



## MEMORANDUM

October 4, 2024

**TO:** MEMBERS, PORT COMMISSION  
Hon. Kimberly Brandon, President  
Hon. Gail Gilman, Vice President  
Hon. Willie Adams  
Hon. Stephen Engblom  
Hon. Steven Lee

**FROM:** Elaine Forbes  
Executive Director

**SUBJECT:** Request for approval of a Recommendation to the Board of Supervisors to refund the 2013 Certificates of Participation (COPs) in the aggregate principal amount not to exceed twenty-three million two-hundred forty-five thousand dollars (\$23,245,000) with an interest rate not to exceed five percent (5%) per annum.

**DIRECTOR'S RECOMMENDATION:** Approve the Attached Resolution No. 24-45

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### EXECUTIVE SUMMARY

On May 1, 2012, the Board of Supervisors authorized the Port to execute and deliver Certificates of Participation for various Port projects in an aggregate principal amount not to exceed \$45,000,000 (Prior COPs). The Prior COPs are currently refundable, and Staff conservatively estimates a refunding would result in average annual debt service savings of approximately \$125k or a total gross cost savings of \$2.26 million through 2040.

### STRATEGIC PLAN OBJECTIVES

This refinancing of the Prior COPs will support the following Strategic Plan Objective:

Economic Recovery:

At current market rates the refunding is expected to generate an estimated average annual debt service savings of approximately \$125k, or a total gross cost savings of \$2.26 million through 2040.

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The refinancing lowers the Port’s total operating costs thereby enhancing overall financial strength. The Port can use these debt service savings to provide additional financing for the delivery of capital projects or other strategic needs.

**BACKGROUND**

On May 1, 2012, the Board of Supervisors authorized the Port to execute and deliver Certificates of Participation to finance the construction of the Pier 27 Cruise Terminal and other Port projects in an aggregate principal amount not to exceed \$45,000,000 (Prior COPs). The Prior COPs are technically an obligation of the City and County of San Francisco and are managed by the Office of Public Finance (OPF). The Port backfills the Prior COP's debt service payments. This allows the Port to take advantage of the lower cost of funds given the City’s higher credit rating.

As of July 1, 2024, the Prior COPs have an outstanding principal balance of \$24,025,000 with a bond coupon rate of 5%. The Port’s financial advisors and OPF conservatively estimate the current market interest rate is 4.66%. Staff proposes taking advantage of the interest rate environment by refunding the Prior COPs to reduce interest costs to the Port. It is conservatively estimated that the Port will save an average of approximately \$125k annually or a total gross cost savings of \$2.26 million through 2040.

**DEBT POLICY AND OUTSTANDING DEBT**

The Prior COPs are only a portion of the Port’s debt portfolio, totaling \$66.47 million as of July 1, 2024, and as shown in Table 1 below:

**Table 1. Port of San Francisco Outstanding Debt Obligations**

<b>Date</b>	<b>Debt Issuance</b>	<b>Original Amount</b>	<b>Outstanding As of 7/1/24</b>
Feb 3, 2010/ Feb 27, 2020	Port Revenue Bonds, Series 2010 Refunded in 2020	\$36,650,000	\$18,910,000
Oct 31, 2013	Certificates of Participation, Series 2013, for Port Projects*	\$37,700,000	24,025,000
May 29, 2014	Port Revenue Bonds, Series 2014	\$22,675,000	17,795,000
Apr 30, 2019	Cal Division of Boating and Waterways loans for South Beach Harbor**	\$6,143,932	4,724,403
<i>Subtotal</i>		<i>\$103,168,932</i>	<i>\$65,454,403</i>
Incurring before June 2009	Cal Division of Boating and Waterways loans for Hyde Street Harbor**	\$3,500,000	\$1,017,394
<b>Grand Total</b>		<b>\$106,668,932</b>	<b>\$66,471,797</b>

\* Issued by the City and County of San Francisco on behalf of the Port. Port is responsible for repayment.

\*\* Debt assumed by the Port as part of the acquisition on April 30, 2019 of South Beach Harbor from the Office of Community Investment and Infrastructure, successor agency to the San Francisco Redevelopment Agency.

The Port’s debt is governed by the Port’s Municipal Debt Policy (Debt Policy), most recently confirmed on August 8, 2023 in resolution 23-38. The Port’s Debt Policy objectives are: (i) to maintain unfettered, cost-effective access to the capital markets through prudent

debt management policies; (ii) provide financial support for the Port's objectives under the Port's Strategic Plan and the Port 10-Year Capital Plan (Capital Plan) through Commission debt; (iii) provide guidelines for the overall management of Commission debt; and (iv) achieve the highest practical credit ratings and the lowest possible costs commensurate with a prudent level of risk.

The Debt Policy provides for the issuance of refunding debt to refinance previously issued and currently outstanding debt to achieve debt service savings. The Debt Policy also specifies that refunding bonds issued solely to achieve debt service savings shall not be issued unless: (i) the estimated net present value of the savings, as determined by the Port's financial advisors, is at least 3% of the principal amount of the refunded bonds; and (ii) it is unlikely, in the judgment of the Port's financial advisors, that a future refunding would realize greater savings.

Port staff, in consultation with OPF and our financial advisor, Backstrom MA, have recently determined that the Port can realize significant debt service savings by refinancing the Prior COPs, NPV savings are conservatively projected at \$1.4M, or 6.08% of refunded par.

## **NEXT STEPS**

Upon Port Commission approval, Port staff will work with OPF to seek the Board of Supervisors' approval to issue the refunding COPs (Refunding COPs) and approval of the associated appropriation ordinance and documents. Port and OPF staff also will have the following major tasks to complete:

- A. Preliminary Official Statement (POS) and Continuing Disclosure Certificate*
  - Together with disclosure counsel and other members of the financing team, finalize disclosure and marketing documents.
- B. Board of Supervisors and Budget and Finance Committee*
  - Introduce Financing and Supplemental Appropriation Ordinances for consideration.
- C. COPs Sale and Pricing*
  - The underwriters will pre-market the Port's COPs to investors.
  - OPF staff, together with our financial advisors, will negotiate interest rates and prices for the purchase of the COPs by the underwriters.
- D. Closing*
  - The financing team will execute the final financing documents.
  - OPF will deliver the COPs to the underwriters on the closing date in return for the purchase price ("proceeds"). The proceeds will be delivered to the escrow agent and deposited into the escrow account(s) established to redeem the 2013 COPs.

<b>Financing Schedule (Subject to change)</b>	
October 22, 2024	Introduction of the COP documents and the appropriation ordinance at the Board of Supervisors
December 2024	Board of Supervisors Approval Process
Late December 2024	Mayor's Signature authorizing Financing and Supplemental Appropriation Ordinances
March 2025	Meetings with rating agencies
April 2025	Post Preliminary Official Statement Pricing Post Final OS Closing

## **RECOMMENDATION**

Port staff recommend that the Port Commission approve the attached resolution recommending to the Board of Supervisors the refunding of the Prior COPs in order to generate debt service savings, currently conservatively estimated at an average of approximately \$125k annually, or a total gross cost savings of \$2.26 million through 2040.

Prepared by: Karolina Bufka, Debt Manager

For: Nate Cruz, Deputy Director  
Finance and Administration

**PORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO**

**RESOLUTION NO. 24-45**

- WHEREAS, Pursuant to Resolution No. 152-12 adopted by the Board of Supervisors of the City and County of San Francisco (the “Board of Supervisors” or the “Board”) on May 1, 2012, it was determined to authorize the execution and delivery of certificates of participation (the “2013 Certificates”) in an amount not to exceed \$45,000,000, and, in connection therewith, the form of a Property Lease, a Project Lease, and a Trust Agreement to be entered into by the City; and
- WHEREAS, The Resolution authorized the execution and delivery of the 2013 Certificates to partially finance the costs of various improvements to Port facilities; and
- WHEREAS, Pursuant to Resolution No 300-13 adopted by the Board of Supervisors on July 30, 2013, it was determined to provide for the sale of the 2013 Certificates evidencing undivided, proportionate interests in the right to receive certain rental payments to be made by the City under a Project Lease to finance capital projects at the Port of San Francisco; and
- WHEREAS, The 2013 Certificates are currently outstanding in the principal amount of \$24,025,000; and
- WHEREAS, Port staff, in consultation with the Controller’s Office of Public Finance staff, has determined that the Port can realize significant debt service savings by refinancing the 2013 Certificates; and
- WHEREAS, The Port Commission adopted its Municipal Debt Policy (the “Debt Policy”) on July 14, 2009, and, on August 8, 2023, adopted its most recent update to the Debt Policy; and
- WHEREAS, The purpose of the Debt Policy is to provide comprehensive guidelines for the issuance and management of the Port Commission’s bonds and other debt obligations; and
- WHEREAS, The Debt Policy provides for the issuance of refunding bonds to refinance previously issued and outstanding debt in order to achieve debt service savings, and for certain other specified reasons; and
- WHEREAS, The Debt Policy also specifies that refunding bonds issued solely to achieve debt service savings shall not be issued unless: (i) the estimated net present value of the savings, as determined by the Port’s financial advisors, is at least 3% of the principal amount of the refunded bonds; and (ii) it is unlikely,

in the judgment of the Port's financial advisors, that a future refunding would realize greater savings; and

WHEREAS, Port staff, in consultation with the Office of Public Finance and its financial advisor (the "Municipal Advisor"), has determined that the Port can realize significant debt service savings by refinancing the Port's 2013 Certificates through the execution and delivery of Refunding Certificates of Participation ("Refunding Certificates"); and

WHEREAS, The Municipal Advisor has estimated that under current market conditions, a refinancing would generate net present value savings above the Debt Policy threshold for the issuance of Refunding Certificates, in the estimated amount of 6.08%; and

WHEREAS, The Municipal Advisor has estimated that under current market conditions base rental values under the Project Lease would not exceed \$1,995,500; and

WHEREAS, In connection with the execution and delivery of the Refunding Certificates, the Project Lease shall not be extended beyond its original termination date; and

WHEREAS, The Municipal Advisor is of the opinion (assuming current market conditions) that it is unlikely that the Port could achieve significant additional savings by delaying the refunding beyond April 2025; now, therefore, be it

RESOLVED, That the Port Commission hereby recommends to the Board of Supervisors that it approves the refunding of the 2013 Certificates through the execution and delivery of Refunding Certificates, and the associated appropriation ordinance and documents.

***I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of October 8, 2024.***

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Secretary