OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Anna Van Degna
Director of Public Finance

MEMORANDUM

TO: Honorable Members, Capital Planning Committee

FROM: Anna Van Degna, Director of the Controller's Office of Public Finance
Bridget Katz, Deputy Director, Controller's Office of Public Finance
Min Guo, Controller's Office of Public Finance
Bob Beck, Director of the Treasure Island Development Authority

DATE: **Monday, November 13, 2023**

SUBJECT: 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 2023A Not to Exceed $17,000,000

Recommended Actions

We respectfully request that the Capital Planning Committee ("CPC") consider for review and approval of the resolution ("Bond Resolution") which authorizes the issuance of, in one or more series, not to exceed $17,000,000 aggregate principal amount of Improvement Area No. 2 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island) ("District" or "Treasure Island CFD") Special Tax Bonds, Series 2023A ("Bonds").

Background

Since 1997, the City and County of San Francisco ("City") and the Treasure Island Development Authority ("TIDA") have worked together on the Treasure Island/Yerba Buena Island Development Project ("Project") in order to redevelop the former Treasure Island Naval Station ("NSTI") in connection with the conveyance of the Navy-owned lands to TIDA. In early 2003, TIDA and the Treasure Island Community Development, LLC ("TICD" or the "Developer") entered into an Exclusive Negotiating Agreement and began work on a Development Plan.

In 2011, TICD and TIDA entered into the Disposition and Development Agreement ("DDA") and TICD and the City entered into the Development Agreement ("DA") to deliver the Project. The Financing Plan attached to the DDA and DA contemplates reimbursement to the Developer for costs incurred to construct public infrastructure through the issuance of special tax bonds issued under the Mello-Roos Community Facilities Act of 1982 and tax increment bonds issued by the City and County of San Francisco Infrastructure and Revitalization Financing District No. 1 (Treasure Island).

The development plan for the Project anticipates a new San Francisco neighborhood consisting of up to 8,000 new residential housing units, as well as new commercial and retail space, two hotels, and 290 acres of parks and public open space, including shoreline access and cultural uses. Transportation amenities being built for the project will enhance mobility on the Yerba Buena Island and Treasure Island as well as link the islands to mainland San Francisco. . The Project's master plan also includes public facilities serving the Project, utility improvements; new and upgraded streets, public byways, bicycle, transit, and pedestrian facilities; and a new ferry terminal.

The Treasure Island CFD

The Treasure Island CFD was formed to provide funding for certain public infrastructure to be built as a result of the Project and certain ongoing public services. On January 24, 2017, following a public hearing and landowner vote, the Board adopted Resolution No. 8-17 ("Resolution of Formation") establishing the Treasure Island CFD, an initial improvement area in the Treasure Island CFD entitled "Improvement Area No. 1 of the City and County of San Francisco Community Facilities District No. 2016-1 (Treasure Island)" ("Improvement Area No. 1"), and a Future Annexation Area for the Treasure Island CFD, which was established to provide for streamlined annexations of future phases of the Project into the CFD.

<u>Improvement Area No. 2</u>

Improvement Area No. 2 (or "IA No. 2") consists of up to five development parcels (B1, C2.2, C2.3, C2.4 and C3.4) located on Treasure Island, which are expected to include 779 residential units at buildout, as depicted in the rendering on the right.

In April 2020 the development parcels were annexed into the Treasure Island CFD as IA No. 2 through Unanimous Approval by the property owners, in compliance with the Annexation Approval Procedures established by the Board in the Resolution of Formation. In September 2020 the Board of Supervisors adopted Resolution No. 410-20 to confirm the annexation of property into the Treasure Island CFD as IA2 and confirm that the maximum aggregate principal amount of special tax bonds and other debt to be issued by IA No. 2 is $278,200,000.

In January 2022, the City, on behalf of the Treasure Island CFD with respect to IA2, completed the first issuance of Special Tax Bonds, Series 2022A ("2022A Bonds") in the amount of $25,130,000, which were applied to finance, among other things, acquisition and construction of public facilities, as well as soft costs for the planning, design and completion of such facilities.

The proposed Bond Resolution authorizes the sale of an aggregate principal amount not to exceed $17,000,000 and approves related documents. If the full not to exceed amount of Bonds are issued, the remaining bond authority for IA No. 2 would be $236,070,000.

The Special Tax Bonds of Improvement Area No. 2

The proposed Bonds will be secured by a pledge of special taxes levied on taxable property in Improvement Area No. 2. In accordance with Ordinance No. 22-17 and the Rate and Method of Apportionment of Special Tax for Improvement Area No. 2 ("RMA") approved by Unanimous Approval at annexation and confirmed by the Board in Resolution No. 410-20, the City has the authority to begin levying special taxes on all taxable property within IA No. 2. The City began levying special taxes in IA No. 2 in FY 2022-23.

Current Plan of Finance

The City plans on issuing special tax bonds secured by a pledge of special taxes levied on all of the taxable property in IA No. 2 pursuant to the RMA. Debt service on the Bonds escalates at approximately 2% per year, in accordance with the 2% per year escalation of the special taxes, per the RMA. Debt service on the Bonds, together with debt service on the 2022A Bonds, is projected to produce combined annual debt service coverage not less than 110% in each year after taking into account administrative costs based on special tax revenues derived from "Developed Property" parcels under the RMA.

Development Status

A summary of the status of the planned development parcels is summarized in the table below:

Sub-block	Merchant Builder	Development Description	Development Status
B1	Poly	Rental Residential Apts	Site permit issued; start of construction TBD
C2.2	Lennar	Rental Residential Apts	Under construction; completion expected November 2024
C2.3	Poly	For-sale Residential Condos	Site permit issuance TBD
C2.4	Stockbridge/Wilson Meany JV	Rental Residential Apts	Under construction; completion expected September 2024
C3.4	Stockbridge/Wilson Meany/Lennar JV	For-sale Residential Condos	Under construction; completion expected January 2025

Value-to-Lien Ratio

Under the City's *Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts* and bond covenants, the City must achieve at least a 3-to-1 value-to-lien ratio ("VTL") at issuance based on (i) an appraised value (in this case) or assessed value and (ii) special tax and assessment debt encumbering the taxable property.

Integra Realty Resources, Inc. ("Appraiser") has prepared an Appraisal Report dated September 20, 2023 with a valuation date of August 4, 2023, estimating the market value of the fee simple interest in the five development parcels within IA No. 2 currently subject to the special taxes. The Appraiser concluded in the Appraisal Report that the market value of the fee simple interest of these parcels is $219,900,000, subject to certain assumptions and limiting conditions set forth therein. The estimated value-to-lien ratio based on the outstanding 2022A Bonds and proposed not to exceed par amount of $17,000,000 and the appraised value of $219,900,000 is 5.2-to-1. The value of individual parcels in Improvement Area No. 2 may vary significantly, and no assurance can be given that should Special Taxes levied on one or more of the parcels become delinquent, and should the delinquent parcels be offered for sale at a judicial foreclosure sale, that any bid would be received for the property or, if a bid is received, that such bid would be sufficient to pay such parcel's delinquent Special Taxes.

Use of Proceeds

The proceeds of the Bonds will (i) finance or reimburse expenditures on the acquisition and construction of certain public facilities and improvements authorized to be financed by the District, (ii) fund a parity debt service reserve fund for the Bonds, and (iii) finance costs of issuance, including the underwriter's discount. In addition, available special taxes levied in IA2 will be used to establish a supplemental reserve fund ("Additional Special Tax Reserve Fund"). More specifically, the net proceeds of the proposed Bonds are expected to reimburse the Developer for soft costs related to public facilities.

The Bonds will be issued pursuant to the First Supplement to a Master Fiscal Agent Agreement described under Additional Information. Under the First Supplement, the Additional Special Tax Reserve Fund will be available to pay debt service on the Bonds and the 2022A Bonds until a release test has been satisfied, which is expected to be tied to commencement of construction on Sub-Block B1.

Table 1 below outlines anticipated sources and uses for the Bonds, based on current market conditions as of October 23, 2023.

Table 1: Estimated Sources & Uses of the 2023A Special Tax Bonds

Sources:	
Bond Proceeds	
Par Amount	$14,380,000
Original Issue Discount	(333,824)
Estimated Excess Special Tax Collections on Hand	634,454
Total Sources	**$14,680,630**
Uses:	
Project Fund	$11,797,443
Deposit to Parity Reserve	1,483,033
Additional Special Tax Reserve	634,454
Delivery Date Expenses	
Cost of Issuance	550,000
Underwriter's Discount	215,700
Total Uses	**$14,680,630**

Source: Stifel, Nicolaus & Company, Inc.

Interest Rate; Projected Debt Service

Based upon tax-exempt market conditions as of October 23, 2023 and an assumed 29-year term, the true interest cost is estimated to be 6.56%. The average annual debt service on the Bonds is estimated to be approximately $1.14 million. The estimated par amount of $14.38 million is estimated to result in approximately $18.26 million in interest payments over the life of the Bonds. The total debt service over the life of the Bonds is estimated at approximately $32.64 million.

Actual results will vary depending on market conditions at the time of the sale. The difference between the estimated principal amount of $14,380,000 and the not to exceed amount of $17,000,000 is to provide for budgetary flexibility due to fluctuations in interest rates.

Security of the Bonds

The proposed Bonds will be sold without a rating ("Non-Rated"). Non-rated special tax bonds have unique credit considerations and risk factors for investors, as discussed under "Special Risk Factors" section of the Preliminary Official Statement ("POS") for the Bonds. The City, in consultation with the underwriter and the City's municipal advisor, has determined to limit the pool of prospective investors to individuals who can manage the potential risks associated with Non-Rated obligations, such as the Bonds. The Bonds will be offered and sold only to Qualified Purchasers who meet certain sophisticated investor criteria, as described in "Transfer Restrictions" of the POS.

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

Under the Fiscal Agent Agreement, the City, on behalf of the District, has covenanted for the benefit of the owners of the Bonds that, under certain circumstances, the City will commence judicial foreclosure proceedings with respect to delinquent special taxes on property within IA No. 2, and will diligently pursue such proceedings to completion.

Method of Sale

Given the unique credit characteristics associated with special tax revenue bonds, a negotiated sale is planned in connection with this transaction. The Bonds are repaid from special tax revenues from taxable property within Improvement Area No. 2 and are outside of the City's customary credit profile. Following the completion of competitive Request for Qualifications ("RFQ") process in May 2023, the highest-ranked proposer in the Development Finance pool, Stifel, Nicolaus & Company, Incorporated was selected to serve as the Underwriter for the transaction. The proposed Bond Resolution approves the form of the Bond Purchase Agreement (described further below) which provides the terms of sale of the Bonds by the City to the Underwriter.

The Capital Plan

The Bonds are limited obligations of the City payable solely from the special tax revenues within Improvement Area No. 2 and therefore are not subject to policy constraints of the Ten-Year Capital Plan.

Additional Information

The Bond Resolution is expected to be introduced at the Board of Supervisors meeting on Tuesday, November 7, 2023. The forms of the financing documents related to the Special Tax Bonds—including the Bond Purchase Agreement, First Supplement to Fiscal Agent Agreement, Preliminary Official Statement, the Continuing Disclosure Certificate and related documents—will also be submitted.

Bond Purchase Agreement: The City intends to issue the Bonds on a fixed rate basis through a negotiated sale with the Underwriter. The Bond Purchase Agreement sets forth the terms, covenants, and conditions for the sale of the Bonds with the Underwriter, as well as agreements regarding expenses, closing and disclosure documents.

First Supplement to Fiscal Agent Agreement: The proposed Bond Resolution also approves the form of the First Supplement to Fiscal Agent Agreement ("First Supplement"), which supplements a Fiscal Agent Agreement dated as of February 1, 2022 ("Master Fiscal Agent Agreement"), entered by and between the City and Zions Bancorporation, National Association ("Fiscal Agent") when the City previously issued the 2022A Bonds. Pursuant to the Master Fiscal Agent Agreement and the First Supplement (together, the "Fiscal Agent Agreement"), the Fiscal Agent administers and disburses bond payments. The Fiscal Agent Agreement also provides for the terms of the bond redemption, prepayment provisions, and other related administrative provisions. The Fiscal Agent holds the Treasure Island CFD special taxes and the bond proceeds derived from the sale of the Bonds and will disburse the proceeds as directed by authorized City representatives.

Preliminary Official Statement: The POS is distributed to investors prior to the sale of the Bonds and provides information for investors in connection with the public offering by the City of the Bonds. The POS describes the Bonds, the Project, including sources and uses of funds; security for the Bonds; risk factors; and other legal matters, among other information. The Appraisal Report will be attached as an appendix to the Official Statement.

Official Statement: The final Official Statement contains the same information as the POS but includes the results of the pricing of the Bonds (i.e., sale results including principal amounts, offering prices, interest rates, and underwriters' compensation).

Under the anti-fraud provisions of the federal securities laws, the City and TIDA are required to ensure that the POS and the Official Statement contain information that is accurate and complete in all material respects. This obligation attaches to the individual members of the governing bodies approving the document as well as City staff charged with preparing the document. Certain information in the Official Statement will be provided by the Developer, and the Developer will certify in writing the accuracy of such information. It is important that the information provided by all parties is accurate and complete in all material respects. "Material" in this context means that there is a substantial likelihood that the information would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Bonds.

The Board and the Mayor, in adopting and approving the Bond Resolution, approve and authorize the use and distribution of the Preliminary and Final Official Statements by the Underwriter. The Controller's Office will certify, on behalf of the City and the District, that the Preliminary and Final Official Statements are "deemed final" as of their respective dates.

Continuing Disclosure Certificate: The City covenants, on behalf of the District, to provide certain financial information and operating data relating to the Bonds ("Annual Report") not later than nine months after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material enumerated events. These covenants have been made in order to assist the Underwriter of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

Milestones	Dates*
• Introduction of the Resolution to the Board of Supervisors	November 7, 2023
• TIDA Board Meeting	November 8, 2023
• Presentation to Capital Planning Committee	November 13, 2023
• Budget & Finance Committee Hearing	November 15, 2023
• Board Consideration of the Bond Resolution	November 28, 2023
• Sale and Closing of the Bonds	December 2023/January 2024

*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), Bridget Katz (bridget.katz@sfgov.org) or Min Guo (min.guo@sfgov.org) if you have any questions.

Attachment 1

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 Stifel, Nicolaus & Company Inc., assuming an estimated par of $14,380,000, which is less than the not to exceed authorization of $17,000,000:

1. True interest cost of the Bonds: <u>6.56%</u>

2. Finance charge for the 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): <u>$765,700</u>.

3. Amount of Bond proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund funded with proceeds of the Bonds: <u>$11,797,443.</u>

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 Bonds: <u>$32,638,806</u>.

The information set forth above is based on estimates of prevailing market conditions as of October 23, 2023. Actual results may differ if assumed market conditions change.