



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

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Controller

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Deputy Controller

Anna Van Degna
Director of Public Finance

MEMORANDUM

TO: Honorable Members, Capital Planning Committee

FROM: Anna Van Degna, Director of the Controller's Office of Public Finance *AVD*
Bob Beck, Director of the Treasure Island Development Authority

DATE: Monday, January 27, 2020

SUBJECT: Resolution Authorizing the Issuance of Improvement Area No. 1 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) Special Tax Bonds, Series 2020

Recommended Action

We respectfully request that the Capital Planning Committee review and consider for recommendation to the Board of Supervisors (the "Board") the resolution (the "Resolution") which authorizes the issuance of not to exceed \$17,990,000 aggregate principal amount of Improvement Area No. 1 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) (the "Treasure Island CFD") Special Tax Bonds, Series 2020 (the "Bonds").

Background

Since 1997 the City and County of San Francisco (the "City") and the Treasure Island Development Authority ("TIDA") have been working together on the Treasure Island Project in order to redevelop the Treasure Island Naval Station ("NSTI") following the conveyance of the Navy-owned lands to TIDA. In early 2003, TIDA and the Treasure Island Community Development, LLC ("TICD" or the "Developer") entered into an Exclusive Negotiating Agreement and began work on a Development Plan. In 2011, TICD and TIDA entered into the Disposition and Development Agreement ("DDA") and TICD and the City entered into the Development Agreement ("DA") to deliver the Treasure Island/ Yerba Buena Island Development Project ("Project").

The development plan for the Project anticipates a new San Francisco neighborhood consisting of up to 8,000 new residential housing units, as well as new commercial and retail space, a hotel, and 300 acres of parks and public open space, including shoreline access and cultural uses. Transportation amenities being built for the project will enhance mobility on the Yerba Buena Island and Treasure Island as well as link

the islands to San Francisco. These amenities include a combined police/fire emergency services building; utility improvements including new water storage reservoirs and a new wastewater treatment plant; new and upgraded streets and public byways; bicycle, transit, and pedestrian facilities; an expanded marina; and a new ferry terminal.

The Treasure Island CFD and Improvement Area No. 1

On January 24, 2017, following a public hearing and landowner vote, the Board approved the formation of the Treasure Island CFD for the purpose of providing funding for certain public infrastructure to be built as a result of the Treasure Island Project. At the same time, Improvement Area No. 1 of the Treasure Island CFD was formed, and Resolution No. 12-17 was approved authorizing the issuance and sale of special tax bonds for Improvement Area No. 1 of the City and County Community Facilities District No. 2016-1 (Treasure Island) in an aggregate principal amount not to exceed \$250,000,000. The proposed Resolution supplements Resolution No. 12-17 authorizing an aggregate principal amount not to exceed \$17,990,000 for the first bond issuance, which is included in the total Improvement Area No. 1 not to exceed authorization of \$250,000,000, leaving approximately \$232,000,000 available for future bond issuances for Improvement Area No. 1. Improvement Area No. 1 consists of four development parcels (1Y, 2Y-H, 3Y, and 4Y) located on Yerba Buena Island, expected to result in 266 residential units at buildout.

The Special Tax Bonds

The proposed resolution authorizes the first sale of the Special Tax Bonds in a par amount not to exceed \$17,990,000. The Office of Public Finance expects to deliver \$14,930,000 in Bonds under assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected delivery amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Special Tax Bonds and any potential increases in required deposits for capitalized interest, debt service reserve fund, and delivery date expenses in the event interest rates were to increase from current levels (discussed further under "Current Plan of Finance").

In accordance with Ordinance No. 22-17 and the Rate and Method of Apportionment ("RMA") adopted at formation, the City has begun levying special taxes on a portion of taxable property located on development parcel 4Y within Improvement Area No. 1. The proposed Bonds will be secured by a pledge of such special tax revenue collections in Improvement Area No. 1 of the Treasure Island CFD.

There is currently one building under construction which was subject to the special tax for Fiscal Year 2019-20. The 2020 Bonds are sized based on the projected annual special tax levy on this building. For Fiscal Year 2019-20, \$833,688 in special taxes are anticipated to be collected in Improvement Area No. 1, escalating at 2.00% annually.

Current Plan of Finance

The City will only sell Bonds at an amount sufficiently sized to the special taxes levied within Improvement Area No. 1 of the Treasure Island CFD. Additionally, per the City's *Local Goals and Policies – Community Facilities Districts and Special Tax Districts*, the City is required to sell the Bonds to achieve at minimum a 3-to-1 value-to-debt ratio based on appraised value (in this case) or assessed value.

The proceeds of the bonds will finance or reimburse (i) capital improvements for the Treasure Island Project, (ii) a Reserve Fund, (iii) capitalized interest on the Bonds, if any, (iv) administrative expenses, and (v) costs of issuance. More specifically, the proceeds of the proposed Bonds are expected to reimburse TICD for developer qualified costs, such as land acquisition for the costs paid to the Navy for land, on-site infrastructure costs (e.g. utility improvements, street facilities, curb, gutter and sidewalk improvements, streetlights, and traffic signals), and related pre-development costs.

Table 1 on the following page outlines anticipated sources and uses for the Bonds, based on current market conditions.

Table 1: Estimated Sources & Uses of the Special Tax Bonds, Series 2020

Sources:	
Bond Proceeds	
Par Amount	\$14,930,000
Premium	1,716,638
Total Sources	\$16,646,638
Uses:	
Project Fund	\$14,344,688
Debt Service Reserve Fund	1,298,140
Delivery Date Expenses	
Cost of Issuance	\$750,000
Underwriter's Discount	223,950
CSA Audit Fee	29,860
Total Uses	\$16,646,638
Reserve for Market Uncertainty	\$1,343,362
Not-to-Exceed Par Amount	\$17,990,000

Source: Stifel, PFM and CSG Advisors, Inc.

The requested not-to-exceed par amount of \$17,990,000 exceeds the current estimated par amount of \$14,930,000 in order to provide flexibility to capture the benefit of more favorable market conditions should they be available at the time of sale. Conditions that could result in a change in the anticipated project fund and/or par amount include fluctuations in market interest rates between the date of authorization by the Board and the sale of the Bonds, changes in required deposits for reserves or changes in estimated delivery date expenses.

Based upon current market conditions, a 30-year term and an overall borrowing cost of 4.26%, which assumes the issuance of all bonds on a tax-exempt basis, the Office of Public Finance estimate an average annual debt service of approximately \$1.04 million. The anticipated total par amount of \$14.93 million is estimated to result in approximately \$16.63 million in interest payments over the life of the Bonds. The total debt service over the life of the Bonds is estimated at approximately \$31.56 million.

Method of Sale & Bond Purchase Agreement: A negotiated sale is planned in connection with this transaction. The Bonds are repaid from special tax revenues from specific projects within the Treasure Island CFD and are outside of the City's customary credit profile. Prior to formation, the Office of Public Finance selected Stifel, Nicolaus & Company, Incorporated ("Stifel") to serve as Senior Underwriter and Backstrom McCarley Berry & Co. LLC, ("Backstrom") to serve as Co-underwriter. The firms selected are in the City's Underwriter Pool, which was established via a competitive process. 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.

The Capital Plan

The Bonds are limited obligations of the City. They are payable solely from the special tax revenues within Improvement Area No. 1 of the Treasure Island CFD. Therefore, this transaction is not subject to the policy constraints of the Ten-Year Capital Plan.

Additional Information

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, February 4, 2020. The forms of the related financing documents—including the Bond Purchase Agreement, Fiscal Agent Agreement, Preliminary Official Statement, the Continuing Disclosure Certificate and related documents—will also be submitted.

Anticipated Financing Timeline

Milestones	Dates*
• Presentation to Capital Planning Committee	January 27, 2020
• Introduction of Resolution to the Board of Supervisors	February 4, 2020
• Budget & Finance Committee Hearing	February 26, 2020
• Board Approval of Resolution	March 3, 2020
• Sale and Closing of the Bonds	Estimated March/April 2020

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna (anna.vandegna@sfgov.org) at 415-554-5956, Luke Brewer (luke.brewer@sfgov.org) at 415-554-7693, if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
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