OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-0922023-002

Agenda Item **No.5(b)**
Meeting of November 7, 2023

MEMORANDUM

TO: Commission on Community Investment and Infrastructure

FROM: Thor Kaslofsky, Executive Director

SUBJECT: Confirming the issuance of special tax refunding bonds for Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 6 (Mission Bay South Public Improvements) in an aggregate principal amount not to exceed $130,000,000, approving a preliminary official statement and authorizing execution of a final official statement and approving other documents and actions properly relating thereto; Mission Bay South Redevelopment Project Area

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The Successor Agency to the Redevelopment Agency of the City and County of San Francisco ("Successor Agency" or "OCII") proposes issuing special tax refunding bonds for Community Facilities District No. 6 (Mission Bay South Public Improvements) in an aggregate principal amount not to exceed $130,000,000 to achieve a projected cost savings of $11.616 million on a net present value basis.

The Successor Agency, as successor to the former Redevelopment Agency of the City and County of San Francisco ("Former Redevelopment Agency"), and FOCIL-MB, LLC, as assignee of Catellus Development Corporation, are parties to a Mission Bay South Owner Participation Agreement, dated as of November 16, 1998 ("OPA").

The Commission of the Former Redevelopment Agency conducted proceedings under the Mello-Roos Community Facilities Act of 1982, as amended (the "Mello-Roos Act"), to form the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 6 (Mission Bay South Public Improvements) ("CFD").

Under the OPA, the Successor Agency is obligated, at the request of the Master Developer, to issue special tax bonds for the CFD from time to time to finance or refinance various public capital improvements within or in the vicinity of the CFD (the "Improvements").

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In 2005, the Former Redevelopment Agency issued two series of bonds (2005 Bonds") for the CFD to finance Improvements.

In 2012, under California Assembly Bill No. ABX1 26 (Chapter 5, Statutes of 2011-12, First Extraordinary Session) and Assembly Bill 1484 ("AB 1484"), as amended (the "Redevelopment Dissolution Law"), the Former Redevelopment Agency was dissolved.

In 2013, the Successor Agency issued three series of special tax bonds ("2013 Bonds"; together with the 2005 Bonds, "Prior Bonds") for the CFD to finance and refinance Improvements.

Due to favorable interest rates, the outstanding Prior Bonds can be refunded on a current basis, resulting in substantial savings in interest costs and thereby additional capacity for the financing of Improvements.

To achieve interest cost savings, which will generate additional capacity to finance the Improvements pursuant to the OPA, OCII proposes issuing tax-exempt bonds to refund the outstanding Prior Bonds. These bonds would be known as the Successor Agency to the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 6 (Mission Bay South Public Improvements) Special Tax Refunding Bonds, Series 2023 ("2023 Bonds"). The proceeds from the 2023 Bonds would be used to refund the outstanding Prior Bonds, to fund the debt service reserve requirement and to pay costs of issuing the 2023 Bonds.

Pursuant to Resolution No. 27-2023, adopted on September 5, 2023 (the "Successor Agency Bond Resolution"), the Commission on Community Investment and Infrastructure ("Commission") determined that it would be prudent in the management of the Successor Agency's fiscal affairs to issue refunding bonds to refund the Prior Bonds, and authorized the issuance of bonds designated the "Successor Agency to the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 6 (Mission Bay South Public Improvements) Special Tax Refunding Bonds, Series 2023" (the "Series 2023 Bonds") in the principal amount not to exceed one hundred thirty million dollars ($130,000,000) under the authority of the Mello-Roos Act, Article 11, commencing with Section 53580, of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Refunding Law"), and, as applicable, Section 34177.5(a)(1) of the California Health and Safety Code.

Pursuant to the Successor Agency Bond Resolution, the Commission also approved the execution of certain documents relating to the Series 2023 Bonds, including a fiscal agent agreement pursuant to which the Series 2023 Bonds will be issued, and requested, to the extent required by the Redevelopment Dissolution Law, that the Oversight Board approve the issuance of the Series 2023 Bonds by the Successor Agency. In the Successor Agency Bond Resolution, the Commission determined that the Series 2023 Bonds will be payable only from special taxes levied in the CFD, and will not be secured by or payable from property tax revenues deposited into the Redevelopment Property Tax Trust Fund established pursuant to the Redevelopment Dissolution Law.

Pursuant to Resolution No. 06-2023 adopted on September 11, 2023, the Oversight Board approved, to the extent required by Section 34180(b) and Section 34177.5(a)(1) of the Redevelopment Dissolution Law, the issuance of the Series 2023 Bonds by the Successor Agency, and directed the Successor Agency to transmit its resolution to DOF.

On October 23, 2023, DOF informed the Successor Agency that based on its review of Oversight Board Resolution No. 06-2023, DOF approved the bond refunding.

The next step in the issuance process for the 2023 Bonds is for the Commission to approve a resolution confirming its actions in the Successor Agency Bond Resolution, approving the preliminary and final official statements for the 2023 Bonds, and authorizing execution of the final official statement and a continuing disclosure certificate for the 2023 Bonds. Except for the action now before the Commission, OCII has received the necessary budget, legislative, and regulatory approvals to issue the 2023 Bonds. The current resolution is the final action required of the Commission in the issuance of the 2023 Bonds. OCII plans to issue the 2023 Bonds prior to December 2023.

Staff recommends the Commission confirm the issuance of the 2023 Bonds, approve a preliminary and authorize execution of a final official statement for the 2023 Bonds, and approve other related documents and actions.

DISCUSSION

Legislative Approvals; DOF Action

On April 18, 2023, the Commission approved, by Resolution 11-2023, the OCII FY23-24 budget, which included the expenditure of funds necessary for the issuance of tax-exempt refunding special tax bonds to refund outstanding Community Facilities District No. 6 (Mission Bay South Public Improvements). On September 5, 2023, the Commission, by the Successor Agency Bond Resolution, authorized the issuance of the 2023 Bonds and approved a fiscal agent agreement, escrow deposit and trust agreement and bond purchase contract. On September 11, 2023, the Oversight Board, by Resolution 06-2023, approved the issuance of the 2023 Bonds. On October 23, 2023, the Department of Finance approved the issuance of the 2023 Bonds. The proposed resolution is the final action to be taken by the Commission in connection with the issuance of the 2023 Bonds.

Proposed Action

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

Bond Issuance

The actual principal amount of the 2023 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 2023 Bonds necessary to refund the Prior Bonds, fund a debt service reserve fund (in cash or through the purchase of a reserve policy) and pay related costs of issuance (which may include bond insurance premiums). Current estimates for sources and uses are described below.

Table 1: Sources and Uses

	Total
Sources	
Bond Proceeds	$129,245,000
Net Premium	5,279,985
Prior Bonds Debt Service Reserve Funds	13,140,680
Total Sources	$147,665,665
Uses	
Refunding Escrow Deposit	$134,134,143
Debt Service Reserve Fund	12,552,750
Cost of Issuance	503,726
Underwriters’ Discount	475,046
Total Uses	$147,665,665

Monies in the escrow fund will be used to refund the outstanding Prior 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 special tax bonds, like the 2023 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; and 3) 125% of average annual debt service. Depending on market conditions, OCII may be able to satisfy all or a portion of the requirement for the debt service reserve fund for the 2023 Bonds with the purchase of a reserve insurance policy, instead of depositing cash in the fund. The cost of issuance includes the cost of a credit rating, cost of consultants, such as municipal advisor, bond counsel, disclosure counsel, and the special tax consultant, as well as the cost of OCII staff time required to issue the 2023 Bonds. The underwriters’ discount is the underwriters’ fee to sell the 2023 Bonds.

Proposed Issuance and Estimated Savings Results

OCII proposes to issue one series of refunding special tax bonds to refund in full all outstanding Prior Bonds, and after the issuance of the 2023 Bonds, no other CFD bonds will be outstanding. The tax-exempt 2023 Bonds will be issued with a not-to-exceed principal amount of $130 million and will be issued as current interest bonds. These bonds will be secured by levying special taxes only on property owners within the CFD, which is located in the Mission Bay South Project Area. These special taxes are in addition to regular property taxes collected from these owners. The special taxes have been collected from these owners since 2002. Interest and principal of the 2023 Bonds will be paid exclusively from these special taxes and not from any other sources. No redevelopment tax increment has ever been used to pay debt service on the Prior Bonds, and the Successor Agency is not pledging to the 2023 Bonds property tax revenues deposited into the Redevelopment Property Tax Trust Fund established pursuant to the Redevelopment Dissolution Law. The 2023 Bonds will be issued in accordance with the provisions of the Successor Agency's debt policy (the "Debt Policy"), adopted by Resolution 32-2021 of the Commission on October 5, 2021.

The following is the rationale for approving the issuance of the 2023 Bonds:

- **Interest Rate Savings.** The net present value savings achieved through the refunding are significant, estimated at $11.616 million on a net present value basis, which amounts to approximately 8.75% of the par of the refunded bonds.
- **Financial Efficiency.** There are limited windows (twice a year) during which the existing 2005 Bonds can be refinanced on a tax-exempt basis because they can only be redeemed on interest payment dates (February 1 and August 1). To meet this next payment window, notification of redemption must be given by January 2, 2024 to existing bond holders. The 2013 Bonds can be redeemed on any date on a tax-exempt basis.

Credit Rating

Based on the strong credit characteristics of the CFD and in an effort to reduce interest cost and maximize savings, OCII applied for and received an investment grade rating of 'A-' with a stable outlook from S&P Global ("S&P") for the 2023 Bonds. S&P is the most active rating agency in the State of California for land secured debt. The Prior Bonds are unrated securities and therefore, this is the inaugural rating for the CFD.

Bond Documents

The proposed resolution approves the forms of certain documents described below, and authorizes the Executive Director, the Deputy Executive Director, Finance and Administration, or their designees, to execute and deliver the documents, with changes to the approved forms authorized by them.

Preliminary Official Statement and Final Official Statement

The preliminary official statement ("POS") is an informational disclosure document released prior to the sale of the 2023 Bonds. Its purpose is to give detailed financial information about the issuer, in this case OCII, and the bond offering. The POS describes the 2023 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 2023 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 2023 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 2023 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.

Key sections of the POS include:

- "THE 2023 BONDS," which describes the terms of the 2023 Bonds.
- "SECURITY AND SOURCES OF PAYMENT FOR THE 2023 BONDS," which describes the security for the 2023 Bonds, namely the special taxes levied and collected in the CFD.
- "THE DISTRICT," which describes the status of property ownership and development in the CFD and summarizes the history of special tax delinquencies.
- "SPECIAL RISK FACTORS," which summarizes certain risk factors arising from the ownership of the 2023 Bonds.

Continuing Disclosure Certificate

The Continuing Disclosure Certificate describes OCII's contractual obligation to disclose information regarding the 2023 Bonds post-issuance. Although the Continuing Disclosure Certificate is a stand-alone obligation, a form of the agreement is attached to the POS. The Continuing Disclosure Certificate for the 2023 Bonds includes the requirement that OCII disclose all parity debt, debt service reserve balance, special tax delinquency information, prepayments, special tax levy, assessed valuation and value-to-lien ratios in the CFD. Consistent with OCII's Disclosure Policy, adopted by the Commission via Resolution 21-2021 on June 1, 2021, OCII will post all disclosures on the Municipal Securities Rulemaking Board website, EMMA, as well as the Financial Information portion of the OCII website (https://sfocii.org/investorrelations).

NEXT STEPS

Pending approval by the Commission of Resolution xx-2023, OCII will prepare materials to market the 2023 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 December 2023.

Enabling Authority

The 2023 Bonds would be issued pursuant to the Mello-Roos Act, Article 11, commencing with Section 53580, of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Refunding Law"), and, as applicable, the authority of Section 34177.5(a)(1) of the California Health and Safety Code.

California Environmental Quality Act ("CEQA")

The issuance and sale of the 2023 Bonds do not constitute a "project," as defined under CEQA Guidelines Section 15378(b)(4), because the actions are fiscal activities of government which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment and are therefore not subject to environmental review under CEQA.

(Originated by John Daigle, Debt Manager)

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