OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-0362021-002

Agenda Item **No. 5(c)**
Meeting of October 5, 2021

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Sally Oerth, Interim Executive Director

SUBJECT: Confirming the issuance of new money tax allocation bonds as permitted in sections 34177.7(a)(1)(A) of the California Health and Safety Code to finance affordable housing obligations in an aggregate principal amount not to exceed $130,400,000 and approving preliminary and final official statements, a continuing disclosure certificate and other related documents and actions

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EXECUTIVE SUMMARY

On July 20, 2021, the Successor Agency Commission authorized, by Resolution No. 26-2021, the issuance of new money taxable tax allocation bonds to fund affordable housing in an amount not-to-exceed $130.4 million, subject to approval by the Oversight Board of the City and County of San Francisco ("Oversight Board") and the California Department of Finance ("DOF"). On July 28, 2021, the Oversight Board approved, by Resolution No. 3-2021, the issuance of these bonds. On September 3, 2021, DOF approved, by Letter from Jennifer Whitaker to B. Mawhorter, the Oversight Board's resolution.

The next step in the issuance process is for the Successor Agency ("Commission") to approve a resolution approving the preliminary and final official statements, as well as a continuing disclosure certificate. OCII plans to issue the proposed bonds prior to in November 2021. If finally approved, these bonds in the amount of $130.4 million would be known as the 2021 Series A Taxable Third Lien Tax Allocation Bonds (Affordable Housing Projects) ("2021A Bonds"). As described in OCII's approved FY21-22 budget, staff anticipates using the proceeds from the 2021A Bonds to fund affordable housing in Hunters Point Shipyard Phase 1 and Mission Bay South.

Staff recommends the Commission confirm the issuance of the 2021A new money tax allocation bonds to fund affordable housing.

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DISCUSSION

The Successor Agency, commonly known as the Office of Community Investment and Infrastructure ("OCII"), proposes issuing the 2021A Bonds under Section 34177.7(a)(1)(A) of the Health and Safety Code, which was established by special legislation granting authority to San Francisco to finance certain affordable housing obligations. This memorandum describes the legislative and regulatory approvals OCII has received in support of the issuance of the 2021A Bonds and describes the proposed action pending before the Commission.

Legislative Approvals

On April 20, 2021, the Commission approved, by Resolution No. 13-2021, the OCII FY21-22 budget, which included a proposed expenditure of $130.4 million in taxable tax allocation bond proceeds for affordable housing projects. On July 20, 2021, the Board of Supervisors approved, by Resolution No. 349-21, FY 21-22 budget and the issuance of the bonds. The mayor signed the resolution on July 30, 2021. Also on July 20, 2021, the Commission conditionally authorized, by Resolution No. 26-2021, the issuance of the 2021A Bonds, approved a first supplement to indenture of trust and a bond purchase contract. On July 26, 2021, the Oversight Board approved, by Resolution No. 3-2021, the issuance of the 2021A Bonds. On September 3, 2021, the Department of Finance approved the issuance of the 2021A Bonds. The resolution before the Commission is the final action the Commission will take in support of the issuance of the 2021A Bonds.

Proposed Action

The Commission's final steps in issuing the 2021A Bonds include reviewing and approving a preliminary and final official statement and a continuing disclosure certificate, and approving the other actions described in the resolution. The preliminary official statement ("POS") is attached to the resolution and the continuing disclosure certificate presented in the POS.

Amount of Bond Issuance

The OCII FY21-22 budget included the issuance of $130.4 million in taxable tax allocation bonds to finance certain affordable housing projects. This not-to-exceed amount was based on information available during OCII's budget process. Current estimates for sources and uses are described below.

Table 1: Sources and Uses

Source of Funds		
Bond Proceeds	$	130,400,000
Total	**$**	**130,400,000**

Use of Funds		
Project Fund	$	116,500,000
Debt Service Reserve Fund	$	13,013,000
Cost of Issuance	$	521,491
Underwriter's Discount	$	365,509
Total	**$**	**130,400,000**

Resolution No. 33-2021 confirms the issuance of the full $130.4 million authorized by OCII's FY21-22 budget. The actual issuance amount will be finalized in the weeks before the bond issuance and will be based on the most up-to-date project costs and market conditions. OCII will only issue the amount of bond necessary to fund project costs.

Preliminary Official Statement and Final Official Statement

The preliminary official statement is an informational disclosure document released prior to the sale of bonds. The process for preparing and reviewing the POS is described in the Municipal Finance and Disclosure Policies and Procedures approved by the Commission on June 1, 2021, in Resolution No. 21-2021. The POS describes the proposed bonds, their security and sources for payment, associated risk factors, and other pertinent financial matters. The final official statement ("OS") is released after the sale of the bonds. The OS is substantially in the form of the POS and is updated with 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 distribution of the preliminary Official Statement and the final 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 OS to include all facts that would be material to an investor in the 2021A 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.

When reviewing the POS, the Commission should consider if the POS:

- Accurately informs the market/potential investors of the authorization and purpose for the bonds,
- Includes and accurately describes factors that can materially or adversely impact the information described in the POS, especially the sources of repayment, and
- Contains the full story and does not omit material information.

Authorization and Purpose for the 2021A Bonds

The 2021A bonds are authorized by Section 34177.7(a)(1)(A) of the Health and Safety Code, which gives San Francisco the authority to issue bonds to finance affordable housing in certain Project Areas. The proceeds of these bonds are programmed for several affordable housing funding actions included in the FY 21-22 budget. Details on the proposed projects that may utilize these funds are summarized below.

Table 2: Affordable Housing Project Detail

Name	Location	Units
HPS 56	Hunters Pt. Shipyard Phase 1	73
MBS 9A	Mission Bay South	148
MBS 12W	Mission Bay South	165
Total		**386**

If these projects are delayed or otherwise not ready for funding, OCII may apply the proceeds of the proposed 2021A Bonds to other eligible housing projects approved by the Commission.

Security and Sources of Repayment

The proposed 2021A Bonds are municipal bonds. Municipal bonds are issued by states, cities, counties and other non-federal government entities. In a municipal bond, investors, who are purchasers of the bond, loan funds to the issuer, in this case OCII. The issuer uses the proceeds of the loan to fund projects and operations and pays the investor interest until the principal, which is the original amount of the loan, is repaid. The revenue stream the issuer uses to pay interest and principal is known as the credit. The 2021A Bonds will be issued against the Redevelopment Property Tax Trust Fund ("RPTTF") Third Lien/SB107 credit ("Third Lien credit").

The Third Lien credit consists of property tax increment available in the Successor Agency's RPTTF from those Project Areas that generated tax increment for the former Redevelopment Agency upon its dissolution in 2012, if the revenues are not otherwise obligations. Senate Bill No. 107 (Stats. 2015, chapter 325, § 27). The Third Lien credit does not include property tax increment generated in Mission Bay North, Mission Bay South, Shipyard Phase 2, Candlestick Point, and in the formerly state-owned parcels in Transbay because that increment has been pledged for other purposes. Bonds secured by the Third Lien credit are also subordinate to other pre-existing indebtedness of OCII.

Associated Risk Factors

The risk factors described in the POS for the 2021A Bonds include the typical risk factors associated with OCII bonds including, reduction in tax base and assumed values, development risk, and risk associated with natural disasters. The risk factors for the 2021A Bonds, however, have been updated to include risks associated with the COVID 19 public health emergency, climate change, and hazardous substances. The description of the public health and climate change risks are consistent with recent disclosures made by the City and County of San Francisco when issuing bonds. The description of risks associated with hazardous substances are consistent with disclosure for previous OCII bond issuances related to Community Facilities District No. 7 Hunters Point Shipyard Phase One Improvements.

Other Financial Matters

Following the recommendation of its primary underwriter, Citigroup Global Markets Inc., OCII intends to self-designate and market the 2021A Bonds as "Social Bonds. According to the International Capital Market Association ("ICMA") handbook "Social Bonds Principals," Social Bonds are bonds which finance projects that "directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population(s). A social issue threatens, hinders, or damages the well-being of society or a specific target population." The ICMA utilizes the United Nations ("UN") 17 Sustainable Development Goals established in September 2015 as part of the UN 2030 Agenda for Sustainable Development "UN Sustainable Development Goals") to classify social issues. As the proceeds of the 2021A Bonds will primarily finance affordable housing, the issuance of these bonds is consistent with four of the UN Sustainable Development Goals :Goal 1: No Poverty, Goal 10: Reduced Inequalities, Goal 11: Sustainable Cities and Communities.

The 2021A Bonds would be OCII's first issuance of bonds designated as Social Bonds. As the market for Social Bonds is developing, marketing the 2021 Bonds as Social Bonds is unlikely to reduce the cost of borrowing for this issuance. Over time, the increased demand for products like Social Bonds may result in decreased borrowing costs. The San Francisco Public Utilities Commission has experienced a decrease in borrowing costs for Green Bonds, which are bonds issued to support climate related or environmental produces, when compared to its standard bond issuances.

Continuing Disclosure Certificate

The continuing disclosure certificate describes OCII's contractual obligation to disclose information regarding the bonds post-issuance. Although the Continuing Disclosure Certificate is a separate agreement, a form of the agreement is attached to the POS. The continuing disclosure certificate for the 2021A Bonds, consistent with continuing disclosure certificates for previously issued bonds, includes the requirement that OCII annually disclose: all parity debt, the top ten taxpayers and assessed valuation in the Project Areas, debt service coverage, and assessment appeals. Consistent with OCII's Disclosure Policy, adopted by the Commission via Resolution 21-2021 on June 1, 2021, OCII will post all disclosures on Municipal Securities Rulemaking Board website, EMMA, as well as the Financial Information portion of the OCII website.

Enabling Law

Redevelopment Dissolution Law grants Successor Agencies the authority to issue bonds, subject to review and approval by the Oversight Board and the Department of Finance, for the purposes defined in Section 34177.7(a)(1)(A) of the Health and Safety Code, the authority to issue bonds to finance affordable housing in certain Project Areas.

California Environmental Quality Act

Authorization of bonds and contracting for services related to the sale and issuance of bonds is a Successor Agency fiscal activity that does not constitute a "Project," as defined by the California Environmental Quality Act ("CEQA") in CEQA Guidelines Section 15378(b) (4) and will not independently result in a physical change in the environment and is not subject to environmental review under CEQA.

NEXT STEPS

Following approval of Resolution 33-2021, OCII will obtain a credit rating for the 2021A Bonds, prepare materials to market the 2021A Bonds to the investor community, and complete the due diligence process. OCII expects to issue and close the bonds prior to November 2021.

(Originated by John Daigle, Debt Manager)

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Sally Oerth

Interim Executive Director