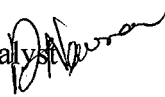


**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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September 6, 2012

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** September 12, 2012 Budget and Finance Committee Meeting

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<b>Items 1 &amp; 2</b> <b>Files 12-0759 and 12-0751</b>	<b>Department:</b> Airport
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<p><u>File 12-0759</u>: The proposed resolution would (a) authorize the San Francisco International Airport (Airport) to issue San Francisco Airport Commission Capital Plan Bonds (Airport Bonds) for a total principal amount not-to-exceed \$502,200,000, (b) extend the deadline for sale of the Airport Bonds from December 31, 2015 to June 30, 2019, and (c) approve certain related matters.</p>	
<p><u>File 12-0751</u>: The proposed ordinance would appropriate \$502,200,000 of Airport Bond proceeds (File 12-0759) to capital improvement projects to the Airport Commission for FY 2012-13, and place the total appropriation of \$502,200,000 on Controller's Reserve pending sale of the Airport Bonds.</p>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• In 2008, the Board of Supervisors authorized the Airport Commission to issue up to \$718,000,000 of Airport Commission Capital Plan Bonds (Airport Bonds) for Airport capital projects (File 08-0590). The Board of Supervisors also authorized the appropriation of \$593,490,962 at that time for Airport capital projects, including funding for the renovation and expansion of Terminal 2 (File 08-0404). Of these authorizations, the Airport has \$103,740,000 in remaining Airport Bond issuance authority, and \$77,810,950 in capital project appropriation fund balance.</li> <li>• The proposed resolution (File 12-0759) would authorize the sale of Airport Bonds to fund the next five years of Airport capital projects, as identified in the Airport's 2012-2016 Five-Year Capital Plan. The proposed supplemental appropriation ordinance (File 12-0751) would appropriate the \$502,200,000 of Airport Bond Proceeds to Airport capital projects, including (a) airfield improvements, including the Runway Safety Area (RSA) Project; (b) Airport support improvements, including baggage and security improvements; (c) groundside projects, including new parking facilities; (d) Airport terminal improvement projects; and (e) utility improvement projects, including wastewater, power, and central plant improvements.</li> <li>• If the proposed resolution is approved, the Airport would combine its remaining 2008 Airport Bond issuance authority of \$103,740,000 and the requested 2012 Airport Bond authority of \$502,200,000, to issue a total of \$605,940,000 in Airport Bonds to fund Airport capital projects and the Airport's Bond Cost of Issuance (COI), which is estimated to total \$41,000,000. However, the Airport has not requested, nor previously received, appropriation authority for the \$41,000,000 COI.</li> </ul>	
<b>Fiscal Impacts</b>	
<ul style="list-style-type: none"> <li>• The proposed resolution would authorize the issuance of \$502,200,000 aggregate principal amount of Airport Bonds. The Airport has estimated total interest costs of \$772,499,651 for the Airport Bonds, based on an interest rate 6.00%, resulting in a total debt service of \$1,274,699,651, to be repaid over the course of the 30-year period from 2014 to 2044. Any expenses incurred prior to the Airport Bond sale would be funded through the Airport's Commercial Paper program.</li> <li>• Issuance of the proposed new Airport Bonds would increase the Airport's outstanding debt by \$502,200,000 or 12.4%, from \$4,060,000,000 to \$4,562,200,000.</li> <li>• The debt service on the Airport Bonds would be repaid from revenues the Airport generates through landing fees, terminal rental fees, concession revenue, parking revenue, rental revenue, and other</li> </ul>	

sources. The Cost Per Enplaned Passenger (CPE) paid by airlines is forecasted to increase by 5.1% in FY 2013-14.

### Recommendations

- Amend the proposed ordinance (File 12-0751) to increase the supplemental appropriation by a total of \$41,000,000, from \$502,200,000 to \$543,200,000, to provide the Airport appropriation authority for the Airport's estimated Bond issuance and related financial costs, including (a) \$17,900,000 Debt Service Reserve Fund; (b) \$1,500,000 for Cost of Issuance; (c) \$2,600,000 Underwriter's Discount; and (d) \$19,000,000 Capitalized Interest.
- Approve the proposed ordinance, as amended, and the proposed resolution.

## MANDATE STATEMENT/ BACKGROUND

### Mandate Statement

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

### Background

On May 13, 2008, the Board of Supervisors authorized the Airport Commission to issue up to \$718,000,000 aggregate principal of General Airport Revenue Bonds (Airport Bonds) (File 08-0590) and appropriated \$593,490,962 for various capital projects under the Airport's Capital Plan (File 08-0404). File 08-0590 included a deadline of December 31, 2015 for the Airport to issue the up to \$718,000,000 of Airport Bonds. The purpose of this 2008 Airport Bond issuance and appropriation was to fund various capital projects identified in the Airport's Capital Plan, including the renovation and expansion of Terminal 2, which has since been completed and opened on April 14, 2011.

As shown in Table 1 below, as of September 6, 2012, the Airport has issued a total of \$614,260,000 or 85.6% of the authorized \$718,000,000 in Airport Bonds, leaving the Airport with \$103,740,000 in Airport Bond issuance authorization. Of the \$593,490,962 previously approved supplemental appropriation, as of September 6, 2012, the Airport has expended \$515,680,012 or 86.9%, leaving the Airport with \$77,810,950 in remaining appropriation authority for these various capital projects. The Airport's existing Airport Bond issuance and appropriation authority are further discussed in the Fiscal Impact section, below.

**Table 1. Summary of 2008 Airport Bond Issuance and Appropriation**

File	Amount Authorized	Issued or Expended as of Sept. 6, 2012	% Issued or Expended as of Sept. 6, 2012	Amount Remaining
08-0590: Airport Bond Issuance	\$718,000,000	\$614,260,000	85.6%	\$103,740,000
08-0404: Supplemental Appropriation	\$593,490,962	\$515,680,012	86.9%	\$77,810,950

According to Ms. Julia Dawson, Airport Capital Budget Manager, the Costs of Issuance (COI) and other financing costs that the Airport incurred for the 2008 Airport Bonds totaled \$98,579,988. Ms. Dawson notes that this \$98,579,988 issuance related cost accounts for the difference between the \$614,260,000 2008 Airport Bonds issued to date and the \$515,680,012 amount the Airport has expended against its 2008 supplemental appropriation. Ms. Dawson advises that the 2008 Airport Bond COI and other financing costs were not included in the 2008 supplemental appropriation.

Table 2, below, summarizes the Airport's remaining \$77,810,950 capital project appropriation authority.

**Table 2. Remaining 2008 Airport Capital Project Appropriation Authority**

<b>Capital Projects</b>	<b>Remaining Supplemental Amount</b>
<b><u>Airfield Improvements</u></b>	<b><u>\$8,586,300</u></b>
Runway Safety Area (RSA) Program	7,232,300
Runway Status Lights System (RWSL)	500,000
Runway Improvements	854,000
<b><u>Airport Support Improvements</u></b>	<b><u>\$23,320,000</u></b>
West Field Cargo Redevelopment	1,500,000
CBIS / BHS Modernization	4,500,000
Security Improvements	3,288,960
Ground Transportation Management System (GTMS) Replacement	500,000
Superbay Improvements	3,500,000
Telecommunications Network Infrastructure Upgrades	2,500,000
Airport Data Center	6,031,040
Airport Signage Improvements	1,500,000
<b><u>Groundside Projects</u></b>	<b><u>\$1,600,000</u></b>
Parking Lot and Garage Improvements	1,350,000
Variable Message Signs on Freeway Ramps	250,000
<b><u>Terminal Improvement Projects</u></b>	<b><u>\$39,597,400</u></b>
Boarding Area E Redevelopment	8,780,903
Terminal 3 Checkpoint Improvements	13,424,484
Terminal 1 Redevelopment Planning	5,000,000
International Terminal Renovations	4,892,013
Passenger Boarding Bridge Replacement	2,500,000
ATCT Integrated Facilities / Secure Connector	5,000,000
<b><u>Utility Improvement Projects</u></b>	<b><u>\$4,707,250</u></b>
Wastewater System Improvements	1,632,000
Power and Lighting Improvements	750,250
Central Plant Improvements	1,000,000
Telecommunications Infrastructure Improvements	850,000
Storm Drain Improvements	475,000
<b>TOTAL</b>	<b>\$77,810,950</b>

## 2012-2016 Five-Year Capital Plan

An updated Airport Five-Year Capital Plan, covering calendar years 2012 through 2016, was reviewed and approved by the City's Capital Planning Committee on February 13, 2012, and included in the City's overall 2012 Ten-Year Capital Plan. The Airport's 2012-2016 Five-Year Capital Plan identified the following three priority projects:

- Runway Safety Area (RSA) – A federally mandated project, to be completed by all airports by December 31, 2015.
- Air Traffic Control Tower (ATCT) – A new tower and integrated base building to be located between Terminals 1 and 2, to replace the existing ATCT. The integrated facility includes entrance reconfiguration, an airline club, and a secure connector between Terminal 1 and 3 and once complete, will allow travelers to transition between the two Terminals and make airline connections without leaving the secure area.
- Terminal 3 Boarding Area Renovations and Reconfiguration – Renovating and refurbishing Boarding Area E in Terminal 3. Additionally, the Airport plans to reconfigure and expand the Terminal 3 checkpoints to improve passenger processing and meet new TSA requirements.

## Outstanding Debt

Currently the Airport has \$4,060,000,000 in total bond debt outstanding, which is estimated to cost the Airport \$354,480,000 in debt service payments in FY 2012-13, including principal and interest. The Airport's debt service, including principal and interest, is funded through Airport revenues, including non-airline revenues, such as terminal concessions and ground transportation concessions, and through fees charged to airlines.

## DETAILS OF PROPOSED LEGISLATION

File 12-0759: The proposed resolution would (a) authorize the San Francisco International Airport (Airport) to issue San Francisco Airport Commission Capital Plan Revenue Bonds (Airport Bonds) for a total principal amount not-to-exceed \$502,200,000, (b) extend the deadline for issuance of the Airport Bonds from December 31, 2015 to June 30, 2019, and (c) approve certain related matters.

According to Ms. Dawson, the proposed issuance extension would allow the Airport additional flexibility for issuing the Airport Bonds at a fiscally appropriate time.

File 12-0751: The proposed ordinance would appropriate \$502,200,000 of proceeds from the proposed Airport Bond sale for capital improvement projects to the Airport Commission for FY 2012-13, and place the total appropriation of \$502,200,000 on Controller's Reserve pending sale of the Airport Bonds.

The proposed supplemental appropriation ordinance would appropriate the \$502,200,000 of Airport Bond proceeds to Airport capital projects, which include (a) airfield improvements, including federally mandated runway safety projects; (b) Airport support improvements, including baggage and security improvements; (c) groundside projects, including new parking facilities; (d) Airport terminal improvement projects; and (e) utility improvement projects,

including wastewater, power, and central plant improvements. Table 3 below, is a Capital Project Budget for the proposed \$502,200,000 supplemental appropriation ordinance.

A five-year expenditure plan for the \$502,200,000, from FY 2012-13 through FY 2016-17 is summarized in Attachment I to this report.

**Table 3. Proposed \$502,000,000 Capital Project Budget**

<b>Capital Projects</b>	<b>Description</b>	<b>Budgeted Amount</b>
<b><u>Airfield Improvements</u></b>		
Runway Safety Area (RSA) Program	Project is mandated by US Congress	<u>\$83,675,667</u> 71,214,909
Runway Status Lights System (RWSL)	Safety system designed to reduce the number of runway incursions	7,493,258
Runway Improvements	Periodic repaving of runway	4,967,500
<b><u>Airport Support Improvements</u></b>		
West Field Cargo Redevelopment	A new cargo building that will be leased to shipping company DHL. This facility will ultimately replace two cargo buildings containing asbestos	<u>122,622,671</u> 30,401,269
BHS/CBIS Modernization	Modernize the baggage handling system (BHS) and checked baggage inspection system (CBIS)	25,053,199
Air Traffic Control Tower (ATCT) Replacement	Demolition of existing ATCT	21,240,000
Security Improvements	Installation of card access readers for increased security	16,544,250
Ground Transportation Management System (GTMS) Replacement	Installation of a system that will make the billing of taxi and shuttle providers more efficient	14,399,293
Superbay Improvements	Fire safety and door improvements to the Superbay Facility, which is a hangar for United and American and yield \$8 million/year in revenue from leases	5,200,000
Energy Efficiency Projects - Airport Support	Allow for the use of green energy sources	5,075,000
Telecommunications Network Infrastructure Upgrades	Replace wiring for telecommunications network	4,709,660
<b><u>Groundside Projects</u></b>		
New Parking Garage	Initial costs for a second long-term parking garage	<u>58,548,500</u> 35,000,000
Viaduct Improvements	Resurfacing and seismic upgrades, ongoing program, and improvement in front of Terminal 1	13,010,000
Parking Lot and Garage Improvements	Resurfacing, maintaining infrastructure, new employee parking (freeing up 800 spaces for public), carbon monitoring system	7,500,000
Variable Message Signs on Freeway Ramps	Replace the Variable Message Signs (VMS) on the overhead sign bridges above the freeway ramps to the Airport Terminals	1,988,500
Roadway Improvements	Various Airport roadways leading to the Terminals are in need of reconstruction. The signage is failing and needs to be renovated	1,050,000
<b><u>Terminal Improvement Projects</u></b>		
Boarding Area E Redevelopment	Redevelopment of Terminal 3 Boarding Area E to allow for United expansion	<u>181,753,029</u> 107,130,769
Terminal 3 Checkpoint Improvements	Passenger inspection throughput for Boarding Area E	43,273,000
Air Traffic Control Tower (ATCT) Integrated Facilities/ Secure Connector	New ATCT, integrated facilities, support buildings for ATCT, FAA offices (funding shared with \$69 million grant)	31,349,260
<b><u>Utility Improvement Projects</u></b>		
Wastewater System Improvements	Replace drainage and sewage systems and construct a new industrial waste processing facility	<u>54,595,733</u> 27,487,758
Power and Lighting Improvements	Bringing power to Terminals and increasing Terminals' power capacity	13,064,975
Central Plant Improvements	Replace boiler and add additional energy-efficient upgrades	9,695,000
Telecommunications Infrastructure Improvements	Upgrade, replacement, expansion, and improvement of telecommunications support infrastructure	2,348,000
Storm Drain Improvements	Replace sections of the storm drain network	2,000,000
<b>CSA Auditing Services</b>	Prop C mandated set-aside for City Service Auditor services	<b>1,004,400</b>
<b>TOTAL</b>		<b>\$502,200,000</b>

## FISCAL IMPACTS

File 12-0759: The proposed resolution would authorize the issuance of \$502,200,000 aggregate principal amount of San Francisco Airport Commission Capital Plan Bonds (Airport Bonds). The Airport has estimated total interest costs of \$772,499,651 for the Airport Bonds, based on an interest rate 6.00% resulting in a total debt service of \$1,274,699,651, to be repaid over a 30-year period from 2014 to 2044, as shown in the annual debt service schedule in Attachment II.

According to Ms. Dawson, if the proposed resolution is approved, the Airport would combine its remaining 2008 Airport Bond issuance authority of \$103,740,000 (File 08-0590), shown in Table 1 above, and the requested 2012 Airport Bond authority of \$502,200,000, to issue a total of \$605,940,000 in Airport Bonds to fund Airport capital projects. This combined amount would also fund the Airport Bond Cost of Issuance (COI), which is estimated to total \$41,000,000.

The debt service on all the Airport Bonds would be repaid from revenues the Airport generates through landing fees, terminal rental fees, concession revenue, parking revenue, rental revenue, and other sources. These revenues are allocated to debt service on capital projects through the Airport's Annual Operating Budget.

According to Ms. Dawson, the Airport anticipates issuing the \$605,940,000 in Airport Bonds between two issuances, March 2013 and November 2014. Any Airport project costs incurred prior to the issuance of the Airport Bonds would be paid through the Airport's Commercial Paper program. The Airport has historically issued Commercial Paper to provide short-term funding for capital projects, and refunds the short-term Commercial Paper with the proposed new Airport Bonds that amortize over a 30-year period. According to Ms. Dawson, this financing strategy allows the Airport to (a) realize savings by achieving a much lower interest rate on the Commercial Paper in the short term, compared to the interest rate on the Airport Revenue Bonds and (b) reduce capitalized interest costs.

File 12-0751: The proposed ordinance would authorize the appropriation of the entire \$502,200,000 in Airport Bond revenue for Airport capital projects (File 12-0759), in accordance with the Airport's 2012 Five-Year Capital Plan. A summary budget for the \$502,200,000 in capital projects is shown in Table 3 above, and a five-year expenditure plan is provided in Attachment I to this report. Under the proposed ordinance, all appropriations would be placed on Controller's reserve pending the sale of the Airport Bonds or Commercial Paper.

### *Combined Prior and Proposed Bond Issuance and Appropriation Authorization*

Table 4, below, summarizes the Airport's intention to combine the remaining \$103,740,000 2008 Airport Bond authority, the requested \$502,200,000 2012 Airport Bond issuance, and an additional \$15,070,950 of Commercial Paper, totaling \$621,010,950. Table 4 below also summarizes the uses for the \$621,010,950 total funds, which includes the \$77,810,950 remaining 2008 capital project appropriation authorization detailed above in Table 2, the requested \$502,200,000 project uses shown above in Table 3 and the estimated \$41,000,000 Bond issuance and related financial costs for the combined Airport Bonds. The \$41,000,000 Bond issuance and related financial costs consist of: (a) \$17,900,000 Debt Service Reserve Fund; (b) \$1,500,000 for cost of issuance; (c) \$2,600,000 Underwriter's Discount; and (d) \$19,000,000 Capitalized Interest.



**Table 4. Summary of Combined Sources and Uses**

<b>Combined Sources</b>	
Remaining 2008 Airport Bond Issuance Authorization	\$103,740,000
Proposed 2012 Airport Bond Issuance Authorization	502,200,000
<b>Subtotal</b>	<b>\$605,940,000</b>
Additional Future Commercial Paper Issuance	15,070,950
<b>Total Sources</b>	<b>\$621,010,950</b>
<b>Combined Uses</b>	
Remaining 2008 Capital Appropriation Authorization	\$77,810,950
Proposed 2012 Capital Appropriation Authorization	502,200,000
<b>Subtotal</b>	<b>\$580,010,950</b>
Estimated Total Airport Bond Costs of Issuance	41,000,000
<b>Total Uses</b>	<b>\$621,010,950</b>

According to Ms. Dawson, the additional \$15,070,950 in Commercial Paper shown in Table 4 above would be refunded with Airport Bonds in a future Airport Bond authorization. Furthermore, the Budget and Legislative Analyst notes that the Airport has not requested appropriation authority for this \$41,000,000 for COI (see Policy Considerations, below).

## **POLICY CONSIDERATIONS**

### **Airlines' Fees Would be Increased to Pay for the Proposed \$502,200,000 Airport Bond Issuance**

Airline terminal rentals and landing fees constitute approximately 41% of the Airport's overall revenue, of which a portion is used to repay Airport Bonds. The Cost Per Enplaned Passenger, (CPE), a metric used to measure the average cost of airline operations at an airport, divides airline-required revenue<sup>1</sup> by enplaned (departing) passengers.

$$\text{Cost Per Enplaned Passenger (CPE)} = \frac{\text{Airline-Required Revenue}}{\text{Enplaned Passengers}}$$

The CPE at the Airport has been estimated at \$14.15 for FY 2012-13. In FY 2013-14, the CPE is forecasted to increase by \$0.72 or 5.1% to \$14.87, including costs associated with the proposed Airport Bonds. According to Ms. Dawson, the airlines have approved the Airport's Capital Plan and reviewed the resulting impact to the CPE.

<sup>1</sup> Airline Required Revenue = (Airport Debt Service & Amortization + Operating & Maintenance Expenses) - (Nonairline Revenue, Designated Passenger Facility Charges, and Deferred Revenue)

### **The Proposed \$502,200,000 Airport Bond Issuance Would Increase the Airport's Outstanding Long-Term Debt by 12.4%**

As noted in the Background section above, the Airport currently owes \$4,060,000,000 in outstanding long-term Airport Bond debt. Issuance of the proposed Airport Bonds of \$502,200,000 would result in Airport outstanding debt totaling \$4,562,200,000, an increase of 12.4 percent. The Airport's annual debt service on the proposed Airport Bond issuance would increase from as low as \$1,889,777 in FY 2013-14 to as high as \$88,146,299 per year in FY 2041-42, as shown in Attachment II. The Airport's total long-term debt service schedule is shown in Attachment III to this report. As shown in Attachment III, if the proposed Airport Bond issuance is approved, debt service from the existing and proposed Airport Bonds would peak at \$408,801,928 in FY 2015-16, or 44.0 percent, of the Airport's anticipated operating budget for FY 2015-16.

The Airport's approved FY 2012-13 operating budget is \$843,524,462, including \$350,144,580 in debt service and \$493,379,882 in other operating expenses. Despite what appears to be a relatively high debt to operating budget ratio, MGO Certified Public Accountants noted the following on November 28, 2011:

“Standard and Poor's affirmed the Airport's underlying credit ratings and subsequently upgraded the Airport from “A” to “A+” with a Stable Rating Outlook on June 30, 2011. Moody's and Fitch also affirmed their existing credit ratings of the Airport of “A1” and “A+” with Stable Rating Outlooks, respectively.”<sup>2</sup>

According to Ms. Dawson, the Airport anticipates the requested Airport Bonds will receive an A+ rating from Standard and Poor's and Fitch, and an A1 rating from Moody's at the time of issuance.

### **The Proposed \$502,200,000 Supplemental Appropriation Ordinance Does Not Include Appropriation Authority for the Airport Bond Costs of Issuance (COI)**

As discussed above, in 2008 the Board of Supervisors authorized the Airport to issue up to \$718,000,000 of Airport Bonds. As shown in Table 1 above, to date the Airport has issued a total of \$614,260,000 of Airport Bonds, such that \$103,704,000 of Airport Bond issuance authority remains. As is also noted above, the Airport estimates that issuing the combined 2008 and 2012 Bond Issuances, totaling \$605,940,000, as shown in Table 4 above, would result in an estimated cost of issuance of \$41,000,000.

According to Ms. Dawson, the Airport would use funds from the remaining \$103,704,000 2008 Bond issuance authority to fund the estimated \$41,000,000 cost of issuance for the 2012 and 2013 Airport Bond issuances. However, the Airport has not previously received appropriation authority from the Board of Supervisors for this \$41,000,000, nor did the Airport include an estimated cost of issuance in the subject supplemental appropriation ordinance. Therefore, the Budget and Legislative Analyst recommends that the Board of Supervisors amend the proposed ordinance, to increase the requested supplemental appropriation ordinance (File 12-0751) by an

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<sup>2</sup> Source: City and County of San Francisco Basic Financial Statements and Single Audit Reports for the Year Ended June 30, 2011.

amount of \$41,000,000, from \$502,200,000 to \$543,200,000, so that the Airport has the appropriation authority for the estimated Bond issuance and related financial costs, as follows:

Debt Service Reserve Fund	\$17,900,000
Cost of Issuance	1,500,000
Underwriter's Discount	2,600,000
<u>Capitalized Interest</u>	<u>19,000,000</u>
<b>Total Bond Issuance Costs</b>	<b>\$41,000,000</b>

## RECOMMENDATIONS

1. Amend the proposed ordinance (File 12-0751) to increase the supplemental appropriation by a total of \$41,000,000, from \$502,200,000 to \$543,200,000, to provide the Airport appropriation authority for the Airport's estimated Bond issuance and related financial costs, including (a) \$17,900,000 Debt Service Reserve Fund; (b) \$1,500,000 for Cost of Issuance; (c) \$2,600,000 Underwriter's Discount; and (d) \$19,000,000 Capitalized Interest.
2. Approve the proposed ordinance, as amended, and the proposed resolution.

**Summary of Supplemental Appropriation - Project List  
San Francisco International Airport  
July 17,2012**

<u>Capital Projects</u>	<u>FY12-13</u>	<u>FY 13-14</u>	<u>FY 14-15</u>	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>Total Supplemental Amount</u>
<b><u>Airfield Improvements</u></b>						
Runway Safety Area (RSA) Program	31,643,909	28,840,000	10,559,000	172,000	-	<b>71,214,909</b>
Runway Status Lights System (RWSL)	-	-	5,593,258	1,900,000	-	<b>7,493,258</b>
Runway Improvements	-	-	-	160,163	4,807,338	<b>4,967,500</b>
<b>Airfield Improvements Total</b>	<b>31,643,909</b>	<b>28,840,000</b>	<b>16,152,258</b>	<b>2,232,163</b>	<b>4,807,338</b>	<b>83,675,667</b>
<b><u>Airport Support Improvements</u></b>						
West Field Cargo Redevelopment	7,897,206	15,745,000	6,759,063	-	-	<b>30,401,269</b>
CBIS / BHS Modernization	19,107,233	5,945,966	-	-	-	<b>25,053,199</b>
Air Traffic Control Tower Replacement	-	1,130,000	12,640,000	7,470,000	-	<b>21,240,000</b>
Security Improvements	16,544,250	-	-	-	-	<b>16,544,250</b>
Ground Transportation Management System (GTMS) Replaceme	14,399,293	-	-	-	-	<b>14,399,293</b>
Superbay Improvements	1,200,000	4,000,000	-	-	-	<b>5,200,000</b>
Energy Efficiency Projects - Airport Support	5,075,000	-	-	-	-	<b>5,075,000</b>
Telecommunications Network Infrastructure Upgrades	3,179,660	1,530,000	-	-	-	<b>4,709,660</b>
<b>Airport Support Improvements Total</b>	<b>67,402,642</b>	<b>28,350,966</b>	<b>19,399,063</b>	<b>7,470,000</b>	<b>-</b>	<b>122,622,671</b>
<b><u>Groundside Projects</u></b>						
New Parking Garage	35,000,000	-	-	-	-	<b>35,000,000</b>
Viaduct Improvements	-	450,000	5,565,000	6,995,000	-	<b>13,010,000</b>
Parking Lot and Garage Improvements	3,500,000	2,000,000	2,000,000	-	-	<b>7,500,000</b>
Variable Message Signs on Freeway Ramps	1,988,500	-	-	-	-	<b>1,988,500</b>
Roadway Improvements	66,700	433,300	-	-	550,000	<b>1,050,000</b>
<b>Groundside Projects Total</b>	<b>40,555,200</b>	<b>2,883,300</b>	<b>7,565,000</b>	<b>6,995,000</b>	<b>550,000</b>	<b>58,548,500</b>
<b><u>Terminal Improvement Projects</u></b>						
Boarding Area E Redevelopment	84,883,841	22,246,928	-	-	-	<b>107,130,769</b>
Terminal 3 Checkpoint Improvements	22,821,600	17,329,600	3,121,800	-	-	<b>43,273,000</b>
ATCT Integrated Facilities / Secure Connector	13,443,050	15,524,386	2,381,824	-	-	<b>31,349,260</b>
<b>Terminal Improvements Projects total</b>	<b>121,148,491</b>	<b>55,100,914</b>	<b>5,503,624</b>	<b>-</b>	<b>-</b>	<b>181,753,029</b>
<b><u>Utility Improvement Projects</u></b>						
Wastewater System Improvements	7,353,758	12,584,000	7,550,000	-	-	<b>27,487,758</b>
Power and Lighting Improvements	3,034,998	3,649,977	-	185,000	6,195,000	<b>13,064,975</b>
Central Plant Improvements	8,645,000	1,050,000	-	-	-	<b>9,695,000</b>
Telecommunications Infrastructure Improvements	2,348,000	-	-	-	-	<b>2,348,000</b>
Storm Drain Improvements	1,300,000	700,000	-	-	-	<b>2,000,000</b>
<b>Utility Improvement Projects Total</b>	<b>22,681,756</b>	<b>17,983,977</b>	<b>7,550,000</b>	<b>185,000</b>	<b>6,195,000</b>	<b>54,595,733</b>
<b><u>CSA Auditing Services</u></b>						
CSA Auditing Services	200,880	200,880	200,880	200,880	200,880	<b>1,004,400</b>
<b>CSA Auditing Services Total</b>	<b>200,880</b>	<b>200,880</b>	<b>200,880</b>	<b>200,880</b>	<b>200,880</b>	<b>1,004,400</b>
<b>Grand Total</b>	<b>283,632,878</b>	<b>133,360,037</b>	<b>56,370,825</b>	<b>17,083,043</b>	<b>11,753,218</b>	<b>502,200,000</b>

Date	SFO Capital Plan Bond Authorization (\$)		
		Interest	Debt Service
6/30/2014	-	1,889,777	1,889,777
6/30/2015	-	16,451,638	16,451,638
6/30/2016	-	31,624,216	31,624,216
6/30/2017	-	31,624,216	31,624,216
6/30/2018	-	31,624,216	31,624,216
6/30/2019	-	31,624,216	31,624,216
6/30/2020	-	31,624,216	31,624,216
6/30/2021	-	31,624,216	31,624,216
6/30/2022	-	31,624,216	31,624,216
6/30/2023	-	31,624,216	31,624,216
6/30/2024	-	31,624,216	31,624,216
6/30/2025	-	31,624,216	31,624,216
6/30/2026	1,366,361	31,624,216	32,990,577
6/30/2027	8,276,461	31,545,650	39,822,111
6/30/2028	8,755,242	31,066,142	39,821,384
6/30/2029	9,283,217	30,540,827	39,824,044
6/30/2030	9,842,372	29,979,776	39,822,148
6/30/2031	10,459,036	29,364,628	39,823,663
6/30/2032	11,111,036	28,710,938	39,821,974
6/30/2033	12,459,382	28,011,629	40,471,011
6/30/2034	16,498,877	27,205,005	43,703,882
6/30/2035	17,539,584	26,163,227	43,702,812
6/30/2036	18,619,786	25,087,440	43,707,225
6/30/2037	19,877,364	23,828,136	43,705,500
6/30/2038	22,099,433	22,483,414	44,582,847
6/30/2039	32,715,060	20,994,732	53,709,791
6/30/2040	60,353,382	18,857,749	79,211,130
6/30/2041	73,093,381	15,050,272	88,143,652
6/30/2042	77,680,945	10,465,355	88,146,299
6/30/2043	72,099,790	5,632,442	77,732,232
6/30/2044	20,069,292	1,304,504	21,373,796
	-	-	-
Total	<b>502,200,000</b>	<b>772,499,651</b>	<b>1,274,699,651</b>

## San Francisco Airport - Annual Debt Service Schedule

<b>Fiscal Year Ending</b>	<b>Existing Debt Service (\$)</b>	<b>Capital Plan Bond Authorization (\$)</b>	<b>Total Debt Service (\$)</b>
6/30/2013	350,144,580	-	350,144,580
6/30/2014	364,215,079	1,889,777	366,104,856
6/30/2015	375,847,262	16,451,638	392,298,900
6/30/2016	377,177,712	31,624,216	408,801,928
6/30/2017	375,569,548	31,624,216	407,193,764
6/30/2018	370,453,128	31,624,216	402,077,344
6/30/2019	372,566,749	31,624,216	404,190,965
6/30/2020	371,839,503	31,624,216	403,463,719
6/30/2021	369,685,814	31,624,216	401,310,030
6/30/2022	367,536,362	31,624,216	399,160,578
6/30/2023	367,609,643	31,624,216	399,233,859
6/30/2024	363,600,038	31,624,216	395,224,254
6/30/2025	343,924,325	31,624,216	375,548,541
6/30/2026	308,681,231	32,990,577	341,671,808
6/30/2027	259,147,465	39,822,111	298,969,576
6/30/2028	249,994,288	39,821,384	289,815,672
6/30/2029	193,470,113	39,824,044	233,294,157
6/30/2030	143,652,183	39,822,148	183,474,331
6/30/2031	94,573,822	39,823,663	134,397,485
6/30/2032	74,066,661	39,821,974	113,888,635
6/30/2033	61,648,543	40,471,011	102,119,554
6/30/2034	62,305,497	43,703,882	106,009,379
6/30/2035	62,307,763	43,702,812	106,010,575
6/30/2036	62,305,100	43,707,225	106,012,325
6/30/2037	62,308,267	43,705,500	106,013,767
6/30/2038	62,485,353	44,582,847	107,068,200
6/30/2039	58,001,701	53,709,791	111,711,492
6/30/2040	28,949,861	79,211,130	108,160,991
6/30/2041	17,867,431	88,143,652	106,011,083
6/30/2042	17,867,967	88,146,299	106,014,266
6/30/2043	15,756,952	77,732,232	93,489,184
6/30/2044	4,332,641	21,373,796	25,706,437

**Item 5**  
**File 12-0885**

**Departments:**  
Human Services Agency (HSA) and  
Real Estate Division (RED)

## EXECUTIVE SUMMARY

### Legislative Objective

- The proposed resolution would: (1) retroactively approve the second five-year option to extend the sublease from July 1, 2008 through June 30, 2013, between the Human Services Agency (HSA) and the San Francisco Unified School District (SFUSD) for the 117,826 square feet of office space at 1235 Mission Street; (2) extend the term by an additional two months from June 30, 2013 through August 31, 2013; (3) retroactively approve a flat rental rate of \$2,126,759 annually, or \$18.05 per square foot per year, which is 95% of the current Fair Market Rate; (4) confirm all other obligations in the sublease agreement remain the same as the current sublease provisions.

### Key Points

- In 1992, the Board of Supervisors approved an initial sublease between HSA and SFUSD from November 2, 1992 through June 30, 2003 for the 1235 Mission property to house HSA's CalFresh Food Stamps Program and the County Adult Assistance Program (CAAP) (Resolution 20-92), which stipulated: (1) a rental rate of 95% of the Fair Market Rate, or \$15.75 per square foot per year; (2) all operating expenses to be paid by the City; and (3) an option to renew for two additional five-year periods.
- In 2003, the Board of Supervisors approved the first five-year option, from July 1, 2003 through June 30, 2008, for the sublease with SFUSD (File 03-0780). The first five-year option provided: (1) the same \$15.75 per square foot per year rate over the five-year period, determined to be 95% of the Fair Market Rate; (2) all operating expenses to be paid by the City; and (3) an option to renew the sublease for a second five-year term.
- With the completion of the first five-year option in 2008, HSA continued to occupy and rent the 1235 Mission Street space, paying the same rate of \$15.75 per square foot per year to SFUSD, but without formally entering into the second five-year option sublease because SFUSD and the Real Estate Division, until Summer of 2012, could not agree on a rental rate for the 1235 Mission Street property.

### Fiscal Impacts

- Under the proposed resolution, the proposed rent would be \$18.05 per square foot per year, to be approved retroactively for the period July 1, 2008 through August 31, 2013, which reflects a 14.6 percent increase from the current rate of \$15.75 per square foot per year. The proposed increase in the rental rate to \$18.05 per square foot per year falls in the range of the independent third-party 2008 appraisal which determined that 95% of the Fair Market Rate for the 1235 Mission Street property was between \$17.16 and \$18.24 per square foot per year.
- Under the proposed sublease, HSA would be obligated to pay SFUSD a total of \$8,507,036, or an additional \$1,081,868 in rent for the period between July 1, 2008 and June 30, 2012,
- HSA continues to be responsible for all operating expenses for the property, totaling \$1,900,173 annually.
- The total estimated rent of the proposed five-year option, reflecting both the increase in the rental rate and the two month extension of the lease term, is \$10,988,255.

### Policy Consideration

- Prior to August 2013, the SFUSD will assume ownership of the 1235 Mission Street building from Encore Bank of Texas, and the additional two-month extension on the proposed second five-year option period, from July 1, 2013 through August 31, 2013, is intended to provide time for the transfer of ownership and a subsequent renegotiation of the terms of a new lease between SFUSD, the lessor, and the City, the lessee.

### Recommendation

- Given that the Director of Real Estate advises that the proposed retroactive sublease rental rate of \$18.05 per square foot per year represents 95% of the Fair Market Value, approve the proposed resolution.

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

In accordance with Administrative Code Section 23.27, leases, in which the City is a lessee, are subject to Board of Supervisors approval.

**Background**

The San Francisco Unified School District (SFUSD) currently leases an 117,826-square-foot office building at 1235 Mission Street, between 8<sup>th</sup> and 9<sup>th</sup> Streets, from Encore Bank of Texas.

In 1992, the Board of Supervisors approved an initial 128-month (10 years, 8 months) sublease for the 117,826 square foot office space at 1235 Mission Street from SFUSD to house the Human Service Agency's (HSA) CalFresh Food Stamps Program and the County Adult Assistance Program (CAAP) (Resolution 20-92). The initial sublease agreement provided: (1) the term extended from November 2, 1992 through June 30, 2003; (2) the rental rate be 95% of the Fair Market Rate, which was determined to be \$15.75 per square foot per year in the initial agreement, or \$1,856,292 annually; (3) utilities, janitorial services, maintenance services, security services, along with all other operating expenses be paid by the City; and (4) there be two five-year renewal options.

In 2003, the Board of Supervisors approved exercising the first five-year option to renew the sublease with SFUSD for the period from July 1, 2003 through June 30, 2008 (File 03-0780), which included: (1) a continuation of the same flat rental rate of \$15.75 per square foot per year, or \$1,856,292 annually, which was still determined to be 95% of the Fair Market Rate; (2) utilities, janitorial services, maintenance services, security services, along with all other operating expenses continue to be paid by the City; and (3) one remaining five-year option to renew the sublease.

Since the completion of the first five-year option term on June 30, 2008, HSA has continued to occupy the 1235 Mission Street building, and to pay SFUSD the same flat rental rate of \$15.75 per square foot per year, or \$1,856,292 annually. However, since July 1, 2008, the City has not renewed the sublease agreement with SFUSD because the Real Estate Division and SFUSD could not agree on a new Fair Market Rate for the subject property.

According to Mr. John Updike, Acting Director of the Real Estate Division, the Real Estate Division contracted with Cornish & Carley Commercial in December 2008 for an independent, third-party appraisal, which concluded that 95% of the Fair Market Rate for the 1235 Mission Street property was between \$17.16 per square foot per year and \$18.24 per square foot per year. Despite this appraisal determination, according to Mr. Updike, SFUSD and the Real Estate Division, until Summer of 2012, could not agree on a rental rate for the 1235 Mission Street property for the second five-year option period, which extends from July 1, 2008 through June 30, 2013. Mr. Updike also notes that there were various staffing changes at the SFUSD, a third-party broker involved at the request of SFUSD, and a lawsuit filed by another party of interest in the property during negotiations, complicating resolution, which collectively contributed to the delay in finalizing the proposed rental rate at 1235 Mission Street.



## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

- Retroactively approve exercising the second five-year option on the sublease between SFUSD and HSA, from July 1, 2008 through June 30, 2013, for 117,826 square feet of office space at 1235 Mission Street;
- Extend the second five-year option term for an additional two months, from July 1, 2013 through August 31, 2013, as the ownership of the property is anticipated to transfer from Encore Bank of Texas to the SFUSD just prior to August 2013;
- Retroactively approve a flat rental rate for the entire five-year and two-month extension period of \$18.05 per square foot per year or \$2,126,759 total annually (\$1.50 per square foot per month or \$177,230 total per month), which is 95% of the current Fair Market Rate;
- Retain all other obligations in the sublease agreement as contained in the current sublease provisions.

Under the proposed sublease, according to Mr. David Curto, HSA Director of Contracts, HSA will continue to operate the County Adult Assistance Program (CAAP) and the CalFresh Food Stamps Program at 1235 Market Street.

## FISCAL IMPACTS

Under the proposed resolution, the monthly rent for the period from July 1, 2008 through August 31, 2013, would be \$177,230 per month (\$18.05 per square foot per year or \$2,126,759 annually), which reflects a \$22,539 increase, or a 14.6 percent increase, in the current monthly rent of \$154,691 (\$15.75 per square foot per year or \$1,856,292 annually). On an annual basis, the proposed increase from \$1,856,292 to \$2,126,759 reflects an increase of \$270,467, or 14.6 percent increase.

The proposed increase in the rental rate to \$18.05 per square foot per year falls in the range of the independent third-party 2008 appraisal, which reported that 95% of the Fair Market Rate for the 1235 Mission Street property was between \$17.16 per square foot per year and \$18.24 per square foot per year. According to Mr. Updike, the proposed rental rate increase would be the first increase in rent since the November 1992 inception of the subject sublease. Mr. Updike further advises that the proposed retroactive rental rate of \$18.05 per square foot per year effective from July 1, 2008 through August 31, 2013 represents 95% of the Fair Market Value of the subject property for that period of time.

As noted above, HSA has continued to occupy the 117,826 square feet of space at 1235 Mission Street, and HSA has continued to pay the SFUSD \$15.75 per square foot per year, or a total of \$1,856,292 per year. As shown in the Table below, between July 1, 2008 and June 30, 2012, HSA paid SFUSD a total of \$7,425,168. The proposed resolution would retroactively approve HSA to pay the higher rental rate, of \$18.05 per square foot per year, or \$2,126,759 per year, from July 1, 2008 through August 31, 2013, an increase of \$270,467 each year, as shown in the Table below. Therefore, under the proposed sublease, HSA would be obligated to pay SFUSD a

total of \$8,507,036, or an additional \$1,081,868 in rent for the period between July 1, 2008 and June 30, 2012, as identified in the Table below.

As also shown in the Table below, the total estimated rent for the proposed five-year and two month second option period between July 1, 2008 and August 31, 2013 would be \$10,988,255.

**Table: Total Rental Costs by Lease Year  
under the Proposed Five-Year Sublease Agreement**

	Current Annual Rent	Proposed Annual Rent	Proposed Amount Owed
July 1, 2008-June 30, 2009	\$ 1,856,292	\$ 2,126,759	\$ 270,467
July 1, 2009-June 30, 2010	1,856,292	2,126,759	270,467
July 1, 2010-June 30, 2011	1,856,292	2,126,759	270,467
July 1, 2011-June 30, 2012	1,856,292	2,126,759	270,467
<b>Subtotal of amount paid to date</b>	<b>\$ 7,425,168</b>	<b>\$ 8,507,036</b>	<b>\$ 1,081,868</b>
July 1, 2012-June 30, 2013	1,856,292	2,126,759	270,467
July 1, 2013-August 31, 2013	-	354,460	354,460
<b>Total</b>	<b>\$ 9,281,460</b>	<b>\$ 10,988,255</b>	<b>\$ 1,706,795</b>

In addition to the proposed annual rent of \$2,126,759, according to Mr. Curto, the lease would continue to require HSA to pay utilities, janitorial services, maintenance services, along with all other operating expenses (approximately \$900,000), and security services (\$1,000,173), for a total estimated additional cost of \$1,900,173 annually. Mr. Curto noted that because the 1235 Mission Street location houses services for single adults, the location requires a greater security presence than any other HSA offices.

According to Mr. Curto, \$1,081,868 in HSA funds, comprised of approximately 25% federal funds, through the Food Stamps Program, and 75% General Fund monies, have been encumbered in anticipation of the need to pay SFUSD the subject retroactive increase in rent for 1235 Mission Street property to cover the existing rent differential for the period from July 1, 2008 through June 30, 2012.

## POLICY CONSIDERATION

According to Mr. Curto and Mr. Updike, prior to August 2013, the SFUSD will assume ownership of the 1235 Mission Street building from Encore Bank of Texas through the completion of payment on a loan on the property. Mr. Updike advises that the additional two-month extension on the proposed second five-year option period, from July 1, 2013 through August 31, 2013, on the proposed sublease is intended to provide additional time for the transfer of ownership of the subject property, and a subsequent window of time for the Real Estate Division, HSA, and SFUSD to renegotiate the terms of a new lease in which SFUSD will be the owner of the property and lessor, and the City would be the lessee, rather than a sublessee. Mr. Updike advises that he is in discussions with the SFUSD to determine the basis for setting a new lease rental rate commencing in September of 2013.

**RECOMMENDATION**

Given that the Director of Real Estate advises that the proposed retroactive sublease rental rate of \$18.05 per square foot per year represents 95% of the Fair Market Value, approve the proposed resolution.

<b>Items 6 &amp; 7</b> <b>Files 11-1340 &amp; 11-1371</b>	<b>Department:</b> Public Utilities Commission (PUC)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p><u>File 11-1340</u>: The proposed resolution would authorize the Public Utilities Commission (PUC), subject to conditions, to (1) implement the CleanPowerSF Program, (2) approve local sustainability services for CleanPowerSF customers, and (3) authorize the PUC General Manager to execute a contract with Shell Energy North America (Shell) for a term of four years and six months for services required to implement the CleanPowerSF Program.</p> <p><u>File 11-1371</u>: The proposed ordinance would (1) appropriate \$19,500,000 from the PUC's Hetch Hetchy Fund balance for (a) required reserves of \$13,000,000 under PUC's proposed contract with Shell Energy North America (Shell) (File 11-1340), (b) \$6,000,000 in local sustainability services; and (c) \$500,000 for related start-up costs, (2) add Section 10.100.372 to the City's Administrative Code to establish the CleanPowerSF Customer Fund, and (3) add Section 10.100.373 to the City's Administrative Code to establish the CleanPowerSF Reserve Fund.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution and supplemental appropriation ordinance are components of Phase I of CleanPowerSF, which would allow San Francisco residents and businesses to purchase electricity from 100% renewable sources. As proposed, the cost of electricity generation would result in a 77.2% increase in the cost-per-kilowatt hour (kWh) paid by CleanPowerSF participants, which would result in an \$18 or 23.3% total increase on the average combined gas and electricity bill. The proposed resolution would authorize the General Manager of the PUC to enter into a four-and-a-half year contract with Shell to provide CleanPowerSF customers with electricity.</li> <li>• CleanPowerSF participants would continue to receive electricity transmission, distribution, and billing services from PG&amp;E.</li> <li>• Under the proposed contract, the City would guarantee Shell the purchase of an average electric load of 30 megawatts (MW), the equivalent of approximately 90,000 residential ratepayers, or approximately 24% of the City's approximately 375,000 residential ratepayers.</li> <li>• Board of Supervisors approval is not required for CleanPowerSF electricity rates. However, the Board of Supervisors has the authority to reject electricity rates for CleanPowerSF customers, once those rates have been reviewed by the PUC's Rate Fairness Board and determined by the PUC, and prior to CleanPowerSF being implemented.</li> <li>• File 11-1340 approves a contract term of 4.5 years with Shell. However, the Energy Purchase and Sale Agreement, which is part of the Shell contract, has a term of five years. The Budget and Legislative Analyst recommends that the proposed resolution be amended to authorize a contract term of five years instead of 4.5 years, consistent with the contract terms. Such an amendment would not have any impact on the program or program costs.</li> <li>• If Shell terminates CleanPowerSF before the end of the proposed contract period, CleanPowerSF customers would revert to PG&amp;E customers at no additional cost to the City, or to CleanPowerSF participants.</li> </ul>	

### **Fiscal Impact**

- The total proposed supplemental appropriation of \$19,500,000 in Hetch Hetchy Fund balance includes allocations of (1) \$7,000,000 for the required Security Reserve; (2) \$4,500,000 for the required Program Reserve; (3) \$1,500,000 for the required Operating Reserve; (4) \$6,000,000 for local sustainability services; and (4) \$500,000 to fund related start-up costs.
- The appropriation of \$6,000,000 for local sustainability services includes \$2,000,000 to the following three programs: (1) GoSolarSF for CleanPowerSF participants; (2) energy efficiency programs for CleanPowerSF participants; and (3) studies of local build-out of renewable energy facilities.
- The operating costs of CleanPowerSF, which has been estimated to total \$162,965,670, or an average of \$36,214,593 per year for 4.5 years, would be paid in full through CleanPowerSF participant utility rates.

### **Policy Considerations**

- The PUC would be liable to compensate Shell for up to \$15,000,000 for any actual audited losses incurred by Shell, in the event that the City is unable to enroll a sufficient number of CleanPowerSF customers (approximately 90,000 electric utility customers) for an average electricity load of 30 MW. Such losses would be paid from a combination of the \$7,000,000 Security Reserve, \$4,500,000 Program Reserve, and up to \$3,500,000 in additional PUC revenue. If the City were to cancel CleanPowerSF at a point when CleanPowerSF was operating according to contract terms, but before the end of the proposed five-year contract period, the City would be liable for Shell's actual audited losses, up to and above \$15,000,000.
- The public opinion research firm FM3 reported to the PUC that there was sufficient interest and support for CleanPowerSF among San Francisco ratepayers for the CleanPowerSF Program to be successful. After FM3 conducted its market research to assess public support for CleanPowerSF, PG&E announced a separate Green Energy Program that would give San Francisco customers an opportunity to support 100% renewable energy, in direct competition to CleanPowerSF and at a cost that is expected to be less than CleanPowerSF. PG&E's Green Energy Program is still subject to State regulators, and although the two programs are not completely comparable, the PG&E program would make it substantially more difficult for CleanPowerSF to enroll and maintain a sufficient number of participants to guarantee its sustainability.
- The proposed contract would not be fully enacted until the PUC approves CleanPowerSF electricity rates and the rates are not rejected by the Board of Supervisors. If the Board of Supervisors rejects CleanPowerSF electricity rates, the City would not be fiscally or otherwise liable to Shell for not implementing CleanPowerSF.
- According to the PUC, negotiations on the final contract terms with Shell are ongoing, and the City Attorney's Office has been drafting edits to the proposed resolution and ordinance that would conform to such changes to the contract with Shell.

### **Recommendations**

- Amend page 1, lines 3 and 4, of the proposed resolution (File 11-1340), replacing "four years

and six months” with “five years” so that the resolution agrees with the contract term.

- Amend the proposed ordinance (File 11-1371) to place the proposed \$6,000,000 for the CleanPowerSF sustainability services on Budget and Finance Committee Reserve pending detailed appropriation plans for those sustainability services.
- Approval of the proposed resolution and ordinance, as amended, are policy matters for the Board of Supervisors.

## MANDATE STATEMENT AND BACKGROUND

### Mandate Statement

File 11-1340: In accordance with City Charter Section 9.118(b), contracts requiring anticipated expenditures by the City and County of \$10,000,000 or more are subject to approval of the Board of Supervisors.

File 11-1371: In accordance with City Charter Section 9.105, amendments to the appropriation ordinance, as finally adopted, may be adopted in the same manner as other ordinances. Under City Charter Section 2.105, passage of an ordinance or a resolution requires an affirmative vote of a majority of the members of the Board of Supervisors.

### Background

California Public Utilities Code Section 366.2 allows public agencies to establish Community Choice Aggregation (CCA) programs, aggregating the electrical load of interested electricity consumers within their jurisdictional boundaries. In 2004, the City established its CCA program, CleanPowerSF, with the goal of accelerating the introduction of renewable energy, conservation, and energy efficiency. Under CleanPowerSF, San Francisco’s residential and commercial electricity consumers would have the option to purchase their electricity from renewable sources at a price that would be somewhat more expensive than PG&E’s electricity generation rates.

#### *Previous Board of Supervisors Actions to Date*

Several steps in the City’s effort to implement CleanPowerSF have required previous Board of Supervisors approval. Table 1, below, summarizes previous Board of Supervisors actions to date.

**Table 1. Previous Board of Supervisors Actions on CleanPowerSF**

File No.	Date Approved	Description
04-0236	May 18, 2004	The Board of Supervisors approved the creation of CleanPowerSF, the City’s CCA program.
07-0501	June 19, 2007	The Board of Supervisors approved the adoption of the CleanPowerSF Draft Implementation Plan (Draft IP), set goals and policies for CleanPowerSF, directed the PUC to issue a Request for Information (RFI), and approved further CleanPowerSF implementation measures.
09-1161	November 3, 2009	The Board of Supervisors approved the issuance of a Request For Proposals (RFP) for a firm to provide electricity to the CCA under the CleanPowerSF Program.
10-1061	March 2, 2010	The Board of Supervisors approved a revised Implementation Plan for CleanPowerSF, and authorized the filing of the Implementation Plan with the California Public Utilities Commission (CPUC).

*Program Description*

Pacific Gas and Electric Company (PG&E) is the electricity supplier for San Francisco's residential and commercial electricity customers. As conceived by the PUC, with public input and approval from the Board of Supervisors, CleanPowerSF would allow San Francisco's residential and commercial electricity customers the option of purchasing electricity from 100% renewable sources, as defined under Section 399.16(b) of the California Public Utilities Code. The 100% renewably sourced electricity is to be provided by an entity or entities under contract to the City, and the energy would be delivered by PG&E over PG&E's existing distribution network. PG&E would continue to provide system connectivity and maintenance to current PG&E customers that opt to participate in CleanPowerSF. In addition, PG&E would continue to bill all CleanPowerSF customers, and would collect charges for electricity generation on behalf of CleanPowerSF.

As proposed, CleanPowerSF would be implemented in at least two phases. In Phase I, the City would guarantee the purchase of an average electric load of 30 megawatts (MW), the equivalent of approximately 90,000 residential ratepayers, or approximately 24% of the City's approximately 375,000 residential ratepayers. In order to enroll 90,000 residential ratepayers, approximately one half of the City's 375,000 residential ratepayers would be selected at random to be enrolled in CleanPowerSF. As required by the State Public Utilities Code, these ratepayers would have five months to opt out of the program without fee.<sup>1</sup> Customers would still have the option of opting out of CleanPowerSF after the no-fee opt-out period, but may be subject to a one-time fee of \$5 as recommended by the PUC.

Based on market research conducted by the public opinion research firm FM3, the PUC estimates that following the opt-out period, approximately 90,000 San Francisco residential utility customers will remain in CleanPowerSF. However, if the average electric load is lower than 30MW following the opt-out period, the PUC would need to enroll additional customers in order to achieve the 30MW average electric load. The PUC could do so by (1) encouraging enrollment by commercial electricity customers; (2) encouraging enrollment by customers not previously automatically enrolled; or (3) initiating an additional phase of automatic enrollment of residential ratepayers.

Following implementation of CleanPowerSF, PG&E would continue to bill all residential and commercial electricity, including CleanPowerSF customers. For CleanPowerSF customers, PG&E would collect the full electricity bill, and would retain the full amount of the bill, less the cost of electricity generation, which PG&E would pay to the PUC or to an account specified by the PUC.

*Competitive Process*

On November 3, 2009, the Board of Supervisors approved the issuance of a Request for Proposals (RFP) for a firm to provide the City with electricity supply and other services related to CleanPowerSF (File 09-1161). The San Francisco Public Utilities Commission (PUC) issued the RFP in November of 2009 and received five responses. In January 2010, the PUC selected

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<sup>1</sup> The five month opt-out period consists of the three months prior to the commencement of CleanPowerSF and the two months following the implementation of CleanPowerSF.

Power Choice, LLC as the highest ranked proposer. However, negotiations with Power Choice, LLC were not successful.

In response to the unsuccessful first RFP, on March 2, 2010, the Board of Supervisors approved a Revised Implementation Plan for CleanPowerSF to allow more flexibility in the program design and implementation (File 10-1061). On August 5, 2010, the PUC issued a second RFP seeking an electricity provider for CleanPowerSF. However, none of the bidders for the second RFP met the minimum qualifications. Therefore, on February 28, 2011, the PUC Commission authorized the PUC General Manager to negotiate with creditworthy respondents to the second RFP to create a CCA Program that most closely achieves the City's goals. The PUC engaged in negotiations with two creditworthy RFP respondents: (1) Shell Energy North America (Shell) to provide renewably sourced electricity, and (2) Noble Americas to provide customer and billing services. Both firms currently provide CCA Program services in the County of Marin, which is the only CCA Program that has been implemented California.

The proposed contract with Shell (File 11-1340) and supplemental appropriation ordinance to fund contract requirements (File 11-1371) are the subjects of this report. According to Ms. Cheryl Taylor, Principal Administrative Analyst for the PUC, the PUC is still finalizing a proposed contract with Noble Americas to provide supplemental CleanPowerSF customer and billing services that may be subject to future Board of Supervisors approval, if the contract meets the City Charter threshold for contracts requiring review by the Board of Supervisors.

## DETAILS OF PROPOSED LEGISLATION

### File 11-1340

The proposed resolution would authorize the Public Utilities Commission (PUC), subject to conditions, to (1) implement the CleanPowerSF Program, (2) approve local sustainability services for CleanPowerSF customers, and (3) authorize the PUC General Manager to execute a contract with Shell Energy North America (Shell) for a term of four years and six months for services required to implement the CleanPowerSF Program. The proposed contract, which consists of the following three major components, would allow for the provision of electricity for Phase I of CleanPowerSF:

- The **Energy Purchase and Sale Agreement** which sets the general terms and conditions under which the City, representing the ratepayers, will purchase particular amounts, quantities, and types of electric products. Under the Energy Purchase and Sale Agreement, Shell will provide CleanPowerSF customers with electricity from 100% renewable sources, and the City will guarantee purchase of a minimum quantity of such electricity.
- The **Security Agreement**, which provides both Shell and the PUC financial assurances in the event that either party cancels the CleanPowerSF Program prematurely. Under the Security Agreement, the City must provide \$13,000,000 for program reserves. (File 11-1371).
- One or more **Confirmations**, which specify the price, quantity and type of products for specific electricity purchase transactions.



*Assurances to the City*

Under the Security Agreement portion of the proposed contract between the PUC and Shell, if at any point during the contract period Shell is unable to provide electricity to CleanPowerSF customers, the City is authorized under the proposed contract with Shell to purchase replacement electricity from a separate vendor and charge the difference in price to Shell. Furthermore, under the proposed contract, if Shell provides less than 90% of the renewably sourced electricity required in a given year, Shell must pay the City a fee equal to 25% of the contract price for every megawatt hour (MWh) that Shell failed to deliver.

*Assurances to Shell*

\$13,000,000 required under the proposed contract consists of the following assurances to Shell:

- (1) \$7,000,000 designated as a Security Reserve, to be deposited into an escrow account as security in the event that the City is required to make a contract termination payment to Shell.
- (2) \$4,500,000 to fund a Program Reserve (AKA Lockbox Reserve) to be deposited into a Customer Revenues Secured Account, for use by Shell. The Program Reserve amount is the program's "overdraft protection," intended to provide security to Shell that there will be sufficient cash on hand in a Customer Revenues Secured Account to cover Shell Energy's monthly bills. Any use of the Program Reserve would be replenished by CleanPowerSF's Operating Reserve and/or customer payments.
- (3) \$1,500,000 to be held in an Operating Reserve, managed by the PUC. The purpose of the Operating Reserve is to provide for short-term unanticipated costs associated with startup and initial operations of CleanPowerSF.

*Compensation to Shell for Losses from Program Termination*

As is discussed in the Fiscal Impact section below, under the proposed resolution, the PUC would be liable to compensate Shell up to \$15,000,000 for any actual audited losses if the City is unable to enroll a sufficient number of CleanPowerSF customers (approximately 90,000 electric utility customers) for an average electricity load of 30 MW. Further, if the City cancels CleanPowerSF at a point when Shell was operating according to contract terms, but before the end of the five-year contract period, the City would be liable for Shell's actual audited losses, up to and above the aforementioned \$15,000,000.

*Confirmations and Further Negotiations*

The contract price for renewable energy and minimum and maximum monthly renewable energy usage for CleanPowerSF are still to be defined under the Confirmations included in the proposed contract. The proposed resolution requires that energy rates for participating CleanPowerSF customers must be sufficient to fully cover the cost of CleanPowerSF. Once the electricity rates for CleanPowerSF customers have been determined, those rates will be subject to PUC approval. Furthermore, the proposed resolution authorizes the PUC General Manager to enter into additional Confirmations with Shell, on approval of the PUC, so long as the proposed rates do not exceed the cost of the CleanPowerSF Program. The City Charter does not require additional

Board of Supervisors approval of the CleanPowerSF electricity rates. However, the Board of Supervisors has the authority to reject electricity rates for CleanPowerSF customers, once those rates have been reviewed by the PUC's Rate Fairness Board and determined by the PUC, prior to CleanPowerSF being implemented.

### **File 11-1371**

The proposed ordinance would (1) appropriate \$19,500,000 from the PUC's Hetch Hetchy Fund balance for \$13,000,000 in required reserves under the PUC's proposed contract with Shell (File 11-1340), \$6,000,000 in local sustainability services, and \$500,000 in other start-up costs; (2) add Section 10.100.372 to the City's Administrative Code to establish the CleanPowerSF Customer Fund; and (3) add Section 10.100.373 to the City's Administrative Code to establish the CleanPowerSF Reserve Fund.

#### *\$19,500,000 Appropriation*

The proposed ordinance would appropriate \$19,500,000 as follows:

- \$13,000,000 for reserves required under the Security Agreement portion of the proposed contract between the PUC and Shell, described above (File 11-1340). The \$13,000,000 consists of (1) \$7,000,000 for the required Security Reserve; (2) \$4,500,000 for the required Program Reserve; and (3) \$1,500,000 for the required Operating Reserve.
- \$6,000,000 to fund local sustainability services, including: (1) GoSolarSF incentives for CleanPowerSF participants; (2) energy efficiency programs for CleanPowerSF participants; and (3) studies of local build-out of renewable energy facilities. These three sustainability services would be managed by PUC staff. The three local sustainability services would each receive \$1,000,000 in FY 2012-13 and another \$1,000,000 in FY 2013-14, for a total of \$6,000,000. However, specific uses for the \$6,000,000 sustainability services have not been developed as of the writing of this report.
- \$500,000 to fund additional start-up costs as well as a potential contract termination payment to Noble Americas to cover reasonable risk and costs that might be incurred by Noble Americas should the program cease operations during the contract period.

#### *CleanPowerSF Customer Fund*

File 11-1371 would add Section 10.100.372 to the City's Administrative Code to establish the PUC's CleanPowerSF Customer Fund, a depository and operating fund. PG&E will deposit all CleanPowerSF customers' electricity payments into the Customer Fund. The PUC would exclusively have the authority to retain any customer deposits, from which it would (1) make payments from the Customer Fund for costs incurred by the CleanPowerSF power provider (proposed to be Shell), and (2) pay third-party customer service providers (proposed as Noble Americas), and other costs related to the implementation and administration of CleanPowerSF. The Attachment, provided by the PUC, is a flow-chart showing the proposed payment flow.

#### *CleanPowerSF Reserve Fund*

File 11-1371 would add Section 10.100.373 to the City's Administrative Code to establish the PUC's CleanPowerSF Reserve Fund. According to the PUC, the Reserve Fund would be a multi-tiered fund housing the Program Reserve and Operating Reserve. The CleanPowerSF Reserve Fund would be managed by the PUC. CleanPowerSF Reserve Fund monies could only be

expended on CleanPowerSF related costs, and then only for the purpose of smoothing any potential fluctuations in cash receipts and cash payments. Establishment of this Fund is subject to final approval of the Controller. Under the contract provisions, the Program Reserve is only available for Shell's use to cover any revenue shortfalls that result in insufficient funds to pay their costs. Per the contract, it can only be used to satisfy any payment obligation to Shell not satisfied by customer revenues. The PUC can use the Operating Reserve to cover any CleanPowerSF payments, whether to third-party vendors, for fees, or for related City staff and operating costs. Further, CleanPowerSF must replenish the Program Reserve if it falls short of the \$4,500,000 balance.

## FISCAL IMPACTS

### File 11-1340

The proposed resolution, authorizing a contract between the PUC and Shell for the implementation of Phase I of CleanPowerSF, requires \$13,000,000 for program reserves (File 11-1371). Aside from these required program reserves, the proposed resolution requires that CleanPowerSF costs be fully covered by ongoing electricity revenues paid to the PUC by CleanPowerSF customers (the ongoing operating costs of CleanPowerSF, estimated to be \$36,214,593 per year for 4.5 years, or a total of \$162,965,670, would be paid in full through CleanPowerSF participant utility rates). The funding source for the required \$13,000,000 program reserves would be Hetch Hetchy's Fund balance. The unappropriated and unencumbered Hetch Hetchy Fund balance totaled \$64,800,000 as of June 30, 2012.

Under the proposed resolution, the PUC would be liable to compensate Shell up to \$15,000,000 for any of Shell's actual audited losses in the event that the City is unable to enroll a sufficient number of CleanPowerSF customers (approximately 90,000 electric utility customers) for an average electricity load of 30 MW. Such losses would be paid from a combination of the \$7,000,000 Security Reserve, with the balance of \$8,000,000 coming from any remaining Program Reserve funds and from additional PUC Hetch Hetchy Fund balance, for which the PUC General Manager would be required to request a supplemental appropriation, subject to Board of Supervisors appropriation approval.

Further, if the City cancels CleanPowerSF at a point when CleanPowerSF is operating according to contract terms, the City would be liable for Shell's actual audited losses up to and above \$15,000,000. The PUC General Manager would be required to request a supplemental appropriation for any amount above the combined \$11,500,000 total of (a) the \$7,000,000 Security Reserve and (b) \$4,500,000 Program Reserve, and any supplemental request from the PUC General Manager would be subject to Board of Supervisors appropriation approval.

**File 11-1371**

The proposed ordinance would appropriate \$19,500,000 from the PUC's Hetch Hetchy Fund balance to fund reserves required in PUC's proposed contract with Shell Energy North America (File 11-1340), as shown in Table 2 below.

**Table 2: Uses of the Proposed Supplemental Appropriation**

Use	Amount
<b>Security Reserve</b>	<b>\$7,000,000</b>
<b>Program Reserve (AKA Lockbox Reserve)</b>	<b>4,500,000</b>
<b>Operating Reserve</b>	<b>1,500,000</b>
<b><u>Sustainability Services</u></b>	<b><u>6,000,000</u></b>
GoSolarSF	2,000,000
Energy Conservation and Efficiency	2,000,000
Local Clean Energy Generation	2,000,000
<b>Customer Services Startup and Reserves</b>	<b>500,000</b>
<b>Total</b>	<b>\$19,500,000</b>

Under the proposed contract, Shell will make an annual review of the remaining risk and exposure. If Shell's estimated exposure drops below \$7,000,000, the total Security Reserve can be reduced, and the value of the reduction would be returned to the PUC's Hetch Hetchy Fund balance.

## POLICY CONSIDERATIONS

### **The Average CleanPowerSF Customer Would Pay Approximately \$18 More, Per Month, for Electricity, Compared to Existing PG&E Rates**

Electricity rates for CleanPowerSF customers have yet to be determined. Rates for CleanPowerSF will be established based on cost estimates developed by PUC using market information and information provided by Shell. The proposed resolution requires that any electricity rates for CleanPowerSF customers be sufficient to pay for CleanPowerSF ongoing program costs in full. Once electricity rates for CleanPowerSF customers have been determined, such rates will be subject to review by the PUC's Rate Fairness Board<sup>2</sup> and the PUC's approval. The Board of Supervisors has the option to reject these rates within 30 days of the PUC's action.

Due to fluctuations in the price of electricity, the cost differential between existing PG&E rates and CleanPowerSF rates will vary. As of the writing of this report, the PUC estimates that CleanPowerSF customers would pay a rate of \$0.1281 per kilowatt hour (kWh) for electricity generation, or \$0.0558/kWh (77.2%) more than the current price of \$0.0723/kWh paid by PG&E's San Francisco customers. As shown in Table 3 below, the average San Francisco electric utility consumers would pay approximately \$17.99 more, per month, or from an average monthly utility bill of \$77.27 to an average of \$95.26, an increase of 23.3%, by enrolling in

<sup>2</sup> The PUC's Rate Fairness Board was established by Measure E in November 2002. Its responsibilities include (1) setting utility rate policy goals; (2) holding public hearings; and (3) providing utility rate and rate policy recommendations to the PUC.

CleanPowerSF. As is noted in the Background section, above, CleanPowerSF customers can opt out of CleanPowerSF and return to receiving electricity from PG&E. There would be a five-month no-fee opt-out period at the beginning of CleanPowerSF, and CleanPowerSF customers who opt out after that period could face a one-time fee of \$5, if recommended by the PUC. The PUC anticipates 90,000 residential utility customers will participate in Phase I of CleanPowerSF.

**Table 3. Anticipated CleanPowerSF Electricity Rate Premium**

<b>Tier (based on electricity usage)</b>	<b>Average PG&amp;E Utility Bill Before Premium</b>	<b>Total CleanPowerSF Premium</b>	<b>Estimated Average CleanPowerSF Utility Bill</b>	<b>% Increase</b>
Tier1	\$39.95	\$9.06	\$49.01	22.7%
Tier2	\$84.34	\$18.99	\$103.33	22.5%
Tier3	\$131.87	\$26.73	\$158.60	20.3%
Tier4	\$233.30	\$39.91	\$273.21	17.1%
Tier5*	\$521.39	\$73.88	\$595.27	14.2%
CARE 1**	\$30.70	\$10.08	\$40.78	32.8%
CARE 2	\$59.88	\$18.98	\$78.86	31.7%
CARE 3	\$96.96	\$37.44	\$134.4	38.6%
All-Electric Customers	\$45.51	\$18.59	\$64.1	40.8%
<b>Weighted Average***</b>	<b>\$77.27</b>	<b>\$17.99</b>	<b>\$95.26</b>	<b>23.3%</b>

\* Tier 5 includes group home settings.

\*\* CARE = (California Alternate Rates for Energy) program. CARE rates shown in Table 3 do not reflect 20% discount for CARE customers that the PUC is planning to recommend to the Rate Fairness Board.

\*\*\* Weighted average based on PUC's program participation estimates.

The cost of electricity consumed is only one portion of a utility customer's electricity bill. The costs of transmission and distribution must still be paid by customers to PG&E. As noted in the Background section above, CleanPowerSF customers would continue to receive one electric utility bill from PG&E that would include all CleanPowerSF costs as well as transmission infrastructure and other related utility costs. All told, CleanPowerSF is estimated to cost approximately \$32.4 million to operate in the first year during ramp-up, and \$36,214,593 in subsequent years, to be paid by CleanPowerSF customer premiums. There would be no cost to PG&E ratepayers who do not opt to participate in CleanPowerSF.

**The Contract Term in the Proposed Resolution  
Does Not Match the Contract Term in the Energy Purchase and Sale Agreement**

The proposed resolution (File 11-1340) is for a contract term of 4.5 years. However, Article 11.1 of the Energy Purchase and Sale Agreement sets the Term of Agreement as five years. While the 4.5 year period in the proposed resolution matches the actual period of power provision, the Budget and Legislative Analyst recommends that the proposed resolution be amended to authorize a contract term of five years instead of 4.5 years. Such an amendment would not have any impact on the program or program costs.

**PG&E Has Proposed a Competing Program with CleanPowerSF,  
Threatening the Fiscal Sustainability of CleanPowerSF**

Despite the actual and proposed mitigating efforts described above, after the public opinion research firm FM3 conducted its market research to assess public support for CleanPowerSF, PG&E announced the creation of a new, separate Green Energy Program that would give San Francisco customers an opportunity to support 100% renewable energy, in direct competition to CleanPowerSF and at a cost that is expected to be less than CleanPowerSF. PG&E's Green Energy Program is still subject to State regulators, and although the two programs are not completely comparable, the PG&E program would make it substantially more difficult for CleanPowerSF to enroll a sufficient number of San Francisco participants to guarantee its sustainability.

**Future Action Is Required of the PUC and the Board of Supervisors  
Before CleanPowerSF Can be Implemented**

In addition to the proposed resolution and supplemental appropriation ordinance, other objectives must be met before CleanPowerSF can be implemented:

- The PUC and Noble Americas must draft a contract for Noble Americas to provide CleanPowerSF customer services. Depending on the contract terms, such a contract may be subject to Board of Supervisors approval.

Electricity rates for CleanPowerSF customers must be determined, such that they are sufficient to cover the CleanPowerSF Program costs, and those rates must be approved by the PUC. Once the PUC approves electricity rates, the Board of Supervisors has the option to reject such rates within 30 days. According to Deputy City Attorney Ms. Jeanne Sole, the proposed contract is not fully enacted until the PUC approves CleanPowerSF electricity rates. Therefore, if the Board of Supervisors rejects CleanPowerSF electricity rates, the City would not lose any of its reserves.

In addition, the California Public Utilities Commission (CPUC) has required a CCA program bond of \$100,000 prior to implementing CleanPowerSF. The PUC has posted this \$100,000 CCA program bond. However, according to Mr. Michael Campbell of the PUC, the CPUC may further increase the CCA program bond amount.

Additionally, as is noted above, the proposed resolution and ordinance only apply to the implementation of Phase I of CleanPowerSF. At such time as the PUC is prepared to implement additional phases of CleanPowerSF, such legislation—possibly including but not limited to new or revised contracts, increased reserve amounts, and additional supplemental appropriations—will be subject to Board of Supervisors approval, to the extent required under the City Charter.

However, California State law requires that the CleanPowerSF eventually be offered to all San Francisco residential customers.

### **There Are No Detailed Appropriation Plans for the \$6 Million Sustainability Services**

As is noted above, under the proposed ordinance, \$6,000,000 of the \$19,500,000 initial cost of CleanPowerSF would be used to fund local sustainability services for CleanPowerSF participants, including \$2,000,000 for each of the following sustainability services: (1) GoSolarSF incentives for CleanPowerSF participants; (2) energy efficiency programs for CleanPowerSF participants; and (3) studies of local build-out of renewable energy facilities. Each of these local sustainability services would receive \$1,000,000 per year in FY 2012-13 and FY 2013-14. However, detailed appropriation plans for these \$6,000,000 in sustainability services have not yet been developed by the PUC. Therefore, the Budget and Legislative Analyst recommends placing the \$6,000,000 in funding for sustainability services on Budget and Finance Committee Reserve, pending the development of detailed appropriation plans for those sustainability services.

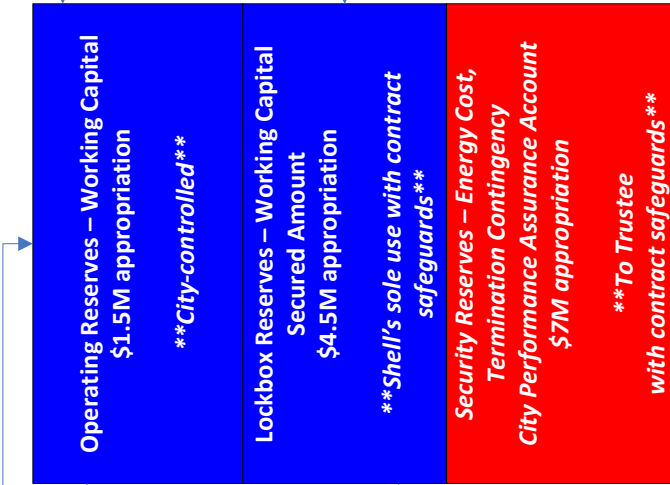
## **RECOMMENDATIONS**

1. Amend lines 3 and 4 of page 1 of the proposed resolution (File 11-1340), replacing “four years and six months” with “five years” so that the resolution agrees with the contract term.
2. Amend the proposed ordinance (File 11-1371) to place the proposed \$6,000,000 for CleanPowerSF sustainability services on Budget and Finance Committee Reserve pending detailed appropriation plans for those sustainability services.
3. Approval of the proposed resolution and ordinance, as amended, are policy matters for the Board of Supervisors.

Program revenues & expenditures  
 Appropriation; available  
 Appropriation: not available unless program terminates

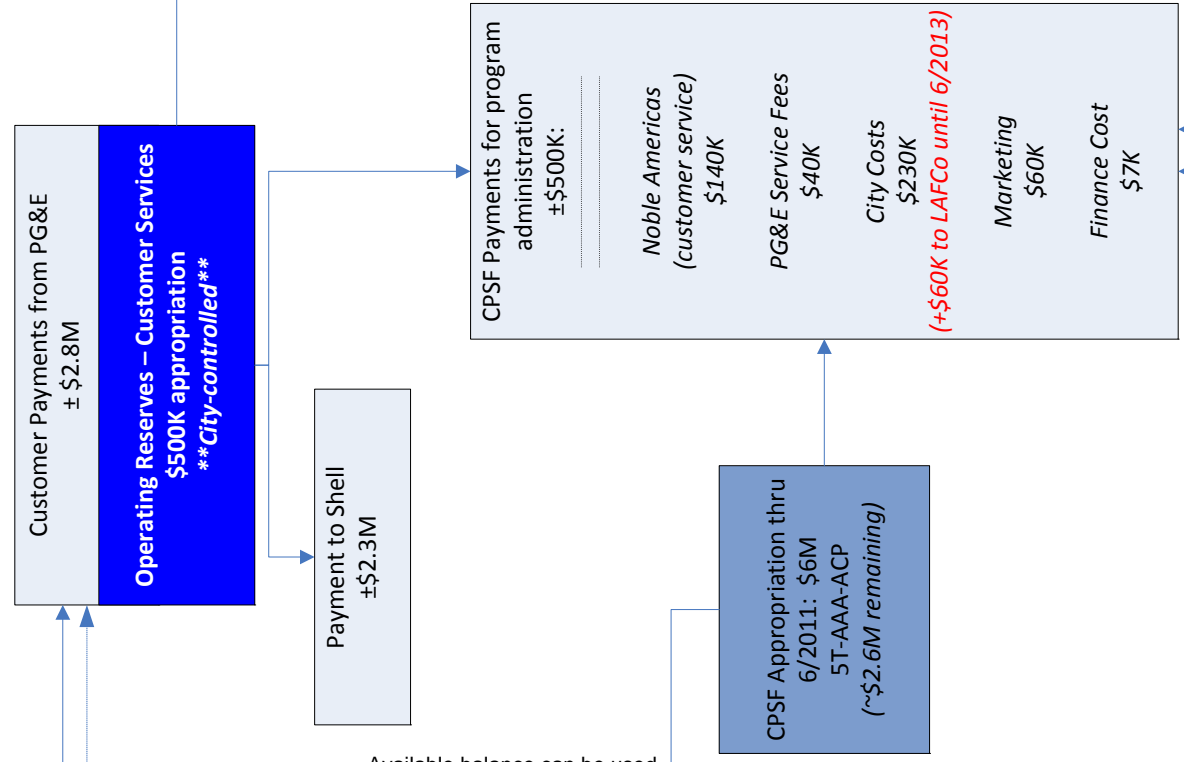
# CleanPowerSF Monthly Average Funds Flow

## CPSF Reserve Fund Category 2 Fund



Transfers to replenish lockbox as necessary

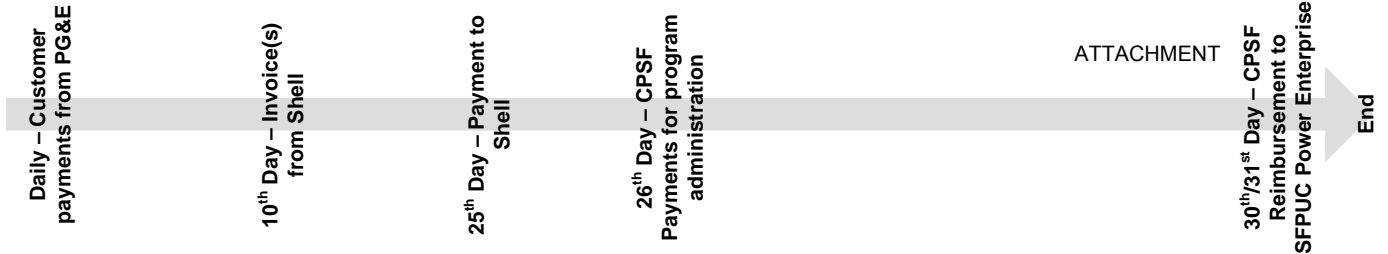
## CPSF Customer Fund Category 8 Fund



Available to Shell to address Revenue lags  
 Available balance can be used to replenish Lockbox Reserves, or pay CPSF expenses.

Operating Reserves available to CPSF; can be used to address leads and lags in expenditures and revenues

## Monthly Timeline



ATTACHMENT

address leads and lags in expenditures and revenues



<b>Item 8</b> <b>File 12-0631</b>	<b>Department:</b> Treasurer/Tax Collector (TTX)
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<ul style="list-style-type: none"> <li>• The proposed ordinance would: (1) add a new Section 609 to the Business and Tax Regulations Code to simplify Parking Tax requirements for residential properties; (2) amend Section 2219.7 of the Business and Tax Regulations Code to exempt qualified parking operators from the \$500 fee per parking station per year for all parking stations, i.e. parking space(s), that require automated or mechanical revenue control equipment to account for parking revenue; (3) amend Section 204.5 of the Planning Code to permit the rental of up to 5 residential parking spaces in the City as an accessory use of off-street parking, provided they are rented to residents of the City, and for a term of at least one month; and (4) amend Section 1215 of the Police Code to exempt a qualified parking operator that has registered with the Tax Collector under the proposed ordinance from the requirement to hold a commercial parking permit.</li> </ul>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• A qualified parking operator, or small parking operator, under the proposed ordinance is a residential property owner or manager who: (1) rents five or fewer parking spaces; (2) rents parking spaces on the same residential parcel, or at another parcel within 50 or fewer feet; (3) rents parking spaces to individuals who do not reside at the property on a monthly basis; (4) maintains records of the names and billing addresses of the occupants of the rented parking spaces; and (5) receives income of not more than \$4,000 in any quarter or \$15,000 annually.</li> <li>• The City currently levies a Parking Tax of 25% on all revenues generated by private parking operators. To increase Parking Tax revenues, the proposed ordinance would simplify the registration for small parking operators. The Treasurer/Tax Collector's Office estimates that approximately 2,435 residential property owners may be renting parking spaces to individuals who do not reside at the property on a monthly basis and not currently paying the City's Parking Tax, thus subject to this proposed ordinance.</li> <li>• Under the proposed ordinance, a qualified parking operator that is presently not registered with the Tax Collector, but who registers with the Tax Collector prior to March 31, 2013 would be eligible for amnesty from paying (1) all late fees, penalties, and interest for Parking Taxes due and payable prior to March 31, 2013; and (2) all Parking Taxes due and payable prior to April 1, 2011. The proposed ordinance excludes from the proposed Parking Tax amnesty any parking operators currently being audited or pursued in civil tax collection litigation by the Tax Collector.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>• The Treasurer/Tax Collector's Office estimates generating additional annual Parking Tax revenues to the City of \$935,040 from implementation of the proposed ordinance. Net General Fund revenues after transfer of funds to meet Parking Tax set-asides (i.e. SFMTA Set-Aside), baseline allocations (i.e. SFMTA Baseline, Children's Baseline, etc.) and reserves (i.e. General Reserves Deposit) are estimated to be \$137,434 per year.</li> <li>• In addition, the Treasurer/Tax Collector's Office estimates one-time revenues to the City of \$1,870,080 for past-due Parking Taxes for the two-year period from April 1, 2011 through March 31, 2013. Net General Fund one-time revenues, after the Treasurer/Tax Collector's Office administrative expenses and transfer of funds to meet Parking Tax set-asides, baseline allocations, and reserves, are estimated to be \$104,857.</li> </ul>	
<b>Recommendation</b>	
<ul style="list-style-type: none"> <li>• Approval of the proposed ordinance is a policy matter for the Board of Supervisors.</li> </ul>	

## MANDATE STATEMENT & BACKGROUND

### Mandate Statement

Charter Section 2.105 provides that all legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

### Background

#### *Current Legal and Tax Requirements for Parking Operators*

Article 9, Section 602 of the Business and Tax Regulations Code imposes a Parking Tax of 25% on the rent of any parking space in the City. Additionally, all parking operators are required to obtain a certificate of authority from the Tax Collector, file a bond with the City, make monthly tax prepayments to the Tax Collector, and utilize specific equipment to document amount of parking revenues collected.<sup>1</sup>

#### *Parking Operators in San Francisco*

The City's Business and Tax Regulations Code defines a parking operator as any proprietor who rents space for parking, ranging from a surface lot to multi-level covered garage. According to the Treasure/Tax Collector's Office, approximately 650 registered parking operators in San Francisco remitted to the City approximately \$70 million in Parking Tax in FY 2011-12.

In addition to these largely commercial registered parking operators, according to the Treasurer/Tax Collector's Office, many residential property owners and managers qualify as small parking operators because they rent parking spaces associated with an apartment house, duplex, condominium or other residential facility to nonresidents, i.e. individuals who do not reside at the property on a monthly basis, and thus effectively act as parking operators. A qualified parking operator, or small residential parking operator, under the proposed ordinance is a residential property owner or manager who: (1) rents five or fewer parking spaces; (2) rents parking spaces on the same residential parcel, or at another parcel within 50 or fewer feet; (3) rents parking spaces to individuals who do not reside at the property on a monthly basis (i.e. nonresidents); (4) maintains records of the names and billing addresses of the occupants of the rented parking spaces; and (5) receives income of not more than \$4,000 in any quarter or \$15,000 annually. The Assessor/Recorder's Office estimates that some proportion of the owners of the approximately 167,000 residential parcels in the City could qualify as parking operators, based on zoning and property records, but the actual number is not known as owners of residential properties with parking spaces tend not to register with the Tax Collector as parking operators. The proposed ordinance seeks to simplify the registration process and create incentives for small residential parking operators to remit parking taxes owed to the City.

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<sup>1</sup> San Francisco Business and Tax Regulations Code, Sections 6.6-1(b), 6.6-1(h), and 6.9-3(a), and Article 22, respectively.

*Non-compliance with Parking Tax*

According to Mr. Greg Kato, Treasurer/Tax Collector's Office Policy and Legislative Manager, many small residential parking operators have been collecting revenue from renting parking spaces for many years without remitting the 25% Parking Tax owed to the City. Mr. Kato estimates that in FY 2011-12, the City collected less than \$100,000 in revenues from small residential parking operators who rent out five or fewer spaces. Although the Treasurer/Tax Collector's Office does not have precise data on the number of small residential parking operators subject to the Parking Tax in the City, the Treasurer/Tax Collector estimates that 2,435 residential property owners, who are presently not paying the 25% Parking Tax due to the City, may be subject to the Parking Tax, based on information from the Assessor/Recorder and the San Francisco Apartment Association.

**DETAILS OF PROPOSED LEGISLATION**

A qualified parking operator under the proposed ordinance is a residential property owner or manager who:

- Rents five or fewer parking spaces;
- Rents parking spaces on the same residential parcel, or at another parcel within 50 or fewer feet;
- Rents parking spaces to individuals who do not reside at the property on a monthly basis;
- Maintains records of the names and billing addresses of the occupants of the rented parking spaces; and
- Receives income of not more than \$4,000 in any quarter or \$15,000 annually.

The proposed ordinance would:

- Add a new Section 609 to the Business and Tax Regulations Code to simplify parking tax requirements for residential properties;
- Amend Section 2219.7 of the Business and Tax Regulations Code to exempt qualified parking operators from the \$500 fee per parking station, i.e. parking space(s), per year for all parking stations that require automated or mechanical revenue control equipment to account for parking revenue;
- Amend Section 204.5 of the Planning Code to permit the rental of up to 5 residential parking spaces as an accessory use of off-street parking, provided the parking spaces are rented to residents of the City, and for a term of at least one month; and
- Amend Section 1215 of the Police Code to exempt a qualified parking operator that has registered with the Tax Collector under the proposed ordinance from the requirement to hold a commercial parking permit.

The proposed ordinance would simplify the registration process by not requiring residential property owners or managers to:

- Obtain a certificate of authority from the Tax Collector, execute a bond, or purchase insurance to operate the parking spaces, as currently required by the Business and Tax Regulations Code;
- Pay prepayments if the amount of parking revenue received does not exceed \$4,000 in a given quarter or \$15,000 annually, as currently required by the Business and Tax Regulations Code;
- Pay the annual \$500 fee per parking station for all parking stations required by the Business and Tax Regulations Code to have revenue control equipment; and
- Obtain a commercial parking permit, as currently required by the Police Code.

Under the proposed ordinance, a qualified parking operator that registers with the Tax Collector prior to March 31, 2013 would be eligible for amnesty from paying (1) all late fees, penalties, and interest for Parking Taxes due and payable prior to March 31, 2013; and (2) all Parking Taxes due and payable prior to April 1, 2011. The proposed ordinance excludes any parking operators currently being audited or pursued in civil tax collection litigation by the Tax Collector from the proposed Parking Tax amnesty program.

## FISCAL IMPACTS

According to Mr. Kato, the proposed ordinance could increase Parking Tax revenue to the City by increasing the number of registered residential parking operators who pay Parking Taxes. Although specific data on the number of residential parking operators renting to non-residents is not currently available, Mr. Kato estimates that approximately 2,435 parking operators, who are presently not paying the Parking Tax to the City, would be subject to the proposed ordinance, based on the Assessor's residential property records and information provided by the San Francisco Apartment Association.<sup>2</sup>

In order to implement the proposed ordinance, the Treasurer/Tax Collector's Office estimates incurring one-time administrative expenses of \$170,011, as shown in Table 1 below. These administrative costs will be covered by the future submission of a supplemental appropriation request made by the Treasurer/Tax Collector's Office in the event the proposed ordinance is passed.

If the proposed ordinance is approved, the Treasurer/Tax Collector's Office estimates generating additional potential (a) ongoing annual parking revenues of \$935,040<sup>3</sup>, and (b) one time parking revenues of \$1,870,080 for past due Parking Taxes for the two-year period from April 1, 2011 through March 31, 2013. As shown in Table 1 below, of these total additional

<sup>2</sup> According to Mr. Kato, the Assessor estimates 167,000 residential properties may qualify as small parking operators. Of the 167,000 residential properties, the Treasurer/Tax Collector's Office estimates that 600 apartment houses, 950 duplexes, 410 condominiums, and 475 single residences may rent parking spaces to non-residents, or a total of 2,435 parking operators.

<sup>3</sup> According to Mr. Kato, the Treasurer/Tax Collector's Office does not know how many, if any, of the estimated 2,435 parking operators currently pay the City's Parking Tax. Mr. Kato based the estimate of \$935,040 on the assumption of approximately two rented parking spaces for each of the 2,435 parking operators.

parking revenues generated, the General Fund would receive estimated net (a) one-time revenues of \$104,857, and (b) ongoing annual revenues of \$137,434, after accounting for the Treasurer/Tax Collector's Office administrative expenditures, and mandated tax set asides, reserves and baseline transfers, as shown in Table 1 below.

**Table 1 – Estimated Net General Fund Revenues from Implementation of Residential Parking Simplification Ordinance**

	Estimated One-Time	Estimated Annual Ongoing
<b>Estimated Parking Tax Revenues</b>	<b>\$1,870,080</b>	<b>\$935,040</b>
<b>Set Asides, Reserves, and Baselines</b>		
Parking Tax Set Aside for Municipal Transportation Agency (MTA)	(1,496,064)	(748,032)
MTA Baseline	(34,384)	(17,192)
Other Baseline (Library, Children's, and Schools)	(38,583)	(19,291)
General Reserve Deposit	(26,181)	(13,091)
<b>Subtotal, Set Asides, Reserves, and Baselines</b>	<b>(1,595,212)</b>	<b>(797,606)</b>
<b>Treasurer/Tax Collector Administrative Expenses</b>		
1408 - Taxpayer Assistance (0.5 FTE, limited)	(44,107)	0
1632 - Sr. Account Clerk (0.5 FTE, as temporary salary)	(41,809)	0
1630 - Account Clerk (0.5 FTE, as temporary salary)	(34,563)	0
Overhead	(18,072)	0
Advertising/outreach/mailing	(31,460)	0
<b>Subtotal, Treasurer/Tax Collector Administrative Expenses</b>	<b>(170,011)</b>	<b>0</b>
<b>Total Net General Fund Revenues</b>	<b>\$104,857</b>	<b>\$137,434</b>

Source: Treasurer/Tax Collector's Office

While the proposed ordinance may result in additional one-time Parking Tax revenues for the two-year period from April 1, 2011 through March 31, 2013, if residential parking operators register and pay past-due Parking Taxes, in accordance with the proposed ordinance, the City will forgo fees, penalties, and interest on all past due Parking Taxes prior to March 31, 2013 and all past due Parking Taxes prior to April 1, 2011. The value of these forgone Parking Taxes, fees, penalties, and interest is not known, according to Mr. Kato, because the Tax Collector does not have specific information on (a) the number of small residential parking operators who are subject to the City's current 25% Parking Taxes or (b) the amount of Parking Taxes that are past due.

## RECOMMENDATION

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