



**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE CONTROLLER**


**Ben Rosenfield**  
**Controller**

**Todd Rydstrom**  
**Deputy Controller**

**Nadia Sesay**  
**Director**  
**Office of Public Finance**

**MEMORANDUM**

**TO:** Honorable Members, Capital Planning Committee

**FROM:** Nadia Sesay, Director   
Controller's Office of Public Finance

**SUBJECT:** Ordinance Authorizing the Execution and Delivery of Certificates of Participation (Rehabilitation Detention Facility Project)

**DATE:** November 12, 2015

I respectfully request that the Capital Planning Committee consider for review and recommendation to the Board of Supervisors (the "Board") the ordinance authorizing the execution and delivery of not to exceed par amount of \$215,000,000 in City and County of San Francisco Certificates of Participation and related supporting documents financing the construction of the Rehabilitation Detention Facility.

In connection with this request, the ordinance approving the execution and delivery of the certificates, supplemental appropriation ordinance to appropriate the certificate proceeds, and related supporting documents are expected to be introduced at the Tuesday, November 17, 2015 Board of Supervisors meeting.

**The Rehabilitation Detention Facility Project:**

Approval of the ordinance would authorize the City to deliver and execute not to exceed par amount of \$215,000,000 in City and County of San Francisco Certificates of Participation (Rehabilitation Detention Facility Project) in one or more series (the "Certificates") to finance land acquisition, design, and construction of the City's Rehabilitation Detention Facility (the "Project") possibly located on the block immediately east of the existing Hall of Justice ("HOJ"). The Project is a major component of the City's overall Justice Facilities Improvement Program (JFIP).

The proceeds of the Certificates will be used to finance the replacement of existing maximum security County Jail #3 and County Jail #4 located on the 6th and 7th floors at the HOJ, currently located at 850 Bryant, with a new adult detention facility with podular housing for direct supervision and medical and mental health unit, on a developable parcel of approximately 35,000

square feet, possibly on the block immediately east of the existing HOJ, bounded by Bryant, Sixth, Harriet Street, and Ahern Way. Construction on the project is scheduled to commence in summer 2017 with a tentative completion date of winter 2020.

**The Certificates:**

Under the proposed ordinance, the City will structure the Certificates as an abatable asset-transfer lease by and between the City and a third-party trustee pursuant to a Property Lease, Lease Agreement, and Trust Agreement.

*The Leased Property:* It is anticipated that a portion of Lot 001, Block 4154, known as 1001 Potrero Avenue, San Francisco located at the City-owned San Francisco General Hospital campus (the "Leased Property") will serve as the Leased Property for the Certificates.

The Property Lease and Lease Agreement between the City and trustee, requires the City to make base rental payments semi-annually in an amount sufficient to pay total base rental payments when due.

The Trust Agreement between the City and the trustee requires that the base rental payments be deposited semi-annually in the base rental fund maintained by the trustee. The trustee will apply such amounts as is necessary to make base rental payments with respect to the Certificates.

**The Current Plan of Finance:**

The proposed ordinance authorizes the execution and delivery of Certificates in a par amount not to exceed \$215,000,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to deliver \$208,305,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected delivery amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Certificates, and the attendant increases in required deposits for capitalized interest, debt service reserve fund, and delivery date expenses in the event interest rates were to increase from current levels.

In August 2015, the City submitted an application for SB 863 financing up to \$80,000,000 that would offset the estimated \$240,000,000 cost of developing and constructing the Rehabilitation Detention Facility project, reducing the City's total costs to \$160,000,000. Of the \$240,000,000 expected aggregate costs of the Project, the Certificates are anticipated to contribute approximately \$160,000,000 to the Project.

The proceeds will also be used to fund capitalized interest during the construction period of the Project, including accrued interest and fees from prior commercial paper financing; fund the debt service reserve account for the Certificates established under the trust agreement; and pay costs of execution and delivery of the Certificates.

*Commercial Paper:* The current plan of finance anticipates utilization of the City's commercial paper program launched by the City in June 2010 (Reso No. 85-09 and Reso No. 136-10) to finance certain interim costs of the Project, including preliminary design, planning, and

permitting costs. The City increased the total authorization level of its commercial paper program to \$250,000,000 in July 2013 (Reso No. 247-13).

*The Certificates:* The Certificates are expected to be executed and delivered in an amount sufficient to fully pay the costs of the Project, including any previously issued commercial paper and capitalized interest financing the Project. Table 1 outlines anticipated sources and uses for the Certificates.

**Table 1: Anticipated Sources and Uses from the Delivery of the Certificates.**

<b>Estimated Sources</b>		<u>Amount</u>
<u>Par Amount</u>		\$ 208,305,000
<b>Total Estimated Sources</b>		<b>\$ 208,305,000</b>
<b>Estimated Uses</b>		
Refunding Fund Deposit		\$ 160,000,000
Project Fund	159,680,639	
Controller's Audit Fee	319,361	
Other Fund Deposits		\$ 46,774,712
Capitalized Interest Fund	28,953,214	
Debt Service Reserve Fund	17,821,498	
Other Costs of Issuance		\$ 1,530,288
Cost of Issuance	801,220	
Underwriter's Discount	729,068	
<b>Total Estimated Uses</b>		<b>\$ 208,305,000</b>

The authorized amount above the expected delivery amount of \$208,305,000 allows for fluctuations in market conditions from the date of recommendation by the Capital Planning Committee and authorization by the Board of Supervisors to the time of the sale of the Certificates. The Office of Public Finance expects the Certificates to have a maturity of approximately 20 years.

Based upon conservative estimates of approximately 5.022% interest rate, the Office of Public Finance estimates that fiscal year net base rental payments on the Certificates average approximately \$17,818,000. The anticipated total par amount of \$208,305,000 is estimated to result in approximately \$98,815,666 in interest payments over the life of the Certificates. The total base rental payments over the life of the Certificates total approximately \$307,120,666. Based on market conditions expected to exist at the time of the sale, the Certificates could be structured up to a 30-year life.

*Method of Sale and Purchase Contract:* In connection with the execution and delivery of the Certificates, the proposed ordinance delegates to the Director of Public Finance the authority to sell the Certificates by either a competitive or negotiated sale pursuant to a purchase contract.

The execution and delivery of the Certificates will proceed subject to the Board's review and approval of the form of Official Statement prepared in connection with the Certificates.

**Financing Timeline:**

Schedule milestones in connection with the financing may be summarized as follows:

<u>Milestone</u>	<u>Date*</u>
• Consideration by the Capital Planning Committee	November 16, 2015
• Introduction of legislation and supporting materials to the Board	November 17, 2015
• Closing & delivery of Certificates	TBD

\*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Nadia Sesay at 415-554-5956 or [nadia.sesay@sfgov.org](mailto:nadia.sesay@sfgov.org) if you have any questions.