



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
Luke Brewer, Office of Public Finance *LB*
Bridget Katz, Office of Public Finance

DATE: **Friday, July 17, 2020**

SUBJECT: Ordinance Authorizing Issuance of Refunding Certificates of Participation,
Series 2020-R1 (Multiple Capital Improvement Projects) – Not-to-Exceed \$97,500,000

Supplemental Appropriation Ordinance for Refunding Certificates of Participation

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 of Refunding Certificates of Participation ("2020 Refunding COPs") in an aggregate principal amount not-to-exceed \$97,500,000 to refinance various capital improvement projects. A supplemental ordinance appropriating the proceeds of the 2020 Refunding COPs will be introduced to the Board to accompany the Ordinance authorizing the Refunding COPs (together the "Ordinances"). We would like to respectfully request consideration of the Ordinances, which is being submitted with the Mayor's Proposed Budget, at the Budget and Finance Committee meetings of the full Board during August 2020.

Background

In June 2010, the Board passed Ordinance No. 166-10 authorizing the issuance of Refunding Certificates of Participation in an amount not-to-exceed \$155,000,000 to refinance four series of certificates of participation that financed various capital improvement projects. In September 2010, the City sold \$138,445,000 of Refunding Certificates of Participation, Series 2010A ("Prior 2010A COPs") to refund:

- COPs, Series 1997 (2789 25th Street)
- COPs, Series 1999 (555 7th Street Property)
- COPs, Series 2000 (San Bruno Jail Replacement Project)
- Refunding COPs, Series 2001-1 (SF Courthouse and 25 Van Ness Avenue Project)

Of the certificates of participation refunded by the Prior 2010A COPs only portions relating to the Series 1999 and Series 2000 COPs remain outstanding. A summary of the Prior 2010A COPs with a breakdown by the original refunded series is provided in Table 1 below:

Table 1: Summary of the Outstanding Prior 2010A COPs by Refunded Series

Prior COPs by Refunded Series	Par Amount Outstanding	Average Interest Rate	Final Maturity	Final Fiscal Year	Annual Debt Service
Series 1999 (555 7 th Street)	\$1,900,000	4.59%	10/1/2023	2023-34	\$515,000
Series 2000 (San Bruno Jail)	\$89,050,000	5.03%	10/1/2033	2033-34	\$8,760,000
Total Series 2010A Refunding	\$90,950,000	5.02%	10/1/2033	2033-34	\$9,275,000

When the City issues COPs, there are typically provisions included which provide an option to refinance after a certain period of time, should interest rates be more favorable and produce savings to the City. The Prior 2010A COPs are eligible to be refinanced without a penalty on or after October 1, 2020.

The Current Plan of Finance

The proposed Ordinance authorizes the execution and delivery of tax-exempt COPs in an aggregate par amount not to exceed \$97,500,000 to currently refund the outstanding Prior 2010A COPs. Based on current market conditions, the Office of Public Finance (“OPF”) anticipates selling approximately \$94,325,000 in 2020 Refunding COPs under market assumptions prevailing at the expected time of sale. The difference between the expected issuance amount and the \$97,500,000 not to exceed amount provides flexibility for market fluctuations until the sale of the 2020 Refunding COPs, any increased deposits to the debt service reserve fund, and possible additional delivery date expenses. Table 2 outlines anticipated sources and uses for the 2020 Refunding COPs, based on estimates as of July 2020.

Table 2: Estimated Sources & Uses of the Proposed 2020 Refunding COPs

Sources:

<u>2020 Refunding COP Proceeds</u>	
Estimated Par Amount	\$94,325,000
Prior Debt Service Reserve Fund	\$4,636,200
Total Sources	\$98,961,200
<i>Plus: Reserve for Market Uncertainty</i>	<i>\$3,175,000</i>
Total Sources - Appropriation	\$102,136,200

Uses:

Refunding Escrow	\$93,057,700
Debt Service Reserve Fund	\$4,141,573
<u>Delivery Date Expenses</u>	
Cost of Issuance	\$1,172,396
Underwriter's Discount	\$589,531
Total Uses	\$98,961,200
<i>Plus: Reserve for Market Uncertainty</i>	<i>\$3,175,000</i>
Total Uses - Appropriation	\$102,136,200

Source: KNN Public Finance

Proceeds from the sale of the Refunding COPs may be appropriated to fund a Debt Service Reserve Fund, if recommended by the Director of Public Finance, in connection with the sale of the Refunding COPs. In addition, OPF estimates that approximately \$1,762,000 will be allotted to cover costs associated with the issuance of the 2020 Refunding COPs, assuming one or more series. This amount is preliminary and 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.

Based upon an estimated 2.60% all-in true interest cost and an anticipated total par value of \$94,325,000, the total principal and interest payments over the assumed 14-year term of the 2020 Refunding COPs are estimated to be approximately \$110,800,000, with the maximum fiscal year debt service of approximately \$8.28 million. This translates to total gross savings to the general fund of approximately \$13.8 million, or nearly \$1 million annually.

OPF will continue to monitor market conditions and may revise the par amount of the refunding prior to the final sale or pricing date. OPF anticipates the transaction to price and close in November 2020.

For good faith estimates required by Code Section 5852.1 of the California Government Code 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.

The Certificates

Under the proposed Ordinance, the City will structure the 2020 Refunding COPs using a lease-lease back structure. This lease will be a supplemental to a lease which currently supports the City's outstanding Series 2012A COPs and Series 2019-R1 COPs, and planned Series 2020 Hall of Justice COPs (the "Master Lease") by 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 San Bruno Jail Complex located at 1 Moreland Drive, San Bruno, the current leased property for the Prior 2010A COPs, will be added as leased property under the Master Lease, which currently includes the City-owned Laguna Honda Hospital campus located at 375 Laguna Honda Boulevard (together with the San Bruno Jail Complex, the "Leased Properties").

Original Property Lease and Original Project Lease: Pursuant to the Original Property Lease, the City leases 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 and Project Leases, 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 requires 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.

Official Statement

The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of its 2020 Refunding COPs. The Official Statement describes the 2020 Refunding COPs including sources and uses of funds; security for the 2020 Refunding COPs; risk factors; and tax and other legal matters, among other information. The Official Statement also includes the City's Appendix A: "City and County of San Francisco—Organization and Finances" ("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 2020 Refunding COPs.

The City prepares Appendix A for inclusion in the Official Statement 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, constitutional and statutory limitations on taxes and expenditures, litigation and risk management.

A Preliminary Official Statement is distributed to prospective bidders prior to the sale of the 2020 Refunding COPs and, within seven days of the public offering of the 2020 Refunding 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 City's Municipal Advisor with respect to the COPs. Pursuant to the Ordinance, the Board hereby delegates to the Controller to finalize and revise the Official Statement, including Appendix A, to, among other things, include the most recent City financial information or other material information relevant to investors, and to otherwise make corrections and clarifications needed so that such offering document complies with federal securities laws.

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 debt service associated with the delivery and execution of the 2020 Refunding COPs will be lower than the Prior 2010A COPs, and therefore 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 adopted as amended per Resolution 215-19 in April 2019.

Additional Information

The forms of the related financing documents—including the Escrow Agreement, Bond Purchase Contract, Notice of Intention to Sell, Preliminary Official Statement, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted, as described below.

Escrow Agreement: The Resolution approves the form of Escrow Agreement, allowing for the creation of escrow funds to pay the principal and interest due on the Prior 2010A COPs. The escrow agent will hold any escrow obligations pursuant to the Escrow Agreement in an irrevocable trust fund account for the City for the benefit of the owners of the Prior 2010A COPs.

Official Notice of Sale and Notice of Intention to Sell (if the 2020 Refunding COPs are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the 2020 Refunding 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 2020 Refunding COPs announces the date and time of a competitive sale, including the terms relating to the 2020 Refunding 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 2020 Refunding COPs. Pursuant to the Resolution, the Controller is authorized to award the 2020 Refunding 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.

Purchase Contract (if the 2020 Refunding COPs are sold on a negotiated basis): The City will work with its Municipal Advisor to determine whether a negotiated or competitive Sale will be most advantageous for the refunding based on market conditions closer to the sale of the 2020 Refunding COPs. Should the 2020 Refunding COPs be sold via a negotiated sale with an underwriter(s), the Purchase Contract will be the document that details the terms, covenants, and conditions for the sale of the 2020 Refunding COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents. For a negotiated sale, the City would work with its Municipal Advisor to select qualified firms from the City's Underwriter Pool via a competitive Request for Proposal ("RFP") process.

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 2020 Refunding COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

The Ordinances are expected to be included as trailing legislation to the Mayor’s Proposed Budget and will be heard at the Budget and Appropriations (“B&A”) Committee with the Controller’s Office (“CON”) Department Hearings.

Milestones	Dates*
• Mayor’s Proposed Budget Issued (Ordinances as Trailing Legislation)	July 31, 2020
• B&A Committee CON Department Budget Hearing (1 st)	August 12, 2020
• B&A Committee CON Department Budget Hearing (2 nd)	August 19, 2020
• B&A Committee Hearing – Final Budget Deliberations	August 26, 2020
• Board Considers Approval of the Ordinances (1 st Reading)	September 22, 2020
• Final Board Approval of the Ordinances (2 nd Reading)	September 29, 2020
• Sale and Closing of the 2020-R1 Refunding COPs	Est. November 2020

*Please note that dates are estimated unless otherwise noted.

Please contact Anna Van Degna (Anna.VanDegna@sfgov.org) at 415-554-5956 or Luke Brewer (Luke.Brewer@sfgov.org) at 415-554-7693 if you have any questions. Your consideration of this matter is greatly appreciated.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andrea Bruss, Mayor’s Office
Andres Powers, Mayor’s Office
Ashley Groffenberger, Mayor’s Budget Director
Harvey Rose, Budget Analyst
Ben Rosenfield, Controller
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney

Attachment 1

GOOD FAITH ESTIMATES

For purposes of compliance with Section 5852.1 of the California Government Code, the following estimated information has been provided by the City's Municipal Advisor, KNN Public Finance:

1. True interest cost of the 2020 Refunding COPs: 2.60%
2. Finance charge for the 2020 Refunding 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): \$1,762,000
3. Amount of 2020 Refunding 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 2020 Refunding COPs: \$88,421,500
4. Total payment amount for the 2020 Refunding COPs, being the sum of (a) debt service on the 2020 Refunding COPs to final maturity, and (b) any financing costs not paid from proceeds of the 2020 Refunding COPs: \$110,800,000

The information set forth above is based up estimates of prevailing market conditions, and the ability to refinance the Prior 2010A COPs on a tax-exempt basis. Actual results may differ if assumed market conditions change.