CITY AND COUNTY OF SAN FRANCISCO

CONTROLLER

OFFICE OF THE
Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Committee Members, Capital Planning Committee

FROM: Nadia Sesay, Public Finance Director

SUBJECT: Resolution Authorizing the Issuance and Sale of City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A and Federally Taxable Series 2017B;

Ordinance Appropriating Proceeds of Special Tax Bonds, Series 2017A and Federally Taxable Series 2017B

DATE: Friday, April 21, 2017

Recommended Action:

I respectfully request that the Capital Planning Committee consider for review and recommendation to the Board of Supervisors (the "Board") the resolution authorizing the issuance and sale of an aggregate not to exceed par amount of $152,000,000 in City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A and Federally Taxable Series 2017B (the "Bonds") financing capital improvements for Transbay Project and plan infrastructure; and ordinance appropriating the proceeds.

Background:

Over the past decade, the City engaged in several efforts to plan for future development and construction of public infrastructure for the area surrounding the Transbay Transit Center and Downtown Rail Extension ("DTX"). In 2005, the Transbay Redevelopment Project Area was adopted with the purpose of redeveloping 10 acres of property owned by the State of California (the "State-owned parcels") in order to generate funding for the Transbay Joint Powers Authority ("TJPA") to construct the new Transbay Transit Center (the "TTC").

In 2012, the City adopted the Transit Center District Plan ("TCDP" or "Plan") after a multi-year public planning process. TCDP is a comprehensive plan to respond to and support the construction of the new Transbay Transit Center project including the downtown rail extension. In adopting the TCDP, the Board of Supervisors authorized the formation of a Mello-Roos community facilities district (a "CFD") within the TCDP boundary for new large developments to provide funding for the new Transbay Transit Center public improvements and other new public infrastructure necessary to support the growth and development of the neighborhood.

In 2014, the Board approved the formation of the CFD for the purpose of providing funding to pay for the costs of certain public infrastructure to be built as a result of the Transbay Project. The Transbay CFD District ("District") is located in downtown San Francisco immediately south of Market Street near the City's new Transbay Transit Center, designed to be a hub of transit connections serving regional commuters. Properties that receive a zoning bonus that exceed the current height and floor-to-area ratios in the City's Planning Code are annexed into the District.

In 2015, the Board approved the levy and collection of special taxes and the issuance of Bonds. The proceeds from the Bonds will finance infrastructure program to improve streets, open spaces, and transportation network within the district. Pursuant to the Joint Community Facilities Agreement, between the City and TJPA, approximately 82.6% of the CFD special tax proceeds will partially finance the Transbay Project. The Transbay Project consists of the extension of the Caltrain rail tracks to the Transbay Transit Center to accommodate Cal Train and California High Speed Rail (the "Downtown Rail Extension" or "DTX"), which includes the train-related components of the Transbay Transit Center (the "Train Box") and the Rooftop Park. The remaining 17.4% will finance improvements to streetscape and transportation enhancements within the district, and improvements to new and enhanced open spaces.

The Special Tax Bonds*:*
On July 15, 2014, the Board of Supervisors of the City adopted Resolution No. 247-14 stating its intent to form the District under the Act. On the same date, the Board of Supervisors of the City also adopted Resolution No. 246-14, which authorized bonded indebtedness on behalf of the District in an aggregate amount not to exceed $1,400,000,000, approved an Amended Rate and Method of Apportionment of Special Tax (the "Rate and Method"), approved the levy of special taxes within the District to pay the principal of, and interest on, the authorized bonded indebtedness and approved an appropriations limit for the District not to exceed $300,000,000. On December 29, 2014, an election was held within the District pursuant to the Act at which the qualified electors approved the formation of the District and incurrence of bonded indebtedness in an aggregate amount not to exceed $1,400,000,000.

The proposed resolution authorizes the first sale of the Special Tax Bonds in a par amount not to exceed $152,000,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to deliver $152,000,000 under conservative 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.

The Bonds are secured by pledge of the special tax revenues received by the City, which are the special taxes levied by the Board of Supervisors within the District. Special taxes can only be levied on a property within the District if a Certificate of Occupancy and Tax Commencement Authorization is issued by the City. The Bonds are sized based on the expected levels of special taxes levied per year from the District, as a result of properties fulfilling both levy requirements. As of fiscal year 2016-17, the CFD anticipates collecting $1.8 million in special tax proceeds, $8.0 by fiscal year-end 2017-18, and a up to $13.1 million by fiscal year-end 2018-19.

<u>Project Description</u>:
The proceeds of the Bonds will be used to finance or refinance portions of the Transbay Project and public infrastructure adjacent to the Transit Center, including sidewalk widening and extensions, pedestrian bulbs, bus islands, curb ramps, and additional pedestrian crosswalks.

Plan of Finance: The City will only sell Bonds at an amount sufficiently sized to the guaranteed special taxes levied within the District. Table 1 outlines anticipated sources and uses for the Bonds.

Table 1: Anticipated Sources and Uses from the Bonds

Maximum Not to Exceed Amount:	**$152,000,000**
Reserve Proceeds	*$2,251,503*
Estimated Sources:	
Par Amount	$147,590,000
Premium	$2,158,497
Total Estimated Sources:	**$149,748,497**
Estimated Uses:	
Project Fund Deposits:	
TJPA Project Fund	$103,614,143
SFDPW Project Fund	$23,979,257
	$127,593,400
Other Fund Deposits:	
Debt Service Reserve Fund	$12,161,227
Capitalized Interest Fund	$5,566,170
Delivery Date Expenses:	
Cost of Issuance	$4,427,700
Total Estimated Uses:	**$149,748,497**
Reserve for Market Uncertainty	*$2,251,503*
Maximum Not to Exceed Amount:	**$152,000,000**

The authorized amount above the expected par amount of $147,590,000 allows for market premium as a result of prevailing interest rates as well as additional market reserves to due fluctuations in market conditions from the date of authorization by the Board of Supervisors to the time of the sale of the Bonds. Pursuant to the Plan, each project will pay special taxes for maximum of 30 years as such the Bonds have a term of 30 years.[1] As a companion piece of legislation to the Resolutions, the Office of Public Finance is also requesting the approval of a Supplemental Appropriation Ordinance to finance project costs and associating financing costs.

Based upon current market interest rates of 4.48%, the Office of Public Finance estimates an average annual debt service of approximately $9,728,982. The anticipated total par amount of $147,590,000 is estimated to result in approximately $145,198,304 in interest payments over the life of the Bonds. The total debt service over the life of the Bonds total approximately $292,788,304.

Method of Sale & Bond Purchase Agreement: We are proposing a negotiated sale in connection with this transaction. The Bonds are repaid from special tax revenues from specific projects within the district and are outside of the City's customary credit profile. The Office of Public Finance has selected Stifel, Nicolaus & Company, Incorporated to serve as Senior Underwriter and Stinson Securities to serve as Co-underwriter. Both firms were selected from 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 from the City to the selected underwriters and purchasers, Stifel, Nicolaus & Company, Incorporated and Stinson Securities.

Capital Plan:

The Bonds are limited obligations of the City. They are payable solely from the special tax revenues within the CFD district. Therefore, this transaction is not subject to the policy constraints of the Capital Plan.

Financing Timeline:

Milestones:	Dates*:
Capital Planning Committee	April 24
Board Introduction	April 25
Budget & Finance Committee Hearing	May 11
Board Approval of Resolution and 1st Reading of Appropriation Ordinance	May 23
Final Board Approval (2nd Reading)	June 6
Estimated Sale & Closing	July 2017

*Please note that dates are preliminary and may change.

[1] Other key assumptions underlying the debt service estimates include: 1) Level debt service structure; 2) Debt Service Reserve Fund sized at Maximum Annual Debt Service and funded with bond proceeds; 3) Capitalized Interest on the amount proportional to the Salesforce Tower until 9/1/2017; and 4) Cost of Issuance estimated at 3% of total par.

Your consideration of this matter is greatly appreciated. Please contact Nadia Sesay at 415-554-5956 or nadia.sesay@sfgov.org if you have any questions.

CC: Angela Calvillo, Clerk of the Board of Supervisors
Harvey Rose, Budget and Legislative Analyst
Nicole Elliott, Director of Legislative & Government Affairs
Mawuli Tugbenyoh, Mayor’s Office, Liaison to the Board of Supervisors
Melissa Whitehouse, Mayor’s Budget Director
Mark Blake, Deputy City Attorney
Sara DeBord, TJPA Chief Finance Officer
Bruce Robertson, Finance Manager, Public Works