OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-0872024-002

Agenda Item **No. 5(e)**
Meeting of January 7, 2025

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Thor Kaslofsky, Executive Director

SUBJECT: Confirming the issuance of tax allocation refunding bonds, on a tax-exempt and taxable basis for federal income tax purposes, as permitted in section 34177.5(a)(1) of the California Health and Safety Code in an aggregate principal amount not to exceed $85,000,000, and approving preliminary and final official statements, a continuing disclosure certificate and other related documents and actions; Mission Bay South Redevelopment Project Area

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EXECUTIVE SUMMARY

On June 20, 2023, the Successor Agency to the former Redevelopment Agency of the City and County of San Francisco, the Office of Community Investment and Infrastructure ("OCII"), presented certain bond issuances to the Commission to achieve interest cost savings. The Commission adopted Resolution No. 22-2023 (the "Bond Resolution") approving the issuance of the Successor Agency to the City and County of San Francisco Redevelopment Agency 2023 Series C Taxable Tax Allocation Refunding Bonds (Mission Bay South Redevelopment Project) ("2023C Bonds") and 2023 Series D Tax Allocation Refunding Bonds (Mission Bay South Redevelopment Project) ("2023D Bonds" or, together the "2023CD Bonds" or simply the "Bonds") in an aggregate principal amount not to exceed $85,000,000. The proceeds from the Bonds will be used to achieve cost savings by refunding the outstanding 2016D Bonds (as hereinafter defined), fund debt service reserve funds, and pay costs related to the issuance of the Bonds.

The Bond issuance was also subject to the approval of the Oversight Board and the California Department of Finance. The Oversight Board, pursuant to Resolution No. 05-2023 adopted on June 29, 2023 (the "Oversight Board Resolution"), approved the issuance of the Bonds, and said resolution was sent to the Department of Finance. By letter dated August 29, 2023, the Department of Finance approved the Oversight Board Resolution and the issuance of the Bonds.

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In the Bond Resolution, the Commission directed OCII, with the assistance of Disclosure Counsel, Bond Counsel, the Fiscal Consultant and the Municipal Advisor, to cause to be prepared a form of Official Statement describing the Bonds and containing material information relating to OCII and the Bonds, and the preliminary form of which to be submitted to the Commission (but not to the Oversight Board) for approval for distribution by the underwriter of the Bonds to persons and institutions interested in purchasing the Bonds. Given the anticipated timing of the issuance of the Bonds, the series designation will be changed from 2023C Bonds to 2025A Bonds and from 2023D Bonds to 2025B Bonds, respectively, or together from 2023CD Bonds to 2025AB Bonds.

The final step in the approval process for the Bonds is for the Commission to adopt a resolution confirming its actions in the Bond Resolution, approving the preliminary and final Official Statements for the Bonds, as well as a continuing disclosure certificate for the Bonds. OCII currently plans to issue the Bonds in January 2025.

Staff recommends the Commission approve the proposed resolution, among other matters, confirming the issuance of the Bonds to refund the outstanding 2016D Bonds, as further described therein.

BACKGROUND

OCII and FOCIL-MB, LLC (the “Owner” or “Master Developer”), as assignee of Catellus Development Corporation, are parties to the Mission Bay South Owner Participation Agreement executed November 16, 1998 (as amended from time to time, the “OPA”), which includes Attachment E thereto, “Mission Bay South Financing Plan” (the “Financing Plan”). In connection with the execution of the OPA, and as part of the OPA, OCII is a party to a series of binding agreements regarding the projects to be financed through the OPA, including the Mission Bay South Tax Increment Allocation Pledge Agreement executed November 16, 1998, by and between the City and County of San Francisco and OCII (the “Pledge Agreement”), to which the Owner is an express third-party beneficiary.

The OPA, including the Financing Plan and the Pledge Agreement, contain an irrevocable pledge of property tax increment, formerly tax increment revenues, to the payment of certain infrastructure costs (which are described in the Financing Plan as “Infrastructure Costs”), and OCII is obligated, under the OPA, including the Financing Plan and the Pledge Agreement, to issue bonds or incur other indebtedness secured by an irrevocable pledge of tax increment revenues to pay such Infrastructure Costs.

In 2016, as required under the OPA and the Pledge Agreement, OCII issued its Successor Agency to the Redevelopment Agency of the City and County of San Francisco 2016 Series D Subordinate Tax Allocation Bonds (Mission Bay South Redevelopment Project) (the “2016D Bonds”) to finance certain Infrastructure Costs.

DISCUSSION

Prior Approvals

On April 18, 2023, the Commission approved, by Resolution 11-2023, the OCII FY23-24 budget, which included the issuance of $85 million in taxable and tax-exempt refunding tax allocation bonds to refund the outstanding 2016D Bonds.

On June 20, 2023, the Commission adopted the Bond Resolution which authorized the issuance of the Bonds subject to the approval of the Oversight Board and the Department of Finance and the satisfaction of other conditions for issuance. The other conditions for issuance set forth in the Bond Resolution include the requirement that the net present value savings obtained by issuing the Bonds, based on the debt service of the 2016D Bonds being refunded, is not less than 3% of the principal amount of the 2016D Bonds being refunded, in accordance with OCII's Debt Policy adopted by the Commission by Resolution 32-2021 on October 5, 2021.

Proposed Action

With the June 29, 2023 approval from the Oversight Board and the August 29, 2023 approval from the Department of Finance, the proposed Commission resolution is the final action to be taken prior to the issuance of the Bonds. As the final step in the approval process of the Bonds, the Commission must confirm its actions in the Bond Resolution, approve a preliminary and final Official Statement and a continuing disclosure certificate for the Bonds.

A portion of the proceeds relating to the 2016D Bonds remain on deposit in the project fund held by the trustee pending OCII's receipt of reimbursement requests for eligible costs from the Master Developer. The 2025A Bonds are anticipated to be issued on taxable basis for federal income tax purposes in order to preserve OCII's flexibility as to the timing of future reimbursements and the types of capital projects that are eligible for reimbursement.

Estimated Savings Based on Current Market Conditions

Based on current market conditions as of November 8, 2024, the Municipal Advisor and OCII staff currently estimate that the refunding of the outstanding 2016D Bonds with proceeds of the 2025AB Bonds will result in combined net present value savings of $5.9 million (equivalent to 8.5% of the refunded principal amount of the 2016D Bonds) and thus the requirements for bond refunding under the Redevelopment Dissolution Law and OCII's Debt Policy, which is not less than 3%, will be met if market conditions hold or improve. Savings are generated by reducing OCII's interest cost through refinancing the 2016D Bonds, which are currently paying interest at rates of 4.75% - 5.0%, with the 2025AB Bonds at an All-In True Interest Cost currently estimated at 4.0%. The savings estimate above assumes the refunding bonds are issued in January 2025. Savings are generated over time; the Municipal Advisor and OCII staff currently estimate that the net present value reduction to the savings is approximately $86,000 per month due to the effect of continuing to pay the 2016D Bonds interest rates of 4.75% - 5.0% as opposed to the 2025AB Bonds rate of 4.0%.

The estimated sources and uses based on current market conditions are described below.

Table 1: Sources and Uses of Funds

	2025A (Taxable)	2025B (Tax-Exempt)	Total
Bond Principal	4,695,000	53,540,000	**58,235,000**
Premium	0	5,733,965	**5,733,965**
2016D Reserve	473,059	5,973,691	**6,446,750**
Total Sources	**$5,168,059**	**$65,247,656**	**$70,415,715**
Refunding Escrow	5,086,997	64,237,558	**69,324,555**
Cost of Issuance	40,846	461,419	**502,265**
Underwriter’s Fee	16,859	192,249	**209,107**
Bond Insurance	15,140	258,421	**273,561**
Surety Reserve	8,216	98,010	**106,226**
Total Uses	**$5,168,059**	**$65,247,656**	**$70,415,715**

The actual issuance amount will be finalized in the weeks before the bond issuance and will be based on the then-current market conditions. Said conditions may be materially different than those presented in this report. OCII will not issue the refunding bonds unless and until the standards in Section 34177.5 (a) of the Health and Safety Code and OCII’s Debt Policy are satisfied.

Preliminary Offering Statement and Final Official Statement

In the proposed resolution, the Commission conditionally approves the preliminary Official Statement describing the Bonds (the “POS”), in substantially the form attached to the proposed resolution as Exhibit A together with such changes or additions thereto as the Executive Director, the Deputy Director of Finance and Administration and any of their designees (each being hereinafter referred to as an “Authorized Officer”) deems necessary, desirable or appropriate upon consultation with the OCII’s General Counsel, bond counsel and disclosure counsel, and authorizes an Authorized Officer, acting alone, to deem a preliminary form of the Official Statement final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended (the “Rule”), except for omissions permitted therein. In addition, in the proposed resolution, the Commission conditionally approves the distribution of the POS by Wells Fargo Bank, National Association (the “Underwriter”). The proposed resolution further provides that the execution of the final Official Statement (the “OS”), which shall include such changes and additions thereto deemed advisable by an Authorized Officer and the addition of such information permitted to be excluded from the POS pursuant to the Rule, is approved for delivery to the purchasers of the Bonds, and authorizes the Authorized Officers, each acting alone, to execute and deliver the OS for and on behalf of OCII and to deliver to the Underwriter a certificate with respect to the information set forth therein.

With the assistance of Disclosure Counsel, Bond Counsel, the Fiscal Consultant and the Municipal Advisor, OCII staff have prepared a form of POS describing the Bonds and containing material information relating to OCII and the Bonds. The POS describes the Bonds, their security and sources for payment, associated risk factors, and other pertinent financial matters. The OS is released after the pricing of the Bonds. Except for any updates to reflect material information not otherwise disclosed in the POS and information that is market dependent such as the aggregate principal amount of the bonds, the interest rates on each maturity, the offering price, the redemption provisions, and delivery dates, the OS will be substantially the same as the POS.

The distribution of the POS and the OS is subject to the federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the POS to include all facts that would be material to an investor in the Bonds. Information is material if 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 securities. The Securities and Exchange Commission ("SEC"), the agency with regulatory authority over compliance with the federal securities laws, has indicated that if a member of a legislative body, like the Commission, has knowledge of any facts or circumstances that an investor would want to know prior to investing in securities, like the Bonds, whether relating to their repayment, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the POS. The steps that a member of the Commission could take to fulfill this obligation include becoming familiar with the POS and questioning staff and other members of the financing team about the disclosure of such facts.

Security and Sources of Payment

A bond is a financial instrument that enables the issuer to borrow money. Bonds are purchased by investors in exchange for the issuer's promise to repay the principal amount of the bond with interest. When the bond matures, the issuer pays the purchaser back the original amount borrowed from the purchaser, which is known as the principal. The Bonds will be payable from and secured by tax revenues generated in the Mission Bay South Redevelopment Project Area on a parity with the OCII's 2014A, 2016B and 2016C Bonds.

Associated Risk Factors

The risk factors described in the POS for the Bonds include reduction in tax base and assessed values, development risks, and risks associated with natural disasters. The risk factors for the Bonds have been updated to account for changes since OCII last issued Mission Bay South bonds in 2016.

The updated risks include risks from:

- Declines in assessed values.
- Climate change.
- Hazardous substances.
- Cybersecurity.

- Public Health Emergencies.

The descriptions of the risks from climate change and public health emergencies are consistent with recent disclosures made by the City and County of San Francisco when it issued bonds. The description of risks associated with declines in assessed values, climate change, hazardous substances, cybersecurity and public health emergencies are consistent with disclosure for other OCII bond issuances, with updates, as appropriate.

Continuing Disclosure Certificate

In the proposed resolution, the Commission authorizes the Authorized Officers, each acting alone, to execute and deliver a Continuing Disclosure Certificate substantially in the form appended to the final Official Statement. A form of Continuing Disclosure Certificate is appended to the POS. The Continuing Disclosure Certificate describes OCII's contractual obligation to disclose information regarding the Bonds post-issuance. The Continuing Disclosure Certificate for the Bonds includes the requirement that OCII disclose all parity debt, the top ten taxpayers and assessed valuation in the Mission Bay South Redevelopment Project Area, debt service coverage, and assessment appeals.

NEXT STEPS

Pending approval of Resolution 03-2025 and net present value savings that satisfy the Redevelopment Dissolution Law and OCII Debt Policy, OCII will prepare materials to market the Bonds to the investor community, and complete the due diligence process. Following these actions, market conditions permitting, OCII expects to price the Bonds in mid January 2025 and close the Bonds in late January 2025.

(Originated by Nick Jones, Debt Manager)

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Executive Director