

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

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: February 9, 2017 Special Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File	Page
3	17-0032 Accept and Expend Grant – Association of Bay Area Governments – Implementation of the Lower Cherry Aqueduct Emergency Rehabilitation Project – Up to \$3,000,000	1
4	17-0033 Accept and Expend Grant – California Governor’s Office of Emergency Services – Hazard Mitigation Grant Program - \$404,208	6
5	17-0065 Funding Application – Board of State and Community Corrections – Renovation of County Jail No. 2 - \$70,000,000 of State Funding - \$12,000,000 of Additional City Funding.....	10

Item 3 File 16-0032	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
Legislative Objectives	
<ul style="list-style-type: none"> • The proposed resolution would authorize the Public Utilities Commission (PUC) to accept State grant funds of up to \$3,000,000 from the Association of Bay Area Governments (ABAG) for the Lower Cherry Aqueduct Emergency Rehabilitation Project. • The resolution, as it is currently written, does not authorize PUC to expend these grant funds. Therefore, the proposed resolution should be amended to clarify that it authorizes PUC to accept and expend an award of up to \$3,000,000. 	
Key Points	
<ul style="list-style-type: none"> • On February 21, 2014, the Vice President of the PUC issued a Declaration of Emergency due to drought conditions and the need for critical repairs and projects to expand the City's supply of water, including repair of the Lower Cherry Aqueduct (LCA), which conveys water from Cherry Creek located in Tuolumne County. • In 2014, PUC began the Lower Cherry Aqueduct Emergency Rehabilitation Project because the LCA system was unable to convey supplemental water reliably to the regional water system due to its age and damage caused by the 2013 Rim Fire. The Project is scheduled to be completed by March 2019. • The General Manager of the PUC executed a Memorandum of Understanding (MOU) with ABAG for the disbursement of \$3,000,000 in State grant funds to PUC for the Lower Cherry Aqueduct Emergency Rehabilitation Project. The MOU between the two parties will expire on May 1, 2019, or when all parties' obligations under the State grant agreement are fully satisfied, whichever comes first. 	
Fiscal Impact	
<ul style="list-style-type: none"> • The proposed grant requires that the PUC contribute matching funds of at least \$7,000,000, but the PUC anticipates contributing \$10,989,105 in matching funds. Therefore, the proposed resolution should be amended to state that the PUC's estimated cost-share match is \$10,989,105 and not \$7,000,000. • The Lower Cherry Aqueduct Emergency Rehabilitation Project is included in the Hetch Hetchy Capital Improvement Plan. Funds of \$10,989,105 to match the \$3,000,000 ABAG grant are proceeds from Water Enterprise Revenue Bonds, previously appropriated by the Board of Supervisors. State grant funds would offset PUC funds previously allocated to the Project and would not alter the scope of the Project. 	
Recommendations	
<ul style="list-style-type: none"> • Amend the proposed resolution to clarify that it authorizes the PUC to accept and expend an award of up to \$3,000,000. • Amend the proposed resolution to state that the PUC's estimated cost-share match is \$10,989,105 and not \$7,000,000. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

BACKGROUND

On February 10, 2014, the Mayor issued an Executive Directive to all City departments outlining initiatives to reduce water use. The Mayor specifically directed the Public Utilities Commission (PUC) to develop alternative sources of water supplies for both potable and non-potable uses.

On February 21, 2014, the Vice President of the PUC issued a Declaration of Emergency due to drought conditions—at the time, precipitation in the Hetch Hetchy watershed was 47 percent of normal and snowpack was 22 percent of normal. The Declaration found that repairs to the Lower Cherry Aqueduct were critical to ensuring the sustainability of the City's water supply and authorized the Water Enterprise to procure construction and professional services to conduct repairs.

Lower Cherry Aqueduct Emergency Rehabilitation Project

The Lower Cherry Aqueduct (LCA) was constructed to convey water from Cherry Creek in Tuolumne County to supplement the City's primary water supply from the Hetch Hetchy Reservoir during a drought year. In 2014, PUC began the Lower Cherry Aqueduct Emergency Rehabilitation Project because the LCA system was unable to convey supplemental water reliably to the regional water system due to its age and damage caused by the Rim Fire¹. The last time PUC had used the LCA system to provide supplemental water was 1988.²

On September 2, 2014, the Board of Supervisors approved³ an emergency public work contract between the PUC and Flatiron West, Inc. to perform work to repair the Lower Cherry Aqueduct (File 14-0586). Pursuant to Administrative Code 6.60, PUC conducted a modified competitive process to select Flatiron West, Inc. as the construction manager/general contractor for the LCA project. On December 16, 2014, the Board approved additional funding for the project to cover additional expenditures submitted in a revised budget (File 14-1159).

Due to an unanticipated right-of-way correction, which affected the project timeline, the Project was split into two phases.⁴ Phase 1 of the project was completed in 2015 and Phase 2 of the project, currently underway, is scheduled to be completed by March 2019. The scope of

¹ The Rim Fire was a wildfire started in the summer of 2013 and was the third largest wildfire in California's history. It occurred in the Sierra Nevada mountain range and was fully contained only after nine weeks.

² After Phase 1 of the project was completed, PUC used the LCA to deliver 500 million gallons of water from Cherry Reservoir to its customers during a three-week test from October 10, 2015 to November 3, 2015.

³ In accordance with Administrative Code Section 6.60

⁴ Right-of-way maps incorrectly showed the LCA on land owned by the U.S. Forest Service. The maps have been corrected to show the location of the LCA on City-owned land, and PUC is awaiting approval of the corrected maps by the Bureau of Land Management (BLM). PUC cannot begin Phase 2 construction until BLM approves the corrected maps.

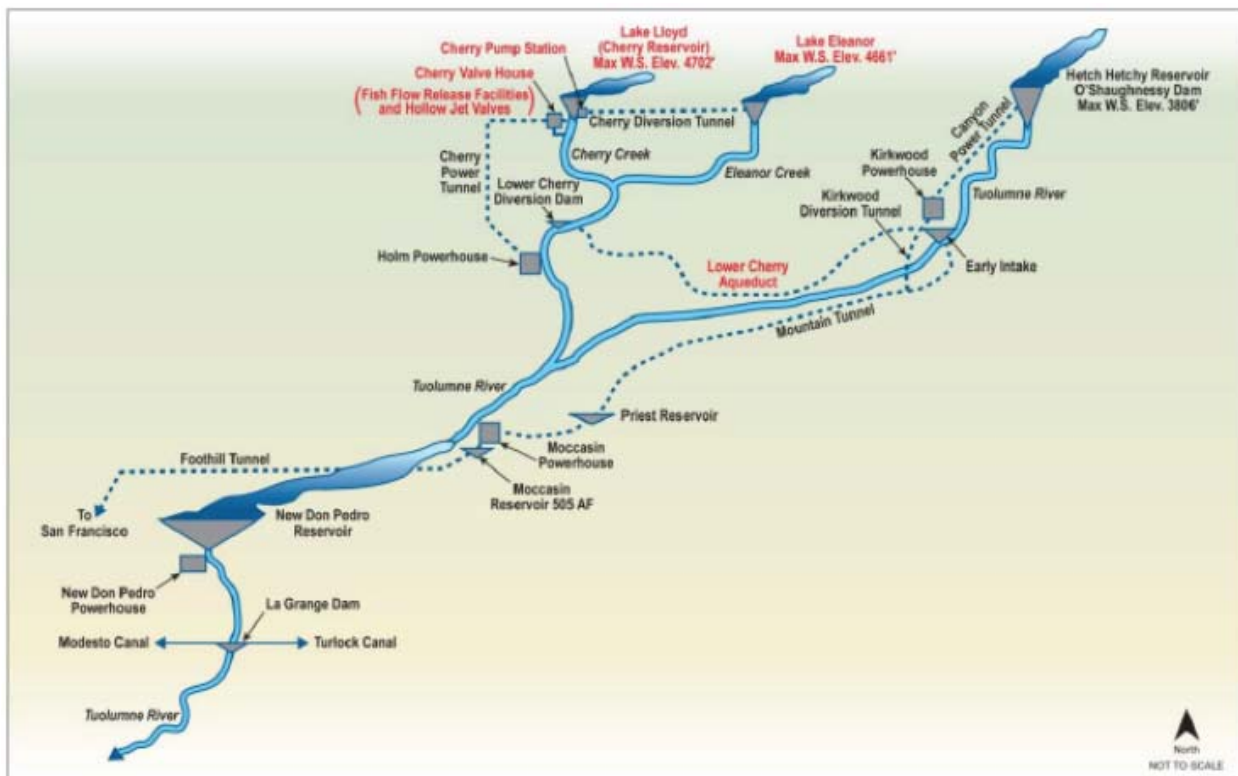
work for Phase 1 of the project included: repairs related to damages from the Rim Fire; repairs to tunnels and pipelines; the rebuilding of bridges and fences; and the installation of additional water quality monitoring equipment. The scope of work for Phase 2 includes repairs to the Cherry Creek Diversion Dam and other facilities. PUC anticipates design planning for Phase 2 to be completed in May 2017 and for the Bid and Award phase to begin in September 2017.

Proposition 84 Integrated Regional Water Management Grant

On behalf of numerous local public agencies, including the PUC, the Association of Bay Area Governments (ABAG) applied for and received a Proposition 84 Integrated Regional Water Management Grant from the State of California Department of Water Resources to help fund the implementation of various regional water conservation projects. The grant to ABAG was for \$32,178,428 in State funding, of which \$3,000,000 is for the Lower Cherry Aqueduct Emergency Rehabilitation Project. The General Manager of the PUC executed a Memorandum of Understanding (MOU) with ABAG for the disbursement of \$3,000,000 in State grant funds to PUC for the Lower Cherry Aqueduct Emergency Rehabilitation Project.

Figure 1 below shows the Tuolumne River System, including the Lower Cherry Aqueduct.

Figure 1: Tuolumne River System Showing the Lower Cherry Aqueduct



Source: PUC

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the PUC to accept State grant funds of up to \$3,000,000 from ABAG for the Lower Cherry Aqueduct Emergency Rehabilitation Project. The

resolution, as it is currently written, does not authorize PUC to expend these grant funds. Therefore, the proposed resolution should be amended to clarify that the resolution authorizes PUC to accept and expend an award of up to \$3,000,000.

The State grant funding provides reimbursement for project activities dated after January 1, 2014, and receipt of full grant funds is contingent on PUC providing matching funds of at least \$7,000,000. The MOU between the two parties will expire on May 1, 2019, or when all parties' obligations under the State grant agreement are fully satisfied, whichever comes first.

FISCAL IMPACT

The proposed grant requires that the PUC contribute matching funds of at least \$7,000,000, but the PUC anticipates contributing \$10,989,105 in matching funds. Therefore, the proposed resolution should be amended to state that the PUC's estimated cost-share match is \$10,989,105 and not \$7,000,000. Table 1 below shows the \$13,989,105 project budget. PUC has already spent \$9,290,199 on the project and anticipates spending an additional \$4,698,906 before project completion.

Table 1: Total Lower Cherry Aqueduct Project Budget

Use	Expenditures to Date	Projected Future Expenditures	Total Estimated Expenditures at Completion
Project Management/PD	\$17,602	\$0	\$17,602
Planning	288,430	0	288,430
Environmental	1,099,072	50,000	1,149,072
Design	2,296,733	200,000	2,496,733
Bid & Award	265	79,392	79,657
Construction Management	140,899	793,920	934,819
Construction	4,195,904	2,222,975	6,418,879
Closeout	14,613	79,392	94,005
Contingency (25%)	0	939,781	939,781
Subtotal, Direct Costs	\$8,053,518	\$4,365,460	\$12,418,978
Indirect Costs	1,236,681	333,446	1,570,127
Total	\$9,290,199	\$4,698,906	\$13,989,105

Source: Lower Cherry Aqueduct Emergency Rehabilitation Project Budget

The current budget of approximately \$14 million is \$8 million less than the revised budget of \$22 million submitted to the Budget and Finance Committee in 2014 and reflects reductions in the scope of the project.⁵ According to Ms. Tracy Cael, Regional Project Manager at PUC, two components of the initial project have been removed from the project scope: a large diameter High Density Polyethylene (HDPE) pipe that was to be placed in the aqueduct, and a hard tie-in

⁵ As mentioned previously, the Board approved additional funding for the project to cover additional expenditures submitted in a revised budget in December 2014 (File 14-1159).

from the LCA to the Mountain Tunnel bypass.⁶ Both were removed from the project scope to reduce project cost and make additional funds available for other water infrastructure projects.

The Lower Cherry Aqueduct Emergency Rehabilitation Project is included in the Hetch Hetchy Capital Improvement Plan. Funds of \$10,989,105 to match the \$3,000,000 ABAG grant are proceeds from Water Enterprise Revenue Bonds previously appropriated by the Board of Supervisors. According to Mr. Dan Wade, Director of Water Infrastructure Capital Projects and Programs at PUC, State grant funds would offset PUC funds previously allocated to the Project and would not alter the scope of the Project.

RECOMMENDATIONS

1. Amend the proposed resolution to clarify that it authorizes the PUC to accept and expend an award of up to \$3,000,000.
2. Amend the proposed resolution to state that the PUC's estimated cost-share match is \$10,989,105 and not \$7,000,000.
3. Approve the proposed resolution as amended.

⁶ The LCA is an open canal. The HDPE pipe and the hard tie-in to the Mountain Tunnel bypass would have closed portions of the aqueduct, protecting the water from falling debris.

Item 4 File 17-0033	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the PUC to accept and expend Federal Emergency Management Agency (FEMA) grant funds of \$404,208 for the Early Intake Slope Stabilization Project. Grant funds would be disbursed by the Governor’s Office of Emergency Services (Cal OES) through the reimbursement process and would cover 68 percent of direct costs of \$594,341 for Pre-Award activity and Phase One of the Project. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Early Intake Switchyard, located in the Tuolumne River Canyon downstream of the Kirkwood Powerhouse, transmits power generated at the Holm and Kirkwood Powerhouses to the Moccasin Powerhouse. • The 2013 Rim Fire badly burned the slope adjacent to the Early Intake Switchyard, increasing the risk of slope hazards such as rock falls, landslides, debris/mud flows, and uncontrolled runoff, which could damage the switchyard and impact power transmission from two of the three powerhouses to San Francisco. • PUC applied for a Hazard Mitigation Grant from the (FEMA) to help fund the Early Intake Slope Stabilization Project, intended to mitigate potential slope hazards. FEMA approved funding for Pre-Award Activity and Phase One of the Project, which will include engineering, design and environmental study. After completion of Phase One, FEMA will review the environmental analysis and determine if additional funding for Phase Two will be approved. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The grant agreement between PUC and the Governor’s Office of Emergency Services requires that the PUC contribute matching funds of \$190,133, equal to 32 percent of the project budget of \$594,341. PUC matching funds of \$190,133 were previously appropriated by the Board of Supervisors in the Hetch Hetchy Capital Improvement Project for power infrastructure. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • FEMA approved a total duration of ten months for Phase One work, with a completion date of April 6, 2017. However, Phase One completion is not expected until September 2018. Pending Board approval of the proposed resolution, PUC plans to apply for a time extension with CAL OES. According to staff, PUC does not anticipate any objection from CAL OES or impact to the project timeline. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

BACKGROUND

The Public Utilities Commission (PUC) owns and operates the Hetch Hetchy Power System, which delivers energy generated by three hydroelectric powerhouses in Tuolumne County to San Francisco along City-owned transmission lines. The Early Intake Switchyard, located in the Tuolumne River Canyon downstream of the Kirkwood Powerhouse, transmits power generated at the Holm and Kirkwood Powerhouses to the Moccasin Powerhouse.

The 2013 Rim Fire¹ badly burned the slope adjacent to the Early Intake Switchyard, increasing the risk of slope hazards such as rock falls, landslides, debris/mud flows, and uncontrolled runoff, which could damage the switchyard and impact power transmission from two of the three powerhouses to San Francisco. PUC applied for a Hazard Mitigation Grant² from the Federal Emergency Management Agency (FEMA) to help fund the Early Intake Slope Stabilization Project, intended to mitigate potential slope hazards. FEMA awarded, through the California Governor's Office of Emergency Services (Cal OES), a grant of \$404,208 for Pre-Award activity and Phase One of the Project, which will include engineering design and environmental study.

PUC has completed the Pre-Award activity for the grant application, and Phase One is expected to be completed in September 2018. The design phase is currently underway, and the environmental survey is expected to begin in February 2017. After completion of Phase One, FEMA will review the environmental analysis and determine if additional funding for Phase Two will be approved.³

PUC requested proposals from five pre-qualified firms for design services for the Project.⁴ Two of the firms submitted a quote. According to Ms. Tracy Cael, Regional Project Manager at PUC, PUC scored each firm based on three criteria: 1) relevant experience and qualifications of the proposed personnel; 2) technical approach to the scope of work; and 3) cost. Based on these criteria, PUC selected Black and Veatch for design services.

PUC selected RMC to submit a proposal for environmental study services for the Project from a pool of four as-needed environmental consulting firms.⁵ Ms. Cael states that RMC was selected based on the firm's environmental specialty, familiarity with the project area, and familiarity

¹ The Rim Fire was a wildfire started in the summer of 2013 and was the third largest wildfire in California's history. It occurred in the Sierra Nevada mountain range and was fully contained only after nine weeks.

² Because the Rim Fire was declared a major federal disaster, the State of California is eligible to apply for Hazard Mitigation Grant Program funds.

³ PUC will not need to reapply for Phase Two funding.

⁴ The five pre-qualified firms were selected through a competitive process as part of a Request for Proposals (RFP).

⁵ The four firms in the as-needed pool for environmental consulting services were selected through a competitive process as part of a RFP.

with the Forest Service and FEMA implementing regulations. The firm's subconsultants supporting the project have worked on prior Hetch Hetchy projects that conducted surveys in the immediate vicinity of the Early Intake Switchyard and already possess federal permits to conduct fieldwork on the Stanislaus National Forest.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the PUC to accept and expend FEMA grant funds of \$404,208 for Pre-Award activity and Phase One of the Early Intake Slope Stabilization Project. Grant funds would be disbursed by Cal OES through the reimbursement process and would cover 68 percent of direct costs of \$594,341 for Pre-Award activity and Phase One of the Project.

FISCAL IMPACT

The grant agreement between PUC and the Governor's Office of Emergency Services requires that the PUC contribute matching funds of \$190,133, equal to 32 percent of the Pre-Award activity and Phase One of the Early Intake Slope Stabilization Project budget of \$594,341.

Table 1 below shows the Pre-Award and Phase One budget of \$594,341.

Table 1: Pre-Award and Phase One Budget, Early Intake Slope Hazard Mitigation Project

Sources	Amount
Hetch Hetchy Power Infrastructure Capital Improvement Program	\$190,133
Governor's Office of Emergency Services Grant	<u>404,208</u>
Total Sources	\$594,341
Uses	
Assessment & Engineering Support for HMGP	\$54,330
Sub-Application (Contractor)	
Project Management (PUC Staff)	97,270
Environmental (Contractor and PUC Staff)	277,141
Design (Contractor)	<u>165,600</u>
Total Uses	\$594,341

Source: Early Intake Slope Hazard Mitigation Project Budget

PUC matching funds of \$190,133 were previously appropriated by the Board of Supervisors in the Hetch Hetchy Capital Improvement Project for power infrastructure. According to Mr. Dan Wade, Director of Water Infrastructure Capital Projects and Programs at PUC, Federal grant funds would offset PUC funds for the Project.

POLICY CONSIDERATION

FEMA approved a total duration of ten months for Phase One work, with a completion date of April 6, 2017. Because Phase One completion is not expected until September 2018, PUC will need an extension from FEMA in order to receive reimbursement of project costs incurred after the completion date in FEMA's letter. Pending Board approval of the proposed resolution, PUC plans to formally apply for a time extension with Cal OES. According to Ms. Cael, PUC does not anticipate any objection from Cal OES on a request for a time extension and anticipates no impact to the project timeline.

RECOMMENDATION

Approve the proposed resolution.

Item 5
File 17-0065

Departments: San Francisco Public Works
Controller's Office of Public Finance
Sheriff's Department

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would: 1) authorize the Sheriff's Department to submit a funding application to the Board of State and Community Corrections (BSCC) for \$70,000,000 to partially fund the renovation of County Jail No. 2; 2) outline the matching cash contribution of \$8,200,000 and additional funds of \$3,800,000 for a total of \$12,000,000 needed for the proposed project; and 3) approve the form and execution of associated financing and construction documents.

Approval of the proposed resolution authorizes 1) Public Works and the Sheriff's Department to precede with the proposed renovation of County Jail No. 2; and 2) the Office of Public Finance to issue up to \$12,000,000 in commercial paper.

Key Points

- County Jail Nos. 3 and 4 are seismically deficient, outdated, and slated for closure.
- In November 2015, the City received a conditional intent to award \$80 million of funds from the BSCC and the State Public Works Board to partially fund the construction of a replacement jail, but in December 2015, the Board of Supervisors rejected the proposal.
- During 2016, the Director of Health and the Sheriff convened a working group to develop alternatives to jail replacement, such as renovation of County Jail No. 2 to accommodate a portion of the inmates that would be displaced by the closure.
- The Phase 1 scope for the renovation would include upgrades to limited areas of County Jail No. 2 for a not-to-exceed budget of \$82 million.

Fiscal Impact

- Upon grant award, the Office of Public Finance will issue commercial paper as interim financing.
- Use of \$70,000,000 in grant proceeds and \$12,000,000 in COPs proceeds, totaling \$82,000,000 to fund the proposed renovation of County Jail No. 2, are subject to future Board of Supervisors appropriation approval.
- The Office of Public Finance estimates a 6.5 percent fixed interest rate for the COPs, resulting in approximately \$12,159,929 in interest payments over a 20-year term. The principal amount of \$14,990,000, plus the estimated interest payments of \$12,159,929 would result in \$27,149,929 in total debt service payments.

Policy Consideration

- Although there is a downward trend in the average daily inmate population, the proposed project would not accommodate the low-end forecasted need of 120 replacement jail beds.

Recommendations

- Amend the proposed resolution to correctly state on page 2, lines 20 to 23, that the proposed resolution authorizes the issuance of \$12,000,000 in commercial paper as interim project funding
- Amend the proposed resolution to state that BSCC grant proceeds of \$70,000,000 are subject to future Board of Supervisors appropriation approval.
- Approval of the proposed resolution is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Administrative Code Section 10.170(b) states that, for grants of \$5,000,000 or more, the department head shall submit a resolution articulating the grant application to the Board of Supervisors at least 60 days prior to the grant deadline for review and approval. Should the department fail to submit the resolution and/or supporting documents prior to the 60-day deadline, all funds received through the grant application shall be placed on reserve at the Board of Supervisors.

BACKGROUND

The City's Capital Planning Committee has determined that County Jail Nos. 3 and 4, located in the Hall of Justice (HOJ) at 850 Bryant Street, are seismically deficient and outdated. Replacing County Jail Nos. 3 and 4 has been a high priority in the City's Ten-Year Capital Plan since 2006.

In November 2015, the City received a conditional intent to award \$80 million of funds from the Board of State and Community Corrections (BSCC) and the State Public Works Board to partially fund the construction of a new jail to replace County Jail Nos. 3 and 4. The jail replacement project was estimated to cost approximately \$240 million. In December 2015, the Board of Supervisors rejected the proposal to replace County Jail Nos. 3 and 4 with a new facility adjacent to the HOJ.

In January 2016, the Board of Supervisors urged the Director of Health and the Sheriff to convene a working group to plan for the closure of County Jail Nos. 3 and 4, and corresponding investments in new mental health facilities and retrofits to other existing jails (Resolution No. 2-16). The working group met monthly from March through October 2016 and developed a set of recommendations, which included renovation of County Jail No. 2, located at 425 7th Street adjacent to the HOJ, to accommodate a portion of the incarcerated people that would be displaced by the closure of County Jail No. 4 (County Jail No. 3 is not currently in use). County Jails Nos. 3 and 4 have a combined total of 905 beds.¹ County Jail No. 2 has 466 beds and would need to be renovated to accommodate inmates who need to be housed in a facility with higher-security classifications.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

- Authorize the Sheriff's Department to submit a funding application to the Board of State and Community Corrections (BSCC) for \$70,000,000 to partially fund the renovation of County Jail No. 2;
- Outline the matching cash contribution of \$8,200,000 and additional funds of \$3,800,000 for a total of \$12,000,000 needed for the proposed project; and

¹ The Sheriff's Department has 2,515 beds in five county jails. Permanent closure of the 905 beds in County Jail Nos. 3 and 4 will reduce the total number of beds to 1,610, a reduction of 36 percent. Of the existing 2,515 beds, only 2,438 are deemed useable.

- Approve the form and execution of associated financing and construction documents.

Approval of the proposed resolution authorizes:

- San Francisco Public Works and the Sheriff's Department to proceed with the proposed renovation of County Jail No. 2;
- The Office of Public Finance to issue up to \$12,000,000 in commercial paper²; and
- San Francisco officials to execute construction and financing documents for the project.

Matching Funds

The BSCC funds of \$70,000,000 require a City match of \$8,200,000, and an additional \$3,800,000 is needed for the proposed renovation project. Commercial paper will be used for the \$12,000,000 in matching and other funds.

The Office of Public Finance expects to issue up to \$14,990,000 in Certificates of Participation (COPs) in FY 2019-20 to refinance the \$12,000,000 in commercial paper, costs of COPs issuance, and debt service reserve for the proposed renovation project.

Project Description

The City has identified a selective scope for a not-to-exceed budget of \$82 million to address some of the most pressing needs of the Sheriff's Department at County Jail No. 2 (Phase 1). According to the Sheriff's Department, full renovation to bring the building up to current code and detention grade is estimated to cost over \$200 million. The Phase 1 scope would improve and upgrade limited areas of County Jail No. 2, as follows:

- Replace existing commercial interiors with detention-grade elements in Pods A and D
- Perform selective alterations and structural strengthening to ensure code compliance
- Infill one atrium to provide inmate program and visiting space
- Rebuild existing non-operational kitchen
- Replace HVAC system and perform related roof repairs

Possible enhancements to the scope of Phase 1, if there is capacity in the fixed budget of \$82 million, include:

- Improvements to safety and isolations cells in Pod C and safety cells in County Jail No. 1
- Install suicide barriers in Pods B, E, and F
- Upgrade security systems in conformance with the Prison Rape Elimination Act
- Infill a second atrium to provide inmate program and visiting space

² Commercial paper is a form of interim financing for capital projects that permits the City to pay project costs as project expenditures are incurred. The City's \$250,000,000 Commercial Paper program was previously authorized by the Board of Supervisors. As of February 2017, the outstanding principal amount of commercial paper notes available to be issued is \$211,500,000.

Project Timeline

If the City is awarded the BSCC grant, the San Francisco Public Works expects to issue a Request for Qualifications (RFQ) for design services for jail renovations in August 2017 and award the contract by December 2017. San Francisco Public Works intends to issue an RFQ for construction management services in September 2017 and award the contract by January 2018, and issue an RFQ for a general contractor in January 2019 and award the contract by February 2020, as shown in Table 1 below.

Table 1: Proposed Timeline for RFQ Issuance and Contract Awards

Task	Issue RFQ	Award Contract
Design Services	August 2017	December 2017
Construction Management	September 2017	January 2018
General Contractor	January 2019	February 2020

Construction is expected to begin in mid-2020 and be completed by the end of 2021.

FISCAL IMPACT

The budget for Phase 1 of the County Jail No. 2 renovation project is \$82,000,000 as shown in Table 2 below.

Table 2: Sources and Uses of Funds for the Jail Replacement Project

	Total Budget
Sources of Funds	
BSCC Funds	\$70,000,000
COPs Proceeds (Includes repayment of prior appropriations) – See Table 3	12,000,000
Total Sources	\$82,000,000
Uses of Funds	
<i>Construction</i>	
Construction Contract Award (Estimated Bid)	\$38,300,000
Market Conditions Contingency (5%)	1,915,000
Current Code/Standards Compliance	5,227,950
Construction Contingency (15%)	6,032,250
Unknown Existing Conditions Contingency (10%)	4,021,500
Phased Construction Premium (13%)	5,026,875
Subtotal Construction (rounded)	\$65,300,000
<i>Project Control</i>	
Client Department Services	\$653,000
San Francisco Public Works Project Management	3,265,000
City Administrative Services	326,500
Regulatory Agency Approvals	1,306,000
Architecture/Engineering Services	6,530,000
Environmental Services	65,300
Construction Management Services	2,612,000
Commissioning Services	979,500
Geotech, Haz Mat, Surveys & Data	359,150
Project Control Contingency (1%)	653,000
Subtotal Project Control (rounded)	\$16,700,000
Total Uses	\$82,000,000

Sources: San Francisco Public Works, Office of Public Finance

\$70,000,000 in grant proceeds and \$12,000,000 in COPs proceeds, totaling \$82,000,000, are subject to future Board of Supervisors appropriation approval.

Certificates of Participation

If the City receives a conditional intent to award financing from the BSCC for the proposed renovation project, City staff will submit legislation to the Board of Supervisors to authorize the issuance of \$12,000,000 in COPs, as shown in Table 3 below.

Table 3: Certificates of Participation Uses

Project Costs	
Jail Renovation Costs	\$12,000,000
Controller's Audit Fund (0.2%)	24,000
Subtotal Project Costs	\$12,024,000
Costs of Issuance	
Reserve/Capitalized Interest	\$893,154
Debt Service Reserve	1,366,025
Underwriter's Discount	104,930
Other Costs of Issuance	601,891
Subtotal Costs of Issuance	\$2,966,000
Total Project and Issuance Costs	\$14,990,000
Reserve for Market Uncertainty	\$1,010,000
Total Required Appropriation	\$16,000,000

As noted above, if the City receives the grant award, the Office of Public Finance will issue commercial paper notes as interim financing. The commercial paper notes are to be reimbursed by the COPs proceeds, subject to appropriation approval from the Board of Supervisors.

Principal and Interest on the COPs

The Office of Public Finance estimates a 6.5 percent fixed interest rate for the COPs, resulting in approximately \$12,159,929 in interest payments over the 20-year term. The principal amount of \$14,990,000, as shown in Table 3 above, plus the estimated interest payments of \$12,159,929 would result in \$27,149,929 in total debt service payments over the life of the COPs, as shown in Table 4 below.

Table 4: Total Debt Service Payments, Certificates of Participation

COP Payment Type	Amount
Par Amount	\$14,990,000
Estimated Interest Payments	12,159,929
Total	\$27,149,929

The Office of Public Finance estimates annual average debt service payments of \$1,357,496 and maximum annual debt service payment of \$1,366,025 over approximately 20 years.

The City's Debt Service Limit

The City's financial policies, previously approved by the Board of Supervisors, limit the City's annual General Fund-supported debt service to 3.25 percent of discretionary General Fund revenues. According to Mr. Vishal Trivedi, Office of Public Finance Senior Financial Analyst,

issuance of \$12,000,000 in COPs to partially fund the renovation of County Jail No. 2, is projected to be within this 3.25 percent limit.

POLICY CONSIDERATION

Number of Replacement Beds Needed

The proposed renovation project at County Jail No. 2 would retrofit existing beds to a higher-security classification and generate up to eight new jail beds to accommodate some of the inmate population that will be displaced by the closure of County Jail No. 4.

According to the Controller's most recent jail population forecast published in June 2015, the average daily population in 2014 was the lowest it has been since 1982. The Controller's report forecast a need for between 120 and 393 beds to replace County Jail Nos. 3 and 4. This forecast assumes that the existing County Jail No. 6, which is a minimum security dormitory-style jail, and which is currently closed, would not be reopened.³ Although there is a continued downward trend in the average daily inmate population in the County Jails, the proposed renovation project would not accommodate the low end of the forecast range of 120 replacement jail beds.

60-Day Notice for Grant Applications

For grant applications of \$5,000,000 or more, City Administrative Code Section 10.170(b) requires submittal of a resolution to the Board of Supervisors at least 60 days prior to the grant deadline for review and approval. If not submitted prior to the 60-day deadline, all funds received through the grant application shall be placed on reserve at the Board of Supervisors. The proposed resolution was submitted to the Clerk of the Board on January 23, 2017, which is less than 60 days prior to the grant proposal deadline of February 28, 2017. Therefore, the Budget and Legislative Analyst recommends that the proposed resolution be amended to state that BSCC grant proceeds of \$70,000,000 are subject to future Board of Supervisors appropriation approval.

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state on page 2, lines 20 to 23, that the proposed resolution authorizes the issuance of \$12,000,000 in commercial paper as interim project funding.
2. Amend the proposed resolution to state that BSCC grant proceeds of \$70,000,000 are subject to future Board of Supervisors appropriation approval.
3. Approval of the proposed resolution as amended is a policy matter for the Board of Supervisors.

³ The Controller's June 2015 report identified limitations to re-opening County Jail No. 6, including the Sheriff's Department's transportation costs between San Mateo County where the jail is located and the City, lack of public transit to the jail, lack of access to in-custody programs, and lack of appropriate space for mental health and other services.