

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

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
 FAX (415) 252-0461

April 6, 2018

TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst



SUBJECT: April 12, 2018 Budget and Finance Sub-Committee Meeting

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| <p>Item 2 File 18-0302</p> | <p>Department: Adult Probation Department</p> |
| <p>EXECUTIVE SUMMARY</p> | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The requested hearing is for the release of \$876,948 on Budget and Finance Committee reserve to fund the Adult Probation Department’s Community Corrections Probation Case Management System in FY 2016-17. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Adult Probation Department (Adult Probation) has used the same case management system since 2003. Their 15 year old system runs on an outdated operating system which is no longer supported by the vendor. As a result, Adult Probation’s current system is unable to meet their operational and supervisory needs, and further is unable to exchange criminal justice data. • The Committee on Information Technology (COIT) recommended \$3,500,000 for replacement of Adult Probation’s case management system in 2016. The Board of Supervisors placed \$876,948 in the Adult Probation Department’s FY 2016-17 budget on Budget and Finance Committee reserve until the Department could submit a detailed plan on the development of the new case management system. • The Department selected Tribridge Holding LLC through a competitive Request for Proposals (RFP) process issued on February 24, 2017 to develop, license, and maintain the replacement case management system. Adult Probation and Tribridge entered into an agreement effective February 23, 2018. • The reserve balance requested is needed to fund the purchase of products and services from Tribridge Holding, LLC, the selected contractor. Costs include software licensing, maintenance and support, and professional services for project implementation. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The agreement between Adult Probation and Tribridge to develop, license, and maintain the new case management system is not-to-exceed \$3,500,000. Sources of funds to pay for these costs total \$3,536,848, including \$951,948 in General Fund, previously appropriated by the Board of Supervisors (including the requested \$876,948 on Budget and Finance Committee Reserve), and \$2,584,900 in other funds, previously appropriated by the Board of Supervisors. The case management system budget of \$3,500,000 is \$36,848 less than total funding of \$3,536,848 for the case management system. Therefore, the Budget and Legislative Analyst recommends reducing the request for release of \$876,948 on reserve by \$36,848, and approving the release of \$840,100. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the release of \$840,100, and retain \$36,848 on reserve to be closed out at the end of FY 2017-18. | |

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 Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

BACKGROUND

The Adult Probation Department (Adult Probation) has used the same case management system (CMS) since 2003. Their 15 year old system runs on an outdated operating system which is no longer supported by the vendor. As a result, Adult Probation's current system is unable to meet their operational and supervisory needs, and further is unable to exchange criminal justice data. The Committee on Information Technology (COIT) recommended \$3,500,000 for replacement of Adult Probation's case management system in 2016.

The Board of Supervisors placed \$876,948 in the Adult Probation Department's FY 2016-17 budget on Budget and Finance Committee reserve until the Department could submit a detailed plan on the development of the new case management system.

DETAILS OF PROPOSED LEGISLATION

The Adult Probation Department is requesting release of \$876,948 placed on Budget and Finance Committee reserve, pending submission of a detailed plan on the development of the new case management system.

The Department selected Tribridge Holding LLC through a competitive Request for Proposals (RFP) process issued on February 24, 2017. The selected contractor, Tribridge Holding LLC (Tribridge), was the highest qualified scorer pursuant to the RFP, and Adult Probation and Tribridge entered into an agreement effective February 23, 2018.

According to Ms. Diane Lim, Adult Probation's Director of Finance and Administrative Services, their current case management system, CTAG, was implemented in 2003 and no longer meets the department's needs. The new system will improve upon the shortcomings of CTAG which include inability to integrate with other key Adult Probation software, lack of mobile applications, and lack of automated notification systems. Under the current CMS, deputy probation officers must enter duplicate data into multiple systems and take notes by hand which are later transferred into the case management system. Furthermore, deputy probation officers must develop individual systems for tracking key dates for case contacts and court reports, and ensure that sentencing recommendations are consistent with laws and policies. These shortcomings create inefficiencies for the department and increase the risk that sentencing recommendations are inconsistent with law or Adult Probation policies and procedures. The new case management system includes additional functionality such as improved reporting with statistical analysis capabilities and enhanced tracking capabilities.

FISCAL IMPACT

The agreement between Adult Probation and Tribridge to develop, license, and maintain the new case management system is not-to-exceed \$3,500,000, as shown in Table 1 below. The total project costs are consistent with COIT recommendations.

Table 1: Summary of Project Costs

| Item | Cost |
|------------------------------------|--------------------|
| Perpetual Licensed Software | \$381,007 |
| Licensed Software Maintenance | 377,500 |
| Licensed Software Support | 144,000 |
| Professional Services Deliverables | 2,570,999 |
| As needed services | 26,494 |
| Total | \$3,500,000 |

Sources of funds to pay for the costs of the case management system software license, development, and maintenance under the agreement between Adult Probation Department and Tribridge, totaling \$3,536,848, are shown in Table 2 below. Sources of funds include \$951,948 in General Fund, previously appropriated by the Board of Supervisors (including the requested \$876,948 on Budget and Finance Committee Reserve), and \$2,584,900 in other funds, previously appropriated by the Board of Supervisors.

Table 2: Adult Probation CMS Funding

| Fund Type | |
|-----------------------------------|---------------------|
| General Funds | |
| Reserve for CMS | \$ 876,948 |
| IT Administration | 75,000 |
| GF Total | \$ 951,948 |
| Additional Funding Sources | |
| JUSTIS Funds | \$ 243,900 |
| AB109 Realignment Funds | 141,000 |
| SB678 Project Funds | 2,200,000 |
| Additional Funds Total | \$ 2,584,900 |
| Total Project Funds | \$ 3,536,848 |

As noted in Table 1 above, the case management system budget is \$3,500,000, which is \$36,848 less than total funding of \$3,536,848 for the case management system. Therefore, the Budget and Legislative Analyst recommends reducing the request for release of \$876,948 on reserve by \$36,848, and approving the release of \$840,100.

RECOMMENDATION

Approve the release of \$840,100, and retain \$36,848 on reserve to be closed out at the end of FY 2017-18.

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| <p>Items 4, 5 and 6 Files 18-0324, 18-0325 and 18-0326</p> | <p>Department: Office of Public Finance (OPF) Department of Public Works (DPW) Mayor’s Office of Housing and Community Development (MOHCD)</p> |
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EXECUTIVE SUMMARY

Legislative Objectives

- File 18-0324: Resolution authorizing and directing the sale of not-to exceed \$52,500,000 aggregate principal Public Health and Safety Tax-Exempt General Obligation Bonds, Series 2018E, approved by the voters on June 7, 2016.
- File 18-0325: Resolution authorizing and directing the sale of not-to-exceed \$189,735,000 aggregate principal Earthquake Safety and Emergency Response (ESER) Tax-Exempt General Obligation Bonds, Series 2018C, approved by the voters on June 3, 2014.
- File 18-0326: Resolution authorizing and directing the sale of not-to-exceed \$146,000,000 aggregate principal Affordable Housing Taxable General Obligation Bonds, Series 2018D, approved by voters on November 3, 2015.

Key Points

- In June 2014, San Francisco voters approved Proposition A, which authorized the issuance of not-to-exceed \$400,000,000 in general obligation bonds to fund the completion of certain projects funded by the 2010 ESER bonds as well as new ESER projects. In November 2015, San Francisco voters approved Proposition A to authorize the issuance of not-to-exceed \$310,000,000 in taxable and tax-exempt general obligation bonds for affordable housing. In June 2016, San Francisco voters approved Proposition A, the Public Health and Safety General Obligation Bond, which authorizes the issuance of \$350,000,000 in bonds to fund capital projects to renovate fire safety and healthcare facilities, construct a larger City ambulance center, repair neighborhood fire stations, and to build and improve facilities to better serve homeless individuals and families.
- The proposed Series 2018E Public Health and Safety Bonds of \$52,500,000 will be the second series of bonds to be issued under 2015 Proposition A. The proposed Series 2018C ESER bonds of \$189,735,000 will be the third and final series of bonds to be issued under 2014 Proposition A. The proposed 2018D Affordable Housing Bonds of \$146,000,000 will be the second series of bonds to be issued under 2015 Proposition A.

Fiscal Impact

- The requested not-to-exceed total of \$388,235,000 in Series 2018E, 2018C and 2018D bonds are projected to be sold for a par amount of \$382,075,000, which would result in total project funds of \$377,327,076, and Controller’s audit costs, Citizen’s General Obligation Bond Oversight Committee costs, and issuance-related costs totaling \$4,747,924. A reserve of \$6,160,000 is included to allow for potential variations in the interest rates when the bonds are sold.

Fiscal Impact (continued)

- The Office of Public Finance estimates that average annual debt service on the bonds is approximately \$29,390,415. Total interest payments over the 20-year life of the bonds are approximately \$205,733,300, and total principal and interest payments are estimated to be \$587,808,000.
- Repayment of the annual debt service is covered through increases in the annual Property Tax rate, such that homeowners with an assessed value of \$600,000 (assuming a homeowner's exemption of \$7,000) would pay average annual additional Property Taxes to the City of \$74.30 per year if the anticipated \$382,075,000 for the three bonds are sold.

Policy Consideration

- The \$310,000,000 affordable housing general obligation bond is somewhat different than typical City general obligation bonds. Under typical City general obligation bonds, the City hires private contractors to undertake improvements on specific City-owned properties, such that the improvements are also owned by the City. However, under these affordable housing general obligation bonds, the City will not directly engage contractors nor generally own the properties or improvements.
- On March 19, 2018 the Capital Planning Committee approved the issuance and sale of the Series 2018C ESER, Series 2018D Housing, and Series 2018E Public Health and Safety bonds.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

Charter Section 9.105 provides that the issuance and sale of general obligation bonds are subject to approval by the Board of Supervisors.

BACKGROUND2014 Earthquake Safety and Emergency Response (ESER) Bonds

In June 2014, San Francisco voters approved Proposition A, which authorized the issuance of not-to-exceed \$400,000,000 in general obligation bonds to fund the completion of certain projects funded by the 2010 ESER bonds as well as new ESER projects. On July 29, 2014, the Board of Supervisors approved two resolutions (Files 14-0840 and 14-0811) authorizing the issuance of the entire not-to-exceed \$400,000,000 of the 2014 ESER Bonds and the sale of the first series of the 2014 ESER bonds for \$100,670,000. On September 12, 2014, the Board of Supervisors approved an ordinance appropriating the \$100,670,000 (File 14-0801) from the first bond sale. On March 22, 2016, the Board of Supervisors approved a resolution (File 16-0201) authorizing and directing the sale and issuance of the second series of its 2014 ESER general obligation bonds, Series 2016D in an aggregate principal amount not to exceed \$111,060,000, and an ordinance (File 16-0197) appropriating \$111,060,000 in bond proceeds.

The City has issued \$210,265,000 of these 2014 ESER Bonds, as summarized in Table 1 below.

Table 1: 2014 ESER Bonds Previously Issued and Appropriated

| Month and Year | Amount Authorized (Not-to Exceed) | Bonds Issued | Files Numbers of Bond Authorization and Appropriation |
|-----------------------|--|---------------------|--|
| September 2014 | \$100,670,000 | \$100,670,000 | Files 14-0811 and 14-0801 |
| April 2016 | 111,060,000 | 109,595,000 | Files 16-0201 and 16-0197 |
| Total | | \$210,265,000 | |

The remaining balance of the \$400,000,000 in 2014 ESER Bonds is \$189,735,000.

2015 Affordable Housing General Obligation Bonds

On November 3, 2015, San Francisco voters approved Proposition A, by more than the required two-thirds vote, to authorize the issuance of not-to-exceed \$310,000,000 in taxable and tax-exempt general obligation bonds for affordable housing for the following purposes:

- Construct, develop, acquire and preserve housing affordable to low and middle-income households through programs that prioritize vulnerable populations;
- Assist in the acquisition, rehabilitation and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents;
- Target affordable housing investments in the Mission neighborhood;
- Repair and reconstruct dilapidated public housing;
- Fund a middle-income rental program;
- Provide for homeownership down payment assistance for educators and middle-income households;
- Provide independent citizen oversight and regular audits of the above-noted housing programs; and
- Authorize landlords to pass-through to residential tenants in rent controlled units 50% of the increase in property taxes attributable to the cost to repay these bonds.

In accordance with the voters' authorization, these affordable housing bonds will be sold in one or more series and on the terms and conditions, as the Board of Supervisors will determine by resolution. On September 20, 2016, the Board of Supervisors approved two resolutions (Files 16-0867 and 16-0868) authorizing the issuance of the entire not-to-exceed \$310,000,000 of the 2015 Affordable Housing bonds and the sale of the first series of the 2015 Affordable Housing bonds for \$77,000,000. On September 27, 2016, the Board of Supervisors approved an ordinance appropriating the \$77,000,000 (File 16-0850) from the first bond sale. Of the total authorization, \$75,130,000 has been issued to date, leaving \$234,870,000 remaining to be issued.

2016 Public Health and Safety General Obligation Bond

The Board of Supervisors approved a resolution in January 2016 (File 15-1275) to submit \$350,000,000 in General Obligation (GO) Bonds to the voters to upgrade and enhance seismic safety for healthcare facilities, construct a new ambulance facility and repair neighborhood fire stations, and improve homeless care facilities. On June 7, 2016, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Public Health and Safety General Obligation (GO) Bond. Proposition A authorizes the City and County of San Francisco to issue \$350,000,000 in GO bonds to fund capital projects to renovate, expand, and seismically enhance fire safety and healthcare facilities, construct a larger and more modern City ambulance center, and to repair and modernize neighborhood fire stations, and to build, acquire, and improve facilities to better serve homeless individuals and families.

Proposition A approved expenditures of \$350,000,000 for the following projects:

- Seismic improvements and upgrades to fire safety systems to Building 5 on the campus of Zuckerberg San Francisco General Hospital
- Renovation and expansion of the Southeast Health Center and other neighborhood health clinics;
- Higher-capacity and seismically safer ambulance facility to improve emergency medical response;
- Capital improvements to City fire stations facilities;
- Acquisition and construction of homeless services facilities.

On December 6, 2016, the Board of Supervisors approved two resolutions (Files 16-1192 and 16-1193) authorizing the issuance of the entire not-to-exceed \$350,000,000 of the 2016 Public Health and Safety bonds and the sale of the first series of the 2016 Public Health and Safety bonds for \$176,000,000. On December 13, 2016, the Board of Supervisors approved an ordinance appropriating the \$176,000,000 (File 16-1194) from the first bond sale. Of the total authorization, \$173,120,000 has been issued to date, leaving \$176,880,000 remaining to be issued.

DETAILS OF PROPOSED LEGISLATION

The three proposed resolutions authorize the sale and issuance of the following bonds, totaling \$388,235,000:

- File 18-0324: Resolution authorizing and directing the sale of not-to exceed \$52,500,000 aggregate principal Public Health and Safety Tax-Exempt General Obligation Bonds, Series 2018E, approved by the voters on June 7, 2016.
- File 18-0325: Resolution authorizing and directing the sale of not-to-exceed \$189,735,000 aggregate principal Earthquake Safety and Emergency Response (ESER) Tax-Exempt General Obligation Bonds, Series 2018C, approved by the voters on June 3, 2014.
- File 18-0326: Resolution authorizing and directing the sale of not-to-exceed \$146,000,000 aggregate principal Affordable Housing Taxable General Obligation Bonds, Series 2018D, approved by voters on November 3, 2015.

The proposed Series 2018E Public Health and Safety Bonds of \$52,500,000 will be the second series of bonds to be issued under 2015 Proposition A. The proposed Series 2018C ESER bonds of \$189,735,000 will be the third and final series of bonds to be issued under 2014 Proposition A. The proposed 2018D Affordable Housing Bonds of \$146,000,000 will be the second series of bonds to be issued under 2015 Proposition A.

Table 3 below shows the sources and uses for the Series 2018E, 2018C and 2018D bonds.

Table 2: Proposed Sources and Uses of Funds

| | ESER Series 2018C | Housing Series 2018D | Public Health Series 2018E | Total |
|---|------------------------------|---------------------------------|---------------------------------------|----------------------|
| Sources | | | | |
| Par Amount | \$189,735,000 | \$142,255,000 | \$50,085,000 | \$382,075,000 |
| Reserve Proceeds | | \$3,745,000 | \$2,415,000 | \$6,160,000 |
| Total Not-To-Exceed Amount | \$189,735,000 | \$146,000,000 | \$52,500,000 | \$388,235,000 |
| Uses * | | | | |
| <u>Projects</u> | | | | |
| Project Funds | \$187,380,041 | \$140,486,986 | \$49,460,049 | \$377,327,076 |
| Controller's Audit Fund | \$374,760 | \$280,974 | \$98,920 | \$754,654 |
| Projects Subtotal | \$187,754,801 | \$140,767,960 | \$49,558,969 | \$378,081,730 |
| <u>Costs of Issuance</u> | | | | |
| Transaction Costs | \$367,451 | \$277,872 | \$100,308 | \$743,631 |
| Underwriter's Discount | \$1,423,013 | \$1,066,913 | \$375,638 | \$2,865,563 |
| Citizens' General Obligation Bond Oversight Committee | \$189,735 | \$142,255 | \$50,085 | \$382,075 |
| Costs of Issuance Subtotal | \$1,980,199 | \$1,487,040 | \$526,031 | \$3,993,270 |
| Total Uses | \$189,735,000 | \$142,255,000 | \$50,085,000 | \$382,075,000 |
| Reserve Pending Bond Sale ¹ | | \$3,745,000 | \$2,415,000 | \$6,160,000 |
| Total Uses with Reserve | \$189,735,000 | \$146,000,000 | \$52,500,000 | \$388,235,000 |

Source: Letter dated March 30, 2018 from the Office of Public Finance to the Board of Supervisors, re City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response, 2014), Series 2018C (Affordable Housing, 2015), Series 2018D (Public Health and Safety, 2016), Series 2018E

*Ordinances appropriating \$189,735,000 in 2018C ESER bond proceeds (File 18-0314), \$146,000,000 in 2018D Housing bond proceeds (File 18-0315), and \$52,500,000 in 2018E Public Health bond proceeds (File 18-0313) are pending before the Board of Supervisors.

Table 3 below shows the original budgets for the 2014 ESER bond, 2015 Affordable Housing bond, and the 2016 Public Health and Safety bond, the prior appropriations to date, and the proposed bond proceeds to be appropriated from the sale of Series 2018C for the ESER bonds, 2018D for the Housing bonds and the Series 2018E for the Public Health and Safety bonds. As shown in Table 3, if the Board of Supervisors approves the three proposed resolutions, there would be no remaining balance for the 2014 ESER bonds. The 2015 Affordable Housing bond would have a remaining balance of \$88,542,443. The 2016 Public Health and Safety bond would have a remaining balance of \$123,436,210. Therefore, one or more future bonds sales and appropriations will be needed for the 2015 Affordable Housing and 2016 Public Health and Safety bonds.

¹ The Reserve Pending Sale accounts for variations in interest rates prior to the sale of the proposed bonds.

Table 3: ESER, Housing and Public Health and Safety Bond Appropriations

| | Original Budget | Prior Appropriations | Proposed | Balance |
|---|----------------------|-------------------------|----------------------|----------------------|
| 2014 Earthquake Safety and Emergency Response | | | 2018C Bonds | |
| Office of Chief Medical Examiner (OCME) | \$67,533,024 | \$67,533,024 | \$0 | \$0 |
| Traffic Company & Forensic Services Division (TCFSD) | 162,195,000 | 42,703,200 | 120,671,948 | 0 |
| Police Facilities (PF) | 29,490,000 | 21,077,654 | 8,566,278 | 0 |
| Neighborhood Fire Stations (NFS) | 79,916,976 | 22,493,513 | 57,859,605 | 0 |
| Emergency Firefighting Water System (EFWS) | 54,065,000 | 54,065,000 | 282,209 | 0 |
| Oversight, Accountability and Issuance | 6,800,000 | 2,392,609 | 2,354,959 | 0 |
| Total 2014 ESER Bond | \$400,000,000 | \$210,265,000 | \$189,735,000 | \$0 |
| 2015 Affordable Housing | | | 2018D Bonds | |
| Public Housing | \$77,420,000 | \$40,600,000 | \$0 | \$36,820,000 |
| Low-Income Housing | 96,775,000 | 24,000,000 | 67,095,000 | 5,680,000 |
| Mission Neighborhood Housing | 48,385,000 | 6,000,000 | 42,385,000 | 0 |
| Middle-Income Housing | 77,420,000 | 3,803,014 | 29,456,986 | 44,160,000 |
| Oversight, Accountability, Issuance, Legal and Other Incidentals ² , and Reserve | 10,000,000 | 1,054,543 | 7,063,014 | 1,882,443 |
| Total 2015 Affordable Housing | \$310,000,000 | \$75,457,557 | \$146,000,000 | \$88,542,443 |
| 2016 Public Health and Safety | | | 2018E Bonds | |
| ZSFG Building 5 Seismic Upgrade and Outpatient Improvements Program (DPH) | \$218,723,000 | \$112,055,942 | \$0 | \$106,667,058 |
| Southeast Health Center Renovation (Phase 1) and New Addition (Phase 2) Program (DPH) | 29,700,000 | 18,239,644 | 0 | 11,460,356 |
| Community Health Centers Improvement Program (Various Locations) (DPH) | 19,800,000 | 16,190,000 | 0 | 3,610,000 |
| Ambulance Deployment Facility (ADF) Project (SFFD) | 47,940,000 | 13,270,000 | 34,610,049 | 59,951 |
| Neighborhood Fire Stations (NFS) Improvements Program (Various Locations) (SFFD) | 9,150,000 | 6,650,000 | 0 | 2,500,000 |
| Homeless Service Sites (HSH) | 19,700,000 | 4,850,000 | 14,850,000 | 0 |
| Oversight, Accountability, Issuance and Reserve | 4,987,000 | 2,808,704 | 3,039,951 | (861,655) |
| Total 2016 Public Health and Safety | \$350,000,000 | 174,064,290 | \$52,500,000 | \$123,436,210 |

2014 Earthquake Safety and Emergency Response (ESER) Bonds

Proceeds from the ESER 2018C Bonds will partially finance projects within the following program categories:

² According to Mr. McCloskey, "legal and other incidentals" are mainly City Attorney costs related to the bond projects themselves, as well as minor costs directly related to bond projects such as required environmental review advertising. MOHCD did not include the budget for these types of costs in the first issuance of the bond, so MOHCD has advanced funding from another source to cover those costs. With this proposed second issuance of the housing bonds, MOHCD will reimburse any funding which has been advanced and MOHCD will have funds available for future similar costs.

- Traffic Company & Forensic Services Division – Construction costs, the Public Art Program, project management costs, permitting, construction management fees, and testing & special inspection expenses for this facility.
- Police Stations – Design services and construction for Mission Station, Ingleside Station, the Police Academy, Park Station, and a package of mechanical, electrical and plumbing improvements.
- Neighborhood Fire Stations (NFS) – Station 35 (remainder of the design-build contract, construction, permits, city administrative services, in house architectural, engineering, and construction management services), Public Art Program, and Materials Testing and Special Inspection services (MTSI), Program Management, Focused Scope projects (fund remaining construction costs for the exterior envelope packages 1 and 2, heating, ventilation, and air conditioning (HVAC) package 1, fully fund remaining construction for the Apparatus Bay doors

2015 Affordable Housing General Obligation Bonds

Proceeds from the Affordable Housing 2018D Bonds will partially finance projects within the following program categories:

- Public Housing Projects – Accelerating the reconstruction and rehabilitation of distressed public housing facilities, including infrastructure replacement, as well as the creation of net new units within reconstruction programs.
- Low-Income Housing Projects – Funding the acquisition and rehabilitation of existing rent-controlled buildings to protect against the loss of affordable units, as well as purchase properties for the development of new affordable housing, and accelerate the production of new affordable housing, in particular through the Mission Area Plan program.
- Mission Neighborhood Housing – Loans for the development of a 143-unit affordable housing development at 1990 Folsom Street.
- Middle-Income Housing – Increasing the cap on Down Payment Assistance loans and the range of eligible households, expand the Teacher Next Door program to provide housing assistance to San Francisco schoolteachers, and allow for the development or preservation of middle-income rental opportunities.

2016 Public Health and Safety General Obligation Bond

Proceeds from the Public Health and Safety 2018E Bonds will partially finance projects within the following program categories:

- San Francisco Fire Department Ambulance Deployment Facility – Construction costs and all project controls costs for this facility, including but not limited to, Public Arts Program, project management, permitting, construction management, architectural and engineering design services, and materials testing and special inspection.

- Homelessness Services – The balance of the property purchase transaction for 440 Turk Street, construction costs for 1068 Mission Street, and construction and project controls costs, including but not limited to scope feasibility studies, architectural and engineering design services, construction management, permitting, materials testing and special inspection, for 1001 Polk St, 260 Golden Gate Avenue, and 525 5th Street.

FISCAL IMPACT

As shown in Table 2 above, the requested not-to-exceed total of \$388,235,000 in Series 2018E, 2018C and 2018D bonds are projected to be sold for a par amount of \$382,075,000, which would result in total project funds of \$377,327,076, and Controller’s audit costs, Citizen’s General Obligation Bond Oversight Committee costs, and issuance-related costs totaling \$4,747,924. The difference between the requested not-to-exceed total of \$388,235,000 and the projected par amount of \$382,075,000 reflects the \$6,160,000 reserve, which is included to allow for potential variations in the interest rates when the bonds are sold. The Office of Public Finance anticipates selling these bonds on May 15, 2018.

Based on conservative estimates given current market conditions, the Office of Public Finance estimates that the overall effective annual interest rate on the tax-exempt Series 2018C and Series 2018E on the bonds would be approximately 4.4 percent over approximately 20 years. The overall effective annual interest rate on the Series 2018D bonds, which will be sold as taxable, would be approximately 4.9 percent over approximately 20 years. The estimated interest rate for the Series 2018C and 2018E bonds is 0.5 percent lower (4.4 percent) than the Series 2018D bonds, because interest payments from these series are exempt from federal taxation, and investors are willing to pay a lower interest rate for tax exempt bonds. The bonds are expected to have a final maturity date of June 15, 2038. However, the Office of Public Finance advises that based on market conditions at the time of the sale coupled with the Capital Planning Committee constraints, the bonds could be structured with a 25-year term. The Office of Public Finance estimates that average annual debt service on the bonds is approximately \$29,390,415. Total interest payments over the 20-year life of the bonds are approximately \$205,733,300, and total principal and interest payments are estimated to be \$587,808,000, as shown in Table 4 below.

Table 4: Total Debt Service Payments on the Proposed Three 2018 Bonds Sales

| | Series 2018C ESER | Series 2018D Affordable Housing | Series 2018E Public Health and Safety | Total |
|--------------------|----------------------|------------------------------------|--|---------------|
| Principal | \$189,735,000 | \$142,255,000 | \$50,085,000 | \$382,075,000 |
| Interest | 97,659,587 | 82,292,499 | 25,781,214 | 205,733,300 |
| Total Debt Service | \$287,394,587 | \$224,547,499 | \$75,866,214 | \$587,808,300 |

For Series 2018C, 2018D, and 2018E, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which, according to the Controller’s Office, are estimated to average \$0.01253 per \$100 or \$12.53 per \$100,000 of assessed valuation over the anticipated 20-year term of the Bonds. As summarized in Table 5 below, the

owner of a residence with an assessed value of \$600,000, assuming a homeowner’s exemption of \$7,000, would pay average annual additional Property Taxes to the City of \$74.30 per year if the anticipated \$382,075,000 City and County of San Francisco General Obligation Bonds are sold.

Table 5: Anticipated Annual Property Tax Increases on \$600,000 Home For Bond Repayments

| General Obligation Bonds | Anticipated Par Amount | Anticipated Average Annual Property Tax Impact on \$600,000 Home³ |
|---------------------------------|-------------------------------|---|
| 2018C ESER Bond | \$189,735,000 | \$36.33 |
| 2018D Housing Bond | 142,255,000 | 28.38 |
| 2018E Public Health Bond | 50,085,000 | 9.59 |
| Total | \$382,075,000 | \$74.30 |

Source: Controller’s Office of Public Finance

However, in accordance with the City’s capital plan and debt policy, new issuances of bond debt will be offset by the retirement of existing bond debt, such that the Property Tax rate paid by property owners in the City cannot exceed the 2006 Property Tax rates.

Capital Plan

Under financial constraints adopted by the City’s Capital Planning Committee, debt service on approved and issued GO bonds may not increase property owners' long-term property tax rates above FY 2005-06 levels. The FY 2005-06 property tax rate for the GO bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the GO Bonds, the property tax rate for GO bonds for FY 2017-18 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee’s approved financial constraint.

POLICY CONSIDERATION

Affordable Housing Bonds are Different

This \$310,000,000 affordable housing general obligation bond is somewhat different than typical City general obligation bonds. Under typical City general obligation bonds, the City hires private contractors to undertake improvements on specific City-owned properties, such that the improvements are also owned by the City. However, under these affordable housing general obligation bonds, the City will not directly engage contractors nor generally own the properties or improvements.

Rather, the City will primarily provide the general obligation bond proceeds as loans⁴ to developers who will hire contractors and own the improvements through limited liability corporations, which enables leveraging of additional revenues for the projects through federal tax credits. In addition, the City will provide a portion of the bond proceeds as down payment

³ Amounts are net of \$7,000 homeowner’s exemption

⁴ Each affordable housing program has various loan repayment terms and conditions.

assistance directly to individuals that meet specified criteria. Mr. McCloskey advises that MOHCD will treat the \$310,000,000 additional affordable housing bond proceeds, including the up to \$146,000,000 to be sold in May 2018, as an additional funding source for the City's overall affordable housing programs, which total approximately \$300 million in FY 2017-18.

Similarly, as previously noted, the Series 2018D bonds would be sold as taxable due to IRS restrictions on financing projects that involve private use, such as housing, with tax-exempt bonds.

Capital Planning Committee

On March 19, 2018, the Capital Planning Committee approved the following:

- Issuance and sale of \$189,735,000 of Series 2018C ESER bonds;
- Issuance and sale of \$146,000,000 of Series 2018D Housing bonds; and
- Issuance and sale of \$52,500,000 of Series 2018E Public Health and Safety bonds.

The remaining authorization amounts under 2015 Proposition A and 2016 Proposition A will be issued at a later date, subject to review by the Capital Planning Committee, the consideration and adoption by the Board of Supervisors and approval by the Mayor of subsequent authorization resolutions.

RECOMMENDATION

Approve the proposed resolutions.

| | |
|--|---|
| <p>Items 8 and 9 Files 17-0297 and 17-0538</p> | <p>Department: Office of Labor Standards Enforcement</p> |
| <p>EXECUTIVE SUMMARY</p> | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • File 17-0297 is an ordinance amending Administrative Code Section 12P to set the minimum hourly compensation rate for employees of City contractors, <i>other than nonprofit corporations or public entities</i>, at \$16.86 per hour on July 1, 2018. • File 17-0538 is an ordinance amending Administrative Code Section 12P for to set the minimum hourly compensation rate for employees of City contractors, <i>including employees of nonprofit corporations and public entities</i>, at \$16.86 per hour on July 1, 2018. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The City’s Minimum Compensation Ordinance requires City contractors to pay their covered employees no less than the minimum hourly compensation rate and provide 12 days of paid time off each year. The proposed ordinances would set the hourly minimum compensation rate at \$16.86 per hour as of July 1, 2018, which is a \$1.86 more than the City’s minimum wage for employees of all businesses in San Francisco of \$15.00 per hour. • Currently, employees of nonprofit organizations and public entities having contracts with the City are subject to the Minimum Compensation Ordinance if “sufficient funds” are available. File 17-0297 sets the minimum hourly compensation rate for employees of nonprofit corporations and public entities having contracts with the City at the minimum wage rate required for employees of all San Francisco businesses. File 17-0538 applies the minimum compensation of \$16.86 per hour to all employees of nonprofit organizations and public entities that have contracts with the City. • Although the proposed ordinance provides for minimum compensation to increase to \$15.86 as of July 1, 2017, the proposed ordinance is not retroactive. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • According to the Controller’s Office, the estimated cost to the City to apply the minimum compensation of \$16.86 per hour (or \$1.86 per hour above the minimum wage) to nonprofit and public contracts (File 17-0538) is \$44 million in FY 2018-19. If the Board of Supervisors were to approve a minimum compensation amount of less than \$1.86 per hour above the minimum wage, the costs to the City would be less, ranging from \$18 million for an increase of \$0.50 per hour to \$38 million for an increase of \$1.50 per hour. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed ordinances to clarify that the approval of the minimum compensation rate is not retroactive. • Approval of the proposed ordinances as amended is a policy matter for the Board of Supervisors. | |

MANDATE STATEMENT

City Charter Section 2.105 states that the Board of Supervisors shall act only by written ordinance or resolution.

Administrative Code Section 12P, known as the “Minimum Compensation Ordinance”, requires City contractors to pay minimum compensation to employees.

BACKGROUND

The City currently has a Minimum Compensation Ordinance that requires City contractors to provide their covered employees with no less than the minimum hourly compensation rate. The Minimum Compensation Ordinance was adopted by the Board of Supervisors in August 2000 and covers City contracts with nonprofit corporations, public entities and for-profit companies. Covered contracts include: professional services, construction, grants, Airport leases (including concession leases), and subcontracts.

The Minimum Compensation Ordinance requires covered contractors to:

- Pay a minimum wage to all covered employees¹ who work at least 4 hours per week; and
- Provide 12 days of paid holidays and other leave per year if the employee works full time for one year.

The Minimum Compensation Ordinance set the original minimum wage at \$9 per hour, increasing by 2.5 percent per year through 2005. The Board of Supervisors amended the Minimum Compensation Ordinance in 2007 to require annual Consumer Price Index (CPI) adjustments to the minimum wage on January 1 of each year. The minimum wage required by the Minimum Compensation Ordinance as of January 1, 2018 is \$14.02 per hour, which is \$0.02 per hour more than the San Francisco minimum wage required of all employers located in San Francisco of \$14.00.²

While employees of nonprofit organizations and public entities are covered by the Minimum Compensation Ordinance, the Minimum Compensation Ordinance states that the City will fund wage increases to contracts with nonprofit organizations and public entities only if “sufficient funds” are available. According to the Minimum Compensation Ordinance, a finding of “sufficient funds” shall mean that the City will not be required to reduce services in order to pay the wage increase. The minimum wage for employees of nonprofit organizations and public entities having contracts with the City is currently \$14 per hour, consistent with the minimum wage for all employees of San Francisco businesses.

¹ Exempted employees include summer interns and participants in after-school programs, trainees and disabled workers as defined by federal regulations, and volunteers

² The minimum wage required by the Minimum Compensation Ordinance applies only to employees of City contractors, as defined by Administrative Code Section 12P. In addition, San Francisco voters approved a minimum wage that applies to all San Francisco employers. In November 2014, the voters approved Proposition J, raising the San Francisco minimum wage to \$15 per hour by 2018.

DETAILS OF PROPOSED LEGISLATION

The May 4, 2017 Budget and Finance Committee considered an ordinance setting the minimum compensation hourly rate at \$15.86 per hour on July 1, 2017, and \$16.86 per hour on July 1, 2018 (File 17-0297). File 17-0297 was duplicated and amended in committee. File 17-0297 was re-referred to committee by the Board of Supervisors at the May 16, 2017 meeting. The duplicated file – File 17-0538 – was continued to the call of the chair at the May 11, 2017 Budget and Finance Committee meeting.

File 17-0297 is an ordinance amending Administrative Code Section 12P to set the minimum hourly compensation rate for employees of City contractors, *other than nonprofit corporations or public entities*, at \$16.86 per hour on July 1, 2018. The hourly compensation rate would be adjusted on July 1 of each following year by the CPI.

The proposed ordinance sets the minimum hourly compensation rate for employees of nonprofit corporations and public entities having contracts with the City at the minimum wage rate required for employees of all San Francisco businesses.³

File 17-0538 is an ordinance amending Administrative Code Section 12P for employees of City contractors, *including employees of nonprofit corporations and public entities*, at \$16.86 per hour on July 1, 2018. The hourly compensation rate would be adjusted on July 1 of each following year by the CPI.

Other Provisions

File 17-0297 and File 17-0538 would remove the requirement that employees covered by the Minimum Compensation Ordinance work a minimum of 4 hours per week. All employees working on a City contract would be covered by the Minimum Compensation Ordinance regardless of the hours worked.⁴

File 17-0297 and File 17-0538 both provide for minimum compensation to increase to \$15.86 per hour on July 1, 2017. However, the proposed ordinances are not retroactive; therefore, if the Board of Supervisors approves the proposed ordinance, the hourly minimum compensation of \$16.86 would go into effect on July 1, 2018.

FISCAL IMPACT**File 17-0538**

Currently, nonprofit and public contractors with the City pay the minimum wage, which is \$15.00 per hour as of July 1, 2018. The proposed ordinance would require nonprofit and public

³ The ordinance does not change the existing Administrative Code provisions for the Mayor to report to the Board of Supervisors on funding CPI increases in the proposed budget for City contracts with nonprofit corporations and entities.

⁴ Currently, employees working on a City contract but located in the United States outside of City-owned property must work a minimum of 10 hours per week to be covered by the MCO. The proposed legislation removes this provision so that all employees working on a City contract, regardless of the number of hours worked, would be covered by the Minimum Compensation Ordinance.

contractors with the City to pay minimum compensation of \$16.86 per hour as of July 1, 2018, or \$1.86 per hour more than the minimum wage of \$15.00 per hour.

According to estimates by the Controller’s Office, the estimated cost to the City to apply the minimum compensation of \$16.86 per hour (or \$1.86 per hour above the minimum wage) to nonprofit and public contracts is \$44 million in FY 2018-19, as shown in the Table below. If the Board of Supervisors were to approve a minimum compensation amount of less than \$1.86 per hour above the minimum wage, the costs to the City would be less, ranging from \$18 million for an increase of \$0.50 to \$38 million for an of \$1.50, as shown in the Table below.

Table: Estimated Costs of Minimum Compensation for Nonprofit and Public Contract Employees in FY 2018-19

| | Hourly Rate Above Minimum Wage | | | |
|---|--------------------------------|---------------------|---------------------|---------------------|
| | \$0.50 | \$1.00 | \$1.50 | \$1.86 |
| In Home Supportive Services - Wage Increase | \$6,000,000 | \$12,000,000 | \$18,000,000 | \$22,000,000 |
| In Home Supportive Services - Paid Time Off | 9,000,000 | 9,000,000 | 9,000,000 | 9,000,000 |
| Nonprofit Providers - City's Direct Contract Cost | 3,000,000 | 700,000 | 11,000,000 | 13,000,000 |
| Total | \$18,000,000 | \$21,700,000 | \$38,000,000 | \$44,000,000 |

Source: Controller

RECOMMENDATIONS

1. Amend the proposed ordinances to clarify that the approval of the minimum compensation rate is not retroactive.
2. Approval of the proposed ordinances as amended is a policy matter for the Board of Supervisors.