Community Facilities District No. 2016-1 (Treasure Island)

CAPITAL PLANNING COMMITTEE

Resolution for Special Tax Bonds: Resolution Authorizing the Issuance of Improvement Area No. 2 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) Special Tax Bonds, Series 2021 Not to Exceed $25,130,000

October 18, 2021

City & County of San Francisco
Treasure Island Development Authority &
Controller's Office of Public Finance

Actions for Consideration by Committee

RESOLUTION FOR SPECIAL TAX BONDS

- Resolution Authorizing the Issuance of Improvement Area No. 2 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) Special Tax Bonds, Series 2021 Not to Exceed $25,130,000

Milestones for Community Facilities District No. 2016-1 (Treasure Island)

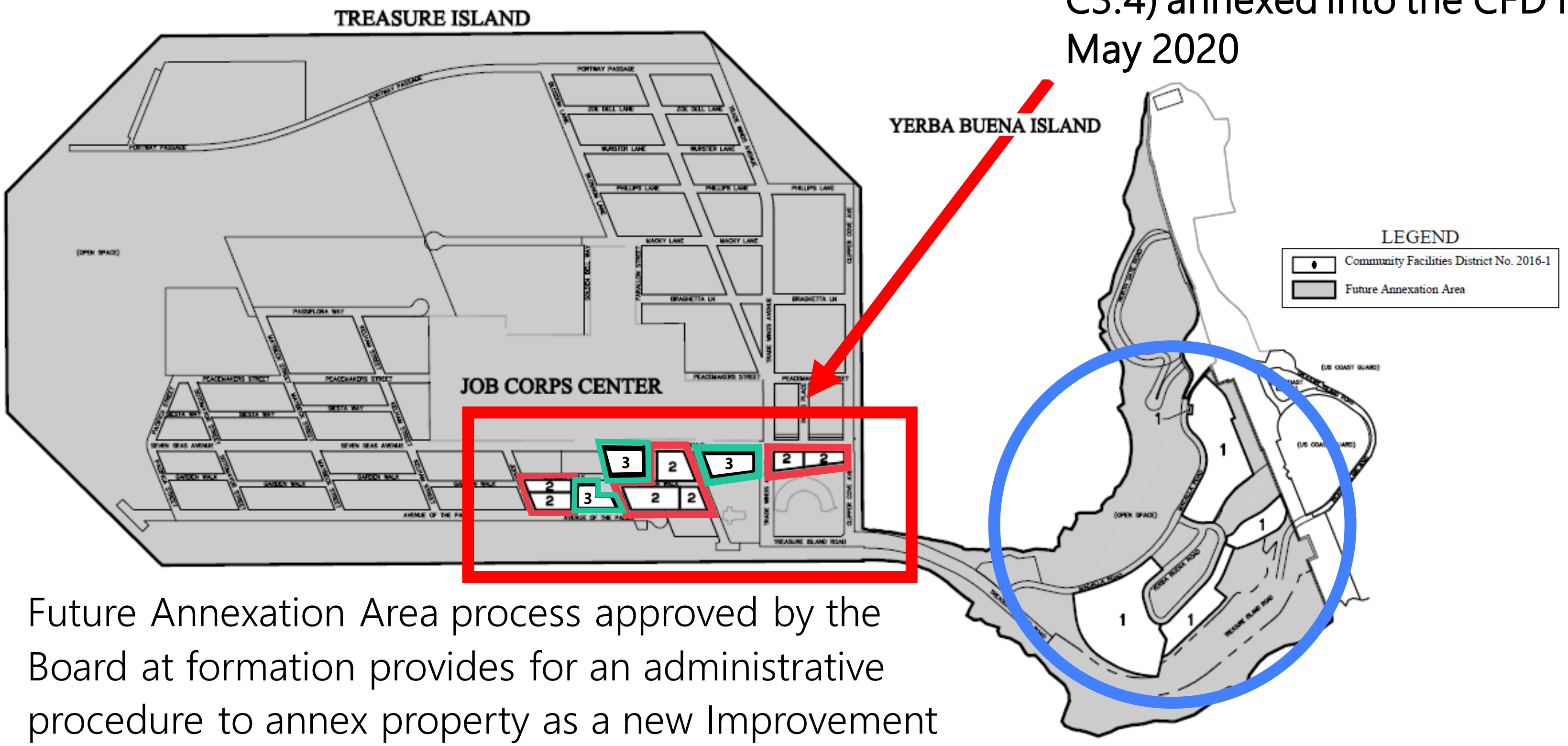
- **June 2011** – Disposition and Development Agreement signed
- **January 2017** – Infrastructure and Revitalization Financing District (IRFD) and CFD formed
- **January 2017** – Board approves $5 billion in bonds for Treasure Island/YBI CFD
  - Improvement Area No. 1 (Yerba Buena Island) – Bonds Not to Exceed $250 million
- **Dec. 2019/April 2020** – First special taxes levied/collected in Improvement Area No. 1
- **May 2020** – Board annexes Improvement Area No. 2 into the CFD
- **October 2020** – First CFD bond issuance for Improvement Area No. 1 (“2020 Bonds”) in the amount of $17.135 million
- **July 2021** – Second CFD bond issuance for Improvement Area No. 1 (“2021 Bonds”) in the amount of $41.340 million
- ***October 2021*** *– Board of Supervisors considers approval of Issuance of Improvement Area No. 2 2021 Special Tax Bonds (first issuance) in amount Not to Exceed $25.130 million, and*
- ***November 2021*** *– Planned first issuance of Improvement Area No. 2 2021 Special Tax Bonds*
- ***Dec. 2022/April 2023*** *– the City anticipates levying the first special taxes in IA No. 2 in FY 2022-23*

Overview of the Treasure Island CFD

- Levies a *supplemental* special tax on properties within the specified district
- Tax based on gross square footage of land use – commercial/retail, hotel, or residential type (townhome, low-, mid-, or high-rise)
- Funds eligible infrastructure expenses with a useful life of five years or more
- Special taxes and special tax bonds will:
  - Reimburse Treasure Island Community Development ("TICD") for eligible developer public infrastructure costs
  - Finance a future capital reserve for sea level rise adaptations
  - Provide on-going revenue stream to fund maintenance of TIDA facilities, parks, and open spaces
  - Pay for administrative costs of the CFD
- May not fund affordable housing (although the IRFD can)
- Provides for multiple Improvement Areas primarily to align with project phasing

Treasure Island CFD Boundary Map

- Improvement Area No. 2 (IA No. 2) consists of five development parcels (B1, C2.2, C2.3, C2.4 and C3.4) annexed into the CFD in May 2020

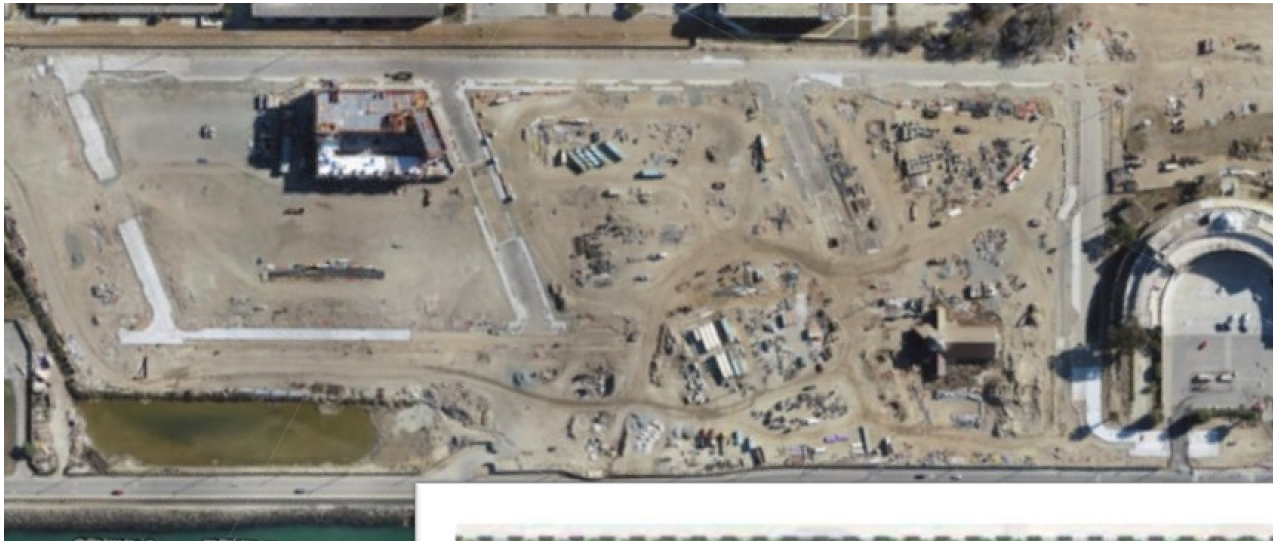


- Future Annexation Area process approved by the Board at formation provides for an administrative procedure to annex property as a new Improvement Area or into an existing one
- As part of the CFD formation, the Initial CFD Formation Area limited to YBI Development Parcels (1Y, 2Y-H, 3Y, 4Y) as **Improvement Area No. 1 (IA No. 1).**
- In January 2021, property annexed into **Improvement Area No. 3 (IA No. 3)**

PROGRAM UPDATE – SUBPHASE 2: Treasure Island

- Ferry Improvements – completed Fall 2021; interim ferry service to begin in early 2022
- Switchyard was turned over to the SFPUC to begin installation of cabling and equipment
- New switchgear has been activated and feeds current residents from new switchyard
- SFPUC to advertise Wastewater Treatment Facility for construction in 2022
- First 100% affordable residential building (Maceo May) expected completion in Summer 2022

Improvement Area No. 2 – Aerial Map



Source: Treasure Island Master Developer

Improvement Area No. 2 (Treasure Island) – Parcels

Source: Treasure Island Master Developer

Improvement Area No. 2 (IA No. 2) consists of five development parcels*:

1. **Parcel B1:** 117 market rate units (rental) owned and developed by Poly (USA) Real Estate Development; estimated completion in Jan. 2024
2. **Parcel C2.2:** 178 market rate units (rental) owned and developed by Lennar; estimate completion in June 2024
3. **Parcel C2.3:** 83 market rate units owned and developed by Poly (USA) Real Estate Development; estimated completion in May 2024
4. **Parcel C2.4:** 250 market rate units (rental) owned and developed by Wilson Meany & Stockbridge; estimated completion in April 2024
5. **Parcel C3.4:** 149 market rate units owned and developed by Wilson Meany, Stockbridge & Lennar; estimated completion in Jan. 2024

* Completion dates are preliminary, subject to change

Special Tax Bond Structure & Limitations

- Bonds are secured by pledge of special taxes levied on property in IA No. 2
- Special taxes levied on properties in IA No. 2 in accordance with the Rate and Method of Apportionment ("RMA") adopted at formation will be used to fund debt service and administrative expenses
  - Special Taxes are levied at their maximum for Developed Property, which is any property for which a building permit for vertical construction has been issued on or before June 30 of prior fiscal years
- For the 2021 Bonds staff is determining the sizing methodology and whether to leverage the value of all property in IA No. 2 by levying a VDDA special tax on parcels which have not yet pulled a building permit based on debt service on the 2021 Bonds
- Maximum projected special tax revenues on all properties must provide coverage of 110% on bond debt service annually – special tax rates escalate at 2% each year per the RMA

Special Tax Bond Structure & Limitations (cont.)

VALUE-TO-LIEN (VTL) RATIO

- The City's Local Goals and Policies – Community Facilities Districts and Special Tax Districts, require CFD Bonds to achieve at least a 3-to-1 VTL ratio based on:

Appraised Value or Assessed Value of Taxable Property in the CFD ÷ Special Tax and Assessment Debt Encumbering the Taxable Property(s) ≥ 3.0

- In connection with the upcoming 2021 Bonds for IA No. 2, Integra Realty Resources, Inc. has prepared a preliminary Appraisal Report dated September 16, 2021[1] with a valuation date of August 1, 2021, and concluded that the market value of the fee simple interest in the five development parcels[2] within IA No. 2 is $75,400,000*, subject to certain assumptions and limiting conditions.

Improvement Area No. 2

Appraised Value*
(as of August 1, 2021):
$75,400,000

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Prop. Not to Exceed: $25.13.0M
+ Outstanding Bonds: $0M
$25,130,000

= **3.0**

* Preliminary, subject to change

[1] Draft Appraisal Report will be included in the documents submitted to the Board of Supervisors related to the 2021 Special Tax Bonds approval

[2] Five development parcels are B1, C2.2, C2.3, C2.4 and C3.4

Value-to-Lien (VTL) by Parcel in Improvement Area No. 2

FY 2021-22 MAXIMUM SPECIAL TAX REVENUE & SUMMARY OF VTL RATIOS*
(DEVELOPMENT STATUS AS OF JUNE 30, 2021)

	Expected Residential			Maximum Special Tax Revenues		
Development Status & Sub-Block	**Taxable Units**	**Square Footage**	**Appraised Value**	**FY 2021-22 Special Tax Levy**	**Allocated Bond Debt**	**Average VTL**
Vertical DDA Property						
Sub-Block B1	111	90,933	$6,000,000	$273,916	$2,385,192	2.52
Sub-Block C2.2	169	135,467	$19,200,000	$416,168	$3,623,884	5.30
Sub-Block C2.3	79	96,389	$12,000,000	$652,843	$5,684,786	2.11
Sub-Block C2.4	226	187,179	$14,300,000	$576,774	$5,022,401	2.85
Sub-Block C3.4	142	142,660	$23,900,000	$966,237	$8,413,736	2.84
Subtotal	**727**	**652,628**	**$75,400,000**	**$2,885,938**	**$25,130,000**	3.00

* Preliminary, subject to change

Plan of Finance for Proposed Special Tax Bonds

BOND OVERVIEW & INVESTOR RISKS

- Non-Rated Special Tax (also known as "Land-Secured") Bonds for new real estate development still underway would not receive an investment grade rating

  RISK: Non-Rated Land-Secured bonds have unique credit considerations and risk factors:
  - Until fully built-out, Bonds bear some degree of development risk.
    In troubled real estate markets, projects can struggle and may be abandoned by developers and/or homebuilders, potentially leading to defaults.
  - Taxpayer concentration risk as the Bonds are secured by a few taxpayers at this time, and therefore the Bonds are subject to economic/financial of these taxpayers.

- The Bonds are limited obligations of the City, secured by and payable solely from a pledge of the special taxes levied in Improvement Area No. 2.

  RISK: While the General Fund of the City is not liable for the payment of principal or interest on the Bonds, and the credit of the City is not pledged to the payment of the Bonds, they still carry the "City and County of San Francisco" issuer name and market recognition → subject to reputational risk

- The City has covenanted, under certain circumstances, to commence judicial foreclosure proceedings with respect to delinquent special taxes on property within Improvement Area No. 2, and will diligently pursue such proceedings to completion

The Preliminary Official Statement

- Board members have a responsibility under federal securities laws to ensure that staff is aware of information that board members may have unique in their capacity as board members that would have a material bearing of the capacity of the CFD to repay the bonds. Board members cannot approve a POS if they are aware that it contains material misstatements or omissions.
- In Connection with the Bonds, Staff has prepared a preliminary official statement ("POS") for prospective investors. The POS describes:
    i. The terms of the Bonds
    ii. Sources of repayment and the security for the Bonds (i.e. CFD special taxes; foreclosure covenant)
    iii. Information about the CFD and its operations and financial ability of the CFD to make timely payments of principal of and interest on the Bonds.
    iv. Risk Factors related to investment in CFD bonds
- Prior to the distribution of the POS (and final Official statement with pricing information), the POS will have been thoroughly and critically reviewed by TIDA and City and staff (in consultation with the City/TIDA's professional advisors, including Disclosure Counsel) to provide the most current material financial and other material information available.

Planned Use of Proceeds

IMPROVEMENT FUND

- Special Tax Bond proceeds are expected to reimburse the Developer for qualified project costs, subject to bond counsel review, including:
  - On-site infrastructure costs (e.g. utility improvements, street facilities, curb, gutter and sidewalk improvements, streetlights, and traffic signals)
  - Related pre-development costs
  - Other Qualified Project Costs as defined in the Financing Plan

DEBT SERVICE RESERVE FUND

- A debt service reserve fund will be funded equal to 125% of average annual debt service on the Bonds over their 30-year term

FINANCING COSTS

- Costs incurred in the formation of the CFD and preparing the financing including but not limited to City administrative fees, legal fees, advisory fees, and underwriter's discount

Estimated Sources & Uses for Improvement Area No. 2 Special Tax Bonds – Not to Exceed par of $25,130,000

ESTIMATED FINANCING TERMS

- Final Maturity of September 1, 2051
- Estimated True Interest Cost: 3.84%
- Estimated Bond Proceeds: $22.275M
- Estimated Financing Costs: $1.125M
- Estimated Total Debt Service: $45.67M

Source: Stifel, PFM, and CSG Advisors, Inc.
Market conditions as of April 2021

SOURCES & USES

Sources:	
Bond Proceeds	
Not to Exceed Par Amount	$25,130,000
Premium	910,000
Total Sources	**$26,040,000**
Uses:	
Improvement Fund	$22,275,000
Debt Service Reserve Fund	1,920,000
Capitalized Interest Fund	720,000
Delivery Date Expenses	
Cost of Issuance	$750,000
Underwriter's Discount	$375,000
Total Uses	**$26,040,000**

DISCUSSION