

COMMISSION ON COMMUNITY INVESTMENT AND INFRASTRUCTURE

RESOLUTION NO. 32-2021

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

- WHEREAS, The Successor Agency to the Redevelopment Agency of the City and County of San Francisco, commonly known as the Office of Community Investment and Infrastructure (“OCII”), is implementing the Community Redevelopment Law, as amended by the Redevelopment Dissolution Law, Cal. Health & Safety Code §§ 34170 et seq., which requires the wind down of the affairs of the Redevelopment Agency of the City and County of San Francisco (“Former Agency”) and the completion the Former Agency’s enforceable obligations (together the Community Redevelopment Law and Redevelopment Dissolution Law are referred to as the “Law”); and,
- WHEREAS, OCII is a separate legal entity from the City and County of San Francisco (“City”), Cal. Health & Safety Code § 34173 (g); San Francisco Ordinance No. 215-12 (Oct. 2012), but is subject to the governance of the Board of Supervisors of the City and County of San Francisco (“Board of Supervisors”) acting in its legislative capacity; and,
- WHEREAS, The Board of Supervisors, acting as the legislative body of the Successor Agency, adopted Ordinance No. 215-12 (Oct. 4, 2012), which, among other matters, established the Successor Agency Commission, commonly known as the Commission on Community Investment and Infrastructure (“Commission” or “OCII”) and delegated to it the authority to take any action that the Redevelopment Dissolution Law requires or authorizes on behalf of the Successor Agency and any other action that this Commission deems appropriate, consistent with the Redevelopment Dissolution Law, to comply with such obligations; and,
- WHEREAS, OCII issues debt for purposes permitted by the Redevelopment Dissolution Law or the Community Facilities Act and as of August 30, 2021, the date of the last principal payment, had a debt portfolio consisting of \$856.8 million in aggregate principal amount of tax allocation, hotel tax, and Mello-Roos (or community facilities district) bonds; and,
- WHEREAS, The purpose of OCII’s debt policy is to provide guidance and standards to OCII staff in managing the issuance and administration of OCII’s debt; and,
- WHEREAS, OCII’s debt policy requires updating to respond to legislative changes, more thoroughly explain existing practice and document debt management improvements; and,

WHEREAS, The proposed Debt Policy of the Successor to the Redevelopment Agency of the City and County of San Francisco, also known as the Office of Community Investment and Infrastructure, attached as Attachment A to this Resolution, describes, among other things, the permitted types of debt, debt limitations, transaction specific policies, debt approval procedures, and post-issuance debt administration that OCII will undertake in connection with the administration of its debt portfolio; and,

WHEREAS, The Washington Public Treasurers Association (“WPTA”) reviews and certifies debt policies to certify they reflect best practices development by the Government Finance Officers Association and the WPTA Debt Policy Review Committee certified the proposed Debt Policy on September 3, 2021; and,

WHEREAS, Approval of the Proposed Municipal Finance Disclosure Policies and Procedures is not a “project,” as defined by the California Environmental Quality Act (“CEQA”) Guidelines Section 15378(b)(5), since it is an administrative activity of government that will not result in direct or indirect physical changes in the environment, and therefore, is not subject to environmental review under CEQA; now therefore be it

RESOLVED, That the Commission approves the Debt Policy of the Successor to the Redevelopment Agency of the City and County of San Francisco, also known as the Office of Community Investment and Infrastructure attached to this Resolution as Attachment A, and furthermore authorizes the Executive Director to update the proposed policy to maintain consistency with regulatory changes and industry best practice.

I hereby certify that the foregoing resolution was adopted by the Commission at its meeting of October 5, 2021.

Commission Secretary

Exhibit 1: Proposed Debt Policy of the Successor to the Redevelopment Agency of the City and County of San Francisco, also known as the Office of Community Investment and Infrastructure

DEBT POLICY
of the Successor Agency to the Redevelopment Agency
of the City and County of San Francisco,
also known as the Office of Community Investment and Infrastructure

I. Introduction

The purpose of the Debt Policy (“Policy”) of the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, also known as The Office of Community Investment and Infrastructure (“OCII”), is to establish comprehensive guidelines for the issuance and management of debt. This Policy achieves the following objectives:

- Maintain cost-effective access to capital markets through prudent debt management policies and strong internal controls;
- Fund significant capital acquisitions or improvements through debt financing and, if cost effective, alternate financing mechanisms such as public/private partnerships;
- Structure long-term financing to minimize transaction specific risk and total debt portfolio risk to OCII;
- Provide a basis for the determination of the appropriate debt structures;
- Demonstrate a commitment to best practices in debt management planning and execution; and
- Maintain good investor relationships and uphold contractual obligations through the timely dissemination of material financial information and timely response to requests for public information.

OCII shall issue all debt in conformance with applicable law, including, but not limited to, the Internal Revenue Code of 1986 (“IRS Code”), the Securities Act of 1934 and the Securities Exchange Act of 1933, the California Community Redevelopment Law, as amended by the Redevelopment Dissolution Law, Cal. Health and Safety Code Sections 34177.5 & 34177.7 (authorizing OCII to issue debt for certain enforceable obligations of the former Redevelopment Agency of the City and County of San Francisco) and, to the extent applicable, the Mello-Roos Community Facilities Act of 1982, Cal. Govt. Code §§ 53311 et seq. (the “**Mello-Roos Act**”). In addition, this Policy complies with criteria for debt policies described in Section 8855 (i) of the California Government Code (requiring government issuers of debt to adopt and apply a debt policy that includes (a) the purposes for which the debt proceeds may be used, (b) the types of debt that may be used, (c) the relationship of the debt to, and integration with, the issuer’s capital improvement program or budget, if applicable, (d) policy goals related to the issuer’s planning goals and objectives, (e) internal control procedures the issuer has implemented, or will implement, to ensure that the proceeds of debt issuance will be directed to the intended use.)

This Policy shall govern the issuance and management of all bonds and other forms of indebtedness of OCII, together with any credit, liquidity, or other security instruments and agreements that may be executed in connection with the issuance of bonds and other forms of indebtedness (“Bonds”). The failure of OCII to comply with any provision of this Policy shall not affect the authorization or the validity or enforceability of any Bonds that are otherwise issued in accordance with law.

While adherence to this Policy is required under most circumstances, OCII recognizes that changes in the law, the capital markets, OCII’s programs, and other unforeseen circumstances may produce situations that are not covered by this Policy, or that require modification to this Policy to achieve OCII’s objectives. Therefore, the Commission may, in its sole discretion, approve bonds with terms that deviate from this Policy, but that are otherwise consistent with applicable law, with or without the recommendation of the Executive Director and OCII’s financial/ municipal advisors. Notwithstanding anything in this Policy to the contrary, the failure of OCII to comply with any provision of this Policy shall not affect the authorization, validity or enforceability of any bonds or other forms of indebtedness that are otherwise issued in accordance with law.

II. Governing Principles

OCII utilizes long term debt issuances to finance capital assets with long useful lives and seeks to finance such assets at the lowest achievable financing costs over the life of the financing. OCII’s mission is to plan, structure and manage debt financings to support capital planning goals and objectives in completing the enforceable obligations of the former Redevelopment Agency of the City and County of San Francisco.

OCII shall issue debt to construct public improvements such as streets, parks, water and sewer facilities, to finance affordable housing, or to refund outstanding debt. OCII shall issue this debt at a low cost of capital while managing market and credit risk with appropriate bond structures and internal controls.

OCII shall submit reports required by law in connection with the bonds, including, but not limited to, Reports of Proposed Debt Issuance, Reports of Final Sale, and annual debt transparency reports to the California Debt and Investment Advisory Commission, and required reports to the Internal Revenue Service (“IRS”).

A. Permitted Types of Debt

OCII may issue these types of bonds: (1) tax allocation refunding bonds (2) new money tax allocation bonds; and (3) new money or refunding CFD bonds.

- **New Money Tax Allocation Bond Obligations** are issued to generate new proceeds for capital projects. These bonds will be payable from, and may be secured by, property tax increment revenues generated in one or more of the Redevelopment Areas as provided in the

Redevelopment Dissolution Act. Under Section 34177.5(a)(4) of the HSC, , successor agencies may issue bonds to make payments under enforceable obligations when the enforceable obligations include 1) the irrevocable pledge of property tax increment or other funds, and 2) the obligation to issue bonds secured by that pledge. In addition, Section 34177.7(a)(1)(A) of the HSC authorizes OCII to issue bonds to finance the infrastructure and affordable housing required under the Transbay Implementation Agreement and the affordable housing required under the Mission Bay North Owner Participation Agreement, the Mission Bay South Owner Participation Agreement, the Disposition and Development Agreement for Hunters Point Shipyard Phase 1, and the Candlestick Point-Hunters Point Shipyard Phase 2 Disposition and Development Agreement.

- **Tax Allocation Refunding Bonds** are issued to refinance all or a portion of an outstanding tax allocation bond issue or loan agreement payable or secured by tax allocation revenues. Under Section 34177.5(a)(1) of the Health and Safety Code (“HSC”) OCII may refund preexisting debt to provide savings in the use of tax increment to service debt, provided that:
 - The total interest cost to maturity on the refunding bonds or other indebtedness plus the principal amount of the refunding bonds or other indebtedness shall not exceed the total remaining interest cost to maturity on the bonds or other indebtedness to be refunded plus the remaining principal of the bonds or other indebtedness to be refunded; and
 - The principal amount of the refunding bonds or other indebtedness shall not exceed the amount required to defease the refunded bonds or other indebtedness, to establish customary debt reserves, and to pay related costs of issuance.

Under the provisions of HSC Section 34177.5(a)(2), OCII may issue bonds to finance debt service spikes, provided that:

- The existing indebtedness is not accelerated, except to the extent necessary to achieve substantially level debt service; and
- The principal amount of the bonds or other indebtedness shall not exceed the amount required to finance the debt service spikes, including establishing customary debt service reserves and paying related costs of issuance.

To the extent consistent with the HSC sections described above, OCII may consider issuing refunding bonds to achieve debt service savings, restructure debt service, extend maturity, restructure or reduce the cost of refunding escrows, optimize escrows to avoid negative arbitrage, convert from a variable or fixed interest rate structure, or change or modify the source of payment and security for the refunded debt.

As a general guideline, the overall net present value savings in the transaction should equal at least three percent of the principal amount of the refunded bonds. OCII shall generally avoid executing a refunding of bonds on a federally taxable basis that are otherwise eligible to be refunded on a federally tax-exempt basis, unless it achieves other policy objectives, or is required under federal tax law. OCII may waive this guideline if there are other reasons for the refunding, subject to review and approval by the Oversight Board and Department of Finance, as described below. OCII shall also evaluate the efficiency of a refunding (i.e., the impact of negative arbitrage) and breakeven rates by maturity. Escrow efficiency is defined as Present Value Savings / Present Value Savings for a perfect escrow. A breakeven analysis shows how much the interest rates can increase to provide the same net present value savings if the refunding is not completed until the call date.

- **Community Facilities District (“CFD” or “Mello-Roos”) Bonds** are issued under the Mello-Roos Community Facilities Act and are not necessarily subject to the restrictions of the Redevelopment Dissolution Law. thereunder. On July 15, 2008, OCII adopted, by Resolution No. 79-2008, Amended and Restated Local Goals and Policies for Community Facilities Districts (the “CFD Goals and Policies”), as required under Section 53312.7 of the Government Code. Accordingly, OCII may issue bonds to finance costs of authorized public improvements within a CFD that has been duly authorized by the OCII, acting as the legislative body for the CFD and that are payable by special taxes levied on land within the applicable Community Facilities District.
- **CFD Refunding Bonds** are issued to refinance all or a portion of an outstanding bond issue or payable or secured by special tax revenues. OCII may consider issuing refunding bonds to achieve debt service savings, restructure debt service, extend maturity, restructure or reduce the cost of refunding escrows, optimize escrows to avoid negative arbitrage, convert from a variable or fixed interest rate structure, or change or modify the source of payment and security for the refunded debt.

As with tax allocation refunding bonds, as a general guideline, the overall net present value savings in the transaction should equal at least three percent of the principal amount of the refunded bonds. OCII shall generally avoid executing a refunding of bonds on a federally taxable basis that are otherwise eligible to be refunded on a federally tax-exempt basis, unless it achieves other policy objectives, or is required under federal tax law. OCII may waive this guideline if there are other reasons for the refunding. OCII shall evaluate the efficiency of a refunding (i.e., the impact of negative arbitrage) and breakeven rates by maturity. Escrow efficiency is defined as Present Value Savings / Present Value Savings for a perfect escrow. A breakeven analysis shows how much the interest rates can increase to provide the same net present value savings if the refunding is not completed until the call date

B. Debt Limitations

The Deputy Director of Finance and Administration, in consultation with OCII general counsel, bond counsel and OCII's municipal advisors, shall determine whether proposed tax allocation debt complies with the debt limitations, if any, prescribed by the applicable enforceable obligation.

Issuance of Mello-Roos bonds is limited by the amount authorized by the Resolution of Bonded Indebtedness for each CFD. Prior to issuing CFD bonds, OCII staff should confirm with bond counsel that the proposed issuance amounts are within the limitation for the CFD.

Limitations Applicable to all Tax Allocation Debt:

Bonds issued or incurred by OCII shall not provide for any bullets or spikes and shall not use variable rates. Cal. Health & Safety Code § 34177.5 (h).

Time limits on the incurrence of indebtedness and the receipt of tax increment for repayment of debt are governed by the contractual terms of enforceable obligations rather than the statutory limitations stated in the Community Redevelopment Law, which were repealed by the Redevelopment Dissolution Law. Cal. Health & Safety Code § 34189 (a).

III. Roles and Responsibilities

Issuing and managing OCII's bond debt portfolio requires coordination between multiple policy making bodies and staff positions. The roles and responsibilities of each OCII policy making body and staff position are described below.

- The Successor Agency **Commission**, commonly known as the Commission on Community Investment and Infrastructure, (the "Commission") shall be responsible for oversight of this Policy and shall review and approve, subject to final approval by the Oversight Board and the Department of Finance, the sale of bonds in a not-to-exceed amount, the method of sale, and approve as to form, an indenture of trust, and other applicable financing documents, including one or more loan agreement, bond purchase contract, a preliminary official statement, and other related documents.
- The actions of the Successor Agency Commission in authorizing bonds are subject to the approval of the **Oversight Board** under Sections 34177.5 (f) and 34177.7 (f) of the HSC. The Oversight Board shall approve resolutions authorizing the bonds, the bond indentures, and other applicable financing documents, including loan agreements, and bond purchase contracts.
- The California Department of Finance ("DOF") has the opportunity to review and approve the Oversight Board resolutions and accompanying bond documents for Final approval under the

Redevelopment Dissolution Law. DOF also has the option of allowing the Oversight Board approvals to go into effect without further review.

- The **Executive Director** shall provide broad oversight and policy direction over this Policy.
- The **General Counsel** shall review and approve the bond offering and disclosure documents for compliance with this Policy and OCII's Municipal Finance Disclosure Policies and Procedures (the "Disclosure Policy"). The General Counsel shall also, in consultation with the Deputy Director of Finance and Administration, subject to Commission approval as required, select bond counsel, tax counsel and disclosure counsel, as required or prudent, for all financing transactions.
- The **Deputy Director of Finance and Administration** shall be responsible for managing all bond issuances and shall provide direct supervision of the administration and implementation of the Debt and Disclosure Policies.
- The Deputy Director of Finance and Administration, in consultation with the Executive Director, shall designate an OCII employee as **Debt Manager**, who shall have day-to-day responsibility for implementing and managing OCII's debt program, including ensuring OCII makes all required disclosures in accordance with the Disclosure Policy, processing and tracking payments made from bond proceeds, ensuring payments are made according to internal controls, ensuring expenditure of proceeds is in compliance with covenants and restrictions set forth in the bond documents, retaining records identifying the assets or portion of assets that are financed or refinanced with the proceeds of each issue, reconciling bond project accounts, ensuring OCII meets its reserve requirements, ensuring debt service is paid accurately and timely, ensuring bond arbitrage rebate reports are prepared timely and rebate payments are made as required, engaging and managing the services of the bond financing team in support of bond issuances, maintaining documentation related to each bond issuance in OCII's bond database, and regularly reviewing OCII's Investor Relations website to ensure that the information provided is correct.
- The Deputy Director of Finance and Administration, in consultation with the Executive Director, shall designate an OCII employee as **Finance and Contracts Manager** who shall cause staff to record all payments from bond accounts in OCII's accounting system, reconcile all bond related accounts, and include the necessary bond related information in OCII's annual financial reports.
- The Deputy Director of Finance and Administration, in consultation with the Executive Director, shall designate an OCII employee as **Budget and Project Finance Manager** who shall ensure that debt service payments and bond administration costs are budgeted in OCII's annual budget and the recognized obligation payment schedule approved by the Department of Finance ("ROPS").
- **OCII Project Managers** for the remaining Redevelopment Project Areas (Transbay, Mission Bay North and South, Hunters Point Shipyard/Candlestick Point) shall review and approve all project related information in bond offering and disclosure documents implementing the enforceable obligations for which they are responsible and shall notify the Deputy Director of Finance and Administration if any information should be disclosed to the financial markets as

per the Disclosure Policy.

IV. Professional Services

OCII shall utilize professional assistance to support bond issuance and the administration of its debt portfolio as described below. The Deputy Director of Finance and Administration shall oversee the selection process. The Debt Manager shall administer the selection and contracting process. OCII shall select external consultants in compliance with OCII's Purchasing Policy.

External Consultants

- **Arbitrage Rebate Consultants** calculate arbitrage rebate payments with respect to the investment of Bond proceeds as required by the IRS Code. OCII shall retain a bond arbitrage consultant for all tax-exempt bond issuances.
- **Bond Insurers** provide insurance to guarantee the repayment of principal and all associated interest payments to the bondholders in the event of default. Bond insurance is a type of credit enhancement. OCII may also obtain credit enhancement by purchasing a credit facility.
- **Broker-Dealers** engage in the business of trading securities on behalf of their client. OCII utilizes Broker-Dealers to invest fund balances related to its debt portfolio. OCII shall select Broker-Dealers via a competitive process.
- **City and County of San Francisco Controller's Office of Public Finance.** OCII may enter into agreements with the City and County of San Francisco's Controller's Office of Public Finance to support OCII in its debt issuance and administration activities.
- **Credit Rating Agencies** provide a quantified assessment of the creditworthiness of the bond issuance.
- **Credit Facility Providers** are banks that provide a security or liquidity instrument in connection with an issue of bonds to secure the payment of the principal and interest on an outstanding issue of bonds. Credit facilities are a type of credit enhancement. OCII may also obtain credit enhancement by purchasing a credit facility.
- **Municipal Advisors** review all materials related to bond issuances, assist with structure and pricing of debt issuance, and ensure the terms of the issuance fulfill the objectives and obligations of OCII. As per HSC Section 34177.7(h), OCII shall make use of an independent municipal advisor to assist with a debt financing made under Redevelopment Dissolution Law. As per Section 15B of the Securities and Exchange Act of 1934, all municipal advisors shall be registered with the Municipal Securities Rulemaking Board ("MSRB") as well as the Securities and Exchange Commission ("SEC"). No municipal advisor shall also serve as an underwriter on a given transaction.
- **Fiscal and Tax Consultants** project revenue so that bonds are appropriately sized and prepare materials for initial and post issuance disclosure.
- **Legal Counsel** prepares all legal documents related to bond issuances and ensure that the

documents comply with the applicable law. The General Counsel, in consultation with the Deputy Director of Finance and Administration, subject to the Commission approval as required, shall select bond counsel, disclosure counsel, and tax counsel, as required or prudent, for all financing transactions. Bond Counsel provides a legal opinion that the issuer is authorized to issue the proposed bonds and has met all the legal and procedural requirements necessary for the issuance. Disclosure Counsel drafts the official statement, which describes the proposed bond issuance including the revenue supporting the issuance, the structure of the transaction, and the associated risks. Tax Counsel provides expertise with respect to tax law on a bond transaction, including preparation of a tax opinion and assistance with Internal Revenue Service private letter rulings, with is a written decision that provide guidance on a specific tax situation.

- **Remarketing Agents** manage the reset and resale process for variable rate bonds. OCII shall select Remarketing Agents via a competitive process.
- **Secondary Market Dissemination Agents** disseminate information regarding the security of outstanding bonds to the secondary market.
- **Trustees and Fiscal Agents** administer bond funds as per the bond documents.

Underwriters facilitate bond issuances by purchasing bonds from OCII and reselling them in the secondary market.

V. Transaction-Specific Policies

With the advice of External Consultants, OCII will strive to structure its bonds to obtain the lowest long-term cost financing and policy advantage for OCII, subject to pertinent redevelopment plan, statutory, regulatory and contractual constraints. The term of bonds shall be typically 20 to 30 years but up to 35 years depending on cash flow assumptions, construction timeline, and remaining useful life of the asset being financed. The structuring target will be level debt service by series, or by project area / district, or a structure which creates level annual savings in the case of a refunding, unless otherwise dictated by budget, revenues, or underlying remaining useful life. In structuring bonds, OCII will generally seek to attain Minimum Annual Debt Service coverage more than 1.25x, except in the case of Mello Roos bonds, which should have coverage if 1.1x. OCII shall seek to include the optional call provisions on bonds with a final maturity of more than 10 years, consistent with optimal pricing of such bonds. Call premiums, if any, should be consistent with then prevailing market standards to produce the most advantageous borrowing cost for OCII. OCII shall generally avoid capitalized interest, deferral of principal repayment, and capital appreciation bonds.

Term, coverage, call provisions, and other requirements for debt issued will be determined on a case-by-case basis in consultation with the Municipal Advisor and bond counsel and may vary based on the nature of the debt and prevailing market conditions.

A. Basic Bond Structures

OCII utilizes two sets of basic structures when issuing federally taxable debt versus federally tax-exempt debt, and fixed rate debt versus variable rate debt.

Taxable and Tax-Exempt Bonds

OCII may issue tax-exempt debt for public purposes, such as the construction of public improvements, subject to the opinion of bond counsel or tax counsel that the planned use of proceeds would comply with federal tax law and other applicable law. OCII may issue taxable debt when, in the opinion of bond counsel, the planned use of proceeds is not permitted under federal tax law. For example, OCII may issue federally taxable debt if the bond proceeds will fund projects with a private use, such as affordable housing developed by non-profit developers and financed with loans repayable to the issuer of the bonds, or if OCII does not reasonably expect at the time of issuance that 85 percent of the net proceeds of the bonds will be spent within three years of the date of issuance of the bonds.

Fixed and Variable Rate Bonds

Redevelopment Dissolution Law prohibits successor agencies from using variable rate bonds. As a result, OCII will issue tax allocation debt that carries a fixed interest rate to maintain a predictable debt service burden.

Mello-Roos Law permits variable rate bonds if OCII is acting under the authority of a Community Facilities District. Issuing variable rate debt may be appropriate to reduce interest rate costs, provide interim funding for capital projects, to improve the match of assets to liabilities, or to respond to the credit profile of the issuance. As the interest rates on variable rate bonds are periodically reset, variable rate debt may have a lower cost of borrowing than fixed rate debt; however, variable rate debt carries interest rate risk. Should OCII approve Mello-Roos bonds to be issued by a Community Facilities District that bears interest at a variable rate, when estimating the debt service requirements for variable rate debt, OCII will use an interest rate assumption that provides an adequate cushion for market fluctuations.

B. Further Structuring Considerations

OCII shall make the following structuring considerations when issuing bonds. Individual terms may change as dictated by the marketplace or the unique qualities of the transaction.

- **Bond Insurance:** Bond Insurance is insurance that covers the entire amount of the bonds and whereby the insurance company guarantees to make scheduled debt service payments. OCII shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The decision to purchase bond insurance shall be based on such insurance being less costly than the present value of the difference in the interest cost on insured bonds versus uninsured bonds, taking into consideration the risk and cost incurred by involving another party in the transaction. OCII will obtain bond insurance by soliciting quotes from bond insurers and will make the selection based on, but not limited to, fees proposed, timeliness of approval process, and conditions and covenants required. Insurance may be used for some maturities of a series of bonds, and not all maturities.

- **Capitalized Interest:** Capitalized interest is interest payments that are included in the principal amount of the bond. OCII may use capitalized interest:
 - o to pay debt service if the bond issuance occurs at times that are not consistent with the ROPS or budget cycle,
 - o to match revenue and debt service payments in cases where revenue is assured, but will not be available until a period of time after the bond issuance,
 - o on a case-by-case basis to meet objectives outlined in the Debt Policy.

OCII will adhere to all IRS regulations pertaining to limitations on the funding of capitalized interest accounts.

- **Call Provisions:** Call provisions are the terms under which the issuer is allowed to repurchase and retire the bonds. OCII will issue debt that is callable at the earliest possible optional call date consistent with optimal pricing. Call premiums, if any, should be consistent with then prevailing market standards to produce the most advantageous borrowing cost.
- **Coupons:** The bond coupon is the periodic interest payment that a bond holder will receive from the bond's issue date to its maturity. OCII may utilize fixed or variable rate coupons under the same provisions guiding the issuance of fixed and variable rate debt.
- **Credit Facilities:** Credit facilities are arrangements such as letters of credit, bond purchase agreements, debt service reserve policies, or surety bonds that provide for payment for all or some of the principal and interest payments on a Bond. Credit facilities provide greater security for the bond holders, thereby reducing the cost of borrowing. In general, OCII structures bond such that OCII is not required to replace a credit facility in the event of a downgrade, bankruptcy, insolvency or other failure of a bond insurer to DSR surety provider.

When selecting a Credit Facility provider, OCII shall select only those financial institutions with long-term ratings greater than or equal to that of OCII's or a short-term rating from at least two Nationally Recognized Statistical Rating Organizations ("NRSRO") of at least P-2/A-1/ or equivalent. The selection of the Credit Facility provider will be based on, but not limited to, the following criteria:

- o Evidence of ratings, including "Outlook";
 - o Experience providing such facilities to local government issuers;
 - o Fees, including without limitation, initial and on-going costs of the credit facility, draw, transfer and related fees, counsel fees, termination fees and any trading differential; and
 - o Terms and conditions acceptable to OCII.
- **Debt Coverage Ratio:** The Debt Coverage Ratio is the ratio of revenue relative to the amount

of debt service owed. The market standard Debt Coverage Ratio for tax allocation bonds is 125 percent. The market standard Debt Coverage Ratio for Mello-Roos debt is 110 percent. OCII shall utilize the market standard unless there is a policy or financial reason to use an alternate coverage ratio.

- **Debt Service Reserve.** A debt service reserve is a cash reserve that acts as a backstop for the revenue supporting the bonds. Federal tax law limits the amount that may be set aside in a debt service reserve fund to at least (i) ten percent of the initial principal amount (or, if the bonds have more than a de minimis amount of original issue discount or premium, 10% of the issue price of the bonds), or a minimum of (ii) 125 percent of the average annual debt service, or (iii) 100 percent of maximum annual debt service.

OCII may fund Debt Service Reserves from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies. OCII may purchase reserve equivalents \ when such a purchase is deemed prudent and advantageous, such as to minimize the net cost of borrowing, meet an underwriter or bond insurer requirement or provide additional reserves for debt service for other purposes. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

OCII may use a debt service reserve policy in place of a cash funded debt service reserve fund. Debt service reserve policies and surety bonds are a form of insurance provided by bond insurers that can be purchased to meet the debt service reserve fund requirement in lieu of cash. Under this arrangement, instead of borrowing money to fund a cash debt service reserve, OCII purchases a debt service reserve policy or surety policy by paying a one-time premium equal to a percentage of the face amount of the policy. OCII may use a debt service reserve policy or surety policy in lieu of a cash funded debt service reserve fund when the cost of the debt service reserve policy or surety bond is less than the cost to cash fund reserve on a net present value basis.

- **Debt Service Structures:** Debt service structure is the schedule of cash required to pay principal and interest on a bond over the life of the bond. OCII will utilize level debt service structures where appropriate. OCII may also utilize debt service structures that seek to level OCII's overall debt service payments, manage revenue capacity constraints, or budgetary and/or ROPS constraints.
- **Interest Rate:** The interest rate is the amount the issuer pays to borrow funds from the bond holder. Fixed interest rates remain the same for the life of the bonds. OCII must utilize a fixed rate of interest under the Redevelopment Dissolution Act.

For compelling public policy reasons, the Commission acting as the legislative body of a

Community Facilities District may approve debt bearing variable interest rates, for Mello Roos bonds, changed at fixed periods based on pre-determined market indices and conditions. Variable rate debt is often secured by a letter of credit, which assures the liquidity needed to support the remarketing of variable rate bonds and enhances the credit quality of the bonds. Because the cost of borrowing fluctuates with variable interest rates, bonds issued by Community Facilities District with variable interest rates have interest rate risk.

- **Lien Level:** The lien level of a Bond indicates the priority order in which debt service will be paid. . Senior debt is debt that is senior in lien and is first in the order of repayment of debt payable from the same source. Subordinate debt is debt that is junior in lien and whose repayment priority is behind outstanding debt payable from the same source. OCII may utilize senior and subordinate liens in a manner that will allow for the most beneficial use of revenue source or to achieve the lowest cost of borrowing.
- **Maturity Lengths:** The term of the bond is the time period for which the issuer borrows funds from the bond holders. OCII will utilize a term that provides the most advantageous cost of borrowing, but may consider shorter terms when appropriate, such as the availability of pledged revenue. In accordance with applicable federal tax law, OCII will issue debt that will be utilized to fund capital improvements for a term not-to-exceed 120 percent of the average useful life of the assets being financed. See “Article II. Governing Principles – A. Permitted Types of Debt – Limitations Application to all Tax Allocation Debt” for additional discussion. Typically, OCII will issue bonds with maturities of no more than 35 years.
- **Payment Dates:** Payment dates are the dates that principal and interest payments are due. For administrative efficiency, OCII shall utilize the following payment dates whenever possible: August 1 for principal and interest and February 1 for interest only. The first payment may be extended to ensure that a payment is approved by the State Department of Finance on an approved ROPS.
- **Project Fund:** A project fund is gross funded when the interest earned on the project fund can be utilized to fund project costs. A project fund is net funded when interest earnings reduce the cost of borrowing. OCII may utilize gross or net funded project funds, depending on the policy and financial objectives of the agency.

C. Method of Sale

OCII utilizes two principal methods for the initial sale of bonds: (i) competitive and (ii) negotiated. OCII shall utilize the method of sale that (a) is reasonably expected to produce the most advantageous debt service cost with respect to the bonds, and (b) provides OCII with the flexibility necessary or desirable in connection with the structuring, timing, or terms of such sale.

- **Competitive Sale:** OCII shall sell bonds via a competitive sale when it is likely to achieve

more favorable terms than those likely to be realized through a negotiated sale. In a competitive sale, bonds are advertised for sale and including the terms of the sale and the bond issue. The bonds are awarded to the bidder offering the lowest interest cost. The OCII will retain a Municipal Advisor to provide advice to ensure the transaction is structured and priced to OCII's best advantage.

Bonds issued by competitive sale should meet these criteria :

- Proposed security and repayment sources have strong credit rating;
- Proposed security and repayment sources are well known to investors;
- Bond type and structure are conventional; and
- There are no complex explanations required during marketing of bonds.

Bond sales shall be advertised as broadly as possible, utilizing the internet, list of underwriters, and advertising in local and industry newspapers. It is one of the key tasks of municipal advisors to market the bonds to prospective bidders.

Bonds shall be awarded to the bidder whose confirming bid represents the lowest all-in true interest cost (TIC) to OCII. OCII may then restructure the bonds in accordance with the Official Notice of Sale to achieve financial goals. OCII shall reserve the unfettered right to reject all bids. OCII's Deputy Director for Finance and Administration or his or her designee shall award the bonds to the winning bidder.

- **Negotiated Sale:** OCII shall sell bonds via a negotiated sale when it is likely to achieve more favorable terms than those likely to be realized through a competitive sale. This may be due to the complex nature of the underlying credit, credit rating, bond structure or market environment that requires extensive communication with potential investors to demonstrate the true risk profile of the bonds. Under a negotiated sale, it is the responsibility of the underwriter to market, price and purchase OCII's bonds and re-sell the bonds to investors. In a negotiated sale, OCII will solicit an underwriter and will retain a municipal advisor to provide advice to ensure the transaction is structured and priced to the OCII's best advantage.

Bonds issued by negotiated sale should meet these criteria :

- Proposed security and repayment sources are rated less than A- or is weakening;
- Proposed security and repayment source are not well known to investors;
- The bond structure is unique, innovative, or has features that are non-standard that would be better suited to a negotiated sale;
- Sale and marketing of the bonds will require complex explanations about the issuer's projects, media coverage, political structure, political support, funding or credit quality; and
- Market timing is important.

VI. Compliance with Disclosure Policy

When providing disclosure, OCII will comply with its Disclosure Policy, approved by the Commission via Resolution 21-2021, on June 1, 2021.

VII. Debt Approval Procedures

OCII shall receive approval to issue debt according to the procedures described below.

- **Approval of annual budget.** As required by San Francisco Ordinance No. 215-12 (Oct., 4, 2012) (incorporating Section 33606 of the HSC), OCII's annual budget shall contain, among other things, the proposed indebtedness to be incurred by OCII in the fiscal year.
- **Approval by Policy Bodies:** Prior to issuing bonds OCII shall obtain the approval, by Resolution, of the Commission. The Resolution shall authorize such matters as the sale of bonds of a not-to-exceed amount, the method of sale, and approve as to form, an indenture of trust and other related documents, including a loan agreement or loan agreements, a preliminary official statement. Final Commission authorization is required before the bonds are sold (which authorization may be obtained at the same meeting as the approval of the bonds). Additionally, for tax allocation bonds, OCII shall obtain the approval of the Oversight Board, and DOF. DOF has five days from receipt of the information to trigger a review of the bond issuance. If triggered, DOF has 60 days to review the bond issuance.

VII. Post-Issuance Debt Administration

OCII's debt administration is described below.

- **Arbitrage Rebate Requirements:** OCII shall comply with the arbitrage rebate requirements of Section 148 of the IRS Code, which are intended to satisfy Section 7.2.3.4.4 of the Internal Revenue Manual. OCII may engage with a Bond Arbitrage Consultant to assist in the calculation of arbitrage rebate payments with respect to the investment of Bond proceeds as required by the IRS Code.
- **Budget:** OCII shall budget and include in its ROPS gross debt service and payments required to fund bond reserves. OCII shall also budget all expenditures of bond proceeds in conformance with its planned affordable housing and infrastructure program as required by its' enforceable obligations.

- **Debt Policy Review.** OCII shall review this Policy on a regular basis, but not less than every three years, and recommend any changes for consideration and adoption by the Commission.
- **Investor Relations Website:** OCII will maintain an investor relations website to include information on its 1) debt issuances, 2) ratings, 3) notices of upcoming bond sales, 4) disclosure, and 5) other relevant information such as ROPS, budget, and retirement and OPEB valuations.
- **Payment Requests:** To make certain all payments are made according to internal control that ensure the proceeds of debt issuances will be directed to the intended use, all requests for payment from bond proceeds shall be processed according to the Accounting Policies and Procedures finalized in Summer 2021. All payments from bond proceeds shall be comply with the procedures for expenditure in the Purchasing Policy.
- **Permitted Investments of Bond Proceeds:** OCII may invest bond proceeds according to the terms of the California Government Code, the applicable debt indentures, and OCII's Investment Policy, last approved by the Commission via Resolution 13-2020 on June 16, 2020. As of the date of this Policy, proceeds of debt are invested by the City and County of San Francisco Treasurer Tax Collector (in accordance with a 2020 Memorandum of Understanding between the OCII and the City and County of San Francisco, Office of the Treasurer Tax Collector to provide investment services for funds held in trust.
- **Ratings:** Ratings are the measure of the credit worthiness of a bond issuance. A high credit rating indicates a lower risk of default, which leads to a lower cost of borrowing. OCII shall seek such ratings as are deemed advantageous in consultation with its advisors. For consistency, OCII will seek to maintain current ratings. OCII may seek additional ratings from other rating agencies as appropriate to the transaction.
- **Record Keeping:** OCII shall permanently retain documentation from each bond transaction in the OCII's bond database, as required by its Record Retention Policy. Such documentation shall include: a copy of the Bond closing transcript and other relevant documentation, a copy of all material documents relating to capital expenditures financed or refinanced by Bond proceeds, including without limitation draw requests, payment records, and trustee requisitions, any other records that evidence the amount and date for each draw down of Bond proceeds, and records identifying the assets or portion of assets that are financed or refinanced with bond proceeds. The Debt Manager shall also retain records of all investments, investment agreements, arbitrage reports and underlying documents including trust statements and copies of bidding documents. Last, the Debt Manager shall retain copies of all contracts related to the financing team.

- **Training:** OCII officials or employees shall attend disclosure training sessions offered by OCII. Periodic trainings with OCII disclosure counsel will be held every three years for those responsible for disclosure.