

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

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August 29, 2018

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** September 6, 2018 Budget and Finance Committee Meeting

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<b>Item 2</b> <b>File 18-0797</b>	<b>Department:</b> Controller's Office (Controller)
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objective</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance sets the property tax rate for FY 2018-19 for taxing entities within the City and County of San Francisco including (a) the City and County of San Francisco (City); (b) the San Francisco Unified School District (SFUSD); (c) the San Francisco Community College District (SFCCD); (d) the Bay Area Rapid Transit District (BART); and (e) the Bay Area Air Quality Management District (BAAQMD).</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) general operations, (2) specific Charter-required activities such as acquiring open space or constructing, maintaining, and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City, SFUSD, SFCCD, and BART.</li> <li>• The proposed ordinance also would set the property tax pass-through rate that landlords can pass-through to tenants in FY 2018-19, as allowed under the City Administrative Code.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance would set the combined property tax rate (comprised of the property tax rates levied for all of the taxing jurisdictions within the city) for FY 2018-19 at \$1.1630 per \$100 of assessed value. The FY 2017-18 property tax rate of \$1.1630 is \$0.0093, or 0.79 percent, less than the FY 2017-18 property tax rate of \$1.1723 per \$100 of assessed value.</li> <li>• The proposed FY 2018-19 property tax rate of \$1.1630 would increase property taxes by \$73.24 on a single-family residence that has an assessed value of \$530,400 in FY 2018-19.</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed ordinance.</li> </ul>	

## MANDATE STATEMENT

California Revenue and Taxation Code Section 2151 requires the Board of Supervisors to fix the rates of county taxes and to collect the taxes for the City, County, and State.

San Francisco Administrative Code Section 3.3(h) requires the Board of Supervisors to adopt the property tax rate for the City and County of San Francisco before the last working day in September.

City Charter Section 16.107-109 requires that portions of the City's annual property tax levy be set aside for specific uses including: \$0.0250 for the Library Preservation Fund; \$0.0400 for the Children's Fund; and \$0.0250 for the Open Space Acquisition Fund.

San Francisco Administrative Code Section 37.3(a)(6)(A-D), the Residential Rent Stabilization and Arbitration Ordinance, allows landlords to pass through to tenants one-half of property tax increases that result from certain voter-approved General Obligation bonds.

## BACKGROUND

The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) general operations, (2) specific Charter-required activities such as acquiring open space or constructing, maintaining, and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City and County of San Francisco (City), the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the Bay Area Rapid Transit District (BART).

Under the California Revenue and Taxation Code, the base property tax rate that the City can levy on property owners is one percent and can be used for general purposes. Any amount over the base one percent is used to pay for debt service on voter-approved General Obligation bonds.

## DETAILS OF THE PROPOSED LEGISLATION

The proposed ordinance sets the property tax rate for FY 2018-19 for taxing entities<sup>1</sup> within the City and County of San Francisco including (a) the City; (b) the San Francisco Unified School District; (c) San Francisco Community College District; (d) BART; and (e) the Bay Area Air Quality Management District (BAAQMD).

The proposed ordinance also would set the property tax pass-through rate that landlords can pass-through to tenants in FY 2018-19, as allowed under the City Administrative Code. The pass through to tenants may only be imposed on a tenant's anniversary date and shall not become part of a tenant's base rent. The allowable tenant pass-through rate is based on the portion of

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<sup>1</sup> Taxing entities are agencies or organizations located within the City and County of San Francisco that have taxing authority but may not be part of the City government. The \$0.8092 General City Operations factor includes \$0.2533 to be shifted to the Educational Revenue Augmentation Fund for the benefit of San Francisco Unified School District, the County Office of Education, and the San Francisco Community College District.

the landlord's property tax liability that comes from General Obligation bond debt service for certain periods, as shown in Table 1 below.

**Table 1: Percent of Property Tax Increases for General Obligation Bond Debt Service Allowed for Pass-Through to Tenants**

<b>Taxing Entity</b>	<b>Date of General Obligation Bond Approval by Voters</b>	<b>Pass-Through Rate</b>
City and County of San Francisco	November 1, 1996 – November 30, 1998	100%
City and County of San Francisco	November 14, 2002 – Present	50%
San Francisco Unified School District San Francisco Community College District	November 1, 2006 – Present	50%

## **FISCAL IMPACT**

### **Combined Property Tax Rate**

The proposed ordinance would set the combined property tax rate (comprised of the property tax rates levied for all of the taxing jurisdictions within the city) for FY 2018-19 at \$1.1630 per \$100 of assessed value. The FY 2018-19 property tax rate of \$1.1630 is \$0.0093, or 0.8 percent, less than the FY 2017-18 property tax rate of \$1.1723 per \$100 of assessed value. Table 2 below shows the proposed property tax rates for all taxing jurisdictions within the City, as calculated by the Controller.

**Table 2: Current and Proposed Property Tax Rates per \$100 of Assessed Value\***

<b>Tax</b>	<b>FY 2017-18</b>	<b>Proposed FY 2018-19</b>	<b>Increase (Decrease)</b>
General Fund	\$0.8117	\$0.8092	(\$0.0025)
Library Preservation Fund	0.0250	0.0250	-
Children's Fund	0.0375	0.0400	0.0025
Open Space Acquisition Fund	0.0250	0.0250	-
County Superintendent of School	0.0010	0.0010	-
General Obligation Bond Fund	0.1074	0.1075	(0.0001)
<b>City Subtotal</b>	<b>\$1.0076</b>	<b>\$1.0077</b>	<b>\$0.0001</b>
General Operations	\$0.0770	\$0.0770	-
General Obligation Bond Debt Service	0.0452	0.0387	(0.0065)
<b>SFUSD Subtotal</b>	<b>\$0.1222</b>	<b>\$0.1157</b>	<b>(\$0.0065)</b>
General Operations	\$0.0144	\$0.0144	-
General Obligation Bond Debt Service	0.0114	0.0098	(\$0.0016)
<b>SFCCD Subtotal</b>	<b>\$0.0258</b>	<b>\$0.0242</b>	<b>(\$0.0016)</b>
General Operations	\$0.0063	\$0.0063	-
General Obligation Bond Debt Service	0.0084	0.0070	(0.0014)
<b>BART Subtotal</b>	<b>\$0.0147</b>	<b>\$0.0133</b>	<b>(\$0.0014)</b>
<b>Bay Area Air Quality Management District Operations</b>	<b>\$0.0021</b>	<b>\$0.0021</b>	<b>-</b>
<b>Total Property Tax Rate<sup>2</sup></b>	<b>\$1.1723</b>	<b>\$1.1630</b>	<b>(\$0.0093)</b>

\* Totals may not add due to rounding.

The proposed combined property tax rate shown in Table 2 above includes a 0.25 percent administrative allowance charged on the City's voter-approved General Obligation bonds to reimburse the City for the costs of collecting property taxes. This 0.25 percent administrative allowance is charged to the total property tax collection attributable to the General Obligation bonds, rather than to the assessed value.

#### **Allowable Tenant Pass-Through Property Tax Rate**

The proposed ordinance also would set the allowable property tax rate that landlords can pass through to tenants at \$0.0675 per \$100 of assessed value in FY 2018-19. The allowable tenant pass-through rate is \$0.0215 less than the rate of \$0.0890 in FY 2017-18.

#### **Impacts of the Combined Property Tax Rate and Allowable Pass-Through**

Under Proposition 13, the City may annually increase the assessed value of a property by a State-determined inflation factor of up to 2.00 percent. For FY 2018-19, the State Board of

<sup>2</sup> Because the property tax rate is calculated to the 8<sup>th</sup> decimal place, totals in the above table do not add due to rounding.

Equalization determined that the allowable inflation factor is 2.00 percent.<sup>3</sup> Therefore, a single-family residence in San Francisco with an assessed value of \$520,000 in FY 2017-18 has an assessed value of \$530,400 in FY 2018-19.<sup>4</sup>

Table 3 below shows the impact of the proposed property taxes payable by owners and tenants. As shown in Table 3 below, the proposed FY 2018-19 property tax rate of \$1.1630 would increase property taxes by \$73.24 on a single-family residence that has an assessed value of \$530,400 in FY 2018-19.

**Table 3: Impact on Property Tax Payments**

<b>Fiscal Year 2017-18</b>	<b>Single Family Residence</b>	<b>Allowable Tenant Pass-Through</b>
Assessed Value	\$520,000	\$520,000
Less Homeowners Exemption	-7,000	0
<b>Total Taxable Assessed Value</b>	<b>513,000</b>	<b>520,000</b>
Tax Rate per \$100 of Assessed Value	1.1723	0.089
<b>Property Taxes Payable in 2017-18</b>	<b>\$6,013.90</b>	<b>\$462.80</b>
<b>Proposed Fiscal Year 2018-19</b>		
Prior Year Assessed Value	\$520,000	\$520,000
Plus Cost of Living Increase (2.000 percent)	10,400	10,400
Subtotal	530,400	530,400
Less Homeowners Exemption	-7,000	0
<b>Total Taxable Assessed Value</b>	<b>523,400</b>	<b>530,400</b>
Tax Rate per \$100 of assessed value	1.1630	0.0675
<b>Property Taxes Payable in FY 2018-19</b>	<b>\$6,087.14</b>	<b>\$358.02</b>
<b>Total Increase / (Decrease) in FY 2018-19 as Compared to FY 2017-18</b>	<b>\$73.24</b>	<b>(\$104.78)</b>

## RECOMMENDATION

Approve the proposed ordinance.

<sup>3</sup> The State calculates the allowable inflation factor based on the California Consumer Price Index (CCPI) using a weighted equation that combines the metropolitan areas of San Francisco, Los Angeles, San Diego, and the national average.

<sup>4</sup> The median assessed valuation for a single residential parcel in FY 2017-18 in San Francisco was approximately \$520,000.

<b>Item 5</b> <b>File 18-0713</b>	<b>Department:</b> Department of Public Health (DPH)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would retroactively approve a fourth amendment to the Department of Public Health contract with the nonprofit Positive Resource Center, (a) increasing the contract by \$10,798,399, from \$10,744,447 to an amount not-to-exceed \$21,542,846 and (b) extending the contract term by four years from July 1, 2018 to June 30, 2022 for a total contract period of nine years.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In October 2013, DPH entered into a contract with the Positive Resource Center, a nonprofit agency, based on a competitive Request for Proposals process to provide behavioral health services, benefits counseling, benefits advocacy and legal assistance to people living with HIV or a mental health disability. The contract has been amended three times. To date, DPH has amended the contract three times to increase the contract not-to-exceed amount by a total of \$7,819,797 from \$2,924,650 to \$10,744,447 and to increase the term through June 30, 2018. The third amendment approved the merger between the Positive Resource Center, Baker’s Place residential treatment programs, and AIDS Emergency Fund’s Emergency Financial Assistance Program.</li> <li>• The proposed fourth amendment funds three programs – Mental Health Supplemental Security Income (SSI) Benefits Counseling, HIV SSI Benefits Counseling, and Equal Access to Healthcare – and annual support for the merger between Positive Resource Center, Baker’s Place, and AIDS Emergency Fund’s Emergency Financial Assistance Program.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The actual budget for the proposed fourth amendment is \$7,330,597, which is \$3,467,802 less than the budget in the contract of \$10,798,399. The actual budget is less than the contract budget because (1) the Equal Access to Healthcare program was removed, and (2) the annual merger support was revised to provide one-time information technology support. Therefore, the proposed resolution should be amended to state that the total not-to-exceed amount is \$18,075,044, which is \$3,467,802 less than not-to-exceed in the contract of \$21,542,846.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to reduce the contract not-to-exceed amount by \$3,467,802, from \$21,542,846 to \$18,075,044.</li> <li>• Amend the proposed resolution to request the DPH Acting Director to revise the proposed fourth amendment to accurately reflect the actual programs and budgets provided by the Positive Resource Center.</li> <li>• Approve the proposed resolution as amended.</li> </ul>	

## 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

In October 2013, the Department of Public Health (DPH) entered into a contract with the Positive Resource Center, a nonprofit agency, based on a competitive Request for Proposals (RFP) process to provide behavioral health services, benefits counseling, benefits advocacy and legal assistance to people living with HIV or a mental health disability, as well as assistance with enrollment in the AIDS Drug Assistance Program (ADAP)<sup>1</sup> and State Office of AIDS Health Insurance Premium Payment Program.<sup>2</sup> The original contract was for \$2,924,650 and had a term of one year and nine months from October 1, 2013 through June 30, 2015 with six one-year options to extend the term from July 1, 2015 through June 30, 2021 at the City's discretion.

To date, DPH has amended the contract three times to increase the contract not-to-exceed amount by a total of \$7,819,797 from \$2,924,650 to \$10,744,447 and to increase the term through June 30, 2018, as shown below in Table 1. DPH did not request Board of Supervisors approval for the original contract and the first two amendments because the total not-to-exceed amount did not surpass the \$10 million threshold and the contract term was not for more than 10 years.

**Table 1. Contract Amendments to Date**

	File No.	Term	Amount
Original Contract	-	October 1, 2013 - June 30 2015	\$2,924,650
Amendment #1	-	July 1, 2015 - June 30, 2018	7,714,467
Amendment #2	-	July 1, 2015 - June 30, 2018	8,094,932
Amendment #3	17-0321	July 1, 2015 - June 30, 2018	10,744,447

The original contract between DPH and Positive Resource Center was for the Benefits Counseling Program. The first amendment to the contract added the Equal Access to Healthcare Program to address barriers faced by clients living with HIV/AIDS in accessing healthcare through the Affordable Care Act. The third amendment to the contract, approved by the Board of Supervisors in May 2017, provided for the merger of the nonprofit Baker Places'

<sup>1</sup> The AIDS Drug Assistance Program (ADAP) is a state-administered program authorized under the federal Ryan White HIV/AIDS Treatment Extension Act of 2009 that provides Federal Drug Administration (FDA) approved medications to low-income people living with HIV who have limited or no health coverage from private insurance, Medicaid, or Medicare. ADAP funds may also be used to purchase health insurance for eligible clients and for services that enhance access to, adherence to, and monitoring of drug treatments.

<sup>2</sup> The State Office of AIDS Health Insurance Premium Payment Program (OA-HIPP) assists HIV-positive Californians in establishing and maintaining health insurance by subsidizing their monthly health insurance premium payments.



residential treatment programs and AIDS Emergency Fund's Emergency Financial Assistance Program with the Positive Resource Center (File 17-0321).

### DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve a fourth amendment to the DPH contract with Positive Resource Center, (a) increasing the contract by \$10,798,399, from \$10,744,447 to an amount not-to-exceed \$21,542,846 and (b) extending the contract term by four years from July 1, 2018 to June 30, 2022 for a total contract period of nine years.<sup>3</sup> The proposed fourth amendment to the existing contract between DPH and Positive Resource Center is retroactive to July 1, 2018 due to delays in submitting the resolution to the Board of Supervisors for approval (the proposed resolution was submitted on July 17, 2017) and in calendaring the resolution.

This proposed contract amendment covers three programs: Benefits Counseling Program, Equal Access to Healthcare Program, and Positive Resource Center Merger Support.

### FISCAL IMPACT

The annual contract budget included in the proposed fourth amendment is \$2,410,357, as shown in Table 2 below. However, the actual contract budget for FY 2018-19 is \$2,011,294, which accounts for the removal of one program – the Equal Access to Healthcare Program – from the contract and the inclusion of a 2.5 percent Cost of Living Adjustment (COLA) approved by the Board of Supervisors in the FY 2018-19 budget. shows the estimated annual budget of approximately \$2,011,294 (FY 2018-19) and \$1,511,294 (FY 2019-20 and FY 2020-21) under the proposed fourth amendment and the BLA recommended amount. These figures reflect Departmental changes proposed since the submission of the subject resolution from the original amount of \$2,410,357 annually. Since the submission of the subject resolution, the Equal Access to Healthcare Program was moved out of this contract and annual budgets for the remaining programs were updated to account for the cost of doing business.

**Table 2. FY 2018-19 Proposed and Revised Contract Budget**

<b>Program</b>	<b>Contract Budget in the Proposed Fourth Amendment</b>	<b>Revised Budget</b>
<i>Ongoing Annual Budget</i>		
MH SSI Advocacy Benefits Counseling	\$ 996,911	\$ 1,021,834
HIV SSI Advocacy Benefits Counseling	477,806	489,460
Equal Access to Healthcare Program	576,890	0
<b>Subtotal Ongoing Annual Budget</b>	<b>\$2,051,607</b>	<b>\$1,511,294</b>
<i>One Time Budget (FY 2018-19 only)</i>		
IT Modernization Support for Merger	358,750	500,000
<b>Total</b>	<b>\$ 2,410,357</b>	<b>\$ 2,011,294</b>

<sup>3</sup> Although the original contract provided for options to extend the contract term through June 30, 2021, the original Request for Proposal in 2013 allowed for a contract term through June 30, 2022.

The FY 2018-19 revised budget of \$2,011,294 includes one-time funds of \$500,000 to pay for information technology modernization expenses to support the merger of the nonprofit Baker Places' residential treatment programs and AIDS Emergency Fund's Emergency Financial Assistance Program with the Positive Resource Center, as shown in Table 3 below.

**Table 3. IT Modernization Merger Support Budget**

<b>Program Expense Categories</b>	<b>Amount</b>
Chief Information Officer (.13 FTE)	\$ 17,918
IT Associate (.75 FTE)	45,000
Employee Benefits	17,680
Cabling Supplies	176,977
Audio Visual Supplies	88,795
IT Security Supplies	80,621
Subcontractor: BEI Construction - Cabling	9,444
Subcontractor: BEI Construction - Audio Visual	3,480
Subcontractor: BEI Construction - IT Security System	57,835
Annual Total	497,750
<b>Merger Contract Total</b>	<b>\$ 500,000</b>

The revised ongoing annual budget in FY 2019-20 through FY 2021-22 is \$1,511,294, as noted in Table 2 above. The total revised budget for the proposed fourth amendment is \$7,330,597, and the revised contract not-to-exceed amount is \$18,075,044, as shown in Table 4 below. Therefore, the proposed resolution should be amended to reduce the contract not-to-exceed amount by \$3,467,802, from \$21,542,846 to \$18,075,044.

<b>Term</b>	<b>Contract Budget in the Proposed Fourth Amendment</b>	<b>Revised Budget</b>
July 1, 2018 - June 30, 2019	\$2,410,357	\$2,011,294
July 1, 2019 - June 30, 2020	2,410,357	1,511,294
July 1, 2020 - June 30, 2021	2,410,357	1,511,294
July 1, 2021 – June 30, 2022	2,410,357	1,511,294
Subtotal	\$9,641,428	\$6,545,176
12% Contingency	1,156,971	785,421
Total Fourth Amendment	\$10,798,399	\$7,330,597
Prior Not-to-Exceed Amount	10,744,447	10,744,447
<b>Proposed Not-to-Exceed Amount</b>	<b>\$21,542,846</b>	<b>\$18,075,044</b>

**RECOMMENDATIONS**

1. Amend the proposed resolution to reduce the contract not-to-exceed amount by \$3,467,802, from \$21,542,846 to \$18,075,044.
2. Amend the proposed resolution to request the DPH Acting Director to revise the proposed fourth amendment to accurately reflect the actual programs and budgets provided by the Positive Resource Center.
3. Approve the proposed resolution as amended.

<b>Item 6</b> <b>File 18-0728</b>	<b>Department:</b> Department of Public Health (DPH)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution retroactively approves a new contract for behavioral health services for children, youth and families between the Department of Public Health (DPH) and Edgewood Center for Children and Families in the not to exceed amount of \$24,224,508 for a total contract term of three years from July 1, 2018, through June 30, 2021.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• Edgewood Center for Children and Families had a prior contract with DPH for these services that expired on December 31, 2017. Because DPH and Edgewood Center for Children and Families would not be able to complete negotiations on the new contract prior to the expiration of the existing contract, DPH entered into an interim contract with the Edgewood Center for Children and Families to continue providing services from July 1, 2017 through August 31, 2018 in the amount of \$9,999,299. According to the contract, the City's Office of Contract Administration approved the interim contract as a sole source contract per Administrative Code Section 21.42 in order to ensure continuity of services.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Under the proposed contract, Edgewood Center for Children and Families will support nine programs for an estimated annual budget of approximately \$7,209,675. The three year budget of \$24,224,508 is based on annual expenditures of approximately \$7,209,675 and a 12 percent contingency.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• DPH issued 20 competitive solicitations for new behavioral health service contracts between March 2017 and August 2017 to replace the contracts expiring on December 31, 2017. According to DPH, due to delays in solicitations, awards, and negotiations, DPH was not able to enter into new contracts with the behavioral health service providers selected through the competitive solicitation by the planned start date of January 1, 2018. In order to continue services, DPH entered into interim contracts with existing behavioral health service providers who had been awarded new contracts through the new solicitation. DPH is undertaking process improvements to address delays in soliciting and awarding future contracts.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## 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

In December 2010, the Department of Public Health (DPH) entered into a contract with Edgewood Center for Children and Families, a non-profit organization, based on a competitive Request for Proposals (RFP) process, to provide behavioral health services for children, youth and families. The original contract amount was not-to-exceed \$29,109,089, with a five and one-half year term from July 1, 2010 to December 31, 2015. (Resolution No. 563-10). In 2014, DPH entered into the first amendment to the contract, increasing the total not to exceed contract amount from \$29,109,089 by \$7,849,439 for a total contract amount of \$36,958,528 for a five and one-half year term of July 1, 2010, through December 31, 2015 (File 14-0743). In 2015, DPH entered into the second amendment to the contract, increasing the total not to exceed contract amount from \$36,958,528 by \$19,276,057 for a total contract amount of \$56,234,585 and extending the term of the contract by two years from December 31, 2015 to December 31, 2017 (File 15-1035).

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively approves a new contract for behavioral health services for children, youth and families between DPH and Edgewood Center for Children and Families in the not to exceed amount of \$24,224,508 for a total contract term of three years from July 1, 2018, through June 30, 2021.

### Interim Contract

As noted above, Edgewood Center for Children and Families had a prior contract with DPH for these services that expired on December 31, 2017. Because DPH and Edgewood Center for Children and Families would not be able to complete negotiations on the new contract prior to the expiration of the existing contract, DPH entered into an interim contract with the Edgewood Center for Children and Families to continue providing services from July 1, 2017 through August 31, 2018 in the amount of \$9,999,299. According to the contract, the City's Office of Contract Administration approved the interim contract as a sole source contract per Administrative Code Section 21.42 in order to ensure continuity of services.

The term of the interim contract and the term of the proposed new contract overlap for the two month period from July 1, 2018 through August 31, 2018. The proposed legislation contains specific language stating that the interim contract will terminate and be replaced by this new contract, effective the first day of the month following the date that the Controller's Office certifies as to the availability of funds.

### **Competitive Process for New Contract**

In anticipation of the August 30, 2018 interim contract expiration, DPH issued competitive Request for Qualifications/Proposals (RFQ/RFP) in 2016, 2017 and 2018<sup>1</sup> to provide services as part of the Behavioral Health Services System of Care. Based on the solicitation submissions, Edgewood Center for Children and Families was awarded contracts for each service. According to Ms. Jacquie Hale, Office of Contracts Management and Compliance Manager for the DPH Business Office, the department consolidates services provided by a contractor into one contract in order to better manage DPH's business relationship with the provider as a whole rather than contract-by-contract.

### **Scope of Work under Proposed Contract**

The scope of work under the proposed contract includes implementation of the following programs:

- Counseling Enriched Education Program: Providing intervention and treatment to improve functioning of youth 5-21 years of age so they may transition to a less restrictive school placement and be able to tolerate the demands of more mainstream educational and community settings.
- Residentially-Based Treatment (RBT): Providing intervention and treatment to improve functioning of Seriously Emotionally Disturbed (SED) children and adolescents so they may transition to a lower level of care and build permanency.
- Behavioral Health Outpatient: Providing mental health services to San Francisco residents, and to seek to make outpatient mental health, case management and medication support services more accessible to them.
- Therapeutic Behavioral Services (TBS): These services supplement other specialty mental health services by addressing target behaviors or symptoms that endanger the child or youth's current living situation or planned transition to a lower level of placement. Coaches use functional behavior analysis to work with children, youth, and their families to develop plans and work with caregivers to enable teaching youth how to eliminate target behaviors and use more adaptive behaviors.
- Wraparound (WRAP): Providing the skills and support necessary for youth to function in their communities in family and family-like environments. WRAP principles and practices, including youth and family voice and choice, comprehensive assessment, and intervention techniques are used for youth at-risk or stepping down from higher levels of treatment. Intervention and treatment are comprehensive and focused on permanency planning.
- Early Childhood Mental Health Consultation Initiative (ECMHCI): Improving children's readiness to enter kindergarten, to strengthen and support families, and to support continuous quality improvement of high quality early care and education programs through outreach, consultation, training, parent support groups, linkages, interventions,

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<sup>1</sup> The RFQ/RFPs include the following: (1) RFQ 17-2016 MHSA School Based Programs, (2) RFP 33-2016 Continuum of Care Reform Services, (3), RFP 1-2017 CYF Mental Health Outpatient, and (4) RFP 11-2018 Crisis Stabilization & Hospital Diversion.

and mental health services for staff who care for and educate children aged 0-5 years at 24 sites throughout the City.

- School-Based Behavioral Health Services: Building the capacity of teachers to handle behavioral issues as they arise, the capacity of families to provide the support their children need to succeed, and the capacity of children to deal with issues that may be impeding their academic and social progress at Dr. Charles R. Drew Academy (Charles Drew) and Hillcrest Elementary School (Hillcrest).
- Crisis, Triage and Assessment Center (CTAC): Edgewood’s Crisis, Triage and Assessment Center include a continuum of care including Crisis Stabilization, Hospital Diversion and Partial Hospitalization. The program offers an intensive service for behavioral health crisis stabilization, assessment and acute intervention. The purpose of this intensive level of care is to avoid psychiatric hospitalization as well as to provide a step-down from inpatient hospitalization to further stabilize symptoms and continue skills development and family/caregiver support.
- Kinship Behavioral Health Outpatient: The goal of the Kinship Behavioral Health Outpatient program is to seek to make outpatient mental health, case management and medication support services more accessible to children who are dependents of San Francisco Human Services Agency (HSA).

## FISCAL IMPACT

Under the proposed contract, Edgewood Center for Children and Families will support nine programs for an estimated annual budget of approximately \$7,209,675, as shown in Table 1 below.

**Table 1: Estimated Annual Budget for Proposed Edgewood Contract**

<b>Program</b>	<b>Annual Total</b>
Counseling Enriched Education Program	\$800,386
Residentially-Based Treatment (RBT)	700,000
Behavioral Health Outpatient	980,000
Therapeutic Behavioral Services (TBS)	929,360
Wraparound (WRAP)	765,464
Early Childhood Mental Health Consultation Initiative (ECMHCI)	373,592
School-Based Behavioral Health Services	153,487
Crisis, Triage and Assessment Center (CTAC) (Hospital Diversion and CSU)	2,432,386
Kinship Behavioral Health Outpatient	75,000
<b>Total</b>	<b>\$7,209,675</b>

Source: DPH

The three year budget of \$24,224,508 is based on annual expenditures of approximately \$7,209,675 and a 12 percent contingency, as shown in Table 2 below.

**Table 2: Total Budget for Proposed Edgewood Contract**

<b>Fiscal Year</b>	<b>Amount</b>
July 1, 2018 – June 30, 2019	\$7,209,675
July 1, 2019 – June 30, 2020	7,209,675
July 1, 2020 – June 30, 2021	7,209,675
<b>Subtotal</b>	<b>\$21,629,025</b>
12% Contingency	2,595,483
<b>Total</b>	<b>\$24,224,508</b>

Funding for the proposed contract comes from federal, state and General Fund monies, as shown in Table 3 below.

**Table 3: Sources of Funds for Proposed Edgewood Contract**

<b>Sources of Funds</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>Total</b>
<b>Federal and California State Funds</b>				
Federal Medi-Cal	\$2,389,646	\$2,389,646	\$2,389,646	\$7,168,938
State Family Mosaic Capitated Medi-Cal	20,000	20,000	20,000	60,000
State Match/ 2011 Realignment	1,866,859	1,866,859	1,866,859	5,600,577
CYF STATE 1991 Realignment (match)	34,944	34,944	34,944	104,832
Mental Health Service Act (MHSA-Prop 63)	169,693	169,693	169,693	509,079
<i>Federal and California State Funds Subtotal</i>	<i>\$4,481,142</i>	<i>\$4,481,142</i>	<i>\$4,481,142</i>	<i>\$13,443,426</i>
<b>San Francisco General Fund</b>				
Work Order - Human Services Agency	220,519	220,519	220,519	661,556
Work Order - Department of Children, Youth and Families	295,411	295,411	295,411	886,234
Work Order - Children & Families Commission	235,882	235,882	235,882	707,646
<i>San Francisco General Fund and Work Order Subtotal</i>	<i>\$2,728,533</i>	<i>\$2,728,533</i>	<i>\$2,728,533</i>	<i>\$8,185,599</i>
<b>Total Sources of Funds</b>	<b>\$7,209,675</b>	<b>\$7,209,675</b>	<b>\$7,209,675</b>	<b>\$21,629,025</b>
<i>Contingency</i>				<i>\$2,595,483</i>
<b>Not To Exceed/Total Amount</b>				<b>\$24,224,508</b>

Source: DPH

## POLICY CONSIDERATION

In 2010 the Board of Supervisors approved new contracts between DPH and 19 community-based providers<sup>2</sup> and the University of California San Francisco (UCSF) to provide behavioral

<sup>2</sup> According to the Budget and Legislative Analyst's report to the December 1, 2010 Budget and Finance Committee meeting, these 19 community-based providers included: Alternative Family Services, Asian American Recovery Services, Baker Places, Bayview Hunters Point Foundation, Central City Hospitality House, Community Awareness and Treatment Services, Community Vocational Enterprises, Conard House, Edgewood Center for Children and



health services to DPH clients from July 2010 through December 2015. In June 2015, DPH informed the Board of Supervisors of their intention to request two-year contract extensions in order to meet the requirements of the Affordable Care Act, including integrating community based services into DPH's San Francisco Health Network. The Board of Supervisors approved increasing contract amounts and extending contract terms through December 31, 2017 for 17 community-based providers<sup>3</sup> and UCSF.

DPH issued 20 competitive solicitations for new behavioral health service contracts between March 2017 and August 2017 to replace the contracts expiring on December 31, 2017<sup>4</sup>. According to Ms. Michelle Ruggels, DPH Director of Business Operations, due to delays in solicitations, awards, and negotiations, DPH was not able to enter into new contracts with the behavioral health service providers selected through the competitive solicitation by the planned start date of January 1, 2018.

In order to continue services, DPH entered into interim contracts with existing behavioral health service providers who had been awarded new contracts through the new solicitation.

According to Ms. Ruggels, DPH is undertaking process improvements to address delays in soliciting and awarding future contracts, including filling vacant positions, developing solicitation schedules and issuing solicitations at an earlier date in the process, and coordinating with the Controller's Office to rout contract documents electronically.

## RECOMMENDATION

Approve the proposed resolution.

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Families, Family Service Agency, Haight Ashbury Free Clinics, Hyde Street Community Service, Instituto Familiar de la Raza, Progress Foundation, Richmond Area Multi-Services (RAMS), San Francisco Study Center, Seneca Center, Walden House, and Westside Community Mental Health Center. Walden House and Haight Ashbury Free Clinics subsequently combined to form HealthRight360.

<sup>3</sup> According to the Budget and Legislative Analyst's reports to the December 2, 2015 and December 9, 2015 Budget and Finance Committee meetings, these 17 community-based providers included: A Better Way, Alternative Family Services, Baker Places, Central City Hospitality House, Community Awareness and Treatment Services, Conard House, Edgewood Center for Children and Families, Family Service Agency, HealthRight360, Hyde Street Community Service, Instituto Familiar de la Raza, Larkin Street Youth Services, Oakes Children's Center, Progress Foundation, Richmond Area Multi-Services (RAMS), Seneca Center, and Westside Community Mental Health Center.

<sup>4</sup> These 20 solicitations included the four RFPs/RFQ to which the Family Services Agency responded and was awarded a contract.

<b>Item 7</b> <b>File 18-0799</b>	<b>Department:</b> Human Services Agency (HSA)
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The Department of Aging and Adult Services is formally requesting the release of \$3,000,000 for the Dignity Fund on Budget and Finance Reserve.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• On November 8, 2016, voters approved Proposition I to amend the Charter of the City and County of San Francisco to establish the Dignity Fund, a guaranteed General Fund set-aside to provide services and supports for older adults and adults with disabilities, to be administered by the San Francisco Department of Aging and Adult Services.</li> <li>• Proposition I required a Community Needs Assessment every four years; the most recent Community Needs Assessment was completed in March 2018 and approved by the Board of Supervisors in July 2018 (File 18-0648).</li> <li>• The FY 2018-19 Dignity Fund budget is \$51,747,027, including the \$3 million mandated increase. The Board of Supervisors placed the \$3,000,000 mandated increase of the Dignity Fund on Budget and Finance Reserve pending details on how these additional funds would be used.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The \$3 million will be used to enhance programs for intergenerational activities, expend nutrition support programs, conduct outreach to seniors and adults with disabilities on available programs and resources, mitigate social isolation, and support the caregiver network and case management programs. Approximately \$1.1 million of the \$3 million will be used for a 2.5 percent cost of living adjustment for nonprofit providers.</li> <li>• Of the \$48,305,545 in the Dignity Fund FY 2017-18 budget, the Department of Aging and Adult Services has spent \$42,273,676. Of the \$3,034,869 remaining, the Department expects to encumber \$2,922,588, or \$112,281 less than the total amount, by February 2019. Surplus funds from FY 2017-18 will be reallocated to other needs through contract modifications or requests for proposals by the Department</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the release of \$3,000,000 currently on Budget and Finance Committee Reserve for the Dignity Fund.</li> </ul>	

**MANDATE STATEMENT**

City Administrative Code Section 3.3(e) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Budget and Finance Committee approval.

The City Charter Section 16.128-6(b) allows the Board of Supervisors to approve or disapprove the Community Needs Assessment performed by the Department of Aging and Adult Services for the Dignity Fund by June 1, 2018.

**BACKGROUND**

On November 8, 2016, voters approved Proposition I to amend the Charter of the City and County of San Francisco to establish the Dignity Fund, a guaranteed General Fund set-aside to provide services and supports for older adults and adults with disabilities, to be administered by the San Francisco Department of Aging and Adult Services. Proposition I required an annual General Fund contribution by the City to the Dignity Fund including an annual baseline amount of \$38 million, increasing by \$6 million for FY 2017-18, and increasing by \$3 million a year for the next 9 years until FY 2026-27.

Proposition I also established a planning process for expenditures from the Dignity Fund, created an Oversight and Advisory Committee, and circumscribed how the monies of the fund were allowed to be used. Proposition I required a Community Needs Assessment every four years; the most recent Community Needs Assessment was completed in March 2018 and approved by the Board of Supervisors in July 2018 (File 18-0648). Beginning in FY 2018-19, the Department of Aging and Adult Services is to prepare a service allocation plan to determine services that will receive monies from the fund for the next four fiscal years. According to Ms. Ruth Levine, Principal Budget Analyst at the Human Services Agency, the Department of Aging and Adult Services is currently working on this plan in conjunction with the Dignity Fund Oversight and Advisory Committee, and is planning to share a public draft in the spring of 2019.

The FY 2018-19 Dignity Fund budget is \$51,747,027, including the \$3 million mandated increase. The Board of Supervisors placed the \$3,000,000 mandated increase of the Dignity Fund on Budget and Finance Reserve pending details on how these additional funds would be used.

**DETAILS OF PROPOSED LEGISLATION**

On July 27, 2018, the Department of Aging and Adult Services sent a letter to the Budget and Finance Committee formally requesting the release of \$3,000,000 for the Dignity Fund on Budget and Finance Reserve.

**FISCAL IMPACT**

The budget of the requested \$3,000,000 to be released is shown in Table 1 below.

**Table 1: Budget of Additional \$3,000,000**

<b>Program</b>	<b>Amount</b>
Enhancing Community Services	\$345,000
Expanding Nutrition Support for Adults with Disabilities	300,000
Outreach and Awareness	300,000
Mitigating Social Isolation	200,000
Support for Caregiver Network	500,000
Assessing Case Management Needs	150,000
Case Management Language Capacity	125,000
Non-profit Cost of Living Adjustment (COLA) <sup>1</sup>	1,082,000
<b>Total</b>	<b>\$3,002,000</b>

The Department of Aging and Adult Services will use the \$3,002,000 to fund a variety of activities. The Department will fund enhancing community services through programming for intergenerational activities on at least four different sites. The Department will expand home-delivered meal service to support adults with disabilities, and anticipates supporting 100-125 clients. \$200,000 of the Outreach and Awareness monies will go towards public information campaigns, while \$100,000 will be to service ambassadors, both to increase community awareness of the programs and reduce ageism. Through increasing the availability of phone and web support of people who are isolated and volunteer home visits, the Department will spend \$200,000 to mitigate social isolation. Of the \$500,000 for supporting caregivers, \$275,000 will be used to expand respite support, and \$225,000 will be used for training caregiver staff at various levels. Finally, the Department will spend \$150,000 to evaluate case management needs and train case management disability resource staff in working with persons with complex needs, and another \$125,000 to enhance case management language capacity.

Thirty six percent of the total \$3,000,000 currently on reserve would be used to fund a COLA increase. The Board of Supervisors approved a 2.5 percent COLA increase for pre-existing non-profit contracts with the City in the FY 2018-19 budget. According to Ms. Levine, the Department has allocated \$1,082,000 for COLA increases, which is approximately 2.5 percent of the total FY 2018-19 estimated contract amount of approximately \$43.28 million.

Of the \$48,305,545 in the Dignity Fund FY 2017-18 budget, the Department of Aging and Adult Services has spent \$42,273,676. Of the \$3,034,869 remaining, according to Ms. Levine, the Department expects to encumber \$2,922,588, or \$112,281 less than the total amount, by February 2019. According to Ms. Levine, surplus funds from FY 2017-18 will be reallocated to other needs through contract modifications or requests for proposals by the Department.

## RECOMMENDATION

Approve the release of \$3,000,000 currently on Budget and Finance Committee Reserve for the Dignity Fund.

<sup>1</sup> As noted in the report, the Board of Supervisors approved a 2.5 percent COLA for non-profit contractors with the City in the FY 2018-19 budget.

<b>Item 8</b> <b>File 18-0655</b>	<b>Department:</b> San Francisco International Airport (Airport)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would: (1) approve the issuance of up to \$2,620,000,000 aggregate principal amount of San Francisco International Airport Second Series Revenue Refunding Bonds for the purpose of refinancing bonds and subordinate bonds of the Airport Commission and related obligations; and (2) approve the form of and authorize the execution and delivery of one or more Continuing Covenant Agreements in connection with the direct purchase of bonds of the Airport Commission.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Board of Supervisors previously approved the issuance of Airport refunding bonds in aggregate principal amount of \$8.4 billion, of which \$730.5 million remains authorized but unissued. These bonds were approved for the purposes of refinancing bonds and subordinate bonds of the Airport Commission.</li> <li>• The Airport has historically sold bonds through a public offering. If approved under the proposed resolution, the Continuing Covenant Agreement would allow the Airport to enter into agreements with a commercial bank or other similar investors in connection with the private placement/direct purchase of general Airport Revenue Bonds.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The additional \$2.62 billion in refunding bond authorization, when combined with the \$730.5 million of previously authorized and unissued refunding would result in approximately \$3.35 billion in overall authorized refunding capacity.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The approval of the Continuing Covenant Agreement would, for the first time, provide the Airport with the option to privately place bonds with commercial banks. In a public offering, the issuer publicizes the upcoming bond issue, provides the timeframe and platform for which bids will be accepted, and provides any additional guidelines or details related to the bond issue. Generally, the winning bidder(s) is the one who has offered the lowest total interest costs. Private placement provides funding through direct negotiation with one or a select number of private financial institutions. The Airport states that in the current market environment, many banks are able to provide advantageous pricing and/or terms with private placements, such as structures or other features that are better customized to the Airport's financial needs and allow for greater risk mitigation.</li> <li>• The Board of Supervisors has previously approved two direct private placement of bonds in 2015 and 2016 for the 2015A Seismic Safety Loan Program General Obligation (GO) Bonds (File 14-0727) and the 2016 Transbay Transit Center Interim Financing Certificates of Participation (File 16-0364). In addition, the San Francisco Public Utilities Commission (SFPUC) has entered into several private placements in recent years.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 4.115 states that the Airport Commission has exclusive authority to plan and issue Airport revenue bonds for Airport-related purposes, subject to the approval, amendment, or rejection of the Board of Supervisors.

**BACKGROUND**

The San Francisco International Airport (Airport) issues Airport Second Series Revenue Refunding Bonds (Refunding Bonds) under its Resolution No. 91-0210 (the 1991 Master Resolution), adopted on December 3, 1991, as supplemented and amended. The Board of Supervisors previously approved the issuance of Airport refunding bonds in aggregate principal amount of \$8.4 billion, of which \$730.5 million remains authorized but unissued.

The Airport currently has \$6.2 billion of outstanding general Airport Revenue Bonds (GARBs) and approximately \$64 million<sup>1</sup> of outstanding commercial paper. Of the Airport's \$6.2 billion in outstanding GARBs, approximately \$567 million is currently in variable rate mode and the remainder is fixed rate. The Airport's FY 2018-19 annual debt service is budgeted at approximately \$495 million, or 44.5 percent of the Airport's operating budget.

According to Mr. Kevin Kone, Airport Finance Director, the Commission's existing Lease and Use Agreement with its signatory airlines includes a requirement that airline landing fees and terminal rents be sufficient to pay for the Airport's operating costs and debt service expenses, after accounting for any non-airline operating revenues (e.g., from concessions). The Lease and Use Agreement also provides the Commission the ability to adjust airline landing fees and terminal rents mid-year to ensure the Airport's operating requirements continue to be met. In addition, the Commission maintains three Debt Service Reserve Fund accounts that, in aggregate, provide approximately \$538 million (as of June 30, 2018) in cash and permitted investments, which would be available to make debt service payments in the event that net operating revenues are not sufficient to make a full and timely payments when they come due. Furthermore, the Airport has the flexibility to refund bonds to alleviate near-term debt service if needed.

The approvals in the proposed resolution are intended to establish a refinancing mechanism for outstanding bonds, whether to generate savings or restructure debt, in accordance with the Airport Commission's Debt Policy<sup>2</sup>. The Refunding Bonds may be issued as fixed rate, variable rate, or index rate bonds in accordance with the terms of the 1991 Master Resolution.

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<sup>1</sup> Commercial Paper Notes outstanding as of July 30, 2018. The Airport has a \$500 million Commercial Paper Program.

<sup>2</sup> The Airport's Debt Policy states that Refunding Bonds to be issued solely to achieve debt service savings shall not be issued unless the estimated net present value savings, as determined by the Airport's financial advisors, are either (i) equal to at least 3 percent of the principal amount of the refunded bonds; or (ii) equal to at least 1

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would: (1) approve the issuance of up to \$2,620,000,000 aggregate principal amount of San Francisco International Airport Second Series Revenue Refunding Bonds for the purpose of refinancing bonds and subordinate bonds of the Airport Commission and related obligations; and (2) approve the form of and authorize the execution and delivery of one or more Continuing Covenant Agreements in connection with the direct purchase of bonds of the Airport Commission.

**Airport Refunding Bonds**

According to Ms. Ronda Chu, Capital Finance Manager at the Airport, the bonds that will become eligible for refunding in the next five years include Second Series Revenue Bonds (Series 2009E, Series 2010F/G, Series 2013A/B, and Series 2018B/C), Second Series Revenue Refunding Bonds (Issue 37C, Series 2009A/B, Series 2009C, Series 2009D, Series 2010A, Series 2010C/D, Series 2011C/D, Series 2011F/G, Series 2012A/B), and Series 2018 Special Facility Bonds. These bonds were approved for the purposes of refinancing bonds and subordinate bonds of the Airport Commission, financing and refinancing the construction, acquisition, equipping and development of various capital projects as part of the Airport Capital Improvement Plan, and financing the Airport hotel project.

According to the Office of Public Finance, the proposed bond authorization would provide the Airport with the flexibility to access the market promptly in order to achieve one or more of the following refunding objectives, as outlined in its Debt Policy:

- Achieve debt service savings;
- Restructure scheduled debt service;
- Convert bonds from or to a variable or fixed rate interest rate structure;
- Change or modify the source or sources of payment and security for the refunded bonds;
- Modify covenants otherwise binding upon the Airport;
- Restructure or refinance bonds that are in a state of distress due to market conditions, credit issues, issues with bond insurers, swap counterparties, or credit facility providers

According to the Airport, the estimated aggregate net present value savings between the existing bonds and the proposed refunding bonds over the next five years is \$102,851,645.

**Continuing Covenant Agreement**

The Airport has historically sold bonds through a public offering. If approved under the proposed resolution, the Continuing Covenant Agreement would allow the Airport to enter into agreements with a commercial bank or other similar investors in connection with the private

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percent of such principal amount, if it is unlikely, in the judgement of its financial advisors, that a future refunding would realize greater savings.

placement/direct purchase of GARBs. Private placements provide an alternate method of sale for the financing and refinancing of Airport capital projects, supplementing the Airport's typical method of sale for fixed-and variable-rate financings.

According to the Airport, privately-placed bonds sold through the Continuing Covenant Agreement, with terms ranging from one to twenty years, may be structured at a fixed or variable interest rate, and regularly scheduled principal and interest payments would be secured on the same priority level as other senior bonds. Under certain circumstances, the Commission may structure the privately-placed bonds with a mandatory redemption prior to the bonds maturity and the redemption payments will be made entirely or partly on a basis subordinate to the repayment of other senior bonds. According to the Airport, the advantages of a private placement when compared to traditional, publicly offered bond sales include the following:

- No requirement for Notice of Sale or Bond Purchase Agreement
- No requirement for underwriter
- No requirement for Preliminary Official Statement or Final Official Statement
- No requirement for bond rating
- Flexible requirement on debt service reserve

According to the Airport, in addition to the lower costs of issuance, these advantages would allow the Commission to react more quickly to changes in market conditions. A traditional bond issue takes up to four months to complete. A direct purchase transaction could be completed in two months. The Airport states that this could also help mitigate market risk in today's rising interest rate environment.

The Airport's Debt Policy restricts private placements of bonds to circumstances where: (1) a public offering would require the bonds to be registered under federal securities laws, (2) the bonds are or will be either unrated or in a category below investment grade, (3) a private placement offers a more advantageous cost of borrowing than a public offering, (4) a private placement allows a transaction to be completed with expedited timing where needed, (5) a private placement reduces third-party risk, such as credit facility provider exposure, and/or (6) a private placement would result in other terms more advantageous to the Airport than are available in a similar public offering.

## **FISCAL IMPACT**

The proposed additional \$2.62 billion in refunding bond authorization, when combined with the \$730.5 million of remaining but unissued refunding bonds previously authorized by the Board, would result in approximately \$3.35 billion in overall authorized refunding capacity, as shown in Table 1 below.



**Table 1. Proposed Refunding Bond Authorization (\$ in Millions)**

Remaining Authorization	\$730.5
Proposed Increase	\$2,620
Amended Remaining Authorization	\$3,350.5

Pursuant to Section 5852.1 of the California Government Code, which requires that certain information as to the full long-term cost of borrowing be disclosed to a governing body prior to its authorization of issuance of bonds, the good faith estimate provided by the Airport's financial advisors for the proposed sale of up to \$2.62 billion in Refunding Bonds is as follows:

- The true interest cost is estimated at 4.08%<sup>3</sup>.
- The sum of all cost of issuance fees and underwriter's discount is estimated at approximately \$20.59 million.
- Taking into account the cost of issuance and underwriter's discount, the net bond proceeds is estimated at approximately \$2.60 billion, all of which would be used to refinance outstanding bonds or commercial paper notes.
- Of the \$2.62 billion in bonds sold, the good faith estimate of total principal and interest payments the Commission will make is estimated at \$3.55 billion.

Table 2 below shows the estimated sources and uses of the refunding bonds.

**Table 2. Estimated Sources and Uses of Refunding Bonds**

<b>Sources</b>	
Estimated Par Amount <sup>4</sup>	\$2,617,035,000
<b>Total Sources</b>	<b>\$2,617,035,000</b>
<b>Uses</b>	
Refunding Fund Deposit <sup>5</sup>	\$2,596,440,417
Cost of Issuance <sup>6</sup>	7,500,000
Underwriter's Discount <sup>7</sup>	13,085,170
Additional Proceeds <sup>8</sup>	9,413
<b>Total Uses</b>	<b>\$2,617,035,000</b>

<sup>3</sup> Average across five Refunding Bonds transactions

<sup>4</sup> According to the Airport, the par amount on the refunded bonds (i.e. the amount being refinanced) and the refunding bonds (i.e. the new bonds issued to refinance the existing bonds) will not be the same. The refunding par amount includes the amount needed to cover the refunding fund deposit, as well as costs of issuance and underwriters' discount.

<sup>5</sup> The refunding fund deposit includes the principal amount of callable bonds as well as interest due to bondholders between the refunding issuance date and the actual call date.

<sup>6</sup> Costs of Issuance consist of expenses associated with the sale of a bond, including fees for financial advisors, counsel, the trustee and rating agency fees and other expenses.

<sup>7</sup> The Underwriters Discount is the difference between the price paid by the underwriter to the issuer for the new bond issue and the prices at which the securities are initially offered to the investing public. This difference provides the underwriter with compensation for the transaction, as well as reimbursement for expenses.

<sup>8</sup> Additional proceeds are the rounding amounts due to bonds being sold at \$5,000 increments.

**POLICY CONSIDERATION****Continuing Covenant Agreement and Private Placement of Bonds***Private Placement*

As previously mentioned, the Airport has historically sold bonds through a public offering. The approval of the Continuing Covenant Agreement would, for the first time, provide the Airport with the option to privately place bonds with commercial banks should it be beneficial to the Airport over alternative financings. In a public offering, the issuer publicizes the upcoming bond issue, provides the timeframe and platform for which bids will be accepted, and provides any additional guidelines or details related to the bond issue. Generally, the winning bidder(s) is the one who has offered the lowest total interest costs, including all costs of issuance and underwriter fees. Private placement provides funding through direct negotiation with one or a select number of private financial institutions. The private financial institution is effectively providing a loan to the issuer that must be repaid over time. In general, private placements do not have to be registered with the Securities and Exchange Commission (SEC) and do not require many of the disclosure requirements found in public offerings. In addition, private placement bonds are not publicly issued or publicly traded and typically do not require a rating from a credit rating agency.

According to the Airport, private placement provides another financial tool that may provide benefits or reduce risks for the Airport in financing its capital program. The Airport states that in the current market environment, many banks are able to provide advantageous pricing and/or terms with private placements, such as structures or other features that are better customized to the Airport's financial needs and allow for greater risk mitigation. In addition, a private placement option may provide lower issuance costs with the benefit of expedited timing. Consistent with its debt policy (noted above), the Airport states that the department would evaluate all potential financing options to determine the best strategy in meeting its goals. The sale of refunding bonds through a private placement would be subject to Airport Commission approval by resolution.

*Negotiated Bonds*

The Airport is implementing a \$7.4 billion capital improvement program (CIP) and considers executing each bond sale on a competitive or negotiated basis. The Airport adheres to its debt policy in determining when to do a negotiated issuance. According to the Airport, the department utilizes a negotiated issuance when market timing is important to the pricing of the bonds and the structure of the financing requires additional marketing efforts and activities. As the Airport has complex and sometimes unusual debt financings, the department states that this sale method permits direct input from the buyer of the bonds as to the desirability of various financing structures or features. Finally, in a negotiated sale, the underwriting banks can do a substantial amount of preselling of bonds, which increases demand and thereby allows the Airport the opportunity to lower the borrowing cost the day of the sale. According to the Airport, while a negotiated issuance has generally been the preferred approach for the reasons

mentioned above, the department may elect to issue bonds on a competitive basis in the future should conditions warrant that approach to be more advantageous.

*Other City Private Placement of Bonds*

According to the Office of Public Finance, the City has recently approved two direct private placement of bonds in 2015 and 2016 for the 2015A Seismic Safety Loan Program General Obligation (GO) Bonds (File 14-0727) and the 2016 Transbay Transit Center Interim Financing Certificates of Participation (File 16-0364). The 2015 transaction was placed with US Bank, and the 2016 transaction was placed with Wells Fargo. In addition, the San Francisco Public Utilities Commission (SFPUC) has entered into several private placements in recent years. This includes the following: 2008 Clean Renewable Energy Bonds (File 08-1027), 2011 New Clean Renewable Energy Bonds (File 11-1192), 2011 Qualified Energy Conservation Bonds (File 11-1191), and 2015 New Clean Renewable Energy Bonds (File 15-0916).

**RECOMMENDATION**

Approve the proposed resolution.