



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Greg Wagner
Controller

ChiaYu Ma
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
Antonio Guerra, San Francisco Recreation & Parks

DATE: July 16, 2024

SUBJECT: Ordinance Authorizing Issuance of Certificates of Participation, Series 2024A (Music Concourse Garage) in an amount Not-to-Exceed \$29,000,000

Executive Summary

We respectfully request that the Capital Planning Committee review and consider for approval the ordinance to 1) authorize the execution and delivery of Series 2024A Certificates of Participation ("Certificates" or "COPs") in an amount sufficient to enable the City to terminate the ground lease and acquire the Music Concourse Garage ("the Garage"), which is currently owned and operated by the Music Concourse Community Partnership ("MCCP"); (2) approve the transfer of the Garage from the MCCP to the City under the jurisdiction of San Francisco Recreation and Parks Department ("RecPark"); (3) allow RecPark to use Garage revenues to pay for Garage expenses; (4) authorize the Mayor, Treasurer, Controller, Director of Public Finance, the RecPark General Manager and Director of Transportation as may be deemed appropriate to approve and execute any documents, and take any other action needed to complete the foregoing, provided they do not materially increase the obligations or reduce the rights of the City.

Background

The Music Concourse Garage is an 800-space underground parking facility located in Golden Gate Park ("GGP") that serves visitors to GGP and institutions located in GGP, such as the California Academy of Sciences and the De Young Museum. As authorized by Proposition J (June 1998), the City set aside land in GGP for the Garage and placed the land under the jurisdiction of the Golden Gate Park Concourse Authority ("GGPCA"), a non-profit corporation controlled by the City. In 2003, the GGPCA and RecPark together executed a ground lease (as amended, "the Lease") of the land

to the Music Concourse Community Partnership ("MCCP"), a private non-profit organization, so that the MCCP could construct and operate the Garage. The MCCP raised approximately \$40 million from private donations, took out loans to cover the remainder of the \$55 million needed to construct the Garage, and completed construction and opened the Garage to the public in 2005. The MCCP uses revenues from the Garage to cover its operating costs, including the cost of repaying the construction debt. The MCCP is required to repay the construction debt on a set amortization schedule, and when the construction debt is fully repaid, the Lease will terminate and the Garage will transfer automatically to RecPark.

In November 2022, the voters approved Proposition N, which authorized the City to use public funds to acquire and operate the Garage. Since then, RecPark staff have consulted with MCCP, the San Francisco Municipal Transportation Agency ("SFMTA") and the Controller's Office of Public Finance ("OPF") and have determined that the City can efficiently and economically manage the Garage. To fund the City's acquisition of the Garage, we are respectfully seeking approval to authorize the issuance of Certificates of Participation in an amount not to exceed \$29.0 million.

As further described in the Plan of Finance below, funds raised by the issuance of the Certificates will be used to fund reserves, issuance costs, and a payment to MCCP for the transfer of the garage. The payment to MCCP will be an amount equal to the (i) the outstanding balance of the First Republic Debt (currently outstanding in the amount of \$21,470,000) plus accrued interest, less the balance of the First Republic Reserve (which is currently approximately \$1.1 million) plus (ii) \$500,000. MCCP will use the funds to redeem the outstanding First Republic Debt, and together with other MCCP funds on hand, MCCP will pay the De Young Museum and the California Academy of Sciences \$825,000 each to reimburse for loans and discounted interest (for a total of \$1.65 million).

It is anticipated that the operation of the Garage will be managed on behalf of RecPark by SFMTA, through SFMTA's existing contract with IMCO Parking, LLC ("IMCO"). IMCO operates all other City-owned parking garages. In order to add the Garage to the contracted scope of work, SFMTA seek Board of Supervisors ("Board") approval to add the Garage to its existing parking facilities management contract with IMCO, Contract No. SFMTA-2021-64/2, which was approved by the Board in November of 2022 (Resolution No. 474-22). Following the acquisition of the Garage, the City will receive the revenues of the Garage and reimburse SFMTA's administrative costs to oversee Garage operations and management. RecPark and SFMTA anticipate that the transfer of management of the Garage to IMCO will not disrupt Garage operations, as IMCO and the current operator, Imperial Parking, LLC, are affiliated and have nearly the same management team.

Plan of Finance

The proposed Ordinance authorizes the execution and delivery of one or more series of taxable or tax-exempt COPs in an aggregate principal amount not-to-exceed \$29,000,000 for the City acquire the Garage, with certain obligations associated with the construction of the Garage being defeased concurrently.

Based on the cost estimates and timing for the acquisition, OPF anticipates issuing a total of \$24,360,000 in COPs, though the final amount will be based on prevailing market conditions at the expected time of sale. The difference between the expected issuance amount and the \$29,000,000 not-to-exceed amount provides for an allowance for market fluctuations until the sale of the COPs, potential increased deposits to the debt service reserve fund or capitalized interest cost, uncertainty regarding MCCP cash balances available to pay subordinate obligations between now and transaction close, and possible additional delivery date expenses.

Commercial Paper. The Ordinance authorizes the use of the City's commercial paper program ("CP Program"), which was launched in June 2010 pursuant to Resolution No. 85-09 and Resolution No. 136-10, as an interim financing mechanism. Pursuant to Resolution No. 247-13 approved in July 2013, the City's total CP Program authorization is \$250.0 million, of which \$55.1 million is currently unencumbered.

Based upon an estimated 5.09% all-in true interest cost and an anticipated total par value of \$24.36 million, the total principal and interest payments over the approximate 25-year term of the COPs is estimated to be approximately \$42.41 million. Depending upon market conditions expected at the time of the sale, the COPs could be structured with up to a 35-year term. **Table 1** below outlines anticipated sources and uses for the COPs, based on estimates determined by the Office of Public Finance:

Table 1: Estimated Sources & Uses of the Proposed Series 2024A COPs (Music Concourse Garage)

Sources:

<u>Music Concourse Garage COP Series 2024A Proceeds</u>	
Not-To-Exceed Par Amount	\$29,000,000
Prior Reserve Fund	<u>\$1,100,000</u>
Total Sources	\$30,100,000

Uses:

<u>Project Funds</u>	
First Republic Debt Payoff	\$21,600,000
Museum Loan Payoff	\$500,000
Capitalized Interest	\$1,000,000
Debt Service Reserve Fund	\$2,450,000
<u>Delivery Date Expenses</u>	
Cost of Issuance	\$1,050,000
Underwriter's Discount	\$240,000
Total Projected Uses	\$26,840,000

Plus: Reserve for Market Uncertainty *\$3,260,000*

Total Uses (including Prior Reserve Fund) **\$30,100,000**

For good faith estimates required by Code Section 5852.1 of the California Government Code regarding the proposed financing, see **Attachment A**. The information set forth in **Attachment A** is based on estimates of prevailing market conditions. Actual results may differ if assumed market conditions change before debt issuance.

The anticipated debt service associated with the delivery and execution of the 2024A COPs is intended to be offset by revenues collected through the operation of the Garage, and so is considered to be outside the City's Capital Plan policy of limiting General Fund debt service payments at or below 3.25% of General Fund Discretionary Revenue.

OPF will seek Board approval of a separate Supplemental Appropriation Ordinance to appropriate the COP proceeds, as well as Garage revenues and debt service expenditures. This Ordinance is expected to be introduced concurrently with the SFMTA contract amendment Resolution at the Board meeting of July 30, 2024.

Key Terms and Documents

Under the proposed Ordinance, the relevant City officials are authorized to enter into an agreement on behalf of the City regarding transfer of the Garage and Garage operations to the City upon the issuance of the Certificates, consistent with the terms of the Ordinance and the Ground Lease, and to enter into one or more escrow agreements, as necessary. The Ordinance will also approve the issuance of the Series 2024A COPs using a lease-lease back structure between the City and a third-party trustee pursuant to a Property Lease, Lease Agreement, and Trust Agreement, through which the City will lease to the trustee the Garage property, and/or other property designated by the Director of Public Finance, and the trustee will lease the Leased Property back to the City in exchange for base rental Payments. Forms of certain financing documents are included in the Board file for legislative review and approval.

Property Lease and Lease Agreement: Pursuant to the Property Lease, the City leases a City-owned property to a third party trustee. Pursuant to the Lease Agreement, the City leases back the leased property, together with the improvements financed with proceeds of the Certificates, from the third-party trustee. The City makes annual base rental payments to the third-party trustee in amounts required to repay the Certificates. When the Certificates are finally paid, the Property Lease and the Lease Agreement terminate. The City's General Fund is the source of repayment of the Certificates.

Trust Agreement: Pursuant to the Trust Agreement between the City and a third-party trustee acting on behalf and for the benefit of Certificates holders, the trustee administers and disburses Certificate payments and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the Certificates, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The trustee holds proceeds derived from the sale of the Certificates and disburses payments for the costs incurred for the Project, as directed by authorized City representatives. The ordinance delegates selection of the third-party trustee to the Director of Public Finance, and the trustee will be selected based on the lowest fees and other considerations via a competitive request for proposal.

The Trust Agreement between the City and the trustee requires that the base rental payments be deposited semi-annually in the base rental fund maintained by the trustee. The trustee will apply such amounts as is necessary to make base rental payments with respect to the Certificates.

The Leased Property: It is anticipated that the Garage will serve as the Leased Property (the "Leased Property") for the Certificates.

The Property Lease and Lease Agreement between the City and trustee requires the City to make base rental payments semi-annually during the term of the lease in an amount sufficient to pay total base rental payments when due.

Additional Documents

The forms of other related financing documents—including the Preliminary Official Statement, Purchase Contract, Official Notice of Sale and Notice of Intention to Sell, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted, as described below.

Official Statement: The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the 2024A COPs. The Official Statement describes the 2024A COPs, including sources and uses of funds; security for the 2024A COPs; risk factors; and tax and other legal matters, among other information. The Official Statement also includes the City's Appendix A, the most recent Annual Comprehensive Financial Report of the City, the City's Investment Policy, and other forms of legal documents for the benefit of investors, holders and owners of the 2024A COPs.

A *Preliminary Official Statement* is distributed to prospective investors prior to the sale of the 2024A COPs. Within seven business days of the public offering, the Final Official Statement (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) is distributed to the initial purchasers of the 2024A COPs.

The Board of Supervisors and the Mayor, in adopting and approving the proposed Ordinance, approve and authorize the use and distribution of the Official Statement by the City's Municipal Advisor with respect to the 2024A COPs. In accordance with rule 15c2-12 of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are "deemed final" as of their respective dates.

Official Notice of Sale and Notice of Intention to Sell (if the 2024A COPs are sold competitively): The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the 2024A COPs. Such Notice of Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

The Official Notice of Sale for the 2024A COPs announces the date and time of a competitive sale, including the terms relating to the 2024A COPs; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

The Official Bid Form attached to the Official Notice of Sale is the form of the official bid for the purchase of the 2024A COPs. Pursuant to the Ordinance, the Controller is authorized to award the 2024A COPs to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

Purchase Contract (if the 2024A COPs are sold on a negotiated basis): The City will work with its Municipal Advisor to determine whether a negotiated or competitive sale will be most advantageous for the transaction based on market conditions closer to the sale of the 2024A COPs. Should the 2024A COPs be sold via a negotiated sale with an underwriter(s), the Purchase

Contract will be the document that details the terms, covenants, and conditions for the sale of the 2024A COPs through selected underwriter(s), as well as agreements regarding expenses, closing and disclosure documents. For a negotiated sale, the City would work with its Municipal Advisor to select qualified firms from the City's Underwriter Pool via a competitive Request for Proposal ("RFP") process.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the City (the "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, if material. The Continuing Disclosure Certificate, included as Appendix D of the Preliminary Official Statement, describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist initial purchasers of the 2024A COPs in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Anticipated Financing Timeline

Milestones	Dates*
• Introduction of the COP Ordinance to the Board of Supervisors	June 25, 2024
• Capital Planning Committee Hearing	July 22, 2024
• Introduction of Supplemental Appropriation Ordinance and MTA Contract Resolution	July 30, 2024
• Budget and Finance Committee Hearing for COP Ordinance	July 31, 2024
• Board Consideration of the COP Ordinance (1 st Reading)	September 3, 2024
• Budget and Finance Committee Hearing for Supplemental Appropriation Ordinance and MTA Contract Amendment Resolution	September 4, 2024
• Final Board Consideration of COP Ordinance (2 nd Reading) and MTA Contract Resolution; Board Consideration of the Appropriation Ordinance (1 st Reading)	September 10, 2024
• Final Board Approval of the Appropriation Ordinance (2 nd Reading)	September 17, 2024
• Sale and Closing of the COPs / Transfer of Garage to City	December 2024

*Please note that dates are estimated unless otherwise noted.

Please feel free to contact Anna Van Degna (Anna.VanDegna@sfgov.org), Vishal Trivedi (Vishal.Trivedi@sfgov.org), or Grant Carson (Grant.Carson@sfgov.org) if you have any questions. Your consideration of this matter is greatly appreciated.

Attachment A

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, NHA Advisors.

1. True interest cost of the COPs: 4.67%
2. Finance charge for the COPs, 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): \$1,174,616.
3. Amount of COP proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest funded with proceeds of the COPs: \$22,025,762.
4. Total payment amount for the COPs, being the sum of (a) debt service on the COPs to final maturity, and (b) any financing costs not paid from proceeds of the COPs: \$42,413,967.

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

CC: Angela Calvillo, Clerk of the Board of Supervisors
Andres Power, Mayor's Office
Tom Paulino, Mayor's Office
Alex Sweet, Mayor's Office
Anna Duning, Mayor's Budget Director
Harvey Rose, Budget Analyst
Severin Campbell, Budget Analyst
Greg Wagner, Controller
Mark Blake, Deputy City Attorney
Manu Pradhan, Deputy City Attorney
Phil Ginsburg, Recreation and Parks
Dana Ketcham, Recreation and Parks
Sarah Madland, Recreation and Parks
Rob Malone, SFMTA
Janet Martinsen, SFMTA