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. Scope and Application.

This Debt Policy ("Policy") establishes policies and procedures for financings under the jurisdiction 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"). The purposes of the Policy are to:

A. Identify debt policy objectives,
B. Improve the quality of decision making processes,
C. Provide a basis for the determination of the appropriate debt structures; and
D. Demonstrate a commitment to best practices in debt management planning and execution.

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 or other forms of indebtedness that is otherwise issued in accordance with law.

II. Debt Management Objectives

A. Comply with the provisions of Section 34177.5 of the California Health and Safety Code, established by California Assembly Bill 1484 in June 2012 (together with other statutes, known as "Redevelopment Dissolution Law,"), which establish the parameters under which Successor Agencies may refund preexisting tax allocation debt and issue new tax allocation debt, along with any amendments to those provisions and other applicable federal and state laws and regulations

B. Maintain cost-effective access to capital markets through prudent debt management policies and practices;

C. Fund significant capital acquisitions or improvements through debt financing and, if cost effective, alternate financing mechanisms such as public/private partnerships.

D. Structure long term financings to minimize transaction specific risk and total debt portfolio risk to OCII.

E. Maintain good investor relationships and uphold contractual obligations through the timely dissemination of material financial information and timely response to requests for publically available information.

Adopted by Commission Resolution No. ______-2014, ______________, 2014
III. Refunding Bonds

OCII shall comply with the provisions of Redevelopment dissolution law regarding refunding bonds, including but not limited to the following provisions:

Under the provisions of HSC Section 34177.5(a)(1), as of the date of this policy, OCII may refund preexisting debt to provide savings in the use of tax increment to service debt, provided that:

A. 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

B. 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; and

Under the provisions of HSC Section 34177(a)(2) as of the date of this policy, OCII may issue refunding bonds to finance debt service spikes, provided that:

A. The existing indebtedness is not accelerated, except to the extent necessary to achieve substantially level debt service, and

B. 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.

Should applicable provisions of Redevelopment Dissolution Law be amended by the California legislature, such amendments shall be deemed incorporated into this policy.

As a general guideline, the overall present value savings in the transaction should equal at least 3% of the face amount of the refunded bonds. This criterion may be waived if there are other reasons for the refunding.

IV. New Tax Increment Bond Obligations

Pursuant to HSC Section 34177.5(a)(4), OCII may issue bonds to make payments under enforceable obligations when the enforceable obligations include the irrevocable pledge of property tax increment or other funds and the obligation to issue bonds secured by that pledge.

To the extent that Redevelopment Dissolution Law is amended to authorize a successor agency’s issuance of bonds, or incurrence of indebtedness under other circumstances, OCII may issue bonds consistent with that authority.
V. Community Facilities District ("CFD" or "Mello-Roos") Bonds

OCII may issue CFD bonds in accordance with its Amended and Restated Local Goals and Policies for Community Facilities Districts.

VI. Credit Enhancements

OCII will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit and cost of each case. Credit enhancement shall be used only if it permits savings to be achieved or achieves other financial objectives. OCII will consider each of the following credit enhancements as alternatives by evaluating the cost and benefit of such enhancement.

A. Bond Insurance. 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. Insurance may also be purchased in order to acquire a surety policy. The Deputy Director, Finance & Administration or his/her designee will obtain bond insurance by soliciting quotes from bond insurers and 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 an issuance but not others.

B. Debt Service Reserves and Reserve Equivalents. When required, a reserve fund equal to the least of 10% of the original principal amount of the bonds or 100% of the maximum annual debt services, and 125% of the average annual debt service, or, if permitted, 10% of the par value of bonds outstanding or other amount as the Deputy Director may deem necessary (the "Reserve Requirement") may be funded 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 (e.g., an insurance policy known as a "surety bond") when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

C. Credit and Liquidity Facilities. The issuance of certain types of Bonds requires a letter of credit or line of credit ("Credit Facility") from a qualified financial institution to provide liquidity and/or credit support. OCII may enter into a LOC agreement when such an agreement is deemed prudent and advantageous to a bond financing, and taking into account the likely remedial strategies in the event of a material decline in the Credit Facility provider's credit quality.

OCII shall prepare (or cause to be prepared) and distribute to qualified financial institutions as described below, a request for qualifications that includes terms and conditions that are acceptable to OCII.

1. Provider Selection. Only those financial institutions with long-term ratings greater than or
equal to that of OCII and short-term ratings from at least two NRSRO of at least P-2/A-1/ or equivalent.

2. **Selection Criteria.** The selection of LOC providers will be based on, but not be limited to, the following criteria:

   a. Evidence of ratings (including “Outlook”).
   b. Experience providing such facilities to local government issuers;
   c. Fees, including without limitation initial and ongoing costs of the Credit Facility, draw, transfer and related fees; counsel fees; termination fees and any trading differential; and
   d. Terms and conditions acceptable to OCII.

### VII. Debt Approval Procedures

Commission approval is required of all debt issued by OCII. The approval is in the form of one or more resolutions, which 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, a loan agreement or loan agreements, a preliminary official statement, and other related documents. Final Commission authorization is requested shortly before the bonds are to be sold.

Oversight Board approval and California Department of Finance review is required of bond indentures, loan agreements and bond purchase contracts, all of which must comply with Redevelopment Dissolution Law.

City and County of San Francisco Board of Supervisors authorization is required for the maximum amount of tax allocation bonds to be sold and for not-to-exceed bond terms and interest rates. This approval is generally given within the context of OCII budget approval. Board of Supervisors approval is not normally required for each individual bond issuance or for bond documents unless specifically required by the Board in advance. Board approval is not generally required for the issuance of refunding bonds.

### VIII. Debt Limitations

OCII shall adhere to the effective limits specified in redevelopment project plans and enforceable obligations as well as all other statutory, regulatory and contractual constraints.

### IX. Methods of Sale

*Competitive Sale:* OCII bonds shall be sold competitively except in those instances where Agency staff and financial advisors have determined that a competitive sale is not feasible or is likely to yield a less favorable result than a negotiated sale. Factors to be considered include: structuring and timing flexibility, bond rating, the need for pre-marketing to address credit dynamics or other investor concerns.
**Marketing:** 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 financial advisors to market the bonds to prospective bidders.

**Cancellation:** OCII shall have the right to cancel a bond sale prior to the time bids are received by issuing a notice within the customary period acceptable by bidders.

**Award:** Bonds shall be awarded to the bidder whose conforming 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.

i. OCII shall reserve the unfettered right to reject all bids

ii. OCII’s Deputy Executive Director for Finance & Administration or his/her designee shall award the bonds to the winning bidder.

**Negotiated Sale:** OCII may determine that it is advisable to sell bonds pursuant to a negotiated sale in order 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 in order 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 order to comply with certain provisions of State law, the Board of Supervisors created the Financing Authority of the City and County of San Francisco Redevelopment Agency (Financing Authority) to facilitate negotiated sales of redevelopment bonds and to allow the pooling of loans from disparate project areas into a single bond issue. Negotiated sales of bonds shall be carried out using the services of the Financing Authority when necessary or advisable. The OCII will retain a Financial Advisor to provide advice to ensure the transaction is structured and priced to the OCII’s best advantage.

**X. Debt Structuring Practices**

With the advice of consultants, the bonds will be structured to the best long-term economic and policy advantage of OCII subject to pertinent redevelopment plan, statutory, regulatory and contractual constraints.

**XI. Derivatives Policy**

Properly used, derivatives, such as interest rate swaps and swap options, are management tools intended to take advantage of interest cost savings that may be available from variable rate date while reducing risks that may be associated with rising interest rates over time. Such products can be complex and carry risks if not adequately analyzed and monitored. The default policy of OCII shall be not to engage in the use of derivatives. This policy may be waived by the Commission on a proposed transaction if OCII finance staff provide an analysis showing a compelling public policy reason to use a derivative produce and recommend its approval.
XII. Permitted Investments of Bond Proceeds

Proceeds of debt may be invested according to the terms of the California Government Code, the specific debt indentures, and OCII’s applicable Investment Policy.

XIII. Professional Assistance

A. Legal Counsel: The General Counsel in consultation with the Deputy Director of Finance and Administration, subject to Commission approval as required, shall select bond counsel, tax counsel and disclosure counsel, as required or prudent, for all financing transactions.

B. Financial Advisor: OCII may retain the services of a financial advisor to assist with a debt financing when prudent. OCII may select the financial advisor through issuance of an RFP to the City’s pool of approved financial advisors.

C. Fiscal Consultant: OCII may retain the services of a fiscal consultant for pre and post issuance disclosure work. OCII may select the fiscal consultant through issuance of an RFP to the City’s pool. If the City has no pool from which to select, OCII will issue the RFP to a selection of firms deemed qualified in consultation with its advisors.

D. Rebate Consultant: A rebate consultant shall be selected by RFP for all tax-exempt long-term obligations for a set term with 1-year extensions. Rebate analysis shall be performed as required.

E. Coordination with the City and County of San Francisco Controller’s Office of Public Finance: The OCII Executive Director may enter into agreements with the City and County of San Francisco Controller’s Office of Public Finance to support OCII in its debt issuance and administration activities.

XIV. Post Issuance Debt Administration

Pursuant to the transfer of all housing assets of the former Redevelopment Agency to The Mayor’s Office of Housing; that Office, as Housing Successor, will be responsible for all aspects of the post-issuance administration of OCII’s multi-family housing bond portfolio. Disclosure for all other OCII debt will be the responsibility of OCII.

A. Secondary Market Disclosure: OCII will comply with all legal, regulatory and contractual obligations with respect to specified and material financial information. Such compliance will include timely filing of Annual Reports pursuant to SEC Rule 15(c)212 and filing of material events notices from time to time as required. OCII shall retain the services of a fiscal consultant to prepare certain information required under various continuing disclosure undertakings including but not limited to: project area assessed values, allocable tax increment, delinquency rates, ownership concentration, debt coverage, and assessment appeals. Secondary Market Disclosure for CFD bonds will be monitored by the OCII but will be the operational responsibility of the developers pursuant to their contractual obligations.

B. OCII will rely on the City’s Municipal Finance Disclosure Policies and Procedures, Appendix A to its Debt policy of September 14, 2011, as a disclosure best practice
template, adopting such practices and procedures as the Deputy Director for Finance and Administration, upon consultation with bond and disclosure counsel, deems pertinent. That Appendix A is appended as Exhibit 1 to this policy for reference and is not binding on the OCII.

C. *Ratings:* OCII shall seek such ratings as are deemed advantageous in consultation with its advisors. It will also respond timely to rating agency requests for information.

D. *Training:* OCII officials or employees shall attend disclosure training sessions offered by the City as described in Appendix A of the City’s Debt Policy as applicable. Periodic trainings with OCII bond and disclosure counsel will be held at least annually for those responsible for disclosure.