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CITY AND COUNTY OF SAN FRANCISCO

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Anna Van Degna
Director of Public Finance

MEMORANDUM

TO: Committee Members, Capital Planning Committee

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

DATE: Monday, September 14, 2020

SUBJECT: Resolution Authorizing the Sale of Taxable General Obligation Bonds (Affordable Housing, 2016) Series 2020F – Not to Exceed $102,580,000

Recommended Action:

We respectfully request that the Capital Planning Committee consider for review and recommendation to the Board of Supervisors (the "Board") the resolution authorizing the second issuance of General Obligation Bonds for the Preservation and Seismic Safety ("PASS") Program with a not-to-exceed par amount of $102,580,000 in City and County of San Francisco Taxable General Obligation Bonds (Affordable Housing, 2016), Series 2020F (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 in addition to providing financing for seismic improvements of unreinforced masonry buildings.

Background:

Proposition A (Earthquake Loan Bond Program) was approved by the voters in November 1992. The program, also known as the Seismic Safety Loan Program (or "SSLP"), authorized $350,000,000 of general obligation bonds to provide loans for 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, as further described below. Currently, $188,264,550 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 (BMR) Program: The BMR program was structured so that borrowers would pay back the borrowed principal and pay an interest rate at 1/3 of the City's borrowing costs, leaving a net impact to the property tax levy of 2/3 of the 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, $76,383,630 has been issued to date, $49,660,650 of which have been deferred loans. This leaves $73,616,370 in available funding authority, of which $10,339,350 is eligible to be deferred.

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

   Of the $200,000,000 originally authorized for the MR program, $85,351,820 of bonds have been issued to date, leaving $114,648,180 in available funding authority for MR loans.

The BMR and MR loans will likely be combined to achieve a low-cost blended interest rate and maximize program capacity.

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[1] to be funded by the sale of the authorized general obligation bonds.

On February 1, 2019, the Board of Supervisors approved Resolution No. 18-1218 authorizing the issuance and sale of not to exceed $260,684,550 aggregate principal amount of General Obligation Bonds (Proposition A, 1992/Proposition C, 2016) also referred to as Preservation and Seismic Safety (PASS) bond program. Of the total authorization, $72,420,000 has been issued to date. Prior to the onset of the Covid-19 pandemic in March of 2020, loans deployed from proceeds of the first issuance had 100% performance with no defaults or delinquencies. The City, through the Mayor's Office of Housing and Community Development, established a Covid-19 forbearance policy to stabilize the affordable housing operations which included 100% forbearance of principal and interest for 6 months; monthly performance monitoring; forborne loan payments adding to and extending the loan term; non-performing loans worked out within 12 months; and, an optional 6 month extension with catch up and ongoing monthly payments as financially feasible. Seven projects, accounting for approximately 63% of the issued portfolio, are currently participating in the forbearance program with loan values totaling $22.8 million. In recognition of the impact of the pandemic in San Francisco, loans in the forthcoming second issuance will be required to include increased operating and debt service reserves of up to 1 year; assumption of limited or no rent increases and implementation of the City's rent and eviction moratorium; increased operating expenses including utility, cleaning, PPE, maintenance and staffing costs; and, up to a 100% discount on commercial

[1] The Seismic Safety Retrofit and Affordable Housing Loan Program (SSRAHLP) is now also referred to as the Preservation and Seismic Safety (PASS) loan program.

revenue depending on the feasibility of businesses to safely open and successfully operate in compliance with the City's Health Order governing business operations during the Covid-19 pandemic. Additionally, projects are required to achieve stabilization prior to closing on PASS financing. This ensures that projects meet the minimum required 1.10 debt service coverage ratio, residential and commercial occupancy and rental achievement, and full funding of all reserves prior to loan closing.

Financing Parameters:

The proposed legislation would authorize the sale of the second tranche of bonds under the PASS loan 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 Del Rio Advisors, 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:	**102,580,000**
Sources:	
Par Amount	102,580,000
Total Sources:	**102,580,000**
Uses:	
Project Fund Deposits	
Project Fund	101,228,014
CSA Audit Fee	202,456
Total Project Fund Deposits:	101,430,470
Cost of Issuance	790,500
Underwriter's Discount	256,450
CGOBOC Fee	102,580
Total Delivery Expense:	1,149,530
Total Uses:	**102,580,000**

Based upon a current market interest rates of 3.51%, which assumes the issuance of the Bonds on a federally taxable basis, the Office of Public Finance estimates average annual debt service of approximately $4,820,000. The not-to-exceed par amount of $102,580,000 is estimated to generate approximately $87,479,415 in interest payments and approximately $190,059,000 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 adviser, determined most closely aligns with the underlying loan repayment term. The final maturity of the Bonds will be on or before June 15, 2060.

Property Tax Impact:

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 an interest rate at 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 over the City's borrowing costs 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, will 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 0.00167% or $0.03 up to $1.67 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 $0.17 up to $9.88 per year if the not-to-exceed $102,580,000 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 are expected to be structured as taxable bonds with a final maturity of 40 years in order to benefit the needs of an affordable housing loan program. The Office of Public Finance has distributed a Request for Proposals to the City's Underwriter pool and expects to make a selection in advance of introduction to the Board of Supervisors. 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.

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 2020-21 is approximately $9.04 billion, based on a net assessed valuation of approximately $301.4 billion. As of September 1, 2020, the City had outstanding approximately $2.15 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.71% of the net assessed valuation for fiscal year 2020-21. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.44% 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 0.04% from 0.71% to 0.75%— 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, assuming current assessed valuation projections, the property tax rate for general obligation bonds for fiscal year 2020-21 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, September 22nd, 2020. The related financing documents—including the Bond Purchase Agreement, Preliminary Official Statement, Appendix A and the Continuing Disclosure Certificate and other documents—will also be submitted.

Financing Timeline:

Milestones:	Dates*:
Capital Planning Committee	September 14
Board of Supervisors Introduction	September 22
Budget & Finance Committee Hearing	September 30
Board Approval of Resolution and 1st Reading of Appropriation Ordinance	October 6
Final Board Approval of Appropriation Ordinance (2nd Reading)	October 20
Estimated Sale & Closing	Oct/Nov 2020

**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 Marisa Pereira Tully at 646-265-7048 (marisa.pereira.tully@sfgov.org) if you have any questions.