



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: Honorable Members, Capital Planning Committee

FROM: Anna Van Degna, Director of the Controller's Office of Public Finance
Grant Carson, Debt Capital Markets Specialist, Controller's Office of Public Finance

DATE: July 17, 2023

SUBJECT: Ordinance Authorizing Certificates of Participation (Multiple Capital Improvement Projects) – Not to Exceed \$77,170,000 for Critical Repairs and Street Repaving Projects

Recommended Action

We respectfully request that the Capital Planning Committee (the "CPC") consider for review and approval the ordinance ("Ordinance") authorizing the execution and delivery of the Certificates of Participation (Multiple Capital Improvement Projects) (the "FY24 COPs") in an aggregate principal amount not-to-exceed \$77,170,000 to finance certain capital improvement projects included within the City's 10-Year Capital Plan for Fiscal Years 2024-2033 (the "Capital Plan") generally consisting of (a) street repaving and reconstruction and (b) critical repairs, including renovations and improvements to City-owned buildings, facilities, and works maintained and utilized by various City departments. The proceeds of the FY24 COPs were proposed to be appropriated in Fiscal Year 2023-24 in the Annual Budget and Appropriation Ordinance ("AAO"). Proceeds of the long-term FY24 COPs will also be used to fund related financing costs and reserves. Additionally proceeds of the FY24 COPs will likely be used to refinance/retire certain commercial paper notes of the City issued on an interim basis for such purposes.

Background

On May 9, 2023, the Board of Supervisors (the "Board") approved Resolution No. 238-23, adopting the City's Ten-Year Capital Plan (FY2024 – 2033) ("Adopted Capital Plan"), which demonstrated the City's ability to fully fund, in Fiscal Year 2024, \$30.0 million for Critical Repairs projects and \$30.0 million for Street Repaving projects with General Fund supported certificates of participation ("COPs").

Prior Authorizations: The Adopted Capital Plan also demonstrated the City's ability to fully fund two other previously approved related Critical Repairs/Streets COP authorizations. On July 27, 2021, the Board passed Ordinance No. 123-21, authorizing the issuance of not-to-exceed \$67,500,000 of COPs to finance \$56,732,000 in Critical Repairs/Economic Recovery Stimulus projects in the Fiscal Year 2021-22 budget (the "FY22 COPs"). On July 26, 2022, the Board passed Ordinance No. 183-22, authorizing the issuance of

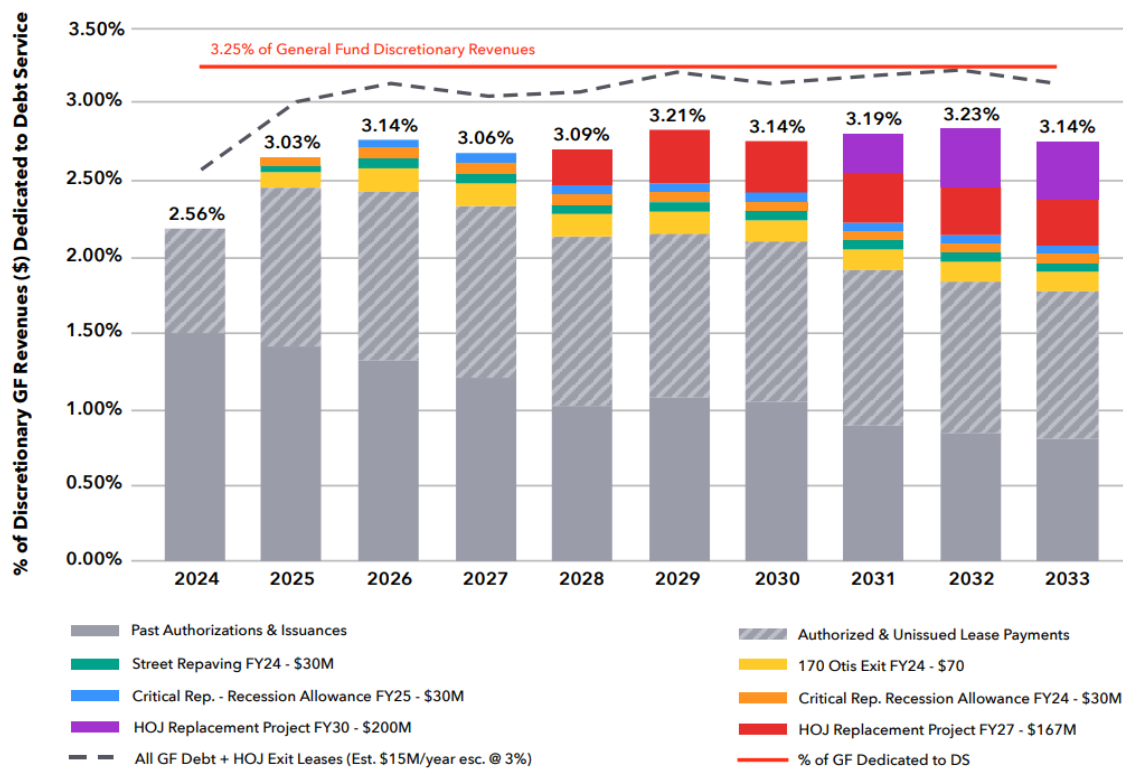
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not-to-exceed \$140,000,000 of COPs to finance \$109,190,000 in Critical Repairs, Streets, and Economy Recovery Stimulus projects in the Fiscal Year 2022-23 budget (the “FY23 COPs”).

The Capital Plan

As previously mentioned, the Adopted Capital Plan included \$30.0 million for Critical Repairs projects and \$30.0 million for Street Repaving in FY 2024. At that level, 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 Capital Plan. The total amount to be funded through the FY24 COPs for Critical Repairs is \$25.6 million and the total amount to be funded through the FY24 COPs for Street Repaving is \$32.8 million. Because the combined total of \$58.4 million is less than the \$60.0 million planned capital, the related debt service is projected to be lower than the projections included in the Capital Plan displayed below.

Capital Plan General Fund Debt Program FY2024-33



The Projects

The City has historically included options like Critical Repairs and Street Repaving COPs in its Capital Plan’s General Fund Debt Program as a capital source specifically to maintain critical infrastructure for municipal services. Based on the proposed budget for FYs 2023-24 & 2024-25, certain capital projects that would typically be funded with cash on hand are either being deferred or considered for COPs funding. While it is feasible to defer certain projects, there are critical repairs and replacements requiring more immediate funding action to continue providing essential services.

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The proposed projects to be funded by the FY24 COPs for the Critical Repairs and Street Repaving COP programs are shown in the tables below. An overview of the Critical Repairs, Street Repaving, and Recovery Stimulus projects funded by the FY22 COPs and FY23 COPs is included as [Attachment 2](#).

Critical Repairs Projects – FY24 COPs

Department	Project	Amount
ADM	HOJ – Roof Replacement	\$5,000,000
ADM	City Hall – Elevator Modernization (PW Elevator Program)	3,000,000
ART	MCCLA Roof Diaphragm (Seismic)	3,200,000
DPH	LHH – Water Tank Replacement	4,100,000
JUV	JUV Elevator Modernization (PW Elevator Program)	1,750,000
WAR	Opera House Roof Replacement	7,000,000
WAR	Opera House Elevator Modernization (PW Elevator Program)	1,300,000
-	PW Elevator Program Contingency	250,000
Subtotal Critical Repairs COPs		\$25,600,000

Street Repaving – FY24 COPs

Department	Project	Amount
DPW	Street Resurfacing & Reconstruction	\$32,800,000
Total FY24 COPs		\$58,400,000

The Current Plan of Finance

The proposed Ordinance authorizes the execution and delivery of tax-exempt and/or, taxable COPs in one or more series with an aggregate par amount not-to-exceed \$77.17 million. Based on the initial project information, the Office of Public Finance (“OPF”) currently anticipates issuing approximately \$73.41 million in COPs, though the final amount will be based on prevailing market assumptions at the expected time of sale. The difference between the expected issuance amount and the \$77.17 million not-to-exceed amount allows for changes in the tax-status of the FY24 COPs (tax-exempt vs taxable) as directed by bond counsel, market fluctuations in interest rates prior to the sale or sales of the FY24 COPs, any increased deposits to the debt service reserve fund, and possible additional delivery date expenses if the FY24 COPs are issued in more than one series.

Commercial Paper: The current plan of finance anticipates utilizing the City’s commercial paper program (“CP Program”), which was launched in FY2009-10 pursuant to Resolution Nos. 85-09 and 136-10, to finance project costs prior to the issuance of long-term COPs. Pursuant to Resolution No. 247-13 approved in July 2013, the City’s total CP Program authorization was increased to \$250 million. Pursuant to Resolution No. 086-23 approved in February 2023, the Board re-authorized CP Series 1&2 at \$150,000,000, and pursuant to Resolution No. 116-22 approved in April 2022, the Board re-authorized CP Series 3&4 at \$100,000,000. Of the \$250 million total authorization for the City’s CP Program, approximately \$185 million has been released from Controller’s reserve and \$39 million of CP is outstanding as of July 13, 2023.

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Based upon an estimated 6.42% true interest cost (assuming current market rates plus an interest rate cushion) and an anticipated total par value of \$73.41 million, the total principal and interest payments over the approximate 20-year repayment term of the COPs are estimated to be approximately \$136.3 million. Based on market conditions or other factors expected at the time of the sale, the COPs could be structured with up to a 30-year term.

Approximately \$6.6 million of proceeds may be allotted to fund a Debt Service Reserve Fund, and approximately \$6.8 million of proceeds may fund Capitalized Interest. In addition, approximately \$1.5 million is projected to be allotted to cover costs associated with the issuance of the FY24 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 projects on a tax-exempt basis. Actual results may differ if assumed market conditions or the final tax status requirements to be determined by bond counsel and the City Attorney’s Office closer to the sale of the FY24 COPs.

The table below outlines anticipated sources and uses for the COPs, based on estimates provided by the Office of Public Finance’s municipal advisor KNN Public Finance.

Estimated Sources & Uses of the Proposed FY24 COPs

Sources:

<u>COP Proceeds</u> : Estimated Par Amount	\$73,410,000
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Uses:

Project Funds	\$58,400,000
CSA Audit Fee (0.2% of Project Funds)	\$116,800
Capitalized Interest	\$6,782,590
Debt Service Reserve Fund	\$6,590,183

Delivery Date Expenses

Cost of Issuance	\$1,006,558
Underwriter’s Discount	\$513,870

Total Uses	\$73,410,000
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<i>Plus: Reserve for Market Uncertainty</i>	<i>\$3,760,000</i>
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Maximum Not-to-Exceed Par Amount	\$77,170,000
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Source: KNN Public Finance

The FY24 COPs

Under the proposed Ordinance, the City will structure the FY24 COPs using a lease-lease back structure. This lease will be a supplemental to a lease (the “Master Lease”) which currently supports the City’s outstanding Series 2012A COPs, Series 2019-R1 COPs, Series 2020-R1 COPs, Series 2021A COPs, and various other Board authorized but unissued COPs (the “Master Lease COPs”) by utilizing subsequent supplement agreements 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”).

The Master Lease currently includes the City-owned Laguna Honda Hospital campus located at 375 Laguna Honda Boulevard, San Francisco, and the San Bruno Jail Complex located at 1 Moreland Drive, San Bruno (together, the “Leased Properties”). The Director of OPF can designate additional properties to be added as assets under the Master Lease as needed.

Original Property Lease and Original Project Lease: Pursuant to the Original Property Lease, the City leases 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 Master Lease COPs. When the Master Lease 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 to the Master Lease COPs.

Original Trust Agreement: Pursuant to the Original Trust Agreement between the City and the Trustee acting on behalf and for the benefit of Master Lease COPs holders, the Trustee administers and disburses payments with respect to the Master Lease 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 Master Lease 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 Master Lease COPs and disburses payments for the costs incurred for the Project, as directed by authorized City representatives.

The subsequent supplements to the Original Property and Project Leases, 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 is necessary to make debt service payments with respect to the Master Lease COPs.

Partial Recission of Prior Authorization

In addition to authorizing the issuance of the FY24 COPs, the Ordinance also repeals and rescinds a portion of a prior COP authorization. On October 11, 2019, the City approved Ordinance No. 226-19, authorizing the issuance of not-to-exceed \$94,600,000 of COPs to finance \$79,365,000 in project costs related to the acquisition of certain real property located at 814-820 Bryant Street, 470 6th Street and 1828 Egbert. On May 12, 2021, the City issued its Series 2021A COPs which funded the Ordinance No. 226-19

projects as part of the plan of finance. Due to market conditions at the time of the sale, the City was able to fully fund the \$79,365,000 in authorized project costs while issuing \$22,385,000 less than the authorized amount for these projects. Given that the City has fully funded the Ordinance No. 226-19 proposed projects, repealing and rescinding the remaining \$22,385,000 in authorized issuance associated with Ordinance No. 226-19 would reduce the City's ongoing obligation to report this as an authorized and unissued obligation.

Additional Information

The forms of the related financing documents—including the Preliminary Official Statement, Appendix A Purchase Contract, Notice of Intention to Sell, the Continuing Disclosure Certificate, and related documents—will also be submitted, as described below.

Official Statement: The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the FY24 COPs. The Official Statement describes the FY24 COPs, including sources and uses of funds; security for the FY24 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 Annual Comprehensive 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 FY24 COPs.

A *Preliminary Official Statement* is distributed to prospective investors prior to the sale of the FY24 COPs and within seven days of the public offering, 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 FY24 COPs.

The Board of Supervisors and the Mayor, in adopting and approving the proposed Ordinance, approve and authorize the use and distribution of the Official Statement by the City's Municipal Advisor with respect to the FY24 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.

Official Notice of Sale and Notice of Intention to Sell (if the FY24 COPs are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the FY24 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 FY24 COPs announces the date and time of a competitive sale, including the terms relating to the FY24 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 FY24 COPs. Pursuant to the Ordinance, the Controller and the Director of Public Finance are authorized to award the FY24 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.

Purchase Contract (if the FY24 COPs are sold on a negotiated basis): The City will work with its Municipal Advisor to determine whether a negotiated or competitive sale will be most advantageous for the transaction based on market conditions closer to the sale of the FY24 COPs. Should the FY24 COPs be

sold via a negotiated sale with an underwriter(s), the Purchase Contract will be the document that details the terms, covenants, and conditions for the sale of the FY24 COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents. For a negotiated sale, the City would either work with its Municipal Advisor to select qualified firm(s) from the City’s Underwriter Pool, which was established via a competitive Request for Qualifications (“RFQ”) process, or award to the highest scoring firm established during the RFQ process.

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, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made to assist initial purchasers of the FY24 COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

<u>Preliminary Schedule</u>	<u>Dates*</u>
• Introduction of the Ordinance to the Board of Supervisors	July 18, 2023
• Capital Planning Committee	July 24, 2023
• Budget and Finance Committee Hearing	September 6, 2023
• Board Considers Approval of the Ordinance (1 st Reading)	September 12, 2023
• Final Board Approval of the Ordinance (2 nd Reading)	September 19, 2023
• Sale and Closing of Initial Tranche of FY24 COPs	FY 2024

*Please note that dates are estimated unless otherwise noted.

Please contact Anna Van Degna (Anna.VanDegna@sfgov.org) or Grant Carson (Grant.Carson@sfgov.org) if you have any questions. Your consideration of this matter is greatly appreciated.

Attachment 1

GOOD FAITH ESTIMATES

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 Municipal Advisor, KNN Public Finance.

1. True interest cost of the COPs: 6.42%
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): \$1,520,428.
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: \$58,516,800.
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: \$136,255,932.

The information set forth above is based on estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.

Attachment 2

FY22 COPS: CRITICAL REPAIRS & RECOVERY STIMULUS PROJECTS

Critical Repairs Projects – FY22 COPS

Department	Project	Amount
ADM	City Hall HVAC & Elevators	\$8,275,000
ADM	1 S. Van Ness Bathrooms & Elevators	2,100,000
ADM	Hall of Justice HVAC	4,800,000
DPH	Laguna Honda Hospital Emergency Power	7,600,000
DPW	Curb Ramps with Basements	4,000,000
DPW	Infill Sidewalks in Bayview	2,000,000
DT	Fiber Backbone	2,500,000
REC	Stow Lake ADA Improvements	900,000
SHF	County Jail 2 Elevators & Fire Safety Systems*	5,407,000*
SHF	County Jail 5 Security Electronics & Fire Safety Systems*	4,450,000*
WAR	Davies Hall Elevators	2,200,000
ART	AAACC - Seismic Cost Escalation*	1,340,000*
DEM	Dispatch Floor Remodel	1,570,700
-	COVID Impact Contingency	89,300
Subtotal Critical Repairs COPS		\$47,232,000

Recovery Stimulus Projects – FY22 COPS

Department	Project	Amount
OEWD	SF Wholesale Produce Market (roadway improvements etc.)	\$3,000,000
DPW	Better Market Street (pedestrian & streetscape improvements)	3,000,000
DPH	Zuckerberg SF General New Childcare Center	1,500,000*
-	Matching Funds Contingency	2,000,000
Subtotal Recovery Stimulus COPS		\$9,500,000

Total FY22 COPS		\$56,732,000
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*Amounts are scheduled to be adjusted during the FY2023-24 budget cycle, as further described below.

FY23 COPS: CRITICAL REPAIRS, RECOVERY STIMULUS, AND STREET REPAVING PROJECTS

Critical Repairs Projects – FY23 COPS

Department	Project	Amount
ADM	GGP Barrier Removals - Public RoW - JFK Drive & Stanyan Curb	\$900,000
ADM	1 SVN Fire Detection System Emergency Equipment	1,000,000
ADM	1099 Sunnydale - Boiler	400,000*
ADM	1650M - Chiller/Cooling Tower	500,000
ADM	25 VN - Elevator Controls	1,000,000
ADM	50 Raymond - Exterior Siding Replacement	500,000
ADM	555 7th Street Elevator Project & Exterior Improvements	2,250,000
ADM	City Hall - Flat Roof - Waterproofing	2,500,000
ADM	Civic Center - Steam Loop Renewal	3,738,000
ADM	Underground Fuel Tank Replacements	9,225,727
DPH	Clin Lab Automation System	4,000,000
DPH	ZSFG Improvements	7,000,000
DPW	Curb Ramps with Basements	3,000,000
DPW	Lakeview and Lee Steps	500,000*
DPW	Operations Yard Tenant Improvements & HVAC	2,580,751*
JUV	YGC Elevator Modernization, Air Exchange & Exhaust Fans	1,476,000*
REC	RP ADA TPC Harding Park	900,000
SHF	425 7th St Roof Replacement & Building Management System	4,825,000
WAR	Davies Hall Elevator Modernization	2,200,000
-	Cost Overrun Contingency	1,504,522
Subtotal Critical Repairs COPS		\$50,000,000

Recovery Stimulus Projects – FY23 COPS

Department	Project	Amount
ART	MCCLA - Seismic Retrofit	\$9,580,000
DPH	LHH - Simon Cooling Center	975,000
DPW	Innes Ave Rebuild in Bayview Hunters Point	5,000,000
DPW	Japantown Buchanan Mall Improvements Project	2,000,000
DPW	Street Tree Planting & Establishment - Equity Priority Neighborhoods	2,000,000
DPW	Sunset Blvd Hosebib Installation	935,000*
DPW	Sunset Boulevard Recycled Water Irrigation Improvements	1,200,000*
TIS	DT Fiber to Public Housing	2,500,000
TIS	Opera House Roof Replacement	5,000,000
Subtotal Recovery Stimulus COPS		\$29,190,000

Street Repaving – FY23 COPS

Department	Project	Amount
DPW	Street Resurfacing & Reconstruction	\$30,000,000

Total FY23 COPS **\$109,190,000**

RECENT CHANGES TO FY22 COPS & FY23 COPS PROGRAMS

During the FY2023-24 budget cycle, several projects with previously authorized funding through the FY22 and FY23 Critical Repairs and Recovery Stimulus (COP) programs received funding through the City’s Pay-Go (General Fund) program. In exchange, \$8,838,751 of Pay-Go funding associated with the MCCLA Seismic Retrofit was swapped to COP funding. Please see the affected projects in the tables below.

Projects Changed to Pay-Go Funding (General Fund)

Department	Project	Amount
ART	AAACC - Seismic Cost Escalation	\$1,340,000
ADM	1099 Sunnydale - Boiler	400,000
DPW	Lakeview and Lee Steps	500,000
DPW	Operations Yard Tenant Improvements & HVAC	2,580,751
DPW	Sunset Blvd Hosebib Installation	935,000
DPW	Sunset Boulevard Recycled Water Irrigation Improvements	2,000,000
JUV	YGC Air Exchange & Exhaust Fans	476,000
SHF	Co. Jail Life Safety	1,000,000
SHF	Co. Jail 5 Life Safety	407,000
Total previously part of Critical Repairs and Recovery Stimulus COPs		\$8,838,751

Projects Changed to COP Funding

Department	Project	Amount
ART	MCCLA – Seismic Retrofit – Pay-Go	\$8,838,751
Total Swap		\$8,838,751

Additionally, during the FY2023-24 budget cycle, \$5,093,822 was de-appropriated from previous programs. The following were removed from the Critical Repairs and Recovery Stimulus programs.

De-Appropriated Projects

Department	Project	Amount
ADM	2022 Critical Repairs ADM Contingency	\$89,300
ADM	2022 Recovery Stimulus ADM Contingency	2,000,000
ADM	2023 Critical Repairs Cost Overrun Contingency	1,504,522
DPH	2022 ZSFG New Childcare Center	1,500,000
Total removed from Critical Repairs and Recovery Stimulus COPs		\$5,093,822