

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 7, 2020 Budget and Finance Committee Meeting

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	20-1007 Authorizing Taxable and/or Tax-Exempt Certificates of Participation (Multiple Capital Projects) - Not to Exceed \$157,000,000	1

Items 3 & 4 Files 20-1006 & -1007	Department: Controller’s Office
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EXECUTIVE SUMMARY

Legislative Objectives

- File 20-1006: is an ordinance that would appropriate \$149.75 million in Certificates of Participation (COPS) proceeds for Department of Public Health projects in FY 2020-21.
- File 20-1007: is an ordinance authorizing the issuance of Certificates of Participation of an amount not-to-exceed \$157,000,000 to finance the cost of undertaking repairs and improvements related to Department of Public Health capital improvement projects and the retirement of commercial paper previously issued to finance the acquisition of the Homeless Services center at 1064-1068 Mission Street.

Key Points

- The proposed Certificates of Participation will finance construction of office facilities to relocated Department of Public Health staff from 101 Grove Street, including: Laguna Honda hospital Wing Reuse and AITC Immunization and Travel Clinic Relocation.
- In addition, the Certificates of Participation would fund the General Hospital Chiller and Cooling Tower Replacement and pay down previously issued commercial paper related to the Homeless Service Center.

Fiscal Impact

- The total debt service of the proposed Certificates of Participation is approximately \$225,820,000, including (a) repayment of principal up to \$157,000,000 reflecting the COPS proceeds for projects, debt service reserve, capitalized interest, and issuance costs, and (b) \$68,820,000 in interest payments funded by the General Fund and other sources.
- The Office of Public Finance has concluded that issuance and sale of the debt obligations will allow the City to remain within the total annual debt-servicing cap set on Certificates of Participation, which may not exceed more than 3.25 percent of discretionary revenue, per Administrative Code Section 10.62(b).

Recommendation

- Approve the proposed ordinance

MANDATE STATEMENT

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding indebtedness does not exceed 3.25 percent of discretionary revenue as determined by the Controller and Director of Public Finance.

Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

City Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance after the Controller certifies the availability of funds.

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

File 20-1006: is an ordinance would appropriate \$149.75 million in Certificates of Participation proceeds for Department of Public Health projects in FY 2020-21.

File 20-1007: is an ordinance authorizing the issuance of Certificates of Participation of an amount not-to-exceed \$157,000,000 to finance the cost of undertaking repairs and improvements related to Department of Public Health capital improvement projects (detailed below) and the retirement of commercial paper previously issued to finance the acquisition of the Homeless Services center at 1064-1068 Mission Street.

In addition, File 20-1007 includes the following templates and forms that the Board of Supervisors is being asked to approve for subsequent use in entering into the actual negotiations over lease-leaseback contract terms and the underwriting process:

- Allows for taxable and tax-exempt Certificates of Participation
- The terms and legal obligations between the City, as lessor, and the Trustee, as lessee, for the execution of the leasing agreement, including base rental payments
- The Seventh Supplement to Trust Agreement between the City, as lessor, and Trust agent, as lessee, for the execution of the leaseback agreement
- The Seventh Supplement to Property Lease between the City and the Trustee
- The Seventh Supplement to the Project Lease between the City and the Trustee
- The bid offering, or Note of Intention to Sell

- The Official Notice of Sale, or the underwriting agreement through which the underwriter will conduct and execute the Certificate sale
- The Purchase Agreement, that specifies the requirement the offering may be executed through a competitive sale or a negotiated sale
- The Preliminary Official Statement

Lease and leaseback funding structure.

Certificates of Participation (COPs) are structured as lease-leaseback financing, in which (1) the City leases City-owned property to a third-party trustee (“property lease”), and 2) the trustee leases the property back to the City (“project lease”). Payments of interest and principle are funded out of the leaseback rents the City pays to the lessor/trustee that serves as the counterpart to the lease-leaseback agreement. The trustee in turn passes these monies as payments of interest and principal to entities that hold the various series of Certificates of Participation issued by the City. The trustee is responsible for collecting and distributing all payments due, overseeing compliance with contracts and the terms of the leasing agreements, and the exercise of remedies in the event of default by the City. Debt is secured against the collateral provided by the leased back property.

The City entered into the original property lease, project lease, and trustee agreement with U.S. Bank National Association in 2009, in which the City issued COPs for the redevelopment of Laguna Honda Hospital. The City has previously entered into three supplements to the original 2009 property lease, project lease, and trustee agreements to finance various capital projects. Additionally, the Board has authorized additional forms of supplements to these leases for three additional issuances of COPs which the City has not yet issued. According to the memorandum from the Office of Public Finance, to facilitate the COPs financing, several buildings at the Laguna Honda Hospital campus at 375 Laguna Honda Boulevard will be leased to the trustee.

Competitive or Negotiated Sale

The Office of Public Finance currently intends to sell the Certificates of Participation 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.

Public Health Capital Improvement Projects

The proposed ordinances would finance the following Department of Public Health projects related to the relocation of Department staff from 101 Grove Street, all of which have been previously approved in the FY 2020 – FY 2029 Capital Plan.¹

Laguna Honda Hospital (LHH) Wings Reuse: The renovation of the Laguna Honda Hospital K&M Wings includes interior renovations to create new office space to accommodate the relocation of approximately 400 Department of Public Health staff currently located at 101 Grove Street, and other building and sewer system improvements.

AITC Immunization and Travel Clinic Relocation: The AITC Immunization and Travel Clinic is part of the Disease Control & Prevention Branch of the Department, providing comprehensive pre-travel medical services and immunization US and to international travelers. The clinic will be relocated to the City-owned building at 25 Van Ness Avenue, including renovation of ground floor suites at 25 Van Ness Avenue to accommodate clinic staff and services.

In addition, the Certificates of Participation would fund the following Department of Public Health projects:

General Hospital Chiller and Cooling Tower Replacement: The General Hospital Chiller and Cooling Tower is the centralized water chilling center that supplies cold water to several medical building and clinical facilities at SFGH. The system is aging, and is deemed to be an urgently needed critical repair.

Homeless Service Center: The Certificates would provide funding to pay down \$5,000,000 in commercial paper obligations issued to finance the construction of a Homeless Service Center at 1064-1068 Mission Street.

Commercial Paper

The Office of Public Finance expects to use the City's existing commercial paper program to finance initial project costs, such as pre-development, design, and permitting. File 20-1007 requests the Board of Supervisors to authorize funding raised through issuance of the proposed Certificates of Participation to be used to refinance previously authorized issuance of commercial paper obligation of \$7.25 million (File 19-1019) to finance the construction of Homeless Service Center at 1064-1068 Mission Street. According to the Office of Public Finance memorandum to the Board of Supervisors, when the Board of Supervisors approved the prior COPS issuance (File 19-1019) and appropriation (File 19-1012) in November 2019 to construct the Homeless Service Center, allowing the City to use commercial paper pending the issuance of COPS, the Office of Public Finance stated their intention to submit future legislation authorizing a larger COPS package that would incorporate the original authorization.

¹ According to the FY 2020 – FY 2029 Capital Plan, the Department of Public Health completed master planning for seismic improvements for 101 Grove Street in 2016. Department staff are to be relocated to space at Zuckerberg General Hospital, Laguna Honda Hospital, and other City-owned buildings.

The City’s current commercial paper program authorized under Resolutions No. 494-19 allow the City to issue upwards to \$250 million in short-term obligations. Of this total, \$83.3 million is presently unencumbered.

FISCAL IMPACT

Exhibit 1 below shows the costs of the issuing the proposed Certificates of Participation.

Exhibit 1: Uses of Proposed Certificate of Participation Proceeds

Sources	
<u>DPH COPs Proceeds</u>	\$147,175,000
Uses	
<u>Project Costs</u>	
LHH Wings Reuse Project	\$84,000,000
AITC Travel Clinic Relocation	\$2,500,000
SFGH Chiller & Cooling Tower Replacement	\$34,700,000
Homeless Services Center	\$5,000,000
<i>Subtotal, Project Costs</i>	<i>\$126,200,000</i>
<u>Financing Costs</u>	
Debt Service Reserve Fund	\$11,780,000
Capitalized interest	\$6,185,000
Cost of Issuance	\$1,652,600
Underwriter's Discount	\$1,105,000
CSA Audit Fee (0.2%)	\$252,400
<i>Subtotal, Financing Costs</i>	<i>\$20,975,000</i>
Total Uses	\$147,175,000
Reserve for Market Uncertainty	\$9,825,000
Total not-to-exceed amount	\$157,000,000

Source: Office of Public Finance

Project descriptions for each of the projects is noted above and issuance cost line items are detailed in Appendix I.

The total debt service of the proposed Certificates of Participation is approximately \$225,820,000, including (a) repayment of principal up to \$157,000,000 reflecting the COPs proceeds for projects, debt service reserve, capitalized interest, and issuance costs, and (b) \$68,820,000 in interest payments funded by the General Fund and other sources. According to the Office of Public Finance, the City will remain under the cap on total annual debt servicing, which may not exceed more than 3.25 percent of discretionary revenue, per Administrative Code Section 10.62(b).

RECOMMENDATION

Approve the proposed ordinances.

File 20-1007: Appendix I

The maximum not to exceed of the authorized issuance is \$157,000,000. The Controller's Office currently estimates the actual par amount at the time of sale will be approximately \$147,175,000.

Capitalized interest, estimated at \$6,185,000, will be used to fund initial interest payments, including those of the commercial paper issued to finance projects prior to issuance of the COPs closer to project completion.

Debt Service Reserve Fund is included to provide investor with some surety and insurance against the risks associated with the requirement that the debt servicing payments attached to the COPs obligations must be authorized as part of the annual appropriation process. These funds are invested in security instruments allowable under federal law, and may be used, as part of any future refinancing of the Certificates, if re-financing would allow the City to lower the annual debt service. Barring this, these funds will be held until term, at which point they will be used to cover the final year debt servicing costs.²

Cost of issuance is estimated at \$1,652,600 for professional service fees and related costs.

Underwriters discount is the difference between the price paid by the underwriter to the City, and the price the underwriter expected to get at the time the Certificates are resold through a competitive public auction.³

Reserve for market uncertainty reflects the allowance in the event that market conditions change between the time Board of Supervisors passes the authorization of the ordinance, and the time of actual issuance. Certain factors – for instance, a spike in interest rates - could result in an increase into total project servicing costs. The reserve is the difference between the best current estimate of actual project costs, and the cap on the projects combined not-to-exceed total par amount. If market conditions do not warrant this allowance at the time of issuance, the City would borrow a smaller amount than the maximum not-to-exceed amount.

² The debt service fund is equal to one year of projected debt service, with the actual amount determined at the time of issuance.

³ If underwriters subsequently re-market the Certificate at a lower interest rate than those paid to the City to acquire the Certification, the premium realized at the time of re-sale can be taken as underwriter's discount. Actual level of this component will be determined at the time of issuance; it is understood that the City's maximum allowance for underwriters' carrying costs and associated risks will not exceed \$1,105,000.