



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: Resolution Authorizing the Execution and Delivery of Certificates of Participation (Animal Care & Control Renovation Project)

DATE: October 17, 2016

I respectfully request that the Capital Planning Committee consider for review and adoption the resolution approving the execution and delivery of \$60,500,000 in City and County of San Francisco Certificates of Participation ("Certificates") for the construction of the Animal Care & Control Renovation Project ("Project"). The ordinance appropriating the proceeds of the Certificates was adopted by the Board of Supervisors (the "Board") on May 17, 2016.

In connection with this request, the resolution authorizing the execution and delivery of the Certificates and related supporting documents are expected to be introduced at the Tuesday, November 2, 2016 Board meeting.

The Animal Care & Control Renovation Project:

The proposed resolution authorizes the City to execute and deliver not to exceed par amount of \$60,500,000 in City and County of San Francisco Certificates of Participation (Animal Care & Control Renovation Project) to finance the design and construction of Animal Care and Control's replacement facility at 1419 Bryant Street, a City-owned property.

The scope of the project will address the seismic deficiency of the current building, and renovate the historic building at 1419 Bryant Street and turn it into a safe and humane Animal Care & Control facility. The facility will protect the animals under the care of the Animal Care & Control and provide safe, sanitary housing for animals, even if power and/or water are temporarily interrupted. The facility will also provide improved education and training facilities for the public, animal care staff, and volunteers. Construction on the project is scheduled to commence in summer 2018 with a tentative completion date of fall 2020.

The Certificates:

Under the proposed resolution, 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 portions of Lot 030, Block 4570, known as Office of the Chief Medical Examiner located at 1 Newhall Street in San Francisco, Lot 002, Block 3904, known as the Animal Care & Control Facility located at 1401 Bryant Street in San Francisco, and Lot 7, Block 2842, known as the Laguna Honda Hospital Campus located at 375 Laguna Honda Blvd., which are all City-owned assets (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 resolution authorizes the execution and delivery of Certificates in a par amount not to exceed \$60,500,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to deliver \$59,750,000 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.

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.

Estimated Sources

Expected Par Amount		\$59,580,000
Reserve Proceeds		\$920,000
Total Not to Exceed Sources:		\$60,500,000

Estimated Uses:

Project Fund Deposits		\$49,098,000
Project Fund	\$49,000,000	
CSA Audit Fee	\$98,000	
Other Fund Deposits		\$9,282,300
Debt Service Reserve Fund	\$5,409,600	
Reserve/Capitalized Interest Fund	\$3,872,700	
Delivery Date Expenses		\$1,199,700
Cost of Issuance	\$603,900	
Underwriter's Discount	\$595,800	
Expected Par Amount		\$59,580,000
Reserve for Market Uncertainty		\$920,000
Total Estimated Uses		\$60,500,000

The authorized amount above the expected delivery amount of \$59,580,000 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 6.500% interest rate, the Office of Public Finance estimates that fiscal year net base rental payments on the Certificates average approximately \$5,369,556. The anticipated total par amount of \$59,580,000 is estimated to result in approximately \$50,495,900 in interest payments over the life of the Certificates. The total base rental payments over the life of the Certificates total approximately \$110,075,900. Based on market conditions expected to exist at the time of the sale, the Certificates could be structured with up to a 30-year life.

Method of Sale and Purchase Contract: In connection with the execution and delivery of the Certificates, the proposed resolution delegates to the Director of Public Finance the authority to sell the Certificates by either a competitive or negotiated sale, subject to the Director of Public Finance's determination that a negotiated sale will result in the lowest borrowing cost to the City.

The resolution authorizes the sale of the Certificates by negotiated sale pursuant to a Purchase Contract, if a negotiated sale is expected to provide the lower cost of borrowing as compared to a competitive sale method. If a negotiated sale method is pursued, one or more firms from the City's pool underwriters will be selected to serve as underwriter(s) for the Certificates.

The Capital Plan:

The anticipated additional debt service as a result of the delivery and execution of the Certificates 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. In March 2016, the Capital Plan was amended, per Resolution No. 98-16, to include the delivery and execution of the Certificates to finance the design and construction of the Animal Care & Control Facility.

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	October 17, 2016
• Introduction of legislation and supporting materials to the Board	November 2, 2016
• 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 if you have any questions.