MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Anna Van Degna, Director of the Controller’s Office of Public Finance
Luke Brewer, Controller’s Office of Public Finance

DATE: Monday, July 26, 2021

SUBJECT: Resolution Authorizing the Issuance of Special Tax Bonds – Community Facilities District No. 2014-1 (Transbay Transit Center) - Not to Exceed Principal Amount of $35,000,000 and approving related documents

Recommended Action

We respectfully request that the Board of Supervisors (“Board”) consider for review and approval the resolution (“Resolution”) to authorize the issuance of not to exceed $35 million of Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2021B (“2021 Bonds”) and other matters related thereto.

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 Salesforce Transit Center (“Transit Center”) and the Downtown Rail Extension (“DTX”, which involves the extension of the Caltrain rail tracks to the Transit Center to accommodate Caltrain and California High Speed Rail), as further described below. In 2005, the Transbay Redevelopment Project Area was adopted with the purpose of redeveloping property formerly owned by the State of California and to generate funding sources to assist the Transbay Joint Powers Authority (“TJPA”) in the construction of the new Transit Center and the DTX).

In 2012, the City adopted the Transit Center District Plan (“TCDP”) after a multi-year public planning process. The TCDP is a comprehensive plan to respond to and support the construction of the Transit Center and the DTX. In adopting the TCDP, the Board authorized the formation of a Mello-Roos Community Facilities District (“CFD”) within the TCDP boundary for new large developments to provide funding for the Transit Center, the DTX, and other public infrastructure necessary to support the growth and development of the neighborhood (“Transbay Program”).
In 2014, the City approved the formation of CFD No. 2014-1 and in 2015, the City approved the levy and collection of special taxes within the CFD and authorized bonded indebtedness for the CFD in an aggregate principal amount of $1.4 billion.

Pursuant to a Joint Community Facilities Agreement between the City and TJPA, 82.6% of the CFD special tax proceeds are allocated to fund a portion of the Transbay Program, including DTX, the train-related components of the Transit Center ("Train Box") and the rooftop park. The remaining 17.4% of CFD special tax proceeds will fund a variety of public infrastructure projects. To date, funds have been allocated for streetscape enhancements within the CFD, as well as open space, capacity enhancements for Embarcadero and Montgomery Bay Area Rapid Transit District ("BART") stations, and a congestion pricing study for the San Francisco County Transportation Authority ("CTA").

The Special Tax Bonds of CFD No. 2014-1

In November 2017, the City, on behalf of the CFD, issued its first series of Special Tax Bonds (Series 2017A and 2017B) in the aggregate principal amount of $207.5 million. In February 2019, the second series of Special Tax Bonds (Series 2019A and 2019B) were issued in the aggregate principal amount of $191.0 million. In May 2020, a third series of Special Tax Bonds (Series 2020B) were issued in the principal amount of $81.8 million. To date, $480.3 million of bonds have been issued of which $428.8 million of bond proceeds have been generated for capital projects with the balance used to fund an allocable share of the debt service reserve fund that provides security for all of the outstanding Special Tax Bonds, pay the costs of issuance for each series and fund other related costs primarily consisting of capitalized interest for each series. The Resolution presently before the Board authorizes the issuance of a fourth issuance of Special Tax Bonds ("2021 Bonds") in a principal amount not to exceed $35.0 million. The bond sale is proposed for Fall 2021. The bond funds will enable TJPA to complete DTX project development activities, as required by the Federal Transit Administration (FTA) in advance of applying for federal grant funds, including preliminary design, cost estimation, risk analysis, and other technical work.

Plan of Finance and Use of Proceeds

Use of Proceeds

Proceeds of the 2021 Bonds will be used to (i) finance a portion of the planning, design and pre-construction costs for DTX, (ii) fund an allocable share of the debt service reserve fund for the 2021 Bonds, and (iii) finance costs of issuance. More specifically, it is anticipated that $30 million 2021 Bond proceeds and approximately $12 million of CFD special taxes on-hand will fund DTX project development, ROW acquisition and other programmatic costs planned in fiscal years 2021-22 and 2022-23.

Table 1 below outlines anticipated sources and uses for the 2021 Bonds, based on market conditions as of June 24, 2021, as further described below.
**Table 1: Estimated Sources & Uses of the 2021 Bonds**

<table>
<thead>
<tr>
<th>Sources:</th>
<th>Uses:</th>
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<tbody>
<tr>
<td>2021 Bond Proceeds Estimated Par Amount</td>
<td><strong>Total Sources</strong> $33,640,000</td>
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<td>Improvement Fund $30,040,000</td>
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<td>Debt Service Reserve Fund 2,509,312</td>
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<tr>
<td>Delivery Date Expenses</td>
<td>Cost of Issuance $754,288</td>
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<td>Underwriter's Discount 336,400</td>
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<td></td>
<td><strong>Total Uses</strong> $33,640,000</td>
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*Source: Del Rio Advisors, LLC*

**Interest Rate; Projected Debt Service**

Based upon market conditions as of June 24, 2021 (assuming a 29-year term and that the 2021 Bonds are issued on a taxable basis), staff estimates: (i) a principal amount of $33.64 million, (ii) a true interest cost of 3.12%, (iii) average annual debt service of $1.9 million and (v) debt service over the life of the 2021 Bonds of $55.7 million. The authorized amount above the expected par amount of $33.64 million 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 2021 Bonds. Attachment 2 provides good faith estimates for the Bonds, as required under Government Code §5852.1.

**Negotiated Sale of the 2021 Bonds, Underwriters**

Given the unique credit characteristics associated with the special tax bonds, a negotiated sale is planned in connection with this transaction. The 2021 Bonds will be repaid from special tax revenues from specific projects and are outside of the City’s customary credit profile. Through a competitive Request for Proposals (“RFP”) process, Stifel, Nicolaus & Company, Incorporated was selected to serve as Senior Underwriter and Piper Sandler & Co. was selected to serve as Co-underwriter (together, the “Underwriters”). The Underwriters that were selected via the RFP process are in the City’s Underwriter Pool, which was also established via a competitive process. The proposed Resolution approves the form of the Bond Purchase Agreement, which provides the terms of sale of the 2021 Bonds by the City to the Underwriters.

**Security**

The 2021 Bonds will be secured by a pledge of the special tax revenues collected in the CFD and will be issued on parity with the special tax bonds issued in 2017, 2019 and 2020. Special taxes are only levied on property in the CFD for which both a Certificate of Occupancy and Tax Commencement Authorization have been issued and may only be levied on a specific taxable property for 30 years (the maximum duration of the CFD is 75 years after the initial special tax levy). There are currently 9 completed buildings subject to the special tax levy. The fiscal year 2021-22 estimated tax levy is expected to generate annual special taxes of $29.5 million.

**“Green Bond” Designation**

As it did with the prior issuances of special tax bonds for Transit Center costs, the City may designate the 2021 Bonds as “Green Bonds” since the proceeds will be used to finance environmentally beneficial projects (“Green Projects”).
Capital Plan
The 2021 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 (“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 Controller to allocate to taxing agencies located in the City 100% of the secured property taxes billed but not yet collected. In return, as any delinquent property taxes and associated penalties and interest are collected, the City’s General Fund retains such amounts. In November 2017, in connection with the approval of the first issuance of CFD Bonds, the Board approved participation of the CFD in the Teeter Plan. The net effect of Teeter Plan participation is the receipt of 100% of special tax revenues each year which is used to pay debt service on the 2021 Bonds and fund PAYGO project costs. Teeter Plan participation helps to provide consistent cash flow and helps to enhance the credit of the 2021 Bonds, resulting in a lower interest cost on the 2021 Bonds.

Anticipated Financing Timeline
The Resolution is expected to be introduced at the Board of Supervisors meeting on Tuesday, July 27, 2021, and the forms of the related financing documents—including the Third Supplement to the Fiscal Agent Agreement, the Preliminary Official Statement, the Continuing Disclosure Certificate and other related documents, as further described in Attachment 1—will be submitted to the Board at that time.

<table>
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<tr>
<th>Milestones</th>
<th>Dates*</th>
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<tr>
<td>Introduction of Resolution to the Board of Supervisors</td>
<td>July 27, 2021</td>
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<td>Presentation to the Capital Planning Committee</td>
<td>August 16, 2021</td>
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<td>Budget &amp; Finance Committee Hearing</td>
<td>September 8, 2021</td>
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<tr>
<td>Board Considers Approval of Resolution</td>
<td>September 14, 2021</td>
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<td>Sale and Closing of the 2021 Bonds</td>
<td>November 2021</td>
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*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna (anna.vandegna@sfgov.org) at 415-554-5956 or Luke Brewer (luke.brewer@sfgov.org) at 415-554-7693 if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
    Andres Powers, Mayor’s Office
    Ashley Groffenberger, Mayor’s Budget Director
    Ben Rosenfield, Controller
    Carmen Chu, City Administrator
    Harvey Rose, Budget Analyst
    Severin Campbell, Budget Analyst
    Mark Blake, Deputy City Attorney
    Kenneth Roux, Deputy City Attorney
    Nila Gonzales, Interim Executive Director, TJPA
    Tilly Chang, Executive Director San Francisco County Transportation Authority
The legislation is expected to be introduced at the Board of Supervisors meeting on July 27, 2021. The forms of the related financing documents for the Bonds include the Bond Purchase Agreement, Third Supplement to Fiscal Agent Agreement, Continuing Disclosure Certificate, and a Preliminary Official Statement.

**Bond Purchase Agreement:** The City intends to pursue a fixed rate negotiated sale of the Bonds to the Underwriters. The Bond Purchase Agreement details the terms, covenants, and conditions for the sale of the Bonds to the Underwriters, as well as agreements regarding expenses, closing schedule and initial and continuing disclosure documents.

**Third Supplement to Fiscal Agent Agreement:** The proposed resolution approves the form of a Third Supplement to Fiscal Agent Agreement which supplements the original Fiscal Agent Agreement approved with the 2017 Bonds. Pursuant to the Fiscal Agent Agreement between the City and the Fiscal Agent, the Fiscal Agent administers and disburses bond payments. The Fiscal Agent Agreement, as supplemented, provides for the terms of the bonds (interest rates, principal amounts, redemption), remedial action to be taken by the City in the event of special tax delinquencies, and other related administrative provisions. The Fiscal Agent holds the special taxes and the bonds proceeds derived from the sale of the Bonds and will disburse the proceeds as directed by authorized City representatives. Zions Bancorporation, National Association serves as the Fiscal Agent.

**Preliminary Official Statement:** The proposed resolution also approves the form of a Preliminary and final Official Statement relating to the Bonds ("Official Statement"). The Preliminary Official Statement summarizes the security for the Bonds, the current status of properties subject to the Special Tax, and known potential risks to investors.

Federal securities laws impose on the City the obligation to ensure that this document is accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the document as well as City staff charged with preparing the document. The draft Preliminary Official Statement is attached for your approval prior to its publication.

Pursuant to the Resolution, the Board hereby delegates to the Controller or another Authorized Officer the authority to finalize and revise the Official Statement, among other things, to include the most recent related and material information to investors, and to otherwise make corrections and clarifications needed so that the Official Statement complies with federal securities laws.

**Continuing Disclosure Certificate:** The City covenants to provide certain financial information and operating data relating to the Bonds, the City and the CFD ("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. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of enumerated events. These covenants have been made in order to assist the Underwriters of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).
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, Del Rio Advisors, LLC, assuming an estimated par of $33,640,000:

1. True interest cost of the 2021 Bonds: 3.12%

2. Finance charge for the 2021 Bonds, 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): $1,090,688.

3. Amount of 2021 Bond proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund that is funded with proceeds of the 2021 Bonds: $30,040,000.

4. Total payment amount for the Bonds, being the sum of (a) debt service on the Bonds to final maturity, and (b) any financing costs not paid from proceeds of the 2021 Bonds: $55,681,120.

The information set forth above is based on estimates of prevailing market conditions as of June 24, 2021. Actual results may differ.