



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER


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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 (Affordable Housing Projects)

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 \$95,000,000 in City and County of San Francisco Certificates of Participation and related supporting documents financing the construction or rehabilitation of various affordable rental housing projects in the City.

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

The Affordable Housing Projects:

The proposed ordinance authorizes the City to execute and deliver not to exceed par amount of \$95,000,000 in City and County of San Francisco Certificates of Participation (Affordable Housing Projects) in one or more series (the "Certificates") to finance the development, construction or rehabilitation of various affordable rental housing projects (the "Project") in the City with funds from the Housing Trust Fund (HTF).

Background

In November 2012, San Francisco voters approved a City Charter amendment that created the Housing Trust Fund (HTF). Codified in Charter Section 16.110, the legislation provides General Fund revenue annually to the Mayor's Office of Housing and Community Development (MOHCD) for the purpose "creating, acquiring and rehabilitating affordable housing and promoting home ownership programs in the City". As an eligible use of the Housing Trust Fund, the Mayor's Office of Housing and Community Development desires to finance the costs of

certain projects including, certain Rental Assistance Demonstration (“RAD”) projects within the City and County of San Francisco as well as predevelopment costs for future construction of new affordable housing on City-owned parcels.

Approximately 85% of the proceeds are anticipated to fund a portion of the Rental Assistance Demonstration (RAD) program. RAD changes the way the Federal government subsidizes public housing and also moves the ownership and property management of the properties to community based non-profit affordable housing developers.

Approximately 15% of the proceeds are anticipated to fund predevelopment costs for future construction of new affordable housing at City-owned parcels.

Actual allocation of funds to projects may vary, however in all cases the expenditures will be consistent with the affordable housing requirements of the Housing Trust Fund as described in Section 16.110 of the San Francisco Charter.

The Certificates:

On July 29, 2008, Resolution No. 351-08 authorized the City and County of San Francisco Certificates of Participation, Series 2009A (Multiple Capital Improvement Projects) (“Series 2009A”) to provide funds for certain capital improvements of the City under a Trust Agreement, dated as of May 1, 2009, between the City and the Trustee (the "Original Trust Agreement"). The Original Trust Agreement provides for the delivery of additional Certificates of Participation to provide funds for additional capital projects of the City by the execution and delivery of a supplement to the Trust Agreement, and authorizes said Certificates of Participation to be secured by a supplement to the Property Lease (“Original Property Lease”) and a supplement to the Project Lease (“Original Project Lease”).

On May 5, 2009, Ordinance No. 74-09 authorized the City and County of San Francisco Certificates of Participation, Series 2009B (Multiple Capital Improvement Projects) (“Series 2009B”) in order to provide funds for certain street improvements. In connection with this financing, as permitted under the Original Trust Agreement, Original Property Lease, and Original Project Lease, the City and the Trustee entered a First Supplement to Original Trust Agreement, First Supplement to Property Lease, and First Supplement to Project Lease, each dated as of September 1, 2009, supplementing the Original Trust Agreement, Original Property Lease, and Original Project Lease, respectively.

On October 26, 2010, Ordinance No. 264-10 authorized the City and County of San Francisco Certificates of Participation, Series 2012A (Multiple Capital Improvement Projects) (“Series 2012A”) in order to provide funds for capital improvements to various City streets. In connection with this financing, as permitted under the Original Trust Agreement, Original Property Lease, and Original Project Lease, the City and the Trustee entered a Second Supplement to Original Trust Agreement, Second Supplement to Property Lease, and Second Supplement to Project, each dated as of June 1, 2012, supplementing the Original Trust Agreement, Original Property Lease, and Original Project Lease, respectively.

Under the proposed ordinance, the City will structure the transaction financing the Affordable Housing Project as an asset-transfer lease supplement to Series 2009A, Series 2009B, and Series 2012A, under subsequent supplements as permitted by the Original Trust Agreement, Original Property Lease, and Original Project Lease.

The Leased Property: It is anticipated that the City-owned Laguna Honda Hospital campus located at 375 Laguna Honda Boulevard (the "Leased Property") will serve as the Leased Property for the Certificates. To facilitate the financing, the Leased Property to the secure the Certificates consists of the Pavilion Building and the North Residence Building constructed in 2009 on the campus of the City's Laguna Honda Hospital. The two buildings also serve as the leased asset for outstanding Series 2009A, Series 2009B, and Series 2012A.

The subsequent supplements to the Original Property Lease and Original Project Lease between the City and U.S. Bank National Association, as trustee, requires the City to make base rental payments on each September 25 and March 25 during the term of the supplemental leases in an amount sufficient to pay total base rental payments when due.

The subsequent supplements to the Original Trust Agreement between the City and U.S. Bank National Association, as trustee, require that the base rental payments be deposited in the base rental fund maintained by the trustee. On October 1 and April 1 of each year during the term of the agreement, 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 \$95,000,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to execute and deliver \$83,440,000 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.

Of the \$1,600,000,000 expected aggregate costs of the Project, the Certificates are anticipated to contribute approximately \$75,000,000.

The total cost for RAD Phase I and II is approximately \$1,400,000,000 for the full portfolio rehabilitation across fourteen sites, of which an estimated \$64,000,000 will be from proceeds from sale of the Certificates. RAD will allow the City to leverage investor equity, debt financing, and City funding for the rehabilitation of over 3,475 public housing units. Rental subsidies from HUD will repay permanent loans and subsidize the operating costs of this housing for the low income residents.

Total development costs for construction of affordable housing on the three city-owned parcels is expected to be approximately \$200,000,000, of which an estimated \$11,000,000 will be from proceeds from sale of the Certificates.

A portion of the proceeds will fund the debt service reserve account for the Certificates established under the trust agreement and pay costs of execution and delivery of the Certificates.

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 capitalized interest financing and delivery expenses for 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		<u>Amount</u>
<u>Par Amount</u>		\$ 83,440,000
Total Estimated Sources		\$ 83,440,000
Estimated Uses		
Refunding Fund Deposit		\$ 75,150,000
Project Fund	75,000,000	
Controller's Audit Fee	150,000	
Other Fund Deposits		\$ 7,169,836
Debt Service Reserve Fund	7,169,836	
Other Costs of Issuance		\$ 1,120,164
Cost of Issuance	700,000	
Underwriter's Discount	420,164	
Total Estimated Uses		\$ 83,440,000

The authorized amount above the expected delivery amount of \$83,440,000 allows for fluctuations in market conditions from the date of recommendation by the Capital Planning Committee and authorization by the Board to the time of the sale of the Certificates. The Office of Public Finance expects the Certificates to have a maturity of approximately 30 years.

Based upon conservative estimates of approximately 7.528% interest rate, the Office of Public Finance estimates that fiscal year net base rental payments on the Certificates average approximately \$7,088,151. The anticipated total par amount of \$83,440,000 is estimated to result in approximately \$129,795,199 in interest payments over the life of the Certificates. The total base rental payments over the life of the Certificates total approximately \$213,235,199. 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 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 if you have any questions.