OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-0202023-002

Agenda Item **Nos. 5(c) through 5(f)**
Meeting of March 21, 2023

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Thor Kaslofsky, 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) and 34177(a)(1)(B) of the California Health and Safety Code to finance (I) affordable housing obligations in an aggregate principal amount not to exceed $30,000,000 and (II) infrastructure obligations in the Transbay Redevelopment Project Area in an aggregate principal amount not-to-exceed $45,000,000, approving and directing the execution of a second supplement to indenture of trust and bond purchase contract, and approving other related documents and actions; affordable housing obligations; Transbay infrastructure obligations

Authorizing a first amendment to the legal services contract with Law Offices of Alexis S.M. Chiu for disclosure counsel services in connection with the issuance of tax allocation revenue bonds and tax allocation revenue refunding bonds to modify the scope of the contract to include an affordable housing bond series without increasing the not-to-exceed amount

Authorizing a first amendment to the legal services contract with Jones Hall, a Professional Law Corporation for bond and disclosure counsel services to modify the scope of the contract to include an affordable housing bond series without increasing the not-to-exceed amount

Authorizing a first amendment to the personal services contract with PFM California Advisors, LLC for financial advisor services to modify the scope of the contract to include an affordable housing bond series without increasing the not-to-exceed amount

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EXECUTIVE SUMMARY

The Office of Community Investment and Infrastructure ("OCII") proposes issuing two new money tax allocation bonds to fund affordable housing in an amount not exceeding $30 million and Transbay infrastructure improvements in an amount not exceeding $45 million. If approved, these bonds would be known, respectively, as the 2023 Series A Taxable Third Lien Tax Allocation Bond (Affordable Housing Projects) and the 2023 Series B Third Lien Tax Allocation Bond (Transbay Infrastructure Projects). As described in OCII's approved Fiscal Year 2023-24 annual budget, staff anticipates using the proceeds from the 2023A Bonds to fund affordable housing in Transbay (projects at Block 2 East, Block 2 West, and predevelopment costs for the affordable project at Block 4); and, using the proceeds of the 2023B bonds for infrastructure improvements in the Transbay Project Area (Block 3 Park project).

The need to fund Transbay housing emerged subsequent to Commission's approval, by Resolution Nos. 28-2022, 30-2022, and 31-2022 (September 20, 2022), of the bond-related service contracts for bond counsel (Jones Hall), disclosure counsel (Alexis S.M. Chiu) and financial advisor (PFM California Advisors). Therefore, staff proposes amendments to those contracts to modify the scope of each to include services related to the issuance of the 2023A affordable housing bonds. These amendments will not increase the maximum amounts payable under the respective contracts.

Issuing the proposed bonds requires the Commission to approve a resolution authorizing the proposed issuance, approving, and directing the execution of the Second 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, as further described in the proposed resolution.

After Commission approval, staff will request the Oversight Board review and approve the Commission-approved resolutions for the issuance of the 2023 Series A Bonds and 2023 Series B 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 anticipates returning to the Commission for approval of an official statement for the 2023A Bonds and 2023 Bonds prior to the sale of those bonds.

Staff recommends the Commission to authorize: 1) the issuance of the 2023 Series A and the 2023 Series B new money tax allocation bonds to fund affordable housing and Transbay infrastructure, respectively; and 2) the amendment of the three related service contracts described above.

DISCUSSION

The Fiscal Year 2023-24 budget authorizes OCII to issue new money taxable tax allocation bonds to fund affordable housing in an amount not-to-exceed $30 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

	2023A Bonds Affordable Houising	2023B Bonds Transbay Infrastructure	Total
SOURCES			
Bond Proceeds	26,865,000	40,490,000	67,355,000
Premium		1,893,466	1,893,466
Total Sources	**26,865,000**	**42,383,466**	**69,248,466**
USES			
Project Fund	24,000,000	37,000,000	61,000,000
Debt Service Reserve Fund	1,976,661	3,980,557	5,957,218
Cost of Issuance	199,428	300,572	500,000
Underwriter's Discount	96,632	145,640	242,272
Insurance	592,233	955,687	1,547,920
Other Uses of Funds	47	1,010	1,057
Total Uses	**26,865,000**	**42,383,466**	**69,248,466**

Monies in the Project Fund are used to fund affordable housing and infrastructure 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 $30 million (2023 Series A) and $45 million (2023 Series B) authorized by the Fiscal Year 2023-24 budget. The actual issuance amounts 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 and park construction (both long-term capital assets) is an appropriate use of long-term debt.

Enabling Authority

The proposed 2023 Series A and Series B 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 DOF, to issue bonds to fund its Affordable Housing Obligations in the Mission Bay, Transbay, and the Candlestick Point-Hunters Point Shipyard Project Areas and to fund infrastructure required by the Transbay Implementation Agreement.

OCII's Affordable Housing Obligations were established under certain agreements approved by DOF as enforceable obligations. These 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
- Transbay Implementation Agreement

Together, these agreements constitute OCII's Affordable Housing Obligation of approximately 4,223 affordable housing units. As of July 1, 2022, 1,961 units of OCII's Affordable Housing Obligation were complete, 140 were in construction, and 981 were in predevelopment. The proposed bonds would fund provide funding for 335 units, or 14 percent of OCII's remaining Affordable Housing Obligation.

Proposed Action

As a first step in issuing the proposed bonds, the Commission must approve a resolution conditionally authorizing the proposed issuance, approving and directing the execution of the Second 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 two series of new money tax allocation bonds: 2023 Series A (taxable) and 2023 B (tax-exempt) in amounts not-to-exceed $30 million and $45 million, respectively. 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 Commission on August 19, 2014, unless such compliance is waived in accordance with the Debt Policy. The proceeds of the Series A bonds are programmed for several affordable housing funding actions included in the Fiscal Year 2023-24 budget. Details on the proposed 2023 Series A affordable housing projects that may utilize these funds are summarized below.

Table 2: 2023 Series A- Affordable Housing Project Detail

Location	Name	Units
Transbay	Transbay 2 East	184
Transbay	Transbay 2 West	151
Transbay	Transbay 4 Affordable Housing Pre-Development	202
Total		**537**

The proceeds of the 2023 Series B bonds are programmed for the Block 3 Park in Transbay. If these projects are delayed or otherwise not ready for funding, OCII may apply the proceeds of the proposed bond issuance to other eligible projects that the Commission has approved in the annual budget.

Second Supplement to Indenture of Trust and Bond Purchase Agreement

The proposed resolution approves the form of the Second Supplement to Indenture of Trust ("Second Supplement"), which is a contract between OCII and U.S. Bank National Association, the trustee of the proposed bonds. The Second 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 2023A and 2023B Bonds. The Second 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 2023 Series A and 2023 Series B bonds must abide by the contractual terms established in the 2017A, 2017B, bond indenture, except as amended by the Second 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 2023A and 2023B Bonds, all of which will be determined at pricing (see Table 3, below for sequence). 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.

Underwriter Selection

The proposed resolution also authorizes the selection of Stifel Public Finance ("Stifel") and Backstrom, McCarley Berry & Co., LLC ("Backstrom") as underwriters for the proposed issuance. Stifel will act as the book-running senior manager (lead underwriter) and Backstrom McCarley Berry as the co-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 PFM California Advisors ("PFM"), the municipal advisors for the proposed bond issuance, to issue a Request for Proposals ("RFP") for bond underwriting services. On January 26, 2023, using a standard process for these types of RFP's, PFM issued an RFP and sent it to the members of the City's underwriter panel, giving the panel members nine (9) business days to respond. PFM received eleven (11) responses. A panel including PFM, 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, structuring analysis, and fees. The panel evaluated experience based on Redevelopment and Successor Agency tax allocation bond issuance experience. The panel also considered OCII's Small Business Enterprise contracting goals.

The selection panel recommended Stifel 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. The selection panel recommended Backstrom as the co-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 3: Next Steps

March 27	Oversight Board consideration of indenture and bond purchase agreement
March 28	Submission of approved Oversight Board resolution and related documents to DOF for review and approval
June 1, 2023	Final date for DOF determination regarding issuance
June 20	After DOF approval, Commission consideration of preliminary official statement and other actions necessary for issuance
July 10	Bond Pricing
July 24	Bond Closing

Municipal Advisors Analysis

Attached to the proposed resolution is the Municipal Advisors' Analysis by PFM. The Municipal Advisors' Analysis was prepared by PFM 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.

California Environmental Quality Act

Authorizing the first amendments to the contracts with Law Offices of Alexis S.M. Chiu, Jones Hall and PFM California Advisors is an administrative activity of government that will not result in direct or indirect physical changes in the environment and is not a "project" as defined by the California Environmental Quality Act ("CEQA") in CEQA Guidelines Section 15378(b)(5) and is therefore not subject to environmental review under CEQA.

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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Executive Director