OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-0182021-002

Agenda Item **No.5(c)**
Meeting of July 20, 2021

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Sally Oerth, Interim Executive Director

SUBJECT: Authorizing the Issuance of New Money Tax Allocation Bonds, subject to Oversight Board and Department of Finance Approval, as Permitted in Section 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, approving and directing the execution of a first supplement to indenture of trust and bond purchase contract, and approving other related documents and actions

---

EXECUTIVE SUMMARY

The Office of Community Investment and Infrastructure ("OCII") proposes issuing new money taxable tax allocation bonds to fund affordable housing in an amount not-to-exceed $130.4 million. If approved, these bonds would be known as the 2021 Series A Taxable Third Lien Tax Allocation Bond (Affordable Housing Projects). As described in OCII's approved annual budget, staff anticipates using the proceeds from the 2021A Bonds to fund affordable housing in Hunter's Point Shipyard Phase 1 and Mission Bay South.

Issuing the proposed bonds requires the Commission on Community Investment and Infrastructure ("Commission") to approve a resolution conditionally authorizing the proposed issuance, approving, and directing the execution of the First Supplement to Indenture of Trust and of the Bond Purchase Agreement, approving the bond underwriter selection, and authorizing and directing OCII staff to take all actions necessary to complete the proposed transaction.

After Commission approval, staff will request the Oversight Board review and approve the proposed issuance. After Oversight Board approval, staff will submit the Oversight Board resolution approving the proposed issuance to the California Department of Finance ("DOF") for its review. If DOF declines to review or approves the issuance, the Commission will consider additional action to finalize the bond issuance.

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

415 749 2400

www.sfocii.org

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

DISCUSSION

The Fiscal Year 2021-22 budget authorizes the Office of Community Investment and Infrastructure ("OCII") to issue new money taxable tax allocation bonds to fund affordable housing in an amount not-to-exceed $130.4 million. This not-to-exceed amount was projected based on information available during OCII's budget process. Since that time, project costs and market conditions have evolved. Current estimates for sources and uses are described below.

Table 1: Sources by Uses

SOURCES		
Bond Proceeds	$	123,655,000
Total Sources	**$**	**123,655,000**
USES		
Project Fund	$	116,500,000
Debt Service Reserve Fund	$	6,265,068
Cost of Issuance	$	530,000
Underwriter's Discount	$	356,401
Additional Proceeds	$	3,531
Total Uses	**$**	**123,655,000**

Monies in the project fund are used to fund affordable housing projects. Cash in the debt service reserve fund is a backstop, should OCII be unable to make debt service payments. Debt service reserve funds are a standard characteristic of a normal bond structure. Depending on market conditions, the cash funded reserve fund could be replaced with a reserve funded by an insurance policy. The cost of issuance is the cost of consultants, such as municipal advisors, bond counsel, disclosure counsel, and the property tax consultant, as well as the cost of OCII staff time required to issue the bonds. The underwriter's discount is the underwriter's fee to issue the bonds. The additional proceeds balance the sources and uses and will be allocated to the project funds when the issuance numbers are finalized.

The proposed resolution authorizes OCII to issue the full $130.4 million authorized by the FY 21-22 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 bonds necessary to fund project costs.

OCII's use of bonds to fund affordable housing, a long-term capital asset, is an appropriate use of long-term debt.

Enabling Authority

The proposed bonds would be issued pursuant to Section 34177.7 of the California Health and Safety Code, which is a section of the Redevelopment Dissolution Law that gives OCII special authority, with approval of the Oversight Board and the Department of Finance ("DOF"), to issue bonds to fund its Affordable Housing Obligations in Mission Bay, Transbay, and the Candlestick Point-Hunters Point Shipyard areas. OCII's Affordable Housing Obligations were established under certain development agreements approved by DOF as enforceable obligations. These development agreements are:

- Disposition and Development Agreement Hunters Point Shipyard Phase 1,
- Disposition and Development Agreement (Candlestick Point and Phase 2 of the Hunters Point Shipyard),
- Mission Bay North Owner Participation Agreement,
- Mission Bay South Owner Participation Agreement, and
- the Transbay Implementation Agreement.

Together, these agreements constitute OCII's Affordable Housing Obligation of approximately 4,256 affordable housing units. As of July 1, 2021, 1,962 units of OCII's Affordable Housing Obligation were complete, 140 were in construction, and 913 were in predevelopment. The proposed bonds would fund provide funding for 386 units, or 17 percent of OCII's remaining Affordable Housing Obligation.

Proposed Action

As a first step in issuing the proposed bonds, the Commission on Community Investment and Infrastructure ("Commission") must approve a resolution conditionally authorizing the proposed issuance, approving and directing the execution of the First Supplement to Indenture of Trust and of the Bond Purchase Agreement, approving the bond underwriter selection, and authorizing and directing OCII staff to take all actions necessary to complete the proposed transaction.

Proposed Issuance

OCII proposes to issue new money taxable tax allocation bonds in an amount not-to-exceed $130.4 million. These bonds will be secured by property tax revenues generated from certain former and current redevelopment areas and will comply with the provisions of the Successor Agency's debt policy (the "Debt Policy"), adopted by Resolution 72-2014 of the Successor Agency Commission on August 19, 2014, unless such compliance is waived in accordance with the Debt Policy. The proceeds of these bonds are programmed for several affordable housing funding actions included in the FY21-22 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	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 bond issuance to other eligible affordable housing projects that the Commission has approved in the annual budget.

First Supplement to Indenture of Trust and Bond Purchase Agreement

The proposed resolution approves the form of the First Supplement to Indenture of Trust ("First Supplement"), which is a contract between OCII and U.S. Bank National Association, the trustee of the proposed bonds. The First Supplement describes the date, manner of payment, interest rate or rates, interest payment dates, denominations, form, registration, privileges, manner of execution, place of payment, terms of redemption and other terms of the 2021A Bonds. The First Supplement amends the indenture for the 2017 Series A Taxable Third Lien Tax Allocation Bonds ("2017A") and 2017 Series B Third Lien Tax Allocation Bonds ("2017B"). Therefore, the proposed 2021A bonds must abide by the contractual terms established in the 2017A and 2017B indenture, except as amended by the First Supplement.

The proposed resolution also approves the form of the Bond Purchase Agreement, which is a contract between OCII and the Underwriters. The Bond Purchase Agreement describes the principal amount, the components of the true interest cost, the underwriters' discount, and the coupons and yields of the proposed 2021A Bonds, all of which will be determined at pricing. The true interest cost includes the cost of borrowing as well as the cost of issuance and represents the true cost of borrowing. The underwriters' discount is the difference between the price the underwriters pay the issuer and the price at which they sell the bonds to the public. The underwriter's discount reflects the underwriter's, fee for issuing the bonds. All these factors will be finalized at bond pricing and will determine OCII's cost of borrowing, provided they do not exceed the amounts established by the proposed resolution and summarized below.

Table 3: Bond Structure and Limits

Bond Series	Principal Amount	True Interest Cost	Underwriters' Discount*
2021A	$130.4M	7.0%	0.50%

Underwriter Selection

The proposed resolution also authorizes the selection of Citigroup Global Markets Inc. (“Citi”) and Backstrom, McCarley Berry & Co., LLC (“Backstrom”) as underwriters for the proposed issuance. Citigroup will act as the book-running senior manager (lead underwriter) and Backstrom McCarley Berry as the co-senior manager. OCII staff recommends this selection based on a competitive selection process administered according to Section IX.C.5 of the OCII Purchasing Policy, which authorizes OCII to select a Contractor from a City and County of San Francisco (“CCSF”) panel established using the City’s competitive selection process. This process is described below.

OCII staff directed KNN Public Finance and Kitahata & Company, the municipal advisors for the proposed bond issuance, to issue a Request for Proposals (“RFP”) for bond underwriting services. On May 26, 2021, the municipal advisors issued the RFP and sent it to the members of the City’s underwriter panel, giving the panel members nine (9) business days to respond. The municipal advisors received sixteen (16) responses. A panel including the municipal advisors, the CCSF Controller’s Office of Public Finance, and OCII’s Debt Manager reviewed the responses based on the following criteria: relevant firm experience, relevant banking team experience, structing analysis, and fees. The panel evaluated experience based on post-Dissolution California tax allocation bond issuance experience. The panel also considered OCII’s Local Business Enterprise and Small Business Enterprise contracting goals.

The selection panel recommended Citi as the lead underwriter based on the strength of its sales and marketing capabilities and its experience serving as the senior manager on Transbay Joint Powers Authority 2020 tax allocation bond issuance. The selection panel recommended Backstrom as the co-senior manager based on its previous successful transactions with OCII, extensive knowledge of OCII’s credit, and status as a certified Local Business Enterprise by the City’s Contract Monitoring Division.

Actions Necessary to Complete the Proposed Transaction

The proposed resolution authorizes and directs OCII staff to take all actions necessary to complete the proposed transaction. The table below identifies the critical next steps required to complete the transaction.

Table 4: Next Steps

July 26	Oversight Board consideration of indenture and bond purchase agreement
July 27	After Oversight Board approval, submission of approved resolution and related documents to DOF for review and approval
September 27	Final date for DOF determination regarding issuance
October 5	After DOF approval, Commission consideration of preliminary official statement and other actions necessary for issuance
November	Bond Pricing
November	Bond Closing

Municipal Advisors Analysis

Attached to the proposed resolution is the Municipal Advisors' Analysis. The Municipal Advisors' Analysis was prepared by the municipal advisors and is required by Section 34177.7(h) of the Government Code. The analysis confirms that the proposed financing meets the requirements of the law as set forth in Section 34177.5(h) of the Health and Safety Code. The analysis affirms that OCII has made diligent efforts to ensure it obtains the lowest long-term cost of financing, the proposed bond issuance does not provide for any bullets or spikes and does not use variable interest rates, and OCII has made use of an independent financial advisor.

California Environmental Quality Act

The issuance and sale of bonds is not a "Project," as defined by the California Environmental Quality Act ("CEQA") in CEQA Guidelines Section 15378(b) (4), because the action will not independently result in a physical change in the environment and is therefore not subject to environmental review under CEQA.

(Originated by John Daigle, Debt Manger)

DocuSigned by:
Sally Oerth
336F9B4FE72748A...
Sally Oerth
Interim Executive Director