OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

101-0092023-002

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

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Thor Kaslofsky, Executive Director

SUBJECT: Confirming the issuance of new money tax allocation bonds, as permitted in Sections 34177.7(a)(1)(A) and 34177.7(a)(1)(B) of the California Health and Safety Code to finance (1) affordable housing obligations in an aggregate principal amount not to exceed $30,000,000 and (2) infrastructure in the Transbay Project Area in an aggregate principal amount not to exceed $45,000,000, and approving preliminary and final official statements, a continuing disclosure certificate and other related documents and actions; affordable housing obligations; Transbay infrastructure obligations

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 fund 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) (the "2023 Series A Bonds") and the 2023 Series B Third Lien Tax Allocation Bond (Transbay Infrastructure Projects) (the "2023 Series B Bonds"). As described in OCII's Fiscal Year 2023-24 annual budget, staff anticipates using the net proceeds from the 2023 Series A 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 2023 Series B bonds for infrastructure improvements in the Transbay Project Area (Block 3 Park project). The Commission on Community Investment and Infrastructure ("Commission") previously approved the issuance of the 2023 Series A and 2023 Series B Bonds (together the "2023AB Bonds") pursuant to Resolution No. 02-2023, adopted March 21, 2023 (the "Bond Resolution").

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The next step in the issuance process for the 2023AB Bonds is for the Commission to approve a resolution confirming its actions in the Bond Resolution, approving the preliminary and final official statements for the 2023AB Bonds, as well as a continuing disclosure certificate for the 2023AB Bonds. The Board of Supervisors of the City and County of San Francisco is anticipated to approve the issuance of the 2023AB Bonds in connection with its approval of OCII's Fiscal Year 2023-24 annual budget on or about July 20, 2023 (the "Board of Supervisors Resolution"). Except for said approval by the Board of Supervisors and the action now before the Commission, OCII has received the necessary budget, legislative, and regulatory approvals to issue the 2023 Series A and 2023 Series B Bonds. The current resolution is the final action required of the Commission in the issuance of the for the 2023AB Bonds. OCII plans to issue the 2023AB Bonds prior to August 2023.

Staff recommends the Commission confirm the issuance of the 2023 Series A Bonds and the 2023 Series B Bonds to fund affordable housing and Transbay infrastructure, respectively.

DISCUSSION

Legislative Approvals

On April 18, 2023, the Commission approved, by Resolution 11-202, the OCII FY23-24 budget, which included the issuance of $30 million in taxable tax allocation bonds to fund affordable housing projects and $45 million to fund infrastructure in the Transbay Project Area. On March 21, 2023, the Commission, by the Bond Resolution, authorized the issuance of the 2023AB Bonds, approved a second supplement to the indenture of trust and a bond purchase contract. On April 7, 2023, the Oversight Board, by Resolution 03-2023, approved the issuance of the 2023AB Bonds. On April 13, 2023, the Department of Finance approved the issuance of the 2023AB Bonds. The Board of Supervisors is anticipated to approve the issuance of the 2023AB Bonds in connection with its approval of OCII's Fiscal Year 2023-24 annual budget on or about July 20, 2023. The proposed resolution is the final action to be taken by the Commission in connection with the issuance of the 2023AB Bonds. As required by Resolution 03-2023, the Bond Resolution, the 2023AB Bonds will not be issued until the Board of Supervisors Resolution has been adopted.

Proposed Action

As the final legislative step by the Commission in connection with the issuance of the 2023AB Bonds, the Commission must confirm its actions in the Bond Resolution, approve a preliminary and final official statement, as well as approve a continuing disclosure certificate.

Bond Issuance

The OCII FY23-24 budget included the issuance of up to $30 million in taxable tax allocation bonds to finance certain affordable housing projects and $45 million to finance a Transbay infrastructure project.

These maximum amounts were projected based on information available during OCII's budget process. Current estimates for sources and uses are described below.

Table 1: Sources and 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**

Resolution 21-2023 confirms the issuance of the full $75 million authorized by OCII's FY23-24 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 bond necessary to fund project costs.

Preliminary Offering Statement and Final Official Statement

The preliminary offering statement ("POS") is an informational disclosure document released prior to the sale of the 2023AB Bonds. Its purpose is to give detailed financial information about the issuer, in this case OCII, and the bond offering. The POS describes the 2023AB Bonds, their security and sources for payment, associated risk factors, and other pertinent financial matters. The final official statement ("OS") is released after the sale of the 2023AB Bonds. The OS is substantially in the form of the POS and is to be updated with any material information not otherwise disclosed in the POS and information that is market dependent such as the aggregate principal amount of the bonds, the interest rates on each maturity, the offering price, the redemption provisions, and delivery dates.

The distribution of the preliminary Official Statement and the final Official Statement is subject to the federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the preliminary Official Statement to include all facts that would be material to an investor in the 2023AB Bonds. Information is material if there is a substantial likelihood that the information would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell securities. The Securities and Exchange Commission ("SEC"), the agency with regulatory authority over compliance with the federal securities laws, has indicated that if a member of a legislative body, like the Commission, has knowledge of any facts or circumstances that an investor would want to know prior to investing in securities, like the 2023AB Bonds, whether relating to their repayment, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the preliminary Official Statement. The steps that a member of the Commission could take to fulfill this obligation include becoming familiar with the preliminary Official Statement and questioning staff and other members of the financing team about the disclosure of such facts.

Proposed 2023 Series A Bond Projects

The proceeds of the proposed 2023A Bonds are programmed for several affordable housing funding actions included in the FY 23-24 budget. Details on the proposed projects that may utilize these funds are summarized below.

Table 2: 2023A 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

If these projects are delayed or otherwise not ready for funding, OCII may apply the proceeds of the proposed 2023A Bonds to other affordable housing projects the Commission has approved in the annual budget to the extent permitted to be financed under Section 34177.7(a)(1)(A) of the California Health and Safety Code.

Proposed 2023 Series B Bond Project

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 to the extent permitted to be financed under Section 34177.7(a)(1)(B) of the California Health and Safety Code.

Security and Sources of Payment

A bond is a financial instrument where the borrower issues a loan to borrow money. The borrower, known as the issuer, borrows money from the purchaser of the bond. In exchange, the issuer pays the purchaser interest throughout the term of the bond. When the bond matures, the issuer pays the purchaser back the original amount borrowed from the purchaser, which is known as the principal. The revenue stream the issuer will use to make interest and principal payments is known as the credit. The 2023AB Bonds will be issued against the Redevelopment Property Tax Trust Fund or “RPTTF” Third Lien/SB107 credit (“Third Lien credit”).

The Third Lien credit includes the property tax increment generated by 10 of the 14 Project Areas, excluding property tax increment generated in Mission Bay North, Mission Bay South, Shipyard Phase 2, Candlestick Point, and property tax generated in the formerly state-owned parcels in Transbay, which are separately pledged for other projects. Bonds, including the 2023AB Bonds, issued against the Third Lien credit are subordinate to (i) the payment of debt service on outstanding loans entered into by the former Redevelopment of the City and County and San Francisco (the “Existing Senior Loan Agreements”), but only to the extent tax increment revenues are pledged therefor, and (ii) refunding bonds issued by the Successor Agency payable from the funds on deposit in RPTTF (the “RPTTF Subordinate credit”).

Associated Risk Factors

The risk factors described in the POS for the 2023AB Bonds are the normal risk factors associated with OCII bonds including, reduction in tax base and assumed values, development risk, and risk associated with natural disasters. The risk factors for the 2023AB Bonds have been updated to account for changes since OCII last issued bond in 2021. The updated risks include risks from:

<u>Updated Risks</u>

- Declines in assessed values.
- Climate change.
- Hazardous substances.

The description of the climate change risks are consistent with recent disclosures made by the City and County of San Francisco when issuing bonds. The description of risks associated with hazardous substances are consistent with disclosure for other OCII bond issuances.

Other Financial Matters

Following the recommendation of its primary underwriter, Stifel, Nicolaus & Company, Incorporated, OCII intends to self-designate and market the 2023 Series A Bonds as “Social Bonds.” Social Bonds use the proceeds of the issuance to finance projects with positive social outcomes. As the proceeds of the 2023A Bonds will primarily finance affordable housing, the issuance of these bonds is consistent with Goal 1: No Poverty, Goal 10: Reduced Inequalities, Goal 11:

Sustainable Cities and Communities of the United Nations 17 Sustainable Development Goals[1] as well as the International Capital Market Association guidance for issuing Social Bonds.[2] Investors who purchase financial vehicles with a social purpose, such as socially responsible investment funds or college endowment funds, seek investments such as Social Bonds. Over time, the increased demand for products like Social Bonds can result in a decrease in borrowing costs for the issuer.

The 2023 Series A Bonds would be OCII's second issuance of bonds designated as Social Bonds. The first OCII bonds with that designation were the 2021 Series A Taxable Third Lien Tax Allocation Bonds (Affordable Housing Projects) (Social Bonds) (the "2021 Series A Bonds").

The San Francisco Public Utilities Commission has experienced a decrease in borrowing costs for Green Bonds, which are bonds issued to support climate related or environmental produces, when compared to its standard bond issuances. The 2021A Bonds established OCII in the Social Bond space and, if the trajectory of Social Bonds follows that of Green Bonds, this and future issuances are likely to see reduced borrowing costs when compared to bonds that do not have this designation.

Continuing Disclosure Certificate

The Continuing Disclosure Certificate describes OCII's contractual obligation to disclose information regarding the 2023AB Bonds post-issuance. Although the Continuing Disclosure Certificate is a separate agreement, a form of the agreement is attached to the POS. The Continuing Disclosure Certificate for the 2023AB Bonds includes the requirement that OCII disclose all parity debt, the top ten taxpayers and assessed valuation in the Project Areas, debt service coverage, and assessment appeals. Consistent with OCII's Disclosure Policy, adopted by the Commission via Resolution 21-2021 on June 1, 2021, OCII will post all disclosures on Municipal Securities Rulemaking Board website, EMMA[3] as well as the Financial Information portion of the OCII website (https://sfocii.org/investor-relations.

NEXT STEPS

Pending approval of Resolution xx-2023, OCII will seek a credit rating for the 2023AB Bonds, prepare materials to market the 2023AB Bonds to the investor community, and complete the due diligence process, and seek approval of OCII's annual budget by the Board of Supervisors. Following these actions, OCII expects to issue and close the bonds prior to August 2023.

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[1] https://www.un.org/development/desa/disabilities/envision2030.html
[2] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and- handbooks/social-bond-principles-sbp/

Enabling Law

Redevelopment Dissolution Law grants Successor Agencies the authority to issue bonds, subject to review and approval by the Oversight Board and the Department of Finance, for the purposes defined in Sections 34177(a)(1)(A) and 34177(a)(1)(B) of the Health and Safety Code, which includes, the authority to issue bonds to finance affordable housing in certain Project Areas and infrastructure in the Transbay Project Area, and to repay these bonds with property tax increment.

California Environmental Quality Act

Authorization of bonds and contracting for services related to the sale and issuance of bonds is a Successor Agency fiscal activity that does not constitute a "Project," as defined by the California Environmental Quality Act ("CEQA") in CEQA Guidelines Section 15378(b) (4) and will not independently result in a physical change in the environment and is not subject to environmental review under CEQA.

(Originated by John Daigle, Debt Manager)

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