CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

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Controller

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Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Capital Planning Committee

FROM: Nadia Sesay, Director
Controller's Office of Public Finance

SUBJECT: Seismic Safety Loan Program Eligible Use Expansion Proposal

DATE: July 7, 2016

I respectfully request that the Capital Planning Committee consider for review and recommendation to the Board of Supervisors (the "Board") the ordinance calling and providing for submitting a special election to be held in the City and County of San Francisco (the "City") for the purpose of submitting to San Francisco voters to amend Proposition A approved by voters in November 1992 to authorize additional purposes for providing general obligation bonded indebtedness loans for affordable housing. The proposed amendment to Proposition A would expand the eligible use of the Seismic Safety Loan Program (SSLP) for projects beyond the original scope of the program adopted in the 1992 Proposition A, by adding eligibility to projects that would improve the City's stock of affordable housing.

Background

As adopted in 1992, the SSLP general obligation bond program authorized $350,000,000 intended to support the seismic strengthening of unreinforced masonry buildings (UMBs). Per the SSLP the $350,000,000 total was allocated into two separate loan programs; a $150,000,000 below-market rate (BMR) loan program for seismic improvements to affordable housing UMBs, and a $200,000,000 market rate (MR) loan program intended for commercial or other UMBs. Currently, $260,700,000 of the original SSLP financing authority remains for future bond issuances.

Below Market Rate Program (BMR): The BMR program was structured so that borrowers would pay back principal and 1/3 of the City's borrowing costs, leaving a net impact to the property tax levy of 2/3 of interest cost generated by the loan amount. Additionally, $60,000,000 of the BMR program allocation was allowed to be deferred for 20 or 55 years, which results in an additional short term impact to the property tax rolls.

Of the $150,000,000 originally authorized for the BMR loan program, $45,315,450 has been issued to date, all of which have been deferred loans. This leaves $104,684,550 in available funding authority, of which $14,684,550 is eligible to be deferred.

Market Rate Program (MR): The MR program was structured as a pass-through, with borrowers paying the full borrowing cost to the City, plus an additional 1% interest to cover administration costs.

Of the $200,000,000 originally authorized for the MR program, $44,000,000 of bonds have been issued to date, leaving $156,000,000 in available funding authority for MR loans. .

Historically, there has been very modest demand for SSLP loans under the established program and its scope of eligible uses, largely as a result of a lack of supply in remaining UMBs in need of seismic improvements in the City.

Proposed Amendment

The proposed amendment to Proposition A would allow the use of the Seismic Safety Loan Program (SSLP) for projects beyond the scope of the original program as described in the 1992 Proposition A, by adding the eligibility to finance the cost to acquire, improve, and rehabilitate multi-unit residential and mixed use buildings, and to convert those buildings to permanently affordable housing, under the same interest rate and term applicable to affordable housing in the 1992 legislation. This proposed amendment applies to the remaining SSLP bond authorization for both the BMR and MR programs. If the eligible uses for the SSLP bond program were to be expanded, there would be no change in the total amount of funds authorized. However, an expansion of eligible project types may accelerate the utilization of the remaining authority under the SSLP bond program.

Financing Assumptions

The SSLP program is legally capped at $35,000,000 of total bond issuances per fiscal year. As the BMR loan program is already aimed at affordable housing and provides the most favorable terms, it is reasonable to expect that new affordable housing-related projects would first draw upon the BMR program. As previously stated, any future utilization of the BMR program would result in an impact to the annual property tax levy assessed on property owners in the City.

Assuming there is maximum demand for BMR loans under the proposed expanded eligible use provisions, the remaining $104,684,550 in authorization for the BMR program would be exhausted in no sooner than 3 years.

As shown in Attachment A, under the maximum demand scenario, the total net cost to the City would be approximately $78,560,000 over 22 years, with an average debt service payment of approximately $3,600,000 using an assumed interest rate of 7% for taxable general obligation bonds. The estimated annual impact to the property tax levy would be approximately 0.0012%, or $7.21 per $600,000 of Net Assessed Value. Any loans made under the MR program would not have a net impact to the City's annual property tax levy. The most recent sale of the City's tax-exempt general obligation bonds resulted in a true interest cost of 2.57%, and taxable general obligation bonds typically sell for an interest rate roughly 1% higher than tax-exempt bonds, which would translate to a current taxable rate of approximately 3.57%.

SSLP Program	Bond Amount ($ millions)	Avg. Annual Impact to Tax Levy* (FY17 - 38)	Range of Annual Impact to Tax Levy* (FY17 - 38)
Below Market Rate	$104.7 M	$7.21	$0.19 - $13.24
Market Rate	$156.0 M	N/A	N/A
Total Authorization	**$260.7 M**		

*Projected fiscal impact to a property assessed at $600,000.

Impact to the Capital Plan

Future bond issuances under the SSLP program are not included in the City's 10-Year Capital Plan, as bonds are issued in response to loan applications which are not predictable. If new loan applications were to materialize based on the expanded eligible use provisions of this amendment, and bonds were to be issued for those loans in the near term, it will have a minor impact to future capital planning efforts for proposed bond programs. This impact would be similar to the impact of a typical general obligation bond issuance for a project of roughly $43,450,000.

In connection with this ordinance, a resolution determining and declaring that public interest and necessity demand the funding of improvement of City facilities to meet critical health and safety needs in San Francisco was introduced at the Tuesday, June 19, 2016 Board of Supervisors meeting.

Your consideration of this matter is greatly appreciated. Please contact me at 554-5956 if you have any questions. Thank you.

Attachment A

City and County of San Francisco
$104,680,000 Taxable General Obligation Bonds
Seismic Safety Loan Program

	Aggregate Debt Service			Borrower Loan Repayment			Net Property Tax Impact			Property Tax Per $600k NAV	
Fiscal Year	**Principal**	**Interest**	**Debt Service**	**Principal**	**Interest**	**Debt Service**	**Principal**	**Interest**	**Debt Service**	**Tax Rate**	**Tax Levy Amt.**
2017	510,000	1,020,833	1,530,833	296,025	197,511	493,536	213,975	823,322	**1,037,297**	0.00049%	2.93
2018	1,435,000	3,435,133	4,870,133	1,046,908	807,398	1,854,306	388,092	2,627,736	**3,015,827**	0.00137%	8.11
2019	2,415,000	5,775,350	8,190,350	2,001,735	1,596,525	3,598,260	413,265	4,178,825	**4,592,090**	0.00197%	11.67
2020	2,955,000	7,022,400	9,977,400	2,512,366	2,021,852	4,534,217	442,634	5,000,548	**5,443,183**	0.00223%	13.24
2021	3,165,000	6,815,550	9,980,550	2,690,899	1,963,230	4,654,129	474,101	4,852,320	**5,326,421**	0.00211%	12.51
2022	3,385,000	6,594,000	9,979,000	2,877,334	1,900,442	4,777,776	507,666	4,693,558	**5,201,224**	0.00199%	11.81
2023	3,625,000	6,357,050	9,982,050	3,081,672	1,833,304	4,914,976	543,328	4,523,746	**5,067,074**	0.00187%	11.11
2024	3,880,000	6,103,300	9,983,300	3,298,911	1,761,399	5,060,310	581,089	4,341,901	**4,922,990**	0.00176%	10.43
2025	4,145,000	5,831,700	9,976,700	3,524,053	1,684,424	5,208,477	620,947	4,147,276	**4,768,223**	0.00165%	9.76
2026	4,435,000	5,541,550	9,976,550	3,770,000	1,602,196	5,372,196	665,000	3,939,354	**4,604,354**	0.00154%	9.11
2027	4,750,000	5,231,100	9,981,100	4,038,848	1,514,229	5,553,078	711,152	3,716,871	**4,428,022**	0.00143%	8.46
2028	5,080,000	4,898,600	9,978,600	4,318,501	1,419,990	5,738,491	761,499	3,478,610	**4,240,109**	0.00132%	7.83
2029	5,435,000	4,543,000	9,978,000	4,621,056	1,319,225	5,940,281	813,944	3,223,775	**4,037,719**	0.00121%	7.20
2030	5,820,000	4,162,550	9,982,550	4,947,318	1,211,400	6,158,718	872,682	2,951,150	**3,823,832**	0.00111%	6.59
2031	6,230,000	3,755,150	9,985,150	5,296,482	1,095,963	6,392,445	933,518	2,659,187	**3,592,705**	0.00101%	5.98
2032	6,665,000	3,319,050	9,984,050	5,666,451	972,378	6,638,829	998,549	2,346,672	**3,345,221**	0.00091%	5.38
2033	7,130,000	2,852,500	9,982,500	6,062,223	840,161	6,902,384	1,067,777	2,012,339	**3,080,116**	0.00081%	4.79
2034	7,625,000	2,353,400	9,978,400	6,481,703	698,709	7,180,412	1,143,297	1,654,691	**2,797,988**	0.00071%	4.20
2035	8,160,000	1,819,650	9,979,650	6,936,987	547,469	7,484,456	1,223,013	1,272,181	**2,495,194**	0.00061%	3.62
2036	8,735,000	1,248,450	9,983,450	7,425,977	385,606	7,811,583	1,309,023	862,844	**2,171,867**	0.00051%	3.05
2037	6,010,000	637,000	6,647,000	6,010,000	212,333	6,222,333		424,667	**424,667**	0.00010%	0.58
2038	3,090,000	216,300	3,306,300	3,090,000	72,100	3,162,100		144,200	**144,200**	0.00003%	0.19
Total	**104,680,000**	**89,533,617**	**194,213,617**	**89,995,450**	**25,657,843**	**115,653,293**	**14,684,550**	**63,875,774**	**78,560,324**		
Average									**3,570,924**	**0.00122%**	**7.21**

Assumptions:

3 Issuances starting in FY 2017
Interest Rate of 7%
20-Year Term
Deferred loan of $14,684,550