MEMORANDUM

TO: Community Investment and Infrastructure Commissioners
City and County of San Francisco Redevelopment Financing Authority

FROM: Tiffany Bohee
Executive Director

SUBJECT: Commission Resolution confirming the issuance and sale of Successor Agency to the Redevelopment Agency of the City and County of San Francisco 2014 Series A Tax Allocation Bonds (Mission Bay South Redevelopment Project) in an aggregate principal amount not to exceed $70,000,000, approving preliminary and final Official Statements and a Continuing Disclosure Certificate, and approval of other related documents and actions; Mission Bay South Redevelopment Project Area; and

Financing Authority Resolution authorizing the purchase and sale of the Successor Agency to the Redevelopment Agency of the City and County of San Francisco of 2014 Series A Tax Allocation Bonds (Mission Bay South Redevelopment Project) in an aggregate principal amount not to exceed $70,000,000; approving form of bond purchase contract and authorizing the negotiated sale of the bonds; and authorizing and approving other matters properly relating thereto (Mission Bay South Redevelopment Project Area)

EXECUTIVE SUMMARY

Staff requests that the Commission and the City and County of San Francisco Financing Authority consider approval of certain key documents and authorization of such actions as necessary to accomplish the issuance of Tax Allocation Revenue Bonds ("2014 Bonds") for the Mission Bay South Redevelopment Project Area. The aggregate amount of the 2014 Bonds shall not to exceed $70 million, the true interest cost shall not to exceed 7.00%, and the underwriters’ discount is not to exceed 0.65%, as authorized in Oversight Board Resolution 11-2013, adopted November 13, 2013.

The net proceeds of the 2014 Bonds will be used to satisfy the Successor Agency’s obligations described below to reimburse FOCIL-MB, LLC, the Master Developer of Mission Bay, ("Master Developer") for public infrastructure improvements. The issuance of the bonds is an enforceable obligation under the terms of the Mission Bay South Owner Participation Agreement (OPA).

Staff recommends Commission and Financing Authority approval of the respective resolutions authorizing form of bond documents and actions necessary to complete the financing.
BACKGROUND

The proposed sale of $70 million in tax allocation bonds will provide funds for the reimbursement of developer-funded infrastructure projects in the Mission Bay South Project Area, pursuant to the Mission Bay South Owner Participation Agreement (OPA). Approximately $500 million in new infrastructure has been built to date in Mission Bay South, with about $55 million remaining to reimburse to the master developer from previous years’ expenditures and another $70 million expected to be expended in Fiscal Year 2013-14.

On November 5, 2013, and November 13, 2013 respectively, the Commission and Oversight Board approved the issuance of the 2014 bonds, including the form of the Indenture of Trust. DOF initiated a review of the Oversight Board approval, and issued a letter approving Oversight Board Resolution No. 11-2013 on December 24, 2013. The Commission Resolution 52-2013 (Attachment C) required that Agency staff return to the Commission for approval of the form of the bond Official Statement prior to marketing of the bonds. Now that DOF has approved the Oversight Board action, staff is seeking these final Commission and Financing Authority approvals.

OCII's Fiscal Year 2013-2014 Budget anticipated up to $58.6 million in bond proceeds, but in order to take advantage of recent changes in Mission Bay South bonding capacity and potential changes in market conditions, staff sought approval from the Board of Supervisors to increase OCII's bond authority up to $70 million. The actual amount of bonds proceeds realized would be dependent on market conditions at the time of the sale and could be significantly less than $70 million. The Board of Supervisors approved this change to OCII's Fiscal Year 2013-2014 Budget on December 10, 2013.

The proposed bond issuance is being planned under the provisions of the former Redevelopment Agency’s Debt Policy, which was last updated on March 12, 2004. Based on recommendations from OCII’s financing team (described below), the bonds are proposed to be issued through a negotiated sale in order to get the most favorable terms. This method of sale allows the underwriters to assist prospective investors in a detailed analysis of the credit supporting the bonds. The events of recent years have increased investor attention to the specific credit of each bond issue. Additionally this will likely be the first successor agency “new money” bond issuance under the authority granted in Dissolution Law. Under these circumstances, a negotiated sale should result in broader investor interest in OCII’s bonds and lower interest rates than would be otherwise achieved.

In addition to OCII staff, the team of bond finance professionals working on this transaction include:

- **Bond Counsel:** Jones Hall
- **Financial Advisor:** Public Financial Management
- **Disclosure Counsel:** Schiff Hardin
- **Fiscal Consultant:** Urban Analytics
- **Underwriters:** De La Rosa & Company as Managing Underwriter; Backstrom McCarley Berry and Company as Co-Manager.
DISCUSSION

Role of the City and County of San Francisco Redevelopment Financing Authority

The Financing Authority is a joint exercise of powers agency created by a joint exercise of powers agreement dated July 11, 1989, (the “JPA Agreement”) executed by and between the City and County of San Francisco (“City”) and the former San Francisco Redevelopment Agency (“SFRA”). Under AB26, the Successor Agency stepped into the role of the SFRA with respect to the Financing Authority. The Financing Authority is governed by a Board of Directors consisting of the Commissioners of the Successor Agency, which acts in place of the former SFRA commission pursuant to Board of Supervisors Ordinance No. 215-12. Under Sections 33640 et seq. of the Health and Safety Code, bonds issued by redevelopment agencies (and, by implication, successor agencies) are required to be sold by competitive sale. However, the Marks-Roos Act (Section 6584 et seq. of the Government Code) contains a provision (Section 6589) that allows joint powers authorities, such as the Financing Authority, to enter into purchase contracts with local agencies notwithstanding any other provision of law. The primary purpose of the Financing Authority, as set forth in the JPA Agreement is to facilitate financings for the SFRA (now the successor agency).

The Authority Resolution approves the purchase of the bonds from the Successor Agency and concurrent sale of the bonds to the Underwriters. It also approves in form, and authorizes execution of the Bond Purchase Contract which governs the sale and further directs Authority Officers to take any other actions necessary or advisable to complete the transaction.

Proposed Form of Bond Purchase Contract

The Financing Authority resolution would approve the form of the Bond Purchase Contract. This was previously approved by the Commission through Resolution 52-2013 on November 5, 2013. The Bond Purchase Contract is a three way contract among the Successor Agency, the Financing Authority, and the underwriters for the actual purchase of the bonds. The Successor Agency will sell the bonds to the Financing Authority, who resells them to the underwriter. The Financing Authority's obligations to purchase the bonds are conditioned upon its receipt of funds from the underwriter to pay for them. The Form of Bond Purchase Contract was drafted by the underwriters with input from OCII staff and the financing team.

Proposed form of Preliminary Official Statement

The Commission and Financing Authority resolutions approve the form of the Preliminary Official Statement (“POS”), as required by Commission Resolution 52-2013 that provided preliminary approval of the bonds. The POS includes all known material information relevant to the 2014 Bonds. A final Official Statement (“OS”) will be published after the details of the bonds are finalized on the offering or pricing date. The POS is used by the underwriters in marketing the bonds to investors and is relied upon by investors to inform their decision regarding purchase of the bonds. The document is prepared by Disclosure Counsel and primarily
based on material provided by OCII staff, Fiscal Consultant and Bond Counsel. The POS has been reviewed by the Financial Advisor and Underwriter’s Counsel. The Commission resolution also authorizes the Successor Agency to deliver to the underwriters the continuing disclosure certificate (POS Appendix D) which lists OCII’s secondary market disclosure obligations.

2014 Bonds Financing Assumptions & Terms

The transaction is based on the following financing assumptions:

- The aggregate amount of the 2014 Bonds shall not to exceed $70 million.
- The true interest cost shall not to exceed 7.00%.
- The underwriters’ discount is not to exceed 0.65%.
- The Reserve account deposit is sufficient to meet the reserve requirements for the 2014 Bonds; the reserve account is a “Stand-Alone” Reserve Account for Mission Bay South (i.e., no cross-collateralization).
- Overall level debt service (including existing debt).
- No-growth assumption (debt service assumes no growth in Tax Revenues).
- The 2014 Series A Bonds are structured to allow sufficient debt service coverage to satisfy bond covenants and also pay Statutory Pass-throughs.
- Interest payment dates: February 1 and August 1, beginning on 8/1/2014.
- Principal maturity dates: August 1, beginning on 8/1/2014.
- 2014 Series A Bonds final maturity: 8/1/2043.

NEXT STEPS

The Bonds are expected to be priced after the second week of February and the sale closed within two weeks of the pricing. The sale could be delayed depending on market conditions.

RECOMMENDATION

Staff recommends Commission and Financing Authority approval of the respective resolutions approving the form of related documents and authorizing all actions necessary or advisable to complete the financing.

(Originated by Leo Levenson, Deputy Director, Finance and Administration)

Tiffany Dolcic
Executive Director

Attachment A: Form of Preliminary Official Statement
Attachment B: Form of Bond Purchase Agreement
Attachment C: OCII Commission Resolution 52-2013