



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, Capital Planning Committee

FROM: Anna Van Degna, Director of Public Finance
Jamie Querubin, Public Finance Deputy *JQ*

DATE: Monday, April 8, 2018

SUBJECT: Resolution Authorizing Not-to-Exceed \$16,000,000 Certificates of Participation and Commercial Paper Notes

Recommended Action

I respectfully request that the Capital Planning Committee consider for review and recommendation to the Board of Supervisors a resolution ("Resolution") authorizing the execution and delivery of City and County of San Francisco Certificates of Participation (the "Certificates") to finance the costs of acquisition and the payment of costs for demolition and site preparation work to support the expedited administration exit from the Hall of Justice. A supplemental ordinance appropriating the proceeds of the Certificates will be introduced to the Board of Supervisors (the "Board") to accompany the resolution authorizing the Certificates.

Background

The Hall of Justice at 850 Bryant Street ("HOJ") includes County Jails 3 and 4, the Superior Court, Police Headquarters, the District Attorney's Office, and other City agencies. The HOJ, which opened in 1961, is susceptible to severe structural damage in the event of an earthquake. If the HOJ sustains significant damage due to a major seismic event, the building may be rendered unusable and a danger to the health and safety of its tenants. As a result of the seismic risk at the HOJ, the Justice Facilities Improvement Program (JFIP) was originally developed in 2008 to initiate the closure of HOJ and the construction of replacement spaces for that facility. The HOJ condition continues to deteriorate, resulting in a substandard office condition. The City Administrator has received a coordinated demand letter from several unions to relocate staff from the HOJ as quickly as possible.

On February 25, 2019, the Capital Planning Committee recommended a Ten-Year Capital Plan (FY2020 – 2028) ("Proposed Capital Plan") and the Proposed Capital Plan was introduced at the Board on

March 5, 2019 showing that the City could fully fund a HOJ Relocation projects up to \$131 million with General Fund supported certificates of participation (“COP”).

To facilitate the administrative exit of the HOJ, on December 15, 2015 the San Francisco Board of Supervisors gave the Real Estate Division direction to begin acquisition negotiations with the property owners adjacent to 850 Bryant Street (File No. 151184). The City identified five separate lots: (Lot Nos. 009, 012, 014, 043 and 045), all within Assessor’s Block No. 3759 as necessary to acquire in order to facilitate the replacement of the HOJ through relocation of certain as-yet identified elements of existing occupancy. In 2016, the City acquired 450 6th Street, Assessor’s Lot No. 43 on Block 3759 in 2016 for \$2.4 million. Per the proposed Resolution and subject to Board approval, the Real Estate Division would use a portion of the COP proceeds to acquire properties located at 815-820 Bryant Street and 470 6th Street directly adjacent to the HOJ (together, the “Properties”).

The Project

The proposed Resolution authorizes the execution and delivery of Certificates of Participation by the City and County of San Francisco in an amount not-to-exceed \$16,000,000 to finance the acquisition of the Properties and the payment of costs for demolition and site preparation work (together, the “Project”) to support the future reconsolidation of justice functions downtown.

According to the Director of Real Estate, approval for an approximate \$11.54 million is needed by May 2019 in order to execute on a proposed Purchase and Sale Agreement to acquire the Properties. In addition to site acquisition costs and associated closing fees, approximately \$460K is needed to pay the costs for demolition and site preparation for future construction. See Table 1 below.

Table 1. Summary of Estimated Project Costs

Property Acquisition	11,520,000
Title Insurance	10,605
Estimated Title Endorsement Fees	4,800
Escrow Fees	3,111
Misc. recording, service, title insurance fees	250
Estimated Total Acquisition Costs	\$11,538,766
Estimated Demolition and Site Preparation Costs	\$461,234
TOTAL Estimated Project Cost	\$12,000,000

The Current Plan of Finance

The proposed Resolution authorizes the execution and delivery of Certificates in a par amount not-to-exceed \$16,000,000. Based on Project cost estimates and schedule, the Office of Public Finance anticipates to sell \$15,535,000 in Certificates under market assumptions prevailing at the expected time of sale. The difference between the expected issuance amount and the \$16,000,000 not-to-exceed

amount provides flexibility for market fluctuations until the sale of the Certificates, any increased deposits to the debt service reserve fund, and possible additional delivery date expenses.

Commercial Paper. The current plan of finance anticipates utilizing the City's commercial paper program, which was launched in June 2010 pursuant to Resolution No. 85-09 and Resolution No. 136-10), to finance certain interim Project costs, including preliminary design, planning, and permitting. Pursuant to Resolution No. 247-13 approved in July 2013, the City's total commercial paper program authorization is \$250.0 million, of which \$141.5 million is currently unencumbered.

Based upon an estimated 5.02% all-in true interest cost as defined in the proposed Resolution, the Office of Public Finance estimates that maximum fiscal year debt service on the Certificates will be approximately \$1,234,000. The anticipated total par value of \$15,535,000 is estimated to result in approximately \$9,672,000 in interest payments over the life of the Certificates. The total principal and interest payment over the approximate 20-year term of the Certificates is approximately \$25,070,000. Based on market conditions expected at the time of the sale, the Certificates could be structured up to a 30-year term. Table 2 below outlines anticipated sources and uses for the Certificates, based on estimates determined by the Office of Public Finance.

Table 2: Estimated Sources and Uses of the Certificates

Estimated Sources:

Par Amount	\$15,535,000
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Estimated Uses:

Project Fund	\$12,000,000
CSA Audit Fee (0.2% of project fund)	\$24,000
Total Project Fund Deposits:	<u>\$12,024,000</u>
Debt Service Reserve Fund	\$1,233,238
Capitalized Interest/CP Interest & Fees	\$1,337,138
Costs of Issuance	\$807,525
Underwriter's Discount	\$133,100
Total Delivery Expenses	<u>\$940,625</u>

Total Estimated Uses	\$15,535,000
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<i>Reserve for Market Uncertainty</i>	<i>\$465,000</i>
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Maximum Not-to-Exceed Par Amount	\$16,000,000
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Approximately \$1,233,238 of proceeds may be allotted to fund a Debt Service Reserve Fund, if recommended by the Director of the Office of Public Finance. In addition, approximately \$940,625 will be allotted to cover costs associated with the issuance of the Certificates. This includes amounts for underwriter compensation, legal fees, financial advisory fees, rating agency fees, printing costs, and other issuance costs.

The Capital Plan

The anticipated incremental debt service associated with 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.

Additional Information

The legislation is scheduled to be introduced at the Board of Supervisors meeting on Tuesday, April 16, 2019.

Anticipated Financing Timeline

	<u>Date*</u>
Introduction of authorizing resolution to the Board of Supervisors	April 16, 2019
Consideration by the Board of Supervisors Budget & Finance Committee	May 1, 2019
Delivery and Execution of the Certificates	TBD

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 or Jamie Querubin at 415-552-6902 if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andres Powers, Mayor's Office
Kelly Kirkpatrick, Mayor's Budget Director
Harvey Rose, Budget Analyst
Ben Rosenfield, Controller
Mark Blake, Deputy City Attorney
Kenneth Roux, Deputy City Attorney
Andrico Penick, Director of Real Estate Division