



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

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MEMORANDUM

TO: Committee Members, Capital Planning Committee

FROM: Anna Van Degna, Director of the Office of Public Finance
Jamie Querubin, Office of Public Finance

DATE: Friday, September 7, 2018

SUBJECT: Resolution Authorizing the Issuance of Special Tax Bonds – Community Facilities District No. 2014-1 (Transbay Transit Center) Not to Exceed Aggregate Principal Amount of \$220,000,000; Confirming Annexation of Properties into City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center);

Ordinance Appropriating Proceeds of Special Tax Bonds, Series 2018A and Series 2018B

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 issuance and sale of an aggregate not to exceed par amount of \$220,000,000 in City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2018A and Series 2018B (the “Bonds”) financing or refinancing capital improvements for Transbay Project and Plan Infrastructure; and the ordinance appropriating the proceeds.

Background:

Over the past decade, the City has 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 Salesforce Transit Center.

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 Salesforce Transit Center project including the DTX. In adopting the TCDP, the Board of Supervisors

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authorized the formation of a Mello-Roos community facilities district (“CFD”) within the TCDP boundary for new large developments to provide funding for the new Transbay Project 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, and authorized bonded indebtedness on behalf of the District in an aggregate amount not to exceed \$1,400,000,000. The Transbay CFD District (“District”) is located in downtown San Francisco immediately south of Market Street near the City’s new Salesforce Transit Center, a facility designed to be a hub of transit connections serving regional commuters. Properties that receive a zoning bonus that allows for development exceeding 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 or refinance an 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 finance a portion of the Transbay Project. The Transbay Project consists of the extension of the Caltrain rail tracks to the Salesforce Transit Center to accommodate Caltrain and California High Speed Rail (the “Downtown Rail Extension” or “DTX”), which includes the train-related components of the Salesforce Transit Center Phase I (the “Train Box”) and the Rooftop Park. The remaining 17.4% of CFD special tax proceeds will finance improvements to streetscape and transportation enhancements within the district, including a portion allocable to the San Francisco Bay Area Rapid Transit District (“BART”) for station capacity, and improvements to new and enhanced open spaces.

First Issuance of Special Tax Bonds:

In November 2017, the City, on behalf of the Community Facilities District No. 2014-1 (Transbay Transit Center) completed the first issuance of Special Tax Bonds Series 2017A and 2017B (the “2017 Bonds”) in the amount of \$36.1 million and \$171.4 million respectively. The 2017 Bonds were issued to finance various capital improvements, including street and sidewalk improvements in the vicinity of the transit building (the “Salesforce Transit Center,” formerly known as the Transbay Transit Center) and the development and improvement of the adjacent open space, as well as the planning, design, engineering and construction of the core and shell of the two below-grade levels of the Salesforce Transit Center and the transit center rooftop park. The annual debt service of the 2017 Bonds for fiscal year 2018-19 is \$10.4 million payable solely from the CFD special tax revenues. The average annual debt service of the 2017 Bonds over the term is \$12.3 million.

Recommended for Approval - Second Issuance of Special Tax Bonds:

The proposed resolution authorizes the second sale of the Special Tax Bonds in a par amount not to exceed \$220,000,000. Based on Project cost estimates and schedules, the Office of Public Finance currently expects to deliver approximately \$175.6 million of Bonds based on certain assumptions regarding market conditions at the expected time of sale (discussed further under “Plan of Finance”).

The Bonds are secured by a 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 have been 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. During fiscal year 2018-19, the CFD

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anticipates collecting \$15.5 million in annual special tax revenues, with annual collection increasing to \$19.4 million by fiscal year-end 2019-20, and to \$19.8 million by fiscal year-end 2020-21.

Project Description:

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, additional pedestrian crosswalks, and certain station improvements delivered by BART at the Montgomery and Embarcadero BART stations.

Plan of Finance: The City will only sell Bonds in an amount that can be supported by the special taxes levied of properties within the District that as of the date of debt issuance have met the two conditions described above. Table 1 below outlines anticipated sources and uses for the Bonds, based on current market conditions.

Table 1: Anticipated Sources and Uses from the Bonds

Estimated Sources:	<u>TOTAL</u>
Par Amount	175,560,000
Original Issue Discount	<u>(2,527,330)</u>
Total Estimated Sources:	\$173,032,670
Estimated Uses:	
Project Fund Deposits:	
Transbay Plan Infrastructure Project Fund	26,862,280
CSA Audit Fee ¹	53,725
Transbay Transit Center Project Fund	<u>127,507,973</u>
	154,423,977
Other Fund Deposits:	
Debt Service Reserve Fund	13,341,833
Capitalized Interest Fund	<u>2,213,500</u>
Delivery Date Expenses:	
Cost of Issuance	<u>3,053,360</u>
Total Estimated Uses:	\$173,032,670

Source: Stifel, Nicolaus & Company, Inc.

The requested not-to-exceed par amount of \$220,000,000 exceeds the current estimated par amount of \$175,560,000 in order to provide flexibility to capture the benefit of more favorable market conditions should they be available at the time of sale. The additional authorization allows for a maximized par and project fund allocation given the available special tax revenues. Conditions that could result in a higher than anticipated project fund amount, and/or an overall increased par amount, include: (1) Bonds are issued on a federally tax-exempt basis, as determined by the Director of the Office of Public Finance in consultation with the City Attorney; (2) Bonds are issued with a debt service reserve fund surety policy, therefore not

¹“CSA Audit Fee” is a fee applied by the Controller’s Services Auditing unit to all City-delivered projects receiving General Fund secured debt proceeds. The fee is sized at 0.2% of the portion of the project fund to be spent on City-delivered projects, not including TJPA or BART improvements.

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requiring a cash-funded reserve fund; (3) favorable fluctuations in market interest rates take place from the date of authorization by the Board to the time of the sale of the Bonds; (4) there are potential increases in required deposits for capitalized interest or debt service reserve fund; and lastly, (5) there are potential increases to delivery date expenses in the event interest rates were to increase from current levels.

Based upon a current market interest rates of 4.27%, which assumes the issuance of all bonds on a federally taxable basis, the Office of Public Finance estimates an average annual debt service of approximately \$10,673,466. The anticipated total par amount of \$175,560,000 is estimated to result in approximately \$152,945,568 in interest payments over the life of the Bonds. The total debt service over the life of the Bonds is estimated at approximately \$328,505,568.

Pursuant to the Plan, each property annexed into the District will pay special taxes for maximum of 30 years, and as such the Bonds have a term of 30 years.² As a companion piece of legislation to the resolution, the Office of Public Finance is also requesting the approval of a Supplemental Appropriation Ordinance to finance project costs and associating financing costs. The Bonds, including the 2017 Bonds, are limited obligations of the City, secured and payable solely from the Special Tax Revenues and the fund pledged under the Fiscal Agent Agreement and are not payable from any other source of funds. The general fund of the City is not liable for the payment of the principal of or interest on the Bonds, and neither the credit nor the taxing power of the City or the State of California or any its political subdivision is pledged to the payment of the Bonds.

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 ("Stifel") to serve as Senior Underwriter and intends to select one or more additional underwriter(s) to serve as Co-underwriter(s). Firms are 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 by the City to the selected underwriters.

"Green Bond" Designation:

As it did with the 2017B Bonds, the City intends to designate the 2018B Bonds as "Green Bonds" (also known as "Climate Bonds"). The purpose of designating the 2018B Bonds as Green Bonds is to allow investors to invest directly in bonds that finance environmentally beneficial projects ("Green Projects"). The particular capital improvements that the City has defined as "Green Projects" in connection with the 2018B Bonds are part of the development of the Salesforce Transit Center and its related facilities, including the Train Box and Salesforce Park (together, the "Transbay Project"), which have been certified by the Climate Bonds Initiative (the "CBI").

The CBI is an international, investor-focused non-profit organization working to focus the global bond market on climate change solutions through the development and promotion of an efficient Green Bond market. The CBI has established and manages the Climate Bonds Standard (the "Climate Bonds Standard") under which the 2017B and 2018B Bonds have been certified, in accordance with the "Low Carbon Land Transport Criteria" under the Climate Bonds Standard. The Train Box was built to accommodate the

² 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; and 3) Capitalized Interest on the amount proportional to Park Tower (Block 5) until 9/1/2018.

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planned Downtown Rail Extension, and the 5.4 acre Salesforce Park that opened on August 11, 2018 serves as a “green roof” for the Salesforce Transit Center and is expected to absorb carbon dioxide from bus exhaust, absorb and filter stormwater, and provide a habitat for local wildlife. The City will undertake reasonable efforts to ensure that any adjustment of capital expenditures or other actions taken with respect to the 2018B Bonds will not result in revision or withdrawal of the certification by the CBI.

The City expects to spend the proceeds of the Green Bonds to finance or refinance specifically the Train Box and Salesforce Park. As part of the certification process, Stifel retained Sustainalytics U.S., Inc., a subsidiary of Sustainalytics Holding, B.V, Netherlands (collectively, “Sustainalytics”), to provide a verification that the 2018B Bonds are aligned with the Climate Bonds Standard.

Capital Plan:

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

Teeter Plan:

In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment (the “Teeter Plan”). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the City Controller to allocate to the City’s taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City’s General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan.

In November 2017, in connection with the approval of the 2017 Bonds, the Board approved for the Community Facilities District 2014-1 (Transbay Transit Center) to receive 100% of the levy of special taxes per year without discounting the level of delinquencies which might occur. Under the Teeter Plan, the City makes all the taxing agencies “whole” and assumes the minor risk of being paid at some future date. In return, the City receives the interest (currently at 18%) and penalties (currently 10%) when taxes are ultimately paid. The net effect of this adjustment would be an increase in special tax revenues to the City at least in the short term while providing credit enhancement for Bonds.

Property Annexation – 250 Howard (Park Tower):

As a part of the authorizing resolution, the Office of Public Finance is seeking confirmation of the annexation of the property located at 250 Howard Street into the District. This property, known as Park Tower (also referred to as “Block Five”) was annexed into the District on July 18, 2018.³ In order for a property to be annexed into the District, the Board of Supervisors must adopt a resolution determining that the property has been added to the District. Approval of this resolution confirms the annexation of 250 Howard (Park Tower) into the CFD, which is a necessary condition to be deemed a taxable property under the CFD.

³ The Office of Public Finance sent a memorandum dated July 9, 2018 notifying the Clerk of the Board of Supervisors and full the Board of Supervisors of the annexation of the property at 250 Howard (Park Tower) into Community Facilities District No. 2014-1 (Transbay Transit Center).

Financing Timeline:

Milestones:

Capital Planning Committee
Board Introduction
Budget & Finance Committee Hearing
Board Approval of Resolution and 1st Reading of Appropriation Ordinance
Final Board Approval (2nd Reading)
Estimated Sale & Closing

Dates*:

September 10
September 18
September 27
October 16
October 23
November 2018

*Please note that dates are preliminary and may change.

Additional Information

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, September 18, 2018. The related financing documents—including the Bond Purchase Agreement, First Supplemental to the Fiscal Agent Agreement, Continuing Disclosure Agreement, Preliminary Official Statement, and Appendix A—will also be submitted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 or anna.vandegna@sfgov.org or Jamie Querubin at 415-554-6902 or jamie.querubin@sfgov.org if you have any questions.

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