OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-0332021-002

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

## INFORMATIONAL MEMORANDUM

**TO:** Community Investment and Infrastructure Commissioners

**FROM:** Sally Oerth, Interim Executive Director

**SUBJECT:** Amending the Office of Community Investment and Infrastructure's Debt Policy to respond to legislative changes, more thoroughly explain existing practice and document Debt Management Improvements

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## EXECUTIVE SUMMARY

The Office of Community Investment and Infrastructure ("OCII") has a debt portfolio consisting of $856.8 million in aggregate principal amount of tax allocation, hotel tax, and Mello Roos bonds as of the last principal payment of August 30, 2021. The issuance and management of this portfolio is guided by OCII's debt policy. A debt policy is a set of written guidelines that direct the issuer's debt issuance practices, in compliance with applicable laws, regulations and best practices, and post-issuance management and compliance. A thorough, well-considered debt policy signals to rating agencies and investors that an issuer's debt portfolio and process is well-managed and deserving of its confidence. This confidence can lower the cost of borrowing.

OCII's debt policy was last updated in 2014 to respond to the dissolution of the former redevelopment agencies. OCII now seeks to update the debt policy to incorporate legislative changes, more thoroughly explain existing practice, and highlight internal debt management improvements enacted since 2014. These updates will demonstrate OCII's commitment to best practices in debt issuance and management.

*To demonstrate OCII's commitment to best practices in debt management and execution, staff recommend the Commission approve the proposed Debt Policy.*

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**BACKGROUND**

The Office of Community Investment and Infrastructure ("OCII") has a debt portfolio consisting of $856.8 million in aggregate principal amount of tax allocation, hotel tax, and Mello Roos bonds as of the last principal payment of August 30, 2021. The issuance and management of this portfolio is guided by OCII's debt policy. A debt policy is a set of written guidelines that direct the issuer's debt issuance practices, in compliance with applicable laws, regulations and best practices, and post-issuance management and compliance. A thorough, well-considered debt policy signals to rating agencies and investors that an issuer's debt portfolio and process is well-managed and deserving of its confidence. This confidence can lower the cost of borrowing.

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Process

Prior to revising its debt policy, OCII researched and identified best practices as described by the Governmental Financial Officers Association ("GFOA"), which is an association of more than 20,000 finance professionals whose mission is to advance excellence in public finance, and the Washington Public Treasurer's Association, which manages a debt policy certification program. OCII also reviewed and took into consideration the debt policies of the City and County of San Francisco ("CCSF"), the Port of San Francisco, the San Francisco Municipal Transportation Agency, the Public Utilities Commission, and the San Francisco Airport. Although CCSF and its component units are legally separate from OCII, the shared name and geographic location create shared reputational risk. Coordinating debt policies with CCSF and its component units ensures consistent market communication and limits reputational risk for all. Finally, OCII collaborated with its municipal advisor, bond counsel, ongoing disclosure counsel, and CCSF's Office of Public Finance to identify changes to the debt policy required to respond to regulatory changes and to incorporate best practices identified in OCII's research.

Updates in Response to Legislation

As indicated above, since OCII last revised its debt policy in 2014, several regulatory changes have occurred that require OCII update its policy. In 2015, Health and Safety Code Section 34177.7(a)(1)(A), gave the OCII the legal right to issue new money debt under certain circumstances. Previously, OCII, like all successor agencies, was prohibited from issuing new money debt. Also, in 2016, Government Code Section 8855 (2)(i)(1) was amended to require that issuers adopt a debt policy that outlines the purposes for which debt proceeds may be used, the types of debt that may be issued, the relationship of the debt and budget, policy goals related to the issuer's planning goals and objectives, and the issuer's internal control procedures.

The existing debt policy already describes policy goals related to OCII's planning goals and objectives and some internal control procedures. To bring the existing debt policy into compliance with Government Code Section 8855, this updated policy adds the purposes for which OCII may utilize debt proceeds and describes the types of debt OCII may issue. As described in the updated policy, OCII may issue debt for the purpose of financing the cost of environmental review, design, acquisition and other predevelopment activities, as well as construction of public improvements such as streets, parks, water and sewer facilities, to finance affordable housing, or to refund outstanding debt. In the case of Mello-Roos bonds, the Commission, acting in its capacity as the legislative body of a community facilities district, may also authorize the issuance debt for maintenance of public improvements, in accordance with the Community Facilities Act, as allowed by the related community facilities district's documents. As per Redevelopment Dissolution Law, OCII may issue tax allocation refunding bonds. As per Health and Safety Code Section 34177.7(a)(1)(A), OCII may also issue new debt to fund certain types of infrastructure and affordable housing, as described therein.

Incorporating the purposes for which OCII may utilize debt proceeds and the types of debt that OCII may use brings OCII's debt policy into compliance with Government Code Section 8855(2)(i)(1).

Changes to More Thoroughly Explain Existing Practice

The updated policy describes certain OCII practices regarding issuing, structuring, and managing debt in greater detail than is described in the current policy. For example, the updated policy describes the roles and responsibilities of OCII staff and elected bodies, as well as the external consultants who provide technical support to OCII's debt program. In the case of external consultants, the policy notes that Redevelopment Dissolution Law and the Securities and Exchange Commission require that OCII use a municipal advisor when issuing bonds. This information is absent from the current policy.

The updated policy also documents the policy and financial considerations OCII will contemplate when structuring its bonds. Whereas the current debt policy depends on the general guideline that bonds will be structured to the long-term economic and policy advantage of OCII, subject to pertinent redevelopment plan, statutory, regulatory and contractual constraints, the updated policy highlights specific policy and financial considerations including when to use bond insurance, how to choose between a cash reserve vs. a debt service reserve policy or surety bond, and how to determine the method of sale. Specifically, the updated policy incorporates the most recent GFOA guidance on how to decide between competitive and negotiated sales.

Finally, the proposed policy describes OCII's debt approval procedure. As described in the proposed debt policy, the Commission must approve all OCII bond issuances. Due to Dissolution Law, the Oversight Board and the Department of Public Finance must additionally approve OCII's incurrence of debt. Also, the Board of Supervisors approves OCII's bond issuances through its approval of OCII's annual budget. The proposed policy also describes the validation process, reflecting existing law.

Proposed Changes to Document Debt Management Improvements

Since OCII last revised its debt policy in 2014, the agency has made significant improvements to its debt management program. These changes include adding a Financial Information section to the OCII website and formalizing written accounts payable and other accounting procedures. Adding the Financial Information section to the OCII website, which provides investors and members of the public with easy access to OCII's financial information, such as OCII's budget, outstanding debt portfolio, and disclosure documents significantly increases OCII's financial transparency. Additionally, formalizing written accounts payable and other accounting procedures helps ensure that bond proceeds are expended for their intended purpose. Other debt management improvements mentioned in the proposed policy include updating the disclosure policy to make it agency specific and entering into a Memorandum of Understanding with the City and County of San Francisco Treasurer Tax Collector's Office to manage OCII's bond proceeds held in trust. Taken together, these changes demonstrate OCII's commitment to transparency and internal controls.

**RECOMMENDATION**

This proposed debt policy incorporates legislative and regulatory changes that impact how OCII issues and manages its debt, describes OCII existing issuance and structuring practices in greater detail, and describes improvements to OCII's debt management practices. Updating the debt policy to reflect the most recent regulations, explain current practices in greater detail, and highlight improvements in debt management practice will demonstrate OCII's commitment to staying current and in alignment with best practices in debt issuance and management, which should earn OCII continued and increased investor confidence, lowering its cost of borrowing. As such, staff recommends the Commission adopt the proposed OCII Debt Policy.

*(Bree Mawhorter, Deputy Director of Finance and Administration)*

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