



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: Committee Members, Capital Planning Committee

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

DATE: Friday, September 6, 2019

SUBJECT: Ordinance Authorizing Certificates of Participation (Multiple Capital Improvement Projects) – Not-to-Exceed \$94,600,000 for Hall of Justice Relocation Projects #1 – Property Acquisitions

Recommended Action

We respectfully request that the Capital Planning Committee consider for review and recommendation to the Board of Supervisors (the "Board") the ordinance ("Ordinance") authorizing the execution and delivery of the Certificates of Participation (Multiple Capital Improvement Projects) ("COPs") in an aggregate principal amount not-to-exceed \$94,600,000 to finance and refinance the acquisition of certain real property located at 814-820 Bryant Street and 470 6th Street ("Bryant and 6th Streets") and at 1828 Egbert Avenue within the City. The Ordinance was introduced to the Board on September 3rd. A supplemental ordinance appropriating the proceeds of the COPs was also introduced to the Board to accompany the Ordinance authorizing the COPs.

Background

The Hall of Justice located 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. Despite interim investments, the HOJ condition continues to deteriorate, resulting in substandard office conditions. The City Administrator has received a coordinated demand letter from several unions to relocate staff from the HOJ as quickly as possible.

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Prior Board of Supervisors Actions

On April 30, 2019, the Board approved Resolution No. 215-19, adopting the City's Ten-Year Capital Plan (FY2020 – 2029) ("Adopted Capital Plan") showing that the City could fully fund HOJ Relocation projects up to \$131 million with General Fund supported certificates of participation. The proposed Ordinance seeks the final approval of the COPs to finance a portion of the \$131 million of projects contemplated in the Adopted Capital Plan, as further discussed below.

On May 7, 2019, the Board approved Resolution No. 225-19, authorizing the Director of the Real Estate Division to acquire the Bryant and 6th Streets properties directly adjacent to the HOJ in an amount of \$12 million. The resolution also authorized the Controller to direct the City to issue commercial paper notes to finance the cost of acquisition in anticipation of the approval of the COPs, and in July 2019, the City issued commercial paper notes ("HOJ Notes") to acquire the Bryant and 6th Streets properties. The proposed Ordinance seeks the final approval of the COPs to refinance the HOJ Notes.

On July 30, 2019, the Board approved Resolution No. 363-19, authorizing the Director of the Real Estate Division to acquire 1828 Egbert Avenue in an amount of \$67.3 million for use of storing evidence and moving property from the Hall of Justice and other locations. The approval of the acquisition is subject to the City's successful issuance of commercial paper notes, certificates of participation, or other forms of indebtedness. The proposed Ordinance seeks the final approval of the COPs to acquire 1828 Egbert Avenue.

The Project

The proposed Ordinance authorizes the execution and delivery of one or more series of tax-exempt and, if needed, taxable COPs in an aggregate principal amount not-to-exceed \$94,600,000 to finance or refinance the acquisition of the Bryant and 6th Streets properties and of 1828 Egbert Avenue, and to pay the 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, approximately \$12 million is needed to refinance the HOJ Notes previously sold to acquire the Bryant and 6th Streets properties, including closing costs and site demolition and preparation costs, and another estimated \$67.3 million is needed to acquire 1828 Egbert Avenue, including closing costs. The total funds needed to acquire both sites is approximately \$79.4 million. See Table 1.

Table 1. Summary of Estimated Project Costs

Acquisition of 814-820 Bryant Street & 470 6th Street	\$11,520,000
Title Fees, Escrow Fees, Misc. Fees	18,766
Estimated Demolition and Site Preparation Costs	461,234
Estimated 814-820 Bryant Street & 470 6th Street	\$12,000,000
Acquisition of 1828 Egbert Avenue	67,300,000
Title Fees, Escrow Fees, Misc. Fees	65,000
Estimated 1828 Egbert Avenue	\$67,365,000
TOTAL Estimated Project Cost	\$79,365,000

The Certificates

Under the proposed Ordinance, the City will structure the COPs using a lease-lease back structure utilizing subsequent supplement agreements to the City's existing Series 2009A COPs, Series 2009B COPs, Series 2012A COPs, and planned Series 2019-R1 Refunding COPs as permitted by the Original Trust Agreement, Original Property Lease, and Original Project Lease, each by and between the City and a third-party trustee, currently U.S. Bank National Association (the "Trustee").

It is anticipated that the City-owned Laguna Honda Hospital campus located at 375 Laguna Honda Boulevard will serve as the expanded leased property for the COPs (the "Leased Property"). To facilitate the financing, the Leased Property securing the COPs will consist of a substantial portion the Laguna Honda Hospital campus, including any and all buildings located on such portion of the campus. The Pavilion Building and the North Residence Building located at Laguna Honda currently serve as the leased assets for the outstanding Series 2009A COPs, Series 2009B COPs, Series 2012A, and such buildings and land are intended to serve as the leased assets for the City's planned Series 2019-R1 Refunding COPs, which, when issued, will refinance the outstanding Series 2009A COPs and Series 2009B COPs.

Original Property Lease and Original Project Lease: Pursuant to the Original Property Lease, the City leases a City-owned property to the Trustee. Pursuant to the Original Project Lease, the City leases back the leased property, together with the improvements thereon, from the Trustee. The City makes annual base rental payments to the Trustee in amounts representing the fair rental value for the improved leased property and equal to the amounts required to repay the COPs. When the COPs are finally paid, the Property Lease and Project Lease (each as supplemented) terminate. The City's General Fund secures the payment of the City's rental payments in respect of the COPs.

Original Trust Agreement: Pursuant to the Original Trust Agreement between the City and the Trustee acting on behalf and for the benefit of COPs holders, the Trustee administers and disburses payments with respect to the COPs and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the COPs, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the COPs and disburses payments for the costs incurred for the Project, as directed by authorized City representatives.

The subsequent supplements to the Original Property Lease and Original Project Lease, each between the City and the Trustee, require 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 supplement to the Original Trust Agreement between the City and the Trustee requires 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 Trust Agreement, the Trustee will apply such amounts as are necessary to make debt service payments with respect to the COPs.

The Current Plan of Finance

The proposed Ordinance authorizes the execution and delivery of tax-exempt or, if determined by bond counsel, taxable COPs in one or more series in an aggregate par amount not-to-exceed \$94,600,000. Based on Project cost estimates and schedule, the Office of Public Finance anticipates selling \$92,650,000 in COPs under market assumptions prevailing at the expected time of sale. The difference between the expected issuance amount and the \$94,600,000 not-to-exceed amount provides flexibility to issue taxable COPs as directed by bond counsel and for market fluctuations until the sale of the COPs, 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 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 \$138.4 million is currently unencumbered.

Based upon an estimated 4.44% all-in true interest cost (approximately 2.50% above current market rates) and an anticipated total par value of \$92,650,000, the total principal and interest payments over the approximate 20-year term of the COPs are estimated to be approximately \$140,330,000. Based on market conditions expected at the time of the sale, the COPs could be structured with up to a 30-year term. Table 2 below outlines anticipated sources and uses for the COPs, based on estimates determined by the Office of Public Finance.

Table 2: Estimated Sources and Uses of the COPs

Estimated Sources:	
Par Amount	\$94,600,000
Estimated Uses:	
814-820 Bryant Street & 470 6th Street	\$12,000,000
1828 Egbert Avenue	67,365,000
CSA Audit Fee (0.2% of project fund)	158,730
Total Project Fund Deposits:	<u>\$79,523,720</u>
Debt Service Reserve Fund	\$6,968,003
Capitalized Interest/CP Interest & Fees	\$3,861,867
Costs of Issuance	\$1,607,525
Underwriter's Discount	688,875
Total Delivery Expenses	<u>\$2,296,400</u>
Total Estimated Uses	\$92,650,000
<i>Reserve for Market Uncertainty</i>	<i>\$1,950,000</i>
Maximum Not-to-Exceed Par Amount	\$94,600,000

Approximately \$6,968,003 of proceeds may be allotted to fund a Debt Service Reserve Fund, if recommended by the Director of Public Finance, in connection with the sale of the COPs. In addition, approximately \$2,296,000 will be allotted to cover costs associated with the issuance of the COPs, assuming one or more issuances. This includes amounts for underwriter compensation, legal fees, municipal advisory fees, trustee fees, rating agency fees, printing costs, and other issuance costs.

For good faith estimates required by Code Section 5852.1 of the California Government regarding the proposed financing, see Attachment 1. The information set forth in Attachment 1 is based on estimates of prevailing market conditions, and the ability to finance the entirety of the project on a tax-exempt basis. Actual results may differ if assumed market conditions change.

Official Statement

The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of its COPs. The Official Statement describes the COPs including sources and uses of funds; security for the COPs; risk factors; and tax and other legal matters, among other information. The Official Statement also includes the City's Appendix A, the most recent Comprehensive Annual Financial Report of the City, the City's Investment Policy, and other forms of legal documents for the benefit of investors, holders and owners of the COPs.

A Preliminary Official Statement is distributed to prospective bidders prior to the sale of the COPs and, within seven days of the public offering of the COPs, the Final Official Statement (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) is distributed to the initial purchasers of the certificates.

The Board and the Mayor, in adopting and approving the proposed Ordinance, approve and authorize the use and distribution of the Official Statement by the co-municipal advisors with respect to the COPs. In accordance with rule 15c2-12 of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are "deemed final" as of their respective dates. In accordance with the City's disclosure policies, the Controller has certified that he has reviewed the form of POS and compared such document with the City's financial statements. The Controller will also certify that such document does not contain any material misstatement or omissions prior to it being distributed to the investing marketplace. A form of the Preliminary Official Statement is attached for your approval prior to its publication.

The Capital Plan

The anticipated incremental debt service associated with the delivery and execution of the COPs 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 related forms of Official Statement, including the Appendix A, will also be submitted.

Appendix A: The City prepares the Appendix A: "City and County of San Francisco—Organization and Finances" (the "Appendix A") for inclusion in the Official Statement. The Appendix A describes the City's

government and organization, the budget, property taxation, other City tax revenues and other revenue sources, general fund programs and expenditures, employment costs and post-retirement obligations, investment of City funds, capital financing and certificates, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management.

Official Notice of Sale and Notice of Intention to Sell. The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the COPs. Such Notice of Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

The Official Notice of Sale for the COPs announces the date and time of the competitive sale, including the terms relating to the COPs; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

The Official Bid Form attached to the Official Notice of Sale is the form of the official bid for the purchase of the COPs. Pursuant to the Resolution, the Controller is authorized to award the COPs to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

Bond Purchase Agreement: The City intends to pursue a competitive sale of the COPs; but if market conditions should necessitate a negotiated sale with an underwriter, the Purchase Contract details the terms, covenants, and conditions for the sale of the COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events.

The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of enumerated events. These covenants have been made in order to assist initial purchasers of the COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

	<u>Date*</u>
Introduction of authorizing resolution to the Board of Supervisors	September 3, 2019
Capital Planning Committee	September 9, 2019
Consideration by the Board of Supervisors Budget & Finance Committee	September 18, 2019
Delivery and Execution of the COPs	Estimated January 2020

*Please note that dates are estimated unless otherwise noted.

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

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andrea Bruss, Mayor's Office
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

ATTACHMENT 1

For purposes of compliance with Section 5852.1 of the California Government Code, the following information are good faith estimates provided by the City's Co-Municipal Advisors, KNN Public Finance and Ross Financial:

1. True interest cost of the COPs: 4.435%
2. Finance charge for the COPs, including all fees and charges for third parties (including underwriter's compensation, municipal advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): \$2,301,113.
3. Amount of COP proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest funded with proceeds of the COPs: \$79,523,730.
4. Total payment amount for the COPs, being the sum of (a) debt service on the COPs to final maturity, and (b) any financing costs not paid from proceeds of the COPs: \$141,737,177.

The information set forth above is based up estimates of prevailing market conditions, and the ability to finance the entirety of the project on a tax-exempt basis. Actual results may differ if assumed market conditions change.