Greg Wagner
Controller

ChiaYu Ma
Deputy Controller

Anna Van Degna
Director of Public Finance

MEMORANDUM

TO: Honorable Members, Capital Planning Committee

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

DATE: Monday, December 2, 2024

SUBJECT: **Resolution Authorizing the Issuance and Sale of Not to Exceed $40,000,000 Taxable General Obligation Bonds Series 2025E (Preservation and Seismic Safety, 2016)**

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 third issuance of General Obligation Bonds for the Preservation and Seismic Safety ("PASS") Program with a not-to-exceed par amount of $40,000,000 in City and County of San Francisco Taxable General Obligation Bonds (Affordable Housing, 2016 – Preservation & Seismic Safety), Series 2025E (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.

In connection with this request, legislation approving the sale of this series of bonds, a supplemental appropriation ordinance to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, December 3, 2024. We will request that the items be heard at the scheduled Budget and Finance Committee meeting on January 22, 2025.

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, $85,684,550 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, $116,461,269 has been issued to date, $55,311,240 of which have been deferred loans. This leaves $33,538,731 in available funding authority, of which $4,688,760 is eligible to be deferred.

2) Market Rate (MR) Program: The interest rate for loans under the $200M MR allocation have an interest rate 1% over the true interest cost of the bonds.

   Of the $200,000,000 originally authorized for the MR program, $147,854,181 of bonds have been issued to date, leaving $52,145,819 in available funding authority for MR loans.

The BMR and MR loans have been and will likely continue to 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, $175,000,000 has been issued to date. All loans funded with proceeds from the first two issuances under the PASS authorization are current on their obligated repayments, with no outstanding defaults or delinquencies. Additionally, projects are required to achieve stabilization prior to closing on PASS financing. This helps to ensure that projects meet the minimum required 1.15 debt service coverage ratio, residential and commercial occupancy and rental achievement, and full funding of all reserves prior to loan closing.

[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.

Financing Parameters:

The proposed legislation would authorize the sale of the third 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 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

Maximum Not to Exceed Amount:	**$40,000,000**
Sources:	
Par Amount	$38,255,000
Total Sources:	**$38,255,000**
Uses:	
Project Fund Deposits: Project Fund	$37,398,360
Cost of Issuance	$625,000
Underwriter's Discount	$191,275
GO Bond Oversight Committee	$38,255
Total Delivery Expense:	$854,530
Additional Proceeds	$2,110
Total Uses:	**$38,255,000**

Based upon a current market interest rates of 6.88%, which assumes the issuance of the Bonds on a federally taxable basis, the Office of Public Finance estimates average annual debt service of approximately $2,680,000. The projected par amount of $38,255,000 is estimated to generate approximately $71,470,000 in interest payments and approximately $109,730,000 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, 2065.

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 0.00005% up to 0.0076%, or $0.05 up to $0.75 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 $0.31 up to $4.52 per year if the projected $38,255,000 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 2024-25 is approximately $10.5 billion, based on a net assessed valuation of approximately $351.3 billion. As of November 1, 2024, the City had outstanding approximately $2.23 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.63% of the net assessed valuation for fiscal year 2024-25. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.19% 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 0.02% from 0.63% to 0.65%— 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 2024-25 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, December 3, 2024. The related financing documents—including the Bond Purchase Agreement, Official Notice of Sale, Notice of Intention to Sell, Preliminary Official Statement, Appendix A, the Continuing Disclosure Certificate and other documents—will also be submitted at that time.

Financing Timeline:

Milestones:	Dates*:
Capital Planning Committee	December 2
Board of Supervisors Introduction	December 3
Budget & Finance Committee Hearing	January 22
Board Approval of Resolution and 1st Reading of Supplemental Appropriation Ordinance	January 28
Final Board Approval of Supplemental Appropriation Ordinance (2nd Reading)	February 4
Estimated Sale & Closing	Feb/Mar 2025

**Please note that dates are preliminary and may change.*

Your consideration of this matter is greatly appreciated. Please contact Bridget Katz (Bridget.Katz@sfgov.org), Vishal Trivedi (vishal.trivedi@sfgov.org), or Min Guo (min.guo@sfgov.org) if you have any questions.