



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

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MEMORANDUM

TO: Honorable Members, Capital Planning Committee

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

DATE: Wednesday, July 17, 2019

SUBJECT: **Resolution Authorizing the Sale of General Obligation Bonds (Clean and Safe Neighborhood Parks, 2012) Series 2019C –\$3,100,000;**
Resolution Authorizing the Sale of Taxable General Obligation Bonds (Affordable Housing, 2015) Series 2019D –\$92,725,000

We respectfully request that the Capital Planning Committee consider for review and recommendation to the Board of Supervisors the resolutions approving the sale of general obligation bonds for the 2012 Clean and Safe Neighborhood Parks Bond (CSNPB) program in the amount of \$3,100,000 and the sale of taxable general obligation bonds for the 2015 Affordable Housing program in the amount of \$92,725,000.

In connection with this request, legislation approving the sale of these two series of bonds, as well as 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, July 30, 2019. We will request that the items be heard at the scheduled September 4, 2019 meeting of the Budget and Finance Committee.

Background:

On November 6, 2012, a two-thirds majority of voters of the City approved Proposition B (“2012 Proposition B”), the San Francisco Clean and Safe Neighborhood Parks Bond, authorizing the city to issue \$195,000,000 in general obligation bonds to finance the construction, reconstruction, purchase and/or improvement of park and recreation facilities in the City. Of the total authorization, \$191,900,000 has been issued to date, leaving \$3,100,000 remaining from the 2012 Proposition B 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, \$217,275,000 has been issued to date, leaving \$92,725,000 remaining from the 2015 Proposition A funds.

Project funds from this issuance of 2012 CSNPB bonds be used for construction, renovation, and park improvements at Heron’s Head and Agua Vista Parks at the Port of San Francisco. The projects to be funded by this issuance of 2015 Affordable Housing bonds include infrastructure and vertical gap financing for Potrero and Sunnydale public housing developments, acquisition and rehabilitation of rent-controlled housing under the Small Sites program, support for predevelopment and construction of low-income housing units, down-payment assistant loans for teachers and first-time homebuyers, and predevelopment for middle-income teacher housing.

Financing Parameters

The proposed legislation will authorize the final issuances of bonds for the purposes allowed under the November 2012 Proposition B and 2015 Proposition A, and approve the appropriation of the bond proceeds from the sale. Table 1 below outlines the not-to-exceed sources and uses for the Bonds, based on an estimate provided by Public Resources Advisory Group, 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

	<u>2019C</u>	<u>2019D</u>
Maximum Not to Exceed Amount:	\$3,100,000	92,725,000
Estimated Sources:		
Par Amount	\$3,100,000	\$92,725,000
Total Estimated Sources:	\$3,100,000	\$92,725,000
Estimated Uses:		
Project Fund Deposits:		
Project Fund	\$3,070,256.88	\$91,636,916.28
CSA Audit Fee	\$6,140.51	\$183,273.83
Total Project Fund Deposits:	\$3,076,397.39	\$91,820,190.11
Cost of Issuance	\$19,727.61	\$580,272.39
Underwriter's Discount	\$775.00	\$231,812.50
CGOBOC Fee	\$3,100.00	\$92,725.00
Total Delivery Expense:	\$23,602.61	\$904,809.89
Total Estimated Uses:	\$3,100,000	\$92,725,000

Source: Public Resources Advisory Group

Based upon an estimated market interest rate of 2.92% for tax exempt general obligation bonds, the Office of Public Finance estimates an average annual interest cost of approximately \$104,000 for the Series 2019C CSNPB bonds. The par amount of \$3,100,000 is estimated to generate approximately \$3,204,000 in total debt service over the anticipated 1-year term of the Bonds. The Bonds are expected to mature on or before June 15, 2020. The bonds are expected to be sold with a 1-year term based on market conditions, due to the small issuance size and the pairing of the sale with a larger taxable bond issuance.

The taxable bonds are anticipated to price with a market interest rate of approximately 4.39%, and the Office of Public Finance estimates that this would result in an average annual interest cost of approximately \$2,350,000 and an average total annual debt service cost of \$7,100,000. The par amount of \$92,725,000 is estimated to generate approximately \$46,906,000 in interest payments, resulting in approximately \$139,630,000 in total debt service over the 20-year life of the bonds.

In addition, a portion of the Bonds will pay certain expenses incurred in connection with their issue and delivery, and the periodic oversight and review of the Projects by City Services Auditor (“CSA Audit”) 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 to be prepared by the Port of San Francisco and the Mayor’s Office of Housing and Community Development.

Property Tax Impact

For Series 2019C and 2019D, repayment of annual debt service on the Bonds will be recovered through increases in the annual property tax rate, which is estimated to average \$0.00280 per \$100 of assessed value or \$2.80 per \$100,000 of assessed value 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 additional property taxes to the City of approximately \$16.61 per year if the anticipated \$95,825,000 Bonds are sold.

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 July 1, 2019, the City had outstanding approximately \$2.46 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.95% of the net assessed valuation for fiscal year 2018-19. If all of the City’s voter-authorized and unissued general obligation bonds were issued, the total debt burden would be 1.37% 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 0.98%— 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

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fiscal year 2019-20 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

Financing Timeline:

Milestones:

Capital Planning Committee

Board of Supervisors Introduction

Budget & Finance Committee Hearing

Board Approval of Resolutions and 1st Reading of Appropriation Ordinance

Final Board Approval of Appropriation Ordinance (2nd Reading)

Estimated Sale & Closing

Dates*:

July 25

July 30

September 4

September 10

September 17

October 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 Luke Brewer at 415-554-7693 (luke.brewer@sfgov.org) if you have any questions.