

**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:** January 10, 2019 Budget and Finance Committee Meeting

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<b>Item 1</b> <b>File 18-1063</b>	<b>Department:</b> San Francisco International Airport (Airport)
<i>Continued from the December 13, 2018 Budget and Finance Committee meeting</i>	
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<ul style="list-style-type: none"> <li>The proposed resolution would approve the fifth modification to the existing contract between the Airport and Bombardier to (a) extend the contract by four months from March 1, 2019 through June 30, 2019, and (b) increase the contract no-to-exceed amount by \$5,143,268 from \$130,299,196 to \$135,442,464.</li> </ul>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>In March 1998, the Airport entered into a two-phase contract with Bombardier Transportation USA Inc. (Bombardier), based on a competitive Request for Proposals process, to (a) design, construct, and install the light rail air train system (AirTrain) (Phase I) and (b) operate and maintain the AirTrain system through February 2009 (Phase II).</li> <li>In 2008, the Airport entered into a new contract with Bombardier to operate and maintain the AirTrain system through February 2017 for an amount not-to-exceed \$56,500,000. The Board of Supervisors previously approved four modifications to the contract; the fourth modification extended the contract through February 28, 2019, and increased the contract not-to-exceed amount to \$130,299,196.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>The proposed resolution would increase the existing not-to-exceed contract amount with Bombardier by \$5,143,268 from \$130,299,196 to \$135,442,464 for operations and maintenance services for the Airport's AirTran System.</li> <li>To date, the Airport has paid Bombardier a total of \$125,001,628, or \$5,297,568 less than the total not-to-exceed amount of \$130,299,196. There are still three months remaining on the contract. The contract is funded through the Airport's annual operating fund. The operating fund has \$15,312,910 budgeted for this contract for FY2018-19.</li> </ul>	
<b>Policy Consideration</b>	
<ul style="list-style-type: none"> <li>The four month extension allows Airport staff additional time to complete a cost analysis and negotiate a new long term contract with Bombardier, which will begin on July 1, 2019.</li> </ul>	
<b>Recommendation</b>	
<ul style="list-style-type: none"> <li>Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

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

**BACKGROUND**

In March 1998, the Airport entered into a two-phase contract with Bombardier Transportation (Holdings) USA Inc. (Bombardier), based on a competitive Request for Proposals process, to (a) design, construct, and install the light rail air train system (AirTrain) (Phase I) and (b) operate and maintain the AirTrain system through February 2009 (Phase II).

In December 2004, the Airport filed a lawsuit against Bombardier for contract delays and property damages, which was settled in April 2008. The settlement included a provision that allowed the Airport to recover costs if Bombardier did not meet performance incentives, and the Airport would approve a five-year contract for Bombardier to operate and maintain the AirTrain system from March 2009 through February 2014. The Board of Supervisors approved the contract in November 2008 (File 08-0942) and exempted the contract from a competitive request for proposal process because the contract was awarded as a result of a legal settlement.

The new five-year contract included one option to extend the term of the contract by three years through February 2017, which was mandatory if Bombardier met performance benchmarks, and two additional one-year options to extend the term of the contract through February 2019 at the sole discretion of the Airport. The new five-year contract was for an amount not-to-exceed \$56,500,000. Since then, the Airport has modified the contract three times.

In December 2013, the Board of Supervisors approved the first modification to the contract (File 13-0879) to exercise the option to extend the term of the contract by three years, from March 2014 through February 2017 and increase the total not-to-exceed contract amount by \$42,200,000 from \$56,500,000 to \$98,700,000.

In September 2014, the Board of Supervisors approved the second modification to the contract to increase the not-to-exceed amount by \$1,843,834 from \$98,700,000 to \$100,543,834 to replace outdated equipment and provide a contingency for equipment replacement and repair (File 14-0742).

In February 2017, the Board of Supervisors approved the third modification to the contract to exercise the first of two (2) one-year options to extend the contract from March 1, 2017, through February 28, 2018, and increase the not-to-exceed amount by \$14,901,134 from \$100,543,834 to \$115,444,968.

In March 2018, the Board of Supervisors approved the fourth modification to the existing contract between the Airport and Bombardier to (a) exercise the second of the two (2) one-

year options to extend the contract from March 1, 2018, through February 28, 2019, in order for Bombardier to continue to provide operations and maintenance services for the AirTrain System, and (b) increase the contract not-to-exceed amount by \$14,854,228 from \$115,444,968 to \$130,299,196.

### DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fifth modification to the existing contract between the Airport and Bombardier to (a) extend the contract by four months from March 1, 2019 through June 30, 2019, and (b) increase the contract no-to-exceed amount by \$5,143,268 from \$130,299,196 to \$135,442,464.

According to Ms. Cynthia Avakian, Airport Director of Contracts, the four month extension allows Airport staff additional time to complete a cost analysis and negotiate a new long term contract with Bombardier, which will begin on July 1, 2019 (see Policy Considerations).

### FISCAL IMPACT

The proposed resolution would increase the existing not-to-exceed contract amount with Bombardier by \$5,143,268 from \$130,299,196 to \$135,442,464 for operations and maintenance services for the Airport's AirTran System. The breakdown of the increase is shown in Table 1 below.

**Table 1: AirTrain Proposed Increased Modification**

Labor	\$4,220,826
Material	841,583
Potential Bonuses*	47,088
Passenger Count Data Management	7,524
Contingency for Replacement of Obsolete Parts	26,247
<b>Total</b>	<b>\$5,143,268</b>

\*The Airport pays Bombardier a monthly bonus if it achieves 99.8 percent on time performance, and imposes penalties if the company does not achieve this performance measure. Bombardier has never received the full budgeted bonus amount.

The Airport determined the increase in contract cost using the escalation set forth in the general requirements of the original contract using indexed changes for labor and parts and materials.

To date, the Airport has paid Bombardier a total of \$125,001,628, or \$5,297,568 less than the total not-to-exceed amount of \$130,299,196. There are still three months remaining on the contract.

The contract is funded through the Airport's annual operating fund. The operating fund has \$15,312,910 budgeted for this contract for FY 2018-19.

**POLICY CONSIDERATION**

The proposed resolution extends the existing contract between the Airport and Bombardier to operate and maintain the AirTrain System for four months from March 2019 through June 2019 to allow for negotiations for a new sole source contract. According to Airport staff, there are currently no other companies that perform operations and maintenance on a Bombardier installed system due to its proprietary nature and complexity.

The Airport plans to ask for approval from the Office of Contract Administration for a new proprietary contract with Bombardier.<sup>1</sup> After obtaining approval, Airport staff plans to finalize negotiations with Bombardier for a new operations and maintenance contract. According to Ms. Avakian, the Airport hired a third party consultant, PGH Wong Engineering, to gather data from similar transit systems across the United States in order to perform a cost analysis. The analysis was completed on November 23, 2018 and is being used in the ongoing negotiations with Bombardier.

The Airport expects the new contract to be finalized by the end of the year, and the Airport will seek approval by the Board of Supervisors for the new contract in 2019.

**RECOMMENDATION**

Approve the proposed resolution

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<sup>1</sup> Administrative Code 21.S(d) regulates proprietary contracts.

<b>Item 2</b> <b>File 18-1135</b>	<b>Department:</b> San Francisco International Airport (Airport)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve Modification No. 4 to the contract between San Francisco International Airport (Airport) and Hill International, Inc. for Airport Capital Improvement Program support services, extending the contract through November 15, 2023 and increasing the not-to-exceed amount to \$40,000,000.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Airport's Capital Improvement Program (CIP) includes over \$7.3 billion in capital projects over the next ten years. The projects are intended to accommodate airline and passenger growth, enhance security, maintain existing infrastructure, and support sustainability goals. The Airport selected Hill International in October 2017 to provide CIP support services based on a competitive Request for Proposals (RFP). The scope of services covered under the contract includes program controls, scheduling, budgeting, document control, preparation of progress reports, other program management services, and oversight and management of Airport initiatives to support the CIP.</li> <li>• The original contract between the Airport and Hill International was for a term of one year to November 2018 and an amount not to exceed \$8,500,000. At the time, the Airport estimated that the total contract amount would be approximately \$40,000,000 over five years.</li> <li>• The Airport has entered into three prior modifications to the contract. Modification Nos. 1 and 2 to the contract did not change the contract duration or not-to-exceed amount. Modification No. 3 extended the contract through June 30, 2019 and increased the not-to-exceed amount to \$9,950,000. The proposed Modification No. 4 extends the term through November 15, 2023 for a total term of approximately six years, and increased the contract amount by \$30,050,000.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The contract is funded by Airport Revenue Bond proceeds under the Airport's Capital Improvement Plan, subject to appropriation by the Board of Supervisors in the Airport's capital budget. The Airport only pays Hill International for services provided, not predetermined annual sums.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The Airport's practice for Capital Program professional service contracts had been to set contract not-to-exceed amounts for one year, requiring annual modification of the contract to increase the contract amount and contract term. After discussions with the Budget and Legislative Analyst's Office, the Airport has agreed to align Board of Supervisors approvals of professional service contracts amounts and durations to match the authorization approved by the Airport Commission.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

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

## BACKGROUND

The San Francisco International Airport (Airport) Capital Improvement Program (CIP) includes over \$7.3 billion in capital projects, including work already completed and work to be completed over the next 10 years. The projects are intended to accommodate passenger and airline growth, enhance security, maintain existing infrastructure, and support sustainability goals.

On May 1, 2017, the Airport issued a Request for Proposals (RFP) to award a contract for CIP support services. The Airport received six proposals and scored them, as shown in Table 1 below.

**Table 1: Proposals and Scores from RFP**

<b>Proposer</b>	<b>Score (out of 500)</b>
Hill International, Inc.	392.13
STV Construction	370.38
Arcadis	320.38
Faithful + Gould	183.88
WTP America LLC DBA WT Partnership	147.00
Turner & Townsend	143.75

Hill International, Inc. was deemed the highest scoring responsive and responsible proposer. On October 17, 2017, the Airport Commission approved a contract with Hill International for a term of one year and an amount not to exceed \$8,500,000. At the time, the Airport estimated that the total contract amount would be approximately \$40,000,000 over five years.

On June 22, 2018, the Airport Director executed Modification Nos. 1 and 2 to adjust allowable labor rates and to add new sub-consultants to the contract, without changing the contract amount or duration. On October 16, 2018, the Airport Commission approved Modification Nos. 3 and 4 to the contract. Modification No. 3 extended the contract through June 30, 2019 and increased the not-to-exceed amount to \$9,950,000. Modification No. 4, which requires Board of Supervisors approval, would extend the contract through November 15, 2023 and increase the not-to-exceed amount to \$40,000,000.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 4 to the Airport's contract with Hill International, extending the contract through November 15, 2023 and increasing the not-to-exceed amount to \$40,000,000. The scope of services covered under the contract includes

program controls, scheduling, budgeting, document control, preparation of progress reports, other program management services, and oversight and management of Airport initiatives to support the CIP.

The original contract between the Airport and Hill International was for one year, from November 2017 through October 2018, and for an amount of \$8,500,000. The Airport approved Modification No. 3 to the contract with Hill International in October 2018, to (a) increase the contract amount by \$1,450,000 from \$8,500,000 to \$9,950,000, and (b) extend the contract term by an additional eight months through June 2019, for a total contract term of one year and eight months.

The proposed resolution approving Modification No. 4 to the contract between the Airport and Hill International (a) increases the contract amount by \$30,050,000, for a total contract amount of \$40,000,000, and (b) extends the term through November 15, 2023, for a total term of approximately six years. According to Ms. Julia Katz, Airport Director of Program Controls, the Airport is recommending a contract term of six years, rather than the original estimated term of five years, because the construction schedules for the Terminal 1 Center Project and Terminal 3 West Project have been extended into 2023. The total contract amount of \$40,000,000 is consistent with the original amount estimated by the Airport at the time of the original contract negotiations, as noted above.

**FISCAL IMPACT**

The contract budget of \$40,000,000 is shown in Table 2 below.

**Table 2: Contract Budget<sup>1</sup>**

Scope of Services	Year 1 (Nov. 2017 – Nov. 2018)	Years 2-6 (Dec. 2018 – Nov. 2023)	Total
Program Management	\$2,200,000	\$8,200,000	\$10,400,000
Cost Management	1,050,000	3,900,000	4,950,000
Schedule Management	750,000	2,800,000	3,550,000
Constructability and QA/QC	270,000	1,000,000	1,270,000
Safety Program Oversight	350,000	1,300,000	1,650,000
Reporting	650,000	2,400,000	3,050,000
Unifier (Oracle) Development & Management	1,725,000	6,400,000	8,125,000
Training/Process and Procedures	1,100,000	4,100,000	5,200,000
Administration	200,000	900,000	1,100,000
Other Direct Costs and Contingency	205,000	500,000	705,000
<b>Total</b>	<b>\$8,500,000</b>	<b>\$31,500,000</b>	<b>\$40,000,000</b>

According to Ms. Katz, the contract is funded by Airport Revenue Bond proceeds under the Airport’s Capital Improvement Plan, subject to appropriation by the Board of Supervisors in the Airport’s capital budget. Debt service on the Airport revenue bonds is paid from Airport

<sup>1</sup> As noted above, the original contract amount was \$8,500,000 in the first contract year from November 2017 to November 2018. The total contract increase in the second through sixth contract years of \$31,500,000 includes an increase of \$1,450,000 under Modification No. 3 (which also extended the term by approximately eight months to June 2019) and \$30,050,000 under Modification No. 4, which also extended the term by additional 4 years and 5 months to November 2023.



revenues. The Airport only pays Hill International for services provided, not predetermined annual sums.

### **POLICY CONSIDERATION**

The Airport's practice for Capital Program professional service contracts had been to set contract not-to-exceed amounts for one year, requiring annual modification of the contract to increase the contract amount and contract term. This practice allowed the Airport to monitor contract performance on an annual basis. However, the Airport did not have a consistent practice to ensure that these contracts conform to Charter Section 9.118(b), which requires Board of Supervisors approval for (a) contracts exceeding 10 years, or having expenditures of \$10 million or more; or (b) modifications to such contracts of \$500,000 or more.

After discussions with the Budget and Legislative Analyst's Office, the Airport has agreed to align Board of Supervisors approvals of professional service contracts amounts and durations to match the authorization approved by the Airport Commission. As such, the Airport is seeking approval for the full contract term and duration.

According to Ms. Katz, the Airport conducts full annual reviews of contractors for quality control and may terminate the contract at any time. The Airport also submits biannual reports on contracts over \$10 million to the Airport Commission.

### **RECOMMENDATION**

Approve the proposed resolution.

<p><b>Item 4</b> <b>File 18-1113</b></p>	<p><b>Department:</b> Public Utilities Commission (PUC)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed ordinance delegates authority to the San Francisco Public Utilities Commission (SFPUC) General Manager to enter into grant agreements with terms of 20 years, without further Board of Supervisors approval, under SFPUC’s Green Infrastructure Grant Program.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• San Francisco has a combined sewer system that collects and treats both wastewater and stormwater in the same network of sewer lines and wastewater treatment facilities. SFPUC’s green infrastructure program is intended to reduce the amount of stormwater runoff entering SFPUC’s combined sewer system in order to improve system performance. The green infrastructure program consists of capital projects, grants to property owners, regulation, and technical assistance.</li> <li>• SFPUC’s Green Infrastructure Grant Program awards grants to public and private property owners to design and build green infrastructure that reduces stormwater runoff. Property owners may receive up to \$765,000 per impervious acre of property managed, or fraction thereof, up to a maximum amount of \$2,000,000 per grant. Area that is “managed” is defined as impervious area that is draining to a designed green infrastructure facility.</li> <li>• The proposed ordinance delegates authority to the SFPUC General Manager to enter into grant agreements with property owners that have a term in excess of 10 years but not to exceed 20 years, without further Board of Supervisors approval.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• SFPUC allocated \$3 million in Sewer System Improvement Program (SSIP) funding for FY 2018-19 and \$5 million in SSIP funding for FY 2019-20 to the Green Infrastructure Grant Program, totaling \$8 million over two years. The first two years are the pilot phase for the program. If demand demonstrated in the first two years exceeds the program budget, SFPUC would consider allocating additional funding in subsequent budget cycles, subject to Board of Supervisors approval.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance delegates the Board of Supervisors’ authority to enter into agreements with terms in excess of 10 years to the SFPUC General Manager. In November 2018, the SFPUC Commission delegated its authority to the General Manager to negotiate, award, and execute grant agreements in substantially the same form as the draft grant agreement on file with the Clerk of the Board. Therefore, the agreements would not be visible to the public prior to SFPUC entering into the agreements.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed ordinance is a policy matter for the Board of Supervisors because the proposed ordinance waives the Board of Supervisors authority under Charter Section 9.118, authorizing the SFPUC to enter into contracts with an expected term of 10 years or more without further Board of Supervisors approval.</li> </ul>	

## MANDATE STATEMENT

Section 9.118(b) of the City's Charter requires approval by the Board of Supervisors for contracts with an expected term longer than ten years or requiring expenditures of \$10 million or more.

## BACKGROUND

San Francisco has a combined sewer system that collects and treats both wastewater and stormwater in the same network of sewer lines and wastewater treatment facilities. Green infrastructure uses vegetation, soils, and other elements and practices such as permeable pavement to absorb stormwater and reduce the impact of stormwater on the combined sewer system.

### SFPUC's Citywide Green Infrastructure Program

The San Francisco Public Utilities Commission's (SFPUC) green infrastructure program is intended to reduce the amount of stormwater runoff entering SFPUC's combined sewer system in order to improve system performance. The green infrastructure program consists of capital projects, grants to property owners, regulation, and technical assistance.

#### Capital Projects:

As part of the Sewer System Improvement Program (SSIP), SFPUC is near completion of eight green infrastructure projects, one in each of the city's watersheds. The eight demonstration projects are part of a pilot program, known as the Early Implementation Projects, for evaluating the performance of various technologies in removing stormwater from the City's combined sewer system. The eight Early Implementation Projects constructed 49 acres of green infrastructure projects, with a total budget of approximately \$57 million.

The eight Early Implementation Projects include:

1. Mission & Valencia Green Gateway Project, which is a joint project of SFPUC, Planning Department, and Public Works. The project installed rain gardens along Valencia Streets and Mission Streets near Cesar Chavez.
2. Wiggle Neighborhood Green Corridor, which is a joint project of SFPUC, Municipal Transportation Agency, and Public Works. The project installed bicycle and pedestrian improvements as well as rain gardens and permeable pavement in the Lower Haight and Alamo Square neighborhoods.
3. Chinatown Spofford Living Alley, which is a joint project of SFPUC and Public Works. The project consists of flow-through planters, decorative concrete pavers, and pedestrian improvements in the Chinatown alley between Washington Street and Clay Street (parallel to Stockton Street and Waverly Place).
4. Sunset Boulevard Greenway, which is a project of SFPUC, consisting of rain gardens and along 15-blocks of the western median of Sunset Boulevard, between Irving Street and Sloat Boulevard.

5. Holloway Green Street, which is a joint project of SFPUC and the Planning Department. This project includes permeable pavement and rain gardens along Holloway Avenue between Lee Avenue and Ashton Avenue.
6. Upper Yosemite Creek Daylighting, which is a joint project of SFPUC and the Recreation and Park Department. This project will daylight the historic Yosemite Creek to manage stormwater runoff from McLaren Park.
7. Visitacion Valley Green Nodes, which is a joint project of SFPUC, the Recreation and Park Department, and Public Works. This project includes rain gardens at two locations: Sunnydale Avenue mini-plaza at Rutland Street, and Leland Avenue tiered rain garden (adjacent to Visitacion Avenue and Hahn Street).
8. Baker Beach Green Street, which is a project of SFPUC and partially funded by the State Water Resources Control Board from Proposition 50 funds.<sup>1</sup> The project includes installation of green infrastructure at two locations: Sea Cliff Avenue and 25<sup>th</sup> Avenue, and El Camino Del Mar adjacent to the Lincoln Park Golf Course.

#### Grants:

The proposed Green Infrastructure Grant Program will provide grants to public and private property owner to build and maintain green infrastructure on their property to reduce stormwater runoff.

#### Regulation:

SFPUC currently administers the Stormwater Management Ordinance, which requires all new and redevelopment projects to manage stormwater onsite if the projects create and/or replace 5,000 square feet or more of impervious surface in separate and combined sewer areas, or 2,500 square feet or more of impervious surface in separate sewer areas. The Board of Supervisors approved the original ordinance in 2010 and the updated ordinance in 2016 (Ordinance No. 64-16), requiring property owners to maintain the stormwater management facilities in perpetuity.<sup>2</sup>

#### Technical Assistance:

SFPUC provides training, and other technical assistance to green infrastructure planning, design, construction, inspection and maintenance.

### **DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance delegates authority to the SFPUC General Manager to enter into grant agreements with terms of 20 years, without further Board of Supervisors approval, under SFPUC's Green Infrastructure Grant Program.

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<sup>1</sup> Proposition 50 was approved by California voters in 2002 to fund water security, clean drinking water, and coastal and beach protection projects.

<sup>2</sup> The 2016 ordinance amended the 2010 ordinance to comply the California's municipal stormwater permit requirements.

### **Green Infrastructure Grant Program**

SFPUC's Green Infrastructure Grant Program awards grants to public and private property owners to design and build green infrastructure that reduces stormwater runoff. Property owners may receive up to \$765,000 per impervious acre of property managed, or fraction thereof, up to a maximum amount of \$2,000,000 per grant. Area that is "managed" is defined as impervious area that is draining to a designed green infrastructure facility.

To receive funding, the property owner must enter into a 20-year stormwater management agreement with SFPUC. SFPUC has determined that the useful life of the type of green infrastructure projects eligible for funding under the grant program is at least 20 years, and ongoing maintenance of green infrastructure projects is necessary for the project to function properly and benefit the SFPUC sewer system.

Under the proposed ordinance, property owners must meet the following eligibility criteria to receive grant funding:

- **Size:** The proposed project must manage stormwater runoff from a minimum of 0.5 acre of impervious surface.
- **Location:** The proposed project must be located on a parcel connected to the SFPUC-owned and operated sewer system.
- **Performance:** The proposed project must capture runoff from the 90<sup>th</sup> percentile 24-hour storm, equivalent to 0.75-inch total depth.
- **Grant Team Experience:** The grant team must include the property owner, an identified grant or project manager, and a licensed engineer or landscape architect registered in the State of California. The grant team must collectively demonstrate a history of successful project implementation and have experience designing, constructing, and/or maintaining green infrastructure.
- **Concept Design:** The applicant must submit a conceptual design plan drawing equivalent to a 10 percent level of design that satisfies criteria set forth in the grant program guidelines.
- **Co-Benefit Opportunities:** The proposed project must demonstrate at least two of the following co-benefits:
  - 1) location within or serving an Environmental Justice Area or Disadvantaged Community, as designated by SFPUC;
  - 2) provide public access to the project site to promote awareness of and education about the importance of stormwater management;
  - 3) groundwater recharge through infiltration of stormwater above the Westside Groundwater Basin;
  - 4) non-potable water reuse of retained stormwater for other applications, such as irrigation;

- 5) the incorporation of education and/or curriculum opportunities that explain how green infrastructure assets work and their impact on watersheds and the SFPUC's sewer system;
- 6) providing job training opportunities in the green infrastructure sector; and/or
- 7) integration of biodiversity and native habitat into the project's design, such as native pollinator gardens.

The proposed ordinance delegates authority to the SFPUC General Manager to enter into grant agreements with property owners that have a term in excess of 10 years but not to exceed 20 years, without further Board of Supervisors approval. The proposed ordinance further authorizes the SFPUC General Manager to enter into amendments or modifications to the grant agreements that do not extend the terms of the agreements beyond 20 years.

### **FISCAL IMPACT**

SFPUC allocated \$3,000,000 in SSIP funding for FY 2018-19 and \$5,000,000 in SSIP funding for FY 2019-20 for the Green Infrastructure Grant Program. According to Ms. Sarah Bloom, Watershed Planner at SFPUC, the first two years are the pilot phase for the program. If demand demonstrated in the first two years exceeds the program budget, SFPUC would consider allocating additional funding in subsequent budget cycles. Grant applications will be accepted on a rolling basis until each fiscal year's funding is spent. Although demand for the grant program is not yet known, there are approximately 1,892 parcels citywide that have more than 0.5 acre of impervious surface and would potentially be eligible for the program.

According to Ms. Bloom, SFPUC anticipates that additional staff will be needed to administer the program and conduct inspections of the green infrastructure projects over the 20-year maintenance term; however, staff would be hired to support multiple green infrastructure programs, not just the Green Infrastructure Grant Program. Currently, the SFPUC is using a combination of in-house staff and consultant support to administer the program. SFPUC does not know at this time how many additional staff would be needed in the future or what proportion of their time would be dedicated to Green Infrastructure Grant Program activities. The addition of new staff in the SFPUC budget is subject to Board of Supervisors appropriation approval.

If SFPUC determines that a project has not met the stormwater performance goals, SFPUC may demand the return of a prorated amount of grant funds under the proposed grant agreement.

As grantees may receive up to \$765,000 per impervious acre managed by a green infrastructure project, the \$8,000,000 grant allocation could manage stormwater on up to approximately 10.5 acres of impervious surface throughout the city. The Green Infrastructure Grant Program is potentially more cost effective per acre of impervious surface managed than the Green Infrastructure Early Implementation Projects, which manages 49 acres of impervious surface at a total cost of approximately \$57,000,000, or a cost of approximately \$1,163,265 per acre of impervious surface.

**POLICY CONSIDERATION****Delegation of Contracting Authority to SFPUC General Manager**

The proposed ordinance delegates the Board of Supervisors' authority to enter into agreements with terms in excess of 10 years to the SFPUC General Manager. In November 2018, the SFPUC Commission delegated its authority to the General Manager to negotiate, award, and execute grant agreements in substantially the same form as the draft grant agreement on file with the Clerk of the Board. Therefore, the grant agreements would not be visible to the public prior to SFPUC entering into the agreements.

According to Ms. Bloom, SFPUC is seeking the delegated authority to enter into the grant agreements under the Green Infrastructure Grant Program in order to (1) ensure the performance and maintenance of the green infrastructure assets for the duration of their useful life, which is considered to be 20 years; and (2) allow for administrative efficiency in delivering the program so that approvals of individual grant agreements will not be needed.

**RECOMMENDATION**

Approval of the proposed ordinance is a policy matter for the Board of Supervisors because the proposed ordinance waives the Board of Supervisors authority under Charter Section 9.118, authorizing the SFPUC to enter into contracts with an expected term of 10 years or more without further Board of Supervisors approval.

<b>Item 5</b> <b>File 18-1227</b>	<b>Department:</b> Controller's Office (Controller)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>▪ The proposed resolution approves the December 2018 update to the City's Debt Policy, as recommended by the Controller's Office of Public Finance, in accordance with California Government Code Section 8855. The Board of Supervisors previously approved the City's Debt Policy in order to comply with California Government Code Section 8855 (File No. 17-0631; Resolution No. 250-17) in June 2017. Since the Debt Policy was last approved, the Controller's Office of Public Finance has identified certain areas for amendments to align the policy with current practices and law.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>▪ The Debt Policy is intended to establish debt policy objectives, including maintaining moderate debt and debt service levels, maintaining highest practical credit ratings, improving the quality of decision-making processes, providing guidelines for appropriate debt structures, establishing oversight processes and internal controls for the observance of debt issuance and debt administration legal requirements, and demonstrating a commitment to best practices in municipal debt planning, issuance and management.</li> <li>▪ Major changes to the City's Debt Policy under the proposed resolution include: (1) extending the maximum term of general obligation bonds from 30 years to 40 years; (2) establishing guidelines for when the Office of Public Finance may consider the designation of City bonds as social bonds, green bonds, or sustainable bonds (for projects designated as both "social" and "green"); (3) providing for the City to use a reserve fund surety policy in lieu of a cash-funded debt service reserve fund; and (4) making technical adjustments to conform to the Dodd-Frank Act.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>▪ The City's Debt Policy, formulated by the Controller's Office of Public Finance, sets the terms by which the City incurs debt.</li> <li>▪ The fiscal impact to the City to extend the maximum bond term to 40 years would depend on the cost of issuing bonds for 40 years rather than 30 years.</li> <li>▪ According to the proposed amendments to the City's Debt Policy, (1) the designation of City bonds as social bonds, green bonds, or sustainable bonds would include the evaluation by the Office of Public Finance on the costs and benefits around such designation; and (2) the City may use a surety policy in lieu of a debt service reserve fund when available and economically feasible.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>▪ Approve the proposed resolution.</li> </ul>	



**MANDATE STATEMENT**

The Government Finance Officers Association, a nonprofit organization representing government entities, recommends as a best practice the formal adoption of debt policies.

California Code Section 8855 requires that local governments certify 30 days prior to the sale of any bonds that is has adopted debt policies.

**BACKGROUND**

The Board of Supervisors previously approved the City’s Debt Policy as recommended by the Controller’s Office of Public Finance in June 2017 in order to comply with California Government Code Section 8855 (File No. 17-0631; Resolution No. 250-17).

The Debt Policy is intended to establish debt policy objectives, including maintaining moderate debt and debt service levels, maintaining highest practical credit ratings, improving the quality of decision-making processes, providing guidelines for appropriate debt structures, establishing oversight processes and internal controls for the observance of debt issuance and debt administration legal requirements, and demonstrating a commitment to best practices in municipal debt planning, issuance and management.

Since the Debt Policy was last approved, the Controller’s Office of Public Finance has identified certain areas for amendments to align the policy with current practices and law.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution approves the December 2018 update to the Controller’s Office of Public Finance Debt Policy in accordance with California Government Code Section 8855.

**Major Changes to the Debt Policy**

1. Extend the maximum term of general obligation bonds from 30 years to 40 years to align with the terms of the affordable housing loans to be made by the Mayor’s Office of Housing and Community Development from the proceeds of the taxable general obligation bonds (Social Bonds – Affordable Housing, 2016), Series 2019A.
2. In connection with the Mayor’s signing of the Green Bond Pledge in September 2018, consider the issuance of “Green Bonds”, “Social Bonds”, or “Sustainable Bonds” to fund certain projects where appropriate. For example, proceeds from Green Bonds can be used for projects with environmental benefits, such as investments in public transportation or solar panels.
3. In July 2014, in connection with the Dodd-Frank Act, the Securities and Exchange Commission (SEC) issued the Municipal Advisor Rule, which limits the ability of underwriters to provide financial advice to debt issuers without certain disclosures that the underwriters and debt issuers may have divergent interests. Under the Municipal Advisor Rule, the City may obtain advice from an underwriter when the City has retained an Independent Registered Municipal Advisor(s) who is registered with the SEC

or if certain other exemptions have been met. In light of the changes effected by the Dodd-Frank Act, the Debt Policy has made a technical change to refer to these advisors as Independent Registered Municipal Advisors (or IRMAs) rather than “Financial Advisors”. According to Ms. Anna Van Degna, Director of Public Finance, this proposed change is technical in nature to conform with the Dodd-Frank Act.

4. The City may use a reserve fund surety policy, a form of bond insurance, in lieu of a cash-funded debt service reserve fund when available and economically feasible. According to Ms. Van Degna, bond insurance is often used in the connection with the issuance of tax allocation bonds utilized by successor agencies to redevelopment agencies such as the Office of Community Investment and Infrastructure (OCII). The City does not typically use a reserve fund surety policy for its lease revenue bonds or certificates of participation, though future bond market conditions could provide that it would be economic to do so.

## FISCAL IMPACT

The City’s Debt Policy, formulated by the Controller’s Office of Public Finance, sets the terms by which the City incurs debt. These terms include (a) the types and purposes of short-term and long-term debt that the City can issue, (b) the instances in which the City can issue debt on behalf of local non-profit organizations, (c) the process by which the Capital Planning Committee recommends and the Board of Supervisors authorizes specific debt issuances, and (d) limitations on the amount of debt that the City may incur.

According to the City’s Debt Policy:

- The City Charter restricts the amount of outstanding general obligation bond debt to no more than 3 percent of the assessed value of taxable property within the City;
- City policy restricts the amount of Certificates of Participation and other long term debt to no more than 3.25 percent of discretionary General Fund revenues; and
- City policy restricts the amount of lease revenue bonds to finance the purchase of capital equipment to \$20 million as of 1991, increasing by 5 percent per year.

The City’s Debt Policy also (a) defines the procedures for selling bonds through competitive sales, negotiated sales, or private placements; (b) sets the standard terms for issuing general obligation bonds, certificates of participation, and other forms of debt; (c) defines policies for capitalized interest, debt service reserves, and call options<sup>1</sup>; and other terms.

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<sup>1</sup> “Capitalized interest” may be included in the principal amount of bonds to pay interest on the bonded debt prior to the receipt of sufficient revenues to make interest payments. “Call options” are agreements that give the City the right but not the obligation to buy back the debt.

*Impact of Proposed Amendments to the City's Debt Policy*

The proposed resolution:

- Amends the City's Debt Policy to allow the maximum term of general obligation bonds to be up to 40 years, rather than the current maximum term of 30 years. The fiscal impact to the City would depend on the cost of issuing bonds for 40 years rather than 30 years.
- Adds Appendix B to provide guidelines regarding when the Office of Public Finance may consider the designation of City bonds as social bonds, green bonds, or sustainable bonds (for projects designated as both "social" and "green"). Appendix B states that "in considering the designation of such bonds, the Office of Public Finance shall evaluate costs and benefits...around such designation".
- Amends the City's Debt Policy to allow for the purchase of a surety bond in lieu of setting aside bond proceeds as a debt service reserve. According to the proposed amendment to the City's Debt Policy, "the City may use a surety policy in lieu of a debt service reserve fund when available and economically feasible".

**RECOMMENDATION**

Approve the proposed resolution.

<p><b>Items 6, 7 and 8</b>  <b>Files 18-1209, 18-1218 and 18-1219</b></p>	<p><b>Department:</b>                  Office of Public Finance (OPF)                  Mayor’s Office of Housing and Community Development (MOHCD)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>• <u>File 18-1218</u>: The proposed resolution would authorize the issuance of not to exceed \$260,684,550 aggregate principal in General Obligation Bonds (Proposition A, 1992/Proposition C, 2016), approved by the voters in November 2016, and provide for the levy of a tax to pay the principal and interest of the general obligation bonds.</li> <li>• <u>File 18-1219</u>: The proposed resolution would authorize the issuance and sale of not to exceed \$75,000,000 aggregate principal Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016), Series 2019A.</li> <li>• <u>File 18-1209</u>: The proposed ordinance appropriates \$75,000,000 of proceeds from the Series 2019A taxable bonds to the Mayor’s Office of Housing and Community Development to implement loan programs to acquire, improve and rehabilitate at-risk multi-unit residential buildings that need seismic, fire, health or safety upgrades or other major rehabilitation, and convert those buildings to permanent affordable housing and places these funds on Controller’s Reserve pending sale of the bonds.</li> </ul>	
<p style="text-align: center;"><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>• Voters approved Proposition A in 1992, which authorized the sale of up to \$350 million in general obligation bonds for a loan program to support seismic improvements to unreinforced masonry buildings. Of the \$350 million total authorized, \$89,315,450 has been issued to date, and \$260,684,550 remains available for future bond issuance.</li> <li>• In November 2016, voters approved Proposition C, which amended the 1992 authorization to broaden the scope of the program due to low demand for seismic safety loans funded through the general obligation bond program. Proposition C allowed the bonds to also be used to finance the acquisition, improvement, and rehabilitation of (including seismic and other safety upgrades) at-risk multi-unit residential buildings and to convert those structures to permanent affordable housing.</li> </ul>	
<p style="text-align: center;"><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>• The Office of Public Finance estimates the average annual debt service over 40 years on the general obligation bonds would be approximately \$4,700,000. The estimated total debt service is \$188,500,000, of which \$113,500,000 is interest and \$75,000,000 is principal.</li> <li>• If the Board of Supervisors approves the issuance of the general obligation bonds, the debt ratio would increase by 0.03 percent to 0.98 percent—within the 3.00 percent legal debt limit. If all of the City's authorized and unissued general obligation bonds were issued, the total debt would be 1.40 percent of the net assessed value of property in the City.</li> </ul>	
<p style="text-align: center;"><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>• Approve the two proposed resolutions and the proposed ordinance.</li> </ul>	

**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.

Charter Section 9.105 also 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**

1992 Seismic Safety Loan Program Bonds

Voters approved Proposition A in 1992, which authorized the sale of up to \$350 million in general obligation bonds for the Seismic Safety Loan Program to support seismic improvements to unreinforced masonry buildings. The \$350 million authorization was allocated to two separate loan programs, including \$150 million for a below-market rate loan program for seismic improvements to affordable housing and \$200 million for improvements to market rate properties. Under the below-market rate loan program, borrowers would pay back principal and one-third of the City’s borrowing costs, and the remainder of the City’s borrowing cost would be repaid by a property tax levy. In addition, \$60 million of the \$150 million allocation for below-market rate loans was permitted to be deferred for 20 or 55 years. Under the market rate loan program, borrowers would pay back principal, the City’s full borrowing cost, and an additional 1 percent interest to cover administrative costs. Of the \$350 million total authorized, \$89,315,450<sup>1</sup> has been issued to date, and \$260,684,550 remains available for future bond issuance, as shown in Table 1 below.

**Table 1: Seismic Safety Loan Program Bond Authorization**

	<b>Authorization</b>	<b>Issued to date</b>	<b>Remaining Authorization</b>
Below-Market Rate Loan Program	\$150,000,000	\$45,315,450	\$104,684,550
<i>with loan deferment</i>	<i>60,000,000</i>	<i>45,315,450</i>	<i>14,684,550</i>
<i>no loan deferment</i>	<i>90,000,000</i>		<i>90,000,000</i>
Market Rate Loan Program	200,000,000	44,000,000	156,000,000
<b>Total</b>	<b>\$350,000,000</b>	<b>\$89,315,450</b>	<b>\$260,684,550</b>

Source: Memorandum dated December 7, 2018 from the Office of Public Finance to the Board of Supervisors

Under Proposition A, no more than \$35 million of the general obligation bond authorization could be sold in any fiscal year (including no more than \$15 million for the Below-Market Rate Loan Program and no more than \$20 million for the Market Rate Loan Program), but the authorized indebtedness accrued in each fiscal year could be carried over to subsequent fiscal years, if it remains unissued.

<sup>1</sup> Includes three bond issuances: (1) \$35 million in April 1994, pursuant to Resolution 160-94; (2) \$30,315,450 in March 2007, pursuant to Resolution 65-07; and (3) \$24 million in March 2016, pursuant to Resolution 284-14.

### Seismic Safety and Affordable Housing Loan Program (PASS Program)

In November 2016, voters approved Proposition C, which amended the 1992 authorization to broaden the scope of the Seismic Safety Loan Program due to low demand for seismic safety loans funded through the general obligation bond program. Proposition C allowed the bonds to also be used to finance the acquisition, improvement, and rehabilitation of (including seismic and other safety upgrades) at-risk multi-unit residential buildings and to convert those structures to permanent affordable housing. In October 2018, the Board of Supervisors approved Ordinance No. 270-18, which amended the Administrative Code to authorize and implement a seismic safety and affordable housing loan program—now called Preservation and Seismic Safety (PASS Program)—to be funded by the sale of the authorized general obligation bonds.

### DETAILS OF PROPOSED LEGISLATION

The two proposed resolutions and one proposed ordinance would authorize (a) the issuance of the entire not-to-exceed \$260,684,550 aggregate principal in general obligation bonds, (b) the sale of the first series of the taxable general obligation bonds for up to \$75,000,000, and (c) the appropriation of those funds for seismic safety and affordable housing loans:

- File 18-1218: The proposed resolution would authorize the issuance of not to exceed \$260,684,550 aggregate principal in General Obligation Bonds (Proposition A, 1992/Proposition C, 2016), approved by the voters in November 2016, and provide for the levy of a tax to pay the principal and interest of the general obligation bonds.
- File 18-1219: The proposed resolution would authorize the issuance and sale of not to exceed \$75,000,000 aggregate principal Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016), Series 2019A.<sup>2</sup>
- File 18-1209: The proposed ordinance appropriates \$75,000,000 of proceeds from the Series 2019A taxable bonds to the Mayor’s Office of Housing and Community Development (MOHCD) to implement loan programs to acquire, improve and rehabilitate at-risk multi-unit residential buildings that need seismic, fire, health or safety upgrades or other major rehabilitation, and convert those buildings to permanent affordable housing and places these funds on Controller’s Reserve pending sale of the bonds.

### **Authorization to issue \$260,684,550 in General Obligation Bonds and Sale of \$75 million Series 2019A Bonds (Files 18-1218 and 18-1219)**

The proposed resolutions would authorize (a) the issuance of \$260,684,550 in general obligation bonds, to be issued in multiple series with no more than \$35 million sold in each

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<sup>2</sup> A resolution pending before the Board of Supervisors (File 18-1227) amends the City’s debt policy to allow the Controller’s Office of Public Finance to consider designating bonds as social bonds, green bonds, or sustainable bonds (for projects designated as both “social” and “green”). Appendix B states that “in considering the designation of such bonds, the Office of Public Finance shall evaluate costs and benefits...around such designation”.

fiscal year (unless authorized indebtedness is carried over from previous fiscal years), and (b) the sale of up to \$75 million<sup>3</sup> Series 2019A taxable bonds, which would be the first series to be issued from the total \$260,684,550 authorized by the 2016 Proposition C, as described above. The sale of the \$75 million Series 2019A taxable bonds would occur in approximately February 2019 if approved. The sale of the remaining \$185,684,550 of the \$260,684,550 total authorized would be subject to future Board of Supervisors approval.

#### Financing Parameters

Of the first series of not to exceed \$75 million of the total \$260,684,550, the Office of Public Finance expects to sell \$72.5 million under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount of \$2.5 million above the expected issuance amount of \$72.5 million allows for fluctuations in interest rate market conditions from the date of authorization by the Board of Supervisors to the time of the sale of the bonds. Table 2 below outlines anticipated sources and uses for the bonds.

**Table 2: MOHCD Allocation for Series 2019A General Obligation Bonds**

<b>Sources</b>	
Par Amount	\$72,500,000
Reserve Proceeds for Interest Rate Fluctuations	2,500,000
<b>Total Not-to-Exceed Amount</b>	<b>\$75,000,000</b>
<b>Uses</b>	
<b>MOHCD Project</b>	
Below-Market Rate Loan Program	\$30,626,096
<i>with loan deferment</i>	4,296,243
<i>no loan deferment</i>	26,329,853
Market Rate Loan Program	40,835,032
<i>Amount Available for Loans Subtotal</i>	<i>71,461,128</i>
CSA Audit fund	142,922
<i>MOHCD Projects Subtotal</i>	<i>71,604,050</i>
Citizens' GO Bond Oversight Committee	75,000
Costs of Bond Issuance	600,000
Underwriter's Discount	220,950
<i>Costs of Issuance Subtotal</i>	<i>895,950</i>
Reserve for Market Uncertainty	2,500,000
<b>Total Uses with Reserve</b>	<b>\$75,000,000</b>

Source: Memorandum dated December 7, 2018 from the Office of Public Finance to the Board of Supervisors

<sup>3</sup> The proposed \$75 million issuance is within the \$105 million maximum that could be issued in FY 2018-19 based on the \$35 million annual issuance limit that has carried over since FY 2016-17, as stipulated in 1992 Proposition A and maintained under 2016 Proposition C.

**Appropriation of \$75,000,000 in Bond Proceeds (File 18-1209)**

As shown in Table 2 above, the proposed ordinance would appropriate \$75,000,000 in Series 2019A taxable general obligation bond proceeds for seismic safety and affordable housing projects to the Mayor's Office of Housing and Community Development.

According to Mr. Vishal Trivedi, a Financial Analyst in the Office of Public Finance, the below-market rate loans and market rate loans would be issued in combination to non-profit developers<sup>4</sup> for affordable housing to achieve a low-cost blended interest rate, and the terms of repayment of those loans to the City would depend on the share that is below-market rate and the share that is market rate. Seismic safety loans under the 1992 Proposition A authorization would still be available for seismic improvements to unreinforced masonry buildings, but as noted above, demand for these loans has been low historically.

**FISCAL IMPACT****Annual Debt Service**

Based on a conservative estimate of 5.53 percent total borrowing cost (which assumes the issuance of the Bonds on a federally taxable basis), the Office of Public Finance estimates the average annual debt service over 40 years on the general obligation bonds would be approximately \$4,700,000. A par value of \$75,000,000 is estimated to result in approximately \$113,500,000 in interest payments over the 40-year life of the Series 2019A bonds.<sup>5</sup> The estimated total principal and interest payment over the approximate 40-year life of the general obligation bonds is \$188,500,000, of which \$113,500,000 is interest and \$75,000,000 is principal.

The Office of Public Finance intends to sell the general obligation bonds through a negotiated sale with three underwriters selected competitively based on their responses to a Request for Proposals that was distributed to the City's Underwriter Pool. Citigroup would serve as Senior Underwriter, and Raymond James and Loop Capital Markets would serve as Co-underwriters. The Bonds would be structured as taxable<sup>6</sup> bonds with a final maturity of 35 to 40 years to meet the needs of an affordable housing loan program. The Bonds would mature on or before June 15, 2059.

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<sup>4</sup> Affordable housing general obligation bonds are 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 loans 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.

<sup>5</sup> A resolution pending before the Board of Supervisors (File 18-1227) amends the City's debt policy to allow the issuance of bonds up to a maximum of 40 years (rather than the current maximum of 30 years).

<sup>6</sup> The Series 2019A bonds would be sold as taxable due to IRS restrictions on financing projects that involve private use, such as housing, with tax-exempt bonds.



**Debt Limit**

Section 9.106 of the City Charter limits the amount of general obligation bonds the City can have outstanding at any given time to three percent of the total assessed value of property in San Francisco. The City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's gross general obligation debt limit for FY 2018-19 is approximately \$7.78 billion, based on a net assessed valuation of approximately \$259.3 billion. This net assessed valuation is dated as of August 1, 2018, which is the date of the Controller’s Certificate of Assessed Valuation for the fiscal year. As of December 1, 2018, the City had outstanding approximately \$2.46 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.95 percent of the net assessed valuation for FY 2018-19. If the Board of Supervisors approves the issuance of the general obligation bonds, the debt ratio would increase by 0.03 percent to 0.98 percent—within the 3.00 percent legal debt limit. If all of the City's authorized and unissued general obligation bonds were issued, the total debt would be 1.40 percent of the net assessed value of property in the City.

**Property Tax Rates**

For the Series 2019A bonds, repayment of the annual debt service would be recovered through increases in the annual property tax rate, which, according to the Controller’s Office, would range from \$0.03 up to \$1.72 per \$100,000 of assessed valuation over the anticipated 40-year term of the bonds based on current assumptions. The owner of a residence with an assessed value of \$600,000, assuming a homeowner’s exemption of \$7,000, would pay additional property taxes to the City ranging from \$0.19 up to \$10.19 per year if the \$75,000,000 Series 2019A bonds are sold. As noted above, under the below-market rate loan program, borrowers would pay back principal and one-third of the City’s borrowing costs, and the remainder of the City’s borrowing cost would be repaid by a property tax levy.

**Capital Plan**

Under financial constraints adopted by the City’s Capital Planning Committee, debt service on approved and issued general obligation 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 general obligation bond fund was \$120.10 per \$100,000 of assessed value. If the Board of Supervisors approves the issuance of the general obligation bonds, the property tax rate for general obligation bonds for FY 2018-19 would be maintained below the FY 2005-06 rate and within the Capital Planning Committee’s approved financial constraint.

**RECOMMENDATION**

Approve the proposed resolutions (Files 18-1218 and 18-1219) and the proposed ordinance (File 18-1209).