



CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER

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Controller

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Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Capital Planning Committee

FROM: Nadia Sesay, Director of Public Finance 

SUBJECT: City and County of San Francisco General Obligation Bonds
(Earthquake Safety and Emergency Response, 2014), Series 2018C
(Affordable Housing, 2015), Series 2018D
(Public Health and Safety, 2016), Series 2018E

DATE: Wednesday, March 14, 2018

I respectfully request that the Capital Planning Committee consider for review and recommendation to the Board of Supervisors the issuance of general obligation bonds financing the Earthquake Safety and Emergency Response, and Affordable Housing, and Public Health and Safety programs at its Monday, March 19, 2018 meeting.

In connection with this request, legislation approving the sale and issuance of the bonds, supplemental appropriation ordinances to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, April 3, 2018.

Background:

On June 3, 2014, a two-thirds majority of voters of the City approved Proposition A ("2014 Proposition A"), the San Francisco Earthquake Safety and Emergency Response Bond, authorizing the city to issue \$400,000,000 in general obligation bonds to improve fire, earthquake and emergency response in the City and improve or replace certain seismically unsafe facilities. Of the total authorization, \$210,265,000 has been issued to date, leaving \$189,735,000 remaining from the 2014 Proposition A funds.

On November 3, 2015, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Affordable Housing General Obligation Bond. Proposition A authorizes the City and County of San Francisco to issue \$310,000,000 in General Obligation Bonds to fund capital projects to prioritize affordable housing projects for vulnerable populations including working families, veterans, seniors, and disabled persons (the "2015 Proposition A"). The projects to be funded through the proposed bond sale

include: the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; the repair and reconstruction of dilapidated public housing; funding of a middle-income rental program; and the provision of homeownership down payment assistance opportunities for educators and middle-income households (the "Project"). Of the total authorization, \$75,130,000 has been issued to date, leaving \$234,870,000 remaining from the 2015 Proposition A funds.

On June 7, 2016, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Public Health and Safety General Obligation Bond. Proposition A authorizes the City and County of San Francisco to issue \$350,000,000 in General Obligation Bonds to fund capital projects to renovate, expand, and seismically enhance fire safety and healthcare facilities, construct a larger and more modern City ambulance center, and to repair and modernize neighborhood fire stations, and to build, acquire, and improve facilities to better serve homeless individuals and families (the "2016 Proposition A"). The projects to be funded through the proposed bond sale include: seismic improvements and upgrades to fire safety systems to Building 5 on the campus of Zuckerberg San Francisco General Hospital, renovation and expansion of the Southeast Health Center and other neighborhood health clinics, a higher-capacity and seismically safer ambulance facility to improve emergency medical response, capital improvements to City fire stations facilities, and the acquisition and construction of homeless services facilities (the "Project"). Of the total authorization, \$173,120,000 has been issued to date, leaving \$176,880,000 remaining from the 2016 Proposition A funds.

The proposed resolutions authorize the sale of not-to-exceed \$189,735,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response, 2014), Series 2018C (the "2018C Bonds"), as well as the sale of not-to-exceed \$146,000,000 of City and County of San Francisco General Obligation Bonds (Affordable Housing, 2015), Series 2018D (the "2018D Bonds"), and the sale of not-to-exceed \$52,500,000 of City and County of San Francisco General Obligation Bonds (Public Health and Safety, 2016), Series 2018E (the "2018E Bonds"). The 2018C Bonds will be the third and final series of bonds to be issued under the 2014 Proposition A. The 2018D Bonds will be the second series of bonds to be issued under the 2015 Proposition A. The 2018E Bonds will be the second series of bonds to be issued under the 2016 Proposition A.

As described more fully in the 2014 Earthquake Safety and Emergency Response Bond Accountability Report, dated February 2018, proceeds from the 2018C Bonds will partially finance the following program categories:

- **Traffic Company & Forensic Services Division** – Bond proceeds will be used to relocate the San Francisco Police Department's Forensic Services Division (FSD) and Traffic Company (TC) to a site at 1995 Evans Avenue. This project will allow for the consolidation of FSD facilities from two location into a single, seismically-sound and adequately sized location, and it will allow TC operations to be moved from a seismically deficient facility as well.
- **Police Facilities** – The bond program includes funding for facility upgrades to 12 different police facilities located across the City, including mechanical, electrical, fire protection, and structural safety work scopes, as well as code compliance and addressing accessibility requirements. This work will help address seismic issues as well as help to enable emergency response after an earthquake or disaster.

- **Neighborhood Fire Stations** – Bond proceeds from this sale will be used to renovate or replace selected fire stations to provide improved safety and a healthy work environment for firefighters, and to address structural, seismic, and other deficiencies with the aim of keeping the facilities operational to allow firefighters to respond to an emergency after a large earthquake or disaster.

As detailed in the 2015 Affordable Housing Bond Accountability Report, dated March 2018, proceeds from the Proceeds from the Bonds will partially finance the following:

- **Public Housing Projects** – Bond funding would accelerate the reconstruction and rehabilitation of distressed public housing facilities, including infrastructure replacement, as well as the creation of net new units within reconstruction programs.
- **Low-Income Housing Projects** – The proceeds will allow the Mayor’s Office of Housing and Community Development to fund the acquisition and rehabilitation of existing rent-controlled buildings to protect against the loss of affordable units, as well as purchase properties for the development of new affordable housing, and accelerate the production of new affordable housing, in particular through the Mission Area Plan program.
- **Middle-Income Housing** – The bond proceeds will increase the cap on Down Payment Assistance loans and the range of eligible households, expand the Teacher Next Door program to provide housing assistance to San Francisco schoolteachers, and allow for the development or preservation of middle-income rental opportunities.

As noted in the 2016 Public Health and Safety Bond Accountability Report, dated March 2018, proceeds from the 2018B Bonds will partially finance the following:

- **Ambulance Deployment Facility** – The funds from this sale will be used to construct a modern, seismically safe ambulance deployment and emergency medical services facility, used by the San Francisco Fire Department to dispatch ambulance and paramedic staff for improved response and to ensure it remains operational after a major earthquake.
- **Homeless Service Sites Program** – Bond proceeds will improve and expand services delivered at homeless service sites in San Francisco, create a safer and healthier environment for residents and staff in City-owned shelters, and improve efficiency and efficacy of street outreach, medical and mental health, and stabilization case management services.

The remaining authorization under the 2015 Proposition A and 2016 Proposition A will be issued subject to review by the Capital Planning Committee, the consideration and adoption by the Board of Supervisors, and approval by the Mayor of subsequent authorizing resolutions.

Financing Parameters:

The proposed resolutions authorize the sale of not-to-exceed combined par amount of \$388,235,000 for Series 2018C, 2018D, and 2018E. Based on current project cost estimates and schedules, the Office of Public Finance expects to issue \$383,555,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected

issuance amount allows for fluctuations in market conditions from the date of authorization by the Board to the time of the sale of the Bonds.

The Bonds are anticipated to contribute approximately \$187,380,041 to earthquake safety projects, \$141,949,992 to housing projects, and \$49,460,049 to public health projects. Table 1 outlines anticipated sources and uses for the Bonds.

Table 1: Anticipated Sources and Uses for the Bonds.

	ESER Series 2018C	Housing 2018D	Public Health 2018E	Total
Sources				
Par Amount	\$189,735,000	\$143,735,000	\$50,085,000	\$383,555,000
Reserve Proceeds		\$2,265,000	\$2,415,000	\$4,680,000
Total Not-To-Exceed Amount	\$189,735,000	\$146,000,000	\$52,500,000	\$388,235,000
Uses				
<u>Projects</u>				
Project Funds	\$187,380,041	\$141,949,992	\$49,460,049	\$378,790,082
Controller's Audit Fund	\$374,760	\$283,900	\$98,920	\$757,580
Projects Subtotal	\$187,754,801	\$142,233,892	\$49,558,969	\$379,547,662
<u>Other Costs of Issuance</u>				
Costs of Issuance	\$367,451	\$279,361	\$96,946	\$743,758
Underwriter's Discount	\$1,423,013	\$1,078,012	\$379,000	\$2,888,025
Citizens' General Obligation Bond Oversight Committee	\$189,735	\$143,735	\$50,085	\$383,555
Costs of Issuance Subtotal	\$1,980,199	\$1,501,108	\$526,031	\$4,007,338
Total Uses	\$189,735,000	\$143,735,000	\$50,085,000	\$383,555,000
Reserve Pending Bond Sale ¹		\$2,265,000	\$2,415,000	\$4,680,000
Total Uses with Reserve	\$189,735,000	\$146,000,000	\$52,500,000	\$388,235,000

Based upon a conservative estimate of approximately 4.61% interest rate, OPF estimates that average fiscal year debt service on the Bonds is approximately \$29,510,000. The anticipated total par value of \$383,555,000 is estimated to result in approximately \$209,500,000 in interest payments over the life of the Bonds. The total principal and interest payment over the approximate 20-year life of the Bonds is approximately \$593,000,000. Based on market conditions expected to exist at the time of the sale coupled with the Capital Planning Committee constraints, the Bonds could be structured with a 25-year life.

In addition, a portion of the Bonds will pay certain expenses incurred in connection with their issuance and delivery and the periodic oversight and review of the Projects by the Citizens' General Obligation Bond Oversight Committee ("CGOBOC"). Detailed descriptions of the Projects financed with proceeds of the Bonds are included in the Bond Reports prepared by San Francisco Public Works, the Mayor's Office of Housing, the Department of Public Health, the Fire Department, and the Department of Homelessness and Supportive Housing.

¹ The Reserve Pending Sale accounts for variations in interest rates prior to the sale of the proposed bonds.

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 2017-18 is approximately \$7.02 billion, based on a net assessed valuation of approximately \$234.1 billion. As of March 1, 2017, the City had outstanding approximately \$2.07 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.88% of the net assessed valuation for fiscal year 2017-18. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.47% 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 0.17% to 1.05%— within the 3.00% legal debt limit.

Property Tax Impact

For Series 2018C, 2018D, and 2018E, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which, according to the Controller's Office, would average \$0.01261 per \$100 or \$12.61 per \$100,000 of assessed valuation 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 annual additional Property Taxes to the City of \$74.75 per year if the anticipated \$383,555,000 City and County of San Francisco General Obligation Bonds are sold.

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 2017-18 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

Additional Information:

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, April 3, 2018. The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

Financing Timeline:

The Bonds are expected to be issued and delivered in May 2018. Schedule milestones in connection with the financing may be summarized as follows:

Milestone

Date*

Consideration by the Capital Planning Committee
Introduction of authorizing legislation and supporting materials to the Board
Issuance and delivery of the Bonds

March 19, 2018
April 3, 2018
May 2018

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact me at 415-554-5956 if you have any questions. Thank you.