

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

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February 8, 2019

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: February 11, 2019 Special Budget and Finance Committee Meeting

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<p>Item 1 Files 18-1186</p>	<p>Department: Various City departments</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <p>The proposed ordinance appropriates \$220,551,322 in excess ERAF funds for affordable housing small site acquisition, leasing of single residence occupancy (SRO) hotels, behavioral health beds, homelessness and behavioral health services, and early care and teacher salaries. In addition the proposed ordinance appropriates (a) \$14,500,000 of San Francisco Public Utilities Commission (SFPUC) Power Revenue Bonds for a utility substation and utility distribution acquisition assessment; and (b) \$52,000,000 of one-time Rainy Day Reserve funds to establish a Teacher and Early Care Educator Unappropriated Emergency Reserve.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Due to recent growth in the property tax roll (20 percent in the last two years); property tax allocations to the San Francisco Unified School District and the Community College District exceed state funding requirements. <p style="text-align: center;">Fiscal Impact</p> <p>The ordinance makes the following allocations:</p> <ul style="list-style-type: none"> • \$35.1 million to meet Charter-mandated baselines to the Library Fund, Children’s Baseline, Street Trees, and Public Education Enrichment Fund (including Office of Early Care and Education and San Francisco Unified School District); • \$180.9 million to the (a) Mayor’s Office of Housing and Community Development for site acquisition and funding support to housing development, (b) Department of Homelessness and Supportive Housing for additional master lease, emergency shelter, and navigation center beds; and (c) Department of Public Health for substance use and mental health beds. • \$19.5 million to wage increases for early care and education professionals, and \$13.5 million to San Francisco Unified School District teacher compensation. • \$14.5 million to the San Francisco Public Utilities Commission for energy infrastructure feasibility studies and substation construction. • \$52 million to the Teacher and Early Care Educator Unappropriated Emergency Reserve Fund to be used to sustain wages in FY 2020-21 if other City or School District revenues and legally available reserves are not sufficient to do so. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The ordinance provides for funds to be repaid from (a) the Homeless Gross Receipts Tax for eligible programs if the City prevails in any legal challenges; (b) the parcel tax approved by voters in June 2018 to pay teacher compensation if the City prevails in any legal challenges; (c) the tax on commercial rents approved by voters in June 2018 for wage increases for early care and education professionals if the City prevails in any legal challenges; and (d) sale of SFPUC Power Revenue Bonds for infrastructure feasibility studies and substation construction. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed ordinance is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

In 1992 and 1993, the State directed all counties to create an Educational Revenue Augmentation Fund (ERAF) and divert local property tax revenue into the fund for public school systems in each county. In San Francisco, 25 percent of collections from the base property tax rate are allocated to ERAF. When the fund has sufficient money to meet minimum state funding requirements for public schools and community colleges, excess funds are returned to the local governments.

Due to recent growth in the property tax roll (20 percent in the last two years), property tax allocations to the San Francisco Unified School District and the Community College District exceed state funding requirements for the first time since the creation of the fund, and the City will recognize approximately \$415 million in excess ERAF property tax revenue in FY 2018-19, including \$208 million attributable to FY 2017-18 and \$207 million attributable to FY 2018-19. According to Charter provisions adopted by the voters, approximately \$74 million of the \$415 million must be allocated to various baselines and approximately \$156 million to Rainy Day Reserves, and the balance of approximately \$185 million is available for any public purpose.

The Controller's Office estimates that the City would receive significant excess ERAF allocations in future years but cautions that there is significant risk associated with these allocations due to formula volatility, cash flow changes, and possible modifications to property tax allocation law by the State.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance appropriates \$220,551,322 in excess ERAF funds for affordable housing small site acquisition, leasing of single residence occupancy (SRO) hotels, behavioral health beds, homelessness and behavioral health services, and early care and teacher salaries. In addition the proposed ordinance appropriates (a) \$14,500,000 for San Francisco Public Utilities Commission (SFPUC) Power Revenue Bonds for a utility substation and utility distribution acquisition assessment; and (b) \$52,000,000 of one-time Rainy Day Reserve funds to establish a Teacher and Early Care Educator Unappropriated Emergency Reserve.

The excess ERAF funds are placed on Controller's reserve, pending receipt of the funds from the State of California.

FISCAL IMPACT

A summary of sources and uses of excess ERAF monies and one-time Rainy Day Reserve monies is shown in Table 1 below.

Table 1: Sources and Uses of Funds

Sources	
Excess Educational Revenue Augmentation Fund	\$220,551,322
Rainy Day Reserve - One Time	52,000,000
SFPUC Power Revenue Bonds	<u>10,000,000</u>
Total Sources	\$282,551,322
Uses	
<u>Baseline Allocations</u>	
<i>Library Fund</i>	
Buildings, Structures & Improvements	\$4,980,000
Energy Efficiency	<u>4,500,000</u>
Subtotal Library Fund	\$9,480,000
<i>Street Trees</i>	
Tree Maintenance	<u>\$2,138,000</u>
Subtotal Tree Maintenance	\$2,138,000
<i>Children's Baseline</i>	
Workforce Opportunities for Youth	\$4,430,000
Early Childhood Educator Wage Increases	<u>5,300,000</u>
Subtotal Children's Baseline	\$9,730,000
<i>Public Education Enrichment Fund</i>	
Community Based Services	\$601,000
Annual Contribution to School District	8,494,000
Early Childhood Educator Wage Increases	<u>4,184,000</u>
Subtotal PEEF	\$13,279,000
City Services Auditor	460,182
Total Baseline Allocations	\$35,087,182

Table 1: Sources and Uses of Funds (continued)**Discretionary Allocation***Mayor's Office of Housing & Community Development*

Small Site Acquisition	\$40,000,000
Homeless Housing	42,456,004
Affordable Housing Predevelopment Loans	6,000,000
Sunnydale & Potrero Upgrades	9,000,000
Affordable Housing Site Acquisition	<u>14,000,000</u>
Subtotal MOHCD	\$111,456,004

Homelessness & Supportive Housing

New Master Lease Units	\$15,208,136
Emergency Homeless Shelter Capital and Services	15,000,000
Navigation Centers Capital and Services	<u>6,400,000</u>
Subtotal Homelessness & Supportive Housing	\$36,608,136

Public Health

Healing Center Beds	\$4,400,000
Substance Use Recovery Beds	<u>5,000,000</u>
Subtotal Public Health	\$9,400,000

Human Services

Early Childhood Educator Wage Increases	\$10,000,000
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DCYF

SFUSD Teacher Compensation	\$13,500,000
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General City Responsibility

Teacher/ Early Care Educator Unappropriated Emergency Reserve	\$52,000,000
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Total Discretionary Allocation **\$180,964,140**

Total ERAF Appropriation **\$216,051,322**

Public Utilities

Utility Acquisition Assessment	\$4,500,000
Eastern Project Substation	<u>10,000,000</u>
	\$14,500,000

Total Appropriation **\$282,551,322**

BASELINE ALLOCATIONS

The Charter establishes baseline allocations to specific purposes as discussed below.

Public Library: \$9,480,000

\$4,980,000 would fund needed projects in the San Francisco Public Library's capital program

\$4,500,000 would pay for (1) energy audits and feasibility studies at multiple sites, (2) replacement of in-line gas furnaces at eight locations, (3) retrofitting the steam boiler at three locations, (4) replacing the rooftop HVAC unit and building control system at 190 9th Street, and installing rooftop solar systems at four locations (Eureka Valley, Excelsior, Presidio, and 190 9th Street).

Street Trees: \$2,138,000

The Department of Public Works' FY 2018-19 budget for street tree maintenance is \$19,770,000. As of January 2019, the Department had spent \$9,201,792 and encumbered \$9,482,984.

According to Department staff, the additional funds of \$2,138,000 will be used in FY 2018-19 to pay for contracts for tree maintenance and related sidewalk repairs to address the backlog in maintenance:

- \$1,318,000 will be used for repair of tree related sidewalk damage. This amount addresses six of Public Works' high priority key map areas for tree related sidewalk damage and will repair an estimated 25,698 tripping hazards. The Department has prioritized repair locations based on a variety of factors including pedestrian volumes, proximity to the vision zero network and areas with vulnerable populations (seniors, health care facilities, and schools).
- \$800,000 will be used to fund two new general as-needed tree maintenance contracts to address the backlog.

Children's Baseline: \$9,730,000

Workforce Opportunities for Youth

The funding for workforce programs for youth would be allocated to the Early College Pathway program, which is a joint program of the Department of Children, Youth, and their Families, the San Francisco Unified School District, and the Community College District. This program supports students who are not on-track to graduate high school, providing support to graduate high school and participate in an early college experience. The program currently has approximately 50 participants. An allocation of \$4.4 million would expand the program by approximately 600 internships for two years.

Early Childhood Educator Wage Increases

The ordinance allocates approximately \$19.5 million to the Children's Baseline (\$5.3 million), Public Education Enrichment Fund (\$4.2 million), and Office of Early Care and Education (\$10 million) to increase the wages of early childhood educators. According to the Office of Early Care and Education, all early care and education professionals in programs receiving funding from the Office would qualify. The Office of Early Care and Education currently funds 350 programs employing 2,750 professionals. The Office would use the \$19.5 million to increase wages for these 2,750 professionals.

Public Education Enrichment Fund: \$13,279,000*Community Based Services*

The \$601,000 allocated to community based program as part of Public Education Enrichment Fund program would be used to fund the Equitable Access program through the San Francisco Unified School District. This program targets the Department of Children, Youth, and Their Families priority population (African-American, Latino, and Pacific Islander) to have access to school-based comprehensive after-school programs.

Annual Contribution to San Francisco Unified School District and Early Care and Education

San Francisco voters passed Proposition C in November 2014, the “Children and Families First” initiative, extending funding through FY 2040-41 allocated to (1) the San Francisco Unified School District, and (2) Office of Early Care and Education. Two-thirds of the funding is allocated to the San Francisco Unified School District (\$8,494,000); the FY 2018-19 Public Education Enrichment Fund Expenditure Plan allocates these funds to voter-approved programs for sports, libraries, arts, music, and other programs in the schools.

Early Childhood Educator Wage Increases

One third of the 2014 Proposition C funding is allocated to the Office of Early Care and Education for early care educators’ wages (\$4,184,000), which is part of the total \$19.5 million allocation for wages noted above.

Discretionary AllocationMayor’s Office of Housing and Community Development: \$111,456,004*Small Site Acquisition (\$40 million)*

MOHCD’s Small Sites Program was created in 2014 to provide funding for acquisition and rehabilitation of multi-family rental buildings of five to 25 units. Funding of the program comes from the Housing Trust Fund, Proposition A Affordable Housing bond proceeds, and affordable housing fees paid by market rate developers. Available funding for the Small Sites Program as of December 31, 2018 was \$81.1 million, of which \$37.8 million is committed to projects that are expected to close by June 30, 2019, and \$32.4 million is committed to projects that are expected to close in FY 2019-20 (totaling approximately \$70.2 million). According to MOHCD staff, the balance of approximately \$10.9 million is allocated from geographically-restricted fund sources or to project contingencies.

MOHCD previously issued a Notice of Funding Availability to identify multi-family rental buildings that qualify for program funding, and reviews applications for funding on a first-come basis. MOHCD does not currently have a list of qualified properties for the additional funding, but according to MOHCD staff, new properties are submitted for evaluation on a regular basis.

Homeless Housing (\$42.5 million)

MOHCD would use funds appropriated for Homeless Housing to be used for gap financing for approximately 253 units of homeless housing at 1064-1068 Mission Street. MOHCD acquired this site from the Federal government and predevelopment is ongoing. The anticipated start

date of construction is January 2020, with construction completion of October 2021. Due to lower than anticipated fee revenues from Inclusionary and Jobs-Housing Linkage Fees, MOHCD does not currently have sufficient cash to provide gap financing to this project.

Affordable Housing Predevelopment Pool (\$6 million)

MOHCD provides loans to affordable housing developers for planning, design, and other predevelopment work. The amount of each loan varies but ranges from \$500,000 to \$5 million depending on the size of the project. According to MOHCD staff, \$6 million will be used for predevelopment loans to approximately three housing sites consisting of up to 370 units for low-income households. Predevelopment loan funds come from allowable funding sources for housing projects in the pipeline, including affordable housing in-lieu or jobs-housing linkage fees. Three affordable housing projects that have been identified as sites for predevelopment loans are the Central Freeway parcels (in the Octavia-Market area), 730 Stanyon Street, and 801 Brannan Street.

Sunnydale and Potrero Capital Upgrades Pool (\$9 million)

These funds would be used to rehabilitate approximately 1,000 units of public housing in the Sunnydale and Potrero housing projects owned by the San Francisco Housing Authority. The \$9 million allocation to the Sunnydale and Potrero projects would backfill for funds that were provided by MOHCD to the Housing Authority to make up for the shortfall in the Housing Choice Voucher program.

Affordable Housing Site Acquisition Pool (\$14 million)

The Metropolitan Transportation Commission allocated \$5 million to MOHCD to acquire an affordable housing site in the Mission District. The \$14 million would be used to augment the Metropolitan Transportation Commission grant, for \$19 million available to acquire an affordable housing site in the Mission District.

Homelessness and Supportive Housing: \$36,608,136

Master Lease Supportive Housing (\$15.2 million)

The Department of Homelessness and Supportive Housing's FY 2018-19 budget for permanent supportive housing, including master lease of single room occupancy (SRO) hotels, is \$143.6 million for the operation of 7,548 units of housing and associated services. The proposed appropriation would add approximately 300 units of housing.

According to staff from the Department of Homelessness and Supportive Housing, the Department would select nonprofit providers through a Request for Qualifications to select qualified permanent supportive housing providers to master lease and operate SRO hotels as master lease supportive housing. The Department has identified five sites that could provide approximately 300 SRO units. Master leases for approximately 300 SRO units are estimated to cost \$7.5 million per year; the proposed appropriation provides approximately two years of funding.

Shelter Access for Everyone (SAFE) Centers – Emergency Homeless Shelter (\$15 million)

The Department of Homelessness and Supportive Housing's FY 2018-19 budget for emergency shelter is \$38.8 million for 1,430 beds. The proposed appropriation would add approximately 200 emergency shelter beds.

The Department of Homeless and Supportive Housing plans to open one new SAFE Center to increase emergency shelter beds for homeless individuals living on the streets. The SAFE Center will be approximately 200 beds that incorporate some features of Navigation Centers, including allowing residents to bring partners and possessions, and providing case management services and connection to permanent housing for residents. The Department is currently working with the Department of Public Works and the City's Real Estate Division to identify sites.

The estimated one-time costs to open one site with 200 beds per site are \$3.0 million and estimated annual operating costs for one site with 200 beds are \$6.0 million. Actual costs will depend on the site. Funding of \$15 million will provide two years of operating costs and one-time capital costs of \$3.0.

Navigation Center Expansion (\$6.4 million)

The Department of Homelessness and Supportive Housing's FY 2018-19 budget for Navigation Centers is \$19.8 million for 494 beds and services. The proposed appropriation would add approximately 80 beds to existing Navigation Centers for two years.

Public Health: \$9,400,000*Healing Center Beds (\$4.4 million)*

The Department of Public Health spends approximately \$5 million annually for 40 conservatorship beds at St. Mary's Healing Center. These are locked psychiatric beds for clients who are placed on conservatorship and not able to live independently. The appropriation of \$4.4 million would allow the Department of Public Health to purchase 14 additional beds for two years.

Substance Use Recovery Beds (\$5.0 million)

In addition, the Department of Public Health currently spends approximately \$2.8 million annually for 96 residential step-down units at HR 360 and Jelani House. Residential step-down programs are sub-acute, short-term, residential services that provide support and access to outpatient treatment in a 24 hour staffed, open home-like environment. The \$5.0 million allocation will allow the Department to purchase approximately 72 beds and associated outpatient services for about two years.

Human Services Agency: \$10,000,000*Early Childhood Educator Wage Increases*

As noted above, the ordinance allocates approximately \$19.5 million to the Children's Baseline (\$5.3 million), Public Education Enrichment Fund (\$4.2 million), and Office of Early Care and Education (\$10 million) to increase the wages of early childhood educators.

Children, Youth and Their Families: \$13,500,000

The ordinance allocates \$13.5 million to the Department of Children, Youth and Their Families to fund salary increases to San Francisco Unified School District teachers.

Public Utilities Commission: \$14,500,000

The proposed ordinance appropriates \$14.5 million in SFPUC Power Revenue Bonds to the following projects:

- Plan for the acquisition of electrical infrastructure and property (\$4.5 million). This includes identifying and assessing infrastructure and property; evaluating the financial feasibility to acquire, rehabilitate, operating and maintain the infrastructure at affordable rates; workforce capacity to ensure operational readiness; and legal support.
- Provide funding for the Eastern Project Substation (\$10 million), which is part of the SFPUC Hetch Hetchy Power Enterprise program to construct power transmission and distribution facilities to serve new retail customers, including new development at Pier 70 and Mission Rock.

Teacher and Early Care Educator Unappropriated Emergency Reserve Fund: \$52,000,000

According to the proposed ordinance, the Teacher and Early Care Educator Unappropriated Emergency Reserve Fund is to be use to sustain wages in FY 2020-21 if other City or School District revenues and legally available reserves are not sufficient to do so.

POLICY CONSIDERATION

Advances of Funds

The ordinance provides for certain appropriations to be advanced to the respective City departments, to be repaid from other funds in the future.

Homeless Gross Receipts Tax

The voters passed Proposition C in November 2018, which imposed a new gross receipts tax on large businesses in San Francisco to fund homeless services. The Board of Supervisors approved an ordinance in December 2018 permitting the City Attorney to file a validation action, which triggers a defined expedited window during which any potential opponent must respond to the City's action or file litigation challenging the validity of Proposition C. If no opponents respond or file litigation, the Superior Court can decide on whether to validate the proposition.

Appropriations for affordable housing, homelessness, behavioral health services, temporary shelters, and pit stop expansions are eligible to be repaid from gross receipts tax revenues collected pursuant to Proposition C if the City prevails in any legal challenge or validation action.

Teacher and Early Care Educator Pay Increases

The voters passed (1) Proposition G in June 2018, approving a parcel tax to fund pay increases for teachers, and (2) Proposition C in June 2018, approving a tax on commercial rents to fund childcare and education. Similar to the validation action noted above, the Board of Supervisors approved an ordinance in July 20188 permitting the City Attorney to file a validation action. In

no opponents respond or file litigation, the Superior Court can decide on whether to validate the propositions.

The appropriation of \$13.5 million to the San Francisco Unified School District will be repaid if Proposition G is finally enacted, and the appropriation of \$10 million for early care educator pay increases will be repaid if Proposition C is finally enacted.

San Francisco Public Utilities Commission

File 18-1186 appropriates \$15.6 million to the San Francisco Public Utilities Commission for energy infrastructure feasibility studies and substation construction. These funds are to be repaid from the future sale of Power Revenue Bonds subject to Board of Supervisors approval.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Item 2 File 19-0044	Department San Francisco Municipal Transportation Agency
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance appropriates \$38,124,000 in excess Educational Revenue Augmentation Fund (ERAF) property tax to the SFMTA to (a) partially fund the purchase of light rail vehicles under the contract between SFMTA and Siemens, (b) fund energy efficiency projects at SFMTA facilities, and (c) establish a fund to mitigate the impact of construction projects on small businesses. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Due to recent growth in the property tax roll (20 percent in the last two years); property tax allocations to the San Francisco Unified School District and the Community College District exceed state funding requirements. The City Charter sets annual baseline funding to the SFMTA, of which \$38.1 million is the excess ERAF allocation. • Of the \$34.1 million in funding, \$19.2 million is allocated to the purchase of light rail vehicles. Under SFMTA's contract with Seimens, Inc. (Seimens), SFMTA plans to purchase 151 light rail vehicles to replace aging vehicles, and 68 light rail vehicles to accommodate service expansions, including the Central Subway and the Warriors Stadium, totaling 219 vehicles. SFMTA has previously purchased 46 of the 68 expansion vehicles but has not purchased any of the 151 replacement vehicles. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • SFMTA has \$641.9 million in funds that are available or that have been committed (including the \$19.2 million appropriation of excess ERAF funds), and anticipates an additional \$449.1 million in Metropolitan Transportation Commission funds, totaling \$1.1 billion for the purchase of 219 vehicles. This amount includes \$349.8 million previously spent or encumbered, and \$778 million remaining. • As noted above, 46 of the 68 light rail vehicles needed for service expansion have been purchased. SFMTA plans to purchase the remaining 22 vehicles in 2019. SFMTA plans to purchase the 151 replacement light rail vehicles between 2020 and 2025. • In order to fully fund the purchase of the 219 light rail vehicles, SFMTA anticipates receiving \$449.1 million from the Metropolitan Transportation Commission for the Federal Transit Administration grant. SFMA will still need to identify \$37.0 million to fully fund the purchase of the light rail vehicles. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinance. 	

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

The San Francisco Municipal Transportation Agency (SFMTA) currently operates 151 light-rail vehicles over 71.5 miles of track throughout the City. Many of the current fleet of light-rail vehicles started operating in 1996 with a 25-year operating life through 2021. Ansaldo Breda, Inc. (Breda), a private for-profit company, built and assembled the current fleet of MTA light-rail vehicles.

The Board of Supervisors approved a contract between SFMTA and Siemens, Inc. (Siemens) in September 2014 for the purchase of 151 light rail vehicles between FY 2021-22 and FY 2027-28 to replace the Breda light rail vehicles (File 14-0882). The contract provided for the purchase of up to 260 light rail vehicles in total.

SFMTA originally planned to also purchase 64 light rail vehicles between FY 2016-17 and FY 2020-21, in addition to the 151 replacement light rail vehicles, to expand the light rail vehicle fleet to accommodate service growth and the opening of the Central Subway. Subsequently, in order to accommodate service growth due to the new Warriors Stadium, SFMTA added four light rail vehicles to the plan to expand the number of light rail vehicles, for 68 total light rail vehicles to expand the fleet. As of January 2019, 46 of the 68 new light rail vehicles for the expanded fleet have been received and placed into active service.

According to an October 2018 memorandum from SFMTA staff to the SFMTA Board of Directors, subsequent to the signing of the initial contract in 2014, SFMTA and Siemens agreed to an accelerated delivery schedule for the expanded fleet vehicles; the delivery of the remaining 22 expanded fleet vehicles would be completed by September 2019, or approximately three months earlier than the previous delivery date of December 2019. The accelerated delivery schedule is to accommodate the planned opening date of the Central Subway, which is currently anticipated to be complete in December 2019.

In addition, according to SFMTA, SFMTA and Siemens agreed to work out the terms of an accelerated delivery of the 151 replacement vehicles that compressed the original delivery time frame from six and a half years to only five years. The first replacement vehicles are currently planned to be delivered in approximately April of 2020, and deliveries will continue through March of 2025. According to SFMTA, the accelerated purchase of the 151 replacement light rail vehicles will result in reduced costs and out-of-service time for vehicle maintenance, and will allow SFMTA to achieve cost savings by reducing the 5 percent per year price escalation in the contract with Siemens.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance appropriates \$38,124,000 in excess Educational Revenue Augmentation Fund (ERAF) property tax to the SFMTA to (a) partially fund the purchase of light rail vehicles under the contract between SFMTA and Siemens, (b) fund energy efficiency projects at SFMTA facilities, and (c) establish a fund to mitigate the impact of construction projects on small businesses.

Excess ERAF Property Tax

In 1992 and 1993, the State directed all counties to create an Educational Revenue Augmentation Fund (ERAF) and divert local property tax revenue into the fund for public school systems in each county. In San Francisco, 25 percent of collections from the base property tax rate are allocated to ERAF. When the fund has sufficient money to meet minimum state funding requirements for public schools and community colleges, excess funds are returned to the local governments.

Due to recent growth in the property tax roll (20 percent in the last two years), property tax allocations to the San Francisco Unified School District and the Community College District exceed state funding requirements for the first time since the creation of the fund, and the City will recognize approximately \$415 million in excess ERAF property tax revenue in FY 2018-19, including \$208 million attributable to FY 2017-18 and \$207 million attributable to FY 2018-19. According to Charter provisions adopted by the voters, approximately \$74 million of the \$415 million must be allocated to various baselines and approximately \$156 million to Rainy Day Reserves, and the balance of approximately \$185 million is available for any public purpose.

FISCAL IMPACT

The appropriation of \$38,124,000 in excess ERAF funds is shown in Table 1 below.

Table 1: Summary of Appropriation

Source	
Excess ERAF	\$38,124,000
Uses	
Light Rail Vehicle Purchases	\$19,247,904
Energy Efficiency Projects	13,800,000
Small Business Impact Fund	5,000,000
City Services Auditor	<u>76,096</u>
Total	\$38,124,000

Light Rail Vehicles

Under the contract with Seimens, SFMTA plans to purchase 68 light rail vehicles to expand the fleet and 151 light rail vehicles to replace existing light rail vehicles that have reached the end

of their useful life. As noted above and shown in Table 2 below, SFMTA has purchased 46 of the 68 fleet expansion vehicles and none of the 151 replacement vehicles.

Table 2: Purchase of Light Rail Vehicles

LRV Purchase Plan	Total in Contract	Purchased	Remaining to be purchased
Expansion	68	(46)	22
Replacement	151	0	151
Total	219	(46)	173

Source: SFMTA

The total cost to purchase 219 light rail vehicles under the contract with Siemens is \$1.1 billion. SFMTA has spent or encumbered \$349.8 million for the purchase of the 46 light rail vehicles to expand the fleet¹, as shown in Table 3 below, with costs of \$778 million to purchase the remaining 173 light rail vehicles.

Table 3: Prior and Remaining Project Amount by Funding Source

Source	Spent/ Encumbered	Remaining	Total
Proposition K Sales Tax	\$131,153,144	\$62,767,634	\$193,920,778
Metropolitan Transportation Commission			
Transit Capital Priorities	0	449,062,643	449,062,643
Bay Area Toll Authority	0	79,838,236	79,838,236
GF New Revenue	0	19,247,904	19,247,904
SFTMA - Revenue Bond	122,874,837	22,175,813	145,050,650
Federal Transit Administration			
5307 Urbanized Area Formula Program	10,227,539	0	10,227,539
Central Subway	16,800,000	0	16,800,000
Operating	6,947,719	1,052,281	8,000,000
Caltrans			
Transit & Intercity Rail Capital Program	61,823,800	51,316,200	113,140,000
Regional Measure 3 Bridge Toll	0	55,661,139	55,661,139
Funding To Be Determined		37,026,111	37,026,111
Total	\$349,827,039	\$778,147,961	\$1,127,975,000

Source: SFMTA

Of the total \$1.1 billion to purchase 219 light rail vehicles, SFMTA has commitments for \$660.8 million in funds from federal, state, and local sources (including the \$19.2 million in excess ERAF funds), as shown in Table 4 below, and anticipates an additional \$449 million in Transit Capital Priorities funds.

¹ This includes the purchase price of each vehicle and associating costs including spare parts, manuals, training, special tools and equipment, and other costs.

Table 4: Committed and Anticipated Funds

Source	Committed	Anticipated	Total
Proposition K Sales Tax	193,920,778	0	193,920,778
Metropolitan Transportation Commission			
Transit Capital Priorities	0	449,062,643	449,062,643
Bay Area Toll Authority	79,838,236	0	79,838,236
GF New Revenue	19,247,904	0	19,247,904
SFTMA - Revenue Bond	145,050,650	0	145,050,650
Federal Transit Administration			
5307 Urbanized Area Formula Program	10,227,539	0	10,227,539
Central Subway	16,800,000	0	16,800,000
Operating	8,000,000		8,000,000
Caltrans			
Transit & Intercity Rail Capital Program	113,140,000	0	113,140,000
Regional Measure 3 Bridge Toll	<u>55,661,139</u>	<u>0</u>	<u>55,661,139</u>
Total	\$641,886,246	\$449,062,643	\$1,090,948,889
Additional Funding – To Be Determined			37,026,111
Total			\$1,127,975,000

Source: SFMTA

Of the \$641.9 million in committed funds, SFMTA has received \$397.5 million.² In addition, the SFMTA anticipates \$449.1 million in Metropolitan Transportation Commission funds for Transit Capital Priorities. The Transit Capital Priorities funds are Federal Transit Administration funds granted to the Metropolitan Transportation Commission based on a formula. According to SFMTA staff, the Metropolitan Transportation Commission prioritizes transit vehicle replacement, and SFMTA expects to receive these funds between FY 2020-21 and FY 2024-25.

RECOMMENDATION

Approve the proposed ordinance.

² Funds that have been committed but not received include \$62.8 million in Proposition K sales tax revenues from the San Francisco County Transportation Authority, \$79.8 million from the Metropolitan Transportation Commission from bridge tolls, \$19.2 million in excess ERAF funds, \$26.9 million from Caltrans from the Transit & Intercity Rail Program, and \$55.7 million from Regional Measure 3 bridge tolls. According to SFMTA, (a) the San Francisco County Transportation Authority has programmed the \$62.8 million for FY 2021-22 through FY 2024-25 as part of the Five-Year Prioritization Program and Strategic Plan; (b) of the \$79.8 million from the Metropolitan Transportation Commission, \$59 million was allocated on January 23, 2019 and is now available to SFMTA and the remaining \$21 million is expected to be available later in the year; (c) SFMTA and Caltrans are in the process of executing the grant agreement for \$26.9 million in Transit & Intercity Rail Program funds; and (d) \$55.6 in Regional Measure 3 Bridge Toll funds are part of the \$140 million Regional Measure 3 allocation to SFMTA (a lawsuit is pending challenging Measure 3's validity).