165 units). Starting in Winter 2020, streets will be rebuilt to match the Potrero master plan grid and one new

street will be added, increasing the total rights-of-way to 129,133 s.f. Wide sidewalks and pedestrian measures will be included along with new pedestrian and street lights consistent with the master plan. Phase II also includes a Mini Park of approximately 3,900 sf (.09 acres). Existing overhead power lines will be undergrounded and existing underground gas lines will be moved to acceptable depths to accommodate the new streets. A PUC switchgear station will be located in this phase (on Block B parcel) to serve Block A and Block B.

All of the units in Block B will be restricted to households at incomes at or below 60% AMI. Approximately 124 units, 75% of the total, will be set aside as public housing replacement units for existing Potrero households and will have a Project-Based Section 8 operating subsidy. The remaining 40 units, excluding the one manager’s unit, will be tax-credit units open to new residents. The project is estimated to start construction in Fall 2020.

Table 1. Summary of New COP Needs for Development Sites

<u>Hunters View</u>	
Phase IIIA & IIIB Infrastructure	4,844,393
Phase III Vertical (112 affordable units)	16,545,729
Total New COP Needs	\$21,390,122
 <u>Sunnydale</u>	
Phase 1A-1A2 - Block 6 (167 affordable units)	16,528,630
Total New COP Needs	\$16,528,630
 <u>Potrero Terrace and Annex</u>	
Phase II - Infrastructure for Block B (165 affordable units) and Block A (125 market rate units)	11,000,000
Phase II - Block B Gap (165 affordable units)	8,023,375
Total New COP Needs	\$19,023,375
 TOTAL New COPs Need for Development Sites	\$56,942,127

The Certificates

Under the proposed Ordinance, the City will structure the COPs using a lease-lease back structure supplemental to the City’s existing Series 2009A COPs, Series 2009B COPs, Series 2012A COPs, planned Series 2019-R1 Refunding COPs, and planned Series 2020 Hall of Justice COPs utilizing subsequent supplement agreements as permitted by the Original Trust Agreement, Original Property Lease, and Original Project Lease, each by and between the City and a third-party trustee, currently U.S. Bank National Association (the “Trustee”).

It is anticipated that the City-owned Laguna Honda Hospital campus located at 375 Laguna Honda Boulevard will serve as the leased property for the COPs (the “Leased Property”). To facilitate the financing, the Leased Property to secure the COPs will consist of a substantial portion of the Laguna

Honda Hospital campus, including any and all buildings located on such portion of the campus. The Pavilion Building and the North Residence Building located at Laguna Honda currently serve as the leased assets for the outstanding Series 2009A COPs, Series 2009B COPs, Series 2012A, and such buildings and land are intended to serve as the leased assets for the City's planned Series 2019-R1 Refunding COPs, which, when issued, will refinance the outstanding Series 2009A COPs and Series 2009B COPs.

Original Property Lease and Original Project Lease: Pursuant to the Original Property Lease, the City leases a City-owned property to the Trustee. Pursuant to the Original Project Lease, the City leases back the leased property, together with the improvements thereon, from the Trustee. The City makes annual base rental payments to the Trustee in amounts representing the fair rental value for the improved leased property and equal to the amounts required to repay the COPs. When the COPs are finally paid, the Property Lease and Project Lease (each as supplemented) terminate. The City's general fund secures the payment of the City's rental payments in respect of the COPs.

Original Trust Agreement: Pursuant to the Original Trust Agreement between the City and the Trustee acting on behalf and for the benefit of COPs holders, the Trustee administers and disburses payments with respect to the COPs and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the COPs, 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 COPs and disburses payments for the costs incurred for the Project, as directed by authorized City representatives.

The subsequent supplements to the Original Property Lease and Original Project Lease, each between the City and the Trustee, require the City to make base rental payments on each September 25 and March 25 during the term of the supplemental leases in an amount sufficient to pay total base rental payments when due.

The subsequent supplement to the Original Trust Agreement between the City and the Trustee require that the base rental payments be deposited in the base rental fund maintained by the trustee. On October 1 and April 1 of each year during the term of the Trust Agreement, the Trustee will apply such amounts as is necessary to make debt service payments with respect to the COPs.

The Current Plan of Finance

The proposed Ordinance authorizes the execution and delivery of tax-exempt or, if determined by bond counsel, taxable COPs in one or more series in an aggregate par amount not to exceed \$83,600,000. Based on Project cost estimates and schedule, the Office of Public Finance anticipates selling \$81,235,000 in COPs under market assumptions prevailing at the expected time of sale. The difference between the expected issuance amount and the \$83,600,000 not-to-exceed amount provides flexibility in case the City needs to issue taxable COPs as directed by bond counsel, for market fluctuations until the sale of the COPs, any increased deposits to the debt service reserve fund, and possible additional delivery date expenses.

Commercial Paper: The current plan of finance anticipates utilizing the City's commercial paper program, which was launched in June 2010 pursuant to Resolution No. 85-09 and Resolution No. 136-10, to finance certain Project costs, including preliminary design, planning, and permitting. Pursuant to Resolution No.

247-13 approved in July 2013, the City’s total commercial paper program authorization is \$250.0 million, of which \$52.6 million is currently unencumbered.

Based upon an estimated 6.60% all-in true interest cost (approximately 3.30% above current market rates) and an anticipated total par value of \$81,235,000, the total principal and interest payments over the assumed 20-year term of the COPs are estimated to be approximately \$183,600,000. Based on market conditions expected at the time of the sale, the COPs could be structured with up to a 30-year term. Table 2 outlines anticipated sources and uses for the COPs, based on estimates determined by the Office of Public Finance.

Table 2: Estimated Sources and Uses of the COPs

Estimated Sources:	
Par Amount	\$83,600,000
Estimated Uses:	
HOPE SF developments	56,942,127
CSA Audit Fee (0.2% of project fund)	113,884
Total Project Fund Deposits:	<u>\$57,056,011</u>
Debt Service Reserve Fund	\$6,697,401
Capitalized Interest/CP Interest & Fees	\$16,210,645
Costs of Issuance	\$702,298
Underwriter's Discount	568,645
Total Delivery Expenses	<u>\$1,270,943</u>
Total Estimated Uses	\$81,235,000
<i>Reserve for Market Uncertainty</i>	<i>\$2,365,000</i>
Maximum Not-to-Exceed Par Amount	\$83,600,000

Approximately \$6,700,000 of proceeds may be allotted to fund a Debt Service Reserve Fund, if recommended by the Director of Public Finance in connection with the sale of the COPs. In addition, approximately \$1,271,000 will be allotted to cover costs associated with the issuance of the COPs, assuming one or more issuances. This includes amounts for underwriter compensation as outlined separately above, legal fees, municipal advisory fees, trustee fees, rating agency fees, printing costs, and other issuance costs.

For good faith estimates required by Code Section 5852.1 of the California Government regarding the proposed financing, see Attachment 1. The information set forth in Attachment 1 is based on estimates of prevailing market conditions, and the ability to finance the entirety of the project on a tax-exempt basis. Actual results may differ if assumed market conditions change.

Official Statement

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

A Preliminary Official Statement is distributed to prospective bidders prior to the sale of the COPs and, within seven days of the public offering of the COPs, 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 and the Mayor, in adopting and approving the proposed Ordinance, approve and authorize the use and distribution of the Official Statement by the co-municipal advisors with respect to the COPs. 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 "deemed final" as of their respective dates. In accordance with the City's disclosure policies, the Controller has certified that he has reviewed the form of POS and compared such document with the City's financial statements. The Controller will also certify that such document does not contain any material misstatement or omissions prior to it being distributed to the investing marketplace. A form of the Preliminary Official Statement is attached for your approval prior to its publication.

The Capital Plan

The anticipated incremental debt service associated with the delivery and execution of the COPs complies with the City's policy of limiting General Fund debt service payments at or below 3.25% of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan.

Additional Information

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 COPs. 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 COPs announces the date and time of the competitive sale, including the terms relating to the COPs; 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 COPs. Pursuant to the Resolution, the Controller is authorized to award the COPs 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.

Bond Purchase Agreement: The City intends to pursue a competitive sale of the COPs; 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 COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

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 COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

	<u>Date*</u>
Introduction of authorizing resolution to the Board of Supervisors	October 8, 2019
Capital Planning Committee	October 21, 2019
Consideration by the Board of Supervisors Budget & Finance Committee	November 11, 2019
Delivery and Execution of the COPs	TBD

*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 415-554-6902 if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andrea Bruss, Mayor's Office
Andres Powers, Mayor's Office
Kelly Kirkpatrick, Mayor's Budget Director
Harvey Rose, Budget Analyst
Ben Rosenfield, Controller
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney
Dan Adams, Acting Director, Mayor's Office of Housing and Community Development

ATTACHMENT 1

For purposes of compliance with Section 5852.1 of the California Government Code, the following estimated information has been provided by the City's Co-Municipal Advisors, KNN Public Finance and Ross Financial:

1. True interest cost of the COPs: 6.601%
2. Finance charge for the COPs, including all fees and charges for third parties (including underwriter's compensation, financial advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$1,270,943.
3. Amount of COP proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest funded with proceeds of the COPs: \$57,056,011.
4. Total payment amount for the COPs, being the sum of (a) debt service on the COPs to final maturity, and (b) any financing costs not paid from proceeds of the COPs: \$183,586,404.

The information set forth above is based up estimates of prevailing market conditions, and the ability to finance the entirety of the project on a taxable basis. Actual results may differ if assumed market conditions change.