CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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April 14, 2016

TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 20, 2016 Budget and Finance Sub-Committee Meeting

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Item 3 File 16-0299	Department: Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves a contract between the San Francisco Municipal Transportation Agency (SFMTA) and Skidata, Inc. (Skidata) for Skidata to install and maintain Parking Access and Revenue Control System (PARCS) equipment in SFMTA's Central Monitoring Station and 22 parking facilities, including 21 parking garages and one parking lot. The term of the contract is from approximately May 2016, following Board of Supervisors approval, through June 30, 2029, a term of approximately 13 years and 2 months. The contract amount is not-to-exceed $19,848,007.

Key Points

- The SFMTA's PARCS is an automated system (a) controlling access to SFMTA's parking garages and lots, and (b) collecting parking revenues and parking tax from users. The existing PARCS was installed in 22 SFMTA parking facilities, including 21 parking garages and one parking lot. SFMTA selected Skidata through a competitive Request for Proposals process to install and maintain a new PARCS.
- The new PARCS will be a centrally networked system that can be monitored remotely by SFMTA staff. The parking access and revenue control systems installed in SFMTA's 22 parking facilities will be integrated and remotely monitored by the Central Monitoring Station for customer support and revenue security. Each of the 22 parking facilities also has a stand-alone server. The new parking access and revenue control system is compatible with SFMTA's SF*park* program, which manages traffic congestion by demand-based rate setting for on-street metered and off-street parking. The new equipment will be installed over three fiscal years from FY 2016-17 through FY 2018-19; extended warranties for the PARCS will extend through FY 2027-28.
- The SFMTA Board of Directors will review the proposed contract with Skidata to the April 19, 2016 SFMTA Board of Directors meeting.

Fiscal Impact

- Under the proposed contract, Skidata will begin delivering PARCS equipment to SFMTA, beginning with the Central Monitoring Station, in FY 2015-16. Skidata will deliver and install PARCS equipment in the Central Monitoring Station and 21 parking facilities from FY 2015-16 through FY 2018-19 at a cost of $13,587,349; and provide warranties and maintenance beginning in FY 2018-19 through FY 2027-28 at a cost of $6,260,658, for total contract costs of $19,848,007 over the 13 year and 2 month term of the contract.
- PARCS costs will be paid from SFMTA's parking revenues.

Recommendation

- Approve the proposed resolution, pending approval by the SFMTA Board of Directors at their April 19, 2016 meeting.

MANDATE STATEMENT

City Charter Section 9.118(b) requires Board of Supervisors approval for contracts that have a term of more than ten years or expenditures of $10 million or more.

BACKGROUND

The San Francisco Municipal Transportation Agency's (SFMTA) Parking Access and Revenue Control System (PARCS) is an automated system (a) controlling access to SFMTA's parking garages and lots, and (b) collecting parking revenues and parking tax from users. The existing PARCS was installed in 22 SFMTA parking facilities, including 21 parking garages and one parking lot.

SFMTA advertised a Request for Proposals (RFP) in January 2015 for a contractor to replace the existing PARCS in 22 SFMTA facilities. SFMTA received four responses to the RFP, of which Skidata was scored by the selection panel[1] as the best proposal based on the written proposal and oral presentation.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a contract between SFMTA and Skidata, Inc. (Skidata) for Skidata to install and maintain PARCS equipment in SFMTA's Central Monitoring Station and 22 parking facilities, including 21 parking garages and one parking lot. The term of the contract is from approximately May 2016, following Board of Supervisors approval, through June 30, 2029, a term of approximately 13 years and 2 months. The contract amount is not-to-exceed $19,848,007.

The new PARCS will be a centrally networked system that can be monitored remotely by SFMTA staff. The parking access and revenue control systems installed in SFMTA's 22 parking facilities will be integrated and remotely monitored by the Central Monitoring Station for customer support and revenue security. Each of the 22 parking facilities also has a stand-alone server. The new parking access and revenue control system is compatible with SFMTA's SF*park* program, which manages traffic congestion by demand-based rate setting for on-street metered and off-street parking.

Under the contract, Skidata will deliver and install parking access and revenue control equipment to SFMTA's Central Monitoring Station and the 22 parking garages in phases. Parking access and revenue control equipment will be installed on the following schedule and shown in Table 2 below:

- FY 2016-17 in the Central Monitoring Station and seven parking garages;
- FY 2017-18 in nine parking garages; and
- FY 2018-19 in five parking garages and one parking lot.

[1] The selection panel consisted of staff from SFMTA, Recreation and Park Department and the City of Oakland.

FISCAL IMPACT

Under the proposed contract, Skidata will begin delivering PARCS equipment to SFMTA, beginning with the Central Monitoring Station, in FY 2015-16. Skidata will deliver and install PARCS equipment in the Central Monitoring Station and 21 parking facilities from FY 2015-16 through FY 2018-19 at a cost of $13,587,349; and provide warranties and maintenance beginning in FY 2018-19 through FY 2027-28 at a cost of $6,260,658, for total contract costs of $19,848,007 over the 13 year and 2 month term of the contract, as shown in Table 1 below. Funding for the contract will come from SFMTA's parking facilities' revenues.

Table 1: Skidata Contract Expenditures FY 2015-16 through FY 2027-28

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20 to FY 2027-28	Total
PARCS Equipment						
Delivery	$302,896	$4,228,240	$2,010,928	$930,261		$7,472,325
Installation, testing		2,178,519	2,658,435	1,278,070		6,115,024
Subtotal, Equipment	302,896	6,406,759	4,669,363	2,208,331	0	13,587,349
Warranties and Maintenance						
Years 1 through 3				348,046	696,092	1,044,138
Extended					5,216,520	5,216,520
Subtotal, Warranties	0	0	0	348,046	5,912,612	6,260,658
Total	**$302,896**	**$6,406,759**	**$4,669,363**	**$2,556,377**	**$5,912,612**	**$19,848,007**

Source: Proposed Contract between SFMTA and Skidata

Table 2 below shows the budget for installation of PARCS equipment in the Central Monitoring Station and 22 SFTMA parking facilities.

Table 2: Installation and Testing of PARCS Equipment FY 2015-16 - FY 2018-19 [a]

Location	Total Cost
FY 2016-17 Installation	
Central Monitoring Station	$1,225,306
Polk Bush	354,411
Vallejo	333,282
North Beach	345,961
Lombard	371,487
Pierce	102,179
Portsmouth	709,934
Moscone	576,730
Total, FY 2016-17	4,019,290
FY 2017-18 Installation	-
Civic Center	925,405
Sutter Stockton	1,151,161
Ellis O'Farrell	812,687
Golden Gateway	903,267
St. Mary's	817,250
Japan Center	644,996
Japan Center Annex	355,806
Performing Arts	722,858
Union Square	728,572
Total FY 2017-18	7,062,002
FY 2018-19 Installation	-
SFGH Garage	683,889
SFGH Surface	181,198
16th & Hoff	219,978
Mission Bartlett	566,638
5th & Mission	1,655,812
7th & Harrison	242,680
Total FY 2018-19	3,550,196
Total Installation and Testing	**$14,631,487**
Extended Warranty	5,216,520
Total	**$19,848,007**

Source: Proposed Contract between SFMTA and Skidata

[a] The expenditures by fiscal year in Table 2 differ from the expenditures by fiscal year in Table 1 due to differences in the timing of equipment delivery and warranty to each parking facility.

The SFMTA will submit a resolution to approve the proposed contract with Skidata to the April 19, 2016 SFMTA Board of Directors meeting. Therefore, approval of the proposed resolution is contingent on the SFMTA Board of Directors approval of the proposed contract.

RECOMMENDATION

Approve the proposed resolution, pending approval by the SFMTA Board of Directors at their April 19, 2016 meeting.

Item 5 File 16-0322	Departments: Mayor's Office of Housing and Community Development (MOHCD) Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution authorizing the execution and performance of an amendment to a long-term ground lease of 99 years between the City and County of San Francisco and Laurel Gardens of Bethel A.M.E. Church, LP (Bethel), a California limited partnership, for real property located at 1555 Turk Street, in connection with the refinancing and rehabilitation of 52 units of affordable housing for low and very low income individuals and families for an annual rent amount of up to $950,000 per year, including a mandatory $15,000 per year base rent.

Key Points

- On October 1, 1998, the former San Francisco Redevelopment Agency enter into a 99-year ground lease with Bethel for the 1.47 acre property located at 1555 Turk Street to provide 52-units of affordable housing for low and very low income individuals and families. On February 1, 2012, the Redevelopment Agency was dissolved and MOHCD assumed responsibility for the Redevelopment Agency's housing properties, including leases.
- The proposed amendment to the existing ground lease would (a) update provisions in the lease to comply with current MOHCD reporting requirements, and (b) allow the 1555 Turk Street property to be refinanced and rehabilitated.

Fiscal Impact

- Bethel has applied to Citibank for an up to $13,000,000 private loan to refinance and rehabilitate all 52 units at 1555 Turk Street. Bethel will pay the bank refinance fees, use the loan proceeds to pay off four existing loans and fund construction costs of $6,000,000 for total costs of approximately $11,722,845. The net difference of up to $1,277,155 will be split one-third to Bethel and two-thirds to the City, which the City would hold in a reserve account to be drawn by Bethel for affordable housing purposes, subject to approval by MOHCD.
- On March 17, 2016, an appraisal report for the 1.47 acre 1555 Turk Street property determined the As-Is Market Value was $9,500,000 or $148 per square foot, which assumes the property is restricted for use as affordable housing. The maximum annual rent to be paid to the City is $950,000, or10% of the appraised value.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 23.30 provides that the Board of Supervisors, by resolution, may authorize the lease of real property owned by the City.

BACKGROUND

As part of the Western Addition A-2 Redevelopment Project Area, on October 1, 1998, the former San Francisco Redevelopment Agency enter into a 99-year ground lease with Laurel Gardens of Bethel A.M.E. Church, LP (Bethel), a California limited partnership, for the 1.47 acre property located at 1555 Turk Street for $30,000 per year for Bethel to provide affordable housing. The property included the 52-unit Laurel Garden Apartments, which were developed, owned and operated by Bethel as affordable rental housing for low and very low income individuals and families[1]. On February 1, 2012, the Redevelopment Agency was dissolved[2], such that the City, through the Mayor's Office of Housing and Community Development (MOHCD), is now responsible for the Redevelopment Agency's housing properties, including the rights and obligations with respect to existing leases.

DETAILS OF PROPOSED LEGISLATION

Resolution authorizing the execution and performance of an amendment to a long-term ground lease of 99 years between the City and County of San Francisco and Laurel Gardens of Bethel A.M.E. Church, LP, a California limited partnership, for real property located at 1555 Turk Street, in connection with the refinancing and rehabilitation of 52 units of affordable housing for low and very low income individuals and families for an annual rent amount of up to $950,000 per year, including a mandatory $15,000 per year base rent.

Under the proposed resolution, the Board of Supervisors would authorize the Director of Property and the Director of the MOHCD to finalize negotiations and execute an amended lease with Bethel. The Board of Supervisors would also authorize the Director of MOHCD, with the City Attorney, to amend and/or modify the amended lease, if such changes do not decrease City revenues or otherwise materially increase the City's obligations of liabilities.

The major provisions of the proposed lease amendment include:

- City would receive minimum of $15,000 annual base rent payments, which would be considered an expense of the project. According to Ms. Faith Kirkpatrick, Project Manager at MOHCD, $15,000 is the current MOHCD standard for ground lease annual base rent payments for affordable housing projects.

- Sets the maximum annual rent for the Laurel Gardens Apartments at $950,000 per year.

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[1] Households with incomes at or below 60% of the Area Median Income.

[2] In accordance with California State Assembly Bill No. 1X26 (AB26), as amended by the California State Assembly Bill No 1484 (AB1484).

- Splits the $13,000,000 Citibank loan proceeds, after total expenses, or a net amount of approximately $1,277,155, to provide up to one-third to Bethel ($422,000) and two-thirds to the City ($855,155), which the City would hold in a reserve account that can only be drawn by Bethel for affordable housing purposes, as approved by MOHCD. Given that the cash proceeds that Bethel will receive from their private bank refinance are unrestricted, by holding these funds in reserve, MOHCD will have the ability to review and approve Bethel's proposed expenditures to ensure that they are used for affordable housing purposes.

- Splits the annual cash flow after expenses to provide one-third to Bethel and two-thirds to the City. Based on current projections of approximately $320,000 annual cash flow after expenses in 2018, the first year after the rehabilitation is completed, Bethel would receive one-third or $106,667 and the City would receive two-thirds or $213,333. This is consistent with current MOHCD terms in other ground leases, but this language was not included in the original Bethel ground lease terms. The revenues received from this project will fund MOHCD's ongoing monitoring and preservation of affordable housing and additional development of affordable housing through MOHCD loans to developers.

- Requires Bethel to provide Annual Monitoring Reports to MOHCD which includes financial reporting on the property, to verify the annual residual receipts rent payments to the City. Ms. Kirkpatrick advises that Bethel currently provides Annual Monitoring Reports to MOHCD, however, this requirement was included in the original loan to Bethel, which will be paid off in the proposed refinancing. This Annual Monitoring Reports requirement will now be part of the amended ground lease.

The proposed amendment to the existing ground lease would (a) update provisions in the lease to comply with current MOHCD reporting requirements, and (b) allow the 1555 Turk Street property to be refinanced and rehabilitated.

FISCAL IMPACT

Ms. Kirkpatrick advises that Bethel has applied to Citibank, a private bank, for an up to $13,000,000 mortgage loan to refinance and rehabilitate all 52 units of affordable housing at 1555 Turk Street. Bethel will pay the bank refinance fees, use the loan proceeds to pay off four existing loans: (1) original MOHCD loan for $1,039,189; (2) one original Bank of America loan for $1,192,726; (3) one Northern California Community Loan Fund loan for $1,168,750; and (4) one Bethel loan for $356,392, and then fund construction improvements of approximately $6,000,000 for total costs of approximately $11,722,845. The net difference of approximately $1,277,155 ($13 million loan less $11,722,845 total costs) would provide one-third to Bethel ($422,000) and two-thirds to the City ($855,155), which the City would hold in a reserve account to be drawn by Bethel for affordable housing purposes, subject to approval by MOHCD.

With their loan proceeds, Bethel will provide approximately $6,000,000 of improvements to the 1555 Turk Street property, including repair and repaint exterior buildings, new playgrounds and landscaping, replace all windows, upgrade the community room, repair the heating, ventilation, air conditioning (HVAC), install solar thermal heating, upgrade the electrical and fire safety systems, renovate all the kitchens and bathrooms and related ADA upgrades. The costs also include the temporary relocation of existing tenants. These improvements are anticipated to take 14 months.

On March 17, 2016, Colliers International, a private valuation firm, issued an appraisal report for the subject 1.47 acre (64,046 square feet) 1555 Turk Street property for Bethel, which determined the As-Is Market Value of the leased fee property was $9,500,000 or $148 per square foot. This assumes the property is restricted for use as affordable housing. As noted in the proposed resolution, the maximum annual rent to be paid to the City is $950,000, or 10% of the appraised value.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 16-0276**	**Department:** Port Commission (Port)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve (1) the 2nd amendment to the Master Lease between the Port and AMB Pier One; and (2) the 1st amendment to the sublease between AMB Pier One and the Port.

Key Points

- AMB Property renovated Pier One under a development agreement with the Port, completing renovations in 2001. AMB Property assigned the Master Lease to its wholly-owned subsidiary, AMB Pier One, in 2000. AMB Property subsequently merged with and was renamed Prologis. Under a 50-year Master Lease Agreement, AMB Pier One subleased space to (a) Prologis, (b) the Port, and (c) third party tenants. AMB Pier One pays the Port base rent of $1.3 million per year over the 50-year Master Lease term and participation rent for all sublease rent exceeding $37 per square foot on average.
- Under the proposed 2nd amendment to the Master Lease, AMB Pier One would (a) have the option to extend by 15 years, extending the lease end-date from August 1, 2049 to August 1, 2064; and (b) pay the Port participation rent of $500,000. Prologis would invest $10 million to renovate the space that it subleases from AMB Pier One under the Master Lease.
- Under the proposed 1st amendment to the sublease between AMB Pier One and the Port, the Port would (1) a right to terminate the sublease as of February 1, 2031, and (2) an option to extend the sublease for an additional 15 years to expire on August 1, 2064, which coincides with the expiration date of the AMB Master Lease.

Fiscal Impact

- AMB Pier One paid the Port $6,808,538 in total rent over the previous five-year period from 2011 to 2015, including $100,823 in participation rent. The Port did not receive participation rent in 2013, 2014, or 2015 because no sublease tenants paid rent above $40 per square foot in those years.
- The estimated rent to be paid by AMB Pier One to the Port is $7,207,035 over the next five-year period from 2016 through 2020, which includes approximately $500,000 in guaranteed participation rent.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In 1999, the Port of San Francisco (Port) entered into a development agreement and Master Lease with AMB Property, LP[1] (AMB Property) for the development and long-term leasing of Pier One by AMB Property. Under the development agreement, AMB Property, LP renovated the Pier, shed, bulkhead, water and land surface area, and all existing buildings and structures located at the Pier. Renovation of Pier One was completed in 2001.

Under the Master Lease, AMB Property leased Pier One as the master tenant for a 50-year term expiring on August 1, 2049. AMB Property and the Port also had a sublease agreement for the Port to sublease office space at Pier One to be used by the Port for its headquarters. The sublease between AMB Property and the Port expires on August 1, 2049 to coincide with the expiration of the Master Lease. Both the Master Lease agreement and the Port sublease agreement were approved by the Board of Supervisors in 1999.

Under the Master Lease, AMB Property pays annual rent to the Port of $1,341,543 per year over the 50-year term of the lease.[2] In addition, AMB Property pays participation rent to the Port, which is calculated as 50% of rent from any subleases leased at a rate of more than an average of $37 per square foot.[3]

In 2000, the Port and AMB Property executed the first amendment to the Master Lease to make revisions regarding historic tax credits, participation in sale proceeds, and rent under the Port sublease. This amendment to the Master Lease was not subject to approval by the Board of Supervisors.

In 2000, the Port also consented to AMB Property assignment of its interest in the Master Lease to its wholly-owned subsidiary, AMB Pier One LLC (AMB Pier One). In 2011, the general partner of AMB Property, AMB Property Corporation, merged with Prologis, Inc. As a result of the merger, AMB Property changed its name to Prologis, LP (Prologis). As a result, AMB Pier One is the wholly-owned subsidiary of Prologis.

[1] In 2011, AMB merged with Prologis, a company specializing in industrial real estate.

[2] Rent of $1,341,543 to the Port was based on a formula in which AMB paid all construction costs to develop Pier One and received a developer's return on equity of 11 percent on allowable construction costs. According to the formula, rent of $1,341,543 equaled rental income to AMB from subtenants of $5,583,670 less the developer's return on equity of $4,242,127 (equal to 11 percent of allowable construction costs of $38,564,698).

[3] Under the lease's participation rent structure, any net rent from subleases above an average of $37 per square foot is divided equally between the Port and AMB.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve (1) the second amendment to the Master Lease between the Port and AMB Pier One; and (2) the first amendment to the sublease between AMB Pier One and the Port.

Under the existing Master Lease, AMB Pier One leases 151,606 square feet at Pier One as the master tenant for a 50-year term, commencing in 1999 and expiring on August 1, 2049. AMB Pier One has the following subleases:

1. Prologis subleases approximately 51,259 square feet of office space in Bay 1A and Bay 1B of Pier One for its headquarters;
2. The Port subleases approximately 52,304 square feet of office space for its headquarters;
3. Third party tenants sublease approximately 48,043 square feet of space.

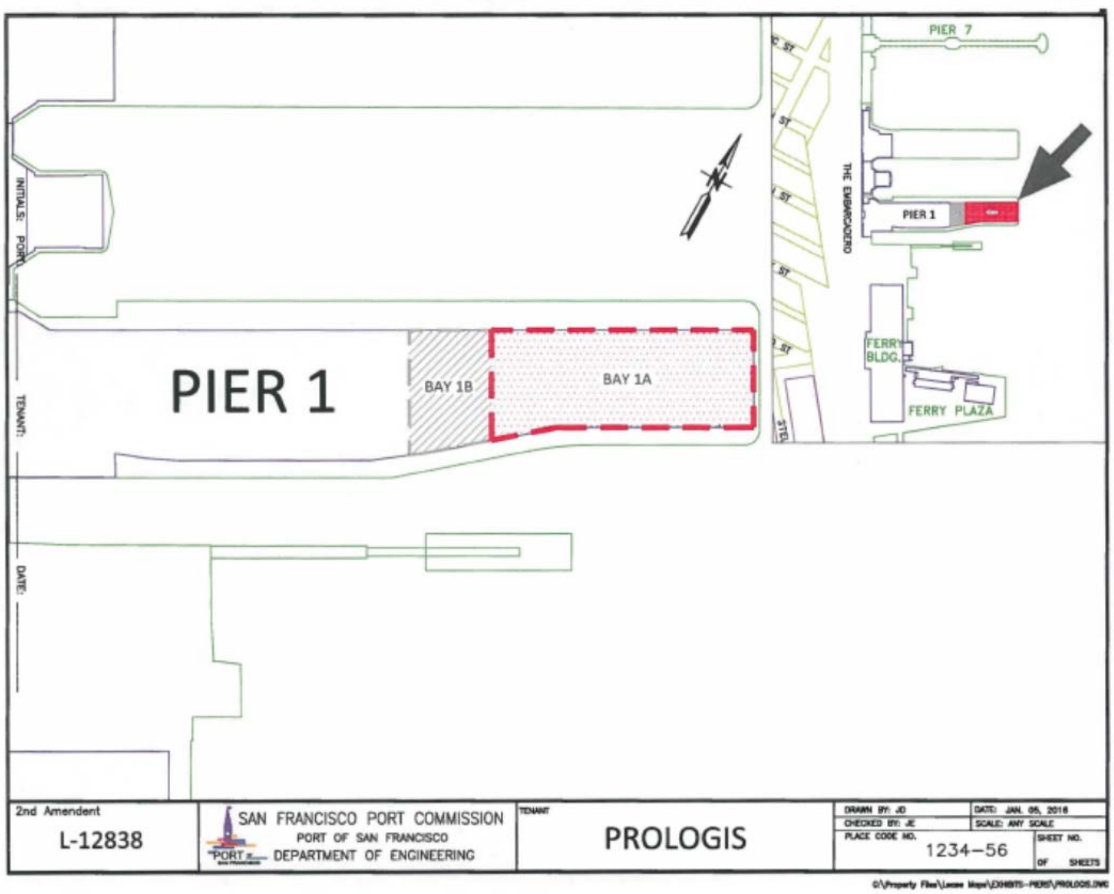
2nd Amendment to Master Lease

AMB Pier One requested the Port to provide an option to extend the Master Lease by an additional 15 years, potentially extending the lease termination date from August 1, 2049 to August 1, 2064.

Under the proposed 2nd amendment, AMB Pier One and Prologis would amend the Prologis sublease to give Prologis options to extend its sublease to August 1, 2064. Prologis would invest $10 million for the renovation of Bay 1A, of which at least $2 million would be dedicated to core and shell upgrades, including increasing restroom capacity and replacing major components of the HVAC (heating, ventilation, air conditioning) system. In order to renovate Bay 1A, Prologis would temporarily consolidate its offices in Bay 1B. Once the renovations are complete, Prologis would move back to Bay 1A and actively market Bay 1B to third party subtenants.

Exhibit 1 below shows Bay 1A and Bay 1B at Pier One.

Exhibit 1: Location of Bay 1A and Bay 1B at Pier One



The proposed 2nd amendment:

- Gives AMB Pier One the option to extend the Master Lease by 15 years from August 2, 2049 to August 1, 2064;
- Increases rent paid by AMB Pier One to the Port from the current rent of $1,341,543 to fair market rent at the time that the option to extend the Master Lease is exercised;
- Requires AMB Pier One to pay the Port $500,000 in additional participation rent; and
- Requires AMB Pier One to institute flood protection measures in the case of sea level rise**.**
- Requires AMB Pier One to continue to pay 50% of the net income to the Port during the option period.
- Requires AMB Pier One to continue to be responsible for all management, leasing, maintenance, repair, capital and insurance for the property during the option period.

Additional Participation Rent

Prologis currently subleases 51,259 square feet of space in Bay 1A and Bay 1B under the sublease with AMB Pier One. Under the proposed 2nd amendment, Prologis would sublease 40,000 square feet of space in Bay 1A and relinquish 11,259 square feet of space in Bay 1B, once renovations are completed. According to Mr. Jay Edwards, Senior Real Property Manager at the Port, because Prologis will relinquish its space in Bay 1B, reducing its square footage by 11,259 square feet, which will then be marketed to new subtenants, the Port would be at risk of losing participation rent during the time it takes to sublease the space. To offset potential lost participation rent, the Port negotiated with AMB Pier One to pay the Port $500,000 in additional participation rent.[4] Additional participation rent will be paid in quarterly installments of $31,250 over a four year period.

Pier Flood Protection Measures

If at any time during the Master Lease term, the Port's Chief Harbor Engineer determines that there is a need to institute flood protection measures to protect Pier One from a significant risk of flooding or other damage related to sea level rise, AMB Pier will be responsible to implement flood protection measures. These flood protection measures may include: (1) temporary public access closures, sandbagging or other temporary measures, (2) waterproofing or relocation of utility infrastructure, or (3) short perimeter walls. The Port shall not be responsible for any cost related to flood protection measures. AMB Pier One may also propose additional improvements that are not within the current scope of the potential flood protection measures at their own cost, such as raising first floor elevations or rebuilding pier structure elements to address sea level rise. AMB Pier One will develop any plans for flood protection measures, which are subject to approval by the Chief Harbor Engineer.

1st Amendment to Port Sublease

The proposed resolution will also amend the sublease agreement between AMB Pier One and the Port to provide the Port (1) a right to terminate the sublease as of February 1, 2031, and (2) an option to extend the sublease for an additional 15 years to expire on August 1, 2064, which coincides with the expiration date of the AMB Pier One Master Lease.

FISCAL IMPACT

As shown in Table 1 below, AMB Pier One paid the Port $6,808,538 in total rent from 2011 to 2015, including $100,823 in participation rent. The Port did not receive participation rent in 2013, 2014, or 2015 because no sublease tenants paid rent above $40 per square foot in those years.

[4] The additional $500,000 in participation rent is based on the anticipated fair market value of $67 per square foot net of operating expenses. The Port determined this amount by comparing other leases it holds at Piers 3 and 5.

Table 1: Total Rent Paid to Port by AMB Pier One through 2015

Year	Ground Rent	Participation Rent	Total
2011	$1,341,543	$43,605	$1,385,148
2012	1,341,543	57,218	1,398,761
2013	1,341,543	0	1,341,543
2014	1,341,543	0	1,341,543
2015	1,341,543	0	1,341,543
Subtotal	**$ 6,707,715**	**$100,823**	**$6,808,538**

As shown in Table 2 below, the estimated rent to be paid by AMB Pier One to the Port is $7,207,035 from 2016 through 2020, which includes approximately $500,000 in guaranteed participation rent. According to Mr. Edwards, the Port can only forecast rents paid through the year 2020 because changes in the commercial real estate market prevent forecasting rents beyond this period.

Table 2: Total Rent to be Paid by AMB Pier One to Port through 2020

Year	Ground Rent	Participation Rent	Total
2016	$1,341,543	$0	$1,341,543
2017	1,341,543	49,932	1,391,475
2018	1,341,543	149,796	1,491,339
2019	1,341,543	149,796	1,491,339
2020	1,341,543	149,796	1,491,339
Subtotal	**$6,707,715**	**$499,320**	**$7,207,035**

RECOMMENDATION

Approve the proposed resolution.

Item 7 **File 16-0274**	**Department:** Public Works Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution authorizes a lease between the City, as tenant, and 1030 Polk Associates, LP, as landlord, to rent 9,900 square feet of industrial space at 2000 Oakdale Avenue to locate the Public Works Materials Testing Laboratory. The proposed lease is for ten years from May 2016 to May 2026, with three 5-year options to extend to May 2041. The proposed resolution states that tenant improvement costs are an estimated $3,200,000.

Key Points

- The Department of Public Works (Public Works) Materials Testing Laboratory is currently located in a building owned by the San Francisco Public Utilities Commission (SFPUC) at 2099 Kearny Street. The Materials Testing Laboratory must relocate from 2099 Kearny Street because SFPUC plans to occupy the location to install a new hydraulic pump station for the SFPUC's water system.
- Under the proposed lease, the landlord will construct tenant improvements at an estimated cost of $2,799,000, of which the landlord pays $99,000 and the City pays $2,700,000, which are a General Fund cost. The City may request additional tenant improvements up to $700,000, which will be amortized by the landlord at an interest rate of 8 percent per year.
- The proposed lease provides the City the right of first refusal if the landlord decides to sell the property but does not require a property appraisal prior to the City's offer to purchase.

Fiscal Impact

- Estimated rent paid by the City to the landlord and the City's operating expenses over the initial ten-year lease term are $2,229,258.

Policy Consideration

- In order to limit the impact of the costs of tenant improvements on the General Fund, the proposed resolution should be amended to (a) delete reference to estimated tenant improvements of $3,200,000, and to (b) add a resolve clause, stating that (i) the City's costs for tenant improvements will not exceed $2,700,000; and (b) the City will not amortize any of the costs for tenant improvements.

Recommendations

- Amended the proposed resolution to state that the City shall conduct an appraisal of the fair market value of 2000 Oakdale Avenue prior to making an offer to purchase the property in the event that the landlord offers the property for sale.
- Amend the proposed resolution to delete reference to estimated tenant improvements of $3,200,000.
- Amend the proposed resolution to add a resolve clause, stating that (a) the City's costs for tenant improvements will not exceed $2,700,000; and (b) the City will not amortize any of the costs for tenant improvements.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of $5,000 or more and where the City is the tenant is subject to Board of Supervisors approval.

BACKGROUND

The Department of Public Works (Public Works) Materials Testing Laboratory is currently located in a building owned by the San Francisco Public Utilities Commission (SFPUC) at 2099 Kearny Street. The Materials Testing Laboratory is accredited by the American Association of State Highway and Transportation Officials to provide quality assurance to Public Works construction projects, including testing of the quality and integrity of materials used in construction of streets and infrastructure. The Materials Testing Laboratory provides services to the San Francisco Municipal Transportation Agency, Recreation and Park Department, the Port, and the San Francisco Public Utilities Commission (SFPUC).

The Materials Testing Laboratory must relocate from 2099 Kearny Street because SFPUC plans to occupy the location to install a new hydraulic pump station for the SFPUC's water system.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes a lease between the City, as tenant, and 1030 Polk Associates, LP (Polk Associates), as landlord, to rent industrial space at 2000 Oakdale Avenue to locate the Public Works Materials Testing Laboratory. The terms of the proposed lease are summarized in Table 1 below.

Table 1: Proposed Lease for 2000 Oakdale Avenue

Square Footage	9,900 square feet
Initial Term	Ten years from the date of Board of Supervisors and Mayor approval in approximately May 2016 to May 2026
Options to Extend	Three 5-year options to extend, totaling 15 years, through approximately May 2041
Rent During Initial Term	$150,000 (approximately $15.15 per square foot)
Annual Rent Adjustments	Based on Consumer Price Index (CPI) No less than 3% and no more than 5%
Rent on Exercise of Options	95% of Fair Market Rent Fair Market Rent is determined by mutual agreement If parties cannot agree on Fair Market Rent, rent will be determined by up to three appraisals
Utilities, Security, Janitorial, Pest, Waste Management	Responsibility of the City

Source: Proposed Lease

Use of Space

Currently, the Materials Testing Laboratory occupies 6,430 square feet of building space at 2099 Kearny Street. Public Works will operating expenses, including equipment maintenance, to PUC in FY 2015-16 of approximately $358,100 but does not pay rent.

Under the proposed lease, the Materials Testing Laboratory would occupy 9,900 square feet of space at 2000 Oakdale Avenue, an increase of 3,470 square feet or 54 percent. According to Mr. Bruce Robertson, Public Works Finance Manager, the increase in space is necessary to meet Americans with Disabilities Act (ADA) and other code requirements, as shown in Table 2 below.

Table 2: Increase in Materials Testing Laboratory Square Footage Under Proposed Lease

	Existing (s.f.)	Proposed (s.f.)	Difference (s.f.)	Explanation
Interior Space				
Lab Space	4,430	6,500	2,070	Additional space to meet current code requirements, ADA accessibility requirements, both around equipment and path of travel, occupant load and life safety/exiting requirements
Storage	2,000	2,100	100	Minor additional storage will accommodate record storage requirements
LEED Required Shower/Lockers	0	600	600	Code requirements (Does not exist at existing facility)
Mechanical Room	0	700	700	Code requirements (Does not exist at existing facility)
Total:	**6,430**	**9,900**	**3,470**	
Exterior Space				
Secured (Fenced) Parking	2,490	2,490	0	Parking exists at current PUC location, secured within the yard. The proposed space is meeting the same requirement
Total:	**2,490**	**2,490**	**0**	

Source: Public Works

Tenant Improvements

Under the proposed lease, the landlord will construct ADA improvements and base building improvements, such as fire and safety improvements to comply with building codes and improvements to the building systems, at the landlord's expense. The landlord will also construct tenant improvements to meet the City's requirements for the Materials Testing Laboratory and contribute $99,000 toward the cost of these tenant improvements. The City will reimburse the landlord for all costs of the tenant improvements, with the exception of the $99,000 landlord contribution.

The Materials Testing Laboratory tenant improvements include floor plan alterations, new work stations, installation of laboratory equipment, and improvements to comply with the City's Green Building Ordinance.

Right of First Refusal

If the landlord decides to sell 2000 Oakdale Avenue, the City has the right of first refusal to purchase the property at 97 percent of the purchase price that the property will be offered to the real estate market. The City shall have 30 days to offer at the purchase price or counter offer at a lesser price. Any purchase agreement by the City for 2000 Oakdale Avenue is subject to Board of Supervisors approval.

Because the proposed lease does not specify that the City's offer to purchase 2000 Oakdale Avenue will be based on an appraisal of the property's fair market value, the proposed lease should be amended to state that the City shall conduct an appraisal of the fair market value prior to making an offer to purchase.

FISCAL IMPACT

Estimated rent paid by the City to the landlord and the City's operating expenses over the initial ten-year lease term are $2,229,258, as shown in Table 2 below. Rent and operating expenses are budgeted in the Public Works Overhead Fund.

Table 2: Rent and Operating Expenses Paid by the City[a]

Tenant Improvement Period	
Year One (10 months)	$62,500
Annual Base Rent	
Year One (2 months)	25,000
Year Two	154,500
Year Three	159,135
Year Four	163,909
Year Five	168,826
Year Six	173,891
Year Seven	179,108
Year Eight	184,481
Year Nine	190,016
Year Ten	195,716
Total Rent	1,657,082
Operating Expenses (utilities, janitorial, security, etc.)	572,176
Total	**$2,229,258**

[a] Assumes annual rent increases of 3 percent based on CPI. Total rent and operating paid by the City to the landlord would increase to $2,396,360 over 10 years based on CPI adjustments of 5 percent.

The estimated design, permitting and construction costs are $2,799,000, of which the City's share is $2,700,000, as shown in Table 3 below.

Table 3: The City's Tenant Improvement Costs

Estimated Construction Costs	$2,649,000
Design Fees	130,000
Permit Fees	20,000
Subtotal Design, Permit, and Construction Costs	2,799,000
Landlord Contribution	(99,000)
Total City Share of Design, Permit and Construction Costs	**$2,700,000**

According to Mr. Robertson, DPW will request funds of $2,700,000 in the FY 2016-17 budget to pay for the tenant improvement costs, which are a General Fund cost. According to the Mayor's Budget Office, they are reviewing DPW's request for these funds for the FY 2016-17 budget.

POLICY CONSIDERATION

The proposed lease specifies the procedures for Public Works staff to review tenant improvement plans and specifications, including pricing of the tenant improvements. The City can approve or disapprove the final construction budget submitted by the landlord prior to obtaining construction permits. If the City does not approve the final construction budget, the City and the landlord can work to reduce the project scope and to revise construction plans. If actual construction costs are expected to exceed the final construction budget approved by the City, then the City can either (a) agree to pay the increased costs prior to the landlord incurring the increased costs, or (b) revise the construction scope to reduce costs.

The estimated construction budget is $2,799,000, as noted above. According to the proposed lease, the City shall reimburse the landlord up to $2,700,000 for the costs to construct the tenant improvements. The proposed lease also provides for additional tenant improvements to be made by the landlord at the City's request up to $700,000. The amount of $700,000 will be amortized by the landlord over the term of the lease[1] at an interest rate of 8 percent per year.

The proposed resolution states that the estimated costs of tenant improvements are $3,200,000. As noted above, the tenant improvement costs are General Fund costs. In order to limit the impact of the costs of tenant improvements on the General Fund and to avoid payment to the landlord of amortized tenant improvement costs an interest rate of 8 percent per year, the proposed resolution should be amended to (a) delete reference to estimated tenant improvements of $3,200,000, and to (b) add a resolve clause, stating that (i) the City's costs for tenant improvements will not exceed $2,700,000; and (b) the City will not amortize any of the costs for tenant improvements.

[1] The amortization period is from the rent commencement date in approximately August 2017 through the termination of the lease in May 2026.

RECOMMENDATIONS

1. Amended the proposed resolution to state that the City shall conduct an appraisal of the fair market value of 2000 Oakdale Avenue prior to making an offer to purchase the property in the event that the landlord offers the property for sale.
2. Amend the proposed resolution to delete reference to estimated tenant improvements of $3,200,000.
3. Amend the proposed resolution to add a resolve clause, stating that (a) the City's costs for tenant improvements will not exceed $2,700,000; and (b) the City will not amortize any of the costs for tenant improvements.
4. Approve the proposed resolution as amended.

Item 9 **File 16-0275**	**Department:** General Services Agency - City Administrator's Office (CAO)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the second amendment to the contract between the City Administrator's Office and Alliant Insurance Services, Inc. (Alliant) to continue to provide insurance broker and risk management consulting services, increasing the not-to-exceed amount by $27,560,457 from $32,288,248 to $59,848,705, and exercising an option to extend the term through July 31, 2018. The City will maintain one ten-month option to extend the contract through May 31, 2019.

Key Points

- The City's Risk Management Division uses insurance brokerage services to purchase insurance for City departments, including property, liability, and other forms of third-party insurance. These brokers assist the City's Risk Management Division in evaluating City departments' insurance needs and assuring that City departments have the appropriate level of insurance coverage.
- In July 2013, the City entered into a new contract with Alliant to perform insurance brokerage services for an amount not-to-exceed $19,520,840. The initial contract term was for two years and two months, from June 1, 2013 through July 30, 2015 with two two-year options to extend the contract through May 31, 2019, for a total maximum contract term of six years. In May 2015, the City amended the contract to exercise the first two-year option to extend the contract through July 30, 2017, and increase the contract not-to-exceed amount to $32,288,248.

Fiscal Impact

- The City's estimated expenditures from FY 2013-14 through FY 2015-16 on the Alliant contract are $30,029,248. The budget for the requested contract amendment with Alliant is $29,819,457.
- According to Mr. Matt Hansen, Director of the Risk Management Division, costs for the Alliant contract have increased due to significant increases in the value of the City's property, the City's loss history and recent insurance claims.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

The City's Risk Management Division uses insurance brokerage services to purchase insurance for City departments, including property, liability, and other forms of third-party insurance. These brokers assist the City's Risk Management Division in evaluating City departments' insurance needs and assuring that City departments have the appropriate level of insurance coverage. The Risk Management Division procures these insurance brokerage services through competitive Request for Qualifications (RFQ) processes.

Following a competitive RFQ process, the Risk Management Division entered into a contract with Alliant Insurance Services, Inc. (Alliant) in July 2011 to provide insurance brokerage services for various City departments[1].

This contract was for a period of approximately two years, from July 28, 2011 through July 21, 2013, with two additional two-year options to extend through July 21, 2017, for a total contract term of six years. The original not-to-exceed amount was $9,500,000, which did not require Board of Supervisors approval because the amount was less than $10,000,000. In September 2012, the Board of Supervisors approved an amendment to the contract which increased the Alliant contract not-to-exceed amount to $15,100,000.

In July 2013, the City entered into a new contract with Alliant to perform insurance brokerage services rather than exercise the options to extend the previous contract, based on the City's previous RFQ process in 2011. The new contract was for an amount not-to-exceed $19,520,840. The initial contract term was for two years and two months, from June 1, 2013 through July 30, 2015 with two two-year options to extend the contract through May 31, 2019, for a total maximum contract term of six years. In May 2015, the City amended the contract to exercise the first two-year option to extend the contract through July 30, 2017, and increase the Alliant contract not-to-exceed amount to $32,288,248.

[1] Departments included in the Alliant agreement are: Airport, Art Commission, Asian Art Museum, City Hall, Controller's Office, Convention Facilities, Elections, Emergency Communications, Environment, Fine Art Museums, Human Services Agency, Juvenile Probation, Law Library, Library, Municipal Transportation Agency, Planning, Port, Public Health, Public Utilities Commission, Public Works, Real Estate Division, Recreation and Park, Rent Board, Retirement, SFGOVTV, Sheriff, Superior Court, Technology and Treasurer/Tax Collector.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the second amendment to the contract with Alliant to continue to provide insurance broker and risk management consulting services, increasing the not-to-exceed amount by $27,560,457 from $32,288,248 to $59,848,705, and exercising an option to extend the term through July 31, 2018. The City will maintain one ten-month option to extend the contract through May 31, 2019.[2]

Under the contract between the City and Alliant, the insurance broker:

- Acts as an independent insurance advisor to the City, including analyzing the City's insurance programs and risk financing options, monitoring the City's operation's and loss exposures, and making recommendations for coverage changes or new coverage;
- Processes requests for additions or deletions to insurance policies;
- Assists the City's Risk Management Division Director in renewing or obtaining new policies, including providing statistical analysis of loss and expense data to assist in the establishment of premiums;
- Assists City departments and staff in filing and reviewing claims;
- Provides risk management consulting services as needed; and
- Provides other insurance broker services, such as providing certificates of insurance or written reports.

Under the contract, the City pays insurance premiums to the insurance providers obtained through Alliant, such that the Alliant contract includes the cost for these insurance premiums. Alliant is compensated by commissions paid by the insurance providers. According to Mr. Matt Hansen, Risk Management Division Director, the requested increase to the Alliant contract is due to increases in insurance premium costs paid through this contract.

FISCAL IMPACT

The City's estimated expenditures from FY 2013-14 through FY 2015-16 on the Alliant contract are $30,029,248, as shown in Table 1 below. This is $2,259,000 less than the current Alliant authorized not-to-exceed contract amount of $32,288,248.

[2] The ten-month option to extend the contract will allow a full contract term of six years.

Table 1: Expenditures to Date for Alliant Contract

Contract Year	Amount
FY 13-14	$7,645,220
FY 14-15	10,308,832
FY 2015-16 (estimated) [a]	12,075,196
Expenditures Total	**$30,029,248**

[a] Total spent as of March 31, 2016 is $11,843,469

Table 2 below shows the budget of $29,819,457 for the requested contract amendment with Alliant. The total expenditures to date of $30,029,248, as shown in Table 1 above, and the requested contract increase of $29,819,487, provide the total contract not-to-exceed amount of $59,848,705.

Table 1: Budget for Requested Contract Amendment with Alliant

Category	FY 2016-17	FY 2017-18	Total
Property	$11,307,200	$13,003,280	$24,310,480
Art Collection	1,100,000	1,168,977	2,268,977
Exhibits, Events, Projects	800,000	840,000	1,640,000
Contingency	800,000	800,000	1,600,000
Total	**$14,007,200**	**$15,812,257**	**$29,819,457**

The Alliant contract will increase by $1,931,404 or 16 percent in FY 2016-17, from $12,075,196 in FY 2015-16 to $14,007,200 in FY 2016-17. The Alliant contract will additionally increase by $1,805,057 or 13 percent in FY 2017-18, from $14,007,200 in FY 2016-17 to $15,812,257 in FY 2017-18. According to Mr. Hansen, the main cause of the Alliant contract increases are higher property insurance premiums, due to significant increases in the value of the City's property, coupled with the City's loss history and recent insurance claims. For example, the Pier 29 fire resulted in a $15 million insurance claim and the Rim fire insurance claim is still outstanding.

Insurance companies set property and liability insurance premiums based on (a) the expected risk and cost of claims of the insured entity, and (b) insurance market conditions. According to Mr. Hansen, the Risk Management Division cannot estimate with certainty the City's premium costs under the contract with Alliant due to constantly changing insurance market conditions. Mr. Michael Burdick, Budget and Planning Analyst at the Office of the City Administrator, states that funding for the requested contract increase was appropriated by the Board of Supervisors for FY 2016-17, and that the City Administrator will request funding for FY 2017-18 in the upcoming budget.

RECOMMENDATION

Approve the proposed resolution.

Item 10 File 16-0317	Department: San Francisco Public Utilities Commission (SFPUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the San Francisco Public Utilities Commission (SFPUC) to sell wastewater revenue bonds in an amount not-to-exceed $621,000,000 to finance and refinance capital projects benefiting the SFPUC's Wastewater Enterprise, and approve legal and financing documents to implement the sale.

Key Points

- The SFPUC Wastewater Enterprise provides sanitary waste and stormwater collection, treatment and disposal services to residents in the City as well as residents of north San Mateo County. The FY 2015-16 through FY 2024-25 Financial Plan was approved by the Public Utilities Commission on February 10, 2015, and included issuing bonds for the Sewer System Improvement Program (SSIP) and other capital programs totaling $5,713,380,000 for the ten-year period.

Fiscal Impact

- The uses of the $621,000,000 in bond proceeds consist of $577,986,712 in funding for Wastewater projects, and an additional $43,013,000 for other bond costs.
- The SFPUC Wastewater Enterprise has previously sold $764,550,000 in revenue bonds. SFPUC will pay $59,758,227 to service this debt in FY 2015-16. The proposed issuance of $621,000,000 will increase SFPUC's total debt to $1,290,735,000, and increase annual debt service payments to $80,017,981 when repayment begins in FY 2018-19.
- The expected interest rate of the bonds is approximately 4.0 percent. Proceeds from the sale will be repaid over thirty years from the revenues of the Wastewater Enterprise, which are derived from rates paid by SFPUC's wastewater customers.
- In order to meet the increased costs from the proposed bond issuance, the SFPUC plans to increase its wastewater rates, resulting in increases to average customer bills by approximately $8 per month in FY 2017-18. These increased rates were included as part of the SFPUC's 10-year financial plan.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

According to City Charter Section 8B.124, the San Francisco Public Utilities Commission is authorized to sell revenue bonds, including notes, commercial paper or other forms of indebtedness without voter approval for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or wastewater facilities or combinations of water and wastewater facilities under the jurisdiction of the Public Utilities Commission when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors.

Charter Section 5A.31(d) states that 1/20th of one percent from the proceeds of each issuance or sale of public utility revenue bonds must be set aside for use by the Public Utilities Commission Revenue Bond Oversight Committee to cover the costs of Committee activities.

Charter Appendix F1.113 states that 0.2 percent of the bond expenditures net of bond financing and auditing costs be allocated to support the Controller's Audit Fund.

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) Wastewater Enterprise provides sanitary waste and stormwater collection, treatment and disposal services to residents in the City as well as residents of north San Mateo County. The service area encompasses 29,773 acres and provides a level of service that can accommodate approximately 990,449 people using approximately 40 billion gallons of water per year.

The SFPUC annually updates its ten-year capital improvement plan and its ten-year financial plan, which determine the agency's priority programs, and projects revenues to fund these programs. The FY 2015-16 through FY 2024-25 Financial Plan was approved by the Public Utilities Commission on February 10, 2015, and included issuing bonds for the Sewer System Improvement Program (SSIP) and other capital programs totaling $5,713,380,000 for the ten-year period.

Master planning for SSIP began in 2004 with the goal of bringing the City's sewer system to a state of good repair and ensuring continued regulatory compliance and system reliability. The SSIP consists of approximately 20 capital improvement projects to be completed over the next 20 years. Funding for capital projects in the Wastewater Enterprise is provided primarily through wastewater revenue bonds sold by the SFPUC, low-cost State Loans, and commercial paper, a short-term debt instrument sold by the SFPUC.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the SFPUC to sell wastewater revenue bonds in an amount not-to-exceed $621,000,000 to finance and refinance capital projects benefiting the SFPUC's Wastewater Enterprise. Approval of the proposed ordinance would:

(1) authorize the sale of $621,000,000 in tax-exempt or taxable, or a combination of tax-exempt and taxable, wastewater revenue bonds at a maximum interest rate of 12 percent;

(2) affirm existing wastewater revenue bond covenants confirming that bond proceeds will be appropriated and spent on the intended capital projects; and that the SFPUC will set wastewater charges at an amount sufficient to pay the outstanding wastewater revenue bond debt;

(3) approve the financing documents, including the Supplemental Indenture for the Bonds, Official Notice of Sale, Notice of Intention, Bond Purchase Agreement, Official Statement for the Bonds, and the Continuing Disclosure Certificate relating to the Bonds;

(4) approve the allocation of bond proceeds to the SFPUC's Revenue Bond Oversight Committee and the Controller's Office as required by Proposition P, approved by the voters in November 2002; and

(5) authorize the Controller, Treasurer, City Attorney, and other City officials to do what is necessary for the sale of the bonds.

According to Mr. Mike Brown, SFPUC Capital Finance Analyst, the expected interest rate of the bonds is approximately 4.0 percent. Proceeds from the sale will be repaid over thirty years from the revenues of the Wastewater Enterprise, which are derived from rates paid by SFPUC's wastewater customers. The bonds will be sold in May 2016 through a competitive sale, which awards the sale at a designated date to the investment bank offering the lowest interest cost. The projects that will be funded by the proposed bonds include:

- Collection System Improvements
- Central Bayside System Improvements
- SSIP Biosolids/Digester Project
- Stormwater Management
- Northshore to Channel Force Main
- SSIP Program-wide Management
- Treatment Plant Improvements – Southeast
- Treatment Plant Improvements
- Urban Watershed Assessment Project
- Biofuel Alternative Energy Project
- Interim Capital Improvement Program
- Collection Division Consolidation
- Southeast Community Center
- Renewal and Replacement Collection System

FISCAL IMPACT

The uses of the $621,000,000 in bond proceeds consist of $577,986,712 in funding for Wastewater projects, and an additional $43,013,000 for other bond costs, as shown in Table 1 below. The Board of Supervisors previously appropriated the use of bond proceeds for SSIP projects through Ordinances 108-12 and 105-14.

Table 1: Use of Bond Proceeds

Use of Bond Proceeds	Amount
Wastewater Projects	
Treatment Plant Improvements – Southeast	104,920,000
SSIP Program-wide Management	94,000,000
SSIP Biosolids/Digester Project	65,600,000
Collection System Improvements	62,076,000
Stormwater Management	61,770,000
Treatment Plant Improvements	55,200,000
RNR Collection System	37,460,917
Collection Division Consolidation	29,000,000
Southeast Community Center	25,500,000
Northshore to Channel Force Main	20,270,000
Central Bayside System Improvements	19,800,000
Urban Watershed Assessment Project	11,900,000
Biofuel Alternative Energy Project	5,000,000
Interim Capital Improvement Program	1,747,000
Offset from Prior Bond Proceeds	(16,257,205)
Subtotal Wastewater Projects	*$577,986,712*
Other Bond Costs	
Capitalized Interest Fund	$40,085,000
Cost of Issuance*	1,000,000
Underwriters Discount	1,928,000
Subtotal Other Bond Costs	*$43,013,000*
Total Use of Bond Proceeds	**620,999,712**

*Includes: City Services Auditor fund, Revenue Bond Oversight Committee Fund, Legal Fees, and other costs.

Balance of Bonds Authorized by Board of Supervisors

To date, the Board of Supervisors has authorized the SFPUC to issue $1,922,002,176 in bonds to fund Wastewater Enterprise capital projects, primarily related to the SSIP. Of this authorized amount, the SFPUC has sold $571,150,000 in bonds, leaving a remaining authorized amount of $1,350,852,176 to be sold by the SFPUC. Sale of the $621,000,000 would reduce the Water Enterprise revenue bond authority from $1,350,852,176 to $729,852,176. Table 2 below shows the history of the Board of Supervisors authorizations and the remaining estimated balance after the proposed issuance of $621,000,000 in bonds.

Table 2: Remaining Amount of Bonds Authorized for Issuance

Date of Authorization	Ordinance Authorizing SFPUC to Sell Wastewater Revenue Bonds	Amount Authorized	Amount Sold	Authorized and Unsold Balance
3/17/2010	68-10	$282,400,000	($239,565,000)	$42,835,000
4/27/2010	93-10	297,756,235	(254,673,405)	$43,082,830
6/18/2012	115-12	522,810,000	(76,911,595)	$445,898,405
7/2/2014	107-14	819,035,941	0	$819,035,941
Total		**$1,922,002,176**	**($571,150,000)**	**$1,350,852,176**
2016 Bond Issuance (File 16-0322)		0	(621,000,000)	($621,000,000)
Total		**$1,922,002,176**	**($1,192,150,000)**	**$729,852,176**

Source: SFPUC

Refunding of Commercial Paper

SFPUC previously sold $135,000,000 in commercial paper to provide interim financing for a portion of the capital projects noted in Table 2 above.[1] $135,000,000 from the bond sale will be allocated to repay the commercial paper.

Impact on SFPUC Debt Service

The SFPUC Wastewater Enterprise has previously sold $764,550,000 in revenue bonds, which includes $571,000,000 in Proposition E revenue bonds shown in Table 2 above, and currently has $669,735,000 in outstanding debt. SFPUC will pay $59,758,227 to service this debt in FY 2015-16. The proposed issuance of $621,000,000 will increase SFPUC's total debt to $1,290,735,000, and increase annual debt service payments to $80,017,981 when repayment begins in FY 2018-19. Annual debt service payments are included in SFPUC's 10-year financial plan. The SFPUC expects to pay $1,007,009,244 in total debt service costs through FY 2046-47 for the proposed $621,000,000 bond issuance.

The SFPUC periodically approves debt policies and procedures that govern the SFPUC debt program. It also issues its Revenue Bonds which include a binding agreement requiring the SFPUC to maintain a minimum debt service coverage ratio of 1.25 times, representing net operating income divided by debt service. The SFPUC anticipates that debt service coverage ratios in the Wastewater Enterprise will range from 4.53 in FY 2014-15 to 1.43 in FY 2023-24, exceeding the minimum ratio established by SFPUC's debt service ratio of 1.25.

[1] Commercial paper is a short-term low-interest financing vehicle which allows the SFPUC to obtain financing prior to the sale of revenue bonds. Commercial paper is interest-only debt, and has a maximum term of nine months. The Board of Supervisors authorized SFPUC in April 2012 to issue up to $300 million in commercial paper to finance the Wastewater Enterprise's capital projects (File 12-0354).

Impact on SFPUC Wastewater Rates

In order to meet the increased costs from the proposed bond issuance, the SFPUC plans to increase its wastewater rates, resulting in increases to average customer bills by approximately $8 per month in FY 2017-18.[2] These increased rates were included as part of the SFPUC's 10-year financial plan. Table 3 below shows the estimated change in SFPUC wastewater rates for the next 9 years from FY 2016-17 to FY 2024-25.

Table 3: Average Estimated Monthly Wastewater Bill through FY 2024-25

Fiscal Year	Average Monthly Wastewater Bill	Annual Increase	Percent Increase
FY 2015-16	$46		
FY 2016-17	50	$4	9%
FY 2017-18	57	7	14%
FY 2018-19	65	8	14%
FY 2019-20	74	9	14%
FY 2020-21	84	10	14%
FY 2021-22	94	10	12%
FY 2022-23	104	10	11%
FY 2023-24	114	10	10%
FY 2024-25	123	9	8%

RECOMMENDATION

Approve the proposed resolution.

[2] Wastewater rates will increase in FY 2017-18 when repayment of the bonds shifts from the capitalized interest fund to payment through wastewater rates.