OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-0652016-002

Agenda Item **Nos. 5 (c, d & e)**
Meeting of October 4, 2016

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee, Executive Director

SUBJECT: Authorizing a Personal Services Contract with Public Financial Management, Inc. for financial advisory services in an amount not to exceed $226,000 related to the proposed sales of tax-exempt infrastructure tax allocation bonds for the Transbay Redevelopment Project Area and housing taxable tax allocation bonds to fund construction of low and moderate income housing in Mission Bay, Transbay, and Hunters Point Shipyard/Candlestick Point;

Authorizing a Personal Services Contract with Kitahata and Company for financial advisory services in an amount not to exceed $79,960 related to the proposed sales of tax-exempt infrastructure tax allocation bonds for the Transbay Redevelopment Project Area and taxable housing tax allocation bonds to fund construction of low and moderate income housing in Mission Bay, Transbay, and Hunters Point Shipyard/Candlestick Point;

Authorizing a Personal Services Contract with CSG Advisors, Inc. for financial advisory services in an amount not to exceed $41,350 related to the proposed sales of taxable housing tax allocation refunding bonds

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One S. Van Ness Ave.
5th Floor
San Francisco, CA
94103

415 749 2400

www.sfocii.org

EXECUTIVE SUMMARY

The OCII FY2016-17 bond financing plan includes three bond issuances: 1) approximately $37 million in tax-exempt infrastructure tax allocation bonds to fund infrastructure in the Transbay Redevelopment Project Area (Transbay Bonds); 2) approximately $113 million in taxable housing tax allocation bonds to fund low and moderate income housing city-wide (Housing Bonds); and 3) approximately $90 million in taxable housing tax allocation refunding bonds (Refunding Bonds) to realize debt service savings. The $113 million in taxable housing tax allocation bonds may be issued in one or more series. OCII has retained bond and disclosure counsel for all three transactions. The next step is to retain a financial advisory team for each issuance.

OCII staff issued a Request for Proposals ("RFP") for financial advisory services for the above described issuances. Five firms responded to the invitation. OCII staff convened an evaluation panel, comprised of OCII and City staff, to consider the responses. The evaluation panel recommends: Public Financial Management ("PFM") as lead Financial Advisor and Kitahata &

Company ("Kitahata") an LBE/SBE, as co-financial advisor for the Transbay Bonds and Housing Bonds. The evaluation panel also recommends CSG Advisors Inc. ("CSG") as financial advisor for the Refunding Bonds.

Compensation for financial advisory services will be paid from bond proceeds upon successful completion of the respective transaction. The total amounts paid under the contracts will not exceed the following: for Public Financial Management, $226,000; for Kitahata, $79,960; and for CSG Advisors, $41,350.

Staff recommends authorization of professional service contracts for financial advisory services with Public Financial Management for a total contract amount not-to-exceed $226,000; with Kitahata for a total contract amount not-to-exceed $79,960; and with CSG Advisors for a total contract amount not-to-exceed $41,350. Each contract will remain in effect until the financings are complete.

DISCUSSION

Planned Bond Issuances, Fiscal Year 2016-17

The OCII bond financing plan for Fiscal Year 2016-17 is comprised of the following three issuances:

Tax- Exempt Infrastructure Tax Allocation Bonds

Approximately $37 million in tax-exempt infrastructure tax allocation bonds will be issued to fund infrastructure in the Transbay Redevelopment Project Area. These bonds will fund capital improvements including: Folsom Streetscape, Under-Ramp Park, Essex Park, and Transbay Park. The bonds will be sold under authority granted OCII by California Health and Safety Code Section 34177.7 (a) (SB107).

Taxable Housing Tax Allocation Bonds

Approximately $113 million in taxable housing tax allocation bonds will be issued to fund low and moderate income housing in Mission Bay, Transbay, and Hunters Point Shipyard. The funds will be issued in FY2016-07 but used in both FY 2016-17 and FY2017-18. The bonds may issue in a one or more series. The bonds will be issued under authority granted OCII by California Health and Safety Code Section 34177.7(a) (SB 107).

Based on current information on development timing, staff anticipates using the proceeds on the following projects:

Mission Bay South

Mission Bay 3 East:	119 units for homeless veterans and low-income families
Mission Bay 9:	100 units for homeless individuals
Mission Bay 4:	101 units for low-income families

Hunters Point Shipyard Phase 1

Blocks 52/54:	60 units for low-income families

Candlestick Point

Alice Griffith Phase 5:	36 units for public housing replacement and low-income families
Alice Griffith Phase 6:	131 units for low-income families
Candlestick Pt 10a:	140 units for low-income and homeless families
Candlestick Pt 11a:	150 units for low-income and homeless families

Taxable Housing Tax Allocation Refunding Bonds

Approximately $90 million in taxable housing tax allocation refunding bonds to refinance outstanding taxable housing tax allocation bonds issued prior to dissolution. The final size of the refunding bond issuance will depend upon market conditions and the economics of each refunding under consideration. As per OCII's debt policy, and consistent with Dissolution Law, each refunding should achieve an approximate minimum of 3 percent in net present value savings of par for each refunded bond. Current refunding candidates include all or parts of the following series: 2006A, 2007A, 2009A, 2009E, 2010A, 2011A, and 2011E. The size of the refunding may increase or decrease depending on market conditions.

Bond Financing Teams

The sale of tax allocation bonds requires assembling a team of experts. Bond counsel ensures and opines that all required steps are taken to ensure the bonds are compliant with legal and regulatory requirements. Disclosure counsel drafts and guides the content of the disclosure document used in marketing the bonds. The financial advisor ("FA") oversees the entire financing process and opines on the pricing. The fiscal consultant assembles and prepares the revenue related tables in the disclosure document, including the detailed Fiscal Consultant's Report. The underwriters market, purchase, and sell the bonds to investors.

On August 2, 2016, the Commission approved bond counsel and disclosure counsel contracts for the three bond issuances listed above ("the bonds"). OCII currently has a contract in place for a fiscal consultant for the Housing Bonds. As per the OCII purchasing policy, staff will procure services of a fiscal consultant for the Transbay and Refunding Bonds and will bring the contracts to the Commission for approval. Once under contract, as is standard industry practice, the FA for each transaction will issue a Request for Proposal ("RFP") to the City's underwriter pool and will convene an evaluation panel. Staff will bring the panel's recommendations to the Commission for approval concomitant with the bond resolutions.

Resolutions 44-2016, 45-2016 and 46-2016 will approve contracts for FA services for the three issuances the 2016-17 bonds. This memo addresses all three resolutions.

Solicitation Process

On July 18, 2016, OCII staff issued to the City's panel of qualified municipal financial advisory firms, established March 4, 2016 and effective through March 6, 2018, a RFP for FA services related to the issuance of the 2016-17 Bonds. Five firms responded to the RFP by the submission deadline, August 1, 2016. OCII staff formed an evaluation panel comprised of: Bree Mawhorter, OCII Deputy Director, Finance and Administration, Jeff White, OCII Housing Program Manager and Jamie Querubin of the Controller's Office of Public Finance. The panel reviewed the proposals according to objective scoring criteria and determined that: Public Financial Management ("PFM") with its extensive resources and deep successor agency/OCII specific experience, was the highest scoring respondent; CSG Advisors, with its insightful and in-depth discussion of the OCII credit, was the next strongest respondent; and Kitahata, a local business enterprise and small business enterprise ("LBE, SBE"), was the highest scoring LBE, SBE respondent.

The panel recommends PFM as lead FA, with Kitahata as co-FA for the $37 million Transbay Bonds and the $113 million Housing Bonds. The panel also recommends CSG Advisors as the FA for the $90 million Refunding Bonds.

Scope of Services

Each contractor will perform all work customary to the role of financial advisor as described in the contract. For the Transbay and Housing Bonds, PFM, as lead-FA, will manage the financing team, with particular focus on the pricing, structuring, and credit strategy and Kitahata, as co-FA, will manage the schedule, work with the underwriting team on the credit presentation, schedule meetings, and manage the distribution list. For the Refunding bonds, as sole FA, CSG will be responsible for pricing, structuring, and formulating a credit strategy for the Bonds as well as managing administrative details such as the schedule and the distribution list.

Contract Costs

The work performed under these contracts will be paid solely from bond proceeds and payment will be contingent upon the issuance of bonds. The fee structure is detailed in Attachment B to each contract. Each contract includes contingency amounts, executed at the discretion of the Executive Director, to allow flexibility in response to changing circumstances, such as the need to increase the size of bond issuance in response to an expansion of a construction project or to take advantage of lower interest rates allowing the economical refunding of additional bonds. The respective budgets for the contracts break down as follows:

a. **PFM:** Compensation for lead FA services as follows: for the $37 million Transbay Bonds, $61,000; for the $113 million Housing Bond issuance(s), up to $123,000. Additionally, the contract includes $6,000 for expenses and a $36,000 contingency. The total contract amount is not-to-exceed $226,000.

b. **Kitahata:** Compensation for co-FA services as follows: for the $37 million Transbay Bonds, $23,760; for $113 million Housing Bond issuance(s), $43,200. Additionally, the contract includes a $13,000 contingency. The total contract amount is not-to-exceed $79,960.

c. **CSG:** Compensation for FA services as follows: for the $90 Refunding Bonds, $34,250. Additionally, the contract includes $250 for expenses and a $6,850 contingency. The total contract amount is not-to-exceed $41,350.

Enabling Law

The adoption of SB107 authorized OCII to issue bonds to provide funding for the construction of certain low and moderate income housing to satisfy obligations under specified agreements and to fund infrastructure construction in the Transbay project area. California Health and Safety Code Section 34177.7(a)(1).

Redevelopment Dissolution Law grants Successor Agencies the authority to issue, subject to the approval of the Oversight Board and Department of Finance ("DOF"), tax allocation refunding bonds for savings or to reduce debt service spikes. California Health and Safety Code 34177.5(a-c).

California Environmental Quality Act

Authorization of the Personal Service Contracts with PFM, Kitahata, and CSG is not a "project," as defined by the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines Section 15378(b)(5), because it is an administrative activity of government that will not result in a direct or indirect physical change in the environment, and, therefore, is not subject to environmental review under CEQA.

(Originated by John Daigle, Sr. Financial Analyst)

Tiffany Bohee
Executive Director