



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

DATE: Monday, November 9, 2020

SUBJECT: Resolution Providing for the Issuance of General Obligation Bonds in an amount not to exceed \$628,500,000

Resolution Authorizing the Issuance and Sale of General Obligation Bonds (Earthquake Safety and Emergency Response, 2020) Series 2021A in an amount not to exceed \$85,000,000

Ordinance Appropriating \$85,000,000 of the Series 2021A Earthquake Safety and Emergency Response General Obligation Bond Proceeds

We respectfully request that the Board of Supervisors (the “Board”) consider for review and adoption the resolutions authorizing the issuance and approving the sale of general obligation bonds for the 2020 Earthquake Safety and Emergency Response (ESER) bond program in a total bond authorization amount of \$628,500,000 and a first issuance amount not to exceed \$85,000,000 (“Bonds” or the “2021A Bonds”).

In connection with this request, legislation authorizing issuance of bonds from the ESER program, approving the sale of this first series of bonds, a supplemental appropriation ordinance to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, November 10, 2020. We respectfully request that the items be heard at the scheduled Budget and Finance Committee meeting on December 9, 2020.

Background

On March 3, 2020, a two-thirds majority of voters of the City approved Proposition B (“2020 Proposition B”), the San Francisco Earthquake Safety and Response General Obligation Bond. 2020 Proposition B authorizes the City and County of San Francisco to issue \$628,500,000 in general obligation bonds to improve fire, earthquake, and emergency response by improving, constructing, and/or replacing: deteriorating cisterns, pipes, and tunnels, and related facilities to ensure firefighters a reliable water supply

for fires and disasters; neighborhood fire and police stations and supporting facilities; the City’s 911 Call Center; and other disaster response and public safety facilities, and to pay related costs. The projects to be funded through the proposed bond program include: (i) renovation, expansion and seismic upgrading of the City’s Emergency Firefighting Water System; (ii) improvement and rehabilitation of neighborhood fire stations and replacement of the firefighter training facility currently located on Treasure Island; (iii) seismic, safety and operations improvements to district police stations and City-owned Police Department support facilities; (iv) upgrading or replacement of critical City-owned disaster response facilities; and (v) expansion of the City’s 9-1-1 Emergency Call Center. This proposed first issuance of bonds would account for up to \$85,000,000 of the total \$628,500,000 2020 Proposition B authorization.

Financing Parameters

The proposed legislation will approve the issuance and sale of the first series of bonds under 2020 Proposition B, and appropriate of the bond proceeds from the sale. Table 1 below outlines the sources and uses for the Bonds, based on an estimate provided by Urban Futures, Inc., a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board of Supervisors regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

Table 1: Estimated Sources and Uses from the Bonds

	<u>2021A</u>
Maximum Not to Exceed Amount:	85,000,000.00
<i>Reserve for Market Uncertainty</i>	<i>3,570,000.00</i>
Estimated Sources:	
Par Amount	<u>81,430,000.00</u>
Total Estimated Sources:	85,000,000.00
Estimated Uses:	
Project Fund Deposits:	
Project Fund	79,641,343.00
CSA Audit Fee	<u>159,282.69</u>
Total Project Fund Deposits:	79,800,625.69
Cost of Issuance	733,644.31
Underwriter's Discount	814,300.00
CGOBOC Fee	<u>81,430.00</u>
Total Delivery Expense:	1,629,374.31
<i>Reserve for Market Uncertainty</i>	<i>3,570,000.00</i>
Total Estimated Uses:	85,000,000.00

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Source: Urban Futures, Inc.

Based upon an estimated market interest rate of 3.11% for general obligation bonds, the Office of Public Finance estimates that this would result in an average annual debt service cost of about \$5,500,000. The anticipated par amount of \$81,430,000 is estimated to generate about \$26,100,000 in interest payments, resulting in approximately \$107,500,000 in total debt service over the anticipated 20- to 25-year term of the bonds.

Detailed descriptions of the projects to be financed with proceeds of the Bonds are included in the Bond Reports to be prepared by the Department of Public Works. In addition, a portion of the Bond proceeds will be used to pay certain expenses incurred in connection with the issuance and delivery of the Bonds, and the periodic oversight and review of the Projects by City Services Auditor ("CSA Audit") and the Citizens' General Obligation Bond Oversight Committee ("CGOBOC").

Property Tax Impact

Repayment of annual debt service on the 2021A Bonds will be recovered through increases in the annual property tax rate, which is estimated to average \$0.00184 per \$100 of assessed value or \$1.84 per \$100,000 of assessed value over the anticipated 20-year term of the bonds. 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 \$10.90 per year if the anticipated amount of \$81,430,000 of Bonds are sold.

Debt Limit

The City Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3.00% of the assessed value of property in the City. For purposes of this provision of the Charter, 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 fiscal year 2020-21 is approximately \$9.04 billion, based on a net assessed valuation of approximately \$301.4 billion. As of November 5, 2020, the City had outstanding approximately \$2.42 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.80% of the net assessed valuation for fiscal year 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% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by approximately 0.027%, to 0.83% — within the 3.00% legal debt limit.

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 fiscal year 2006 levels. The fiscal year 2006 property tax rate for the general obligation bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Bonds, the property tax rate for general obligation bonds for fiscal year 2020-21 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

Additional Information

The ordinance was introduced at the Board of Supervisors meeting on Tuesday, November 3, 2020. The resolutions are expected to be introduced at the Board of Supervisors meeting on Tuesday, November 10,

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(Earthquake Safety and Emergency Response, 2020)*

2020. The forms of the related financing documents — including the Bond Purchase Agreement, Preliminary Official Statement, Appendix A, the Continuing Disclosure Certificate and related documents — will also be submitted at that time.

Bond Purchase Agreement: The City intends to pursue a competitive sale of the 2021A Bonds; however, should bond market conditions indicate the preferability of a negotiated transaction, the Bond Purchase Contract details the terms, covenants, and conditions for the sale of the Bonds through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

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

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Bonds. Pursuant to the Resolutions, in a competitive sale the Controller's Office is authorized to award the Bonds 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.

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 2021A Bonds. Such Notice of Intention to Sell would be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

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

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

Prior to the distribution of the Preliminary and Final Official Statements, the documents will be thoroughly and critically reviewed by City staff (in consultation with the City's professional advisors, including the City's co-disclosure counsel) to provide the most current material financial and other material information available.

Board members have a responsibility under federal securities laws to ensure that staff is aware of information that Board members may have unique in their capacity as board members that would have a material bearing of the capacity of the City to repay the bonds. Board members cannot approve a Preliminary Official Statement if they are aware that it contains material misstatements or omissions. The Board of Supervisors and the Mayor, in adopting and approving the Resolutions, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller certifies, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates.

Appendix A: The City prepares the Appendix A: "City and County of San Francisco—Organization and Finances"

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(Earthquake Safety and Emergency Response, 2020)

(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 bonds, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolution, City staff will revise the Official Statement, including the Appendix A.

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

Financing Timeline

Milestones:

Board of Supervisors (BoS) Introduction of Supplemental Appropriation Ordinance
Capital Planning Committee Hearing of Resolutions
BoS Introduction of Resolutions
Budget & Finance Committee Hearing
BoS Consideration of Resolutions and First Reading of Ordinance
BoS Second Reading of Ordinance
Estimated Sale & Closing

Dates*:

November 3
November 9
November 10
December 9
December 15
January 5, 2021
January 2021

*Please note that dates are preliminary and may change.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 (anna.vandegna@sfgov.org), Vishal Trivedi at 415-554-4862 (vishal.trivedi@sfgov.org) or Bridget Katz at 415-554-6240 (bridget.katz@sfgov.org) if you have any questions.

CC: Angela Calvillo, Clerk of the Board
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