

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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October 2, 2020

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** October 6, 2020 Special Budget and Finance Committee Meeting

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<p><b>Items 1, 2, 3, &amp; 4</b>  <b>Files 20-1091, 20-1092, 20-1093 &amp; 20-1094</b></p>	<p><b>Department:</b>                  Controller’s Office</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolutions would authorize actions and documents associated with (1) issuance of \$600 million in 2019 Affordable Housing General Obligation Bonds; (2) sale of \$260 million of 2019 Affordable Housing General Obligation Bonds; (3) sale of \$102.6 million of Preservation and Seismic Safety (“PASS”) General Obligation Bonds (4) sale of \$126.9 million of 2016 Public Health &amp; Safety General Obligation Bonds.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The PASS and Affordable Housing Bonds, which provide funds for privately-owned housing or public housing occupied by private citizens, will be structured as taxable bonds. These bonds would fund loans for affordable housing production, acquisition, and rehabilitation, including seismic upgrades. Affordable Housing Bonds would be allocated to public, low-income, senior, middle-income, and educator housing in accordance with Proposition A.</li> <li>• The Public Health and Safety Bonds, which fund public health facilities and neighborhood fire stations will be structured primarily as tax-exempt bonds, though a portion may be issued as taxable bonds, depending on market conditions. These will fund improvements to ZSFGH Building 5; Southeast and other community health centers, the ambulance deployment facility, neighborhood fire stations, and homeless services sites.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The City Charter limits the amount of GO bonds the City can have outstanding at any given time to 3 percent of the total assessed value of property in San Francisco. Approval of the issuance of the three bonds would increase the total debt ratio by approximately 0.17 percent from 0.71 percent to 0.88 percent, which is within the 3 percent legal debt limit.</li> <li>• If approved, the total projected average annual debt service would be \$26,670,000, and total debt service over the term of the bonds would be \$762,059,000.</li> <li>• General obligation bond debt service is recovered through an increase in the annual Property Tax rate. If the Board of Supervisors approves the issuance of all three bonds, the total increase in the Property Tax rate would be \$0.0734 to \$0.898 per \$1,000 of assessed value. The increase in the property tax rate is consistent with the City’s policy of keeping property tax rates at or below \$0.01201 of \$1,000 of assessment value.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolutions.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 9.106 states that the Board of Supervisors is authorized to provide for the issuance of general obligation bonds in accordance with the Constitution of the State of California. General obligation bonds may be issued and sold in accordance with state law or any local procedure adopted by ordinance. There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County.

**BACKGROUND****Preservation and Seismic Safety Bond**

San Francisco voters approved the \$350 million Seismic Safety Loan Bond in 1992 to provide loans to owners of masonry buildings to make seismic upgrades. Because demand for the loans was low, the Preservation and Seismic Safety (PASS) Bond was approved by voters in 2016, which amended the original Bond Program to provide for acquisition, rehabilitation, and conversion of multi-unit buildings to affordable housing, and to make seismic, fire, and other health and safety upgrades.

The Board of Supervisors approved issuance of \$260.7 million in PASS Bonds in February 2019 (File 18-1218).<sup>1</sup> Of the \$260.7 million authorization, \$72.4 million in taxable PASS Bonds were issued in February of 2019 (Series 2019A), with \$188.3 million in authorized and unissued bonds remaining.

**Public Health and Safety Bonds**

San Francisco voters approved \$350 million Public Health and Safety Bonds in June 2016 to fund seismic improvements and upgrades to fire safety systems to Building 5 on the campus of Zuckerberg San Francisco General Hospital; renovations and expansion of the Southeast Health Center and other neighborhood health clinics; higher-capacity and seismically safer ambulance facility to improve emergency medical response; capital improvements to City fire stations facilities; and, acquisition and construction of homeless services facilities.

Of the \$350 million authorization, \$22.075 million in tax-exempt Public Health and Safety Bonds have been issued (Series 2017A and Series 2018E), with \$126.925 million in authorized and unissued bonds remaining.

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<sup>1</sup> Of the original \$350 million Seismic Safety Loan Bond authorization, as of February 2019, \$89.3 million had been issued and \$260.7 million was authorized and unissued.

**Affordable Housing Bonds**

San Francisco voters approved \$600 million Affordable Housing Bonds in 2019 (Proposition A). None of the \$600 million authorization have been issued.

**DETAILS OF PROPOSED LEGISLATION****Resolutions Approving Issuance and Sale of General Obligation Bonds**

**File 20-1091:** The proposed resolution would authorize the first sale of 2019 Affordable Housing General Obligation Bonds with a not-to-exceed par amount of \$260,000,000, Series 2020C.

**File 20-1092:** The proposed resolution would authorize the issuance of \$600,000,000 in 2019 Affordable Housing General Obligation Bonds. If the Board of Supervisors approves the sale of \$260,000,000, noted above, the sale of the balance of \$340,000,000 would be subject to future Board of Supervisors approval.

**File 20-1093:** The proposed resolution would authorize the second sale of taxable Preservation and Seismic Safety (“PASS”) Program General Obligation Bonds with a not-to-exceed par amount of \$102,580,000, Series 2020F. As noted above, available PASS Program bond authorization is \$188.3 million. Approval of the proposed sale of approximately \$102.6 million would leave a balance of available PASS Program bond authorization of approximately \$85.7 million, for which the sale would be subject to future Board of Supervisors approval.

**File 20-1094:** The proposed resolution would authorize the third and final sale of taxable and/or tax-exempt 2016 Public Health and Safety General Obligation bonds (Series 2020D) with a not-to-exceed par amount of \$126,925,000.

Files 20-1091, 20-1093, and 20-1094 also:

- Prescribe the form and terms of the bonds;
- Provide for the appointment of depositories and other agents for the bonds;
- Provide for the establishment of accounts related to the bonds;
- Provide for the manner of sale of the bonds by competitive or negotiated sale;
- Approve the forms of Official Notice of Sale and Intention to Sell Bonds;
- Direct the publication of the Notice of Intention to Sell Bonds;
- Approve the form of the Bond Purchase Contract;
- Approve the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of the bonds;
- Approve the form of the Continuing Disclosure Certificate;
- Authorize and approves modifications to documents;
- Adopt findings under the California Environmental Quality Act (CEQA);
- Ratify certain actions previously taken; and
- Grant authority to City officials to take necessary actions for the authorization, issuance, sale, and delivery of the bonds.

**Taxable and Tax-Exempt Bonds**

The PASS and Affordable Housing Bonds, which provide funds for privately-owned housing or public housing occupied by private citizens, will be structured as taxable bonds. The Public Health and Safety Bonds, which fund public health facilities and neighborhood fire stations will be structured primarily as tax-exempt bonds; however, a portion of the total bond issuance may be sold as taxable depending on market conditions.

**Competitive or Negotiated Sale**

The Office of Public Finance intends to sell the PASS, with a maturity date of 40 years, and Affordable Housing taxable bonds, with a maturity date of 25 or 30 years, through a negotiated sale due to the unique long-dated taxable structure of the PASS bonds and due to market/other disruptions outside of the City's control relating to the Affordable Housing taxable bonds, as consistent with Controller's Debt Policy. RBC Capital Markets, LLC was selected to serve as Senior Underwriter, and UBS Financial Services, Inc. and Blaylock Van, LLC were selected to serve as co-managers for the PASS Bonds. Morgan Stanley & Co. LLC was selected to serve as Senior Underwriter, Citigroup Global Markets, Inc. was selected as co-senior manager, and Raymond James & Associates, Inc., Rice Securities LLC and 280 Securities LLC were selected to serve as co-managers for the Affordable Housing Bonds. These firms were selected through a competitive process, based on their responses to a Request for Proposal that was distributed to the City's Underwriter Pool, and in consultation with the City's municipal advisors on the transactions. The proposed resolutions approve the form of the Bond Purchase Agreement, which provides the terms of sale of the bonds by the City to the selected underwriters.

The Office of Public Finance currently intends to sell the Public Health and Safety bonds via a competitive sale rather than a negotiated sale based on the current recommendation of the City's municipal advisors. However, if tax-exempt municipal market conditions deteriorate significantly, the Director of the Office of Public Finance, in consultation with the Controller and the City's municipal advisors, may choose to pursue a negotiated sale, using the City's Underwriter Pool which was selected via a competitive Request for Qualifications (RFQ) process.

**Proposed Uses of Bond Funds**

Table 1 below summarizes the uses of PASS, Affordable Housing, and Public Health and Safety bond proceeds.

**Table 1: Sources and Uses of Bond Proceeds**

	Series 2020D Public Health & Safety	Series 2020C Affordable Housing	Series 2020F PASS
<b>Sources</b>			
Bond Proceeds	\$126,925,000	\$260,000,000	\$102,580,000
<b>Uses</b>			
San Francisco General Hospital Building 5	\$107,764,985		
Southeast Community Health Center	11,608,725		
Community Health Centers	3,713,202		
Neighborhood Fire Stations	2,540,000		
Public Housing		50,620,000	
Low Income Housing		143,700,000	
Preservation - Middle Income Housing		37,100,000	
Senior Housing		21,200,000	
Deferred Below Market Rate Program			5,567,541
Below Market Rate Program			34,012,613
Market Rate Program			61,647,860
Subtotal Projects	\$125,626,912	\$252,620,000	\$101,228,014
City Services Auditor	\$251,254	\$505,240	\$202,456
General Obligation Bond Oversight Committee	126,925	255,555	102,580
Costs of Issuance <sup>a</sup>	602,596	1,151,985	790,500
Underwriters Discount <sup>b</sup>	317,313	1,022,220	256,450
Reserve for Market Uncertainty <sup>c</sup>		4,445,000	
Subtotal Oversight & Financing	\$1,298,088	\$7,380,000	\$1,351,986
Total	\$126,925,000	\$260,000,000	\$102,580,000

Source: Appropriation Ordinance (File 20-1085) pending before Board of Supervisors

<sup>a</sup> Costs of issuance include costs to complete the transaction such as legal, rating and municipal advisor fees.

<sup>b</sup> Underwriters discount is the difference in the price paid to the issuer and the prices at which the bonds are initially offered to investors.

<sup>c</sup> Reserve for market uncertainty accounts for changes in interest rates at time of sale of bonds.

### Public Health and Safety Bond Projects

The Public Health and Safety 2016 Bond consists of six project components: (1) Zuckerberg San Francisco General Hospital Building (ZSFG) 5; (2) Southeast Health Center; (3) Community Health Centers; (4) Ambulance Deployment Facility; (5) Neighborhood Fire Stations; and, (6) Homeless Service Sites. The Series 2020D issuance will fund construction and project control costs for the following components:

- **ZSFG Building 5:** This component is focused on bringing the ZSFG Building 5 up to current seismic standards along with other building improvements, such as improving existing fire, life and safety systems as well as improvements to accommodate and consolidated clinical and outpatient services and meet accessibility standards.

- **Southeast Health Center:** This component includes Phase I, which funded renovations to the dental and lobby areas of the clinic and is complete. Phase II includes constructing a two-story addition adjacent to the current clinic to expand and integrate the clinic's primary care and behavioral health practices.
- **Community Health Centers:** This component funds improvements to neighborhood community health centers and includes providing renovations and seismic retrofitting for the Castro Mission Health Clinic and Maxine Hall Health Clinic.
- **Neighborhood Fire Station components:** This component funds seismic evaluations and improvements for six neighborhood fire stations, including roof and mechanical equipment replacement for some stations, and generator replacement if funding is available.

At the September 14, 2020 Capital Planning Committee meeting, the Committee reviewed and recommended that the Board of Supervisors approve the resolution and related appropriation authorizing and directing the sale of the GO Bonds (Public Health and Safety, 2016) Series 2020D, in accordance with Section 3.21 of the Administrative Code.

On September 17, 2020 the Department of Public Works submitted the Bond Accountability Report for the Public Health and Safety 2016 Bonds, in accordance with Sections 2.71 and 2.72 of the Administrative Code. The report provides an update on the projects and certifies that each project is in conformity with voter authorization.

### **Affordable Housing**

According to Mr. Benjamin McCloskey, Mayor's Office of Housing and Community Development (MOHCD) Deputy Director of Finance and Administration, the proposed use of bond proceeds is consistent with MOHCD's 2019 General Obligation Affordable Housing Bond Report, which was prepared in anticipation of submission of Proposition A to the voters and in accordance with City policy. The proposed allocation of \$600 million in Proposition A bond proceeds includes approximately \$150 million to public housing, \$220 million to low-income housing, \$30 million to affordable housing preservation, \$30 million to middle-income housing, \$150 million to senior housing, and \$20 million to educator housing. The bonds would fund production or preservation of approximately 2,755 below market rate housing units.<sup>2</sup>

### **PASS Bonds**

The original Seismic Safety Bonds approved by voters in 1992 were to provide loans to private property owners to make seismic improvements to existing masonry residential buildings. Of the original \$350 million bond authorization, \$150 million in bond proceeds were allocated to loans to below market rate residential buildings, and \$200 million in bond proceeds were allocated to loans to market rate residential and commercial buildings. As noted above, in 2016 the original Bond Program was amended to provide for acquisition, rehabilitation, and conversion of multi-

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<sup>2</sup> The 2019 General Obligation Affordable Housing Bond report proposed \$500 million in general obligation bonds but Proposition A approved \$600 million.

unit buildings to affordable housing, and to make seismic, fire, and other health and safety upgrades.

As shown in Table 1 above, \$5.6 million in PASS Program bond proceeds would be allocated as deferred below market rate loans, \$34.0 million as below market rate loans, and \$61.6 million as market rate loans. The below market rate loans issued as part of the deferred allowance are permitted to defer their repayments for 20 or 55 years. Consistent with the MOHCD's practice on the 2019A issuance, the Department will likely combine the below market rate and market rate loans to achieve a low-cost blended interest rate and maximize program capacity.

## FISCAL IMPACT

### Annual Debt Service

The proposed resolutions authorize the Director of Public Finance to determine the sale date, interest rates, principal amount, and maturity dates of the bonds, subject to the following conditions: (1) the true interest cost shall not exceed 12 percent; and (2) the Series 2020C and 2020D bonds will have final maturity no later than 30 years, and the Series 2020F bonds will have final maturity no later than 40 years from the date of issuance.

#### *Public Health and Safety*

Based on a par amount of \$126,925,000 and an estimated market interest rate of 3.04 percent, the Office of Public Finance projects an average annual debt service cost of approximately \$8,350,000. The total debt service over the anticipated 20-year life of the bonds is projected to be approximately \$167,000,000. Of this, \$126,925,000 represents the estimated par and the remaining of approximately \$40,000,000 represents estimated interest.

#### *Affordable Housing*

Based on a par amount of \$255,555,000 and an estimated market interest rate of 3.39 percent, the Office of Public Finance projects an average annual debt service cost of approximately \$13,500,000. The total debt service over the anticipated 30-year life of the bonds is projected to be approximately \$405,000,000. Of this, \$255,555,000 represents the estimated par and the remainder of \$149,400,000 represents estimated interest.

#### *PASS*

Based on a par amount of \$102,580,000 and an estimated market interest rate of 3.51 percent, the Office of Public Finance projects an average annual debt service cost of approximately \$4,820,000. The total debt service over the anticipated 40-year life of the bonds is projected to be approximately \$190,059,000. Of this, \$102,580,000 represents the estimated par and the remainder of \$87,479,000 represents estimated interest.

#### *Total Estimated Debt Service*

If the Office of Public Finance sells all three bonds, the total projected average annual debt service would be \$26,670,000, and total debt service over the term of the bonds would be \$762,059,000.

**Debt Limit**

Section 9.106 of the City Charter limits the amount of GO bonds the City can have outstanding at any given time to 3 percent of the total assessed value of property in San Francisco. 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 FY 2020-21 is approximately \$9.04 billion, based on a net assessed valuation of approximately \$301.4 billion.

As of September 2020, the City had outstanding debt of approximately \$2.15 billion in aggregate principal amount of General Obligation bonds, which equals approximately 0.71 percent of the net assessed valuation for FY 2020-21. If all of the City's voter-authorized and unissued general obligation bonds were issued, the total debt burden would be 1.44 percent of the net assessed value of property in the City.

If the Board of Supervisors approves the issuance of the:

- Public Health and Safety bonds, the debt ratio would increase by approximately 0.042 percent;
- Affordable Housing bonds, the debt ratio would increase by approximately 0.085 percent;
- PASS bonds, the debt ratio would increase by approximately 0.040 percent.

Approval of the issuance of the three bonds would increase the total debt ratio by approximately 0.17 percent from 0.71 percent to 0.88 percent, which is within the 3 percent legal debt limit.

**Property Tax Rates**

Repayment of General Obligation Bonds is recovered through an increase in the annual Property Tax rate. The estimated average increase in the property tax rate per \$1,000 of assessed value is:

- \$0.0277 for the Public Health and Safety Bonds Series 2020D. 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 \$16.42 per year if the anticipated \$126,925,000 Bonds are sold.
- \$0.0454 for the Affordable Housing Bonds Series 2020C. 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 \$26.91 per year if the anticipated \$255,555,000 Bonds are sold<sup>3</sup>.
- \$0.0003 to \$0.0167 for the PASS Bonds Series 2020F. 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 \$0.17 to \$9.88 per year if the anticipated \$102,580,000 Bonds are sold.

If the Board of Supervisors approves the issuance of all three bonds, the total increase in the Property Tax rate would be \$0.0734 to \$0.898 per \$1,000 of assessed value. The owner of a

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<sup>3</sup> \$255,555,000 in bond proceeds is net of the reserve for market uncertainty (see Table 1)

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 \$43.50 to \$53.21 per year if the anticipated \$485,060,000 Bonds are sold.

### **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 FY 2005-06 levels. The FY 2005-06 property tax rate for the GO bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Series 2020C, 2020D, and 2020F General Obligation Bonds, the property tax rate for General Obligation Bonds for FY 2020-21 would be maintained at or below the FY 2005-06 rate and within the Capital Planning Committee's approved financial constraint.

### **RECOMMENDATION**

Approve the proposed resolutions.