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CITY AND COUNTY OF SAN FRANCISCO

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MEMORANDUM

TO: Committee Members, Capital Planning Committee

FROM: Anna Van Degna, Director of the Office of Public Finance
Bridget Katz, Office of Public Finance
Vishal Trivedi, Office of Public Finance

DATE: Monday, December 3, 2018

SUBJECT: Master Resolution Authorizing the Issuance of General Obligation Bonds (Proposition A, 1992/Proposition C, 2016) – Not to Exceed $260,684,550;

Resolution Authorizing the Sale of Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016) Series 2019A – Not to Exceed $75,000,000;

Ordinance Appropriating Proceeds of General Obligation Bonds, Series 2019A

Recommended Action:

We respectfully request that the Capital Planning Committee consider for review and recommendation to the Board of Supervisors (the "Board") the resolutions authorizing the issuance of General Obligation Bonds for the Preservation and Seismic Safety ("PASS") Program in an aggregate amount of $260,684,550 and the sale of a not-to-exceed par amount of $75,000,000 in City and County of San Francisco Taxable General Obligation Bonds (Social Bonds - Affordable Housing, 2016), Series 2019A (the "Bonds"), which will be used to finance the acquisition, improvement, and rehabilitation of at-risk multi-unit residential buildings and to convert such structures to affordable housing; and the ordinance appropriating the proceeds.

Background:

As adopted in 1992, the SSLP general obligation bond program authorized $350,000,000 intended to support the seismic strengthening of unreinforced masonry buildings (UMBs). Per the SSLP, the $350,000,000 total authorization was allocated into two separate loan programs; a $150,000,000 below-market rate (BMR) loan program for seismic improvements to affordable housing UMBs, and a $200,000,000 market rate (MR) loan program intended for commercial or other UMBs. Currently, $260,684,550 of the original SSLP financing authority remains for future bond issuances.

The SSLP general obligation bond program allowed for two different categories of loans to be made using bond proceeds:

1) Below Market Rate Program (BMR): The BMR program was structured so that borrowers would pay back principal and 1/3 of the City's borrowing costs, leaving a net impact to the property tax levy of 2/3 of interest cost generated by the loan amount. Additionally, $60,000,000 of the BMR program allocation was permitted to be deferred for 20 or 55 years, which resulted in an additional short-term impact to the property tax rolls.

   Of the $150,000,000 originally authorized for the BMR loan program, $45,315,450 has been issued to date, all of which have been deferred loans. This leaves $104,684,550 in available funding authority, of which $14,684,550 is eligible to be deferred.

2) Market Rate Program (MR): The MR program was structured as a pass-through, with borrowers paying the full borrowing cost to the City, plus an additional 1% interest to cover administration costs.

   Of the $200,000,000 originally authorized for the MR program, $44,000,000 of bonds have been issued to date, leaving $156,000,000 in available funding authority for MR loans.

The BMR and MR loans may be combined to achieve a low-cost blended interest rate.

Due to low historical demand for SSLP loans funded through this general obligation bond program, in November 2016 the City's voters approved Proposition C, which amended the 1992 authorization to broaden the scope of the original program. Proposition C added the eligibility to finance the cost to acquire, improve, and rehabilitate and to convert at-risk multi-unit residential buildings to affordable housing, to perform needed seismic, fire, health, and safety upgrades and other major rehabilitation for habitability, and related costs. On October 30, 2018, the Board of Supervisors approved Ordinance No. 270-18, amending the Administrative Code to authorize and implement a Seismic Safety Retrofit and Affordable Housing Loan Program (SSRAHLP) to be funded by the sale of the authorized general obligation bonds.

Financing Parameters

The proposed legislation will be to authorize the issuance of bonds for the purposes allowed in the November 2016 Proposition C, approve the sale of the first tranche of bonds under the program, and approve the appropriation of bond proceeds from that sale.

Table 1 outlines the not-to-exceed sources and uses for the Bonds, based on an estimate provided by Sperry Capital Inc., a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board of Supervisors regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

Table 1: Estimated Sources and Uses from the Bonds

Maximum Not to Exceed Amount:	**$75,000,000**
Estimated Sources:	
Par Amount	$75,000,000
Total Estimated Sources:	**$75,000,000**
Estimated Uses:	
Project Fund Deposits:	
Project Fund	$71,461,128
CSA Audit Fee	$142,922
Total Project Fund Deposits:	$71,604,050
Cost of Issuance	$600,000
Underwriter's Discount	$220,950
CGOBOC Fee	$75,000
Total Delivery Expense:	$895,950
Reserve for Market Uncertainty	$2,500,000
Total Estimated Uses:	**$75,000,000**

Source: Sperry Capital

Based upon a current market interest rates of 5.53%, which assumes the issuance of the Bonds on a federally taxable basis, the Office of Public Finance estimates a not-to-exceed average annual debt service of approximately $4,700,000. The not-to-exceed par amount of $75,000,000 is estimated to generate approximately $113,500,000 in interest payments and approximately $188,500,000 in total debt service over the life of the Bonds. The debt service estimates assume a 40-year term, which the Office of Public Finance and the Mayor's Office of Housing Community Development, in consultation with the City's municipal advisers, determined most closely aligns with the underlying loan repayment term. The Bonds will mature on or before June 15, 2059.

<u>Property Tax Impact</u>

Repayment of annual debt service on the Bonds will be recovered through increases in the annual property tax rate. As previously discussed, borrowers of BMR loans are expected to repay principal and 1/3 of the City's borrowing cost, and borrowers of MR loans are expected to repay the full borrowing cost to the City, plus an additional 1% interest to cover administrative costs. Therefore, we anticipate a portion of the City's borrowing cost and, subsequently, then a portion of the impact on property taxes, may be reduced due to these loan repayments.

The increase in the property tax rate associated with the Bonds is estimated to range from 0.00003% up to 0.00172% per $100 of assessed value or $0.03 up to $1.72 per $100,000 of assessed valuation over the anticipated 40-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 additional property taxes to the City estimated to range from $0.19 up to $10.19 per year if the not-to-exceed $75,000,000 Bonds are sold.

Method of Sale & Bond Purchase Agreement: The Office of Public Finance is proposing a negotiated sale in connection with this transaction. The Bonds will be structured as taxable bonds with a final maturity of 35 to 40 years in order to benefit the needs of an affordable housing loan program. Citigroup has been selected to serve as Senior Underwriter, and Raymond James and Loop Capital Markets have been selected to serve as Co-underwriters. All three firms were selected through a competitive process, based on their responses to a Request for Proposal that was distributed to the City's Underwriter Pool, and in consultation with the City's municipal advisors on the transaction. The proposed Resolution approves the form of the Bond Purchase Agreement, which provides the terms of sale of the bonds by the City to the selected underwriters.

"Social Bond" Designation:
The City intends to designate the Bonds as "Social Bonds" since the proceeds will be used to finance socially beneficial projects ("Social Projects"), in particular the acquisition and conversion of at-risk buildings to affordable housing through MR and BMR loans.

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 2018-19 is approximately $7.78 billion, based on a net assessed valuation of approximately $259.3 billion. As of August 1, 2018, the City had outstanding approximately $2.48 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.96% of the net assessed valuation for fiscal year 2018-19. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.78% 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 approximately 0.03% to 0.99%— within the 3.00% legal debt limit.

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 2018-19 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, December 11, 2018. The related financing documents—including the Bond Purchase Agreement, Preliminary Official Statement, Appendix A and the Continuing Disclosure Certificate and related documents—will also be submitted.

Financing Timeline:

Milestones:	Dates*:
Capital Planning Committee	December 3
Board of Supervisors Introduction	December 11
Budget & Finance Committee Hearing	January 10
Board Approval of Resolution and 1st Reading of Appropriation Ordinance	January 22
Final Board Approval of Appropriation Ordinance (2nd Reading)	January 29
Estimated Sale & Closing	February 2019

*Please note that dates are preliminary and may change.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 (anna.vandegna@sfgov.org), Vishal Trivedi at 415-554-4862 (vishal.trivedi@sfgov.org), or Bridget Katz at 415-554-6240 (bridget.katz@sfgov.org) if you have any questions.