OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

101-0102023-002

Agenda Item **No. 5(c)**
Meeting of June 20, 2023

MEMORANDUM

TO: Office of Community Investment and Infrastructure Commissioners

FROM: Thor Kaslofsky, Executive Director

SUBJECT: Authorizing the issuance of tax allocation refunding bonds, as permitted in Section 34177.5(a)(1) of the California Health and Safety Code in an aggregate principal amount not to exceed $85,000,000, approving and directing the execution of a Second Supplemental Indenture of Trust, Escrow Agreement and Bond Purchase Contract, and approving other related documents and actions; Mission Bay South Redevelopment Project Area

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EXECUTIVE SUMMARY

In 2016, the Office of Community Investment and Infrastructure ("OCII") issued Series D Subordinate Tax Allocation Bonds for the Mission Bay South Redevelopment Project Area (the "2016D Bonds"). To achieve a cost savings, OCII proposes issuing tax-exempt and taxable bonds to refund the outstanding 2016D Bond amounts. If approved, these bonds would be known as the Successor Agency to the City and County of San Francisco Redevelopment Agency 2023 Series C Taxable Tax Allocation Refunding Bonds (Mission Bay South Redevelopment Project) ("2023C Bonds") and 2023 Series D Tax Allocation Refunding Bonds (Mission Bay South Redevelopment Project) ("2023D Bonds"). The proceeds from the 2023C Bonds (taxable) and 2023D Bonds (tax-exempt) will be used to refund the outstanding 2016D Bonds, to fund debt service reserve funds, to pay costs related to the issuance of the bonds, and achieve an overall cost savings.

To issue the 2023C Bonds and 2023D Bonds, the Commission must take the following actions:

- Adopt the proposed resolution authorizing the issuance of the 2023C Bonds and 2023D Bonds.
- Approve and direct the execution of:
    1. Second Supplemental to Indenture of Trust
    2. Escrow Agreement
    3. Bond Purchase Contract

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- Approve the bond underwriter selection.
- Authorize and direct OCII staff to take all actions necessary to complete the issuance of the 2023C Bonds and 2023D Bonds.

After Commission approval, staff will request the Oversight Board review and approve the issuance of the 2023C Bonds and 2023D Bonds. After Oversight Board approval, staff will submit the Oversight Board resolution to the California Department of Finance ("DOF") for its review. If DOF declines to review or approves the issuance, OCII staff will return to the Commission for approval of an official statement for the 2023C Bonds and 2023D Bonds prior to sale.

Staff recommends the Commission authorize the issuance of the 2023C Bonds, and necessary staff actions and approve the primary documents.

DISCUSSION

The proposed resolution authorizes OCII to issue up to $85 million total principal amount for the 2023C Bonds and 2023D Bonds. The 2023C Bonds are anticipated to be issued on a taxable basis and the 2023D Bonds will be issued on a tax-exempt basis for federal income tax purposes. The actual principal amount of the 2023C Bonds and 2023D Bonds will be finalized in the weeks before the issuance and will be based on market conditions and federal tax considerations to achieve an overall cost savings. OCII will only issue the amount of 2023C Bonds and 2023D Bonds necessary to refund the 2016D Bonds, fund debt service reserve funds (in cash or through the purchase of reserve policies) and pay related costs of issuance (which may include bond insurance premiums).

Table 1: Sources and Uses

	2023C Taxable Refunding Bonds	2023D Tax-exempt Refunding Bonds	Total
SOURCES			
Bond Proceeds	36,310,000	31,605,000	67,915,000
Premium	-	4,432,571	4,432,571
Debt Service Reserve	3,153,010	3,127,418	
Total Sources	**39,463,010**	**39,164,989**	**78,628,000**
USES			
Refunding Escrow Deposit	35,416,050	35,198,780	70,614,830
Debt Service Reserve	3,631,000	3,603,757	7,234,757
Cost of Issuance	267,319	232,681	500,000
Underwriter's Discount	145,240	126,420	271,660
Other Uses of Funds	3,401	3,352	6,753
Total Uses	**39,463,010**	**39,164,989**	**78,628,000**

Monies in the escrow fund will be used to refund the outstanding 2016D Bonds. Debt service reserve funds serve as a backstop, should OCII be unable to make debt service payments. Debt service reserve funds are a standard security feature for tax allocation bonds, like the 2023C Bonds and the 2023D Bonds. The amount of the debt service reserve is calculated according to IRS regulations, and industry standards, as: the lesser of: 1) 10% of issued principal; 2) maximum annual debt service 3) 125% of average annual debt service. Depending on market conditions, OCII may be able to satisfy the requirement for the debt service reserve funds for the 2023C Bonds and for the 2023D Bonds with the purchase of reserve policies, instead of depositing cash in such funds. The cost of issuance is the cost of consultants, such as municipal advisors, bond counsel, disclosure counsel, and the fiscal 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 sell the bonds.

Enabling Authority

The 2023C Bonds and 2023D Bonds would be issued pursuant to Section 34177.5(a)(1) of the California Health and Safety Code, and Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code, subject to the approval of the Oversight Board and the DOF.

Proposed Action

As a first step in issuing the 2023C Bonds and 2023D Bonds, the Commission must approve a resolution authorizing the proposed issuance, approving and directing the execution of the Second Supplemental Indenture of Trust, an Escrow Agreement and a Bond Purchase Contract, approving the bond underwriter selection, and authorizing and directing OCII staff to take all actions necessary to complete the proposed issuance of the 2023C Bonds and 2023D Bonds.

Proposed Issuance

OCII proposes to issue two series of new money tax allocation bonds: 2023C Bonds (federally taxable) and 2023D Bonds (tax-exempt) in a combined principal amount not to exceed $85 million. These bonds will be secured by property tax revenues generated from the Mission Bay South Redevelopment Project Area on a parity and on equal priority for payment with the outstanding 2014 Series A Tax Allocation Bonds (Mission Bay South Redevelopment Project) (the "2014A Bonds"), 2016 Series B Tax Allocation Bonds (Mission Bay South Redevelopment Project) and 2016 Series C Tax Allocation Refunding Bonds (Mission Bay South Redevelopment Project). The 2023C Bonds and 2023D Bonds will be issued in accordance with the provisions of the Successor Agency's debt policy (the "Debt Policy"), adopted by Resolution 72-2014 of the Commission on August 19, 2014.

Bond Documents

Second Supplemental Indenture and Trustee of the 2014A Bonds

The proposed resolution approves the Second Supplemental Indenture of Trust ("Second Supplemental Indenture"), to be entered into by OCII and U.S. Bank Trust Company, National Association, as trustee (the "Trustee"), in the form attached as Exhibit C to the proposed resolution. The Second Supplemental

Indenture amends and supplements the Indenture of Trust dated as of March 1, 2014, by and between OCII and the Trustee, pursuant to which the 2014A Bonds were originally issued. Pursuant to the proposed resolution, the Executive Director, the Deputy Director of Finance and Administration and any of their designees (each being hereinafter referred to as an "Authorized Officer"), each acting alone, will be authorized and directed, subject to the Oversight Board's approval and DOF's non-objection to or approval of the Oversight Board's approval, to execute and deliver the Second Supplemental Indenture in said form. Any changes to the Second Supplemental Indenture must be approved by an Authorized Officer upon consultation with OCII's General Counsel and Bond Counsel, the approval of such additions or changes to be conclusively evidenced by the execution and delivery of the Second Supplemental Indenture by an Authorized Officer. The date, manner of payment, interest rate or rates, interest payment dates, series or subseries designations, denominations, form, registration, privileges, manner of execution, place of payment, terms of redemption and other terms of the 2023C Bonds and 2023D Bonds will be as provided in the Second Supplemental Indenture as finally executed.

Escrow Agreement and Trustee of the 2016D Bonds

The proposed resolution also approves an Escrow Agreement to be entered into by OCII and U.S. Bank Trust Company, National Association, as escrow agent and trustee of the 2016D Bonds, in the form attached as Exhibit D to the proposed resolution. The Escrow Agreement provides for the refunding of the 2016D Bonds. Pursuant to the proposed resolution, each Authorized Officer, acting alone, will be authorized and directed, subject to the Oversight Board's approval and DOF's non-objection to or approval of the Oversight Board's approval, to execute and deliver the Escrow Agreement in said form. Any changes to the Escrow Agreement must be approved by an Authorized Officer upon consultation with OCII's General Counsel and Bond Counsel, the approval of such additions or changes to be conclusively evidenced by the execution and delivery of the Escrow Agreement by an Authorized Officer. The approval of such additions or changes to be conclusively evidenced by the execution and delivery of the Escrow Agreement by an Authorized Officer.

Bond Purchase Contract and Underwriters

The proposed resolution also approves the Bond Purchase Contract to be entered into by OCII and Citigroup Global Markets Inc. and Wells Fargo Bank, National Association (collectively, the "Underwriters"), in the form attached as Exhibit E to the proposed resolution. The Bond Purchase Contract will be entered into on the date the Underwriters make an offer to purchase the 2023C Bonds and 2023D Bonds from OCII (commonly referred to as the "pricing date"). On the pricing date, the principal amount, the underwriters' discount, and the coupons and yields of the proposed the 2023C Bonds and 2023D Bonds will be determined (see Table 2, below for sequence). 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 purchasing the 2023C Bonds and 2023D 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.

Underwriter Selection

The proposed resolution also authorizes the selection of the Underwriters. OCII staff directed PFM California Advisors ("PFM"), OCII's municipal advisor for the 2023C Bonds and 2023D Bonds, to issue a Request for Proposals ("RFP") for bond underwriting services. On May 4, 2023, PFM issued an RFP and sent it to the members of the City and County of San Francisco's ("City") underwriter panel, giving the panel members nine (9) business days to respond. PFM received six (6) responses. A panel comprised of PFM, the City 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, structuring analysis, and fees. The panel evaluated experience based on tax allocation bond issuance experience.

The selection panel recommended Citibank Global Markets Inc. ("Citibank"), as the lead underwriter based on the strength of its sales and marketing capabilities and its experience serving as a leading senior manager in Redevelopment and Successor Agency bonds; Wells Fargo Bank, National Association ("Wells Fargo"), had similar strengths and offered substantial marketing depth.

Citibank will act as the book-running senior manager (lead underwriter) and Wells Fargo will act as co-manager. The underwriters will market, price and purchase the bonds with the senior manager in the leadership position. 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 panel established using a competitive selection process.

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 2: Next Steps

June 29, 2023	Oversight Board consideration of Commission resolution
June 30, 2023	Submission of approved Oversight Board resolution and related documents to DOF for review and approval
September 4, 2023	Final date for DOF determination regarding issuance (based on submission date of June 30, 2023, plus 65 days)
September 2023	After DOF approval, Commission consideration of preliminary official statement and other actions necessary for issuance
September 2023	Bond Pricing (timing depends upon market conditions)
October 2023	Bond Closing (generally 3 weeks after pricing)

Municipal Advisors Analysis

Attached to the proposed resolution as Exhibit A is an analysis of the potential savings that will accrue to OCII and to applicable taxing entities as a result of the use of the proceeds of the 2023C Bonds and 2023D Bonds to refund the 2016D Bonds (the "Debt Service Savings Analysis") based on market conditions as of May 5, 2023. The Debt Service Savings Analysis was prepared by PFM. The analysis also demonstrates that the 2023C Bonds and 2023D Bonds satisfy the requirements set forth in Section 34177.5(h) of the Health and Safety Code, including that OCII has made diligent efforts to ensure it obtains the lowest long-term cost of financing, and that the proposed bond issuance does not provide for any bullets, spikes or variable interest rates.[1]

California Environmental Quality Act

The issuance and sale of the new money tax allocation bonds do not constitute a "project," as defined under CEQA Guidelines Section 15378(b)(4), because the actions will not independently result in a physical change in the environment and are therefore not subject to environmental review under CEQA.

(Originated by John Daigle, Debt Manager)

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Thor Kaslofsky
Executive Director

[1] A bullet bond is a non-callable bond in which the principal is not paid until the bond matures as opposed to a "serial bond" which amortizes principal over the life of the bond. A "spike" as the name suggests, would be a debt service payment grossly in excess of the bond's lifetime average